

GMS Flash Alert

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France – End is Near for Workers' Income Subject to Exemption with Progression under Treaty with Luxembourg

The new France-Luxembourg tax treaty¹ changed the method for eliminating double taxation for French residents with certain types of Luxembourg-source income such as employment income, public-sector remuneration, social security pensions, and Luxembourg property income. The previous method, exemption with progression, has been replaced with a deemed credit system, in line with other tax treaties that France has signed more recently.

However, the authorities indicated that French residents with Luxembourg-source income will be able to continue to apply the method for avoiding double taxation contained in the previous tax treaty when calculating their 2023 income tax (so-called “tolerance”).

WHY THIS MATTERS

Switching from one method to the other has an impact on the tax rate applied to other income received in France. This generally results in a tax increase compared with the previous situation. Continuation of the existing rule (what is called “tolerance”) was justified by the desire to give taxpayers time to adapt. However, in a press release, the French government indicated that this will be the last extension of the tolerance measure, and that for income received in 2024, the new method will apply in full.² Employers will need to consider this in their current and future budget projections.

An Exceptional and Temporary Measure

An exceptional and temporary measure was introduced to allow taxpayers to request the application of the stipulations of the former tax treaty in respect of income received in 2020, 2021, and 2022, and thus benefit from the exemption-with-progression method. In an update to their published guidance on this tolerance³, the French tax authorities have extended the tolerance to income earned in 2023.

At the same time, an addendum to the 2018 tax treaty increases the threshold for employees living in France who cross the border with Luxembourg to work: they will be able to work up to 34 days outside Luxembourg without giving rise to taxation in France. (For prior coverage, see [GMS Flash Alert 2023-024](#), 31 January 2023.) Below this threshold and if there is no other source of income, French taxpayers will escape the negative impact of the change in methodology for eliminating double taxation. The addendum is currently undergoing its ratification process in France.

KPMG AVOCATS INSIGHTS

Employers and employees concerned about how employees' income in a cross-border scenario may be taxed under the terms of the treaty and, especially for those with other sources of income who are benefitting from the tolerance to apply the exemption-with-progression method, what the ending of that measure which had been in place for the past few years means for them, should contact their qualified tax professional or a member of the Global Mobility Services team with KPMG in France (see the Contacts section).

FOOTNOTES:

1 [*Avenant modifiant la Convention entre le Gouvernement de la République française et le Gouvernement du Grand-Duché de Luxembourg en vue d'éviter les doubles impositions et de prévenir l'évasion et la fraude fiscales en matière d'impôts sur le revenu et la fortune et le protocole y relatif faits à Paris le 20 mars 2018.*](#) (Amendment signed on 10 October 2019 to the Tax convention between France and Luxembourg signed 28 March 2018).

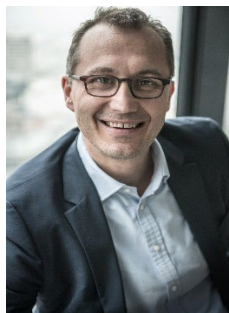
2 *Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique 9 Avril 2024, Communiqué de presse, "CP - Le Gouvernement annonce la prorogation de l'aménagement exceptionnel de la méthode d'élimination de la double imposition prévue par la convention fiscale entre la France et le Luxembourg pour l'imposition des revenus de l'année 2023."*

3 *Bulletin Officiel des Finance Publiques -- Impôts, 08/04/2024, "INT - Convention fiscale entre la France et le Luxembourg - Prorogation pour l'imposition des revenus de l'année 2023 de l'aménagement exceptionnel de la méthode d'élimination de la double imposition."*

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in France:



Alain Loehr
Partner

Tel. +33 (0)1 55 68 48 32
alainloehr@kpmgavocats.fr



Ann Atchadé
Partner

Tel. +33 (0)1 55 68 48 46
annatchade@kpmgavocats.fr

The information contained in this newsletter was submitted by the KPMG International member firm in France.

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