

Doing Business in France

A Business and Taxation Guide



Preface

This document has been drawn up by COFFRA as a guide for managers of foreign corporations interested in developing their business activities in France. It provides a wealth of information ranging from the regulation of foreign investment to the creation and running of a business organisation in France, from an overview of current accountancy rules and labour laws to a cursory glance at portfolio investment opportunities for foreigners...

It should be emphasised, however, that the aim of this guide is merely to provide a general introduction to the business environment in France. It should not be acted upon without further, more detailed advice tailored to your particular objectives and situation.

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1. FRANCE: GENERAL BACKGROUND INFORMATION

a. Geography and population

Metropolitan France is one of the largest countries in Europe with a total area of some 544,000 sq. km and 3,805km 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 (973km), west to east (945km), and northwest to southeast (1,082km).

It borders on Belgium, Luxembourg, Germany, Switzerland, Italy, Monaco, Andorra and Spain. The English Channel and the North Sea lie to the north, the Atlantic to the west and the Mediterranean to the south.

The French Republic comprises Metropolitan France (continental France and Corsica), 4 overseas *départements* (*Guadeloupe*, *Guyana*, *Martinique* and *Réunion*, each equal members of a single region since 1982), 4 overseas territories granted special status (Wallis and Fortuna Isles, New Caledonia and Dependencies, French Polynesia, and the French Southern and Antarctic Territories), and 2 autonomous regions (*Mayotte* and *Saint-Pierre-and-Miquelon*).

In 2009, the population of France was estimated at 62.3 million. Four urban communities had more than one and half million inhabitants: Paris (11.8), Lille (1.9), Lyon (1.8) and Marseille (1.6).

With people living longer, the population is gradually growing older; people aged 65 or more now account for 16.3% of the population, whereas the proportion of under-twenties is steadily decreasing. Median age was 39.9 years in 2010

The national language of France is French. The business community is used to communicating in English.

Most individuals in France are Roman Catholics.

b. Constitution and government

The Constitution of 4th 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 28th October 1962 by a referendum. The incumbent head of state, François

Hollande, was elected seventh President of the Fifth Republic on 6th May 2012.

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.. Jean-Marc Ayrault has been appointed Prime Minister on 15th May 2012.

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 2008.
- The National Assembly, whose members (*députés*) are elected by direct universal suffrage for a five-year term; the most recent general election was organised in June 2012.

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.

c. The French economy

France is the world's fifth largest economic power in terms of gross domestic product (GDP), which amounted to EUR 1,995 billion in 2011, representing growth of 0.6% over the previous year.

The inflation rate is low at around 2.3% p.a. (2011).

In 2012 France had a total labour force of some 25.8 million including 12 million women. The unemployment rate is approximately 10%.

d. Currency, time zone, weights and measures

On 1st 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 (Gramm and Kilogram) and measures (Meters) and de degrees Celsius for temperatures.

e. Foreign investment in France: key figures

In 2007, while total French exports amounted to EUR 502 billion and imports stood at EUR 538 billion, foreign direct investment (FDI) flows reached a record of EUR 1,833 billion, representing an increase of 30% over 2006 and even breaking the previous record achieved in 2000. This puts France in 3rd position worldwide for outbound investments after the USA and the UK, and fifth for inbound investments behind the USA, the UK, Germany and China.

More than one million businesses have been set up over the past 5 years, equivalent to the creation of 550 new companies every day. France boasts a total of 20,000 subsidiaries of international companies operating in various business sectors.

In 2011, the major countries investing in France were the USA, Germany, Sweden, the UK and Japan. The USA was the largest single source of investment projects in France during the year. Germany came second, followed by the United Kingdom. The most popular host regions for foreign direct investment in 2005 were the Paris metropolitan area (*Ile de France*), the Lyon metropolitan area (*Rhône-Alpes*), northern France (*Nord-Pas de Calais*) and the south-west (*Midi Pyrénées*).

A survey published in 2005 ranked France third in terms of total cost for starting business operations in an industrialised country. In the same year, Paris was rated first in a survey of 500 company directors for the best city in Europe for setting up operations.

In a national effort, France strives 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 Community, which also provides subsidies (see Section 2 c.).

Many countries, including EU members and most OECD countries, have signed Social Security agreements that enable foreign employees to continue paying their social 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.

e. The French legal system

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. 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, 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'État* is the supreme administrative court and court of final appeal on the legality of administrative acts. It advises the government on draft legislation.

