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GMS Flash Alert

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France - Draft Finance Law Contains Noteworthy Measures Impacting Individuals

Limited income tax cuts and phasing out of the dwelling tax are just two of the measures affecting individuals in the draft Finance Law for 2020 recently unveiled by the French government.[1] The final version of the legislation will be enacted at the end of December 2019.

Not surprisingly, the French government presented the tax cuts that President Emmanuel Macron promised in response to the yellow vests (*gilets jaunes*) movement: in particular a lowering of the rate on the first tranche of income, the phasing out of the dwelling tax, and moves to make sure that top executives of certain French-headquartered companies pay their fair share of income tax in France.

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

WHY THIS MATTERS

Bearing in mind that the budget is still in bill form and will be debated in Parliament, international assignment cost projections and budgeting for assignments to / from France where assignees are subject to French taxation should be prepared take into account the changes announced in the 2020 budget. Where called for, employers may need to update hypothetical tax calculations for tax-equalised assignees.

The changes to the definition of tax residence in France for senior executives of companies headquartered in France with annual turnover of more than one billion euros could impact the tax-related costs and compliance of programs for whom this change is germane, and may warrant some assignment planning in respect of such senior executives.

On 16 October, the government decided to postpone its reform of the taxation of nonresidents which was introduced in the previous Finance Law for 2019 (see GMS *Flash Alert* 2019-015, 28 January 2019) as the reform would have meant potentially a huge increase in the taxes due by nonresidents. The measure is contained in the updated draft Finance Law.

Changes to Income Tax Schedule

The tax rates applicable to **2019** income have been adjusted for inflation and will be as follows:

Income bracket (in euros)	%
Up to 10,064	0
Above 10,064 up to 27,794	14
Above 27,794 up to 74,517	30
Above 74,517 up to 157,806	41
Above 157,806	45

However, the main change will occur in relation to **2020** income. The income brackets applicable to 2020 income will be shifted downwards and the 14-percent rate on the first tranche of income will be lowered to 11 percent, as shown below:

Income bracket (in euros)	%
Up to 9,964	0
Above 9,964 up to 25,405	11
Above 25,405 up to 72,643	30
Above 72,643 up to 156,244	41
Above 156,244	45

Even though the change in the lower tax rate will only apply to 2020 income (which is usually voted at the end of the tax year), the new rate needs to be taken into account to determine the applicable rate for the French Pay-As-You-Earn system from 1 January 2020 to 31 August 2020.[2]

However, **between 1 September 2020 and 31 August 2021**, the brackets for Pay-As-You-Earn purposes will be further adjusted as follows:

Income bracket (in euros)	%
Up to 10,064	0
Above 10,064 up to 25,659	11
Above 25,659 up to 73,369	30
Above 73,369 up to 157,806	41
Above 157,806	45

Changes to Definition of Tax Residence in France for Senior Executives of Certain Large Companies Headquartered in France

Senior executives of companies headquartered in France with annual turnover of more than one billion euros will be deemed to carry out their main professional activity in France and thus will be considered tax residents of France under French domestic law, irrespective of whether they actually physically work in France.

The positions that are targeted are those of chairman of the board, managing director, chairman of the supervisory board, chairman and members of the executive board, as well as other similar functions.

The rule will apply to income tax year 2019. How it will work in practice is yet to be seen as it is subject to the provision of the tax treaties that France is party to.

Phasing out of Dwelling Tax

The phasing out of the dwelling tax (*taxe d'habitation*)[3] will be carried out in stages over a period. By 2023, the tax will be completely abolished.

Phasing out of the Annual Tax Return

Taxpayers whose annual tax returns are entirely based on information which is already known to the French tax administration will no longer have to file an annual tax return in 2020.

Next Steps

The draft finance law is currently undergoing parliamentary review.

Employers will need to stay tuned in to developments as last minute changes to the draft legislation can creep in at each stage of its parliamentary passage.

As is typically the case, the final law will be voted and enacted by the end of 2019.

(For coverage of last year's budget, see GMS *Flash Alert* 2019-015, 28 January 2019.)

FOOTNOTES:

1 For the draft budget, the *projet de loi de finances pour 2020* (in French), see the National Assembly webpage.

2 The annual rates apply for the year 2019 (i.e., still voted in relation to 2019 income despite the introduction of Pay-As-You-Earn and current year taxation). Withholding tax rates are adjusted every year in September following the issuance of the taxpayer's tax bill for the previous year to take into account changes in a taxpayer's situation. However, to give the benefit of the reduced yearly rate on 2020 income, the withholding rates are changed to take into account the future change in the yearly rate. Hence the 8 months (the change of rate will come into effect on 1/1/2020). Then, because the withholding rates should adjusted every September following the tax year end, another schedule is issued for the period from 1 September onwards.

3 People who occupy a home (whether they rent or own the property) are liable to the *taxe d'habitation*. Municipal authorities collect the tax, which is calculated on an annual basis for all dwellings that are occupied as of 1 January. The trend towards its phasing out had already started in 2018 with a gradual relief of 30 percent in 2018 and 65 percent in 2019. This reform allowed about 80 percent of households to be exempt from the housing tax. The new rules provide for a total phasing out by 2023.

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