

Mobility: Tax alert

January 2021

France

New tax and social security measures for 2021

Executive summary

The 2021 French Social Security Finance and Income Tax Bills have recently been passed into law by the end of December 2020 and introduce some changes to the income tax and social security provisions in France which will be effective from 1 January 2021.

2021 French social security ceilings

The annual social security ceiling, used to calculate most of the French social security contributions, will not change for 2021 and will be the same as 2020 year.

Payroll period	2021 Ceiling (EUR)
Year	41,136
Month	3,428

2020 tax rates and bands

The 2020 income tax bands have been adjusted by 0.2% in accordance with expected inflation. The rate of taxation for the first bracket has been decreased from 14% to 11%.

The revised bands are as follows for a single taxpayer (for a married taxpayer the bands are doubled):

Taxable income per unit (EUR)	Tax rate
up to 10,084	0%
10,085 to 25,710	11%
25,711 to 73,516	30%
73,517 to 158,122	41%
over 158,123	45%

2021 neutral tax rates and bands for French Pay As You Earn System purposes

The 2021 neutral payroll withholding rates and bands for the French Pay As You Earn (PAYE) System in Metropolitan France are as follows:

Monthly taxable salary (EUR) (B)	Tax rate
B < 1,420 €	0 %
1,420 € ≤ B < 1,475 €	0.5 %
1,475 € ≤ B < 1,570 €	1.3 %
1,570 € ≤ B < 1,676 €	2.1 %
1,676 € ≤ B < 1,791 €	2.9 %
1,791 € ≤ B < 1,887 €	3.5 %
1,887 € ≤ B < 2,012 €	4.1 %
2,012 € ≤ B < 2,381 €	5.3 %
2,381 € ≤ B < 2,725 €	7.5 %
2,725 € ≤ B < 3,104 €	9.9 %
3,104 € ≤ B < 3,494 €	11.9 %
3,494 € ≤ B < 4,077 €	13.8 %
4,077 € ≤ B < 4,888 €	15.8 %

4,888 € ≤ B < 6,116 €	17.9 %
6,116 € ≤ B < 7,640 €	20 %
7,640 € ≤ B < 10,064 €	24 %
10,064 € ≤ B < 14,362 €	28 %
14,362 € ≤ B < 22,545 €	33 %
22,545 € ≤ B < 48,292 €	38 %
B ≥ 48,292 €	43 %

These rates will be used by payroll teams in cases where individualized rates are not communicated to the employer by the French tax administration or if the French taxpayers have chosen to use this rate instead of their personalized rates.

Non-tax residents of France

Minimum taxation rate

The minimum taxation of non-tax residents of France will be 20% for net taxable income not exceeding EUR 25,710 then 30% for the income exceeding this amount.

Cancellation of the withholding tax reform for non-residents

As a reminder, the previous tax bills for 2019 and 2020 years planned an important reform:

- ▶ As from 1 Jan 2021: the income tax rates and brackets used for non-residents will be the same as the residents one
- ▶ As from 1 Jan 2023: the current system of quarterly withholding tax return filings and payments will be removed and the PAYE payroll withholding system will be the same between resident and non-resident taxpayers

With the 2021 tax bill Parliament has decided to cancel this reform even before implementation.

Therefore, the current system of quarterly withholding tax returns is still applicable and the rates for 2021 will be:

Annual taxable income	Tax rate
0 to 15,018	0%
15,019 to 43,563	12%
Over 43,564	20%

The portion of remuneration taxed at 0% and 12% is accordingly discharged of income tax and is not taken into account in order to determine the annual income tax.

However, the portion taxed at 20% is considered for the determination of the annual income tax and only the withholding tax paid at 20% is deductible.

Impatriate tax regime

Passive income

Further to a French Supreme Court decision, individuals who are eligible to the French favorable impatriate tax regime, can exempt from French income tax 50% of their foreign source passive income (i.e. interest, dividends, capital gains cashed in a non-French bank account) even if they do not benefit from an income tax exemption of a portion of their remuneration.

Prior to this Supreme Court decision, the French tax administration considered that the application of the 50% tax exemption on foreign source passive income was only possible if a part of the remuneration was also tax-exempted based on the impatriate tax regime (i.e. additional compensation as housing allowance, mobility premium ... or compensation related to non-French workdays).

This position had been challenged and on 21 October 2020, the French Supreme Court overruled the French tax administration's position.

Therefore, the individual who is qualified as an "impatriate" as per the French tax code (Art. 155B), can exempt from French income tax 50% of his non-French investment income even if no tax exemption has been applied on his compensation.

Next steps

Employers should make sure that they take into account the new social contributions and income tax provisions when they perform their employment costs projections.

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