

Doing Business in France

2011



Contents

1. Introduction.....	2
2. Business environment.....	3
3. Foreign investment.....	8
4. Setting up a Business.....	11
5. Labour	22
6. Taxation.....	28
7. Accounting & reporting.....	40
8. UHY firms in France	43
9. UHY offices worldwide	43

1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 81 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in France has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at February 2011.

We look forward to helping you do business in France.

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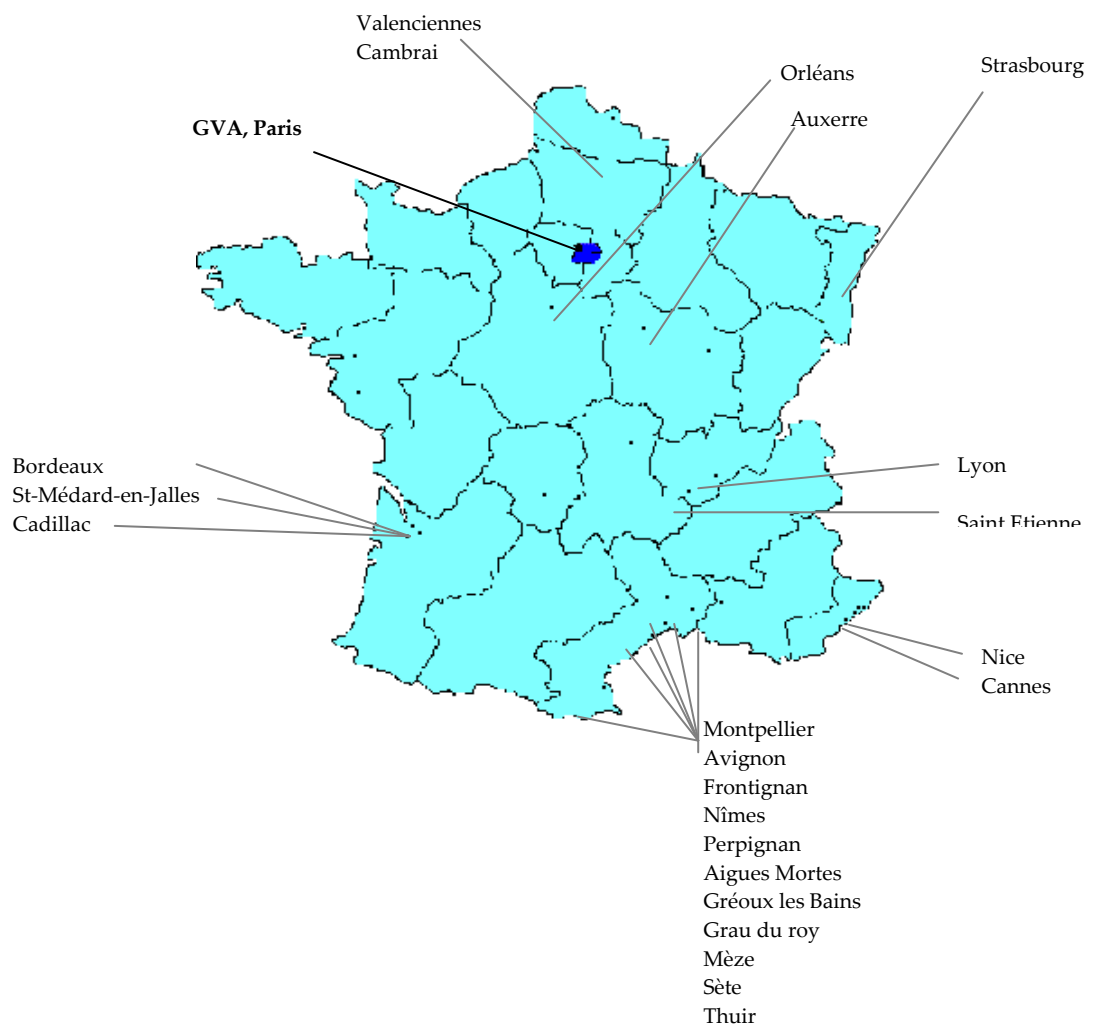
2. Business environment

The French Constitution and Government

Under the 1958 Constitution, France is a parliamentary republic. The President is the Head of the State and he monitors the functioning of the democratic institutions in accordance with the Constitution. The Prime Minister is in charge of the day to day policy.

The country is governed by a bicameral parliament. This comprises a House of Representatives (*Assemblée Nationale*) elected every five years by universal suffrage and a Senate (*Sénat*) of directly elected representatives from the regions and departments.

Metropolitan France comprises twenty-two regions with a total of ninety-six departments. The regions, departments or communities share in the centrally collected tax revenues.



The domestic market

Population: As of June 2010, France had 65.4 million inhabitants, making it the 21st most populous country in world and the 2nd in the European Union after Germany. Three quarters of the population live in the cities.

Area (Metropolitan): 547,000 sq. Km. including Corsica.

Population density: 97 inhabitants per square kilometer in metropolitan France.

Currency: Euro

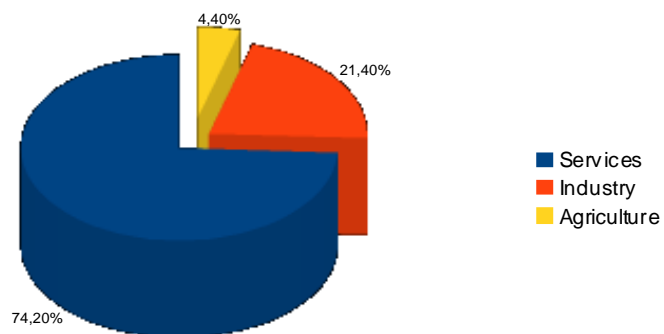
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The economy

The service sector accounted for 74.2 % of total employment in 2010 compared with agriculture with 4.4%. The industrial sector has suffered an important deficit in foreign trade due to the increased competition of Far East.

The present objective is, among others, to emphasize the French competitiveness towards early developed countries.

Economic sectors (in % of employment)



The total Gross Domestic Product is 1,950 billion Euros for 2009, which gives an increase of 2.5% since 2007

In 2009, its growth rate of 0.6 % is close to the Eurozone average (0.7 %) and the US figure of 0.8 %.

Because of the financial crisis, the economy slowed down in all areas. Although the global effect was internationally high, France benefited from its relatively little exposure (compare to other more exposed countries like USA) and keep a strong public spending policy in order to maintain a high level of demand.

Unemployment

Unemployment has increased since 2008 to reach a rate of 10% of the active population, which is higher than the European average (9.6 %).

Prices and Interest Rates

In support to the global effort to prevent collateral effect from the crisis, interest rate for the second quarter 2010 amounted to 3.3 %, which represents a significant decrease since 2008 (4 %).

The inflation rate for 2010 is of 1.6% compared to the 2009 rates of 0.5 % and the 2008 rate of 3.6 %.

Foreign trade and the balance of payments

In 2007, the exchanges still progress in France as well as in the European Union. The exports have decreased by 17 % and the imports by 15%. The three best “clients” of France are Germany, Spain and Italy. Germany is also the best supplier of France ahead of Italy and Belgium.

In 2009, the French commercial deficit amounted to 42 billion euros, versus 54 billion euros for 2008.

