

PAY AS YOU EARN : SHOULD YOU FORGET YOUR RETIREMENT SAVINGS IN 2018 ?

A 'pay as you earn' system of tax deduction at source will be introduced in France from 1 January 2019. In 2018, taxpayers will continue to pay tax on income earned in the previous year, 2017, but in 2019 tax will be deducted directly on income for the then current year. So, what about 2018?

A tax allowance will neutralise 2018

People might have thought that 2018 would just disappear off the tax office's radar. No way. A series of measures have been invented to counter any tax optimisation that profits from the situation. Essentially, a new tax allowance known as CIMR will be applied to all routine income earned in 2018 rendering that income non-taxable in 2018. Non-routine or exceptional income will still be taxed but at one's average tax rate (and not the marginal rate). Exceptional income that will attract tax includes redundancy pay and lump-sum retirement benefits, for instance.

Amendment 467 changes the rules of the retirement savings game

Common sense dictated that it would be best to leave one's non-compulsory retirement savings plan alone in 2018 and then pay in double contributions in 2019 so as to benefit from the tax allowances attaching to additional voluntary contributions or AVCs (in PERP or 'article 83' schemes). The tax authorities were afraid this might happen and so have issued an anti-optimisation clause - amendment 467. This states that where contributions paid in 2018 are less than those observed in 2017 and 2019, then the tax allowance shall apply to the average of the contributions paid in 2018 and 2019. This system mechanically destroys the effects of any opportunistic manipulation between these two years. The government's stated purpose is not to cause retirement savings contributions to dry up in 2018.

Saving for retirement is, in the end, the common-sense solution

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For people in employment, things are really quite straightforward. They are encouraged to continue their efforts to build up retirement savings without worrying whether the tax year will be blank or not so blank, from the point of view of AVCs and exceptional income. Amendment 467 does not make you lose money, but it does deprive you of the pleasure of trying to win out! It should never be forgotten that for retirement savings any tax benefits are just the cherry on the cake. Nevertheless, those who come to realise today that they need to take their retirement planning in hand had better not go overboard in 2018. If you did not take the time in 2017 to make any AVCs into your "article 83" plan, then you will effectively avoid being hit by the anti-optimisation amendment. In that case, it is probably much better not to make any contributions in 2018 and double up in 2019.

Illustration:



Damien Vieillard-Baron.

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