2. PREPARING BUSINESS OPERATIONS IN FRANCE

a. 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 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.

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). The transfer of funds relating to such investment operations must be handled by an authorised intermediary (*intermédiaire agréé*); this is usually a bank.

b. 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 relatively rare, unless specific circumstances make it convenient.

- *Companies*

Under French company law, primary use is made of limited liability companies. Partnerships are possible, but rarely used.

Joint-stock company (*société anonyme* or SA)

A joint-stock company must have a minimum capital of EUR 37,000 if shares are not offered to the public and EUR 225,000 if shares are offered to the public. The minimum number of shareholders required is seven; shareholders are liable to the extent of their contribution.

Unless the company is of particular interest to the State, there are no nationality or residence requirements for directors.

The General Manager must, however, be a natural person and, where such an individual is not an EU national, he must have a business permit (*carte de commerçant*) issued by the *préfecture* of the district. No business permit is required if he has a residence permit (*carte de séjour*).

A 3% registration tax is due on the portion of the price of the sold shares' below 200,000 EUR, 0.5% on the portion from 200,000 EUR to 500 Million EUR and 0.25% above - irrespective of whether the transfer of shares is specified in a written document (listed companies) or not stated in a deed (non-listed companies).

Limited-liability company (*société à responsabilité limitée* or SARL)

A limited-liability company shares features associated with a partnership and a corporation. The minimum capital required is EUR 1, but it is recommended to have a higher minimum capital. There can be no public subscription of shares. The minimum number of "partners" is two – except in a one-partner SARL, which is called a EURL – and the maximum is 50.

A 3% registration tax is due on the sale price paid by the buyer, if it exceeds an amount computed as the number of share sold divided by the total number of shares multiplied by EUR 23,000. Any transfers to a third party are subject to prior approval by a majority of partners holding three-quarters of the share capital.

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

A simplified joint-stock company could be created with a share capital of EUR 1, but a higher minimum capital is recommended. One shareholder (natural person or legal entity) suffices to incorporate an SAS, which is then known as a SASU.

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

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 adapted to a highly competitive and evolving business arena.

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.

General partnership (*société en nom collectif* or SNC)

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 vehicles.

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.

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 US or in the UK) to deduct the losses incurred in France.

- *Other possible legal vehicles*

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 group (*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 is typically the French branch of a foreign company. The organiser of the liaison office has to complete all the formalities required to open a branch in France.

Headquarters

Like 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, co-ordination 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 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.

c. Government incentives

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.

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.

- *Direct subsidies*

Funding is provided by central government and by local authorities (*région, département*, 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 before October 31st 2013.

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 were 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 1.5 billion over 5 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.

- *Tax incentives*

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

Temporary business tax (*taxe professionnelle*) exemptions

In certain areas, local communities (municipalities, departments, regions, and groupings of local communities that have their own tax system) 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 5 years; it may, however, last less.

Temporary corporate tax exemption

■ 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 settled 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 taxation for one quarter, one half or three quarters of their amount depending on whether they have been achieved 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 capital stock is held by other companies.

What is more, companies that benefit from the corporate tax exemption can also enjoy a 2-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-months corporate tax exemption.

The buyers must not have held, either directly or indirectly, more than half of the troubled company's capital stock during the year preceding the take-over. They may also, subject to the deliberations of local communities, benefit from business tax and property tax exemptions.

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

If the business and jobs are not maintained for at least 3 years, all tax benefits are cancelled.

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 where research spending accounts for at least 15% of total expenses. They provide for partial exemption from corporate income tax, local business tax and property tax over a period of eight years.

3. SETTING UP AND RUNNING A COMPANY

a. Principal types of company

- *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 or, if shares are to be offered to the public, EUR 225,000.

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.

Intangible contributions (goodwill) are subject to a registration tax of 3% for the portion of the contribution between EUR 23,000 and 200,000 and 5% on the excess. Most other contributions exceeding EUR 23,000 made by non-corporate persons are subject to a registration tax of 5% unless the shares are kept for at least 3 years.

A 3% registration tax is due on the portion of the price of the sold shares below 200,000 EUR, 0.5% on the portion from 200,000 EUR to 500 Million EUR and 0.25% above - irrespective of whether the transfer of shares is specified in a written document (listed companies) or not stated in a deed (non-listed companies).

