

DOING BUSINESS

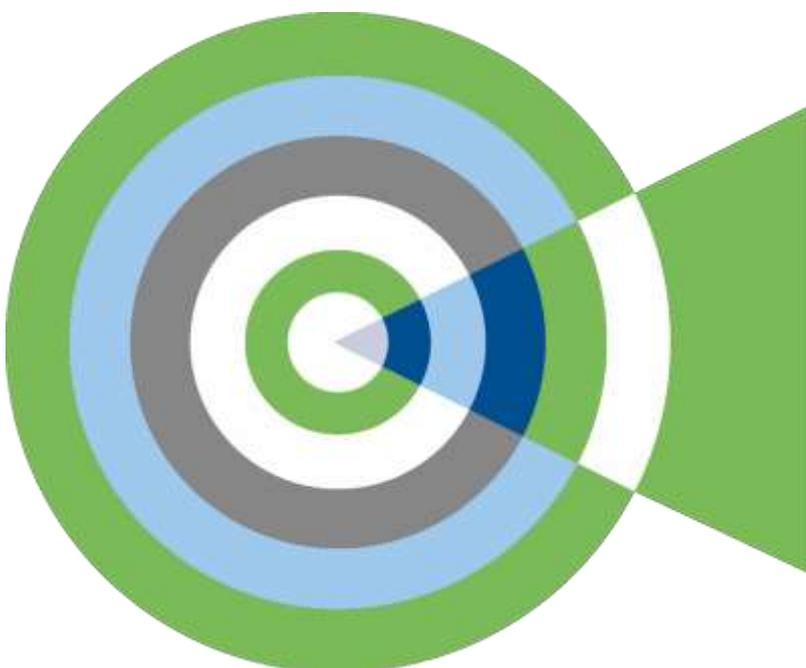
IN FRANCE



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in more than 90 countries throughout the world.

Independent Business partners work together through the network to conduct transnational 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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A detailed firm profile for UHY's representation in France can be found in section 8.

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 March 2017.

We look forward to helping you do business in France.

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 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 13 regions with a total of 96 departments. The regions, departments or communities share revenues.



THE DOMESTIC MARKET

As of January 2016, France had 67 million inhabitants, making it the 20th most populated country in the world and second in the European Union after Germany.

Three-quarters of the population live in the cities.

Area (metropolitan)	547,000 square kilometres (including Corsica)
Population density	117 inhabitants per square kilometres in metropolitan
France Currency	Euro (EUR)
Language	French

THE ECONOMY

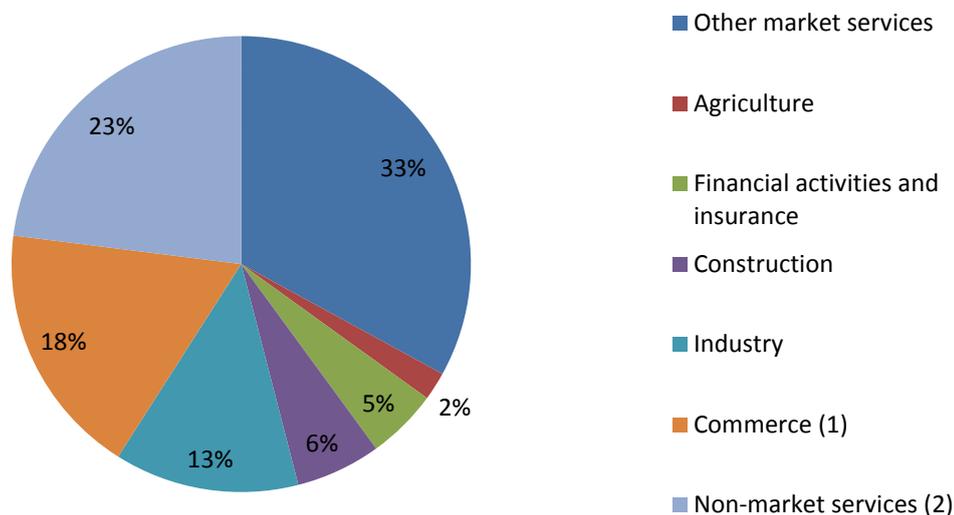
SECTORS

The service sector accounted for 75.7% of total employment compared with agriculture at 2.8%. Although the industrial sector has suffered from a major deficit in foreign trade due to increased competition from the Far East, there has been a slight increase in the share of the industrial sector.

The country's current objective, among others, is to enhance French competitiveness by focusing on newly developing countries.

DETAILED ECONOMIC SECTORS (% OF GDP)

Distribution of GDP by business line (%)



(1) Whole sale trade and retail trade, transport, accommodation and catering

(2) Public administration, education, healthcare and social action.

Source: INSEE 2012

France's total gross domestic product (GDP) in 2015 amounted to EUR 2,181 billion, an increase of 1.87% from 2014.

In 2015, the economy's growth rate of 1.1 % is expected to reach 1.3% in 2017.

Because of the global financial crisis, the economy has slowed down in all areas. Though the global effect has been significant worldwide, France has benefited from its relatively small exposure (compared to other countries such as the USA). It has continued with a strong public spending policy to maintain a high level of demand.

UNEMPLOYMENT

Unemployment has increased, reaching 9.5% of the active population in 2016, which is above the European average (8.3%).

PRICES AND INTEREST RATES

In support of the global effort to prevent further collateral damage from the crisis, French interest rates for the year 2016 is almost nil, representing a significant decrease since 2008.

The inflation rate for 2016 was 0.6%.

FOREIGN DIRECT INVESTMENTS (FDI)

France remains attractive to investors, with an average of 19 investment decisions per week in 2015.

