

FRENCH BUDGET 2026 – OVERVIEW OF SIGNIFICANT PROVISIONS

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INTRODUCTION

The adoption of the French Finance Act for 2026 took place in a particularly unusual political context.

The Finance Act introduces several measures affecting private wealth structuring and investment strategies. Some provisions were expected and were discussed in previous legislative debates. Others represent more innovative approaches within the French tax landscape.

More broadly, the Finance Act for 2026 reflects a continuing trend in French tax policy: rather than reintroducing a comprehensive wealth tax on financial assets, lawmakers appear increasingly inclined to target specific structuring techniques traditionally used for wealth preservation or intergenerational planning.

METHOD FOR ADOPTING A FINANCE ACT IN FRANCE

In theory, the Finance Act is adopted with a goal of achieving a balanced budget. In practice, quite the opposite is true. A gap exists between expenditures and revenue, which is financed through borrowing.

After an informative debate usually in Spring and Summer, the government must formally file the draft Finance Bill with Parliament no later than the first Tuesday of October. Overall, the Parliament has a total of 70 days to adopt the Finance Act, and the National Assembly has the final say over the Senate. The Finance Act typically is adopted before the end of the year.

Under Article 49.3 of the Constitution, the Prime Minister can commit the government's responsibility on a bill. Unless a motion of no confidence is passed, the bill is deemed adopted without a vote. This tool can be used freely for Finance Acts. This is one reason why French budget laws can be adopted even when the government lacks a stable majority.

The budget process therefore gives the government – and to a certain extent the National Assembly – a very dominant role. What has changed recently is not the legal framework itself, but the political environment, which led to an exceptional sequence for the Finance Act for 2025 and 2026:

- An initial budget bill failed.
- A special law was adopted to allow the State to continue collecting existing taxes and to fund essential public services.

- The final Finance Act was enacted in February under Article 49.3, which is highly unusual.

The French annual budget is split between two different laws, namely (i) the Finance Act (“L.F.”), which covers the State budget and most tax rules and (ii) the Social Security Finance Act (“L.F.S.S.”), which covers financing the French social security system and may also contain major measures affecting social contributions.

Finance Acts are almost systematically reviewed by the Constitutional Council before promulgation. The Constitutional Council reviews both procedure (deadlines, sequencing, parliamentary rules), and substance (the budget’s compliance with constitutional provisions and the validity of tax provisions). This is one reason why the Constitutional Council plays such a visible role in French tax policy. It is worth noting that taxpayers can question constitutionality of tax law after promulgation under strict conditions in the course of tax litigation.

BUDGET AT A GLANCE

Below are some key measures under the Finance Act for 2026 and the Social Security Finance Act adopted at the end of 2025.

Individuals

- Minimum income taxation of 20% extended until the French deficit is mitigated.
- Technical aspects of last year’s reform on management compensation packages further refined.
- The procedure for granting of “B.S.P.C.E.” (a type of warrant commonly used by start-ups) is facilitated.
- Changes are made to the tax regime applicable to furnished rentals in France by nonresidents.
- New tax status is provided for private leases (“*statut fiscal du bailleur privé*”) with conditional tax allowances.
- Adjustments are made to the tax deferral regime applicable to share-for-share exchanges occurring before cash-outs through holding companies.
- A new 20% tax is imposed on certain luxury assets held through holding companies.
- Luxury assets held by companies are excluded from the “Dutreil” regime, a major tax relief mechanism for business transfers by gift or inheritance.

Businesses

- The temporary surtax for large companies is extended for an additional fiscal year.
- A possibility is provided to deduct arm’s length interest paid to shareholders.

- The application of the participation exemption regime is facilitated in certain situations.
- Adjustments are made to the implementation of Pillar Two.

HOLDING COMPANIES AND PRIVATE WEALTH STRUCTURES

One of the most discussed features of the Finance Act for 2026 concerns the taxation of holding companies that are used to hold private assets. Use of private holding companies is extremely common in France for a wide range of purposes, including



- centralization of investments,
- family governance,
- intergenerational wealth transmission,
- facilitation of reinvestment, and
- financial and tax leverage.

Recent legislative initiatives suggest a growing political willingness to limit the perceived tax advantages derived from their use. The following three measures in the 2026 Finance Act illustrate this trend: (i) the creation of a new tax on luxury assets held through certain holding companies, (ii) the restriction of the Dutreil inheritance regime, and (iii) adjustments to the tax deferral regime for cash-outs through holding companies.

