French government releases draft Budget for 2025 and proposes retroactive tax raises for large corporate and individual taxpayers

The French Finance Bill (FFB) for 2025 was published on 10 October 2024 by the French Government. In order to meet the new government's objective to reduce France's public deficit to 5% of the GDP by 2025, nearly EUR 20 billion in additional levies are proposed, EUR 13.7 billion of which would be supported by businesses and EUR 5.7 billion by individuals. In addition, a EUR 40 billion reduction in spending is foreseen. During his General Policy Statement on October 1st, the French Prime Minister Michel Barnier called for an exceptional 'targeted and shared' effort between the largest companies and the highest income earning individuals to ensure greater tax fairness in reducing the deficit.

The bill includes several measures already announced, such as the introduction of a temporary surtax on corporate income tax applicable to the largest companies with significant profits, a new adjustment of the phasing out the contribution on companies' added value (cotisation sur la valeur ajoutée des entreprises – CVAE), a tax on share buy-backs and, regarding individual taxpayers, the introduction of a minimum tax on high-income taxpayers.

The FFB also includes more technical measures such as an update of French domestic GloBE rules - (to align the French implementation with OECD's guidance), the implementation of the DAC 8 Directive on crypto assets and amendments to the merger preferential corporate income tax regime and to the tax treatment of SMEs options.

Corporate tax

Contribution on companies' added value (CVAE): abolition deferred to 2030

The CVAE is a part of the territorial economic contribution (CET) due by companies engaged in an activity taxable under the business property tax (CFE) and whose sales revenues is over or equal to EUR 500,000. This tax is key for the public finances of French territories.

The Finance Law for 2023, enacted in December 2022, provided for a two-phase repeal of the CVAE (in two halves over 2023 and 2024). However, the Finance Law for 2024 spread the abolition of the remaining half of the CVAE linearly over four years, until 2027.

The abolition of the contribution would be postponed once again: the CVAE rates would remain at the 2024 level from 2025 to 2027 to be reduced to 0.19% in 2028 and 0.09% in 2029, before reaching 0%:

Sales revenues threshold	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Sales revenues below EUR 500k	0%				0%	0%
Sales revenues comprised between EUR 500k and EUR 3m	0,094 % × (sales revenues – EUR 500k) / EUR 2,5m				0,063 % × (sales revenues – EUR 500k) / EUR 2,5m	0,031 % × (sales revenues – EUR 500k) / EUR 2,5m

Sales revenues comprised between EUR 3m and EUR 10m	0,094 % + 0,169 % × (sales revenues – EUR 3m) / EUR 7m	0,063 % + 0,113 % × (sales revenues – EUR 3m) / EUR 7m	0,031 % + 0,056 % × (sales revenues – EUR 3m) / EUR 7m
Sales revenues comprised between EUR 10m and EUR 50m	0,263 % + 0,019 % × (sales revenues – EUR 10m) / EUR 40m	0,175 % + 0,013 % × (sales revenues – EUR 10m) / EUR 40m	0,087 % + 0,006 % × (sales revenues – EUR 10m) / EUR 40m
Sales revenues over EUR 50m	0,28 %	0,19 %	0,09 %

Simultaneously, the rate of the additional tax on CVAE would be increased to offset the CVAE rate drop (9.23% in 2024, 13.84% in 2025, 27.84% in 2026). In addition, for CET due in respect of the years 2024 to 2027, the capping rate would be set at 1.531%, 1.438%, 1.344% and 1.25% of value added.

This measure should be considered when computing the 2025, 2026, 2027, 2028 and 2029 CVAE instalments, which would have to be updated accordingly.

Introduction of a temporary corporate income surtax on large companies

Large companies with sales revenues equal or over EUR 1 billion would be subject to an exceptional contribution in 2024 and 2025. The measure is expected to affect more than 350 companies in France.

The exceptional contribution would be assessed on the company's corporate income tax (normal and reduced rates), before deducting any tax reductions, credits and receivables.

Its rate would vary based on the company's sales and the financial year in question (FY 2024 or FY 2025):

Applicable tax rate by FY	Companies with a sales revenues equal or over EUR 1 billion	Companies with a sales revenues equal or over EUR 3 billion
FY 2024	20,6% (ETR 30,97 %)	41,2% (ETR 36,125 %)
FY 2025	10,3% (ETR 28,4 %)	20,6 % (ETR 30,975 %)

The exceptional contribution would be paid within the same deadlines as the final corporate tax (i.e. 15 May 2025 and 2026 for a company with a FY ending on 31 December 2024 and 2025). Within a tax consolidated group, the contribution would be paid by the parent company.

Special contribution levied on major shipping companies

An exceptional contribution would be levied on the operating income of large shipping companies with a sales revenue equal or over EUR 1 billion in 2024 and 2025.

