

New rules governing overtime hours, applicable as from October 1, 2007

Introduced by the Law for the Promotion of Employment, Labour and Buying Power of August 21, 2007

The Law of August 21, 2007 abrogated the specific rules governing overtime in companies with less than 20 employees and introduced a system of tax exemption for **overtime hours** (i.e. hours worked above the legal duration of the 35 hours per week) and **complementary hours** (i.e. hours worked above the duration set forth in part-time employment contracts), effective as from October 1, 2007. Specifically, overtime and complementary hours shall be exempted from employees' and employers' contributions and the income generated by such hours will be exempted from corporate income tax.

Please find below a summary of the main provisions of the Law:

1. Abrogation of the specific rules applicable to companies with less than 20 employees:

As from October 1, 2007 companies with less than 20 employees will be subject to the ordinary legal provisions: hours worked above the weekly 35 hours shall entitle employees to a **25% bonus and no longer to a 10% bonus**. In addition, any and all hours worked above the 35 hour-ceiling will be entered into the quota of allowed overtime hours without the obligation to request authorization from the Labor Authorities.

2. Exemption of payroll taxes:

Payroll-tax exemption will only apply, at a fixed rate, to overtime hours, not to complementary hours. The amounts of deduction have been specified in Decree N°2007-1380 of September 24, 2007: **0.50 € per hour, increased to 1.50 €** in companies with a maximum of **20 employees**.

In addition, the calculation method of the reduction in payroll taxes referred to as the Fillon reduction, will be adapted on October 1, 2007 to neutralize overtime and complementary hours.

3. Reduction of employees' contributions:

A Decree of October 25, 2007 provided for a 21.50% reduction in employees' contributions paid on overtime and complementary hours, up to the maximum amount of security contributions to be paid on such hours. This

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reduction will be applied only to the hours opened to tax exemption, as specified above.

4. Income Tax Exemption:

The income generated by overtime hours, whether made weekly, annually or pursuant to any other arrangement regarding the duration of the working hours, shall be exempted from income tax. The income generated by complementary hours shall also be exempted from income tax, to the exception however of the complementary hours made on a regular basis, as defined by Article L.121-4-3 of the French Labor Code (in twelve consecutive weeks or in twelve weeks during a 15 week-period), unless such hours are integrated to the normal contractual schedule during a period of six months minimum (or less if the remaining term of the employment contract is inferior to six months).

5. Employers' obligations:

Employers must made available to inspectors any and all documents required by law to be posted within the company in relation to the duration and allocation of the working hours as well as, for each employee, a weekly time sheet indicating the overtime or complementary hours worked and the increased pay rate applied to such hours.

Please feel free to contact our Labor and Employment Department for should you wish any additional information on the above.

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