Tourism, as any other activity, saw its level decrease in 2009 by 4.3%. The balance also kept decreasing from 8.5 billion euros in 2008 to 7.4 billion euros in 2009. France still remains the world’s most popular tourist destination, having welcomed 74 million visitors from abroad in 2009

The Financial System

Central bank

On 1 June 1998, a new institution – the European Central Bank (ECB) – was set up to implement a single monetary policy – the Euro. Its headquarters is in Frankfurt. The ECB and the national central banks of all the EU member States together form the European System of Central Banks (ESCB).

The basic tasks of the ESCB are to define and implement the monetary policy of the Euro area, conduct foreign exchange operations under the

community's foreign exchange policy and hold and manage the official foreign reserves of the Member States. It should be noted that, in the field of foreign exchange policy, there is shared responsibility.

In addition to the single monetary policy, the ESCB is also responsible for ensuring the smooth operation of payment systems and for contributing to the effectiveness of the policies implemented by the competent authorities for prudential supervision of credit institutions and for the financial system stability.

The Banque de France is an integral part of the European System of Central Banks defined by the Maastrich Treaty. It participates in the performance of tasks and achievement of objectives assigned to this system by the Treaty.

Commercial banks

The country's commercial bank category now includes a wide range of institutions:

- Major deposit banks (banques de depots) with extensive domestic and international networks;
- Former merchant banks (banques d'affaires) with fewer branches in France but strong links with industry, and a strong international orientation;
- "Credit Agricole", the largest institution providing banking services and other cooperative and mutual services;
- Foreign banks, numbering generally through local branches.

Other financial institutions

A number of financial institutions in France offer a wide variety of financial services. These include:

- Savings banks
- Leasing companies
- Venture capital firms
- Government-sponsored financial institutions, which provide credit facilities to exporting companies and to small-and medium-sized businesses for fixed assets financing.

Short-term finance

Short-term finance is easy to obtain from specialized institutions such as banks: discounting of bills (escompte) is the most commonly used method of finance in France; overdraft or loan facilities are sources which are used less frequently in France than in other countries.

Other methods of financing are available such as: assignment of debts and factoring.

Financial crisis

Although 2009 was a rough year in terms of growth, employment and touristic attraction, the French financial system was less exposed to the crisis than most other European countries.

3. Foreign investment

Exchange controls

The acquisition and creation of a French business by a French non-resident (EU resident or not) has been free of exchange control since 1996. However, foreign investments in France by non-residents must be reported to the French Treasury when they are earned out.

Foreign investors should be aware that the French Exchange Control authorities have a wide control over the types of investments in existing French enterprises which may be considered as direct investments and therefore subject to the above reporting requirements.

Transactions subject to exchange control formalities may consist of loans or financial guarantees. In general, however, a foreign investor will only be deemed to be making a direct investment in France when he acquires at least 20% of the capital of a quoted French company. The acquisition of 33.33% is deemed to be controlled for these purposes.

Investments in economic sectors that are considered sensitive (public health and security, manufacturing or trade in weapons or military equipment) are still subject to a prior authorization even if they originate from the EU.

Mergers and other reorganization schemes (spin-off)

Reorganizations and acquisitions can be effected through mergers. Even though it is a relatively complex and time-consuming procedure, it has the advantage of falling within well-defined tax rules and allowing a comprehensive transfer of assets and liabilities, generally with a retroactive effect going back to the beginning of a fiscal year.

Such a scheme is applicable to straightforward mergers, with liquidation of the absorbed company, as well as to partial contribution of assets where the contributing company remains in existence. This later scheme is often utilized to transfer a division.

The tax code provides what it terms a favourable system (option). The contributed assets have to be registered in the beneficiary company in accordance with the French accounting regulation (Accounting standard CRC 2004-04):

- A merger between affiliated companies and option to the favourable system: the contributed assets are registered at the net

book value. In this case, the favourable system consists in the temporary exemption for the absorbed company of the net capital gains. In return, the beneficiary has to fulfil some obligations to allow the future taxation of the capital gains (such as specific declaration of exempted assets to join to the annual tax return and covenant in the merger agreement).

- A merger between non-affiliated companies and option to the favourable system: the contributed assets are registered at the real value. In this case, the beneficiary company has to reinstall in its annual taxable income capital gains spread over a five year period (15 years for building, plantation or fittings of lands). The cumulative deficits of the absorbed company are now transferred with no limitation to the beneficiary company if the following conditions are met :
 - Previous approval (automatic right) by the tax authorities;
 - Option to the favorable system;
 - Undertaking to keep the absorbed company going for three years.

After option to the favourable system, contributions to the absorbing company are subject to a fixed registration duty of 375 Euros (capital < 225,000 Euros) or 500 Euros (capital \geq 225,000 Euros).

If the favourable system does not apply, the absorption of one company by another would be considered for tax purposes as a winding-up of the target company resulting in the immediate taxation of all deferred income and unrealized capital gains.

Legal considerations for a merger may be complex, sophisticated and expensive. Investors have to consider how they will properly discharge their contractual obligations. Yet the most difficult part of a merger process is appraising the value of contributed assets, as well as the trading value of the absorbing company. For this purpose, one or several merger appraisers, who are third party experts, are appointed. It is essential to consider their findings before proceeding with any merger process.

In general, French appraisers are reluctant to certify any value for goodwill and other intangible assets. In addition to this difficult valuation process, mergers require a thorough review of accounting and legal issues, which usually takes an average of over two months.

Due to 1992 EU Directive on mergers, if either the absorbed or the contributed company is located in France, no French tax will be levied on capital gains obtained from cross-border reorganizations. However a better approach is possible. It consists of purchasing all the shares of a subsidiary and winding it up.

As a result of the wind-up, all assets and liabilities pass to the sole shareholder, without a merger process. However, the main disadvantage is that there is no retrospective affect and adverse tax consequences may result.

4. Setting up a Business

Foreign investors who intend to conduct commercial activities in France can choose from a wide range of legal entities. The choice will depend on business priorities.

Sole trader

There are four possible ways for an individual to go into business:

- As a sole trader (entreprise individuelle);
- As a sole trader of an EIRL (Entreprise Individuelle à Responsabilité Limitée);
- As the sole partner of an EURL (Entreprise Unipersonnelle à Responsabilité Limitée);
- As the sole partner of an SAS (called SASU - Société par Actions Simplifiée Unipersonnelle).

The sole trader

A sole trader is considered to be an individual who carries on a business on a regular basis. The sole trader is wholly responsible for his/her business and even his/her personal possessions may be used as a guarantee in case of financial difficulty.

Auto-Entrepreneur (very small sized companies called 'micro-enterprises')

Since 1 January 2009, the French government has made it easier to form a small sized company in respect of legal and fiscal provisions:

- Registration to the business court is not necessary;
- Payment of income tax with deduction at source;
- Payment of social contribution with deduction at source;
- Exemption from business tax for two years after forming the company.

This fiscal plan is reserved to "micro-enterprises" whose turnover has to be under 80,000 euros for commercial business and under 32,000 euros for services. These companies are not liable for VAT.

The payment of income tax is deducted at source as follows:

- Commercial activities: 13% of annual turnover
- Services activities: 23% of annual turnover.

EIRL (effective from 2011)

The sole trader affects specific possession to his or her business by an official statement. Only these specific possessions may be used as guarantee in case of financial difficulty.

EURL (Entreprise Unipersonnelle à Responsabilité Limitée)

The EURL is a SARL (private limited company) with only one partner. The legal requirements are basically the same as for the SARL and are described below.

The liability of the single partner is limited to the amount of its investment.

Common French limited companies

Public limited company (Société Anonyme - S.A.)

