MOORE STEPHENS

Doing business in France 2018

Moore Stephens Europe

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Introduction

The Moore Stephens Europe *Doing Business In* series of guides have been prepared by Moore Stephens member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing Business in France 2018 has been written for Moore Stephens Europe Ltd by COFFRA. In addition to background facts about France, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in France either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to France to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 October 2018. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

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Our member firms' objective is simple: to be viewed as the first point of contact for all our clients' financial, advisory and compliance needs. They achieve this by providing sensible advice and tailored solutions to help their clients' commercial and personal goals. Moore Stephens member firms across the globe share common values: integrity, personal service, quality, knowledge and a global view.

Brussels, November 2018

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1. France at a glance

Geographical location, population and religion

Metropolitan France is one of the largest countries in Europe with a total area of some 544 000 km^2 and 3805 km of coastline. It is frequently referred to as *L'Hexagone* (the Hexagon) owing to the geometric shape of its territory, whose maximum size is represented by lines running north to south (973 km), west to east (945 km), and northwest to southeast (1082 km).

It borders on Belgium, Luxembourg, Germany, Switzerland, Italy, Monaco, Spain and Andorra. The English Channel and the North Sea lie to the north, the Atlantic Ocean to the west and the Mediterranean Sea to the south. The main mountainous feature of Metropolitan France is the 'French S', which starts from the Vosges, goes down the Alps and bends towards the Massif Central and the Pyrenees.

The French Republic comprises Metropolitan France (continental France and Corsica), five overseas regions and departments (DROM) (Guadeloupe, French Guyana, Martinique, Réunion and Mayotte), five overseas collectivities with their own law-making powers (COM) (French Polynesia, St Pierre and Miquelon, Wallis and Futuna, St Martin and St Barth) and two territories granted special status (New Caledonia and Clipperton Island).

As at January 2018, the population of France was estimated at 67.19 million. Three urban areas have more than 1.5 million inhabitants: Paris (12.3), Lyon (2.2) and Marseille (1.7). As people are living longer, the French population is gradually growing older and people aged 65 or more now account for 19.6% of the population. As a result, the proportion of under-twenties is steadily decreasing. However, given the high birth rate and positive migration rate compared to other European countries, France enjoys high demographic growth and could reach nearly 70 million inhabitants by 2050. Median age is estimated at 40.5 years in 2018.

Whereas most people in France are nominally Roman Catholics, a study undertaken in 2018 by the French polling agency OpinionWay, based on a sample of 1000, found that 41% of 18 to 30-year-old French people declared themselves as Roman Catholics, 3% as Protestants, 8% as Muslim, 1% as Buddhists, 1% as Jews and 3% were affiliated with other religions, while 43% regarded themselves as unaffiliated.

Language and judicial system

The national language of France is French, a member of the Western Romance group of languages. The business community is used to communicating in English.

Inherited from the Revolution in 1789, the French judicial system is based on written law derived mainly from laws passed in Parliament by the deputies and senators and also by proposals of the government. The Civil Code, the Penal Code, other Codes covering different aspects of the law in addition to European and international laws are the essential tools of those involved in the judicial system.

The French legal system is organised on the basis of a fundamental distinction between civil courts, with jurisdiction in disputes between private individuals or bodies, and administrative courts, with jurisdiction in all cases involving some form of dispute between a private individual or body (company, association etc.) and a public body.

The Constitutional Council (*Conseil Constitutionnel*), composed of ten members, is responsible in particular for overseeing the proper functioning of elections and for ruling on the constitutionality of organic laws and legislation submitted to it.

The *Conseil d'Etat* is the supreme administrative court and court of final appeal on the legality of administrative acts. It advises the government on draft legislation.

Politics and government

The Constitution of 4 October 1958 provides the institutional basis for the Fifth Republic. The French President is elected by direct universal suffrage for a five-year term. This procedure was introduced on 28 October 1962 by a referendum. The incumbent head of state, Emmanuel Macron, of the Party *La République en Marche*, was elected eighth President of the Fifth Republic on 7 May 2017.

The President of the Republic appoints the Prime Minister and, on the latter's recommendation, appoints the other members of the Government. He presides over the Council of Ministers, promulgates Acts of Parliament and is Commander-in-Chief of the Armed Forces. He may dissolve the National Assembly and exercise special powers in an emergency.

Under the direction of the Prime Minister, the government sets national policy and carries it out; it is answerable to Parliament. The Prime Minister directs the operation of the government and ensures the implementation of legislation. Edouard Philippe of the Republicans was appointed Prime Minister on 15 May 2017.

The French Parliament consists of two assemblies:

- The Senate, elected for a six-year term by indirect universal suffrage, with one-half of its members renewed every three years; the last election was held in September 2017.
- The National Assembly, whose members (*députés*) are elected by direct universal suffrage for a five-year term; the most recent general election was held in June 2017.

In addition to providing a check on the Government, the two assemblies draw up and pass legislation. In the case of disagreement on a law the National Assembly makes the final decision.

Currency, time zone, weights and measures

On 1 January 2002, France adopted the euro (EUR) as its national currency and since 18 February 2002, French franc coins and notes are no longer legal tender in France.

France is one hour ahead of Greenwich Mean Time, but from the end of March until the end of October, French time goes from GMT+1 to GMT+2.

France uses the metric system for weights and measures and degrees Celsius for temperatures.

As at the time of going to press (mid-November 2018), the Euro was quoted against the US dollar at EUR 1 = USD 1.1417.

General economic outlook

In 2017, total French exports amounted to EUR 472 200 million and imports stood at 535 500 million. The stock of foreign direct investment (FDI) amounted to USD 874 521 million (in 2017).

France boasts a total of 20 000 subsidiaries of international companies operating in various business sectors (statistic from 2010). Recent reforms in France, for example the competitiveness and employment corporate tax credit (*crédit d'impôt pour la compétitivité et l'emploi,* CICE), should promote investment and boost the competitiveness of French companies.

In 2017, the US was the largest single source of investment projects in France during the year, followed by Germany, Italy and the United Kingdom. The most popular host regions for foreign direct investment have traditionally been the Paris metropolitan area (Ile de France), the Lyon metropolitan area (Rhône-Alpes), eastern France (Alsace) and the south-west (Midi Pyrénées).

According to a statistic published in 2013, France ranked among the 20 best places worldwide for starting business and that is still the case. In a national effort, France is striving to upgrade its regions and industries to a high level of competitiveness. As a result, foreign enterprises that establish themselves in France can, in many cases, benefit from investment incentives offered by national, regional, departmental, and local government, by ten large French industrial groups that are revitalising depressed areas, and by the European Union, which also provides subsidies.

Many countries, including EU Member States and most OECD countries, have signed social security agreements that enable foreign employees to continue paying their social security contributions in their country of origin while sent on secondment to work in France. Although certain immigration procedures must be fulfilled, France has made a number of efforts to streamline administrative procedures for expatriate employees.

France is the world's seventh largest economic power in terms of nominal gross domestic product (GDP), which amounted to USD 2 766 000 million in the first quarter of 2018, representing growth of 7% over the previous year. The inflation rate is low, at around 1.00% p.a. (2017).

In July 2018 France had an employment rate of 65.8% and the unemployment rate was 9.1%.

2. Doing business

Main forms of business organisation

Introduction

The most important forms of business organisation in France are as shown in Table 1.

Table 1

Name	Abbreviation	English translation
Société Anonyme	*SA*	Joint-stock company
Société par Actions Simplifiée	*SAS*	Simplified joint-stock company
Société à Responsabilité Limitée	*SARL*	Limited-liability company
Société en Nom Collectif	*SNC*	General partnership
Société en Commandite Simple	*SCS*	Limited partnership
Société en Commandite par Actions	*SCA*	Partnership limited by shares

Joint-stock company (SA)

Incorporation

An SA must have a minimum of seven shareholders, who may be foreigners or French nationals, natural persons or companies (except for the chairman, who must be an individual shareholder).

The minimum capital is EUR 37 000.

Shareholders' equity is generally represented by shares, which may be paid for either in kind, or in cash, but not by personal services. Shares are freely transferable. However, transfer may be restricted to a certain extent by the Articles of Incorporation.

A statutory auditor (*Commissaire aux Comptes*) must be appointed upon registration of the company. For listed companies there is a special requirement to nominate two *Commissaires aux Comptes.*

Subscription in cash requires a minimum payment of 50% at the time of incorporation, the balance being paid up within five years.

Management

An SA may be managed by an executive board (*Conseil d'Administration*) and a General Manager (*Directeur général*), or by a supervisory board (*Conseil de Surveillance*) and a board of directors (*Directoire*). The latter system separates management from control of the corporation; the supervisory board is elected by the shareholders or, when the company is being set up, designated by the Articles of Incorporation; it elects the members of the board of directors and controls them.

The General Manager must be a natural person and he or she has authority to act on behalf of the SA.

Members of both boards are liable for mismanagement and negligence. The General Manager and the board of directors both represent the company vis-à-vis third parties, and no limitation of their powers is binding upon third parties.

Supervisory board members may not become company employees, but existing employees may be elected to the supervisory board, provided that not more than one-third are employees. Members of the Executive Board may be employees, with no upper limit.

Shareholders' meetings

Within six months of the end of each financial year, a shareholders' meeting must be called to approve the annual financial statements; their accuracy, good faith and true and fair view are certified by a statutory auditor (*Commissaire aux Comptes*). The shareholders' meeting also decides on the allocation of profits, the election (if need be) of new members of the executive or supervisory board, and the election of the statutory auditor.

A Special Meeting (*Assemblée Générale Extraordinaire*) must be called to amend the Articles of Incorporation in order to increase or reduce the capital, to alter the company's objects, to merge, to dissolve the company etc. Quorum and majority rules governing Special Meetings are more stringent than those governing ordinary meetings: a majority of shareholders holding at least two-thirds of the shares is required.

Simplified joint-stock company (*société par actions simplifiée*; SAS)

Incorporation

The SAS was created in France in 1994 to attract investment. It is a flexible limited-liability company in which the division of powers, nomination of directors and mode of operations are freely determined by the Articles of Incorporation. Use of the SAS makes it possible for entrepreneurs to arrange a flexible legal structure especially adapted to subsidiaries of larger (international) corporations (for registration taxes, see Chapter 8).

The minimum share capital is EUR 1, but it is advisable to have a minimum capital of EUR 37 000. One shareholder (natural person or legal entity) suffices to incorporate an SAS, which is then designated as an SASU (*SAS unipersonelle*).

A statutory auditor must be appointed if the company is controlled by at least one company or at least two of the following criteria are met:

- The balance-sheet total is over EUR 1 000 000
- The turnover is over EUR 2 000 000 (VAT excluded)
- The number of employees is over 20

Management

Unlike the SA, the simplified joint-stock company offers substantial freedom. Statutory arrangements are possible.

Shareholders' meetings

Within six months of the end of each financial year, a shareholders' meeting must be called to approve the annual financial statements. The shareholders' meeting also decides on the allocation of profits and the election of the statutory auditor.

A Special Meeting (*Assemblée Générale Extraordinaire*) must be called to amend the Articles of Incorporation in order to increase or reduce the capital, to alter the company's objects, to merge, to dissolve the company etc.

Limited-liability company (SARL)

Setting up

An SARL may have a minimum of one member (EURL) and a maximum of 100, who may be foreigners or French nationals, natural persons or companies. The current minimum share capital is EUR 1, but a minimum capital of EUR 7500 is still generally recommended; this must be fully subscribed and paid up if in kind, or one-fifth if paid in cash at the time of foundation.

A statutory auditor must be appointed if at least two of the following criteria are met:

- The balance-sheet total is over EUR 1 550 000
- The turnover is greater than EUR 3 100 000 (VAT excluded)
- The number of employees is over 50

Company members are liable for the company's debts up to the amount of their contributions to capital

Management
An SARL is managed by one or more managing directors (*gérants*) either appointed by the members or designated by the Articles of Incorporation. The managing director need not be a member but must be a natural person. He or she must have a business permit if he or she is not an EU national or hold a residence permit

The managing director represents the company vis-à-vis third parties, and no limitation of his or her powers provided for by the Articles is binding upon third parties. The managing director may be removed by a decision of members holding more than one-half of the share capital.

Shareholders' meetings
Within six months of the end of each financial year, a shareholders' meeting must be called to approve the annual financial statements and allocate profits. Decisions are made by a majority holding more than 50% of the shares.

Amendments to the Articles of Incorporation require a Special Meeting and a majority of members holding at least three-quarters of the shares, for companies created before 2005. For those which were created later, a majority of two-thirds of members holding at least one-quarter of the shares is required (one-fifth if there is a second meeting).

General partnership (*société en nom collectif* or SNC)
Under French company law, primary use is made of limited-liability companies. Partnerships are possible, but rarely used.

In a general partnership the partners have unlimited personal liability. Although legal entities of this type are relevant for specific types of projects, they are less common in practice as they provide for the investor's unlimited liability in the event of financial hardship. However, due to their flexibility and tax transparency, they may be very attractive forms of investment vehicle.

Limited partnership (*société en commandite simple* or SCS)
The managing partners of a limited partnership have unlimited personal liability, but the limited partners are liable only to the extent of their capital contributions. This type of partnership is not used very often. The French Government has tried to refresh this form of partnership, in creating the SLP (*Société en Libre Partenariat*), using the British limited-liability partnership as a basis of inspiration ('loi Macron' of 8/06/2015).

Partnership limited by shares (*société en commandite par actions* or SCA)
A partnership limited by shares is similar to an SA, except that the ordinary partners are personally liable for losses incurred by the company. This form of entity is not used very often. This form of entity is not used very often.

Other forms of business organisation

Business organisations available to foreigners

Although foreign investors can choose to work through an independent distributor located in France, they can also choose to set up a subsidiary or take a controlling interest in an existing French company or, alternatively, create a branch, not deemed to be a separate legal entity.