Projects and jobs by source country (source: data business France 2015)

SOURCE COUNTRY	PROJECTS	JOBS
United States	176	10,783
Germany	141	3,612
Italy	84	1,488
United Kingdom	81	2,833
Japan	58	968
Belgium	48	2,459

OPEN NATURE OF THE FRENCH ECONOMY

Compared with some of the largest developed economies in the world, France has received great accumulated foreign direct investment (31.9%) as a share of its GDP in 2015.

FDI origin in 2015



THE FRENCH ECONOMY WELCOMES FOREIGN INVESTMENT

According to data from the French National Institute for Statistics and Economics Studies (INSEE), foreign subsidiaries:

- Provide jobs for 13% of the workforce in France
- Generate 19% of all turnover in France
- Generate 31% of all French exports
- Account for 13% of the investment in tangible assets in France.

THE FINANCIAL SYSTEM

CENTRAL BANK

On 1 June 1998, a new institution – the European Central Bank (ECB) – was set up to implement the single monetary policy for 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 a 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 financial system stability.

The Banque de France is an integral part of the ESCB as defined by the Maastricht 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, 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 specialised 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.

3 – FOREIGN INVESTMENT

EXCHANGE CONTROLS

The acquisition and creation of a French business by a non-resident (an EU resident or otherwise) has been free of exchange control since 1996.

However, foreign investments in France by non-residents must be reported to the French Treasury under certain circumstances.

If a non-resident acquires 10% or more of the equity or voting rights in a resident company, or if foreign-held equity or voting rights in a company rise above the 10% threshold, a return must be filed by a non-resident (for statistical reasons) with the Banque de France if the amount of the transactions exceeds EUR 15 million.

An administrative return must be filed with the Ministry for the Economy and Finance (Treasury Directorate) for:

- 1) Investments that create new companies where the investment exceeds EUR 1.5 million
- 2) Transactions (with no minimum amount) that result in the acquisition of all or part of a line of business, or the acquisition of a direct or indirect equity interest in (or any other transaction with) a French company amounting to more than a third of its shares or voting rights (unless the investor already has a majority interest in the French company).

MERGERS AND OTHER REORGANISATION SCHEMES (SPIN OFFS)

Reorganisations and acquisitions can be effected through mergers.

Even though it is a relatively complex and time-consuming procedure, a merger 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.

This is applicable to straightforward mergers, with liquidation of the absorbed company, as well as to a partial contribution of assets where the contributing company remains in existence. This latter process is often utilised 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 French accounting regulation (Accounting standard CRC 2004-04):

- For a merger between affiliated companies and for the favourable system to apply, 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 certain obligations to allow the future taxation of the capital gains (such as a specific declaration of exempted assets in the annual tax return and covenant of the merger agreement)
- For a merger between non-affiliated companies and for the favourable system to apply, contributed assets are registered at the real value.

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
- An opting in to the favourable system
- An undertaking to keep the absorbed company going for three years.

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 unrealised 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 their findings should be considered 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 more than two months.

Due to the 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 reorganisations. However a better approach is possible; this consists in purchasing all the shares of a subsidiary and winding it up.

As a result of the wind-up, all assets and liabilities will pass to the sole shareholder, without a merger process. The main disadvantage of this option is that there is no retrospective effect 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 and the choice will depend on the business priorities.

SOLE TRADER

There are four possible ways for an individual to enter into sole trading business:

- As a sole trader (*entreprise individuelle*)
- As a sole proprietorship with limited liability (*entreprise individuelle à responsabilité limitée – EIRL*)
- As a single-shareholder limited liability company (*entreprise unipersonnelle à responsabilité limitée – EURL*)
- As a single shareholder simplified company (*société par actions simplifiée unipersonnelle – SASU*).

THE SOLE TRADER

A sole trader is an individual who carries out 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 (SMALL-SIZED COMPANIES OR MICRO-ENTERPRISES)

The French government facilitates the foundation of small- sized companies easier through legal and fiscal provisions, including:

- Registration to the business court is not required
- Payment of income tax with deductions at source
- Payment of social contributions with deductions at source
- Exemption from business tax for two years after the foundation of the company.

This fiscal scheme is reserved for ‘micro-enterprises’ which have a turnover of less than EUR 82,200 for commercial business and less than EUR 33,100 for services. These companies are not liable to VAT.

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

- Commercial activities – 14.4% of annual turnover
- Service activities – 24.8% of annual turnover.

EIRL

In this type of company, the sole trader can specify certain possessions which may be applicable for his/her business through an official statement. Only these specific possessions may be used as a guarantee in case of financial difficulty.

EURL

The EURL is a private limited company with only one partner.

The legal requirements are basically the same as for a private limited company (*société à responsabilité limitée – SARL*), described on the next page.

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

COMMON FRENCH LIMITED COMPANIES

CORPORATION (*SOCIÉTÉ ANONYME – SA*)

The French legal form closest to a US corporation is the *société anonyme* (SA). The incorporation of an SA requires a minimum of seven shareholders and a minimum capital of EUR 37,000 (EUR 225,000 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 appointed and dismissed by shareholders in the general meeting. Statutory auditors are engaged for a period of six financial years. Simple majority rules apply at annual shareholders' meetings. If major decisions have to be made, such as a merger or change in the articles of association, an extraordinary shareholders' meeting must be held and a qualified majority rule will 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 period covered 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.

The board of directors appoints the president (who must be an individual), who is in charge of the management, the organisation 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 by 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 18 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.

SIMPLIFIED COMPANY (SOCIÉTÉ PAR ACTIONS SIMPLIFIÉE – SAS)

The SAS is a specific simplified joint-stock company set up by a minimum of one shareholder (individual or corporation). No legal minimum capital is required. An SAS may prove useful in setting up a joint venture because its articles may be less onerous than those that normally apply to traditional SAs.