The French legal form closest to a US corporation is the Société Anonyme. The incorporation of a Société Anonyme requires a minimum of seven shareholders and a minimum capital of 37,000 Euros (225,000 Euros if the shares are to be quoted on the stock exchange).

At least 100% of the share capital must be subscribed at incorporation; only 50% must be paid at the set up.

The liability of shareholders is limited to the amount of their investment. The shareholders meet at least once a year to approve the annual financial statements and to decide whether profits will be distributed or retained.

Directors or members of the supervisory board (Conseil de surveillance) and statutory auditors (Commissaires aux Comptes) are also appointed and dismissed by shareholders in general meeting. Statutory auditors are engaged for a six financial year period.

Simple majority rules apply at annual shareholders' meetings. If major decisions have to be made, such as a merger or a change in the articles of association, an extraordinary shareholders' meeting must be held and qualified majority rule apply (two-thirds).

Management

Day-to-day management can be structured in two different ways. An SA may either have a Board of Directors, a Chairman (Président du conseil d'administration) and a Chief Executive (Directeur Général) or an

Executive Board (Directoire) working under the control of a supervisory board (Conseil de surveillance).

Board of Directors

The Board of Directors must be composed of a minimum of three and a maximum of 18 members (Administrateurs). They are appointed for three years for the first ones designed by the articles of incorporation. Their tenure can be extended up to a maximum of six years when they are appointed during the course of the business.

Since 1 January 2009 a new law (loi pour la modernisation de l'économie) canceled the obligation for directors to have at least one share of the company except if it's laid down by the memorandum and articles of association.

The Board of Directors appoints the President (who must be an individual), who is in charge of the management, the organization and the presentation of the Board activities to the shareholders' meeting.

The President and the Chief Executive have broad powers to act on behalf of the company. The Chief Executive can be elected among the Board members, but may not be a Board member of the company. The Chief Executive is responsible for the company's management and can be assisted by one or more deputy managers.

Executive Board and Supervisory Board

The Executive Board (Directoire) has a maximum of five members (seven in quoted companies) who are not necessarily shareholders. They are generally appointed for four years by the Supervisory Board (Conseil de surveillance) which is composed of three to eighteen members who are elected by shareholders at a general meeting.

The Supervisory Board has permanent control over the Executive Board and defines major business goals.

SAS

SAS is a specific simplified type of SA set up by a minimum of one shareholder (individual or corporation). Since 1 January 2009, no legal minimum capital is required. SAS may prove useful in setting up a joint venture because its articles may be less onerous than those that normally apply to traditional SA's.

The shareholders are free to choose in the articles of association the structure of management and its functions. Nevertheless, a President must be appointed to represent the company.

Since 1 January 2009, no statutory auditor is required in small sized SAS (turnover < 2 million euros, balance sheet < 1 million euros, staff < 20).

Private limited company (Société à responsabilité limitée or SARL)

SARL may have no more than 100 shareholders. Shareholders are liable for their capital contribution. As a common practice, standard share capital is 7,500 euros, 20% must be paid up at the set up. It could be reduced at only 1 euro.

SARL is run by one or more managers (Gérants), who may be appointed by the articles of incorporation or by a majority decision of shareholders. They may be chosen among the shareholders themselves or among third parties. If the manager is a non EU citizen, he or she must obtain a residence permit or receipt of statement at the “prefecture” (administrative authority). The manager makes all management decisions on behalf of the company and he/she may be held personally liable under civil and criminal law.

The shareholders exercise their rights at shareholders’ meetings to approve the conduct of the business and to make management decisions.

Shareholders’ resolutions require a simple majority vote for approval unless they change the articles of association, in which case a 66% majority is required.

No statutory auditor is required in small sized SARL (turnover < 3.1 million euros, balance sheet < 1.55 million euros, staff < 50)

Partnerships

General Partnership (“Société en nom collectif”- SNC)

A general partnership is a commercial company form in which all of the associates are considered as merchants and jointly and severally liable for the partnership’s liabilities.

Despite this significant drawback, SNC’s are often used because of their flexibility (no minimum share capital, no Board of Directors, minimum of two partners, possibility of dividend rights existing independently of voting rights and capital contributions).

The SNC is not directly subject to income tax. Profits are taxable as part of each member income in proportion to his/her interest in the partnership.

Limited Partnership (Société en commandite simple - SCS)

The SCS structure, seldom used in France, includes:

- One or more general partners (called Commandités) who manage the company and are responsible for debts incurred by the company;
- One or more limited partners (called Commanditaires) whose liability is limited to their capital contribution. Limited liability partners are not allowed to participate in the management of the company. Their legal status is similar to the one of a partner of an SARL. There is no legal minimum capital.

Limited Partnership by shares ("Société en commandite par actions" - SCA)

Similar to the previous category except that the shares are negotiable and that the status of the limited liability partners (Commanditaires) is similar to a shareholder's in a SA. A minimum capital of 37,000 euros or 225,000 euros if the SCA is quoted is also required.

Other forms of business organizations

Inter-company Partnership (Groupement d'intérêt économique or GIE)

A GIE is not a company but an association of companies wishing to develop certain activities together (e.g. research, marketing, joint sales and exports) whilst retaining their individuality and independence in other areas. A GIE has a legal personality and may be created with or without capital. Its objectives may be civil or commercial. A GIE is flexible and members are free to define its internal regulations. A GIE is transparent for tax purposes. Its members are liable for its debts.

Joint-venture ("Société en participation" - SEP)

A joint-venture is not ordinarily disclosed to third parties. The partners make all management decisions.

Partners are individually liable to third parties and share the operating results.

A SEP is required to register each active partner with the Trade Register. It can be a civil or a commercial entity.

Branch of a foreign enterprise (Succursale)

Branches (Succursales) are preferred by some foreign investors because of their less onerous legal requirements (one manager, no minimum capital,

no articles of incorporation). Some investors also feel that the procedures involved in setting up a branch are easier. In practice however, it is neither easier nor quicker to form a branch than to set up a limited liability company. Because it has no separate identity, the branch is subject to all laws applicable to the foreign company to which it is related.

Before opening a branch in France, a foreign commercial company must file two certified copies of its articles of incorporation, translated into French, with the Commercial Court and the files must be kept up to date. The branch must also be registered with the Trade Register. Each year, the foreign company has to publish to the Commercial Court its own accounts translated into French and certified by the representative as a true copy.

Liaison office (Bureau de liaison)

The liaison office is not a separate and distinct legal entity with respect to the foreign corporation of which it is a part. Its sole purpose being to collect information on the market and promote the corporation's business, it is not allowed to deal with commercial activities. However, liaison offices must be registered with the Trade Register and their managing directors must have residence permit or receipt of statement at the "prefecture" (administrative authority).

Civil company (Société Civile)

This kind of company is empowered to take on civil that are non-commercial operations. The members are liable indefinitely for the company's debts.

Business Incentives

Financial incentives

Foreign companies starting a business in France are eligible for financial assistance under the same conditions as French companies. This assistance is offered as an incentive to encourage regional development and to avoid over-industrialization in certain areas.

Therefore it is essential to choose the right location. Various incentives are offered to companies including regional grants and/or subsidies for starting a company or for job creation. Loans, advances and reduced interest rates offered by various regions.

Tax incentives

Corporate tax exemption

For companies located in specified areas (AFR Aide à finalité régionale, ZRR Zone de Revitalisation Rurale), new exemptions have been created.

Companies locating their investment in the above areas may also benefit from other tax breaks such as:

- Reduced rates of transfer duties
- Exemption from local tax (CET)
- Tax credits.