In most cases, foreign investors create wholly owned subsidiaries or purchase a majority interest in an existing company. Setting up a branch is also possible, when specific circumstances make it convenient.

Branch

The setting-up of a branch involves fewer formalities than the organisation of a company. However, a branch has certain disadvantages, mainly that a foreign entity establishing branches in France becomes liable for all branch debts.

In practice, a branch is usually set up when the foreign investor expects the French operations to result in substantial losses during the early years. In such a case, the branch can enable the foreign company (notably in the United States or in the United Kingdom) to deduct the losses incurred in France.

Joint venture (société en participation)

A joint venture is usually undisclosed to third parties and is formed by a written agreement that requires neither registration nor public notice. It does not have legal capacity

Economic interest grouping (groupement d'intérêt économique or GIE)

Both resident and non-resident entities may form economic interest groups – without loss of their legal autonomy – for the collective business use of such facilities as sales organisations, import and export agencies, and research organisations.

Members are subject to unlimited liability for all debts incurred by the group. Its public disclosure distinguishes an EIG or GIE from a joint venture, as well as its full legal capacity.

Liaison office

Under French company law, a liaison office does not have to be registered (except for the CFE tax: see Chapter 6) and does not pay income tax in France. It is not allowed to have commercial activities in France. Often the liaison office is the first step before the opening of a branch.

Headquarters

Like several other European countries, France has a special system for taxing headquarters and logistics centres set up for the specific purpose of providing specialised services. Headquarters are only allowed to handle management, administrative, coordination and control functions while logistics centres are limited to packaging, labelling and distribution. Services must be provided only to companies within the same group.

Taxation is calculated on the basis of a fixed rate of margins related to their operating costs and which is negotiated with the tax authorities. The rate should be reviewed every 3-5 years.

Sole trader

A sole trader is an individual having a business permit or a residence permit, unless he is an EU national. A sole trader is comprehensively liable for all debts.

Labour relations and working conditions

Employment law

Labour relations in France are governed by the Employment Code (*Code du Travail*) and master collective agreements that reflect the practices of each economic or industrial sector. Employee profit-sharing and equity-ownership plans are encouraged by exemptions from income and payroll taxes, while flexibility of working hours and employment is based on production considerations (but still on the 35-hour working week). Of particular interest to foreign companies is the fact that employees on temporary assignment in France can be covered by their home social security system whenever an agreement to that effect exists between France and the country concerned.

Employment contracts

The most common type of contract is the *contrat à durée indéterminée* or CDI, which has no set time limit. In practice, contracts are in writing and must be drafted in French (and also in the employee's language if necessary).The parties are free to write their own contract. The provisions of such contracts may not, however, contravene the Employment Code or the sector-wide collective agreement applicable to the company.

An employment contract must mention the employee's remuneration and functions, the work entrusted to him or her and the place of work. It may provide for a probationary period. Remuneration may be no less than the minimum wage called for by the applicable sector-wide agreement or the national minimum wage (known as the SMIC). In September 2018, the monthly SMIC amounted to EUR 1498.47 gross (on the basis of a 35-hour week) and the hourly rate was EUR 9.88.

In 2015, the mean annual gross salary in France was EUR 36 491.

Employment contracts may be terminated on personal grounds (real and serious grounds, misconduct) or for economic reasons (if the company is faced with difficulties). Employers must always state the grounds for dismissal in writing and follow a procedure laid down by law.

Special regulations apply to lay-offs on economic grounds, including: a lay-off plan if more than 10 employees are affected; resettlement or outplacement support; consultation with the staff representatives; information and reports to the Ministry of Labour; and payment of severance benefits.

Employees are entitled to a retirement indemnity when they retire from their job at the age of 60 (soon to be 62) or older. Employers may also require employees to retire but not before they reach the age of 70.

35-hour week

Since 2003, statutory working hours in France have been 35 actual hours worked per week, and these hours constitute the basic reference. Maximum working hours are 10 hours per day and 48 hours per week. Over a 12-week period, the maximum is an average of 44 hours per week.

Hours worked in excess of statutory working hours are counted as overtime. Overtime pay has been 25% higher than regular pay in all companies since 1 October 2007 (except where a collective agreement provides for a lower rate, which may not, however, be less than 10% for the first eight hours per week in excess, and 25% more from the 44th hour.

The regulatory limit on overtime is 220 hours per year, which increases annual working hours to 1827, equivalent to 39 hours per week for 47 weeks.

Continuous shiftwork (e.g., three-shift operations) is set up through a company agreement. The impairment of the Sunday as a day off can be de jure or subject to the administration's approval. Work based on production cycles is designed to handle recurring increases in business over a short period (8 to 12 weeks). Work may also be organised in shifts.

No overtime premiums or compensatory time-off is required under such systems of flexible working hours provided that the cycle does not exceed the legal working week on average.

Generally speaking, the 35-hour week does not apply to executives and to personnel who are free to organise their own work and non-management employees working off the premises – such as sales representatives, maintenance technicians etc.

Those executives and managers are offered annual packages that stipulate the annual number of days worked, with a maximum of 218 days per year and 13 hours per day; such agreements must be in writing and provided by the relevant collective agreement.

Staggering paid leave

Employees in France are entitled to five weeks of paid holiday. The employer may refuse to let an employee take a holiday if the workload does not allow it. However, employers must let employees take at least two weeks of holiday between 1 May 1 and 31 October. In addition to paid leave, there are 11 legal holidays and personal leave days (marriages, births, deaths).

Another key characteristic of the French labour market lies in the possibility of using extra staff to meet temporary requirements. This option complements the various means related to the organisation of working time. Contracts with a set time limit and temporary work are governed by strict regulations that restrict their use to cases provided for by law, for a maximum period of 18 months (24 in some cases and 36 in a case of apprenticeship training). They are an effective means for companies to meet their requirements, to such an extent that France is the world's second market for temping, behind the United States.

Staff representation

The system of employee representation varies according to the size of the company and concerns three separate institutions:

- In companies with more than 10 employees, staff representatives are elected by the employees to present individual and collective pay claims and to ensure compliance with employment laws
- A works committee must be set up when a company has 50 or more employees. The committee is elected for a period of four years by the employees to represent their interests when decisions are made about economic changes in the company such, in particular, as changes in work organisation on the one hand, and social and cultural issues on the other
- If the company has fewer than 200 employees, the employer may decide, after consultation with staff representatives, to opt for a single staff representation delegation, which combines staff representatives and a works committee in the same elected body
- Establishments with 50 or more employees must also set up a Joint Safety Committee (CHSCT) to involve the staff in training and other initiatives to prevent occupational risks and improve working conditions

The power to negotiate and enter into collective employment agreements is reserved to union representatives. Where there are no union representatives, an industry-wide agreement may allow the employer to negotiate with elected staff representatives, either those appointed to the works council or those chosen as delegates. Failing this, in which event the situation must be confirmed in a written report, the employer may be authorised to negotiate with an employee mandated for this purpose. The result of these negotiations must then be submitted to staff for approval by a majority of votes cast. Trade unions are also entitled to set up bargaining units within a company.

However, from 2020 onwards, this system of staff representation will change with the creation of the Economic and Social Committee (CSE *Comité économique et social*). The Economic and Social Committee replaces the staff representatives. From 2020, the CSE must be in place in all the companies concerned. It merges all staff representative bodies, such as the works council and the committee on hygiene, safety and working conditions.

Only around 11% of French workers belong to trade unions.

Profit-sharing and share-ownership programmes

In addition to their wages and salaries, employees and corporate officers may be offered employee profit-sharing and share-ownership schemes, which are attractive for workers and provide tax benefits for both employees and employers.

The range of schemes available enables companies to set up remuneration and benefit systems tailored to their specific needs, including supplementary retirement and family benefits, stock options, corporate and inter-company employee savings/share-ownership programmes etc. Mandatory profit-sharing is referred to as participation, as opposed to voluntary profit sharing, referred to as *intéressement*.

Mandatory profit sharing exists for companies with 50 employees (for a period of 12 months, consecutive or not, in the last three financial years) or more and consists of distributing a share of the company's profit to the staff. The savings may either be managed within the company or invested in a savings plan. Tax and social exemptions apply to the company and staff.

Procedures for implementing the scheme are defined in an agreement between the employer and the employees or the staff representatives. The agreement stipulates the calculation, allocation and management of the participation methods. It also states the duration of the agreement. The sums accrued by an employee under a mandatory profit-sharing scheme cannot generally be accessed for five years.

It is possible to make additional payments to supplement voluntary or mandatory profit-sharing premiums. The amount is optional but may not exceed EUR 29 799 for the 2018 bonus.

Work permits, visas etc

All non-EU nationals (other than those permanently resident in France) without a residence permit exercising commercial activities in France (for more than three months) must be in possession of a temporary residence card authorising them to exercise a commercial, industrial or artisanal activity (carte de *séjour temporaire*, which replaces the *carte de commerçant étranger*).

For activities carried out by companies, such individuals can have the power to bind the company (managers, partners, administrators, general managers etc) if they hold a temporary residence card authorising the exercise of a commercial, industrial or artisanal activity.

Depending on their country of origin, foreign nationals may require a visa when visiting France.

3. Finance and investment

Business regulation

Setting up your business rapidly

The introduction of a one-stop service has greatly simplified the administrative formalities for setting up businesses in France. Formation of a company may only take up to two weeks. This may take a little longer if the business is to be controlled by non-EU residents.

Simplified registration formalities

The registration application for the new company must include (in addition to the official registration form (Form M0):

- Two originals of the articles of incorporation giving the names of the directors and, where appropriate, the names of the statutory auditors
- Two copies of the official appraiser's report, if capital contributions in kind are involved
- A copy of the lease or ownership deed to the business premises
- A copy of the legal gazette containing notification of the company's incorporation
- Copies of the directors' birth certificates, identity cards or passports, along with a police clearance record and a representative's mandate
- If appropriate, a copy of the professional card, or degree or certificate required to engage in regulated professions
- If appropriate, the declaration to the prefecture or commercial residence permit of the directors
- A certificate of deposit from a bank for the new company's initial capital reserve
- A summary of the formalities completed on behalf of the new company
- After completion of the registration formalities, a K-Bis certificate is issued by the clerk of the court, representing proof that the company has been set up

Regulation of foreign investment

The acquisition of a French company by non-resident individuals or legal entities is subject to French investment-control rules. Exchanges of funds, bonds etc. require only a simple declaration. If an investment takes place when setting up a new French company, no prior declaration is required.

A non-resident contemplating a direct investment of more than 20% in an existing French listed company (or of more than one-third in a private company) must first file with the Ministry of Economy and Finance (Treasury Department) a declaration setting out the details of the operation, supported by financial statements (exemption for specific cases).

A non-resident may proceed with the investment unless the Treasury has objected within a month of the filing of such declaration. Once the investment is made, the investor is free to repatriate dividends and interest on loans, or to sell his investment and repatriate proceeds (subject to any applicable taxes).

Banking & finance

Banking system

At the top of the French banking system there is the French Central Bank, la Banque de France, which controls the system and regulates the money supply. As France is in the eurozone, the European Central Bank has oversight of banking operations.

Banks and financial institutions are regulated by the ACPR (*Autorité de Contrôle Prudentiel et Résolution*). Banks are included in the FBF (*Fédération des banques françaises*). However, the French banking system also comprises other financial institutions, which are specialised in leasing contracts or the management of securities.

The most important stock exchange in France is the Euronext Paris. It trades both equities and derivatives and posts the CAC-40-Index. Euronext Paris has merged with the stock exchanges in Amsterdam, Lisbon and Brussels, LIFFE and NYSE, and is now the second largest stock exchange in Europe.

Exchange controls

In France, no exchange control exists, so capital can be repatriated without restrictions or approval.

Incentives for investment

A range of financial incentives is available to encourage companies to invest, create jobs and train staff. Options depend on the type of project and range from grants and low-interest loans to tax reductions.

For example, the main goal of the removal of the wealth tax (ISF *Impôt sur la Fortune*: see Chapter 7) was to encourage SME investment. Investment incentives mainly consist of cash grants available for designated areas.

The principal tax incentives are accelerated depreciation allowances for certain new tangible assets and various tax reductions. Tax reductions have been adopted to encourage companies to invest in difficult areas or to take over ailing companies. See Chapter 6 for details.

Direct subsidies

Funding is provided by central government and by local authorities (region, department, district, interdistrict). The following is a list of the major grants and subsidies that are currently available.

Job creation

In almost every region in France companies setting up an R&D project can obtain a *Prime d'Aménagement du Territoire*, a development grant that can be worth up to EUR 25 000 per job created. The application for the *Prime d'Aménagement du Territoire* has to be filed in front of a specific authority, the CIALA (*Commission interministérielle d'aide à la localisation des activités*). In 2017, 38 projects benefited from a *Prime d'Aménagement du Territoire*, representing EUR 23.4 million and 6400 jobs were supported, including 2500 new ones, as well as EUR 467 million of investment. 23% of these job creations came from projects carried out by foreign companies and 60% of these projects are located in territories with very high issues (rural municipalities, medium-sized towns). 53% of them are carried out by an SME.

Subsidies for business premises

In addition to subsidies for investment projects in production activities (all companies in specific regional zones, or small- and medium-sized companies throughout France), local authorities can also offer subsidies to finance the construction or leasing of business premises or the acquisition of land.

Clusters

French clusters, *Pôles de Compétitivité*, including 71 clusters that have been officially designated by the French government since October 2005, are made up of a network of companies, research and training facilities. The French government supports these clusters with a dedicated budget of EUR 1500 million over five years. Clusters also benefit, for example, from a corporate tax franchise.

Public sector assistance

Various measures have been introduced to support innovation within private companies at every stage of their development. Ministries, government agencies and local authorities employ a variety of measures to encourage R&D activities from the initial research stage, through feasibility studies, to the final prototype: subsidies can be awarded to laboratories and companies involved in public/private sector partnerships, to small and medium-sized innovative businesses, but also to major industrial projects.

