INTERNATIONAL TAX REVIEW

# French 2018 budget targets tax competitive measures

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**Anjana Haines**

**French Finance Minister Bruno Le Maire has announced some of the tax cuts and other incentives that will be included in the upcoming 2018 budget statement to help the country compete with its neighbours.**

In a speech to the largest employer federation in France, MEDEF, Le Maire said the next budget will make changes to the tax system to ensure it is "simple and stable" while also promoting risk-taking and rewards. "It must encourage ecological transition," he said.

The 2018 budget will be presented on September 27 to the Council of Ministers and it will be Le Maire's first budget under President Emmanuel Macron's government, who promised sweeping tax cuts as part of his election pledges.

The government's plans for the 2018 budget include corporate tax cuts, repealing the solidarity tax on wealth, simplifying the capital gains tax regime, and replacing the competitiveness and employment (CICE) tax credit with a reduction in payroll charges, among other investment-boosting measures.

"On this basis, we will build an economy of creation," Le Maire said, also announcing that the government would begin to sell state shares in the next few weeks to companies in the competitive sector to supply a €10 billion ($11.9 billion) fund for breakthrough innovation.

In addition, tax measures targeting digital multinationals like Google, Apple, Facebook and Amazon are likely as the government tries to find a way to ensure such so-called 'GAFA companies' pay taxes where they are earned, which would mean a bigger slice for France.

## Schedule for corporate tax cuts confirmed

In his speech to MEDEF, Le Maire confirmed that the corporate tax rate will be reduced from 33.3% to 25% by 2022, outlining exactly how he plans to do this.

In 2018, the rate will fall to 28% for the portion of profits below €500,000 and the remaining amount of profits will be taxed at 31%. These rates will continue to apply in 2019. In 2020, the standard rate will be cut to 28% for all profits, reducing further to 26.5% in 2012 and then finally 25% in 2022. He said this trajectory will be included in Finance Law 2018.

Guillaume Madelpuech, principal of NERA Economic Consulting in Paris, said Le Maire's target to cut rates to 25% echoes precisely the recommendations made earlier this year by the *Conseil des Prélèvements Obligatoires* (CPO), an advisory body linked to the French government and administration. "This rate cut should support France's international competitiveness," he said.

Loïc Védie, a tax partner at Darrois Villey Maillot Brochier, described the reduction as a "step in the right direction" considering the low rates available in countries such as Ireland, Luxembourg and the Netherlands.

Nevertheless, Madelpuech and Védie both believe that a future French corporate tax rate below 25% is unlikely.

"French officials have often stated that fiscal policies in France should only seek alignment with other corporate income tax rates," Madelpuech explained. "Officials have not typically advocated pursuing fiscal policies based on aggressive corporate income tax rates. In general, French officials support a harmonisation of tax rates in Europe. Le Maire already urged countries with lower tax rates to raise them. This level of 25% is believed to correspond to what France – through the CPO – thinks should be the right rate." But Madelpuech noted that this "could evolve" depending on what other large European countries and trading partners do in the years ahead.

Philippe Derouin, a Paris tax lawyer at the law firm with the same name, said France will get closer to the EU corporate tax rate average with this reduction, but it won't necessarily make France more attractive. "The corporation tax surcharge of 3% on dividends, already in the process of being partially crushed by litigation, will be terminated entirely in 2018. As a result, France's corporation tax rate in 2022 would be close to the current average of European corporation tax rates. Depending upon the evolution of rates in other European countries, France would become competitive but not especially attractive in terms of corporation tax rates. The attractive R&D tax credit should remain unaltered."

Rather than lowering the corporate tax rate further, however, Madelpuech suggested that other measures could be taken that strongly benefit France's tax competitiveness. "As examples, France could (i) improve the stability and predictability of its fiscal policy; and (ii) improve the quality of the relationship between taxpayers and the tax administration. These are two areas where the new government has mentioned its willingness to move forward," he said.

