

GMS Flash Alert

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France – Withholding Tax: a Reform Postponed or Ditched?

The introduction of tax withholding represents a major change in France to the income tax collection system, as we reported in an earlier *GMS Flash Alert*.¹

However, according to a recent government Press Release², the reform will now be put to rest until 1 January 2019, further to a decision by the new French government to postpone the reform.

WHY THIS MATTERS

Many employers had been getting ready for the introduction of the new withholding system, adjusting policies and payroll processes and trying to get to grips with transition year issues and communications to employees. Now the whole undertaking seems to be on hold and it will be “business as usual” for the upcoming tax season – in other words, until further notice, no change to taxpayers’ and withholding agents’ obligations and procedures.

Background

Currently individuals declare and pay their income tax one year after it is earned. For instance, in 2017, one pays tax on income earned in 2016. But in 2016, the previous government under former President François Hollande announced the rolling out of a new tax collection system based on monthly withholding (for employment income) and monthly pre-payments for other types of income as from 1 January 2018, and even issued, in its dying hours, implementing legislation³ that defined the information to be declared and received to make the system work.

Reactions to New Withholding System and New Government's Response

The idea of withholding sounds sensible to many, but its introduction in France has not been welcomed by everyone.

Business groups feared that it would add unnecessary administrative burdens on companies, and employees were having concerns about confidentiality of data provided to employers.

However, during the presidential campaign, the new President, Emmanuel Macron, had already announced that the implementation of the new rules required further "testing" and that they would not be effective in 2018.⁴ Part of the reason was that the incoming government did not want to inflict psychological duress on French taxpayers seeing for the first time a diminished net take home pay on their pay-slips.

FIDAL NOTE

It is difficult to determine whether the reform is just postponed or abandoned. At least now things are a bit more certain in relation to 2017 and 2018. There will need to be legislative action to undo what was put in place by the previous government and, again, new rules introduced – perhaps in a different format and hopefully for the better.

FOOTNOTES:

1 See GMS [Flash Alert 2017-012](#), 23 January 2017.

2 See: <http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/22486.pdf> .

3 See the implementing decrees published in the 10 May 2017 *Journal Officiel* at: <https://www.legifrance.gouv.fr/eli/decret/2017/5/9/ECFE1703975D/jo/texte> .

4 See the following newspaper reports:

I. Feuerstein, "Impôts: Macron souhaite reporter le prélèvement à la source," *Les Echos* (online), 5 May 2017.

G. Guichard, "Macron veut un audit sur la retenue à la source," *Le Figaro* (online), 12 May 2017.

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