4. The accounting and audit environment

Accounting regulations and audit requirements

General obligations

Bookkeeping is an obligation laid down by commercial and criminal law. The former makes it compulsory for traders:

- To book in chronological order all movements having an impact on the assets of the company
- To control through an inventory at least every twelve months the existence and the value of assets and liabilities of the company
- To prepare annual financial statements at the end of the accounting year according to the accounting books and the inventory book. The annual financial statements include a balance sheet (statement of financial position), a profit & loss account (income statement) and notes to the financial statements.
- To have a bank account, either in a credit institution or in a post office.
- To keep, at least 10 years after the end of the accounting year, all accounting documents.
- If it is incorporated as a company, to file the annual financial statements each year with the clerk of the Commercial Court.

Compulsory documents and books

It is compulsory under business law in France for every trader, irrespective of his tax status, to keep an accounting journal, an inventory book and a general ledger. He must also establish a document with a description of the accounting procedures and methods used for his company.

The journal

Any movements having an impact on the assets of the company are booked operation-by-operation, day-by-day, in the journal. The latter is detailed through as many auxiliary books as the business requires (book of sales, of fixed costs, of general costs, of banks etc.). In the whole accountancy process, every entry has to be supported by documentary evidence (invoice, bank voucher etc).

The supporting documents are sorted in a manner chosen by the company and kept for at least ten years.

The inventory book

Every year the entries on the inventory book consist of the company's liabilities and assets. They are to be listed with their quantity and value at the inventory date. The annual financial staements are also entries: balance sheet, profit and loss account (income statement), and the annexes.

The general ledger

The general ledger is a summary document grouping together all the accounts used.

Other obligations

The books and accounts have to be drawn up in French. The trader is required to establish regular and accurate accounting, and provide a true and fair view of the company.

Numbering of the account entries is defined by law and must be used for bookkeeping; they are classified in seven groups:

1. Capital, provisions and loans
2. Assets
3. Stock
4. Other balance-sheet accounts (such as trade creditors, trade debtors, accruals etc)
5. Bank and cash
6. Costs
7. Income

The annual accounts and shareholder meetings of all limited companies (or companies having limited companies as shareholders) have to be filed with the Commercial Court and can be freely consulted.

Statutory audit requirement

Under the legislation enacting the EU 4th Directive, companies whose annual accounts are required to be audited must appoint an auditor to examine the accounts and express an opinion on whether they present a true and fair view.

The statutory auditor is compulsory for an SA and an SAS. An auditor must also be appointed for an SARL meeting at least two of the following three criteria:

- Total balance-sheet value: EUR 1 550 000
- Turnover (excluding VAT): EUR 3 100 000
- Number of employees: 50

Audits are also compulsory for simplified joint-stock companies (SAS: *Sociétés par Actions Simplifiées*) if the SAS controls, or is controlled by, one or more companies (including foreign companies) or if at least two of the following three thresholds are exceeded:

- Total balance-sheet value: EUR 1 000 000
- Turnover (excluding VAT): EUR 2 000 000
- Number of employees: 20

The law requires the appointment of two statutory auditors for listed companies

5. Overview of the tax system

Main taxes

The overall amount of tax collected in France in 2015 was EUR 577 977 million. The main taxes are:

- Value added tax (*taxe sur la valeur ajoutée*)
- Personal income tax (*impôt sur le revenu*)
- Corporate income tax (*impôt sur les sociétés*)
- Inheritance and gift tax (*impôt sur les successions et les donations*)
- Wealth tax (*impôt de solidarité sur la fortune* – please note that this has been converted into real estate wealth tax as from January 2018).
- Local business tax (*contribution économique territoriale*)
- Residence tax (*taxe d'habitation*)
- Immovable property tax (*taxe foncière*)
- Registration duties (*droits d'enregistrement*)

Tax authorities

The tax authorities (*Direction Générale des Finances Publiques* – DGFIP) are responsible for assessing and collecting taxes.

The taxpayer has to file tax returns and the tax authorities will review them and assess afterwards. The tax year is the calendar year. Income taxes are not withheld, even in the case of employment income (although this will change with effect from 2019). There is only one exception from that rule, in the case of individuals with limited tax liability (non-residents). Advance payments are required by law towards personal as well as corporate income tax.

The tax authorities are allowed to carry out tax field audits. The statutory limitation for a tax audit is three years. The audits are carried out on corporate persons as well as individuals.

6. Taxes on business

Corporate Income Tax

Territoriality and scope

France applies the territorial system of taxation. Only activities carried out in France are subject to French corporate tax. The foreign activities of French companies (with the sole exception of certain tax-haven companies) are not subject to French taxes.

Corporate income tax is due by French corporate entities (SAs, SASs, SARLs and partnerships limited by shares), by French branches of foreign corporate entities and by other entities that elect to pay French corporate tax, such as general partnerships, limited partnerships and single-member limited-liability companies (EURLs)). French tax is due by foreign corporations that perform a 'complete cycle of operations' in France, separate from their other activities, but most double taxation agreements concluded by France limit French taxation of foreign entities by reference to the notion of 'permanent establishments' in France. France may regard an agent of a foreign entity as a permanent establishment.

The French tax authorities issue rulings that grant special tax treatment to headquarters companies and logistics-centre companies. These companies are subject to corporate income tax at the normal rate on a tax base corresponding to a percentage of annual operating expenses, depending on the company's size. In addition, certain employee allowances are exempt from income tax.

Non-corporate entities are not directly subject to income tax, unless they so elect. Their profits are taxable in the name of each member, with a possible progression of tax rates if the member is a natural person, subject to personal income tax. However, rules concerning the assessment of income are generally the same as for corporate income tax.

Taxable income

With the exception of dividend and interest income, French and foreign companies are taxable only on income derived from French sources.

However, French companies may be taxed on profits generated in tax-haven countries, through subsidiaries, under certain circumstances (see under 'CFC rules' below).

Net taxable income is defined as the net profit derived from all operations of every kind carried out by a business, including capital gains from the transfer or sale of every type of asset. It may be arrived at by one of two ways. The first starts with the income statement and makes adjustments for non-taxable income and non-deductible expenditure. The second is a net-worth comparison method. It starts with the balance sheet and compares net worth at the beginning and end of the taxable period and adjusts for non-taxable increases in capital and non-deductible distributions to members.

Very small enterprises may calculate their taxable income on the basis of simplified accounting rules. Such an enterprise is one that satisfies at least two of the following three criteria:

- The balance-sheet total is less than EUR 4 million
- The turnover is less than EUR 8 million
- The average number of employees is fewer than 50

Exempt income

The most significant item of exempt income is the income from foreign operations (see above). Other exempt income includes:

- 95% of domestic and foreign dividends under the participation exemption (up to 99% for dividends distributed by European subsidiaries) (see under 'Dividends, interests and royalties' below)
- 88% of capital gains arising from the alienation of participations qualifying for the participation exemption (see under 'Capital gains' below)

Capital gains

Most capital gains are treated in the same way as income and subject to the standard rate of corporate income tax. However, certain capital gains qualify for special treatment.

Participation exemption

Gains from the alienation of qualifying participations are exempt from corporate income tax, subject to the add-back of 12% of the gross gain (before the deduction of capital losses). This lump sum is deemed to be a non-deductible cost.

Participations qualify if certain conditions are satisfied by both the participation and the company disposing of it. As to the participation, any one of the following conditions need to be satisfied:

- The participation represents at least 5% of the voting share capital of the company concerned
- The participation is a long-term strategic investment and allows the participator to exercise influence or control
- The cost of acquiring the participation was at least EUR 22.8 million or
- The participation was acquired under a public takeover bid

As to the participating company:

- It must be subject to corporate income tax at the standard rate on some or all of its activities
- It must have held the participation for at least two years (or continuously from their issue)
- Certain other conditions need also to be satisfied.

The participation exemption is not automatic: companies must elect for it to be applied.

Deductions

All expenses relevant to the company's activities are deemed to be deductible, subject to specific anti-avoidance rules. Unreasonable expenses as well as any part of the corporate officers' remuneration considered excessive by the tax authorities are not deductible (see also under 'Remuneration' below).

When payments are made to tax havens (for which see under 'Other anti-avoidance provisions' below), the taxpayer has the burden of proving that the transaction with the foreign-based person was genuinely incurred and at arm's length and does not disguise a transfer of profits.

More specifically, expenditure is deductible if it is paid in the taxpayer's corporate interest, is properly documented and actually incurred and results in a reduction of the company's net worth. Expenditure must be booked as soon as the commitment to pay takes effect.

Expenses incurred in connection with exempt income from foreign sources are not deductible.

Depreciation

Assets are depreciated using either the straight-line method depending on their estimated useful life or the reducing-balance method. For specific fixed assets, accelerated depreciation (*amortissements dérogatoires*) may be recorded for tax purposes only. For example, certain software may be depreciated over a 12-month period.

Typically accepted rates of straight-line depreciation are shown in Table 2.

Table 2

Class of asset	Rate of straight-line depreciation (%)
Commercial buildings	2.00-5.00
Office buildings	4.00
Industrial buildings	5.00
Tools, machinery and fittings	10.00-20.00
Aircraft	12.50
Heavy machine tools	15.00-20.00
Road vehicles (cars, lorries etc)	20.00-25.00
Computers	33.33

Interest

The general rule is that interest is deductible if the loan in question is taken out for genuine business purposes and is shown as a liability on the balance sheet.

With effect for taxable periods ending after 30 December 2012, there is an overall limitation on the deductibility of the net interest expense. The limitation applies where the difference between interest paid and interest received ('the net interest expense') exceeds EUR 3 million.

In that case only 75% of interest is deductible; this limitation applies to the whole of the net interest expense, not merely the excess over EUR 3 million, i.e. if the net interest expense is EUR 4 million, only EUR 3 million (75%) is deductible. The non-deductible element may neither be carried forward nor back.

However, interest treated as non-deductible under anti-avoidance provisions (e.g. thin capitalisation rules) does not count towards the calculation of the net interest expense under this rule.

For further limitations on interest payable within a group of companies and to related parties generally, see under 'Thin capitalisation' below.

Remuneration

Remuneration paid to employees and directors is deductible unless it is 'excessive'. However, unless a director is also an employee, only attendance fees (*jetons de présence*) are deductible, and then within certain limits.

Royalties

Royalties are deductible if they are paid for business purposes and are not 'excessive'. Excessive royalties paid to an associated foreign company are not deductible and may be treated as a disguised distribution.

Taxes

Although the corporate income tax itself is not deductible, certain minor and indirect taxes are deductible. These deductible taxes include:
- The TEC (see under 'Other taxes on business' below)
- Registration duties (see Chapter 8)
- Immovable property tax (see Chapter 8)
- Social security contributions (see Chapter 9)

Note: The 50% surcharge on ultra-high remuneration was abolished in 2015.

Dividends, interest and royalties receivable

As a general principle, dividends received by a French-resident company or the French branch of a non-resident company are subject to corporate income tax in full.

However, for accounting periods beginning after 31 December 2015, following a decision of the Court of Justice of the European Union in 2015, if the company or branch opts for the participation exemption, dividends received by it from an affiliated French or EEA company meeting the conditions that would be required of a resident company for consolidation in a tax group (see below) will qualify for 99% exemption from corporate income tax. The remaining 1% is deemed to cover the administrative cost incurred by the shareholder for its shareholding and is treated as a non-deductible expense. For previous accounting periods, the add-back was 5%, as it still is where the distributing company is a non-EEA company.

The conditions for the application of the participation exemption are the same as those for capital gains (see under 'Capital gains' above). The participation exemption does not apply to dividends from companies located in 'tax havens' (strictly speaking, 'non-cooperative states and territories'), for which see under 'Other anti-avoidance provisions' below).

It should be noted that a recent legislative amendment now requires shares held in bare ownership (i.e. shares the usufruct of which is held by a party other than the bare owner) to be taken into account when determining whether the 5% ownership threshold has been reached.

Losses

Losses incurred during any one year can be deducted from future profits without time limit (carry-forward). However, in any one year, the maximum profit against which brought-forward losses may be fully set is EUR 1 million. Only 50% of that part of any current-year profits exceeding EUR 1 million is available for loss offset.

Example 1

A company has losses brought forward of EUR 5 million and current-year profits of EUR 2.5 million. The maximum set-off is as follows:

	First EUR 1 million	Remaining profits	Total
Current-year profits	1,000,000	1,500,000	2,500,000
Loss brought forward	(1,000,000)	(750,000)[1]	(1,750,000)
Taxable profits	0	750,000	750,000
Losses carried forward:			
5,000,000 – 1,750,000 =			**3,250,000**

Under certain conditions, losses can be carried back for one year, limited to a total loss amount of EUR 1 million. The excess corporate income tax paid can be set against payments due to the Treasury during the following five years. After five years the remaining amount may be claimed from the Treasury.

Group taxation

France permits a group of companies to opt for consolidated taxation.

Members of a group for this purpose consist of a French-resident company and its 95%-subsidiaries, i.e. companies in which it directly or indirectly holds at least 95% of the share capital and voting rights. Subject to a minor exception, the parent company must not itself be a 95%-subsidiary of another French company but may be wholly foreign-owned.

The requirement that the parent company be a French company has prevented French-resident subsidiaries of a foreign company (so-called 'sister companies') from forming a group for taxation purposes. However, the Court of Justice of the European Union has recently found, in the joined cases C-39/13, C-40/13 and C-41/13 (which concerned the Netherlands), that this type of rule is in breach of the right to free establishment guaranteed under the Treaty on the Functioning of the European Union. Accordingly, the Second Amending Finance Bill 2014 contained legislation permitting 'horizontal' group taxation for such companies.

With effect for accounting periods beginning after 31 December 2014, therefore, the previous requirement that the parent company be a French company, which prevented French-resident subsidiaries of a foreign company from forming a French group for tax purposes, has been dropped. Group taxation is thus now permitted between French-resident companies subject to French corporate tax and owned to the extent of at least 95% by an EEA-resident company directly or indirectly through foreign entities resident in the European Union or European Economic Area. The foreign parent must itself be subject to a corporate income tax that is comparable to the French corporate income tax.

