



# Some FRENCH TAX NEWS: Highlights of the 2018 GOVERNMENT BUDGET ACT

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# Tax relief for both businesses and individuals : highlights

**Main objectives of the reform : simplicity, competitiveness, risk valorization, contemporaneity**

- The 2018 French Government Budget Act includes tax relief for businesses to help them grow, invest and hire personnel. It also contains provisions to enhance employee purchasing power and foster corporate investment.
- For businesses, the standout measures focus on fast-tracking the gradual fall in the corporate tax rate, replacing the competitiveness and employment tax credit (CICE) with direct reductions in employer social security contributions, and eliminating the 3% tax on dividend pay-outs.
- For individuals, the main changes include the abolition of the wealth tax (ISF) and its replacement by a real estate assets tax (IFI), along with a reduction in taxation on investment income. Lately, President Macron announced the abolishment of the Exit tax.

# Taxation of business

- **France ranks among the 10 countries with the most attractive tax systems** by the WB Report “Paying taxes” (2018) ranks 16th in the world ranking of the United Nations Conference on Trade and Development (UNCTAD) of investment recipient countries (Handbook of Statistics 2017 – CNUCED).
- Corporate income tax (CIT), which represents the equivalent of 2.04% of French GDP, is at **a level comparable to that of our main partners**: 3.31% in the Netherlands, 2.81% in the United Kingdom, 2.51% in Sweden, 3.44% in Belgium (OECD, 2016)
- The reduction of the tax burden on companies **has been under way for several years**, notably with the reform of the taxe professionnelle in 2010 and the abolition of the contribution sociale des sociétés (C3S) effective since 2017

# A modern corporate income tax

- The French corporate income tax system has **base measures comparable to those of our main partners** (deductibility of most provisions and depreciation charges, tax loss carryforwards with no time limit, broad exemption for dividends and capital gains on equity investments, attractive group system, etc.)
- It is ensuring the **effective neutralisation of double taxation**
- It is altogether **favorable to innovation and investment** :
  - the research tax credit (CIR) which represents an effort of more than 5.5 billion euros in 2017
  - the patent box (taxation at 15% of patent fees)
  - the exemption system in favor of young innovative companies (JEI) or young university companies (JEU)
  - the tax reductions for companies in research and development areas of a competitiveness cluster
  - the tax credit for commercial prospecting expenditure for SMEs

# Being competitive : A FASTER SCHEDULE TO REDUCE CORPORATE TAX (IS)

- Prior tax reform measures (2016) already provided for a progressive reduction of the standard or ordinary corporate tax rate from 33 $\frac{1}{3}$ % to 28%. The Finance Law for 2018 provides for a further progressive reduction of the corporate income tax rate to 25%, fully applicable for financial years opened in 2022 in line with the European average, amounting to €11 billion in tax savings.
- SMEs with annual revenues of up to €7.63 million will continue to enjoy a reduced corporate tax rate of 15% on their first €38,120 of earnings.
- Starting in 2018, all businesses will be taxed at 28% on their first €500,000 of earnings. From 2019, all businesses will be taxed at 31% above this level, before a rate of 28% on earnings in 2020, 26.5% in 2021 and 25% in 2022.
- On top of this : abolition of THE 3% TAX ON INTER-COMPANY DIVIDEND PAY-OUTS

	<i>Previous schedule in the 2017 French Government Budget Act</i>	<i>New schedule</i>
2018	28% on the first €500,000 of earnings for all businesses  33.33% above this threshold	28% on the first €500,000 of earnings for all businesses  33.33% above this threshold
2019	28% for businesses with revenues up to €1 billion; 33.33% for other businesses	28% on the first €500,000 of earnings for all businesses  31% above this threshold
2020	28% for all businesses	28% for all businesses
2021	-	26.5%
2022	-	25%

# Being simple : TRANSFORMING THE CICE TAX CREDIT INTO A PERMANENT REDUCTION IN EMPLOYER SOCIAL SECURITY CONTRIBUTIONS

- The competitiveness and employment tax credit (CICE) was reduced from 7% to 6% of gross payroll costs subject to social security contributions as of January 1, 2018, based on statutory working hours and salaries up to 2.5 times the statutory national minimum wage (SMIC).
- Starting on January 1, 2019, it will be transformed into a permanent and stable reduction in employer social security contributions.



# TAXATION OF INDIVIDUALS

- Government is introducing a series of measures designed **to encourage entrepreneurs**. These included reforming the wealth tax, creating a "flat tax" of 30 percent on all financial income including dividends and abolishing the exit tax
- A major reform of the country's wealth tax, focusing it directly on property investments in **a bid to push more cash into other sectors of the economy**. "I make absolutely no apology over the tax measures concerning the wealth tax, when money is reinvested in the economy," President Macron told the journalists in April 2018
- President Macron announced that he intends to abolish a 30% "exit tax" on top owners who transfer their assets outside of France, in **a bid to boost the attractiveness of the country for foreign investors**.



