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FRENCH FINANCE BILL 2013: SUMMARY OF RELEVANT PROPOSED TAX CHANGES

The draft Finance Bill 2013 was published on the 28th September and is currently being debated in the Assemblée Nationale. As is always the case, the initial draft will be modified before it passes into law. Nonetheless, most proposals will be adopted as is or close to what is currently presented.

It's therefore worthwhile being aware of the proposals at this early stage, since tax changes, will apply to taxable income and gains generated in 2012. What now follows is a summary of the proposals likely to affect most of our clients.

We will be updating this summary during October as the Bill progresses through its various stages, so please do visit our breaking news page from time to time (http://www.charleshamer.co.uk/french_mortgage_and_tax_news.aspx) or contact me, Jon Pawsey, (email: jon@charleshamer.co.uk), if you would like to know how these proposals will affect you and your tax planning.

1. Freezing of tax band thresholds and most allowances.

For the second year in a row it is proposed to freeze the income tax band thresholds rather than adopt the usual practice of revaluing the thresholds in line with inflation.

The same proposal to freeze tax bands applies to Inheritance Tax, (whose nil rate bands were also reduced in certain cases by the second rectifying tax act of 2012) and to general income specific allowances.

2. Creation of two new income tax bands and tax rates.

For income exceeding €150.000 per taxable unit an income tax rate of 45% will be introduced.
Meanwhile for those fortunate enough to be earning over €1 million a year, a nominal income tax rate of 75% will apply to the excess. This tax rate will, however, only apply to income from earnings, (employment or self employment) and will not be extended to investment income. Meanwhile the tax rate will take into account CSG (Contribution Sociale Généralisée) paid on those earnings, so in effect bringing the tax rate down to 67%.

3. Tax Benefits Ceiling Reduced to €10.000

Currently each household can claim up to €18.000 per year, plus 4% of total taxable income, in tax credits and reductions related to a wide range of qualifying expenditure and investment,. So, for example, a household with gross taxable income of €100.000 can reduce their tax bill by up to €22.000 in making use of these routes. For 2013 tax assessment of 2012 income this ceiling is to be reduced to €10.000.

4. Reduction In The Family Quotient Benefit Ceiling.

The French income tax system provides an income tax benefit for each member of the taxable household. Known as the "Quotient Familial" each member is treated as either one or a one half unit when calculating the number of household units by which to divide total household income when calculating the tax due. Currently the maximum income tax benefit obtained by the Quotient Familial is €2.336 per half unit. This is to be reduced to €2.000 for 2012 income.

5. Progressive Income Tax Rate on Investment Income.

The income tax rate applied to investment income is to be aligned with earned income. Currently certain investment income generated in France can benefit from a flat rate of tax deducted at source known as Prélèvement Libératoire, which represents full and final payment of all income tax due on that income. The current bill proposes that such income will be assessed at the progressive income tax rate by being added to other taxable income. When the tax continues to be deducted at source, such deduction will be credited against the total tax assessed and rebated when the tax arrived at under the progressive rate is lower then the flat rate of tax already paid.

6. French Sourced Investment Income – Tax at Source.

From 01/01/2013 all French sourced dividends and interest will be automatically subjected to tax at source (Prélèvement) at 21% and 24% respectively. This tax deduction – as described in the previous bullet point above – will be credited against tax assessed at the progressive rate on that same income in the following year (2014 for dividends or interest received in 2013).

When the taxpayer's total reference household income for tax purposes in the previous year does not exceed €50.000 then the taxpayer can elect for the Prélèvement not be applied, (in practice this may depend on whether the provider of the dividend or interest makes this option available).

7. **Withdrawal of Dividend Tax Allowance.**

Currently, the first €1.525 of gross dividend income, or €3.050 for a household comprising 2 or more units, is income tax exempt. This income tax free allowance is to be withdrawn for dividends received on or after 01/01/2012.

8. **Reduction in the Deductibility of CSG.**

Currently CSG (Contribution Sociale Généralisée), which forms part of the wider set of taxes known as Prélèvements or Contributions Sociales, is partly deductible from taxable income for income tax purposes. The present rate of deductibility, as applies to investment income, is 5.8%. This is to be reduced to 5.1%

9. **Capital Gains Tax on Shareholdings.**

Now for some good news!

Currently, all gains on the disposal of shares or their equivalent, (e.g. units in collective investments such as those in OEICS) are fully chargeable to capital gains tax and Prélèvements Sociaux without any annual allowance or taper relief.

The current bill proposes to introduce a taper relief for investments held for more than two years. The taper relief proposed is 5% for holding periods of 2 to 4 years, 10% for 4 to 6 years, with an additional 5% for every year of retention beyond the 6th year, to a maximum 40% for investments held for 12 years or more.

10.ISF – Wealthtax.

The proposal is to revert to a tax system which is very similar to that which existed prior to 2012.

The new tax rates and tax bands are best laid down as a table:

Fraction of Taxable Estate (€)	**Tax Rate within the tax band**
≤ 800.000	0%
800.001 – 1.310.000	0.5%
1.310.001 – 2.570.000	0.7%
2.570.001 – 5.000.000	1.0%
5.000.001 - 10.000.000	1.25%
10.000.001+	1.50%

11.Capital Gains Tax on Disposal of Property.

The reforms introduced in August 2012 are generally unchanged, albeit with a single, temporary, modification designed to encourage an increase in supply of property to the market in 2013.

For disposals made in 2013 a one off 20% reduction in the net – post taper relief - taxable gain will be applied.

In effect then, the tax charged on disposals will be reduced by 20% during 2013.

12.Disposal of Building Land.

Gains will be taxed at the progressive income tax rate rather than the usual flat rate, (19% + 15.5%)

13.Tax on Vacant Property

Currently, property located in cities comprising over 200,000 inhabitants and which have been unoccupied for 2 years or more, can be charged to an annual tax based on the rateable value of the property.

The proposal is to extend the scope of this tax to smaller conurbations, to property which has been empty for over 1 year and to raise the tax charge.

This tax is nonetheless unlikely to apply to furnished holiday homes, even if they have not been visited for some time.