An election for group taxation is made for a minimum of five years if some of the tax advantage obtained is not to be clawed back. Not all eligible subsidiaries need to be included in the tax group.

Once an election is effective, each group member must still compute its own taxable profit or loss, before a single consolidated tax return is filed for the group by the parent company, thus allowing for set-off of profits and losses, after eliminating certain intra-group transactions. Once a group member's loss has been offset in this way, it may not be carried forward by that company. Losses incurred before a company becomes a group member may be set off against that company's profits only.

Withholding taxes on outbound payments

The incidence of withholding tax on outbound payments depends on both the nature (natural person or legal person) and the residence status of the recipient. Withholding taxes in France are applied on certain types of income such as dividends, interest, royalties and certain other payments.

Dividends

For the withholding tax that applies on dividends paid to individuals see Chapter 7 under 'Dividends'.

Dividends from a French company to a foreign corporate recipient are generally subject to deduction of 30% withholding tax. However, dividends paid to a legal entity located in an NCST are subject to 75% withholding tax.

France's double tax treaties will apply lower withholding rates to qualifying recipients.

Under the EU Parent-Subsidiary Directive as enacted in French law, dividends paid by a qualifying French company to a qualifying company resident in another EU Member State are exempt from French withholding tax. The minimum required holding of the recipient company in the French distributing company is 10% and the minimum period for that holding is two years (although under certain conditions, the period can be reckoned post facto). The rule regarding bare ownership referred to on the previous page under 'Dividends, interest and royalties receivable' applies here also.

Dividends paid to companies resident inside the European Economic Area but outside the European Union (i.e. in Iceland, Liechtenstein or Norway) benefit from a version of the domestic participation exemption, under which the minimum holding is 5%, but it is a further condition that the recipient company cannot otherwise set off French withholding tax because the dividend benefits from a participation exemption. Dividends payable to Swiss-resident companies may also be free of withholding tax subject to a minimum holding of 25% and conditions aimed at preventing tax avoidance

Interest
There is no withholding tax on interest paid to resident companies.

An exception to this rule applies for interest paid by financial institutions on bonds and negotiable instruments issued before 1987. Neither is there any withholding tax on interest paid to non-resident companies, unless the recipient company is located in an NCST, in which case there is a final withholding tax of 75%.

Royalties
There is no withholding tax on royalties paid to resident companies.

A withholding tax of 33⅓% is charged on royalties paid to non-resident companies. The tax is not final, but where the recipient's total liability to French tax is less than the amount withheld, there is no refund of the excess. If the royalty is paid to a recipient located in an NCST, a final 75% withholding tax applies.

Royalties paid to qualifying associated companies within the terms of the EU Interest and Royalties Directive (2003/49/EC) are exempt from withholding tax.

France's double tax treaties generally provide for lower withholding rates on royalties to qualifying recipients.

Branch profits
The after-tax profits of the French branch of a foreign company are in principle subject to a branch-profits remittance tax of 30%.

Where the foreign company has its place of effective management in another EEA member state, subject without option to a tax on corporate income there, and without the possibility of being exempt, its French branch is exempt from the branch remittance tax. France's double tax treaties often provide for exemption or a reduced rate.

Capital gains
Capital gains arising from the alienation of French immovable property or shares in private companies more than 50% of the assets of which consist of French immovable property are subject to a final withholding tax of 33⅓% (or 19% in the case of a public company). However, if the alienator is a company resident in an EEA member state, the tax is not final.

Where the alienator is resident in an NCST, the withholding tax is final and imposed at a rate of 75%. For the treatment of individual alienators, see Chapter 7.

Capital gains arising from the alienation of shares in a French company by a corporate non-resident alienator that has held an interest of over 25% in the company whose shares they are at any time in the preceding five years are subject to a final withholding tax of 45%.

However, where the alienator is a company resident in another EEA member state, the participation exemption will normally apply. Most tax treaties concluded by France provide for an exemption from this tax.

Where the alienator is resident in an NCST, the withholding tax is final and imposed at a rate of 75%.

Services income
Where not exempt under a tax treaty, a non-resident company's income from services performed in France is subject to a non-final withholding tax of 33⅓%. In the case of artistic performances, the rate is reduced to 15% subject to certain conditions.

Thin capitalisation
Interest paid between related companies may only be deducted provided that the paying company is not thinly capitalised.

Related companies for this purpose are those where (a) one directly or indirectly holds at least 50% of the capital of the other or exercises de facto control over the other or (b) the same third party directly or indirectly holds at least 50% of the capital of both companies or exercises de facto control over both companies. De facto control is regarded as existing where the party concerned holds at least 50% of voting rights.

A series of tests must be met.

In the first place, interest may only be deducted provided the following conditions are met:
- The share capital of the paying company is fully paid-up
- The interest rate does not exceed the average yearly interest rate paid by private companies for loans with variable interest issued by credit institutions, which was 2.88% for the second quarter of 2018. The interest that has been paid between related companies is deductible up to the amount of the market interest rate if this rate is higher than the abovementioned average yearly interest rate

Deduction of interest is denied if the related company that granted the loan is taxed at an effective rate that is less than one-quarter of the effective French rate (i.e. at a rate under between 8.33% and 9.5%, depending on the size of the creditor company).

The interest relating to the amount exceeding the highest of these three limits is not deductible in the financial year in which it arises, unless it is less than EUR 150 000.

Thin capitalisation rules do not apply if the overall level of debt within the group is higher than in the French subsidiary.

Excess non-deductible interest may be carried forward and deducted from the taxable profit in the following financial year up to a maximum of the difference between 25% of that year's profit and the amount of the tax-deductible interest in that year (calculated as described above).

Any remaining interest that cannot be deducted in that year may be carried forward with no time limit and deducted in future years under the same conditions, but after a reduction of 5% each year.

Transfer pricing
Transfer pricing is now one of the most important issues for multinational companies with cross-border group transactions. The tax authorities have the power to adjust for transactions between related parties that are not at arm's length rates.

In France, documentation rules generally follow the OECD guidelines, but require more detailed documentation and are more specific. Large enterprises are required to submit abridged versions of their transfer-pricing documentation annually, within six months of the due date for the corporate tax return (see under 'Returns and payment' below). Failure to do so may result in a penalty of the greater of EUR 10 000 and 5% of the adjusted profits (or 0.5% of the amount of the transactions concerned by the documents or supplements which have not been made available to the administration after formal notice (whether or not there is a correction)).

It is possible for taxpayers to obtain advance pricing agreements.

Controlled Foreign Company (CFC) Rules

France has CFC rules, under which the profits of a controlled company resident in a low-tax jurisdiction may be attributed pro rata to and taxable on its French-resident corporate shareholders.

The rules apply to French-resident companies that have a direct or indirect holding of more than 50% in a foreign company or permanent establishment incorporated or resident in a jurisdiction in which the effective rate of corporate tax is 50% or more less than that in France.

However, an interest of as little as 5% in the foreign entity may be sufficient to bring the CFC rules into play where more than 50% of the shares in that entity are directly or indirectly held by French or foreign entities directly or indirectly controlled by a French company, and those companies are shown to be acting in concert.

The attribution under the CFC rules of the profits of a foreign permanent establishment are an exception to the territoriality principle of taxation. Such attributed profits are regarded as business profits. Thus, where the foreign jurisdiction concerned has a double tax treaty with France, the attributed profits are taxable in France only where the treaty expressly allows France to apply its CFC legislation or relief from double taxation is granted by the credit method.

Attributed CFC profits from a legal entity are treated by the French tax authorities as 'other income' in respect of France's tax treaties so taxable only in the state of residence of the recipient (i.e. France).

The CFC rules do not apply to entities within the European Union, unless they are judged to be purely artificial and established for the sole purpose of avoiding French tax. They also do not apply if it can be demonstrated that the entity is primarily engaged in commercial or industrial activities and its main purpose is not tax-driven.

Other anti-abuse provisions

Abus de droit

A general anti-abuse provision exists in French law. Under this 'abuse of law' (*abus de droit*) rule, the tax authorities may disregard any arrangement that is either 'artificial' or seeks to benefit from a literal application of the law that is contrary to the spirit or intention of that legislation. Where abuse of law is established, the taxpayer will suffer a penalty of 80% of the tax sought to be avoided.

From 1 January 2016, the tax authorities must prove the absence of economic reality in order to impose a penalty under the rule in the case of dividends distributed by companies in which the recipient company holds at least 5%.

Even where the statutory rule is inapplicable, the courts recognise a general *fraus legis* principle. The burden of establishing that either of these rules applies lies with the tax authorities.

Transactions with non-cooperative states and territories
Specific anti-avoidance rules apply to transactions with jurisdictions classified as a non-cooperative state or territory (NCST).

Such a jurisdiction is one that:
- Is not a Member State of the European Union
- Does not have a tax-information exchange agreement with France
- Had concluded fewer than 12 such agreements with any other jurisdiction before 1 January 2010
- Features on the OECD 'blacklist'

Table 3 below shows the current list of NCSTs.

Table 3

Botswana	Guatemala	Nauru
British Virgin Islands	Marshall Islands	Niue
Brunei	Montserrat	Panama

The following rules apply in respect of transactions with an NCST:
- The participation exemption does not apply
- Higher rates of withholding tax apply to payments to recipients in the NCST
- More rigorous application of transfer pricing rules, CFC rules and the general anti-abuse rule

Tax incentives

Tax measures have mainly been adopted to encourage companies to invest in difficult areas or to take over ailing companies.

Temporary tax exemptions
In certain areas, local communities (municipalities, departments, regions etc.) are allowed to grant temporary total or partial business tax exemptions to companies that settle, expand, or take over ailing companies in their jurisdiction.

Under no circumstances may the exemption exceed five years; it may, however, be of shorter duration.

Tax incentive for competitiveness and employment (CICE)
As from the year 2014, French tax law grants companies a tax credit up to 6% of the tax burden in respect of salaries not exceeding 2.5 times the minimum wage (SMIC), which roughly amounts to EUR 43 000 for a full-time employee (for salaries in the Overseas Departments, the tax credit was 7.5% in 2015). This tax credit is to be replaced by a reduction of employer's social contributions as from 2019.

Tax incentive for research and development
A tax credit is granted to companies performing research and development. It amounts to 30% (50% for research located in the Overseas Departments as from 2015) of the eligible amount up to EUR 100 million + 5% above this limit. Companies may deduct the tax credit from the income tax payable or have it refunded within three years if they cannot use it (*crédit d'impôt de recherche*, CIR).

Small and medium sized enterprises (SMEs) may be eligible for a tax credit for innovation (*crédit d'impôt innovation*). It amounts to 20% of qualifying expenditure, up to a maximum of EUR 400 000.

New companies
This exemption has been included in French tax law to encourage companies to set up facilities in poorly industrialised areas.

Newly created companies locating in certain parts of the country may, under certain conditions, benefit from a temporary and decreasing corporate tax exemption. The exemption amounts to 100% during the first 24 months. Profits are subject to tax on one-quarter, one-half or three-quarters of their amount depending on whether they have been earned during the first, second, or third 12-month period following the exemption period, respectively. The exempted profit is limited to EUR 200 000 per 36-month period. This measure is limited to companies in which no more than 50% of the shares are held by other companies.

What is more, companies that benefit from the corporate tax exemption may also enjoy a two-year exemption from business tax and property tax (providing that local communities have given their approval).

Acquisition of an ailing company
Companies set up to take over ailing industrial organisations (legal recovery procedures etc.) may, under certain conditions, benefit from a partial 24-month corporate tax exemption.

The purchasers must not have held, either directly or indirectly, more than half of the ailing company's share capital during the year preceding the takeover. They may also, subject to the deliberations of local communities, benefit from business tax and property tax exemptions (specific rates may apply depending on the location and the size of the company).

The advantages are limited to EUR 200 000 (European de minimis ceiling).

If the business and jobs are not maintained for at least three years, all tax benefits are recaptured.

Accelerated depreciation
The different bonus depreciation rules that encourage investment in research and development, pollution control devices and the like, may be added to this list of tax incentives.

Young innovative enterprise
Specific measures have been created to assist new companies in which research spending accounts for at least 15% of total expenditure. They provide for partial exemption from corporate income tax, local business tax and property tax over a period of eight years.

Tax rates

Corporate tax is levied at a standard rate of $33\frac{1}{3}$% whether profits are distributed or not.

The Finance Act 2018 (Article 84) provides for a general reduction in the corporate tax rate to 25% in 2022. For 2018, it is 28% for profits below EUR 500 000 and $33\frac{1}{3}$% beyond this amount. The rate will then be reduced to:

- 31% above EUR 500 000 in profits in 2019
- 28% of total profits in 2020
- 26.5% in 2021.

A social security surcharge of 3.3% on corporate tax is chargeable in addition on large companies. This surcharge is imposed on the part of corporate tax due exceeding EUR 763 000 before offsetting the tax credits granted under tax treaties. The 3.3% surcharge applies unless a company meets both of the following conditions:
- Its annual turnover is less than EUR 7 630 000 and
- At least 75% of the company is owned directly or indirectly by natural persons

Taking into account the social security surcharge, the effective rate of French corporate income tax on that part of profits is 34.43%.

For companies with turnover of more than EUR 250 million, a further 10.7% surcharge on their whole corporate tax liability, after deducting losses carried forward but before deduction of tax credits, was levied for financial years closing before 31 December 2016.

The first EUR 38 120 of the taxable income of a small or medium-sized company may qualify for a reduced rate of corporate tax of 15%. Companies qualify for the reduced rate where:
- Their annual turnover is less than EUR 7 630 000 and
- At least 75% of the company is owned directly or indirectly by natural persons

Before 2017, when dividends were paid by a French company or permanent establishment, a 3% income tax was payable by the distributing entity on the amount of the dividend (exceptions for SMEs under certain conditions). However, the charge was abolished following a judgment of the Constitutional Council of 6 October 2017 in which the Council held that this tax was unconstitutional.

