



FRANCE MEANS BUSINESS

TAX NEWS: 2018 FRENCH GOVERNMENT BUDGET ACT

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. These tax breaks will be accompanied by targeted reductions in public spending, with a target of reducing France's annual deficit to 2.6% of GDP in 2018.

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 payouts.

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.

CORPORATE TAXATION

1.

A FASTER SCHEDULE TO REDUCE CORPORATE TAX

The standard rate of corporate tax will fall in stages from 33.33% to **25% by 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.

A faster schedule to reduce the standard rate of corporate tax (*impôt sur les sociétés – IS*)

	Previous schedule in the 2017 French Government Budget Act	New schedule
2018	28% on the first €500,000 of earnings for all businesses	28% on the first €500,000 of earnings for all businesses
	33,33% above this threshold	33,33% above this threshold
2019	28% for businesses with revenues up to €1 billion;	28% on the first €500,000 of earnings for all businesses
	33,33% for other businesses	31 % above this threshold
2020	28% pour toutes les entreprises	28% pour toutes les entreprises
2021	-	26,5%
2022	-	25%

2.

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:

- Worth 6% of salaries up to 2.5 times the minimum wage, backed up by greater reductions for low earners through modifications made across the board to employer social security contributions.

In 2019, combined savings from the CICE tax credit and lower contributions will be worth around €21 billion.

3.

ELIMINATING THE 3% TAX ON INTER-COMPANY DIVIDEND PAY-OUTS

The 3% tax on dividends will be abolished for sums paid out in 2018.

Annual tax relief for businesses will amount to around €2 billion a year.

In order to finance the reimbursement to businesses of sums unduly paid for previous years (estimated to amount to €10 billion), the 2018 French Government Budget Act introduced two exceptional contributions to corporate tax:

- 15% for businesses with revenues of more than €1 billion.
- A further 15% for businesses with revenues of more than €3 billion (i.e. 30% in all).

Reducing corporate tax + transforming the CICE tax credit + eliminating the 3% tax on dividends will help:

All business sectors

e.g.: €2 billion in tax relief for industry

Businesses of all size (SMEs, mid-size companies, large companies)

e.g.: €1.5 billion in tax relief by 2022

4.

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 abol-

ished, and tax will now only be paid on these salaries at a rate of up to 13.6%.

Savings for the employers affected by the abolition of the top rate of payroll tax are estimated to be worth €140 million in 2018.

TAXATION OF INDIVIDUALS

1.

LOWERING TAXATION ON INVESTMENT INCOME THROUGH A CAP OF 30%

Starting in 2018, capital gains are now taxed at a single flat rate of 30%, broken down as follows:

- An income tax component (12.8%).
- Social security contributions of 17.2% following the rise in the CSG social security surcharge.

The flat tax (*prélèvement forfaitaire unique – PFU*) applies to interest, dividends and capital gains on securities.

Taxpayers can still opt to pay tax based on the income tax scale if it is in their interests to do so. This option is then applied across the board; it is not possible to combine the PFU flat tax and taxation based on progressive income tax brackets.

2.

ABOLISHING THE WEALTH TAX (ISF)

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. 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%.

Buildings used by taxpayers to run a business are exempt.

3.

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.

4.

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

The 2017 French Government Budget Act had stipulated that 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.

5.

OTHER REFORMS

The French government has ruled out raising any of the rates of VAT during its five-year term.

Income tax: The introduction of a pay-as-you-earn withholding system for income tax has been postponed until January 1, 2019.

Housing tax: Will be abolished for 80% of French people over the next three years.

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.

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