

GMS Flash Alert

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France - Budget Simplifies Withholding Process, Adjusts Tax Brackets

The proposed Finance Bill for 2023, presented by the French government on 26 September 2022, will be examined by the National Assembly from 11 October 2022.¹ Alongside measures indexing personal income tax schedules and associated thresholds to inflation, it contains an important provision simplifying the withholding tax procedures for certain non-French employers.

Additional measures may be added to the Bill during parliamentary discussions.

Final adoption is expected sometime before 31 December 2022.

WHY THIS MATTERS

The proposal to simplify the withholding tax procedure for certain non-French employers is expected to make life easier for impacted employers. Where the conditions are met, foreign employers will no longer be subject to the withholding procedure. However, employees will be subject to the system of tax pre-payments, which will need to be carefully managed in the case of assignees, particularly those who are tax equalised.

Simplification of Withholding Tax Procedure for Certain Non-French Employers

The government proposes to modify the withholding tax obligation as of 1 January 2023, in the following cases:

- The employer is established outside of France in an EU member state or in a country or territory that has concluded an administrative assistance agreement with France to combat tax fraud and tax evasion as well as a mutual assistance agreement in matters of tax collection (excluding non-cooperative country or territory), and

- The employee is not covered, for the periods for which this income is paid, by the compulsory French social security system (e.g., by virtue of the EU social security regulations or a bilateral agreement).

However, there will still be compliance obligations. The foreign employer will be required to report on a yearly basis the amount of net taxable income paid to each eligible employee. Failure to comply with this obligation could result in a fine capped at EUR 50,000.

The new rule would apply to income received from 1 January 2023.

KPMG NOTE

The new measure is designed to help foreign employers of cross-border employees who reside in France and work from home. Employers should be mindful that, although there have been discussions on the subject, no changes have been made to the social security rules and in particular, the EU multistate worker rules. Employees working more than 25 percent of their working time in France, are subject to the French social security system on a compulsory basis. The withholding tax procedure in this case has not changed. Where the individual is subject to French social security on a compulsory basis, the process for the withholding is via the DSN (which is the French digitalised payroll reporting system that feeds information directly into the French social security and tax administrations).

Indexation for Inflation of the Income Tax Scale for 2022

To take inflation into account, the income tax brackets, as well as the thresholds and limits associated with them, would be aligned with the forecasted increase in the consumer price index excluding tobacco in 2022 compared to 2021, i.e., 5.4 percent.

Fraction of taxable income (per part)	Rate
Not exceeding €10,777	0%
From €10,777 to €27,478	11%
From €27,478 to €78,570	30%
From €78,570 € to €168,994	41%
Over €168,994	45%

Source: KPMG Avocats

FOOTNOTE:

1 For the *Projet de loi de finances for 2023* (in French), see: <https://www.vie-publique.fr/loi/286445-projet-de-loi-de-finances-2023-plf-budget-2023> ; also see on the *Assemblée Nationale* website (in French): https://www.assemblee-nationale.fr/dyn/16/textes/l16b0273_projet-loi .

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Please Consider Participating in the KPMG Global Assignment Policies and Practices (GAPP) Survey

Participation in the survey allows you to benchmark your organisation in relation to other survey participants on numerous aspects of a global mobility program including: assignee selection and assessment, assignment preparation and planning, automation and robotics, talent and performance management, assignment compensation and allowances, administration and outsourcing, immigration compliance, the use of data and analytics, assignment management technology as well as tax reimbursement approaches. Click [here](#) to begin the survey.

Key highlights of the 2022 KPMG Global Assignment Policies and Practices Survey will be made available later in the year.

Contact us

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