An entity qualifies as an SME if:
- It has no more than 250 employees and
- It has an annual turnover not exceeding EUR 50 million or
- Its balance-sheet total does not exceed EUR 43 million

Micro-enterprises are subject to a special regime, under which their deductible expenses are calculated on a lump-sum basis as a percentage of turnover.

A micro-enterprise is one whose turnover does not exceed EUR 82 200 (for trading entities and those offering accommodation services, such as hotels, guest houses etc.) or EUR 32 900 (in the case of entities providing general or professional services).

Capital gains
Special rates apply to certain types of capital gain.

Reduced rate of tax for certain long-term gains
Certain long-term gains from the licensing or disposal of intellectual property are subject to a reduced rate of tax of 15%. Certain long-term gains from the sale of participations in listed property companies are subject to a reduced rate of tax of 19%. For this purpose, gains are long-term gains where the underlying asset has been held for at least two years.

For exempt gains, see under ‘Capital gains’ above.

Assessment procedure

A self-assessment system is in place for corporate income tax. Companies file tax returns incorporating a calculation of tax payable.

Returns and payment

Companies are generally required to file their annual tax returns within three months of the year-end. Those that have a 31 December year-end, however, may file returns up to the end of April or mid-May. Normally, tax returns are not examined when filed. They are reviewed only when the company is subject to a full tax audit by the authorities.

Corporate income tax is prepaid in four instalments. Companies with a year-end of 31 December must pay their instalments on 15 March, 15 June, 15 September and 15 December. The balance of corporate income tax is due by 15 May of the following year. In the case of a new company, no instalments are due during the first year of activity. Each of the four instalments is $8\frac{1}{3}$% of the previous year's taxable income, except in the case of patent royalties, in respect of which the instalment rate is 4.75% and, where applicable, the part of taxable income subject to the reduced 15% rate of tax, in which case the instalment rate is 3.75%. The rules governing the payment of corporate income tax also apply to the payment of the 3.3% social security surcharge.

Business tax

Since 2010, the former taxe professionnelle has been replaced by the CET (*contribution économique territoriale*), consisting of the CFE (*cotisation foncière des entreprises*) and the CVAE (*contribution sur la valeur ajoutée des entreprises*). It takes account of the rental value of the taxpayer's business premises (CFE) and the added value generated (CVAE). CVAE is due by taxpayers whose turnover exceeds EUR 152 500 and is charged at 1.5% on added value, defined as sales minus purchases and opening inventory.

The CFE is charged on the notional rental value of the company's immovable property, at rates set by the competent local authority. The total CET payable may not exceed 3% of the added value generated during the same period of time.

Payroll tax

Employers subject to VAT on less than 90% of their turnover (i.e.VAT-exempt or partially exempt) are subject to payroll tax. The payroll tax is assessed on the gross total amount of cash remuneration plus benefits-in-kind.

The taxable base is in proportion to the proportion that non-VATable turnover bears to total turnover. Thus, if non-VATable turnover is 70%, the taxable base is 70% of the payroll etc.

The payroll tax is payable at a normal rate of 4.25%, which is increased to 8.5% on that part of annual individual salaries between EUR 7721 and EUR 15 417, to 13.6% on the part of annual individual salaries between EUR 15 417and EUR 152 279 and 20% on the part exceeding EUR 15 279.

Value added tax

Value added tax (VAT), as regulated by the European Union, is generally charged on the supply of goods or services where the place of supply is in France, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC, as amended), and associated Directives and Regulations. These allow Member States several options in application of the tax, not the least of which is the power to set rates (within certain broad parameters).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to deduct input VAT) or outside the scope. Exempt supplies with the right to deduct input VAT are sometimes referred to as 'zero-rated'. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

Taxable entities

All businesses are subject to VAT in France, i.e. they generally have to charge VAT on their supplies where the supply takes place in France.

Where a group of companies elects for VAT purposes to be treated as such, the members of that group must still continue to file their individual VAT returns, but the parent company may aggregate those returns and pay (or reclaim) the net VAT due. Companies may form a VAT group where, broadly speaking, a parent company directly or indirectly owns at least 50% of the share capital and voting rights in subsidiary companies. The parent company and those subsidiaries then form a VAT group if they elect to do so. The minimum period of the election is three financial years.

Taxable activities

The place of supply of goods is generally where the ownership of the goods is transferred. In case of a dispatch involving physical transportation of the goods, the place of supply is where the dispatch begins. Special rules apply for chain transactions and cross-border supplies.

The place of supply of services to private persons is generally the place where the supplier is located. Exceptions have to be considered for special services where the private person is located outside the European Union. As from 1 January 2015, telecommunications services, electronic services and radio and television broadcasting services are taxable where the private customer is located.

The place of supply of services to taxable persons (other businesses) is generally where the customer is located. Special exceptions exist for e.g. supplies in connection with immovable property.

Exempt supplies

Examples of exempt supplies (without the right to deduct) are the letting of property, financial and insurance services and medical services.

Standard, reduced and zero rates

The non-zero VAT rates currently in force in France are:
- Standard rate: 20%
- Reduced rates: 2.1%, 5.5% and 10%

There are other specific rates for overseas departments and Corsica).

Table 4 below shows (non-exhaustive) examples of the type of supplies taxable at the various reduced rates.

Table 4

Supply	2.1% rate	5.5% rate	10% rate
Admission to cultural events			✓
Certain books		✓	
Certain foodstuffs*		✓	
Sales of original works of art by the author		✓	
Certain newspapers	✓		
Certain pharmaceutical products	✓		
Contribution to public service broadcasting	✓		
Domestic care services			✓
Hotel accommodation			✓
Passenger transport			✓
Restaurant services			✓
Certain live animals for slaughter and cured meats	✓		

* There is no longer a 10% rate; the 20% normal rate now applies for certain foodstuffs.

Registration

Where the gross taxable turnover of a business supplying services did not exceed:

- EUR 32 900 (or EUR 34 900 in certain circumstances) for businesses supplying services (other than those mentioned below) or
- EUR 82 200 (or EUR 90 300 in certain circumstances) for businesses supplying goods or accommodation or food for consumption on the premises

In the previous year, the business is not required to register for VAT and is consequently not obliged to charge VAT or file VAT returns. Nor may it, therefore, deduct input VAT. This exemption scheme is voluntary, in the sense that such businesses may nevertheless register if they choose to do so.

The registration threshold for distance sales (mail-order and other supplies to French end-consumers from outside France) is EUR 35 000.

There is a zero threshold for non-established businesses, so a business from outside France making a supply taxable in France is obliged to register for French VAT immediately, no matter what the value of the supply unless the reverse charge system (with the recipient of the supply being obliged to account for VAT on the supply) is applicable.

Returns and payment

VAT returns need to be filled on a monthly basis where the business's VAT liability in the preceding year was over EUR 4000. Where this is not the case, returns are in principle to be filed quarterly. However, there is a simplified régime for businesses with turnovers not exceeding:

- EUR 236 000 for businesses supplying services (other than mentioned below) or
- EUR 783 000 for businesses supplying goods or accommodation or food for consumption on the premises which do not have to file periodic returns at all but are required to make quarterly advance payments of VAT. Businesses under this regime must file an annual VAT return before the second working day following 1 May of the next year, together with the balance of any VAT owing.

Payment on the basis of the periodic returns is due by the filing date (which falls in the month following the end of the return period). Where input VAT exceeds output VAT, a refund claim may not be lodged until input VAT has exceeded output VAT for three consecutive return periods and exceeds EUR 760 in total. Where this is not the case, the refund is made on an annual basis.

7. Personal taxation

Income tax (including capital gains taxes)

Territoriality and residence

Individuals resident in France are generally taxable on their worldwide income and capital gains, regardless of source. An individual is deemed resident in France where the individual:

- Has his or her home or principal place of residence in France
- Spends more time in France than in any other country or spends more than 183 days in France in the tax year concerned
- Carries on his or her principal business or professional activity in France or
- Has his or her centre of economic interests in France

Non-resident individuals are subject to limited taxation (i.e. on their French-source income only).

Persons liable

All natural persons are liable to income tax.

Partners of a fiscally transparent partnership, such as a general partnership (*société en nom collectif* – see Chapter 2) or a civil-law company (*société civile*) if individuals, are subject to income tax on their share of the partnership's or company's profits.

The family unit

Taxation is calculated on the total income of the fiscal household (*foyer fiscal*), which includes any income of a spouse or children. The rate of taxation is inversely proportional to the size of the household – the more people in the household, the lower the rate. Taxable income is divided by a certain number of units (*quotient familial*), which depend on the size of the taxpayer's household. For further details, see under 'Rates of tax' below.

Separate taxation is, however, possible in certain cases.

Unmarried couples are taxed separately, unless they have entered into a life-partner contract (*pacte civil de solidarité*).

Taxable period

The taxable period is the calendar year. With the exception of income subject to a final flat rate of withholding tax, income (including employment income) is taxed on a previous-year basis, so that income of 2018 is taxed in 2019, at the rates applicable for 2019. Income of 2017 will be taxed in 2018, at the rates set for that year.

Categories of income

Taxable income is classified under the following headings:

- Income from employment
- Income of certain controlling directors
- Business income (*bénéfices industriels et commerciaux*)
- Professional income (*bénéfices non-commerciaux*)
- Income from agriculture (*benefices agricoles*)
- Investment income (*revenus de capitaux mobiliers*)
- Income from property (*revenus fonciers*)
- Capital gains
- Income from precious metals, jewellery etc
- Other income

Taxation of employment income

Employment income includes income from wages and salaries, benefits from employment (whether paid in cash or in kind), income from profit-sharing schemes etc and other income derived from an employment relationship.

Unemployment benefit is also taxable as employment income.

Certain professionals are treated by law as salaried employees and their income is accordingly treated as employment income, whether or not an employment relationship exists under general law. These include journalists, models, performing artists and homeworkers.

Other types of professional may elect to be treated as receiving employment income (see under 'Professional income' below).

Treatment of benefits-in-kind

Most benefits-in-kind are valued for tax purposes at their market value, less any contribution to their cost made by the employee.

However, there are special rules for employer-provided accommodation and free meals. Free meals are valued at a fixed amount, determined each year. For 2018, this amount is EUR 4.80 per meal.

Two methods are applied to compute the taxable value of a company car. If the car is purchased by the employer, the benefit is 9% of the acquisition cost (or 12% if private fuel is paid by the employer). If the car is leased, the benefit is 30% of the rental value (or 40% if private fuel is paid by the employer). The rate will be lower if the company car has been owned for more than five years.

The reimbursement of genuine expenses incurred by the employee in the course of the employment are tax-exempt under certain conditions.

Director's remuneration

Director's remuneration is treated differently, according to the nature of the directorship and the company in which it is held.

Remuneration paid to the directors of a joint-stock company and the remuneration of a director or manager of a limited-liability company who is a minority shareholder in that company is taxable as employment income.

Remuneration paid to a director of a limited-liability company who is also a controlling shareholder in that company is taxable as employment income under the special category of income for controlling directors.

Remuneration and attendance fees paid to board members (*conseil d'administration* or *conseil de surveillance*) of a joint-stock company are taxable as investment income.

Deductions from employment income

In assessing employment income to tax, the first deduction is in respect of the employee's social security contributions (including the general social contribution – CSG). A second deduction may then be made, of an amount equal to the greater of:

- Actual substantiated expenses and
- 10% of employment income net of social security contributions

The 10% lump-sum deduction has both a minimum (EUR 430 in 2018, relating to 2017 income; a higher minimum is available for those on benefit and unemployed for more than one year) and a maximum (EUR 12 305 in 2018, relating to 2017 income).

Salary withholding tax
As from 1 January 2019, personal income tax from employment income will be withheld by the payer; usually the employer. Until then, unlike the vast majority of European countries, France does not make any deduction in respect of income tax from employee salaries, except for non-resident taxpayers. The only amounts currently withheld from salary are social security contributions (for which see Chapter 9).

Taxation of personal business income & professional income

The law distinguishes between income from a trade or business (*bénéfices industriels et commerciaux*) and income from professional services (*bénéfices non-commerciaux*).

Trade or business income
This category includes the habitual sale and purchase of business undertakings and property dealing, as well as the letting of furnished or business accommodation.

Tax-deductible depreciation may be claimed on all tangible assets that diminish in value over time and on intangible assets such as patents and software. No depreciation is available on trademarks or goodwill.

Depreciation is usually calculated on the straight-line method; other methods, such as the reducing-balance method, and accelerated depreciation are available in certain circumstances. Historical cost is used as the basis for calculating depreciation.

For generally acceptable straight-line rates, see Table 3 in Chapter 6.

Professional income
This category includes income from a liberal profession (e.g. the law, medicine, accountancy, dentistry, architecture), a non-commercial office, such as that of a notary public, and also royalties and share dealing.

In contrast to income from a trade or business, professional income is usually computed on a cash basis, with the option of election for an accruals basis.

Simplified basis of taxation
For both business and professional income, individuals whose turnover falls below the VAT registration threshold (currently EUR 82 800 for trading or letting of furnished accommodation and EUR 33 200 for professional income and the provision of all other services) may opt for a simplified system of taxation.

There are essentially three such systems: the *régime de base* (*micro BIC and micro BNC*), the *micro-social* and the *auto entrepreneur*. Under all three systems, taxpayers pay income tax and/or social security contributions on a percentage of their turnover, instead of on their net profit.

Under the *régime de base*, individuals deriving business income compute their liability to income tax on either 50% or 29% of turnover (equivalent to having deemed deductible expenses of 50% and 71%, respectively). The 50% rate is for service providers and the 29% rate for trading in goods etc (*micro BIC*). Individuals deriving professional income will pay income tax on 66% of their turnover (equivalent to having deemed deductible expenses of 34%) (*micro BNC*). In all cases, this deemed taxable income is added to other income and assessed at progressive rates.

