

RE: INCOME TAX
SUBJECT: OPTION FOR *PRELEVEMENT LIBERATOIRE*

February 2010

The *Prélèvement Libératoire* is an option to pay income tax at source at a set rate. It is available for European Union-source investment income such as bank interest, life assurance gains and dividends.

Concerning foreign source investment income, the option is made by submitting form 2778 with payment by the 15th of the month following the income payment.

The option can be partial.

Interest and life assurance gains

This option should be envisaged by those in the two higher tax brackets.

Under the *Prélèvement Libératoire* option, interest income is subject to a set income tax rate of 18%, while the rates applicable to Life

assurance gains depend on the duration of the contract: 35% for the first 4 years, 15% between 4 and 8 years, 7.5% after 8 years (a tax credit will compensate for the tax withheld on income eligible for abatement)

In addition, social contributions at 12.1% are payable.

A taxpayer will opt for the withholding tax when his marginal rate of income tax, on the progressive income tax scale, is higher than the withholding tax rate.

The fact that when the income is subject to the progressive scale rate, *CSG deductible* (5.8% of investment income) paid during a year is deductible from the following year taxable income should also be taken into account. This deductibility is lost for income subject to the *Prélèvement Libératoire*.

Comparative tax rates (including Social Contributions), adjusted for CSG deductible					
Taxation under the progressive scale rate		Option <i>Prélèvement Libératoire</i>			
Income tax bracket	Marginal taxation rate	Interest	Life Assurance gains		
			< 4 years	4 to 8 years	> 8 years
0%	12%	30%	47%	27%	20%
5.5%	17%	30%	47%	27%	20%
14%	25%	31%	48%	28%	20%
30%	40%	32%	49%	29%	21%
40%	50%	32%	49%	29%	22%

Dividends

The option will only be of interest for those in the 40% bracket receiving large amounts of dividends.

Dividends under the *Prélèvement Libératoire* option are subject to a set income tax rate of 18% and 12.1% social contributions.

Dividends taxed that way do not benefit from the deductions of the 40% abatement, custody fees, set abatement (€1,525 or €3,050), tax

credit (€15 or €230) and of *CSG deductible* (5.8% of gross dividends).

The option used to have a significant negative impact on the tax shield calculation until the elimination, this year, of the deduction of the 40% abatement on dividends subject to progressive rate. **Exceptionally, for 2009 dividends, the option can be taken up until 15 June 2010** to take this change into account.

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