Taxation of dividends

Updated on 1 January 2021

The following is provided for informational purposes only. Shareholders are advised to contact the tax authorities or consult with their usual tax advisers for information regarding their specific tax situation.

- ***Natural persons who are tax residents of France***

The tax regime applicable to dividends paid to natural persons who are tax residents of France is as follows:

Tax regime

Dividends paid are subject to a single flat-rate tax (PFU) set at 30% and broken down as follows:

- a flat-rate income tax (IR) of 12.8%;
- social security contributions at an overall rate of 17.2%.[1]

However, the taxpayer may continue to opt to be taxed according to the progressive income tax scale if this tax scale is more advantageous to him or her (to which are added the social security contributions on investment income at the overall rate of 17.2%). It is only if the taxpayer opts for this form of taxation that he or she will benefit from the 40% deduction of the gross amount of the dividends (provided that the dividends concerned are entitled to such a deduction) and the CSG will be deductible from the total taxable income of the year of the payment of the dividends in the amount of 6.8%.

This choice (made expressly and irrevocable) is made each year by the taxpayer when filing his or her tax return for income received during the same year. It is global and applies in particular to all investment income and capital gains on the sale of securities for the year falling within the scope of the flat-rate tax.

An exceptional tax on high incomes, the rate of which is 3% or 4% depending on the amount of the taxable income of the household, is added to the income tax.

Taxation mechanism

The taxation occurs in two stages:

✓ At the payment of dividends

Dividends are subject, at the time of their payment, to a mandatory non-discharging flat-rate withholding tax (PFO) at a rate of 12.8%, which is deducted as an advance payment of income tax (to which are added the social security contributions at the overall rate of 17.2%, i.e. an overall withholding tax of 30%

1 The overall social security contribution rate of 17.2% breaks down as follows for dividends paid as of 1 January 2019: CSG of 9.2%, CRDS of 0.5% and the new solidarity withholding tax of 7.5%.

deducted at the source by the paying institution on the gross amount of the income paid by this institution).

However, exempted from this advance income tax payment of 12.8% on the dividends that will be paid in 2021 are those persons having sent a request to the institution paying the income before 30 November 2020; it being recalled that, to benefit from this exemption, the reference tax income stated on the tax return for 2019 income must be less than €50,000 for a single, divorced or widowed taxpayer, and €75,000 for a taxpayer subject to joint taxation.

- ✓ <u>The year following the payment of dividends</u>

The dividends will then be declared on the income tax return for the year of their collection and taxed at the flat income tax rate of 12.8% (on the gross amount of the dividends), unless the taxpayer has expressly and irrevocably opted for the progressive income tax scale when filing his or her tax return on all investment income and capital gains on the sales of securities.

The non-discharging flat-rate withholding tax (PFO) of 12.8% collected at the time of the payment of the revenue is imputed on the income tax owed for the year in which it was deducted (whether it is calculated by application of the flat-rate income tax of 12.8%, or, following the taxpayer's decision, by the application of the progressive scale). If it exceeds the tax owed, the difference is refunded by the tax authorities.

<u>Payments made in Non-Cooperative Countries or Territories (NCCTs)</u>

Dividends paid directly to an account opened in the books of a financial institution located in a Non-Cooperative Country or Territory (NCCT[2]) are subject to a withholding tax of 75%. To this tax are added the social security contributions of 17.2% in force.

- ***<u>Natural persons who are not tax residents of France</u>***

The withholding tax on dividends from French sources paid to natural persons who are not tax residents of France is set at 12.8%.

A withholding tax of 75% applies if the dividends are paid by check, cash or other means of payment to a beneficiary residing in a NCCT or are paid directly into an account opened with a financial institution located in a NCCT (regardless of the tax residence of the recipient of such income).

These domestic law rates are subject to more favourable provisions provided for in international tax treaties in force and concluded with France.

Dividends paid to non-resident natural persons are not subject to social security contributions.

[2] NCCT within the meaning of the second paragraph of the 1. of the Article 238-0 A of the French General Tax Code (CGI), to which are added the States appearing on the black list of the European Union.