GMS Flash Alert

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France - Draft Budget Bill for 2018 Unveiled

The French Council of Ministers adopted the draft budget bill for 2018 on 27 September 2017,[1] which contains proposals affecting the wealth tax, taxing financial income more favorably, and lightening the payroll tax burden for employees working for financial institutions.

These measures and other in the draft bill appear aimed at making Paris an attractive financial center as it competes with other locations, like Dublin and Luxembourg, that are undertaking efforts to attract U.K. businesses anxious about their ability to do business in the European Union post-Brexit.

We describe below some of the key measures affecting individuals and their employers.

WHY THIS MATTERS

The changes could have an impact on costs for financial sector companies locating highly paid employees in Paris.

In addition to the changes affecting the financial sector, other developments, if adopted, could have a considerable impact on individuals on international assignment – for example, the partial relief from the reformed wealth tax, which will no longer apply to financial assets, and the lighter taxation of financial income. The latter could affect tax equalizations where an employer tax equalizes investments and other outside/personal income.

Measures Affecting Financial and Insurance Institutions

Companies not fully subject to value added tax (VAT) on their revenues (mostly banks, financial institutions, and insurance companies) are currently subject to a progressive payroll tax on the salaries they pay. Currently, a 20-percent rate applies to the portion of the individual yearly salaries paid by these entities exceeding €152,279. Below this amount, the rate of the tax is 4.25 percent for the portion of the individual yearly salaries below €7,721; 8.5 percent for the portion between €7,721, and €15,417; and 13.60 percent for the portion of the individual yearly salaries between €15,417 and €152,279.

Under the draft budget, the 20-percent rate would be repealed so that the portion of salaries above €152,279 would be subject to the 13.60-percent rate, instead of a rate of 20 percent. This measure would be aimed at attracting foreign financial institutions in France and providing an incentive to locate higher-paid executives in France.

Tax Measures Affecting Individuals

Wealth Tax (ISF) to Be Transformed into a Real Estate Wealth Tax (IFI)

Currently, the wealth tax is assessed on all the assets owned by the taxpayer when net wealth exceeds a certain threshold (€1.3 million). The basis for the net wealth tax includes worldwide assets for taxpayers domiciled in France and French real estate for nonresident taxpayers.

Under the draft budget, the ISF would be repealed and replaced, effective 1 January 2018, by a new real estate wealth tax (*Impôt sur la Fortune Immobilière* – IFI), that would be assessed only on the real estate owned by the taxpayer to the extent that the value of the taxpayer's real estate assets exceeds €1.3 million. All other assets (especially financial assets) would no longer be subject to the wealth tax.

The progressive rates of the IFI would be similar to those that currently apply to the ISF.

Flat Tax on Financial Income

Currently, financial income (dividends, interest, capital gains) earned by individuals is subject to social levies at a cumulative rate of 15.5 percent plus income tax assessed at progressive rates (up to 45 percent but with certain abatements applicable to the taxable basis of dividends and to capital gains, depending, for the latter, on the length of time the taxpayer has owned the investments). Overall, the global rate of taxation of financial income could be more than 60 percent of gross income.

As proposed, a comprehensive flat tax of 30 percent (comprising social levies of 17.2 percent after the increase of the "CSG" and income tax of 12.8 percent) would apply to all financial income earned by individuals as from 1 January 2018. Taxpayers would be able to elect for application of the existing progressive income tax rates.

Given the proposed change, the rates of withholding tax levied on dividends earned by nonresident taxpayers would also be reduced (subject to application of the relevant tax treaties) to 12.8 percent.

Increase in CSG Rate

The rate of the *contribution sociale généralisée* (CSG) (a social levy due on all income earned by taxpayers resident in France) would be increased by 1.7 points beginning 1 January 2018.[2] This increase would be partially offset by a reduction of other social contributions due on active income (such as salaries, e.g., *cotisations salariales d'assurance chômage et maladie*). The increase of the CSG rate would be deductible for the computation of a person's taxable income.

The Taxe d'Habitation to Go?

The government proposes to introduce changes to the *taxe d'habitation* (a tax on all occupiers of a dwelling) that would exempt 80 percent of current payers from the tax. The measure will be progressively introduced beginning in 2018.

Personal Income Tax Thresholds and Rates

Income thresholds were raised 1 percent to account for inflation in relation to 2017. The rates remain the same for 2018.

2018

Up to €9,807 : 0%
From €9,807 to €27,086 : 14.00%
From €27,087 to €72,617 : 30.00%
From €72,618 to €153,783 : 41.00%
Above €153,783 : 45%

2017

Up to €9,710 : 0%
From €9,711 to €26,818 : 14,00%
From €26,819 to €71,898 : 30.00%
From €71,899 to €152,260 : 41.00%
Above €152,260 : 45%

FOOTNOTES:

1 For the text of the bill "Le projet de loi de finances pour 2018" (in French), click here.

2 The CSG was created in 1990 and instituted in 1991 at a rate of 1.1 percent. It has been increased a few times since then; the last time the rate was changed was in 1998, when it rose to 7.5 percent. The proposal in the 2018 draft budget is to raise it to 9.2 percent.

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€1 = $1.181
€1 = £0.894
€1 = C$1.477
€1 = CHF 1.15

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