The new start-up firms (“Jeunes Entreprises Innovantes JEI”) registered for less than eight years and which spend each year more than 15% of their expenses in research and development, and controlled by more than 50% individuals or specific companies, are tax exempt. This tax exemption consists in 100% free for three years of taxable profit and then, in 50% reduced levels of tax exemption for the two following taxable years. This tax exemption is strictly applicable to the medium-sized firms (i.e. less than 250 employees, and income below 40 million euros or total of balance sheet below 27 million euros).

They also benefit from a total exemption of minimum annual company tax (IFA) during their JEI period. They can also ask for an exemption of business tax and real estate tax for seven years.

These tax benefits are limited to 200,000 euros for each period of 36 months (“*minimis*” ceiling).

These start-up firms may also benefit from “Crédit d’Impôt Recherche CIR” (see p. 20) and “Crédit d’impôt pour dépenses de prospection commerciale” (see p.21)

Until 31 December 2013, companies created to take over other enterprises which are nearly or effectively bankrupt are entitled to a two year corporate tax exemption.

Tax credits

On R&D expenses: Crédit d’impôt recherche (CIR)

Commercial and industrial companies which are involved in R&D programs could obtain the benefit of a tax credit on option. The tax credit is based on employee salaries, some subcontracting entities costs, depreciation if dedicated to R&D. Since 1 January 2008 it represents 30% of the part of yearly R&D expenses under 100 million euros and 5% for the part of expenses more than 100 million euros. For companies which benefit from this tax exemption for the first time or which have not benefited from it for five years, the CIR represents 40% of the R&D expenses for the first year and 35% for the second year.

This tax credit on R&D expenses has a ceiling of 16 million euros for each company. Since 2009, if the tax credit CIR can't be charged on the income tax (for example, negative income tax), it will be paid immediately, only for small and medium size companies. We imagine that the tax authorities will be interested in auditing companies applying for this tax credit.

On commercial prospect expenses (Crédit d'impôt pour dépenses de prospection commerciale)

Small- and medium-sized commercial and industrial companies could obtain the benefit of a tax credit on their commercial prospect expenses. However, companies are concerned if they recruit one employee who is dedicated to the development of export business. The credit tax represents 50% of the allocated expenses spent during 24 months after this employment with a ceiling of 40,000 euros. This credit tax may be refundable.

On apprenticeship program expenses (Crédit d'impôt apprentissage)

Commercial and industrial companies which incur apprenticeship programs could obtain the benefit of tax credits. These companies receive 1,600 euros per training person with a ceiling of the wage of these apprentices.

On business sponsoring (Mécénat d'entreprise)

Donations to specific works (as charity or NGO) give right to tax credit, which represents 60% of the donation, with a ceiling of 0.5% of the annual turnover. The tax credit may be carried forward to the next five following fiscal years.

Other credit

- On cinema or audio-visual expenses (cinematographic production firms).
- On training expenses for the managers/directors.
- On "family" expenses engaged by the companies on behalf of their employees.
- For investment in non-polluting vehicles, etc.

Accelerated depreciation:

To encourage investments in France, exceptional accelerated depreciation has been put into place. But, to avoid any fiscal risk, a previous agreement

must be requested from the tax authorities. The exceptional accelerations are:

- On software;
- On expenses for acquisition or creation of a web site ;
- On low energy powered equipment;
- On environmental investments such as anti-pollution building, soundproof equipment and non-polluting vehicles;
- On research equipment for specific diseases.

Companies building business properties in certain specific areas may depreciate 25% of the cost in the first year after completion.

Contracts

The most frequently encountered types of marketing agreements can be split into two categories: commercial agents and distribution arrangements.

Commercial agents

A commercial agency is the most common mean of distribution used in France.

A commercial agent can be a statutory sales representative (“VRP”) or a common law employee commercial agent. As a VRP, he or she is considered as an employee for labor law purposes and must fulfill a certain number of conditions. A common law employee commercial agent is not considered as a statutory sales representative but is an employee under French labor law.

A commercial agent can also be an independent commercial agent. He or she must be registered with the competent Commercial Court and must hold a commercial license. A commercial agent is an independent contractor for labor law purposes but he or she is not a merchant for commercial law purposes.

Unless dismissed for a professional fault, VRP and independent commercial agents are legally entitled to a severance indemnity in consideration for the increase which they are deemed to have created in the value of the goodwill in the business.

Distribution arrangements

A distribution arrangement is, in fact, a purchase and sale agreement whereby the distributor is compensated for its services by a gross margin on sales.

Three main types of distribution arrangements are considered by French commercial law:

1. *Supply, purchasing, or selective distribution arrangements:*

A supplier arrangement (contrat de fournitures) is a contract by which a supplier agrees with its distributor on the conditions for subsequent deliveries of goods.

A purchasing arrangement (contrat d'approvisionnement) is an agreement under which a distributor agrees with the supplier on the conditions for subsequent purchases of relevant products.

Under a selective distribution arrangement (contrat de distribution selective), a supplier which wishes to maintain the reputation of its products arranges to supply only those distributors selected and approved by its own entity as worthy to distribute the relevant products.

Essentially, the parties have to determine whether the agreement is on an exclusive or non-exclusive basis, for a specific or undetermined territory, or for a limited or unlimited period of time.

2. *Exclusive distribution contracts*

Under French law, an exclusive distribution arrangement (contrat de concession) is an arrangement under which a supplier agrees to deliver specified products only to a single distributor in a given geographic territory and the distributor agrees to purchase these products only from the said supplier and not to sell competing products.

3. *Franchising agreement*

Franchising is a method of close collaboration between the owner of a marketing process and products known as the franchiser and several retailers, franchisees.

The contract generally includes:

- Distributorship of products by franchisees;
- Licensing of marketing, trade name and/or trademark;

- Marketing services and other relevant sales.

If a contract provides for the assignment of a trademark, this must be registered with the National Institute for Industrial Property (INPI).

Copyright, patents, trademarks and intellectual and industrial properties are fully protected in France. In this respect, France adheres to most relevant international treaties and provides for comprehensive protection through its domestic regulations and legislation.

Royalties are paid for the use of intangible assets recognized as the licensor's property by contract for know-how or by legal registration for trade-marks, patents and copyrights.

When a royalty agreement is signed with a foreign licensor, there is no need for any prior approval. However, a copy of the agreement must be registered with INPI.

All these commercial agreements must also be cleared from an EU law standpoint.

5. Labour

Employer/employee relations legislation

Relations between employers and employees are governed by the French Labor Code, collective bargaining agreements, company regulations and individual employment contracts. Employment contracts must be drawn up for each specific job category, according to employment legislation and collective agreements in force.

French law distinguishes between two categories of employment contract:

- Permanent contract (i.e., concluded for an indefinite term)
- Temporary contract (i.e., concluded for a specified period of time).

Temporary contracts can be created in the following circumstances:

- For a permanent employee on leave or absent;
- For a temporary and occasional increase in business;
- For seasonal activities;
- As part of government job-creation schemes to fight against unemployment.

Trade unions

In France, the Union (syndicat) is a local unit, not a national body. A local unit is usually affiliated to a national federation of unions, which in turn is linked to one of five national confederations. Unions are mostly based on industry sectors rather than on particular crafts. There may be several different unions in each place of work because each of the confederations has a different ideological outlook even though none is formally linked with any individual political party. Trade unions are powerful despite the fact that only a low percentage of the working population are union members.