The micro-social régime applies only to the calculation of the individual's social security contributions, which will vary from 14.1% to 24.6% of turnover, depending on the nature of the income (see Chapter 9).

The *auto entrepreneur régime* may only be chosen if the individual has already opted for the *micro-social régime*. Where this is the case, the income tax due is an additional 1% for trades, 1.7% for service providers and 2.2% for professional income. These additional percentages on turnover thus fully satisfy the individual's liability to income tax on business or professional income under the auto entrepreneur régime.

Reliefs
A number of reliefs are available. Start-up businesses engaged in trade and industry qualify for a full exemption from income tax on trading profits for the first two years, and thereafter the exemption tapers off to 75% in year 3, 50% in year 4 and 25% in year 5. Profits are fully taxable from year 6 onwards.

Since 2018, to be eligible for an exemption regime, the start-up must fulfil certain conditions, such as to be an SME, and not be directly or indirectly owned to the extent of more than 5% by other companies etc.

Doctors, young farmers and inventors may qualify for special reliefs.

On the other hand, where the taxpayer does not have his or her accounts drawn up by an official management centre (*Centre de Gestion Agréé*), a 25% mark-up will be applied to the taxable profits. In the case of non-residents, the mark-up is mandatory. This rule has been challenged by the European Commission as being in breach of the freedom of establishment.

Capital gains
Capital gains made in the course of a business are treated differently, according to whether the business is a small enterprise or not, and according to whether the gain is a short-term gain or a long-term gain.

A small enterprise for this purpose is one whose turnover, inclusive of VAT, does not exceed EUR 250 000 (or EUR 90 000 for a business providing services other than the letting of furnished accommodation). Gains made by such businesses are largely exempt from tax. Where VAT-inclusive turnover exceeds these limits but does not exceed EUR 350 000 or EUR 126 000, respectively, capital gains are partly exempt. Where a gain is exempt, the corresponding loss is not recognised.

Where gains are not exempt, short-term gains are included in taxable income and subject to full progressive rates of income tax. Long-term gains, on the other hand, which are gains derived from the alienation of assets held for more than two years, are taxable at a special reduced rate of 12.8% (this rate applies to entities subject to income tax and not to those subject to corporate tax).

Agricultural income
This is taxed on one of three bases, depending on the individual's turnover.

Investment income
Income tax due on investment income is discussed below. In France, it should be noted, social security contributions are also due on investment income: see Chapter 9.

Dividends
Before 2018, dividends from French companies were subject to withholding tax of 21%, but for French-resident taxpayers, this withholding tax was treated as an advance payment of the final tax liability, as the gross amount of the dividend was added to other taxable income subject to progressive rates of tax. However, both domestic dividends and dividends received from treaty-partner countries by a resident benefit from a general 40% exemption, so that only 60% of the gross dividend is taxable.

As from 2018, flat-rate taxation at the single rate of 12.8% is automatically applicable unless the global option for progressive rates of tax is chosen. This regime is called the *Prélèvement Forfaitaire Unique* (PFU) regime.

For dividends payable to non-residents, see under ‘Withholding taxes’ below.

Interest

As with dividends, there is a preliminary withholding tax on most forms of interest payment. Before 2018, the general rate was 24%, unless the interest was paid to an unknown beneficiary (60%) or to a person resident in an NCST (75%).

From 2018, the general flat tax rate of 12.8% applies (PFU) - but the 75% rate still applies to NCST residents.

Some interest, in favoured savings accounts, is exempt from tax.

As from 2018, this withholding tax is final, unless the payers chooses to apply the progressive tax-rate regime.

For interest payable to non-residents, see under ‘Withholding taxes’ below.

Royalties

Royalties relating to patents, know-how and technical processes payable to French-resident taxpayers are generally subject to a final flat rate of income tax of 12.8% on the net income (treated as professional income, net of related expenses), but taxpayers may opt to subject royalty income along with other professional income to general progressive rates of tax, in which case the amount assessed will be reduced by 30% as a lump-sum deduction (plus the 17.2% of social security contributions).

Other types of royalties, such as copyright royalties, are subject to progressive rates without option.

Property rentals

The income from letting unfurnished accommodation or land is taxable on a net basis, after deducting expenditure on repairs, maintenance, improvement, loan interest, remuneration of domestic help and property managers and insurance. Depreciation may also be available.

Where property income does not exceed EUR 15 000, the taxpayer may simply claim a 30% lump-sum deduction from rents. There is no deemed income from owner-occupation.

Private capital gains and losses

Shares

As a general rule, when an individual sells shares, the gain is taxed at the 12.8% rate (PFU).

If the gain is a long-term gain, and if the general progressive rates of tax are chosen (i.e. the asset was held for more than two years), only 50% is assessable if the asset was held for no more than eight years and only 35% is assessable if the asset was held for over eight years. Gains on the disposal of shares forming part of a significant holding, which is one entitling the holder to more than 25% of the profits of the company, benefit under certain conditions from greater reliefs. In determining whether a holding qualifies, shares held by close family members are aggregated.

Capital gains derived from the sale of French shares owned by non-residents are normally tax-exempt unless the holding is significant, as defined above, in which case the gain realised on the sale is subject to a 75% rate for individuals located in non-cooperative states.

Capital gains on the sale of shares in a company more than 50% of whose assets consist of French immovable property are taxable as capital gains from the disposal of immovable property.

Immovable property

Capital gains are taxed at the same rate as ordinary income, but exemptions, deductions and the revaluation of the cost base may considerably reduce the taxable capital gain.

Exemptions include mainly:

- The taxpayer's principal private residence
- Immovable property held for more than 22 years
- Sales of immovable property for less than EUR 15 000

In other cases, the gain is calculated by deducting the acquisition cost and any improvement or extension expenditure from the net disposal proceeds. Lump-sum acquisition expenses of 7.5% of the purchase price and/or lump-sum improvement expenditure equal to 15% of the purchase price may be claimed in some circumstances.

Where the capital gain exceeds EUR 50 000 a surtax of 2% to 6% applies, depending on the amount of the capital gain.

For disposals after 31 August 2014, relief is available if the disposal takes place after a prolonged period of ownership. Thus, for every year of ownership after the fifth and up to and including the 21st, a reduction of 6% may be made, with a 4% reduction for the 22nd and after. As a result, the gain is completely exempt from personal income tax where the disposal takes place after the 22nd anniversary of the acquisition.

For disposals before 1 September 2014, a different scale of relief applied. A reduction of 2% was available for every year of ownership after the fifth and up to and including the 18th; a 4% reduction for every year of ownership after the 18th and up to and including the 24th; and 8% for every year thereafter, so that complete exemption was available after 30 complete years of ownership.

In both cases, relief from social security contributions is available if the disposal takes place after a prolonged period of ownership. For every year of ownership after the fifth and up to and including the 21st , the assessment base of the social security contributions (15.5% until 31 December 2017 and 17.2% as from 1 January 2018) is reduced by 1.65%, by 1.60% for the 22nd year and by 9% for each year after the 22nd year. As a result, complete exemption from the social security contribution element is available after 30 complete years of ownership. Slightly different rules apply to sales of building land.

Other assets

Gains from the disposal of jewellery, works of art, collectors' items and antiques are subject to tax at a rate of 6% to 10% on the sale price.

Gains from the disposal of furniture, household effects and motor cars are exempt.

Gains from the disposal of other assets where the proceeds do not exceed EUR 5000 are also exempt.

In other cases, gains are chargeable at 19%, and relief is generally available at 5% for every year of ownership after the second, so that complete exemption is available after 22 years of ownership.

Non-residents are exempt from capital gains tax on these disposals.

Withholding taxes on the income and gains of non-residents

French or foreign persons not resident in France are liable to French tax on their French-source income only. Such income includes income from immovable property located in France, from portfolio investments in France, from businesses operated in France, from salaried or independent activities in France, from capital gains on property located in France and amounts received from French-source pensions, royalties or remuneration in relation to services given or used in France.

The minimum rate of tax is 20% unless it can be proved that the average tax rate applied to all the non-resident's revenues (wherever arising) would be taxed at a lower overall rate if they were all taxable in France.

Withholding taxes on French income paid to non-resident natural persons are as shown in Table 5 (unless double taxation agreements provide otherwise):

Table 5

Type of income	Provisional or final	Rate of withholding tax
Employment income and pensions[1]:	P[2]	
First 14 605		0
Next 27 765		12
Balance over 42 370		20
Business and professional income	n/a	0
Dividends	F	
Before 1/1/2018		21/30/75[3]
After 31/12/2017		12.8/75[3]
Interest	F	0/75[4]
Royalties	P	33⅓/75[4]
Rental income	n/a	0
Capital gains:	F	
Immovable property[5]		19/75[6]
Substantial shareholdings		12.8[7]/75[4]
Portfolio shareholdings		0/75[4]

Notes

(1) Levied on gross remuneration as reduced by social security contributions and the lump-sum 10% allowance (see under 'Taxation of employment income' above).

(2) Final if taxable income does not exceed EUR 42 370 and the recipient is resident in a treaty-partner jurisdiction

(3) For dividends received before 2018, 21% rate applies in respect of EEA residents; the 75% rate applies where the recipient is resident in an NCST (applies after 2018); the 30% rate applies otherwise

(4) The 75% rate applies where the recipient is resident in an NCST

(5) Includes the sale of shares in property companies

(6) The 19% rate applies to recipients in the European Union; the 75% rate applies where the recipient is resident in an NCST;

(7) Where tax under the progressive scale would exceed the withholding tax, the excess is refunded upon request.

Allowances and deductions

The tax system provides for a large number of allowances, deductions and credits, of which the following are some of the most significant.

- Alimony and child maintenance paid under a court order are fully deductible
- A tax credit of between 10% and 30% of qualifying expenditure may be available for major expenditure up to a certain limit on the taxpayer's principal private residence
- A capped tax credit of 18% may be available for subscribing for shares in a qualifying small or medium-sized enterprise. Credits are also available for investing in certain venture-capital funds
- Child-care expenses qualify for a tax credit of 50% of the expenditure, subject to a maximum credit of EUR 1150 per child. The child must be under six years of age.
- A capped tax credit of 50% of the salary paid to home-helps and domestic staff generally
- An activity premium by way of a tax credit is available for low-income households
- A tax credit for trade-union subscriptions is available, equal to 66% of the subscription, up to a maximum subscription of 1% of salary net of social security contributions
- A tax credit for charitable donations not exceeding 20% of the taxpayer's total income. The amount of credit is 66% of the donation (75% where the donation is made to a humanitarian cause).

The family quotient system

It will be recalled that the taxable incomes of taxpayers living in the same fiscal household (*foyer fiscal*) are aggregated for the purpose of calculating tax payable. First, the taxpayer's gross income subject to progressive rates is determined. This is then reduced by any deductions and losses. This net taxable income is then aggregated with that of others in the fiscal household.

A taxpayer's personal circumstances are taken into account by application of the so-called 'family quotient' (*quotient familial*). The burden of taxation is inversely proportional to the size of the household – the more people in the household, the lighter the burden.

Once the household's net taxable income has been aggregated, the total is divided by the appropriate family quotient, as shown in Table 6.

Table 6

Family circumstances	Family quotient
Single, widowed or divorced; no dependants	1
Single, widowed or divorced with 1 child over 18; single or divorced with 1 child	1.5
Married without children; cohabitees with 2 children	2
Married or widowed, with 1 child	2.5
For each additional child after 3 children	+1

Thus, a married couple living together with three children have a family quotient of (3 +1) = 4. A divorced single parent with two children has a family quotient of 2. However, there is a limitation of the overall relief that the application of the quotient system may provide, which affects those on higher incomes. Once household income exceeds certain maxima, a lower quotient is substituted, but the taxpayer(s) may then claim a fixed deduction from the resulting tax liability.

After division of the aggregated income by the appropriate family quotient, the progressive rate table is applied to the result. The tax thus calculated is finally multiplied by the quotient to arrive at the household's gross tax liability, from which any available credits may be deducted.

Tax rates

Tax rates range from zero (there is a tax-free amount of income) to 45%, as shown in Table 7.

Table 7 – Rates of income tax applicable in 2018 (applied to 2017 income)

Band of income (EUR)	Rate of tax (%)
First 9 807	0
Next 17 279	14.0
Next 45 531	30.0
Next 81 166	41.0
Balance over 153 783	45.0

Returns and payment

All taxpayers subject to income tax must file a return. For residents the due date is generally the last day in May for paper returns and middle or end of June for online returns, but business income need not be declared until the second business day following 1 May or mid-May for online returns.

Assessment based on the tax return is carried out by the tax authorities, who will raise a notice of assessment (*avis d'imposition*).
In principle, final payment of the tax liability must be made on receipt of a demand, which will not be issued until 15 September at the earliest. However, taxpayers are required to make two advance payments, each equal to one-third of the total tax paid in the previous year, no later than 15 February and 15 May. There exists an option for monthly payments by standing order, each equal to one-tenth of the total tax paid in the previous year.

The entry into force of the withholding tax on employment income is set for 1 January 2019. The purpose of withholding tax on employment income is to adapt the tax collection for a year to the real situation of the taxpayer (income, marriage, birth etc). The calculation principles will not change. The goal of this reform is to remove the one-year gap between receipt of the income and the payment of the tax.

Both penalties and late-payment interest may be applied for late filing and for late payment.

Appeals

Where a taxpayer wishes to challenge an assessment, he or she must lodge an appeal in writing with the local tax office (*Centre des finances publiques*) no later than the end of the second year after that to which the assessment relates. The tax office must reply to the appeal within six months. If the taxpayer is dissatisfied with the response, the next stage is to appeal to the local administrative court, and thence to the Administrative Court of Appeal (*Cour Administrative d'Appel*). Appeals relating to the former wealth tax and immovable property wealth tax, indirect taxes or stamp and registration duties lie in the first instance with the High Court (*Tribunal de Grande Instance*). The final court of appeal is the Supreme Administrative Court (*Conseil d'Etat or Cour de Cassation*), which will examine only points of law. Courts may refer questions on European law to the Court of Justice of the European Union.