# Being simple and competitive : a flat tax on capital income : LOWERING TAXATION ON INVESTMENT INCOME THROUGH A CAP OF 30%

- The **introduction of a single flat-rate levy**, also known as “flat tax” (*prélèvement forfaitaire unique* – PFU) **on all income from capital** : applies to interest, dividends and capital gains on transferable securities
- Starting in 2018, capital gains are now taxed at a single flat rate broken down as follows for French tax residents :
  - 12.8% for income tax
  - 17.2% for social contributions (CSG, CRDS, ...)
  - 3% or 4% for CEHR (contribution for high earners)
- For non-French tax residents, if there is a withholding tax on said revenues, its rate is capped at 12.8% (subject to the more favorable provision of a double tax treaty with France)
- Taxpayers can still opt to pay tax based on the income tax scale if it is in their interests to do so.



# *l'impôt sur la fortune (ISF) becomes l'impôt sur la fortune immobilière (IFI)*

- Starting in 2018, the wealth tax (*impôt sur la fortune* – ISF) is being abolished and replaced by a **real estate assets tax** (*impôt sur la fortune immobilière* – IFI) affecting people with real estate assets of more than €1.3 million. No revaluation of the scale rates are planned, so the existing rates, from 0.50% up to 1.5%, remain in place.
- Corporate shares and other securities are only counted up to the representative value of the property that is owned
- Main residences receive a deduction of 30%
- Premises used by taxpayers to run a business are exempt
- For non-residents, the wealth tax will only cover their fixed real estate assets in France
- The partial (75%) exemption of woodland remains
- NB : With the introduction of the IFI, only certain debts will be deductible. For example, when the value of taxable assets exceeds €5 million and the amount of debts admitted as deductible exceeds 60% of this value, the portion of the debt exceeding 60 % is only deductible for half of its value

# LOWERING WITHHOLDING TAX RATES ON INCOME PAID OUT TO NON-RESIDENTS

- Withholding tax rates on income paid out to non-resident individuals were lowered to 12.8% on sums paid out from January 1, 2018 onwards
- The withholding tax rate on capital gains of more than 25% from share divestitures has been replaced by the 12.8% rate if the recipient of the gains is a non-resident individual

# OVERHAUL OF BONUS SHARE ISSUE RULES (*RÉGIME DES ACTIONS GRATUITES – AGA*)

- From 2018, gains upon the acquisition of bonus shares would receive deductions over the holding period, of up to €300,000 per year, with the remainder being taxed as salaried income.
  - The acquisition gain, subject to taxation based on progressive income tax brackets, will be reduced by a 50% deduction for sums up to €300,000
  - Gains upon the divestiture of shares will be subject to the new flat tax (PFU)
  - Employer contributions have been lowered from 30% to 20% for new bonus share issues
- Reminder for potential investors :
  - French PIT is very favorable to families with children, especially young children
  - A tax regime for impatriates (expatriates) : a staff or a manager - French or foreign - who was living outside France for at least five years, when hired in France, is partially tax exempted for a period of eight years. This exemption is maintained if the employee changes positions within the same group.

# OTHER recent tax policy REFORMS

- The French government has ruled out raising any of the rates of VAT during its five-year term.
- **ABOLISHING THE HIGHER RATE OF PAYROLL TAX** : Employers not liable for VAT (for example in the banking and insurance sector) are required to pay a payroll tax on salaries at a top rate of 20% on gross annual pay above €152,279. As of January 1, 2018, this higher rate has been abolished, and tax will now only be paid on these salaries at a rate of up to 13.6%
- Gradual abolition of the taxe d'habitation (2018-2020)

# Simplification and stability efforts are ongoing

- Already on going
  - the consolidation on a single date of the filing of three tax returns: the annual VAT return, the income and corporate tax return and the local direct tax return ("CVAE"). This measure concerned 5 out of 6 companies.
  - The "Tell us once" program lays down the principle that companies only provide an information to one administration and that other authorities will have to share it with each other. i.e. it is now possible for a company to respond to a call for tenders for public contracts by filling in only the commercial offer. All the administrative part is pre-filled when the company provides its tax identifiers
  - The BOFIP allows everyone tax payer, and their advisors, to access the updated and comprehensive applicable regulations to their case being at the same level of information as the administration itself
  - a tax office for foreign investors has been set up within the tax administration to guide, inform and accompany investors regarding the tax treatment of their project. This is a multilingual service and investors can receive a written position. Called tax4business, this service has a dedicated e-mail address and a specific bilingual space on the site [www.impots.gouv.fr](http://www.impots.gouv.fr) Business France may also help you
  - The "Charte Marianne" is a efficient incentive for tax centers to receive and help taxpayers in the best manner ; indeed, users of the French tax service have a very high level of satisfaction
- New this year
  - Introduction of the right to amend errors: This policy will avoid 'simple' oversights and errors, made in good faith, from being immediately punished during an initial tax or social security audit.
  - The implementation of the withholding payment of the PIT (2019)
  - A "*charte*" puts an end to retroactive taxation. From now on, tax changes will no longer affect the financial years already closed nor the current financial years
- Reminder
  - any taxpayer is offered the procedure of rescrit fiscal (general or specific) / tax ruling

Many thanks for your attention

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