The shareholder(s) is (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.

No statutory auditor is required in a small-sized SAS (with a turnover of less than EUR 2 million, a balance sheet of less than EUR 1 million and staff of fewer than 20) if not held by a company, or holding a company.

PRIVATE LIMITED COMPANY (SOCIÉTÉ À RESPONSABILITÉ LIMITÉE – SARL)

A SARL may have no more than 100 shareholders. Shareholders are liable for their capital contribution. No legal minimum capital is required.

A 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/she must obtain a residency 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 a small-sized SARL (with a turnover of less than EUR 3.1 million, a balance sheet of less than EUR 1.55 million and staff of fewer than 50).

PARTNERSHIPS

GENERAL PARTNERSHIP (SOCIÉTÉ EN NOM COLLECTIF – SNC)

A general partnership is a form of commercial company 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 ie there is no minimum share capital, no board of directors, a minimum of two partners, and the 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's income in proportion to his/her interest in the partnership.

LIMITED PARTNERSHIP (*SOCIÉTÉ EN COMMANDITE SIMPLE – SCS*)

The SCS structure, which is 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 a partner of a SARL. There is no legal minimum capital.

LIMITED PARTNERSHIP BY SHARES (*SOCIÉTÉ EN COMMANDITE PAR ACTIONS – SCA*)

This is similar to the previous type of partnership except that the shares are negotiable and the status of the limited liability partners (*commanditaires*) is similar to shareholders in an SA.

If the SCA is quoted, a minimum capital of EUR 37,000 or EUR 225,000 is also required.

OTHER FORMS OF BUSINESS ORGANISATION**INTER-COMPANY PARTNERSHIP (*GROUPEMENT D'INTÉRÊT ÉCONOMIQUE – GIE*)**

A GIE is not a company but an association of companies wishing to develop certain activities together (eg 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 in 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 the less onerous legal requirements ie one manager, no minimum capital and 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. Risks are transferred to the foreign company.

Before opening a branch in France, a foreign commercial company must file with the commercial court two certified copies of its articles of incorporation, translated into French, 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 with 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 in respect to the foreign corporation of which it is a part. Its sole purpose is to collect information on the market and promote the corporation's business. It is not allowed to deal with commercial activities. Nevertheless, liaison offices must be registered with the trade register and their managing directors must have a residency permit or receipt of statement with the 'prefecture' (administrative authority).

CIVIL COMPANY (*SOCIÉTÉ CIVILE*)

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

EUROPEAN COMPANY (*SE*)

The European company is reserved for organisations or groups that already have establishments in several places within Europe for cross-border operations between multiple organisations.

The minimum share capital is EUR 120,000.

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-industrialisation in certain areas.

Therefore it is essential for companies to choose the right location. Various incentives are offered to companies including:

- Regional grants and/or subsidies:
 - For starting a company
 - For job creation
- Loans, advances and reduced interest rates are offered by various regions.

TAX INCENTIVES – CORPORATE TAX EXEMPTION

For companies located in specified areas (*Zone à finalité régionale – ZAFR, Zone de Revitalisation Rurale – ZRR – Zone Franche Urbaine - ZFU*), new exemptions have been secured.

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

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

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 are more than 50% controlled by individuals or specific companies, are tax exempt. This tax exemption consists of 100% of taxable profit for three years and then 50% reduced levels of tax exemption for the two following taxable years. This tax exemption is strictly applicable to medium-sized firms (ie less than 250 employees and with an income below EUR 40 million or total of balance sheet below EUR 27 million).

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

These start-up firms may also benefit from *crédit d'impôt recherche* – CIR and *crédit d'impôt pour dépenses de prospection commerciale* (see below).

Companies created to take over other firms which are nearly or effectively bankrupt are entitled to corporate tax exemption under certain conditions.

TAX CREDITS

CIR and *crédit d'impôt innovation* (CII) apply for research and development (R&D) expenses.

Commercial and industrial companies which are involved in R&D programs can obtain the benefit of a tax credit option. The tax credit is based on employee salaries, some subcontracting entities costs and depreciation if dedicated to R&D. It represents 30% of yearly R&D expenses under EUR 100 million and 5% for expenses more than EUR 100 million.

This tax credit on R&D expenses has a ceiling of EUR 16 million for each company.

For small/medium-sized enterprises (SMEs) with a turnover less than EUR 50 million or with total assets less than EUR 43 million and with less than 250 employees, there is a new tax credit for innovation or CII. Expenses incurred in the conception of new products (for example) should not be higher than EUR 400,000. The rate is 20% of incurred expenses.

It is probable that the tax authorities will wish to audit companies applying for these tax credits.

For commercial prospect expenses, the *crédit d'impôt pour dépenses de prospection commerciale* may apply. With this, small- and medium-sized commercial and industrial companies can obtain the benefit of a tax credit on their commercial prospect expenses. Companies are eligible if they recruit one employee who is dedicated to the development of export business. This credit tax represents 50% of the allocated expenses spent during 24 months after the employment of such a person, with a ceiling of EUR 40,000. This credit tax may be refundable.

For apprenticeship program expenses, the *crédit d'impôt apprentissage* may apply. Commercial and industrial companies which incur expenses for apprenticeship programmes can obtain the benefit of tax credits. These companies deduct a maximum of EUR 1,600 from the corporation tax per training person with a ceiling of the wage of these apprentices.

For business sponsorships, the *Mécénat d'entreprise* may apply. Donations to non-governmental organisations (NGOs) are eligible for a 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 five following fiscal years.