Special expatriate tax regime

France has a favourable personal income tax regime for incoming expatriates. It is only applicable for natural persons who have not been resident in France for tax purposes at any time within a period of five years before beginning their activity in France. There are some other requirements that have to be fulfilled in order to exempt a specific part of their income (the so-called 'impatriation premium') from French personal income tax.

Business tax

Business tax is a local tax payable by all businesses, corporate and unincorporated. For details, see Chapter 6.

Inheritance and gift taxes

Scope and extent

The tax on inheritances and gifts is charged on the transferee. However, the scope of the tax depends mostly on the residence status of the transferor. Provided both parties agree, it is possible for the transferor to bear the tax. This has no consequences for gift tax, but for the purposes of inheritance tax, this assumption of liability is itself a taxable gift.

In the case of inheritance tax, if the transferor (the deceased) was resident in France at the time of death, inheritance tax is due on the deceased's total estate, whether located in France or abroad, subject to double taxation agreements. If the transferor was non-resident, it is all property, movable or immovable, situated in France that is liable to the tax. Shares of French companies are considered to be situated in France. However, even where the transferor is non-resident in France, the tax applies to all property, wherever situated, if the transferee has been resident in France for six or more years out of the ten years immediately preceding the year in which the transfer takes place.

The same rules apply to gift tax on inter vivos gifts, although the latter are taxable only if evidenced by deed (see below). Gifts made within 15 years of death are accumulated in the estate at death.

Exemptions and reliefs

Exempt assets

The most important exempt asset is the proceeds of life policies.

Exempt transfers

Transfers on death between spouses and members of a civil partnership (*pacte civil de solidarité*) are wholly exempt. For lifetime gifts, see under 'Personal allowances' below.

The transfer of shares in a company or assets in a business enjoy an exemption of 75% of the value transferred on condition that the transferee(s) keep the shares or assets for at least two years and that the transferee or at least one of the transferees takes over the running of the business.

Dons manuels

For gift tax only, any gift that can be transferred 'by hand' (*don manuel*), i.e. without the need for a deed, is exempt from tax, except where the value of the gift is considered to be excessive in the circumstances.

Personal allowances

A number of allowances are available for transfers between family members and in other circumstances; see Table 8.

Table 8

Relationship to transferee	Transfers on death	Lifetime transfers	Amount of allowance (EUR)
Spouse or civil partner	Exempt	Yes	80 724
Direct descendant	Yes	Yes	100 000
Direct forebear	Yes	Yes	100 000
Siblings	Yes	Yes	15 932
Nephews and nieces	Yes	Yes	7967
Direct grandchildren[1]	No	Yes	31 865[2]
Employees (transfer of business)	Yes	Yes	300 000

Notes

1 Available for gifts to nephews and nieces also, if there are no direct descendants

2 May be cumulated with other reliefs

The allowances are available only once in any 15-year period. Other allowances may be available in special circumstances.

Rates of tax

The rates of inheritance and gift tax are identical and depend on both the amount transferred and the degree of consanguinity between the transferor and the transferee.

Table 9 – Gifts between spouses and civil partners

Amount transferred (EUR)[1]	Rate of tax (%)
First 8072	5
Next 7 860 (between 8072 and 15 932)	10
Next 15 933 (between 15 932 and 31 865)	15
Next 520 459 (between 31 865 and 552 324)	20
Next 350 514 (between 552 324 and 902 838	30
Next 902 839 (between 902 838 and 1 805 677)	40
Balance over 1 805 677	45

Table 10 – Transfers in the direct line

Amount transferred (EUR)[1]	Rate of tax (%)
First 8072	5
Next 4037 (between 8072 and 12 109)	10
Next 3 823 (between 12 109 and 15 932)	15
Next 536 392 (between 15 932 and 552 324)	20
Next 350 514 (between 552 324 and 902 838)	30
Next 902 839 (between 902 838 and 1 805 677)	40
Balance over 1 805 677	45

Table 11 – Transfers between siblings

Amount transferred (EUR)[1]	Rate of tax (%)
First 24 430	35
Balance over 24 430	45

Table 12 – Other transfers

Amount transferred (EUR)[1]	Rate of tax (%)
Other relatives to the 4th degree	55
Remoter relatives and unrelated parties	60

Returns and payment

The tax must normally be paid in full before the inheritance or gift can be officially registered. However, it is possible to pay inheritance tax and gift tax (in that case, for transfers of a business only) in instalments over five or in some cases, ten, years. Guarantees must be given and statutory interest is charged.

Wealth tax

Extent and scope

The former general wealth tax (*impôt de solidarité sur la fortune*) was replaced with effect from 1 January 2018 by a wealth tax limited to holdings of immovable property (*Impôt sur la Fortune immobilière*, also called "IFI"), which, like income tax, is assessed on the fiscal household as a whole, rather than on individuals separately. Where a couple live together but outside a marriage or civil partnership, they are treated as if they were married or civil partners for the purposes of wealth tax.

French residents are taxed on their worldwide assets; non-residents on their assets located in France only. Immigrants (individuals who, in the year they become resident in France, have been continuously non-resident for the preceding five years) are, however, taxable only on their French-situs assets for the first five years.

Assets must be declared at their value on 1 January in the tax year.

Exemptions and reliefs

Where taxable assets do not exceed EUR 1 300 000, there is full exemption from the tax.

For wealth of over EUR 1.3 million, the rates of tax are as shown in Table 13.

Table 13

Net taxable asset value (EUR)	Rate of tax (%)
First 800 000	0
Next 500 000	0.50
Next 1 270 000[1]	0.70
Next 2 430 000	1.00
Next 5 000 000	1.25
Balance over 10 000 000	1.50

Note

[1] A discount is available where net taxable asset value falls between EUR 1.3 million and EUR 1.4 million

Returns and payment

Where the taxpayer's net holdings of immovable property equal or exceed EUR 1.3 million, assets must be declared on a special wealth tax return. The IFI is paid by assessment, separately from income tax.

8. Other taxes

Property taxes

Property tax

Local authorities impose an annual property tax (*taxe foncière*) on the owners of both developed and undeveloped immovable property located in their area on 1 January. The property is valued for this purpose at 50% of a notional rental value, to which coefficients are then applied. The applicable rate is set by the local authority.

Newly developed properties may benefit from an exemption for the first two years.

Residence tax

In addition to the property tax, a residence or dwelling tax (*taxe d'habitation*) is charged on the occupier as at 1 January of a dwelling. It applies to homes and outbuildings (gardens, garages, private parking places.). The applicable tax rate is set by the local authority.

Registration duties

Immovable property

Registration duty at a standard rate of 5.09% of the purchase price is payable by the purchaser of immovable property. However, the tax is 5.80% in most of the *départements*.

No registration duty is payable if the transaction is subject to VAT, however, with the exception of the *taxe de publicité foncière* of 0.715%.

Shares

The transfer of shares in an unquoted SA or SAS is subject to registration duty of 0.1%. The transfer of quoted shares is exempt if not formalised in a written document.

The transfer of shares in an SARL, SNC, SCS and SC is subject to a 3% transfer tax on the sale price or value after a rebate corresponding to the ratio of the number of shares transferred to EUR 23 000.

The transfer of shares in an unquoted property company is subject to a 5% duty.

Unincorporated businesses

When an unincorporated business is sold as a going concern (*fonds de commerce*), there is no registration duty if the sale price is below EUR 23 000. Where the sale price falls between EUR 23 000 and EUR 200 000, the rate of duty is 3% on the entire amount, and if the price exceeds EUR 200 000, the duty is 5% on the entire amount. The duty is payable by the purchaser.

Other

For transfers of intangible property, such as goodwill, there is no duty if the price is below EUR 23 000. Where the price is greater than EUR 23 000, the rate of duty is 3% on the amount up to EUR 200 000 and 5% on any excess.

There are special registration duties applicable to companies. They are liable to registration taxes on incorporation, the occurrence of certain events during their lifetime, in the event of dissolution and on transfers of shares.

Stamp duties

Stamp duties have to be paid in order to obtain administrative documents, for example residence permits or registration certificates for cars.

9. Social security contributions

Employers and employees

Introduction

The French social security system comprises four types of coverage:

- Health insurance (health, hospitalisation, disability and death)
- Old-age pension insurance
- Family allowances
- Occupational accidents and injuries

This is complemented by compulsory systems of unemployment insurance and supplementary pension plans.

Health and pension insurance requires contributions from both employers and employees, whereas family allowances and occupational-accident insurance are entirely funded from employer contributions.

Health and retirement benefits are more generous than those available to employees in many other developed countries.

In 2018 employer contributions amount on average to 45% of gross payroll, while the employee's share is on average 23% of gross pay. Social contributions are much lower on low salaries.

The employer is also free to choose complementary insurance, depending on the status of his staff.

The following employee and employer rates are those enacted for 2018. For monthly salaries exceeding EUR 3311, different rates and additional contributions may apply.

Employers

Table 14 – Social security contributions split 2018 (%)

Type of contribution	Employee	Employer	Total	Ceiling
Health insurance	0.00	13.00	13.00	None
Pension	6.90(1)	8.55(2)	15.45	3311
Family allowance	0.00	3.45	3.45	None
Complementary family allowance for wages exceeding 1.6 times the minimum wage	0.00	5.25	5.25	None
Work accident insurance	Variable	Variable	Variable	None
Transport contribution	Variable	Variable	Variable	None
Housing aid	0.00	0.10	0.10	3311
Additional housing aid (>20 employees)	0.00	0.50	0.50	None
Compulsory care insurance	0.00	0.15	0.15	13 244
Unemployment insurance	0.95	4.05	5.00	13 244
Supplementary pension (white collar): Retirement element Death element	 3.10(3) 0.00	 4.65(3) 1.50	 7.75(3) 1.50	See Table 16
Supplementary pension (blue collar)	3.10(3)	4.65(3)	7.75(3)	See Table 16
Union contribution	0.016%	0.016%	0.016%	None
Autonomy solidarity contribution		0.30%	0.30%	None

Note

(1) The 6.9% rate applies to the first EUR 3311 only; there is an additional 0.4% on total earnings

(2) The 8.55% rate applies to the first EUR 3311 only; there is an additional 1.9% on total earnings

(3) Minimum rate on lowest salary band. See Table 16.

Additional charges on the employer

In addition, some other taxes and contributions are payable by employers annually, also by reference to gross employee salaries, as shown in Table 15.

Table 15

Construction levy (*participation obligatoire des employeurs à l'effort de construction*)	0.45% on total salary (only companies with fewer than 20 employees)
Apprenticeship tax (*taxe d'apprentissage*)	0.68% on total salary[1]
Continuous vocational training contribution (*participation à la formation continue*)	0.55% on total salary (< 10 employees) 1.00% on total salary[2] (10-19 employees) 1.00% on total salary[2] (> 20 employees)

Notes

(1) Should a company employ fewer apprentices than the statutory minimum, an additional contribution may be due (applicable only to companies with more than 250 employees).

(2) If a company exceeds the 10 or 20-employee mark for the first time, lower percentages may apply.

However, companies are allowed to impute certain expenses against the apprenticeship tax and professional training contribution obligation.

Relief from social security contributions

Employers of all sizes and in all industries are entitled to reductions in social security contributions on low salaries. The reductions are calculated on the basis of the hourly wage rate per employee and per month. The reduction is applicable to all employees whose salary is less than 1.6 times the minimum wage (SMIC). In 2018, the minimum monthly wage is EUR 1498.47.

The relief can represent up to 28% of gross wages for an employee earning the statutory minimum wage. Average charges to employers for minimum wages are between 17% and 19%, depending on the size of the business. Overtime hours are integrated in order to calculate this reduction.

In addition, for every overtime hour the law allows a reduction of social security contributions. This reduction only applies to companies with fewer than 20 employees. The reductions for overtime hours may be combined with the aforementioned reduction for low wages.

Employees

Employees' social security contributions are withheld from salary by the employer.

Table 16 Pension contributions per salary band (2018) (%)

Salary band (monthly)	Employee			Employer			Total
	Standard	AGFF[(1)]	Total	Standard	AGFF[(1)]	Total	
White-collar	-	-	-	-	-	-	-
First EUR 3311	3.10	0.00	3.10	4.65	0.00	4.65	7.75
Next EUR 23 177[(2)]	7.80	0.90	8.70	12.75	1.30	14.05	22.75
Blue-collar	-	-	-	-	-	-	-
First EUR 3311	3.10	0.80	3.90	4.65	1.20	5.85	9.75
Next EUR 6622[(3)]	8.10	0.90	0	12.15	1.30	13.45	22.45

Note

(1) The AGFF contribution does not count towards pension entitlement

(2) Ceiling on contributions: EUR 26 488

(3) Ceiling on contributions: EUR 9933

The self-employed

The self-employed are not contributors to the social security system but must take out private insurance.

Special social security contributions

There are three further types of special social security contribution – the general social contribution (*contribution sociale génerale* – CSG); the contribution towards reimbursement of the social debt burden (*contribution au remboursement de la dette sociale* – CRDS); and the social levy (*prélèvement social*), payable by all taxpayers who are natural persons, on both earned and investment income and on capital gains.

In the case of employees, the CSG charge on employment income is retained by the employer from the employee's remuneration. Whereas CSG rates vary according to the type of income, CRDS is charged at a uniform rate of 0.5% on income and gains. However, whereas income and gains that are exempt from income tax are also exempt from CSG and the social levy, CRDS also applies to income and gains that are exempt from tax, such as the proceeds of sale of works of art.

The social levy, which is the most recent of these special social security contributions, is charged at a uniform rate of 4.5%.

