

# France expands reach of social contributions tax to certain individuals with non-French source income

## In Brief:

Beginning January 1, 2009, France will levy a new social contribution tax on individuals with non-French source income that is normally exempt from French tax under a treaty or other international agreement. The new social contribution would apply to French tax residents and non residents subject to the French social security system in connection with their professional service income.

## Income from non-French activities exempt under an international treaty

Under Article 24 of the French Social Security Finance Bill effective January 1, 2009, a new social contribution tax will be levied on individuals deriving income from activities that are normally exempt from French tax under an international treaty or other international agreement. This new tax will apply to self-employed individuals and employees with non-French source income traditionally exempt from French income tax, including the Contribution Sociale Généralisée (“CSG”) and Contribution au Remboursement de la Dette Sociale (“CRDS”) supplemental social taxes, under an international tax treaty.

The new social contribution would apply to French tax residents and non residents subject to the French social security system in connection with their professional service income.

As indicated in Parliamentary debates, the new contribution modifying Article L.131-9 of the French social security code is designed to fill a gap in cross-border situations where CSG and CRDS and/or family allowance contributions were exempt while the individual was nonetheless contributing into the French social security system. This contribution will generally result in additional costs for individuals who have dual contracts giving rise to taxation in more than one country, for individuals contributing to multiple social security schemes, and for French residents who receive foreign source professional income exempt from French social charges including CSG and CRDS.

The contribution rate for self-employed individuals is scheduled to be:

- 2.4% up to the annual social security ceiling (anticipated at €34,308 for 2009); and
- 9.6% up to 5 times the annual social security ceiling.

Thus, for 2009, this contribution would be capped at €17,291. Please note that the decree finalizing the contribution rates has not yet been published.

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This new provision appears to be in response to the recent European Court of Justice and Paris Court of Appeal case law according to which CSG and CRDS are characterized as income taxes covered by the French-UK double tax treaty whereby no CSG and CRDS could be claimed by the French social security collections agency, URSSAF, in connection with UK source income (self-employed lawyer, in the Appeal's case at hand).

Landwell & Associés, a French Law firm and member of PwC's tax and legal international network, has advised us of this change in law. If we can assist your firm with any aspect of the new social contribution tax, please contact Stanley Kolodziejczak at 646-471-3160, Gregg Sincoff at 646-471-1335, Michael Jaffe at 001-33-1-5657-4042 or Diane Artis at 001-33-1-5657-4724.

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