Other possible tax credits include those for:

- Cinema or audio visual expenses
- Training expenses for managers/ directors
- 'Family' expenses engaged in by companies on behalf of their employees.

ACCELERATED DEPRECIATION

To encourage investments in France, exceptional accelerated depreciation has been put into place. However, to avoid fiscal risk, a previous agreement must be made with the tax authorities. Exceptional accelerated depreciations for twelve months can be on the following:

- Software
- Expenses for the acquisition or creation of a web site
- Low energy equipment
- Environmental investments such as:
 - Non-polluting buildings
 - Soundproofing equipment
 - Non-polluting vehicles
- Research equipment for research into specific diseases.

MACRON ACT – TEMPORARY 40% TAX DEDUCTION IN FAVOR OF INDUSTRIAL INVESTMENT

Within the framework of so-termed "Macron" Bill for growth, business and the equality of economic opportunities, the French Senate has adopted a temporary "additional depreciation" measure for certain industrial assets.

This measure, announced by the Prime Minister on 8 April 2015, is designed to support productive industrial investment and to encourage the modernization of the production facilities of companies that are subject to French corporate or personal income tax based on their actual income, via an exceptional income tax deduction that can be taken in addition to the deduction for depreciation.

The main characteristics of this measure, which consists of a deduction not recorded in the company's regular accounts, are as follows:

- The tax deduction thus created is equal to 40% of the asset's original value, excluding financing costs;
- The assets concerned, among those eligible for declining-balance depreciation, are the following new assets:
 - Machinery and equipment used for industrial manufacturing or processing;
 - Handling equipment;
 - Facilities for water treatment and improved air quality;
 - Steam, heat or energy producing facilities, with the exception of facilities used for a business that benefits from the application of a regulated feed-in tariff;
 - Machinery and equipment used for scientific or technical research operations;
 - Some categories of IT equipment ;
 - Some categories of software;
 - Vehicles weighting more than 3T5, and not polluting.

- These assets must be acquired or manufactured between 15 April 2015 and 14 April 2017 and for assets acquired after 31 December 2015, a 10% prepayment of the total must have been made.

This deduction also applies to businesses that rent such production equipment either under a finance lease or a rental with a purchase option, pursuant to contracts entered into during that same period.

The tax deduction will be spread out on a straight-line basis over the asset's normal useful life.

As stated in the governmental amendment: "For an asset that is depreciable over four years, the company may, on the one hand, apply declining-balance depreciation according to the rules currently in force and, on the other hand, benefit from the deduction of an additional annual sum of 10% of the cost price of the acquired or manufactured industrial production equipment."

Accordingly, a company subject to the standard corporate income tax rate (33.1/3%) would benefit from a definitive tax reduction of over 13% of the value of the investment.

CONTRACTS

The most frequently used types of marketing agreements can be split into two categories, as outlined below.

COMMERCIAL AGENTS

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

A commercial agent can be either a 'statutory sales representative' (VRP), where he/she is considered as an employee for labour law purposes and must fulfil a certain number of conditions or a 'common law employee commercial agent', where he/she is not considered as a statutory sales representative but is an employee under French labour law.

A commercial agent can also be an 'independent commercial agent' where he/she must be registered with the competent commercial court and must hold a commercial licence. A commercial agent is an independent contractor for labour law purposes but he/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 any increase which they are deemed to have created in the value of the goodwill in the business.

DISTRIBUTION ARRANGEMENTS

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

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

a) Supply, purchasing, or selective distribution arrangements

- A supplier arrangement (*contrat de fournitures*) is a contract by which a supplier agrees with their distributor on the conditions for subsequent deliveries of goods
- A purchasing arrangement (*contrat d'approvisionnement*) is an agreement under which a distributor agrees with their supplier on the conditions for subsequent purchases of relevant products
- Under a selective distribution arrangement (*contrat de distribution selective*), a supplier who wishes to maintain the reputation of their products arranges to supply only those distributors selected and approved by its own entity as worthy to distribute the relevant products

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

b) 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

c) Franchising agreement

- Franchising is a method of close collaboration between the owner of a marketing process/products and the seller, where the process/product owner is known as the franchiser and the seller is known as the franchisee.

The contract generally includes:

- Distributorship of products by franchisees
- Licensing of the 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 recognised as the licensor's property, as follows:

- By contract for know-how,
- By legal registration for trademarks, 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 the 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 Labour 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 ie concluded for an indefinite term
- Temporary contract ie 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, 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.

These include:

- 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 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 monthly salary is EUR 1,480.27 (January 2017) 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 live 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 residency card.

Members of the EU are entitled to certain administrative privileges (eg simplified formalities in applying for a residency card and exemption from obtaining a work permit).

Executives acting as legal representatives of a French company, who are not EU residents, 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 organisation needs of the employer, according to the following schemes:

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

This arrangement has to be decided 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 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 12 days have to be taken in one go.

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

FRINGE BENEFITS

Special pension programs and additional health insurance provision complement the state social security system. The choice of programs is down to each company and can also depend on an individual employee status within the firm.

PERSONAL ACTIVITY ACCOUNT (COMPTE PERSONNEL D'ACTIVITÉ - CPA)

The personal activity account or CPA is a tool intended to help employees to build their career path.

The CPA includes the Personal Training Account (Compte Personnel de Formation - CPF), the Penibility Prevention Account (Compte Prévention Pénibilité - CPP) and the Citizen Engagement Account (Compte d'Engagement Citoyen - CEC).

- The personal training account (CPF)

It allows any active person to acquire training rights and to use them throughout his professional life.

- The Penibility Prevention Account (CPP)

Any employee exposed to factors of risk of difficulty in the course of the exercise of its professional activity accumulates points. These points, accounted for in the CPP, are convertible into training, part-time or early retirement.