A New 20% Tax on Certain “Luxury” Assets Held Through Holding Companies

The Finance Act for 2026 introduces a new tax targeting certain nonprofessional assets held by holding companies controlled by individuals. This 20% tax emerged from broader political discussions on the taxation of ultra-high-net-worth individuals. Early proposals included the so-called “Zucman tax” which would have imposed a 2% annual levy on the worldwide assets of individuals whose net worth exceeds €100 million, including business assets. The government rejected that approach and instead explored an alternative mechanism: a 2% tax imposed on non-professional assets of holding companies.

During the legislative process, the Senate substantially modified the proposal by narrowing its scope to “luxury” assets and increasing the rate to 20%. The government ultimately supported these changes, and the revised mechanism was included in the final Finance Act for 2026.

This innovative new regime can be viewed as an indirect wealth tax imposed at the level of companies. Its underlying objective is to discourage the use of corporate structures to hold luxury assets while avoiding the tax burden that would normally arise if those assets were held directly by individuals.

Conditions for Application

The conditions for the tax to apply are as follows:

- The company must (i) be liable to corporate income tax or an equivalent foreign tax or (ii) be seen as a capital company even if it is tax transparent under domestic rules. The latter provision is notably aimed at L.L.C.'s in the U.S.
- The company must be controlled, directly or indirectly, by at least one individual. Control means the ownership of 50% or more of the voting rights or financial rights. It also includes the exercise of decision-making power. Control can be exercised (i) alone by one shareholder, (ii) together with one or more other shareholders acting in concert, or (iii) together with members of the same family.
- The company must predominantly derive passive income.
- The total fair market value of the private or professional assets held by the company must exceed €5 million.

Targeted Assets

Taxable assets not effectively used in an operational business activity include the following:

- Assets used for hunting and fishing
- Vehicles not used for a professional activity, as well as passenger cars within the meaning of the relevant indirect tax rules
- Yachts and pleasure boats, whether sail or motor-powered
- Aircraft
- Jewelry and precious metals, except where they are used in a museum or historic monument business or exhibited in a place accessible to the public or to employees other than offices
- Racehorses and competition horses
- Wine and spirits
- Dwellings whose enjoyment are reserved by the controlling individual, meaning homes occupied free of charge or at below-market rent, as a main residence or otherwise, as well as dwellings fictitiously rented to that person

Works of art, collectors' items, and antiques are not included in the taxable base. Conversely, the inclusion of assets used for hunting and fishing is particularly striking.

Targeted Holding Companies

The tax applies to French and Foreign holding companies.

Where the company has its seat in France, the tax is imposed on the company, itself. The tax applies regardless of the tax residence of the controlling individual. Consequently, a French company may be subject to the tax even if the controlling individual is not a French tax resident.

“The Dutreil regime is one of the most important mechanisms in the French tax system for the intergenerational transmission of family businesses.”

Where the company has its seat outside France, the tax may apply only if at least one controlling individual is French tax resident. In that situation, the tax is not levied on the foreign company itself, but on the controlling French tax resident individual. The taxable base is (i) the fraction of the value of that person’s participation (ii) applied to the relevant taxable assets held by the foreign company.

In principle, two features of the tax make it more beneficial for assets to be owned by a foreign company:

- A somewhat modified principal purpose test applies.
- The total amount of the new tax and certain income taxes cannot exceed 75% of the taxpayer’s income.

Practical Illustrations

- A U.S.-resident individual who controls a French S.A.S. subject to corporate income tax may trigger the tax at the level of that French company if the company meets the conditions of the regime and owns, for example, a Paris apartment made available to the shareholder or a pleasure boat not used in a genuine business. In that case, the tax is due by the French company itself, even though the shareholder is not French tax resident.
- A French tax resident individual controlling a U.S. corporation or a Delaware L.L.C. may be personally liable in France if conditions are met. In that case, the French individual is the taxpayer, and in principle, can invoke both the modified principal purpose test and the 75% income cap.

Entry into Force

The tax applies to financial years ending on or after December 31, 2026.

Restrictions Affecting the Dutreil Regime

The Dutreil regime is one of the most important mechanisms in the French tax system for the intergenerational transmission of family businesses. It allows transfers of shares by gift or inheritance to benefit from a 75% exemption from transfer duties, provided that several conditions are met, including (i) a two-year collective commitment among family members to retain the shares combined with certain individual commitments of each family member to retain his or her shares for an additional four years, (ii) the continuation of a qualifying operational activity of the family business, and (iii) certain governance requirements.

