

HR & Tax Alert

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France - Individual Income Tax and Wealth Tax – January 2007

January 2007

Executive summary

Further to our Alert of 6th October 2006, the 2007 French Finance Act and the Amended 2006 French Finance Act have recently been published and propose some further changes to the French Income Tax legislation for individuals, some of which are retrospectively effective for the 2006 tax year.

Individual Income Tax

Tax rates and bands

The marginal tax rates on income have now been confirmed, and as per our Alert of 6th October 2006 the top marginal rate will be 40% (decreased from 48.09% in 2005). However, the income tax brackets governing how much taxable income will be taxed at each rate band have been increased by 1.8% for 2006 in line with inflation.

This will mean that for 2006 the top 40% tax rate will now apply for taxable income exceeding €66 679 for those with single filing status and €133 358 for those with married filing status, as opposed to €65,500 and €131,000 as previously announced.

Reporting of tax exempt allowances for individuals on temporary assignment to France

Under the French tax legislation, individuals who are temporarily seconded to France are able to receive certain allowances and benefits in kind tax-free.

From 2006, the amount of these tax-exempt allowances and benefits-in-kind must be disclosed on the French individual income tax return. This is in order to determine the amount of the individual's

income to assess eligibility for certain social and tax benefits. In practice expatriates are unlikely to qualify for such benefits due to the level of their income however they are still subject to this reporting requirement.

Exemption threshold for capital gains

Gains from the sale of shares and certain other assets are exempt from French CGT provided total sale proceeds are below a specified amount. The threshold has been increased from €15,000 from 2006 to €20,000 for 2007.

Filing deadlines

It has now been confirmed that French resident income tax returns for the 2006 year will have to be filed by 31 May 2007 for paper returns or between 13 June and 27 June 2007 for internet filing depending on the place of residency. Non resident income tax returns will have to be filed by 30 June 2007 if the individual is resident in Europe or North America or by 15 July 2007 if resident in Asia.

Wealth tax

Wealth tax is due in France if the value of a French resident's worldwide assets is above a set threshold (or French assets for non residents). This threshold has been increased for 2007 from €750,000 (2006) to €760 000.

Limit on overall tax burden

In addition with effect from the 2006 tax year, the combined total of income tax, wealth tax (ISF) and dwelling and property taxes (linked to a taxpayer's

principal residence) will be limited to 60% of a taxpayer's annual income. It has now been confirmed that taxpayers who have already paid direct taxes in 2006 that exceed 60% of their total income (2005 individual income tax, 2006 property and dwelling taxes, 2006 wealth tax) can request a refund of the difference by filing Form 2041-DRID by 31 December 2007.

Next steps

Companies with tax equalized expatriate assignees working in France or for whom France is the home country should ensure that their cost projections and hypothetical tax calculations are brought up to date to reflect these changes. Individuals with French tax filing requirements should ensure that they fulfil their obligations to meet the relevant deadlines.

For further information please contact your local Ernst & Young Human Capital professional, or in France:

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