- The Citizen Engagement Account (CEC)

It identifies voluntary or volunteer activities. Some of these activities open up a right to training.

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 minimise the impact of such a dismissal on employees.

For a 'conventional break', 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 good relationship between the employee and the employer and must not be used as a replacement for dismissal.

PROFIT SHARING PLANS

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

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.

In 2015, an employer cost relief has been implemented, known as the *CICE**. (*Tax Credit for encouraging competitiveness and jobs). **It is calculated on the calendar year. The rate is increased to 7% in 2017.** It applies only to annual remunerations less than EUR 44,408 in 2017 (equal to 2.5 times the annual minimum monthly salary/SMIC). It is not deducted from the social security payment but from the annual corporate tax. If the company faces a tax deficit, then it is reimbursed within three years or immediately in certain conditions (eg for SMEs).

From 2015, tax payers must make an internet-based declaration for social security contributions and are obliged to make an internet telepayment.

Foreigners working in France are entitled to French social security benefits.

A contribution called the 'social package' or '*forfait social*' has been implemented. *Forfait social* (which applies to all companies) is recovered by the social security fund (URSSAF) on amounts not submitted to social contributions but submitted to generalised social contributions (CSG) and contributions to the repayment of the social debt (CRDS). This contribution represents 20% of the amounts paid to employees for which social contributions have not been paid. For the *forfait social*:

- Items submitted to these new contributions (not limited) are:
 - Profit sharing and incentives (*intéressement*)
 - Participation of the employer in collective plans such as PEE** and collective retirement plans such as PERCO***, and additional supplementary collective retirement plans (**Corporate savings plan, *** Collecting pension savings plan)
- Not included in this contribution (not limited) are:
 - Stock options and restricted stock units (RSU)
 - Indemnities for breach of the employment contract (dismissal or Conventional break)
- *Forfait social* recovered by the social security fund (URSSAF) based on the participation of the employer in a disability plan apply, though:
 - Companies having less than ten employees are exempted
 - For companies having more than ten employees, this contribution represents 8% of an employer's contribution on disability

STOCK OPTIONS/ RESTRICTED STOCK UNITS / EMPLOYEE STOCK PURCHASE PLAN

Stock option/allocation plans can be relevant for social contributions and income tax purposes in certain circumstances. The type of plan will determine the social and fiscal contributions due by the employee and the company.

In some instances, a social security rate of 30% is applicable at the date of employee attribution.

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 by the National Employees' Old-Age Insurance Fund (CNAVTS). The supplementary cover is provided by funds belonging to two federations: for executives, the General Association of Pensions Institutions for Management Staff (AGIRC), established in 1947, and for non-managerial employees, the Association of Supplementary Pension Schemes (ARRCO), 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 scheme:

- 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 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, irrespective of gender, from the current 60 to 62 (effective in 2017), provided that individuals have been continuously paying social contributions for 41.5 years (effective around 2020). All people will be entitled to the full pension at the age of 67, regardless of the numbers of years they have contributed.

The employer can automatically retire an employee who has reached the age of 70.

The employer may propose that an employee retires when he/she is aged between 65 and 70. An employee can ask for retirement from the age of 60, assuming responsibility for the financial consequences this decision involves.

INCOME SUPPORT (*REVENU DE SOLIDARITE ACTIVE – RSA*)

A new minimum subsistence income for unemployed persons with no unemployment benefit and without means of support was implemented.

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
- Value added tax (*taxe sur la valeur ajoutée*).

Other national taxes include:

- Inheritance and gift taxes
- Registration and transfer taxes
- 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*)
- 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'état*), 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. Located in tax offices throughout the country, tax inspectors 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.

BUSINESS TAX

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 and 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 last in first out (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.

The following expenses are not deductible:

- Dividends
- Personal expenses
- Corporate tax and similar contributions
- Income tax
- Liquidation surplus tax
- Company car tax
- Fines and penalties
- Interest paid to shareholders over certain limits
- Gifts over certain limits
- Post employment retirement allowances accruals
- Certain profit transfers (for example, excessive royalty or interest payments made between related parties)
- Excessive depreciation exceeding financial charges (when over EUR 3 million)
- Interest paid to related companies in foreign countries for which the CIT rate is less than 8,33%.

In addition, certain reserves are allowed for tax purposes only when the charge is actually incurred and paid (such as 'C3S' tax accruals).

TAXATION OF DIVIDENDS / DISTRIBUTIONS

Any dividend is subject to an additional corporation tax contribution of 3% of the distribution. This relates to dividends, but also to any amount provided to the shareholders as an advance or a loan, and also to the results from branches owned abroad if they are not kept within the French entity.

Exemptions are planned for fiscal groups of companies or SMEs (employing less than 250 people and whose turnover is less than EUR 50 million or whose total balance sheet is not greater than EUR 43 million).

Payment is added to the next quarterly corporation tax instalment.

LONG TERM CAPITAL GAINS

Long-term capital gains are taxed separately at reduced rates of 0%, 15% or 19%.

- Long-term capital gains are exempted:
 - Under certain conditions, those arising from the disposal of participating interests held for at least two years or, within certain limits, units or shares in certain venture-capital investment funds or venture-capital companies held for at least five years
 - On the disposal of participating interests after deduction of a 12% portion of costs and expenses
- Long-term capital gains taxed at 15% are the net profits from granting licences to use patents, patentable inventions or developments there to, or for certain industrial manufacturing processes and capital gains from the disposal of such elements
- Other capital gains are taxed as ordinary profit at the standard rate subject to the exemptions under certain conditions.

