France – Draft Finance Bill for 2025 May Mean Heavier Taxation on High Earners

The French draft finance bill for 2025 was finally published on Thursday, 10 October.[1]

The budget was presented against a challenging political and fiscal backdrop, marked by the absence of a clear majority for any party in the National Assembly, and a high public-finance deficit (the deficit is expected to exceed 6 percent of GDP in 2024).

The new government has announced a target of reducing the deficit to 5 percent by 2025, with the ambition of returning, in 2029, to below the ceiling of 3 percent of GDP necessary to meet France's obligations at the European Union level. Spending cuts, raising revenues from taxes and fees, and other efficiencies factor into the government's strategy.

This *GMS Flash Alert* looks at the key personal tax measures for individuals and employers.

WHY THIS MATTERS

The introduction of a minimum tax on higher incomes is one of the key measures announced in the budget to raise the tax revenues of the French state. It may also raise the costs of an international assignment in respect of assignees in France (and French assignees abroad) covered under French tax law.

Higher earners will need to perform an additional calculation to check if their overall effective tax rate is less than 20 percent and, if so, pay the difference. Notably, the calculation is not a simple one as it permits the taxpayer to 'add-back' numerous tax benefits and credits when calculating the tax he or she has paid.

This is especially important for tax-equalised employees, as existing assignment policies may not be clear on whether the additional tax is equalised or not. Additionally, employees benefitting from the French impatriate tax regime (Article 155b exoneration) are also at higher risk of having an overall effective tax rate below 20 percent.

The announcement in the budget that employees not resident in France under an applicable treaty are to be

considered not resident for domestic tax purposes is a welcome clarification. However, it is important that any tax positions reliant on an individual being tax resident under domestic French law are revisited, should there be any interplay with residence under a treaty.

Introduction of a Temporary Minimum Tax on High Incomes

Reflecting the government's desire to involve the wealthiest individuals in reducing the public deficit, a temporary minimum effective tax of 20 percent on "the highest incomes" would be introduced to apply to the taxation of income for the year 2024 until the taxation of income for the year 2026.

This tax would apply to individuals tax resident in France whose household income (reference tax income) exceeds €250,000 for single taxpayers and €500,000 for joint taxpayers, when their effective tax rate is less than 20 percent of their adjusted reference tax income. According to the explanatory memorandum for the measure,[2] this contribution would only concern "a few tens of thousands of tax households."

The tax taken into account for the calculation of the effective tax rate would correspond to the sum of income tax, the contribution on high incomes, and certain withholding taxes on income tax. The tax included in the calculation may be increased by €1,500 per dependent and €12,500 for joint taxpayers, as well as the ability to 'add-back' for tax advantages provided by various tax reductions and certain tax credits (exhaustively listed in the budget, though notably including foreign tax credits provided for by a treaty).

The additional contribution payable would be equal to the difference between the tax calculated and 20 percent of the adjusted reference taxable income. In order to mitigate the threshold effect of entry into force, a discount mechanism is intended to be provided. Further details are expected to follow.

Securing Tax Arrangements Applicable to Non-Residents of France

Recent case law in France[3] had stated that, for determining the application of non-resident withholding tax, the analysis turned on the residence status of the employee under French domestic law only. This focus on the primacy of domestic residence status gave rise to uncertainty around the withholding tax mechanism for individuals resident in France under French domestic law, but resident of another jurisdiction under an applicable treaty.

This decision had overturned the interpretation adopted by the French tax administration, which stated that the residence status of an employee under an applicable tax treaty had primacy over the domestic tax position.

However, following the case, the tax administration had announced by press release[4] that it would maintain its interpretation of tax residence despite censure by the Council of State (*Conseil d'Etat*), with the aim of helping ensure stability in the tax treatment of persons who are not French tax residents.

The budget announced that the primacy of the concept of tax residence in treaty law over that of tax residence in domestic law would now be legally provided for.

KPMG INSIGHTS

This means that individuals not resident in France due to the application of a tax treaty are also to be considered non-resident for domestic tax purposes. It provides a welcome clarification for tax practitioners, but also for employers operating French withholding tax for non-resident taxpayers.

Other Key Measures

- The introduction of Corporate Tax surcharges for two years for companies with a turnover in excess of €1 billion (around 440 companies).
- The introduction of a tax on share buy-backs by French resident companies with turnover exceeding €1 billion.
- Amending GloBE rules to implement OECD administrative guidance.
- The introduction of new rules that restrict the tax benefits related to the short-term letting of furnished accommodation.

KPMG INSIGHTS

The scope of the minimum effective tax is wider than initially anticipated. KPMG recommends that costings or projections be undertaken to understand the full impact of the measures, especially for tax-equalised employees. In particular, employees benefiting from the impatriate tax regime should be considered as they are at higher risk of being under the 20-percent overall effective tax rate on their taxable income.

It is important for companies affected by the measures to pay close attention to the process of the budget as it passes through the legislative process in France, given the absence of a clear majority. It is expected that significant revisions to the proposed measures may occur given the uncertain political situation.

The first reading of the bill in the National Assembly (lower house of parliament) will take place from 21 October 2024 until 19 November 2024. The bill will then be discussed in the Senate (upper house of parliament), before a new reading at the National Assembly. It should be adopted by 21 December 2024, and published in the Official Journal (*Journal officiel*) before the end of the year.

FOOTNOTES:

1 The bill (*Projet de loi de finances pour 2025*) can be accessed here (in French only).

Also see *Ministère de l'Économie, des Finances et de l'Industrie et Ministère chargé du Budget et des Comptes publics*, "Présentation du projet de loi de finances pour 2025 et du projet de loi de financement pour la Sécurité sociale 2025" (10/10/2025), with links to the budget speech and related documents.

2 See the website <budget.gouv.fr> "La plateforme des finances publiques, du budget de l'État et de la performance publique > Le projet de loi de finances pour 2025."

3 *Conseil d'État - 8ème - 3ème chambres réunies, N° 469771, ECLI:FR:CECHR:2024:469771.20240205, Lecture du lundi 05 février 2024*.

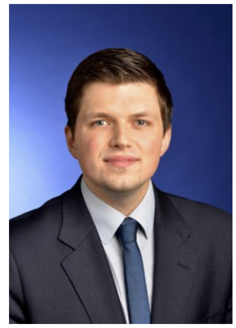
4 *Communiqué de presse n° 1809 du 29 avril 2024*. See "Maintien du champ d'application de la retenue à la source sur les traitements, salaires, pensions et rentes viagères prévue à l'article 182 A du code général des impôts" by clicking here.

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



Stuart McGlone
Senior Manager
Tel. +33 (0)1 55 68 73 13
stuartmcglone@kpmgavocats.fr

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

www.kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**

GMS Flash Alert is a publication of the KPMG LLP Washington National Tax practice.