Employees' influence on management

French law provides for several systems of representation for employees of a company:

- Companies having more than ten employees must appoint personnel delegates (délégués du personnel). Delegates take care of individual and group complaints about working conditions.
- Companies of more than 50 employees must form a Works Council (comité d'entreprise). The Works Council's role is essentially consultative. Representatives elected to the Works Council have no

power of veto. However, they do have the final say in a company's social and cultural activities.

The Works Council must be provided with the same information as that made available to shareholders.

Working Conditions

Wages and salaries

A minimum monthly salary (SMIC) must be paid to all employees. The present minimum growth monthly salary is 1,365 euros (January 2011) for 35 working hours per week.

Employment of Foreigners

Foreign workers are entitled to the same protection under the law as French citizens, provided they reside in France. Otherwise their rights are restricted unless there is a treaty between France and their country of origin. Specific laws exist for members of the EU. Every foreign worker residing in France and intending to seek employment must obtain a resident card.

Members of the EU are entitled to certain administrative privileges (simplified formalities in applying for a resident card and exemption from obtaining a work permit). Executives who are not EU residents acting as legal representatives of a French company must apply for specific accreditations.

Working hours

The legal working week is 35 hours for all businesses. The 35 hour working week can be arranged to take into account the needs of the employer, according to the following schemes:

- Variable working week (must reach an average of 35 hours)
- Working cycles
- Supplementary days off (RTT) to compensate hours worked beyond 35 hours.

This arrangement has to be agreed between the employer and the employees' representatives.

Holidays and vacations

According to the law, each employee is entitled to two-and-a-half working days' paid leave for each month worked, or five weeks per year.

The acquisition of the vacation rights goes from June N-1 to May N+1. The acquired rights of vacation can be taken from May N+1 to April or May N+2. From May N+1 to October N+1, a minimum of ten days have to be taken together.

The only public holiday that the employer is legally obliged to grant with pay is 1 May and most businesses close for another 10 national public holidays. Monthly paid employees are paid for these holidays. Other employees need not be paid unless, as frequently happens, a collective agreement provides otherwise.

Overtime payment

The law on purchasing power (TEPA law) which entered into force in October 2007 exempts the overtime (paid 25% or 50% more) from some social contributions and personal income tax.

Fringe benefits

Special pension programs and additional health insurance complement the State Social Security system. The choice is up to each company and can also depend on an individual employee status within the firm.

Training individual right (Droit Individuel à la Formation DIF)

With this method of access to training, each employee could constitute a quota of training hours, to use after agreement of the employer on the choice of the theme.

To each full-time employee in permanent contract and having more than one year seniority, 20 hours credit per year for training is allocated. Those hours could be cumulated over six years with a maximum of 120 hours.

The employee must follow a training defined as priority by the company or the branch of activity. If these trainings are carried out apart from the working hours, an allowance equal to 50% of the net remuneration of the employee is paid by the employer.

When an employee leaves a company, the number of training individual rights not taken is transferable to the value of 9.15 euros by DIF hours not taken.

Termination of employment

Permanent employment contracts can be terminated either by the employee (resignation) or by the employer. Dismissing an employee is always possible, provided that the employer has a just and proper reason to justify it. In cases of individual dismissal, for whatever reason, employers must strictly adhere to established procedures.

Collective dismissal can be justified only when severe economic upheaval affects a company's structure or its day-to-day operations. A plan must be drawn up in collaboration with workers' representatives to minimize the impact of such a dismissal on employees.

A conventional break is a new procedure to terminate the employment contract. An agreement between the employee and the employer is needed to terminate the employment contract. An agreement by the government is also requested. This procedure assumes a smooth climate between the employee and the employer. The procedure must not replace another procedure to finish an employment as dismissal

Profit sharing plans

Businesses employing at least 50 people must set up a statutory profit sharing plan.

Golden parachutes

In listed companies, golden parachutes (severance pay) given to directors or president must be previously permitted by members of directors.

Since the TEPA Law, golden parachutes have to be based on directors and companies performances. Five days after the authorization of the members of directors, the information relating to the golden parachute must be available on the web site of the company. A shareholders' general meeting must approve these golden parachutes. Golden parachutes (severance pay) can be submitted to social contributions and taxes in certain circumstances (since January 2010)

Social Security scheme

The Social Security system, which is financed by taxation and by contributions paid by companies and employees, provides sickness, disability, maternity and paternity pay, retirement pensions, compensation for work-related accidents or sickness, and family allowances. Substantial allowances are also distributed for medical expenses. Charges paid by the employer are equal to approximately 45% of gross salaries.

An obligation of internet teledclaration and telepayment for social security contributions has been set up (if the amount of social contributions paid the previous year has reached 150,000 euros).

Foreigners working in France are entitled to French Social Security benefits.

Forfait social recovered by the social security fund (URSSAF):

A new contribution called “forfait social” has been implemented. This contribution represents 6% since January 2011 of the amounts paid to employees on which social contributions have not been paid.

Are submitted to this new contribution (not limitative):

Profit sharing and Interssement

Participation of the employer in collective plans as PEE – collective retirement plan as PERCO – additional supplementary collective retirement plan (above state retirement plans).

Not included in this new contribution (not limitative)

Stock options and RSU (restricted stock units)

Participation of the employer in a disability plan.

Indemnities for breach of the employment contract (dismissal or conventional break)

Retirement and pension

For employees covered by the general scheme, the retirement pension system is a two-tier one with a basic scheme and supplementary cover.

The general social security scheme has funds federated as the CNAVTS (National Employees’ Old-Age Insurance Fund). The supplementary cover is provided by funds belonging to two federations: for executives, the AGIRC (General Association of Pensions Institutions for Management Staff), established in 1947, and for non-managerial employees, ARRCO (Association of Supplementary Pension Schemes), set up in 1961. In the case of employees covered by special schemes, these most often combine the basic and compulsory supplementary tiers in a single scheme.

There are two main types of pension schemes:

1. Schemes based on the number of contribution years (calculated in years and quarters). Almost all the basic schemes and the special schemes for public sector employees operate in this way.

2. Schemes based on the number of points obtained. In this case, contributions corresponding to a salary fraction are paid in annually and transformed into units of account which are credited to an employee's individual account. The amount of the pension at the end of an employee's working life depends on the number of points credited to his/her account and the value of the point at that time. Almost all the supplementary schemes operate in this way.

A new law has been promulgated in order to increase the retirement age, irrespectively of the gender, from the current 60 to 62 (effective in 2018), provided that they had been continuously paying social contributions for 41.5 years (effective around 2020). In any case, people will be entitled to full pension at the age of 67, regardless of the number of years they have contributed.

Income Support RSA: Revenu de Solidarité Active

In June 2009, a new minimum subsistence income for unemployed persons with no unemployment benefit and without means of support has been implemented.

In order to finance the RSA, an additional social contribution of 1.1% will be applied on capital gains, profit of short-term investments and dividends.

6. Taxation

The tax system

Main taxes

The central government levies taxes at national and local levels. The main national taxes are corporate income tax (impôt sur les sociétés), personal income tax (impôt sur le revenu), a number of withholding and flat-rate taxes on special categories of income and value added tax (taxe sur la valeur ajoutée).

Other national taxes include inheritance and gift taxes, registration and transfer taxes and minor duties and fees. The main local taxes are real estate contribution (cotisation foncière des entreprises), value added contribution (cotisation sur la valeur ajoutée des entreprises), dwelling tax (“taxe d’habitation”) and real estate tax (“taxe foncière”).