## Individual tax incentives aimed at boosting business investment

Le Maire has also announced that a number of individual and employment tax measures will be included in the budget with the intention to boost investments and encourage individuals to buy shares in businesses, including:

- Repealing the solidarity tax on wealth (*Impôt de solidarité sur la fortune*, or ISF), but keeping the contribution on real estate assets to transform the tax into a real estate tax;
- Simplifying the capital gains tax regime into a single rate of 30% from 2018. However, the taxation of employee savings will not change; and
- Replacing the competitiveness and employment (CICE) tax credit with a reduction in payroll charges beginning on January 1 2019.

French tax residents are subject to the ISF on their worldwide assets, with certain exceptions, and non-residents are subject to the tax only on their French assets.

"With the elimination of ISF, we want to attract the investors we need to grow your business, we want to stop the leak of talent, we want to reward risk-taking," Le Maire declared.

"Repealing the annual wealth tax on individuals – on assets other than real property – is expected to both reduce the cost of capital invested in businesses, share capital and other financial assets and increase the return on capital invested in such assets," Derouin said. "This double anticipated economic effect is expected to attract individual investors and promote risk-taking by individual investors."

However, Védie said that French people prefer safe investments and this proposal is unlikely to generate the growth the government is seeking. "It’s not certain that the change of the wealth tax rules would be sufficient to transform [individuals] into shareholders or 'business angels’," Védie said.

On the capital gains regime, individuals are currently subject to income tax under a progressive schedule, with the maximum overall tax rate amounting to as much as 64.5% when additional contributions and social levies are taken into account. Replacing this with a flat rate of 30% for tax and social levies is intended to "reinforce the attractiveness of France for investors and to encourage the start-up world (which is very active in France)", Védie said.

On replacing the CICE tax credit, Le Maire hopes this will boost competitiveness in the economy. At present, companies are eligible to the CICE, which is offset against corporate income tax payments, in respect of their employment costs in order to support investment, research, innovation, training, recruitment, etc. While the CICE has some benefits, it does not encourage companies to increase employee wages because salaries exceeding 2.5 times the minimum wage are not taken into account for its computation.

"Since corporate taxable profits are the bases of both mandatory profit-sharing and corporation tax, the replacement of CICE by a reduction in payroll tax charges would increase the amount of mandatory profit sharing by approximately €1 billion per year and limit the impact of corporation tax rate cuts," Derouin said.

## Measures targeting digital companies possible

In addition to the budget tax measures that Le Maire has already confirmed, analysts predict that proposals targeting the tax strategies of multinational digital companies, like Google, Amazon, Facebook and Airbnb, will be on the agenda.

Madelpuech, believes the government will "seek to identify and implement measures to make digital multinationals pay what it feels is their right share of tax in France".

"The new government is exploring a strategy to approach the taxation of the digital companies," Madelpuech said, but he noted that previous attempts to introduce a 'Google tax’ or 'Youtube tax’ have been unsuccessful.

Nevertheless, if the government doesn’t succeed in taxing GAFA companies on a domestic level, it will pursue its objectives at the EU level. With the backing of the German government, Le Maire plans to propose prioritising tax harmonisation at the next informal meeting of the EU Economic and Financial Affairs Council (ECOFIN) in Tallinn, Estonia. He believes EU efforts have so far taken too long to materialise and he will present plans to harmonise corporate tax rates across the Eurozone at the September 15-16 meeting to ensure digital economy businesses pay their fair share of taxes and cannot use low tax jurisdictions, such as Ireland and Luxembourg, to avoid taxation elsewhere.

Separately, Védie said an increase in the carbon tax rate is likely to be announced, raising the price per ton from €40 to €100.

Derouin added that the other major business tax measure expected in the budget is the repeal of the 3% corporation tax surcharge on dividends paid by major French corporations. "In order to pay for the cost of reimbursing (part of) the 3% surcharge, which was paid and challenged during the years 2013/2017, a cost estimated between €4 billion and €6 billion, the government has announced a temporary levy on corporations making more than €1 billion of annual revenue (turnover)," he explained. "Rumours circulate that it could be based upon revenues and spread over three fiscal years; the details of this temporary levy are not certain; they are expected to be announced later this year, probably in the amended finance bill due in November."

Le Maire’s full tax plans for the coming year will be unveiled on September 27. After this, parliament will vote on both the finance bill for 2018 and the amended finance bill for 2017, with a view to enacting them before December 31 this year.