

Employee-related expenses include expenses paid directly by the company to equip their employees (with mobile phones, etc.) and expenses reimbursed to the employees through expense reports.

Reimbursing employees' expenses

Companies may reimburse their employees for business-related expenses. The employees would provide an expense report substantiating the expense incurred. The employer should keep the original report in order to be able to disclose them to the tax administration in case of tax audit or social audit.

The employer may want to reimburse these expenses to the employee via the payroll (it may allow to anticipate the reporting obligation below).

Moreover, the employer has a reporting obligation concerning the reimbursements he makes to his employees: at the end of the calendar year he has to report on the yearly declaration "DADS" to the French administration, the amount of expenses reimbursed to the employees during the year.

Whether they are directly paid by the company or reimbursed to the employees, employee-related expenses (or part of it) may be considered, in some cases, as fringe benefits and taxed with social contributions.

Fringe benefits

According to French tax law, employee-related expense paid by the company that is not substantiated as a cost fully incurred on professional grounds, would be in fact a kind of additional salary for the employee, and therefore has to be considered as a **fringe benefit**.

Fringe benefits may exist when:

- the expense is a nonwage compensation provided to the employee (e.g. renting of the employee's flat, gift to the employee, etc. However specific exemptions may apply, please consult us).
- the expense is **excessive** in comparison with normal way of business (such as spending on too many hotels or restaurants fares, etc.).
- the expense is **partly** incurred for the employee's **private use** (payment of full phone bills whereas phones are partly used for personal use, etc...)



- the expense is not supported by necessary **documentation** (i.e. invoices with information detailing how the expenditure is business-related: a visa card receipt, for example, is not considered as sufficient documentation).

Some benefits granted to employees may not be considered as taxable given the circumstances (e.g. relocation expenses when an employee is moving house for a new job/position, or travel expenses when the employee works far away from his family, etc.). **Please consult us.**

If these taxation rules are not applied, then **in a case of a tax audit or Social Security audit**, the auditor may reassess:

- the social contributions due on the fringe benefit (employee's and employer's contributions)
- the personal income tax of the employee
- and possibly reject the deduction of the expenses in the company books (inducing increase of corporate tax)

If, further to the tax audit, unpaid tax is claimed by the French administration:

- The company would be liable for both employer's and employee's payroll contributions.
- But the company would not be responsible for the payment of employee's private income tax relating to the reassessment. However the employee may claim the reimbursement of any penalty due to company negligence.

Please see below a summary of the taxation rules applying to some common expenses:

Type of purchase	Taxation rule	Information needed to compute the fringe benefits :
Computer, fax or phone kept at the employee's home but belonging to the company	The part corresponding to the private use of the IT equipment is considered as a fringe benefit.	IT equipment purchase invoices.
Phone or internet subscription	If the employee asks for the reimbursement for his phone and internet subscription costs, then part of it will be considered as a fringe benefit.	All the employees telecom / internet <u>detailed</u> invoices.
Travel and hotel costs	If the employee provides the employer with expense reports indicating the name of the customer/business contact visited and supported by travel/hotel invoices, then the reimbursement of these costs will not be considered as a fringe benefit. If expenses are not documented as incurred on professional grounds, they will be considered as a fringe benefit.	The employer has to check and keep these expense reports. If the expenses are reimbursed whereas they were not incurred on professional grounds and/or not documented as such, the corresponding fringe benefit has to be taxed on payroll.
Company car	Expenses corresponding to private use of the car (fringe benefit) is calculated according to a quite complicated set of rules set up by French tax administration : All the expenses incurred by the company in relation to the cars are multiplied by a coefficient set by the French tax administration, which depends on when the car was bought, if fuel expenses are paid by the company, etc.	- If the company car belongs to the company, a copy of the car purchase invoice as well as all the fuel expense invoices - If the company car is leased by the company, a copy of the car lease contract as well as a list of all the car-related costs paid by the company during the calendar year (lease, fuel, repair, insurance expenses...)
Mileage allowance meant to cover the employee's own car costs	The French tax administration considers that, if they are not justified by mileage schedules, all car-related reimbursements made by the company to employees are to be taxed as a fringe benefit. If mileage schedules are provided, then the amount of fringe benefits is calculated by comparing for a given calendar year : - the payments to employees related to the use of their own cars (e.g. : car allowance at the bottom of the payslip, reimbursement of fuel expenses..)(except for tolls and parking tickets) - and the amount which is tax exempted according to the French administration (this amount is calculated on the basis of the mileage driven by the employee on professional grounds and multiplied by a specific rate depending on the car horsepower) Only the excess payment is considered as fringe benefit.	- copy of the employee' s car registration card - mileage schedules for the whole calendar year The mileage schedules have to indicate the date, the name of the customer visited, the town visited, the mileage driven.
Mileage allowance in addition to company car	If the car belongs to the company and if a "mileage allowance" is paid in addition to the employee, then this allowance is considered as a kind of bonus and taxed with social contributions.	

Please note that this information is required (or part of it) as soon as possible, in order to anticipate the fringe benefits to be disclosed early on payroll.