Basic legislation

Taxation laws are enacted by Parliament and then consolidated into the General Tax Code (Code Général des Impôts - CGI). Appendices to the CGI include decrees and regulations that have the force of law. Notes, instructions and circulars interpreting the tax laws are published by the tax authorities in bulletins, most of which are available to the public. These bulletins provide guidance in understanding the interpretations and practices of the tax authorities. The Council of State (“Conseil d’Etat”, the highest court in tax matters has a significant influence on tax legislation through its decisions in legal cases).

Administration

A division of the Ministry of Economy and Finance, headed by a commissioner, administers tax law. Tax inspectors located in tax offices throughout the country, issue and review assessments. Payments of tax are made to collectors, not necessarily located in the same offices as the inspectors. Tax rulings are only obtained in exceptional circumstances from the tax authorities.

Taxes on business

The taxation of business profits is guided by the major basic concept of territoriality. In accordance with Article 206-1 of the French General Tax Code and the provisions of most tax treaties signed by France, corporate tax is usually assessed on French profits of companies registered in France

and on the profits of French permanent establishments of foreign companies.

Taxable income

The company's profits, as determined in accordance with generally accepted accounting principles, are subject to few adjustments for tax purposes in France. Items such as non-allowable expenses on excess depreciation are added back, while others are deducted. It is worth noting that some specific tax deductions are only granted if recorded in the books: for such items no adjustments need to be made to book income. This is the case for the excess of declining-balance over straight-line depreciation, as well as for reserves for cost increase of inventories, which is a provision designed to replace the LIFO method (presently prohibited for both tax and book purposes). Tax credits, either French or foreign, may be offset against corporate tax but cannot be refunded.

Deductions

To be deductible, expenses must meet the following criteria:

- They must be incurred in the direct interest of the business or be connected with the normal management of the enterprise;
- They must be certain in amount and must be incurred by the end of the relevant year;
- They must be entered in the accounting books for the relevant year.

Non-deductible expenses

The following expenses are not deductible:

- Dividends
- Personal expenses
- Corporate tax
- Income tax
- Liquidation surplus tax
- Company car tax
- Fines and penalties
- Interest paid to shareholders over certain limits
- Gifts over certain limits
- Certain profit transfers (for example, excessive royalty or interest payments made between related parties)
- Excessive depreciation.

In addition, certain reserves are allowed for tax purposes only when the charge is actually incurred and paid (such as organic tax accruals).

Long term capital gains

Long term capital gains were taxable and applied to financial assets (investment) held for more than two years used to be taxed at a reduced rate of 19% until distributed, at which time only the excess part of the standard rate over the reduced rate was paid. Since 2007, these capital gains are now exempted from tax after reinstatement in the income tax basis of 5% of the capital gain.

Losses

Carry forward

Losses incurred in one year may be offset against profits of the following years with no time limit. Long-term capital losses may be carried forward for ten years but may be offset only against long-term gains.

Carry back

A loss may be carried back and set off against a company's undistributed profits of the three years preceding the loss-making year, setting off the loss first against undistributed profits of an earlier year before those of a later year within the three years. The amount resulting of carrying back the loss can either be used to pay other taxes (VAT, taxes based on salaries and future corporation tax) during the five following years or, it can be asked for refund after five years.

Corporation Tax Rates

The current global tax rate amounts to 33 1/3% of business profits for 2011. For the small and medium size companies, a reduced tax rate of 15% is offered on a maximum base of 38,120 euros of taxable benefit for twelve months period profits. Two conditions are required: the turnover must be lower than 7,630,000 euros and the share capital must be owned in a proportion of more than 75% by individuals or by a company meeting the same conditions.

Companies whose corporate tax is more than 763,000 euros are liable to a social contribution amounting to 3.3% of corporate tax. This contribution is not applicable to small and medium size companies as defined above.

Groups of companies

Under the fiscal integration provisions (*intégration fiscale*), a group consisting of a French holding company (including sub-holdings of foreign groups) and its French resident 95%-owned subsidiaries may consolidate its results for corporate income tax purposes, thereby offsetting current

profits and losses. The group assessment is made on the parent company as the only taxpayer liable for corporate income tax due on the consolidated results. Only companies that have consented to fiscal integration and whose results are subject to corporate tax can be members of the group. All the group companies must have the same financial year-end.

Taxation of branches of foreign companies

Profits of a branch or of another permanent establishment of a non-resident company are normally subject to corporate income tax in the same way as those of a resident company. A reasonable allocation of head office expenses relating to world-wide operations may be charged to the French branch and deducted in computing its taxable income but the tax authorities may require the production of the books of the parent company before allowing this deduction. However, if the tax authorities consider that the profits computed from the branch financial statements do not properly reflect the profits earned from operations in France, they have power to attribute part of the profits of the parent company to the branch, by reference to the profits earned by similar entities in the same line of business.

The conversion of a branch into a subsidiary company is treated as a sale of the business and the creation of a new company. Unrealized capital gains will normally become subject to tax. Losses incurred by the branch may not be carried over to the company.

Headquarters' operations of foreign enterprises

Headquarters' operations of foreign enterprises and international groups may be granted favourable tax status in France. To qualify, headquarters must act solely for the benefit of either the foreign enterprise or the group in the areas of management, control or co-ordination.

Corporate income tax is charged on a deemed profit equivalent to a prescribed percentage of headquarters' expenses (cost-plus basis). The percentage of the cost (the plus) may range from 8% to 12% depending on the nature of functions carried out by the headquarters. This arrangement applies whether the headquarters are organized as a branch or as a French subsidiary company.

Withholding taxes are levied on after-tax profits when distributed (subsidiary) or realized (branch) at the tax treaty rate.

Headquarters' services are subject to VAT at the standard rate of 19.6%. However, they are considered immaterial services benefiting from a zero-rate treatment when invoiced to any non-EU company or to an EU company that is itself subject to VAT in its own country in the frame of the reverse charge.

In fact, only services invoiced to a French operating company are actually subject to VAT. Because of the zero-rate benefit, all input VAT incurred by a headquarters office is fully recoverable (subject to exceptions provided by law).

Headquarters' operations are subject to the real estate contribution (cotisation foncière des entreprises) and value added contribution (cotisation sur la valeur ajoutée des entreprises) just like any other company.

Repatriation of pre- or post-tax profits

Repatriation of pre-tax profits (in the form of payments representing interest, royalties or fees) is allowed without prior approval. However, attention must be paid to the arm's length principle which, if not met, could lead to a reclassification of these payments as dividend income. OECD commentaries, published in Multinational Companies and Transfer prices, are often used by the authorities to determine if the above principle is met.

Some categories of pre-tax profits are subject to a withholding tax when remitted abroad. This is particularly true in the case of royalties (0% or 5% depending on the treaty). The payment of interest abroad is exempt from any withholding tax, provided that there is a genuine loan contract with a foreign-resident person.

Post-tax profits may also be transferred abroad without prior approval from the authorities. Dividends from subsidiaries are subject to a withholding tax.

The EU directive on parent company regimes came into effect January 1992. As a consequence, no withholding tax on dividends is levied on the remittance of dividends abroad. Branch profits may also be subject to a branch-level tax, whether or not they are remitted to the head office. However, withholding tax has now been cancelled on branch proceeds of EU companies.

Indirect Taxes

Value added tax (Taxe sur la valeur ajoutée - TVA)

Value added tax or VAT is charged on all economic transactions, sales and services carried out in France. VAT is a tax on consumption, not a corporate tax. Companies collect VAT on transactions and remit it to the Treasury.