Unlike the above corporate income surtax on large companies, it would be computed on the operating profits of the company. The contribution rate would only vary based on the financial year in question (FY 2024 or FY 2025):

Applicable tax rate by fiscal year	Companies with a sales revenues equal or over EUR 1 billion
FY 2024	9%
FY 2025	5,5%

Similar to the surtax on large companies, the contribution would be paid within the same deadlines as the French corporate tax.

Introduction of a French tax on share buy-backs

A new tax would be introduced on capital reductions resulting from share buy-backs (exceptions are provided). It would only apply to companies that generated a sales revenues exceeding EUR 1 billion (as it results from consolidated or combined accounts, if applicable), in the last completed fiscal year.

The tax, set at a rate of 8%, would be applicable to capital reductions carried out from October 10, 2024. It would be based on the amount of the capital reduction and a portion of capital premiums (i.e., issuance or merger premiums).

If this project is adopted, France will follow in the footsteps of the United States, which has already imposed taxes on corporate stock repurchases since January 1, 2023.

Amendments of the merger preferential corporate income tax regime

France transposed into domestic law the provisions of the EU Mobility Directive (2019/2121) through Ordinance 2023-393 of 24 May 2023. It introduces partial demergers into corporate law for merger treaties filed with the competent commercial court as from 1 July 2023.

A partial demerger involves a partial transfer of assets where the shareholders of the contributing company directly receive the securities issued by the transferee company in exchange for the assets contributed.

The French Finance Bill for 2025 proposes to amend the definition of partial contributions of assets so that the preferential regime (corporate income tax, income distribution) would also become available to partial demergers. This measure would apply to treaties filed with the competent commercial court as from 1 July 2023.

Individual income tax

Introduction of a temporary 20% minimum tax on very high-income taxpayers

A temporary contribution on "high-income individuals" would be introduced from 2024 to 2026. It would apply to taxpayers with an income exceeding EUR 250,000 (EUR 500,000 for married couples and other joint filers) whose effective income tax rate is below 20% of their adjusted tax income.

The contribution would be equal to the difference between the taxpayer's effective income tax and 20% of his adjusted tax income.

Amendment of the tax treatment of the SMEs options

The SMEs options (so-called *'bons de souscription de parts de créateur d'entreprise (BSPCE)'*) regime allows certain companies to offer their employees and certain managers the right to subscribe for shares at a predetermined price.

Following a recent ruling by the French Administrative Supreme Court, the BSPCE tax regime would be amended to distinguish the gain generated when the taxpayer exercises the option to receive the shares (considered as wage income) and the gain generated when the taxpayer sells the shares (taxed as capital gain).

Update of the French GloBE rules (Minimum taxation – Pillar 2)

On 21 December 2023, the French Finance Law for 2024 implemented the EU Directive on Minimum taxation (GloBE rules) into domestic law (*Directive (EU) 2022/2523 of 14 December 2022*). It introduced a domestic minimum top-up tax (DMTT), the income inclusion rule (IIR), as well as the undertaxed profit rule (UTPR). The 2024 Finance Law also transposed parts of the February and July 2023 OECD administrative guidance.

The FFB for 2025 would incorporate the OECD guidance from December 2023 into French domestic law (note that the June 2024 guidance is not included).

The Government proposes, inter alia, to:

- Add and amend several definitions (non-constituent entity, transferable tax credit, insurance investment entity)
- Align the CbCR safe harbor with the OECD guidance (qualified consolidated financial statements, anti-arbitrage rule, qualified CbCR, correction for routine profits and simplified ETR tests)
- Update the substance-based exclusion rule
- Specify the allocation of the domestic top-up tax among French constituent entities of the same group
- Specify the IIR exemption in a jurisdiction where the DMTT is considered "qualified"
- Introduce currency conversion rules
- Clarify deferred tax assets and liabilities for the transition period
- Introduce a joint and several liability for the top-up tax due between the constituent entities subject to the domestic top-up tax and the one they elected to pay the latter tax

Transposition of DAC 8 (exchange of information on cryptoassets)

The French Finance Bill for 2025 provides for the implementation of Directive 2023/2226 of 17 October 2023 on the exchange of information in the field of taxation regarding crypto assets (DAC 8), which will apply from 1 January 2026. New reporting requirements will then apply to crypto-asset service providers.

Service providers and operators will be required to collect and report information identifying transactions involving cryptoassets, the accounts in which they are held and the account holders.

The service provider must inform any individual using cryptoassets that their data, which is transmitted to the French tax authorities, may be shared with the tax authorities of another EU Member State.

For more information, contact a tax professional:

Marie-Pierre Hôo | mhoo@kpmgavocats.fr

Patrick Seroin Joly | pseroinjoly@kpmgavocats.fr

Alexandra Baudart | abaudart@kpmgavocats.fr