Non-residents

Non-residents are largely exempt from all three special contributions, except with respect to their French immovable property. Both non-residents' rental income from and capital gains on the disposal of French immovable property are subject to all three charges, amounting in total to 17.2% of the income or capital gain (for social security contributions).

In 2016 and 2017, the aggregate amount of all three special contributions was 15.5% of the income or capital gains. These levies were first imposed on non-residents in 2013. However, following the de Ruyter judgment of the Court of Justice of the European Union, which ruled that the levies were unlawful if imposed on persons who were subject to the social security system of another Member State, the French authorities announced that they would honour repayment claims from qualifying EEA and Swiss nationals in respect of the unlawfully paid contributions, except for the 2% element attributable to the solidarity levy, which they maintain was never used to finance the social security system. Repayment claims in respect of the 13.5% must be made before the end of the second calendar year after the year to which the levies relate. Repayment claims in respect of contributions paid in 2015 are therefore already out of time; claims in respect of contributions paid in 2016 must be made by 31 December 2018 and in respect of 2017 by 31 December 2019. Third-country nationals are not entitled to make repayment claims.

As from 1 January 2016, these levies have been recategorised as taxes, no part of which is applied to finance the social security system, so they are again payable by all non-residents.

However, cases challenging this recategorisation are currently before the courts in France and may eventually result in another CJEU judgment.

Table 17 shows the cumulative effect of these special social security contributions on income of various descriptions.

Table 17 Rates of special social security contributions on income and gains applicable in 2018

Type of income	CSG rate (%)	CRDS rate (%)	Social levy rate (%)[4]	Social levy rate (%)	Total (%)
Employment income	9.2[1]	0.5[2]	4.8	-	14.8[3]
Pensions & pre-retirement income[5]	8.3[6]	0.5	4.8	-	13.9
Pre-retirement income[7]	9.2[8]	0.5	4.8	-	14.8
Unemployment benefit & sick pay	6.2[9]	0.5	4.8	-	13.5
All other earned income	9.2	0.5	4.8	-	15.5
Rental & investment income	9.9	0.5	4.8	2.0	17.2
Capital gains	9.2	0.5	4.8	2.0	17.2

Notes

(1) Levied on 98.25% of gross income; the effective rate is therefore 9.039% if gross income does not exceed EUR 158 928

(2) Levied on 98.25% of gross income; the effective rate is therefore 0.49125% if gross income does not exceed EUR 158 928

(3) The effective total rate is 14.33025%

(4) Consists of the social levy of 4.5% and an additional contribution of 0.3%

(5) If the pre-retirement took place before 12 October 2007

(6) 5.9% of the CSG is deductible from income tax

(7) If the pre-retirement took place after 11 October 2007

(8) 6.8% of the CSG is deductible from income tax

(9) 3.8% of the CSG is deductible from income tax

10. Moore Stephens in France

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Appendix 1: Double tax treaties

Comprehensive double tax treaties

France has comprehensive double tax treaties with the following countries:

Albania	India	Oman
Algeria	Indonesia	Pakistan
Argentina	Iran	Panama
Armenia(1)	Ireland	Philippines
Australia	Israel	Poland
Austria	Italy	Portugal
Azerbaijan	Ivory Coast	Qatar
Bahrain	Jamaica	Québec(4)
Bangladesh	Japan	Romania
Belarus(1)	Jordan	Russia
Belgium	Kazakhstan	Saudi Arabia
Benin	Kenya	Senegal
Bolivia	Korea	Serbia(2)
Bosnia Herzegovina(2)	Kuwait	Singapore
Botswana	Kyrgyzstan(1)	St Pierre et Miquelon
Brazil	Latvia	Sint Maarten
Bulgaria	Lebanon	Slovakia
Burkina Faso	Libya	Slovenia
Cameroon	Lithuania	South Africa
Canada	Luxembourg	Spain
Central African Republic	Macedonia(2)	Sri Lanka
Chile	Madagascar	Sweden
China	Malawi(3)	Switzerland
Congo (Republic of)	Malaysia	Syria
Croatia	Mali	Taiwan
Cyprus	Malta	Tajikistan(1)
Czech Republic	Mauritania	Thailand
Ecuador	Mauritius	Togo
Egypt	Mayotte	Trinidad and Tobago
Estonia	Mexico	Tunisia
Ethiopia	Moldova(1)	Turkey
Finland	Monaco(4)	Turkmenistan(1)
French Polynesia(4)	Mongolia	Ukraine
Gabon	Montenegro(2)	United Arab Emirates
Georgia	Morocco	United Kingdom
Germany	Namibia	United States
Ghana	Netherlands	Uzbekistan
Greece	New Caledonia	Venezuela
Guinea	New Zealand	Vietnam
Hong Kong	Niger	Zambia(3)
Hungary	Nigeria	Zimbabwe
Iceland	Norway	

(1) The treaty concluded with the former USSR applies
(2) The treaty concluded with the former Socialist Federal Republic of Yugoslavia applies
(3) The treaty concluded in 1950 with the United Kingdom applies
(4) Limited scope of application

A treaty has been signed with Colombia but it is not yet in force.

Treaty withholding rates

Withholding rates – Dividends			
	Withholding rate in %		
Location of recipient	Individuals	Companies	Notes
Australia	15	15[3]	(1) 0% if the recipient company owns at least 10% of the French company's capital. (2) 10% if the recipient company owns at least 10% of the French company's capital. (3) 5% if the recipient owns at least 10% of the French company's capital. (4) 15% if distribution through a French partnership subject to French corporate income tax. (5) 15% if the recipient owns at least 25% of the French company's capital. (6) 10% if the Irish company has owned at least 50% of the capital of the French company for 1 year. 0% under Parent-Subsidiary EU-Directive. (7) 5% if the recipient company owns at least 15% of the French company's capital. (8) 5% if the recipient owns at least 25% of the French company's capital, 25% if the recipient is a "Luxembourg holding". 0% under Parent-Subsidiary EU-Directive. (9) Exemption for dividends taxed in Morocco. (10) 10% if the recipient company owns at least 10% of the capital and voting rights of the French company. (11) 0% under Parent-Subsidiary EU-Directive. (12) 0% if the recipient company owns at least 15% of the French company's capital. (13) 0% if the recipient company owns at least 10% of the French company's capital, except for CFC regimes.
Austria	15	15[1]	
Belgium	15	15[2] [11]	
Canada	15	15[3]	
Egypt	0	0	
Finland	0	0	
Germany	15[4]	15[1] [4]	
Greece	25	25[11]	
India	15	15	
Iran	20	20[5]	
Ireland	15	15[6]	
Italy	15	15[3] [11]	
Japan	10	15[3] [12]	
Kuwait	0	0	
Lebanon	0	0	
Luxembourg	15	15-25[8]	
Malaysia	15	15[3]	
Morocco	15[9]	15[9]	
Netherlands	15	15[8] [11]	
New Zealand	15	15	
Norway	15	15[1]	
Philippines	15	15[10]	
Portugal	15	15[11]	
Saudi Arabia	0	0	
Singapore	15	15[2]	
Spain	15	15[1] [11]	
Sweden	15	15[1]	
Switzerland	15	15[13]	
United Kingdom	15	15[1] [11]	
United States	15	15[3]	

Withholding rates – Interest and Royalties

Location of recipient	Interest on non-negotiable debts Rates in %[1]	Royalties Rates in %
Australia	10	5
Austria	0	0
Belgium	15[2]	0
Canada	10[3]	10[a]
Egypt	15[3]	10-15
Finland	0/10[3]	0
Germany	0	0
Greece	10	5
India	10(3)	0
Iran	15	0-10[b]
Ireland	0	0
Italy	10[3]	5[a]
Japan	10[3]	0
Kuwait	0	0
Lebanon	0	33⅓
Luxembourg	10	10[f]
Malaysia	15[2]	10[c]
Morocco	10 or 15	5-10[d]
Netherlands	10[3]	0
New Zealand	10[3]	10
Norway	0	0
Philippines	15	15
Portugal	12[2]	5
Saudi Arabia	0	0
Singapore	10	0[e]
Spain	10[3]	0-5
Sweden	0	0
Switzerland	0	5[g]
United Kingdom	0	0
United States	0 or 15	0

Notes

Notes on interest:

(1) Nil for interest on term loans incurred abroad by French companies with Treasury authorisation; nil for interest on bonds and other negotiable debts issued by the French government or issued abroad by French companies after 1 January 1987.

(2) Rate limited to 10% on interest on loans contracted by French companies with foreign financial establishments in order to finance their investments.

(3) Cancelled or reduced in cases specified by the agreement.

Notes on Royalties:

(a) Cancelled in cases specified by treaty

(b) Nil on copyright royalties or film rentals if the recipient is an Iranian public entity

(c) 33⅓% on TV and radio records and films

(d) 5% on copyright other than films

(e) 33⅓% on copyright

(f) 33⅓% in case of holdings

(g) Anti-abuse rule

Double tax treaties: air transport and shipping

France has double tax treaties with the following jurisdictions covering profits from air transport, or from shipping and air transport, only.

Colombia[1]	Isle of Man[1]	Jersey[2]

[1] Air only

[2] Sea and air

Double taxation treaties: estates, gifts and inheritances

France has agreements covering taxes on estates, gifts and inheritances with the following countries:

Austria	Italy	Qatar[1]
Bahrain[1]	Ivory Coast[1]	St Pierre et Miquelon[1]
Belgium[1]	Kuwait[1]	Saudi Arabia[1]
Benin[1]	Lebanon[1]	Senegal
Burkina Faso[1]	Mali[1]	Spain[1]
Cameroon[1]	Mauritania[1]	Sweden
Canada	Mayotte[1]	Switzerland[1]
Central African Republic[1]	Monaco[1]	Togo[1]
Congo (Republic of)[1]	Morocco[1]	Tunisia[1]
Finland[1]	New Caledonia[1]	United Arab Emirates[1]
Gabon[1]	Niger[1]	United Kingdom[1]
Germany	Oman[1]	United States of America
Guinea	Portugal	

[1] These treaties cover inheritances only.

Agreements on mutual administrative assistance

Within the European Union, administrative assistance in respect of direct taxes is guaranteed under EU Directive 2010/24/EU, as amended by Directive 2014/107/EU. As regards VAT, administrative assistance is governed by Council Regulation (EU) No 904/2010, as amended by Regulation (EU) No 517/2013. Several of France's double tax treaties also contain provisions for mutual administrative assistance.

With respect to information exchange, France is a signatory to the OECD Convention on Mutual Administrative Assistance in Tax Matters and Protocol. It also has separate tax-information exchange agreements with the following countries outside the European Union:

Andorra	Curaçao[1]	St Christopher and Nevis
Anguilla	Costa Rica	St. Lucia
Antigua and Barbuda	Dominica	St Vincent and the Grenadines
Bahamas	Gibraltar	San Marino
Bahrain	Grenada	Sint Maarten[1]
Belize	Guernsey	Turks and Caicos Islands
Bermuda	Isle of Man	Uruguay
British Virgin Islands	Jersey	Vanuatu
Cayman Islands	Liberia	
Cook Islands	Liechtenstein	

[1] The agreement signed with the former Netherlands Antilles

Social security agreements

The interaction of national social security systems within the European Economic Area is governed by EU Regulations Nos 883/04 and 987/09, as amended by Regulation (EU) No 465/12, which also extend, by agreement (and with some differences), to Switzerland. France has pre-existing bilateral agreements with some of these states. These have largely been superseded by the EU Regulations, but may be applied where, occasionally, they give a more beneficial result. The following non-EEA jurisdictions have social security agreements with France, the terms of which differ from case to case.

Algeria	Guernsey	Montenegro[1]
Andorra	India	Morocco
Argentina	Israel	New Caledonia
Benin	Ivory Coast	Niger
Bosnia Herzegovina[1]	Japan	Philippines
Cameroon	Jersey	Québec
Canada	Korea	San Marino
Cape Verde	Macedonia[1]	Senegal
Chad	Madagascar	Serbia[1]
Chile	Mali	Tunisia
Congo (Republic of)	Mauritania	Turkey
French Polynesia	Mayotte	United States

[1] The agreement concluded with the former Socialist Federal Republic of Yugoslavia applies

Appendix 2: Moore Stephens around the world

Moore Stephens member firms may be found in 106 countries and territories around the world, with correspondent firms in another ten.

Albania	Ecuador	Liechtenstein*	Saudi Arabia
Argentina	Egypt	Lithuania	Serbia
Australia	El Salvador*	Luxembourg	Seychelles
Austria	Finland	Macedonia	Sierra Leone
Azerbaijan	France	Malaysia	Singapore
Bahamas	Germany	Malta	Slovakia
Bahrain	Ghana*	Mauritius	South Africa
Bangladesh	Gibraltar	Mexico	South Korea
Belgium	Greece	Moldova	Spain
Belize	Guatemala	Monaco	Sri Lanka*
Bermuda	Guernsey	Mongolia*	Suriname
Bolivia	Honduras	Morocco	Sweden
Brazil	Hong Kong	Nepal*	Switzerland
British Virgin Islands	Hungary	Netherlands	Taiwan
Bulgaria	India	New Zealand	Tajikistan*
Burundi	Indonesia	Nicaragua	Thailand
Cambodia*	Iraq	Nigeria	Tunisia
Canada	Ireland	Norway	Turkey
Cayman Islands	Isle of Man	Oman	Uganda
Chile	Israel	Pakistan	Ukraine
China	Italy	Panama*	United Arab Emirates
Colombia	Japan	Paraguay	United Kingdom
DR Congo	Jersey	Peru	United States
Costa Rica	Jordan	Philippines	Uruguay
Croatia	Kazakhstan	Poland	Venezuela
Cyprus	Kenya	Portugal	Vietnam
Czech Republic	Kuwait	Qatar	Yemen
Denmark	Latvia	Romania	Zambia
Dominican Republic	Lebanon	Russia	Zimbabwe*

*denotes a correspondent firm only

For more detail, see **www.moorestephens.com** under ‘Locations’.

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