



## 2011 draft Finance Bill

October 2010

The 2011 draft Finance Bill was adopted by the Cabinet on 29 September 2010 and has been drafted in the context of public deficit reduction. It is currently under discussion before Parliament.

It implements in particular the income tax increases announced by the Government in parallel with the pension reform and a global reduction of 10% of the many tax incentives which exist under French tax legislation.

Around a hundred members of Parliament filed an amendment calling for both the tax shield ("bouclier fiscal") and wealth tax to be abolished as of 2011. However, the Government stated that this could not be discussed in the context of a simple budget amendment but would be considered as part of an overall reform of the French tax system to be addressed in June 2011. The debate has therefore been temporarily postponed.

This French Tax News provides an overview of the principal measures which are planned with regard to the taxation of private individuals.

### Income tax rates

Progressive income tax rates would be increased by 1.5% (in line with inflation for 2008, excluding tobacco). The marginal rate would be increased from 40% to 41%.

The new thresholds applicable to 2010 income would be:

Taxable income	Rate
Up to €5,963	0%
€5,964 - €11,896	5.5%
€11,897 - €26,420	14%
€26,421 - €70,830	30%
Over €70,830	41%

### Changes in matrimonial status during the course of a tax year

Taxpayers would in theory only file one income tax declaration for the year of their marriage or of entering a civil contract ("PACS"). However, new spouses and civil contract couples could elect to be taxed separately for the whole of the year.

In the event of separation, divorce or breach of a "PACS", the taxpayers would have to file two separate declarations.

Currently, taxpayers must file three separate returns for the year that their marital status changes.

### Additional contribution on high incomes, incomes from capital and capital gains

There would be a 1% increase in contributions, as part of the plan for financing pension reform, as follows:

- the marginal income tax rate would pass from 40% to 41%, as mentioned above;

- the flat rate tax on dividends and interest and withholding tax on dividends paid to non-resident individuals would be increased from 18% to 19%;

- the flat rate of tax on capital gains on security transfers, as well as capital gains on real estate, would be increased respectively from 18% to 19% and from 16% to 17%.

This additional contribution would not be taken into account for the calculation of the refund entitlement under the tax shield.

## Taxation with the first euro of capital gains on transfers of securities

The tax threshold (€25,830 in 2010) will be abolished and capital gains on transfers of securities will in future be taxable (on the first euro) irrespective of the amount of the transfers made in the year. This measure will apply to transfers made as of 1 January 2011.

## Tax credits on dividends

Tax credits on dividends will be abolished in respect of income tax for 2010. These tax credits are equal to 50% of the sum of the dividends paid and are capped at an annual maximum of €115 for widowed, divorced and unmarried taxpayers; and at €230 for married or civil contract couples who are taxed jointly.

## Multi-based life insurance policies

Euro products of multi-support life insurance contracts would be taxed at a rate of 12.1% from the date of inscription and no longer when the contract is paid out.

## Global reduction of 10% on tax incentives

Tax reductions and credits which are included in the global capping of tax incentives will be uniformly reduced by 10%, except for tax benefits in respect of household employees, costs of care for young children and rental investment in social housing in certain overseas territories. This measure will be applicable in respect of 2011 income tax, based on expenditure and investments made from 1 January 2011.

## Tax credits on loan interest

Credits on income tax in respect of interest on loans taken out for the purpose of buying or building a principal

residence will be abolished and replaced by a zero rated loan system.

## Tax credits for solar energy incentives

The credit on income tax in respect of equipment to produce solar energy will be halved ie reduced from 50% to 25%, for costs incurred as of 29 September 2010.

## Reductions in income and wealth tax in relation to investment in the capital of small and medium companies ("PMEs")

These reductions would be centred on companies with finance raising difficulties.

For this purpose, it is planned to:

- limit the income tax reduction to investments in PME in expansion, as is already the case for wealth tax;
- exclude activities which are not experiencing structural problems in finding such finance (real estate, financial activities etc);
- allow funds investing in innovation (FCPI), which benefit from reduced wealth tax, to finance companies with up to 2,000 employees.

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