Capital losses from the transfer of participating interests to a related company are still covered by the long-term regime, even if they have been held for less than two years.

LOSSES

CARRY FORWARD

Losses incurred in one year may be offset against profits of the following years with no time limit.

The imputation on the profits is limited to EUR 1 million, increased by 50% of the profits exceeding the million. The remaining deficit can still be carried forward with no time limit.

Long-term capital losses may be carried forward for an unlimited time 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 year preceding the loss-making year, within the limit of EUR 1 million.

Any remaining amount of loss not carried back, is carried forward with no time limit.

A request needs to be sent formally with the tax return showing the deficit carried back. The amount resulting from the carrying back of the loss can either be used to pay future corporation tax during the five following years or it can be requested as a refund after five years.

CORPORATION TAX RATES

The current global tax rate amounts to 33.33 % of business profits.

For SMEs, 2 reduced tax rates are offered as from January 1st,2017:

- A first reduced rate of 15% on a maximum base of EUR 38,120 of taxable benefit for a twelve-month period of profits. Two conditions must be met:
 - Turnover must be lower than EUR 7,630,000
 - More than 75% of the share capital must be owned by individuals or by a mother company meeting the same conditions.

- A second reduced rate of 28% for the SME on the fraction of benefit under EUR 75,000 (EUR 500,000 in 2018) even if they cannot benefit the first reduced rate of 15%.

Other rates are used for long-term capital gains as described previously.

Companies whose corporate tax is more than EUR 763, 000 are liable to a social contribution amounting to 3.3% of corporate tax.

TAXATION ON COMPANIES

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 French resident 95%-owned subsidiaries, can consolidate 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 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.

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 worldwide 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. Unrealised capital gains will normally become subject to tax. Losses incurred by the branch will not be carried over to the company.

HEADQUARTERS OF FOREIGN ENTERPRISES

Headquarters' operations of foreign enterprises and international groups may be granted favourable tax status in France. To qualify, a 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 the headquarters' expenses (cost-plus basis). The percentage of the cost (*the plus*) is agreed for at least three years and for a maximum of five years. This arrangement applies whether the headquarters are organised as a branch or as a French subsidiary company. Withholding taxes are levied on after-tax profits when distributed (subsidiary) or realised (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
- To an EU company that is itself subject to VAT in its own country under the framework of the reverse charge.

Only services invoiced to a French operating company are 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 from 1 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, 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 VAT rate is 20%.

A reduced rate of 5.5% applies to food for non-immediate consumption (except for pastries and any sweet goods on site or take away, for confectionery, chocolates, margarines and vegetable fats and caviar), water and soft drinks for non-immediate consumption (except for alcoholic drinks), books and live shows where eating and drinking is also possible.

A reduced rate of 10% applies to any meal for immediate consumption on site or take away (in restaurants, breweries or fast-food outlets), soft drinks for immediate consumption (except alcoholic drinks), non-refundable medicines, hotels and passenger transportation.

A reduced rate of 2.1% is also applicable for refundable medicines.

VAT is filed on a monthly basis whenever a company pays more than EUR 4,000 in VAT annually. If the annual payment is less than this amount, returns can be filed quarterly.

Calculation of 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. Where input exceeds output, taxpayers can file a claim for a refund of the excess or carry the credit forward.

All companies have to declare and pay their VAT electronically, either via the tax office web site (www.impots.gouv.fr), or by using the EDI portal.

Based on the article 196 of the 2006/112 CE directive applicable on the 1 January 2010, the 'reverse-charge' mechanism has to be used for any deliveries of goods within the EC and all business to business services (except for services related to intermediates, buildings, transportation, 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 analysing 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 and in certain cases, it determines the validity of legal deeds.

Normally, the presentation of deeds is accompanied by the payment of duties. However, in certain cases, payment may be in instalments 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 as follows:

- 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
 - Land registration tax paid to the department is calculated in principle at a single 3.8% rate
 - Departments may adjust the rate, though it may not be less than 1.2% or more than 3.8% (except for sales per batches where rates can be reduced to 0.5%)
 - An additional tax of 1.2% is collected for appropriation to the municipality or to a department equalisation fund
 - A 2.37% levy is collected for appropriation to the state, assessed on the amount of the department duty in respect of 'assessment and collection costs'
- Sale or transfer of goodwill
 - Transfer of businesses is taxed according to a banded scale and the goodwill value. It is subject to transfer duties at the rates of:
 - 3% of the portion of the price between EUR 23,000 –200,000
 - 5 % of the portion of the price over EUR 200,000
 - For transfers made in specific geographical zones (with incentives), the rates are as follows:
 - 1% of the portion of the price included between EUR 23,000–107,000
 - 3% of the portion of the price included between EUR 107,000–200,000
 - 5 % of the portion of the price over EUR 200,000.
 - If the transfer is a contribution to a company, a fixed amount of EUR 375 or EUR 500 usually applies (the same as for a cash contribution). This is applicable if the contributor makes the commitment to keep the shares during three years.
 - An increase in capital by way of a cash contribution or through capitalisation of reserves is subject to the same registration duty rules as if that capital contribution had been made at the company's incorporation (EUR 375 or EUR 500).
- Transfers of corporate rights
 - A 0.1% registration duty will be charged when a document recording a transfer of shares 'actions' is executed
 - For shares classified as '*parts sociales*', the rate is 3% with a relief equal to EUR 23,000 divided by the total number of shares and applied to the value of each share
 - When the transfer of shares concerns real estate, the registration duty amounts to 5% without any cap.

TERRITORIAL AND ECONOMIC CONTRIBUTION (CET)

Individuals or legal entities, unincorporated companies or trustees, in respect of any activity governed by a trust agreement, and carrying on a regular non-salaried business activity in France are liable to the CET.

