

HR PRACTICAL INFORMATION

IMPLEMENTATION OF TAX WITHHOLDING

Tax reform planned by the previous government and finally implemented under President Macron, the income tax withholding (*Prélèvement à la Source – PAS*) will go into effect in January 2019. This system already exists in a large number of Western countries, notably the United States and the United Kingdom, but until now in France only the social contributions were recovered by the employer.

WHY THIS REFORM?

The purpose of this reform is to remove the one-year lag between the collection of income and the payment of the corresponding income tax.



With this reform, only the timing and payment terms of the tax change. The methods of calculation and declaration of income remain the same.

WHO IS CONCERNED BY THE REFORM?

The reform applies to employees, retirees and self-employed workers. Replacement income (pension, unemployment, maternity, daily allowances ...) and property income are also affected.

WHO WILL COLLECT TAX?

For wages, the so-called third-payer employer will deduct at source as of January 1, 2019. An additional line will be added to the pay slip to indicate the amount of tax paid, as it is already the case for social security contributions.

For taxpayers who receive replacement income (pension, sick pay, maternity, parental leave allowances, unemployment benefit, etc.), the income tax will be collected at source by the organization that pays the benefits according to the tax rate established and communicated by the tax authorities.

The liberal professions and the self-employed will pay a monthly or quarterly installment, calculated according to their incomes of the previous months and adjusted according to their effective incomes.

HOW WILL THE RATE OF THE TAX BE FIXED?

- In Spring 2018, you will report your 2017 income. Based on your return, the tax authority will calculate the deduction rate that will be applied to your salary from January 2019. If you declare your income online, you will be informed immediately of the rate of deduction applicable from January 1, 2019. If you are married or *pacsed* you can opt, at that time, for an individualized rate.

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- In Summer of 2018, you will be informed of your tax rate on your tax notice.
- Before your rate is sent to your employer, you can until September 2018:
 - If you are married or *pacsed*, opt for an individualized rate, which will avoid, in case of income difference between the members of the couple that the high income of the one lead to a relatively high average tax rate for both.
 - If you are an employee, opt for the non-transmission of your personalized rate to your employer who will in this case apply a neutral rate.
- The tax authorities will then inform your employer of your tax rate.
- Since AUP will provide the prefiguration of the withholding tax, you will be able to know from September/October 2018 the indicative amount of the tax that will be applied from January 2019
- From the first income paid in 2019, this deduction rate will be applied to your salary: the deduction at source will be automatic and will appear clearly on your pay slip. The deduction rate will be updated in September 2019 to take into account your new situation, especially in case of a change in income.



Your deduction rate, the amount of the withholding tax, as well as your salary BEFORE and AFTER deduction at source will be clearly indicated on your pay slip.

What happens in case of salary evolution?

The deduction rate will apply each month to the income received: if the income decreases, the amount of the deduction will decrease in the same proportion. Conversely, if income increases, the amount of the tax will increase in the same proportion. The amount of the tax will therefore vary automatically during the year depending on the evolution of income.

In the event of a change in your situation leading to a foreseeable and significant variation of the tax, you may request an update of the withholding tax rate during the year. The www.impots.gouv.fr website will allow each taxpayer to simulate the possibility of modulation and validate the request with the tax authorities.

What happens in the case of multiple employers?

Whether you have one or more employers, the withholding tax will work the same way. The tax administration will give your employers the same rate of deduction, which will apply to the salary that each of them pays you.

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Will confidentiality be guaranteed?

The employee will not give any information to his employer. The tax administration will remain the interlocutor of the taxpayer:

- It will calculate the rate of the tax and communicate it to the third party paying the income (private or public employers, pension funds, etc.).
- It will be the sole addressee of any requests for tax rate modulation expressed by taxpayers.
- It will receive tax declarations from taxpayers, as today
- It will calculate the final amount of the tax
- It will receive the payment of the tax balance or proceed to the refund of any overpayment.

The only information sent to the collector (employer) will be the tax deduction rate which reveals no specific information. The withholding tax rate for each taxpayer will be subject to professional secrecy. Persons who willfully breach the obligation of professional secrecy may be punished.



If they do not wish the calculated rate to be supplied to their employer, employees will be able to opt for the application of a "non-personalized" rate or individualized rates for married or *pacsed* couples.



Employees will be able to opt for non-transmission of their personalized rate to their employer, and thus be applied a "non-personalized" rate. In this case, the employer will apply the rate corresponding to the remuneration of his employee, defined in the rate schedule (set in the budget law) and similar to the rate applicable to a single person without children. If necessary, the employee must pay the tax authorities an amount corresponding to the difference between the application of his personal rate of deduction and the application of the non-personalized rate.

2018, A LOST YEAR?

Not really.... It is important to distinguish current and exceptional income.

In practice, to prevent the taxpayer from being taxed twice, i.e. on the 2018 income and that of 2019, the 2018 income will not be taxed, hence the term of "lost year". However, it should be noted that only usual income will not be taxed thanks to a tax credit called *Crédit d'Impôt de Modernisation du Recouvrement* (CIMR) which is intended to neutralize the income included in the base of the withholding at source i.e. wages including overtime or pension and unemployment benefits.

Conversely, exceptional income will be subject to income tax because it does not recur from one year to the next. Retirement bonuses and severance pay fall within this framework. These revenues will have to be declared in the spring of 2019.

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Another important point is that tax credits are not lost. If you are hiring a nanny or a housekeeper this year, or if you are renovating your windows, the tax credits will be returned next year. Moreover, for home services and childcare the tax administration has even planned an advance: one third will be paid in March 2019 and the balance in August.

IN SUMMARY....

- Monthly payment of income tax in its current format will stop in December 2018. This will be done automatically by the tax authorities, without any action on the part of the taxpayer;
- An income tax levied directly on the salary/retirement pension from January 2019. The one-year gap between the collection of income and the payment of the corresponding tax will thus be eliminated. This tax will not be final: the final tax due for the year N will be calculated by the administration in N + 1 and a regularization will, if necessary, take place (payment of a balance by the taxpayer or refund by the tax administration in case of overpayment);
- The pay slip will mention the elements relating to the withholding tax (PAS). The taxpayer will know all the elements that made it possible to determine the tax withheld i.e. his taxable net income, the rate and its nature (personalized or non-personalized) as well as the net amount of income to be paid before and after PAS.
- The tax will automatically adjust to the amount of monthly income paid: the tax rate calculated and transmitted by the tax administration will be applied to the monthly income collected, the deduction automatically adapting to the increase or drop of the income for example in the case of bonus payments or pay regularizations.

All of these transactions will be automatic and the taxpayer will not have to do anything unless his situation changes and he reports it to the tax authorities so that his rate is updated.

Non-taxable employees and pensioners will not be deducted at source: a 0% rate will be sent to their employer or pension fund (third payer) by the tax authorities. The implementation of the withholding tax will not change anything for them.

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CALENDAR 2018 / 2019

2018	Payment of tax on the 2017 income
April / May 2018	2017 Income tax return
Summer 2018	Receipt of tax notices with the withholding tax rate
October 2018	Transmission of the rate to the collector (employer, pension funds ...)
From January 2019	The tax is deducted each month from the income paid by third parties (employer, administration, social organizations ...)
April / June 2019	2018 Income Tax declaration
September 2019	Tax rate adjusted to reflect 2018 situation

Still have questions about withholding tax? www.prelevementalsource.gouv.fr

For information, the Resources Department will make regular focuses until the end of December 2018 to answer FAQs. Stay tuned!