VAT applies in principle to all transactions made in France with very few exemptions (among them interest payments and insurance premiums).

Businesses such as banks that acquire both exempt and taxable supplies must apportion their input tax to compute a non-recoverable amount attributable to the exempt outputs (recovery ratio).

VAT is calculated as follows:

- The company collects VAT from its clients, less the amounts billed by suppliers to the company.
- VAT incurred on certain expenses is not deductible. These include certain goods and services (dwelling-facilities, entertainment, gifts, and some petroleum derived products).
- VAT is added to the VAT-exclusive sales price. The rate applied depends on the goods and services in question. The standard rate is 19.6%.

The reduced rate of 5.5% applies to food (except for alcoholic drinks) non-refundable medicines, theaters, books, passenger transportation, hotels (except luxury establishments). A reduced rate of 2.1% is also applicable for refundable medicines.

VAT is filed on a monthly basis whenever a company does pay more than 4,000 euros VAT annually. If the annual payment is less, the returns can be filed quarterly.

The calculation of the VAT is based on all output VAT on goods invoiced and all output VAT on services paid and all input VAT on goods purchased and all input VAT on services paid. Should input exceed output, taxpayers can file a claim for a refund of the excess or carry the credit forward.

Since October 2010, all companies realizing a turnover exceeding 500,000 euros have to declare and pay electronically their VAT, either on the tax office web site (www.impots.gouv.fr), or by using the EDI portal.

Effective September 2006, modified by the article 196 of the 2006/112 CE directive applicable on 1 January 2010, the “reverse-charge” mechanism has to be used for any deliveries of goods within EC and all B to B (business to business) services (except for services related to intermediates, buildings, transportations, culture art or scientific benefits, services on goods, transportation rents, food services, web services and travel agencies).

Registration duties

Traditionally, the registration formality consists in analyzing a deed by a civil servant who assesses and collects the duties provided for by law.

Registration has a tax purpose, but the formality also has a civil consequence: it gives the deed a legal date; in certain cases, it determines the validity of legal deeds. Normally, the presentation of deeds to the formality is accompanied by the payment of duties. However, in certain cases, payment may be in installments or deferred.

The rate of registration duty applying to a transfer of goods depends on the nature of the transfer and the type of goods transferred.

The main registration duties are sale of real property, sale or transfer of goodwill and transfer of corporate rates.

Sale of real property

Duties on sales of real property are collected when the property is transferred. In addition to tax on the registration of real property transactions, such a transfer gives rise to additional local taxes.

The tax rate is now a single rate at 3.8%. Apart from the tax on the registration of real property transactions, there is an additional tax of 1.2% collected for appropriation to the municipality or to a department equalization fund. There is also another levy of 2.37% collected for appropriation to the state, assessed on the amount of the department duty in respect of “assessment and collection costs”.

In each department, the rates of the tax on registration of real property transactions may be modified between 1.2% minimum and 3.80% maximum in 2011.

Sale or transfer of goodwill

Transfer of businesses is taxed according to a band scale and the goodwill value. It is subject to transfer duties at the rates of:

- Three per cent to the fraction of price included between 23,000 and 200,000 euros;
- Five per cent to the fraction of price over 200,000 euros.

For transfers made in specific zones, the rates are:

- One per cent to the fraction of price included between 23,000 and 107,000 euros;
- Three per cent to the fraction of price included between 107,000 and 200,000 euros;
- Five per cent to the fraction of price over 200,000 euros.

If the transfer is a contribution to a company, a fixed amount of 375 or 500 euros usually applies (the same as for a cash contribution) if the contributor takes the commitment to keep the shares for five years.

An increase in capital by way of a cash contribution or through capitalization of reserves is subject to the same registration duty rules as if that capital contribution had been made at the company's incorporation, (375 or 500 euros).

Transfers of corporate rights:

A straight 3% registration duty since 6 August 2008 will be charged when a document recording a transfer of shares (actions or "parts sociales") is executed, duty has a 5,000 euros ceiling for any transaction. It is possible in certain circumstances to avoid this duty.

When the transfer of shares concerns a company specialized in real property transactions, this registration duty is amounting to 5%.

CET (Territorial and Economic Contribution)

The CET is replacing the business tax ("Taxe professionnelle"), and the tax on value added ("cotisation minimale") from January 2010. Any entity engaged professionally and regularly in an activity in France (out of the employees) is submitted to this contribution.

According to the changes introduced by this new contribution compared to the business tax, a discount scheme is planned between 2010 and 2013. Thus, companies paying more with the new system than with the previous one need to request discounts to the tax administration. On the contrary, additional taxes are applied for specific companies

This CET tax is made of two separate contributions: CFE: real estate contribution (Cotisation Foncière des Entreprises) and CVAE: value added contribution (Cotisation sur la Valeur Ajoutée des Entreprises)

CFE: real estate contribution (Cotisation Foncière des Entreprises)

The contribution is based on the company's locations' real estate value. It is chargeable annually to corporate bodies or individuals regularly carrying on business in France as self-employed. A prepayment is made in June and the balance is paid in December.

Any modification of the real estate value is to be sent to the tax office by the end of each calendar year if applicable on a specific return.

Tax rates vary widely from one local authority to another but the tax payable may not exceed 3% of the added value of the business.

If the amount of the CFE exceeds 3% of the value added, a refund request can be sent to the tax administration.

Network activities get additional taxes according to specific activity criteria: onshore and offshore wind turbines, power plants, photovoltaic or hydraulic plants, power transformer, radio stations, railcars and main phone splitters.

CVAE: value added contribution (Cotisation sur la Valeur Ajoutée des Entreprises)

The declaration of this contribution is due by any company submitted to CFE which turnover is greater than 152,500 euros. It needs to be sent at the same time as the tax return.

The contribution is based on 1.5% of the value added of the companies having a turnover greater than 500,000 euros. This amount is, however, discounted when the turnover is less than 50 million euros. This discount needs to be requested on a specific return to the tax administration each year. A minimum of 250 euros is due, whatever the amount of the value added.

The tax is paid with two installments, one in June and one in September, based on the value added of the previous year. The balance is paid in May the next year when declaring the final tax.

The CVAE return and any related payments need to be declared and paid electronically using the tax office web site (www.impots.gouv.fr). Both contributions are tax deductible.

Other taxes on business

Payroll tax: Employers who are not subject to VAT on at least 90% of their income are subject to a payroll tax at varying rates from 4.25% to 13.6%.

Apprenticeship tax: Employers are subject to apprenticeship tax. It is levied at the rate of 0.68% of annual salaries.

Training tax: Employers are subject to this tax at a rate of:

- 1.6% if they employ at least twenty people,
- 1.05% if they employ at least ten people, but less than twenty, or
- 0.55% if less than ten people are employed.

Compulsory housing investment: Employers employing at least 20 people must allocate to a housing program an amount equal to 0.45% of annual salaries paid.

Company car tax: Companies are liable for an annual tax on automobiles that they (or their employees) own, rent or use. For vehicles owned, rented or used since June 2004 and owned or used since January 2006, a new table based on the rate of emission of dioxide of carbon was set up.

This tax has been extended to personal cars used for professional purposes by employees and managers. Exemptions are applicable for some non-pollutant vehicles.

ORGANIC (social contribution of solidarity): Companies having a turnover higher than 760,000 euros must pay this tax equal to 0.16% of the sales turnover declared. Declaration and payment of this tax must be done via internet.