. The CET tax comprises two separate contributions:

- The business premises contribution tax (*Cotisation Foncière des Entreprises – CFE*):
 - The business premises contribution tax base is comprised of the rental value (less 30% for industrial plants) of property liable to property tax in France, excluding property exempt from property tax on developed land (machinery and other equipment used to operate industrial plants and the fixed assets used for photovoltaic electricity generation), which the taxpayer used, for business purposes, during the reference period. This does not include assets destroyed or disposed of during the same period.
 - The reference period is usually the penultimate calendar year prior to the taxation year or the last twelve-month financial year closed during the said year (when this financial year does not correspond to the calendar year). 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
 - 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, main phone splitters.
- Value added contributions (*Cotisation sur la Valeur Ajoutée des Entreprises – CVAE*):
 - The declaration of this contribution is due by any company submitted to CFE which has a turnover greater than EUR 152,500. It needs to be sent at the same time as the tax return
 - The contribution is based on 1.5% of the added value of the companies having a turnover greater than EUR 500,000. This amount is however discounted when the turnover is less than EUR 50 million.
 - A minimum of EUR 250 is due whatever the amount of the value added
 - The tax is paid and declared electronically with two instalments, one in June and one in September based on the value added of the previous year. The balance is paid in May the following year when declaring the final tax.

Both contributions are tax deductible.

- 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 CET exceeds 3% of the added value, a refund request can be sent to the tax administration

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 monthly rates from 4.25–20%.

If the annual tax is under EUR 1,200, there is nothing to pay. If the annual tax due is between EUR 1,200–2,040, a reduction is applied for 75% of the difference between the tax due and the threshold of EUR 2,040.

The tax has to be declared and paid electronically.

APPRENTICESHIP TAX

Employers are subject to apprenticeship tax. It is levied at the rate of 0.68 % of annual salaries for most of the French companies.

The rate can be increased to 0.78% for companies employing more than 250 people when they do not offer enough apprenticeships.

The tax is declared by the 31 January at the latest for the previous year on the 'N4DS'. It needs to be paid by 1 March at the latest (a late payment incurs a 100% fine)

TRAINING TAX

Employers are subject to this tax at a rate of:

- 1% if they employ at least 10 people
- 0.55% if less than ten people are employed.

It is declared on the 31 January at the latest for the previous year on the 'N4DS' for companies employing less than 10 employees and on the 3 May for companies employing more than ten people. It needs to be paid by all companies by 1 March at the latest (a late payment incurs a 100% fine).

COMPULSORY HOUSING INVESTMENT

Employers with at least twenty staff 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.

This tax has been extended to personal cars used for professional purposes by employees and managers.

Exemptions are applicable for some non-polluting vehicles

This tax is declared and paid as from January 1st with December VAT return each year at the latest for the period covering the January 1st – December 31st. Exceptionally, the tax for the period October 1st – December 31st 2016 will be paid on January 2018 with the 2017 tax.

OTHER TAXES

The 'social contribution of solidarity' (C3S) applies to companies with a turnover higher than EUR 19,000,000 (being also a reduction of basis), which must pay this tax equal to 0.16% of the turnover declared.

Declaration and payment of this tax must be done electronically by 15 May at the latest. An instalment of C3S must be paid every year as from 2017 before December 15th for companies with a turnover exceeding EUR 1 billion.

Since 2010, the retail space tax (TASCOM) has been applied to retail space larger than 400m² on businesses with a local turnover higher than EUR 460,000 ex VAT and an opening date after 1960. The tax rate ranges from EUR 5.74–34.12m² and varies according to the surface area and 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 EU and file this with customs.

The goods trade declaration must report all trade in EU goods (or goods from countries outside the EU on which duties and taxes have been paid) between France and other member states, 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 EU member state from which they are then exported
- Delivery intrastat returns are to be filed from the first euro sent to another member
- Acquisition intrastat returns are to be filed from EUR 460,000 received from another member of the EU.

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

THE EUROPEAN SERVICE RETURN (DES)

This return is to be made by the provider of services to European companies subject to VAT (cost plus agreements are included). This return is different to the DEB above.

The transactions to mention on the DES are sales of services to the EU with reverse charge VAT (business-to-business transactions).

DISCLOSURES

FULL AND SIMPLIFIED TRANSFER PRICING DOCUMENTATION

Since 1st January 2010, new transfer pricing documentation requirements apply in France in case the company fulfills one of the following conditions:

- at least 400 million Euros of turnover excluding tax or in case its total gross assets is at least 400 million Euros,
- or with more than half of its share capital or voting shares belonging directly or indirectly, at financial year end, to a corporate body meeting the conditions outlined here above;
- or holding more than half of the share capital or voting shares, directly or indirectly, at financial year end, of a corporate body meeting the conditions outlined here above;
- or part of a tax consolidation group when said tax consolidation group contains at least one corporate body meeting the conditions outlined here above.

In case of a tax audit, should the company meet the conditions outlined here above, the company must be able to present to the tax authorities the contracts concluded with other entities in the group as well as documentation justifying the transfer pricing policy carried out in the context of transactions with foreign related companies.

Moreover, those companies must provide within 6 months of the deadline to submit the annual tax returns, a simplified transfer pricing documentation (TP return).

As from YE 31 December 2016, companies with a turnover or total balance-sheet at least equal to 50 million Euros must also submit a TP return even though they do not meet the criteria for the full transfer pricing documentation.

Only items above 100 000 Euros have to be declared in the simplified TP documentation.

Failure to produce the full transfer pricing documentation can lead to a penalty of a minimum of 10 000 € up to 5% of the amounts transferred if above 10 000 €.

