

# Mobility: Tax alert

October 2022

## France

### Expected New Tax and Social Security Measures

#### Executive summary

The 2023 French Social Security Financial and Income Tax Bills have been announced introducing changes to the tax and social security rates and bands. The bills are expected to pass into law into by the end of December 2022 and the changes will be effective from 1 January 2023.

#### 2023 French social security ceilings

The annual social security ceiling, used to calculate most of the French social security contributions, should increase to € 43,986 as of 1 January 2023.

Payroll period	2023 Ceiling (€)
Year	43,986
Month	3,665.50

#### 2022 tax rates and bands

The 2022 income tax bands have been adjusted by 5.4% for inflation. The revised bands are as follows for a single taxpayer (for a married taxpayer the bands are doubled):

Taxable income per unit (€)	Tax rate
Up to 10,777	0%
10,777 to 27,478	11.0%
27,478 to 78,570	30.0%
78,570 to 168,994	41.0%
Over 168,994	45.0%

#### 2023 neutral tax rates and bands for French Pay as You Earn (PAS) purposes

The 2023 neutral payroll PAS withholding rates and bands for Metropolitan France purposes are as follows:

Taxable income per unit (€) (B)	Tax rate
$B < 1,518$	0%
$1,518 \text{ €} \leq B < 1,577$	0.5%
$1,577 \text{ €} \leq B < 1,678$	1.3%
$1,678 \text{ €} \leq B < 1,791$	2.1%
$1,791 \text{ €} \leq B < 1,914$	2.9%
$1,914 \text{ €} \leq B < 2,016$	3.5%
$2,016 \text{ €} \leq B < 2,150$	4.1%
$2,150 \text{ €} \leq B < 2,544$	5.3%
$2,544 \text{ €} \leq B < 2,912$	7.5%
$2,912 \text{ €} \leq B < 3,317$	9.9%
$3,317 \text{ €} \leq B < 3,734$	11.9%
$3,494 \text{ €} \leq B < 4,357$	13.8%
$4,357 \text{ €} \leq B < 5,224$	15.8%
$5,224 \text{ €} \leq B < 6,537$	17.9%
$6,537 \text{ €} \leq B < 8,165$	20.0%
$8,165 \text{ €} \leq B < 11,333$	24.0%
$11,333 \text{ €} \leq B < 15,349$	28.0%
$15,349 \text{ €} \leq B < 24,094$	33.0%
$24,094 \text{ €} \leq B < 51,611$	38.0%
$B \geq 51,611$	43.0%

These rates will be used by payrolls where individualized rates are not communicated to the employer by the French tax administration or where French taxpayers have instead chosen to use these rates rather than 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 €27,478 then 30% for any income exceeding this amount.

#### **Quarterly withholding tax return filings and payments on salary**

The present system of quarterly withholding tax return filings and payments will remain, but the withholding brackets should be adjusted in accordance with inflation.

### **French PAS**

#### **Adjustment of withholding rate by the individual**

The individual can change their personalized tax rate and may ask for it to be revised upwards or downwards. To justify the rate downwards, there must be a difference of more than 10% between the levy estimated by the individual and the levy that would have been applied.

The draft bill suggests a reduction of this threshold down to 5% allowing more taxpayers to benefit from this potential revision.

#### **Adjustments to the PAS system for French-source compensation paid to a French resident taxpayer by a foreign employer**

Since 1 January 2019, income received by French taxpayers has been subject to PAS.

Under the PAS system, depending upon the source of the wages and the location of the employer, the tax due by a French resident taxpayer can be withheld by the payer or it can be paid in 'instalments' which the French tax authority can deduct directly from the taxpayer's bank account.

Under the current system, the wages paid to a French resident taxpayer by a foreign employer is subject to withholding tax which is payable via a shadow payroll arrangement such that the foreign employer must:

- Register in France
- Obtain a so-called SIRET identification number - Système d'Identification du Répertoire des Entreprises et de leurs Etablissements
- Calculate the net taxable basis
- Apply the withholding tax rate
- File monthly payroll declarations
- Pay the income tax due to the French tax authority

The 2023 Finance Bill aims to simplify the position by replacing the 'withholding' system with the 'instalment' system if:

- The employer is resident in an EU country or a country which has concluded an agreement with France providing for administrative assistance against tax evasion and fraud (as well as a mutual assistance agreement) and is not a non-cooperative state as defined in the French tax code
- The employee is not subject to mandatory French social security contributions

In practice, the monthly income tax due will be deducted directly from the individual's bank account based upon their last tax return filed instead of the company's bank account based upon the monthly shadow payroll declaration.

Foreign employers affected by this measure also would be subject to a yearly reporting obligation regarding the amount of net taxable income paid to each employee. Failure to comply with this reporting obligation would result in a specific fine, ranging from €500 to €50,000 and correspond to:

- Mistakes - 5% of the amount which should have been declared
- Late - 10% of the amount which should have been declared by the deadline

This provision would apply to income received as from 1 January 2023.

#### **Next steps**

Employers should urgently review their payroll systems for both actual and shadow payroll arrangements.

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