IFA (Minimum annual corporation Tax): Since 2010, this tax is due for all the company for which the turnover is higher than 15 million euros. The annual tax ranges from 20,500 to 110,000 euros.

Retail space tax (TASCOM): This tax is due, since 2010, for retail space higher than 400 m² with on local turnover higher than 460,000 euros and an opening date after 1960. The tax rate starts at 5.74/m² euros and caps at 35.70/m² euros and varies according to the surface and the total turnover.

Intrastat returns

The Goods Trade Declaration (DEB)

Each month, companies are required to fill out the goods trade declaration (DEB) covering intra-community trade in goods with other member states of the European Union and file it with customs.

Your goods trade declaration must report all trade in European Union goods (or goods from countries outside the EU on which duties and taxes have been paid) between France and another member state, including:

- intra-community trade in products subject to excise tax;
- goods imported to France on which duties and taxes have been paid and which are dispatched to another member state (declaration of dispatch to the other member state);
- EU goods dispatched from France to another member state from which they are then exported.

Companies must choose one of the four reporting obligation levels, depending on the amount of your arrivals and dispatches from 1 January through 31 December of the previous year:

The European service return (DES) applicable from January 2010

This return is to be subscribed by the provider of the services to European companies subject to VAT (cost plus agreements are included in this field). This return is different than the DEB as indicated above. The transactions to mention on the DES are sales of services to EU which reverse charge VAT (the business to business transactions).

Taxes on Individuals

Territoriality

French residents are taxed on their world-wide income, subject to certain treaty exceptions, whereas foreign nationals in France are only taxed on their French-source income.

Residence is usually determined under the tax home test (foyer fiscal) or the 183-day rule. A French foyer fiscal is established if an individual and his family (if any) moves their household to France. Under the 183-day rule, residence is established if the individual spends over 183 days in France in any calendar year.

If an individual is a French resident under French law and, concurrently, a resident of another country under the laws of another jurisdiction, tax treaties provide tie-breaker rules so that the individual will only be deemed a resident of one country at a time. The tie-breaker tests include the location of a permanent home, the center of economic (vital) interests, the location of a habitual abode and the citizenship of the individual.

Taxation

French residents are subject to progressive tax rates ranging from 0-41% on 2010 income. However, certain adjustments to income ensure a more moderate average rate of taxation.

French taxes are mitigated for families by the family quotient system, which allows a household to divide its income to reflect the numbers of dependents (“parts”) before progressive rates are applied. The first two children count as one-half of a part each, while each additional child is counted as a full part.

Since 2008, a “fiscal shield” has been implemented in order to limit to 50% of the total income the maximum taxation in France. Its basis includes income tax, social contributions, local taxes and wealth tax.

A net wealth tax is levied on individuals whose net worth exceeds 800,000 euros (for January 2011). The tax is due on the whole of an individual’s net worth as at 1 January of each year. It does not matter whether it is located in France or not. However, several items are exempted from taxation, in particular professional properties, works of art and patent rights.

Non-residents are also affected by the net wealth tax but only on properties located in France. Their financial investments are specifically exempted. Double tax treaties may affect these provisions. Otherwise, the net wealth tax is applied at a progressive rate.

	Value		Rate
Between	800,000 euros and	1,310,000 euros	0.55%
	1,310,000 euros and	2,570,000 euros	0.75%
	2,570,000 euros and	4,040,000 euros	1.00%
	4,040,000 euros and	7,100,000 euros	1.30%
	7,100,000 euros and	16,790,000 euros	1.65%
Above	16,790,000 euros		1.80%

7. Accounting & reporting

Accounting principles

French accounting principles are set up in the Law of 30 April 1983 (individual companies' financial statements), text revised in 1999 with the Règlement 99-03 and the Law of 3 January 1985 (consolidated financial statements) text revised in 1999 with the Règlement 99-02, in the opinions and interpretations of the National Accounting Board ("CNC") and in recommendations made by various professional organizations. Fundamental accounting concepts, such as prudence, going concern, accruals and consistency, have a legal basis in France.

As from January 2005, new rules apply to the accounting principles. Convergence of the French accounting rules towards IFRS will be codified by: The transposition of IFRS in Règlement 99-03 (Individual Accounts)

In the 1999 rewriting of the PCG "Plan Comptable Général" (the French General Chart of accounts) annexed to the Règlement 99-03

From 1999 transpositions of IFRS in the PCG annexed to Règlement 99-03:

- Long-term contracts: Règlement 99-08/IAS 11
- Changes in accounting methods : Règlement 99-09/IAS 8
- Retirements and long-service medals: Règlement 99-03/recommendation of the CNC/IAS 19
- Liabilities: Règlement 2000-06/IAS 37
- Assets: Règlement/IAS 16/IAS 38/IAS 40/IAS 36

The transposition of IFRS in Règlement 99-02 (Consolidated financial statements):

- Leasing: Règlement 99-02/IAS 17
- Deferred taxes: Règlement 99-02/IAS 12

Form and content of financial statements

The form and content of financial statements are defined in the General Chart of Accounts (Plan Comptable Général 2005). The basic financial statements included in annual reports to shareholders are:

- A balance sheet, where headings are classified by function (e.g. finance and customers etc. rather than by liquidity);

- An income statement, where revenues and expenses are classified by origin, and are systematically analyzed under three overall categories:
 - operating revenues and expenses
 - financial revenues and expenses
 - exceptional revenues and expenses
- Explanatory notes

From January 2005, the listed companies have the obligation to present their consolidated financial statements according to IFRS. The statutory auditor's opinion and the directors' report must also be included in the annual report.

The financial statements and the statutory auditor's and directors' reports must be filed with the Commercial Register and are available for inspection by the public.

Auditing

French companies (Sociétés anonymes - SA and Sociétés en commandite par actions - SCA) are required to submit their financial statements for auditing. However, other companies (e.g., SNC, SARL) are only subject to this requirement if they exceed certain thresholds (in terms of total assets, number of employees, level of sales, etc.). Concerning SAS, even if thresholds are not reached some situations require a legal auditor (SAS owned by one or several companies, SAS owning a subsidiary).

Audits are conducted by professionals (statutory auditors - commissaires aux comptes) registered with the Institute. Statutory auditors are appointed by the shareholders for a period of six financial years.

The statutory auditor issues two formal annual reports to shareholders:

- *Auditor report*: The auditor report must include an opinion with appropriate justification on the financial statements and on legal compliance.
- *Special report*: The special report contains disclosures of those transactions between a company and its directors that either lie outside the normal course of business of the company or are not at arm's-length.
- *Internal control report (only for companies quoted on the Stock Exchange)*: This report presents the observations of the statutory auditors on the report of the president concerning the internal control procedures regarding the development and treatment of the

accounting and financial data processing. The purpose of the statutory auditor is to ensure that information contained in the report of the president is presented in a sincere way, be relevant and not likely to be misinterpreted.

8. UHY firms in France

UHY GVA is a medium-sized firm of Chartered Accountants located in Paris in the Place de l'Etoile area.

UHY GVA is part of DIFFERENCE, an expanding national network of accounting and consulting firms with other offices in Auxerre, Avignon, Bordeaux, Cambrai, Cannes, Dijon, Lyon, Montpellier, Nîmes, Nice, Perpignan, Saint Amand-Les-Eaux, Saint Etienne, Strasbourg and Valenciennes. (See map page 5 for more details).

We have the experience and the connections to assist you in setting up a business in France and to provide accounting, legal, fiscal and social services, management consulting services, computer and organizational services.

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