

GMS Flash Alert

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France - 2021 Draft Finance Law Contains a Few Measures Affecting Individuals

France's draft Finance Law for 2021 is undergoing parliamentary review and recently moved from the National Assembly to the Senate.¹ The measures concerning individuals include changes to the income tax tables, adjustments to the Pay-As-You-Earn system, and some reversals of measures introduced in the 2019 budget concerning withholding tax for nonresidents.

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

WHY THIS MATTERS

While the bulk of the measures in this year's draft Finance Law concern corporations and restarting the economy in the context of the current public health crisis, there were a few changes for individuals. Of the relevant measures included in the draft Finance Law, there will be changes to the tax brackets, which will mean that employers will need to update assignment cost projections and budgeting. Payroll departments should be prepared to make necessary adjustments.

Employers will note the scrapping of measures previously adopted in relation to French tax nonresidents.

Nonresident Withholding Tax: Back to Square One

Background: Finance Laws for 2019 and 2020

The Finance Law for 2019 introduced changes to the way nonresidents receiving wages, pensions, and life annuities were to be taxed, in a move that was supposed to introduce greater simplicity and alignment with the way resident taxpayers are taxed. (For coverage of the 2019 Finance Law, see GMS [Flash Alert 2019-015](#), 28 January 2019.)

The minimum tax rate applicable to the French-source income of nonresidents went up from 20 to 30 percent.

The specific nonresident withholding tax schedule with its three bands of 0 percent, 12 percent, and 20 percent was due to be eliminated, together with the removal of the partially final nature of the withholding tax levied on the lower bands (0 percent and 12 percent) of income from 2020.

The Finance Law for 2020 postponed the removal of the partially final nature of the withholding tax to income received from 1 January 2021 and pushed back the elimination of the specific nonresident withholding tax system with its three rates to 1 January 2023. But the intention remained that wages, pensions, and life annuities received from 2023 would have fallen under the withholding tax system (*Prélèvement à la Source* or "PAS") recently introduced for resident taxpayers.

(For coverage of last year's budget, see GMS [Flash Alert 2020-015](#), 21 January 2020.)

This Year: Finance Law for 2021

An amendment that was adopted to the Finance Law for 2021 signals the end of the above reforms.

For 2021 and subsequent years, the specific withholding tax for nonresidents provided for in Article 182 A of the French General Tax Code will therefore continue to be calculated with its three bands. The partially final nature of the withholding tax is also maintained.

For income received as of 1 January 2021, the indexed withholding tax brackets and rates will be as follows:

Part of income subject to withholding (in euros)	Rates %
Less than 15,018	0
From 15,018 to 43,563	12
Above 43,563	20

KPMG NOTE

Termination of the reform may not be the end of the matter entirely, as the general view is that the whole nonresident tax system is in need of modernisation.

Indexed Income Tax Brackets

The tax brackets and tax rates applicable to **2020** income have been adjusted for inflation and will be as follows:

Income bracket (in euros)	%
Up to 10,084	0
Above 10,084 up to 25,710	11
Above 25,710 up to 73,516	30
Above 73,516 up to 158,122	41
Above 158,122	45

The indexed income brackets for withholding taxes applicable by default (Pay-As-You-Earn) for tax residents in metropolitan France from 1 January 2021, are the following:

Monthly withholding tax base (in euros)	%
Less than 1,420	0
Greater or equal to 1,420 and less than 1,475	0.5
Greater or equal to 1,475 and less than 1,570	1.3
Greater or equal to 1,570 and less than 1,676	2.1
Greater or equal to 1,676 and less than 1,791	2.9
Greater or equal to 1,791 and less than 1,887	3.5
Greater or equal to 1,887 and less than 2,012	4.1
Greater or equal to 2,012 and less than 2,381	5.3
Greater or equal to 2,381 and less than 2,725	7.5
Greater or equal to 2,725 and less than 3,104	9.9
Greater or equal to 3,104 and less than 3,494	11.9
Greater or equal to 3,494 and less than 4,077	13.8
Greater or equal to 4,077 and less than 4,888	15.8
Greater or equal to 4,888 and less than 6,116	17.9
Greater or equal to 6,116 and less than 7,640	20
Greater or equal to 7,640 and less than 10,604	24
Greater or equal to 10,604 and less than 14,362	28
Greater or equal to 14,362 and less than 22,545	33
Greater or equal to 22,545 and less than 48,292	38
Greater than or equal to 48,292	43

Next Steps

The draft finance law will continue to be debated in parliament.

Employers will need to stay tuned for developments since last-minute changes to the draft legislation can crop up at each stage of its parliamentary passage.

As is typically the case, the final law will be voted and enacted at the end of 2020.

FOOTNOTE:

1 For the draft budget, the *projet de loi de finances pour 2021* (in French), see the National Assembly [webpage](#).

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