

WITHHOLDING TAX

FAQ

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Will 2018 be a blank year?

Not quite.... This year, taxpayers will pay the 2017 income tax, based on the one-year lag that has been in effect until now. In 2019, the tax will be levied in real time, that is, 2019 taxes will be collected in 2019.

To avoid double taxation in 2019 on 2018 and 2019 revenues, 2018 revenues will simply be exempt from taxes.

However, this exemption will only apply to so-called recurrent income, i.e. wages, retirement pensions, replacement income (unemployment benefits, daily sickness or maternity benefits in particular), income from the self-employed or other income from land and life annuities constituting a standard income base.

In concrete terms, taxpayers will receive a tax credit in 2019, called the *Crédit d'Impôt Modernisation de Recouvrement* (CIMR), which will cancel the income tax due in 2018.

On the other hand, income considered as exceptional will be taxed. This is particularly the case for severance pay, termination benefits....

Note that other income categories retain their specific taxation terms. Thus, land income, capital or real estate gains, royalties, when they are not part of the recurring income, or other interests on bank investments are not included in the list of exceptional income. They are therefore not concerned by the CIMR and will be taxed.

In the event of exceptional income, the CIMR will "cancel" the share of tax corresponding to the usual income. Only the exceptional income of the year 2018 will remain taxable. In the absence of exceptional income, the balance will be nil and the taxpayer will have nothing to regularize. On the other hand, in the case of a credit or tax reduction, the CIMR may be higher than the amount of tax due, which will result in a refund to the taxpayer.

If you expect to receive exceptional income or benefit from a tax credit, please contact your Tax Center for the calculation and the amount of what you will pay or what will be refunded in 2018.

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Will I pay taxes if I retire this year?

The retirement indemnity is considered as an exceptional income; you will be taxed on it but you will benefit from a favorable rate.

Indeed, with the usual system, all additional income is taxed at the *Taux Marginal d'Imposition* (TMI). The TMI is the tax rate at which any additional income will be taxed. It is evaluated by the tax administration according to inflation. It corresponds to the rate of the highest tax bracket of each taxpayer.

Thanks to the mechanism adopted in 2018, the exceptional income will be taxed only at the average household rate, which is systematically lower than the *Taux Marginal d'Imposition* due to the progressivity of the scale, i.e. the succession of different tranches.

In 2018, the calculation will be different. To determine the tax due on exceptional income, the tax authorities will calculate first the theoretical tax for all income. Then they will cancel the recurring income tax by applying a pro rata. If, for example, recurring revenues are 80% of the total, 80% of the tax will be canceled. If the exceptional income accounts for 20% of the total, only 20% of the tax will be due.

For more information on tax withholding, <https://www.economie.gouv.fr/prelevement-a-la-source>

To refer to our Newsletter on Withholding Tax, click [here](#)