Failure or errors in the TP return can lead to a penalty of 15€ per omission with a minimum of 60€ and a maximum of 10 000 €.

ANNUAL FEES RETURNS

All companies must disclose to the tax authorities details regarding fees, commissions and assimilated expenses performed during the calendar year.

This disclosure mentions all details (name, address, Siret number, activity, amount incl. VAT) regarding the providers.

Failure to proceed with this disclosure can entail a penalty equal to 50% of the undeclared amounts.

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 centre 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 0–45 % (on 2016 income). However, certain adjustments ensure a more moderate average rate of taxation.

High revenues are subject to a tax based on the taxable income of 3% (between EUR 250,000–500 000) and 4% (if higher than EUR 500,000).

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.

A net wealth tax is levied on individuals whose net worth exceeds EUR 1,300,000 (1 January 2017). 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 real estate 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 as shown in the following table.

TABLE 2
Wealth tax for 2016

EARNINGS (EUR)	BREAKDOWN (EUR)	RATE APPLICABLE	WEALTH TAX (EUR)	TOTAL TAX
Less than 800,000	800,000		Exempt	
800,001–1,300,000	500,000	0.5%	2,500	2,500
1,300,001–2,570,000	1,270,000	0.7%	8,890	11,390
2,570,001–5,000,000	2,430,000	1.0%	24,300	35,690
5,000,001–10,000,000	5,000,000	1.25%	62,500	98,190
More than 10,000,000		1.50%	-	-

7 – ACCOUNTING & REPORTING

ACCOUNTING PRINCIPLES

FORM AND CONTENT OF FINANCIAL STATEMENTS

The form and content of financial statements are defined in the 'General Chart of Accounts' (regulated by recent ANC regulation 2016-07). The basic financial statements included in annual reports to shareholders are:

- A balance sheet, where headings are classified by function (eg finance and customers) rather than by liquidity
- An income statement, where revenues and expenses are classified by origin, and are systematically analysed under three overall categories:
 - Operating revenues and expenses
 - Financial revenues and expenses
 - Exceptional revenues and expenses
- Explanatory notes
- SAs, SASs and SARLs, as well as GEIEs and GIEs with either annual revenues of more than EUR 18 million or more than 300 employees, are required to provide forecast accounts (financial information, balance sheet and income statement forecast) to their statutory auditors and works council.

Listed companies have the obligation to present their consolidated financial statements according to the 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 for most of the companies.

OBLIGATION CONCERNING THE SUBMISSION OF AN ELECTRONIC ACCOUNTING JOURNAL ENTRY AT THE BEGINNING OF THE TAX AUDIT

The obligation, codified in article L47 A I of the book of tax procedures, applies to all fiscal controls as from 1 January 2014.

The administration has published the practical procedures for application.

SCOPE

The verification notices sent to all companies keeping their accounts by means of computerized systems from 1st January 2014, for the fiscal years beginning on or after 1st January 2011 must be documented by a compulsory File of the Accounting Entries (FAE –In French FEC) containing all the transactions for each year.

The file format has been standardized by the tax authorities, and must include:

- 18 specific fields:
 - 1- Code of journal
 - 2- Full text of the journal
 - 3- Accounting entry number
 - 4- Accounting date of entry
 - 5- Account number from the French Chart of Account
 - 6- Account name
 - 7- Auxiliary accounting record
 - 8- Full text of auxiliary account
 - 9- Internal or external item reference
 - 10-Item registration date
 - 11-Literal identification of reason for entry
 - 12-Debit amount in euros
 - 13-Credit amount in euros
 - 14-Indication of matching code
 - 15-Matching date of entry
 - 16-Date on which the registration of entry is final
 - 17-Amount of transaction in foreign currency
 - 18-Text of the currency used.

Failure to prepare the journal within 30 days is punishable with a minimum fine of 5,000 euros for each year audited, able to reach 10% of the reassessment.

In the case of the journal is still incomplete, a fine of 0.5% of the turnover and penalties for opposition to tax audits (i.e. rejection of the accounts) are applicable.

HEADINGS

- It is not necessary to report the analytical information related to the records or the associated supporting documents,
- The FAE language used must be in French,
- The file can be a flat file type (ASCII) or comply with the XML format (XSD type structure, see the website impots.gouv.fr)

SAVING THE FAE

The FAE must be saved in order to freeze the data and give a specific date.

It must be named in accordance with the following convention: SIRENFECYYYYMMDD (Company SIREN code, "FEC", closing date of the year in question)

The file may be saved:

- On CD-ROM or DVD-ROM
- Via an archiving service

CHART OF ACCOUNT

UHY GVA can help you if you want to establish a mapping applicable to your company and test your FAE files.

AUDITING

French companies (*Sociétés anonymes* – SAs and *Sociétés en commandite par actions* – SCAs) are required to submit their financial statements for auditing.

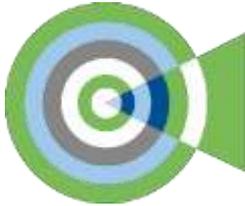
However, other companies (eg SNCs, SARLs) are only subject to this requirement if they exceed certain thresholds (in terms of total assets, number of employees, level of sales, etc). For SASs, even if thresholds are not reached, in certain circumstances these companies require a legal auditor (eg an SAS owned by one or several companies, an 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 formal annual reports to shareholders:

- Auditor report – the auditor’s 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 the treatment of the accounting and financial data processing. The purpose of the statutory auditors is to ensure the information contained in the report of the president is presented in a sincere way, is relevant and is not likely to be misinterpreted.

8 – UHY REPRESENTATION IN FRANCE



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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