The Finance Act for 2026 introduces several restrictions to this regime.

- The individual holding commitment is extended from four to six years, leading to a total minimum holding period of eight years.
- The scope of the exemption is reduced. In past, as long as the company’s main activity remained operational, the Dutreil exemption applied to the entire value of the shares, including the value of assets not used in the business. The law now restricts the exemption so that the portion of the share value corresponding to specific luxury assets will no longer benefit from the Dutreil exemption unless they are exclusively used in the company’s operational activity for a sufficient amount of time.

The new rules apply to gifts and inheritances occurring on or after February 21, 2026.

Tightening of Tax Deferral Regime for Cash-Outs Through Holding Companies

The Finance Act for 2026 tightens the French tax deferral regime commonly used in sale transactions involving a prior contribution of shares to a holding company.

This regime is particularly important in practice for shareholders planning a cash-out. This structure typically consists of first contributing the shares to a holding company controlled by the seller and then having that holding company sell the contributed shares to the purchaser. Hence capital gain benefits from an automatic tax deferral, provided certain conditions are met. In particular, where the sale occurs within three years following contribution, a substantial portion of the sale proceeds are required to be reinvested in qualifying economic activities. Historically, the minimum reinvestment threshold was 50%, then 60%, meaning that the balance could still be retained or invested in patrimonial assets.

The Finance Act for 2026 makes this regime more restrictive in several respects:

- The proportion of the sale proceeds that must be reinvested in qualifying economic activities increases from 60% to 70%.
- The period allowed to complete the reinvestment is extended from two years to three years following the sale, which is favorable.
- The scope of eligible reinvestments is narrowed and notably excludes a broad range of real estate activities including real estate development and property trading activities. These sectors were widely used for reinvestment purposes under the regime. By contrast, hotel and para-hotel activities remain eligible.
- The assets or shares acquired through the reinvestment must now be held for at least five years in all cases.

Those new rules apply to sales of the contributed shares carried out on or after February 21, 2026, even where the prior contribution took place before that date.

INCREASE OF THE C.S.G. AND COMPLEXITY OF CAPITAL TAXATION

The Generalized Social Contribution (*Contribution Sociale Généralisée* or “C.S.G.”) is a hybrid levy in France that qualifies as both tax or a social security contribution, depending on the legal context. The overall level of social contributions (which include C.S.G.) on certain types of capital income increases under the 2026 budget from 17.2% to 18.6%. However, the increase does not apply uniformly.

For example, on the one hand, the *Prélèvement Forfaitaire Unique* (“P.F.U.”), a single flat-rate tax in France applied to certain savings and investment income combining a fixed rate of personal income tax and a set of social security contributions, increases from 30% to approximately 31.4%. On the other hand, rental income and real estate capital gains remain subject to the 17.2% rate, although there is some uncertainty for nonresidents.



This increase contributes to the growing complexity of the French system of taxation of capital income. In addition to income tax itself, taxable income may be subject to several additional layers of taxation, including the C.S.G., the Contribution au Remboursement de la Dette Sociale (“C.R.D.S.”), and, for higher-income taxpayers, the *Contribution Exceptionnelle sur les Hauts Revenus* (“C.E.H.R.”), and more recently, the *Contribution Différentielle sur les Hauts Revenus* (“C.D.H.R.”). As a result, the effective marginal tax burden on certain categories of capital income can significantly exceed the headline rates often presented in public debates.

A NEW CONTRIBUTION RELATED TO THE FRENCH HEALTHCARE SYSTEM

The Social Security Finance Act for 2026 also introduces a new contribution linked to the financing of the French universal healthcare system, complementary to the already existing P.U.M.A. (*Protection Universelle Maladie*).

This measure aims to address situations in which individuals benefit from the French healthcare system while contributing only marginally, or not at all, to its financing. A typical example concerns foreign retirees who move to France and receive pension income from abroad that remains taxable exclusively in the country of source under an applicable tax treaty.

The exact parameters of the contribution remain subject to further regulatory clarification.

CONCLUSION

As mentioned at the beginning of this article, the French Finance Act of 2026 introduced several measures affecting private wealth structuring and investment strategies. As government expenditures increase and as the rate of inflation increases, it should come as no surprise that taxes must increase. The measures introduced in the Finance Act reflect the view that traditional tax planning opportunities available to high net worth individuals are being cut back and require renewed approaches.