Management

An SA may be managed by a Board of Directors (*Conseil d'Administration*) and a General Manager (*Directeur général*), or by a Supervisory Board (*Conseil de Surveillance*) and a Directorate

(*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 Directorate and controls them.

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

Members of the Board and members of the Directorate are liable for mismanagement and negligence. The General Manager and the Directorate both represent the corporation *vis-à-vis* third parties, and no limitation of their powers is binding upon third parties.

Board members cannot become company employees, but existing employees may be elected to the Board provided that not more than one third are employees. All members of the Directorate may be employees.

Shareholders' meetings

Within six months of the end of each financial year, a shareholders' meeting must be called to approve the yearly 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 Directors or members of the 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 corporate purpose, to merge, to dissolve the corporation, 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.

- Limited-liability Company (SARL)

Setting up

A SARL may have a minimum of one member (EURL) and a maximum of 50, 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 7,500 is still generally recommended; this must be fully subscribed and paid in if in kind, or one fifth if paid in cash at the time of foundation.

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

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

SARL registration taxes are 3% on the sale price paid by the buyer, if it exceeds an amount computed as the number of shares sold divided by the total number of shares multiplied by EUR 23,000. Legal costs are similar as for an SA. The same time is required for formation.

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

Management

A 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 partner but must be a natural person. He must have a business permit if he 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 powers provided for by the Articles is binding upon third parties. He may be removed by a decision of the partners 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 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 partners holding at least three-quarters of the shares.

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

Incorporation

The SAS 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.

Minimum capital is EUR 1, but it is recommended to have a minimum capital of EUR 37,000. One shareholder (natural person or legal entity) suffices to incorporate an SAS, which is then called SASU.

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

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

SAS registration taxes are the same as for an SA and legal costs are similar. The same time is required for formation.

Management

Other than 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 yearly financial statements. The shareholders' meeting also decides on the allocation of profits and 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 corporate purpose, to merge, to dissolve the corporation etc.

b. Work permits for staff

All non-EU nationals (other than permanent French residents in France) without a residence permit exercising commercial activities in France must be in possession of a business permit (*carte de commerçant étranger*).

For activities conducted by companies, such individuals who have the power to bind the company (managers, partners, administrators, general managers, etc) must hold a business permit.

The holder of a business permit must also obtain a residence permit that mentions his activity if he wishes to reside in France.

c. 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 take only up to two weeks. This may take a little longer if it is to be controlled by non-EU residents.

- Simplified registration formalities

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

- 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 establishment,
- 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's office, representing proof that the company has been set up.

d. Accountancy rules in France

- General obligations

Bookkeeping is an obligation laid down by commercial and penal 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 make year accounts at the end of the accounting year according to the accounting books and the inventory book. The year accounts include a balance sheet, a profit & loss account and an annex.

- Compulsory documents and books

It is compulsory by 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 a justification (invoice, bank voucher, etc.).

The proofs 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 year accounts are also entries: balance, profit and loss, 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 account numbers are defined by law and must be used for the bookkeeping; they are classified in seven groups:

- 1: Capital, provisions and loans
- 2: Assets
- 3: Stock
- 4: Other balance accounts (such as vendors, clients, 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 published with the commercial court and can be freely consulted.

e. Labour law

Labour relations in France are governed by the Labour Code 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. Of particular interest to foreign corporations: 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. The parties are free to write their own contract. The provisions of such contracts may not, however, contravene the Labour Code or the sector-wide collective agreement applicable to the company.

An employment contract must mention the employee's compensation and functions, the work entrusted to him or her and the place of work. It may provide for a probationary period. Compensation must be no less than the minimum pay called for by the applicable sector-wide agreement or the minimum wage (known as the *SMIC*). On 1st January 2012, the monthly *SMIC* amounted to EUR 1,398.37 gross and the hourly rate was EUR 9.22.

In 2009 mean annual **gross** salaries in France were:

	Women	Men
Executives, management staff:	EUR 43,320	EUR 56,880
Intermediate professions:	EUR 26,400	EUR 30,600
Clerical, white collar workers:	EUR 21,480	EUR 22,680
Blue-collar workers:	EUR 19,440	EUR 22,800

Recruitment aids are available for companies in the form of social charge reductions and bonuses to promote the hiring of certain categories of staff.

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 layoffs on economic grounds, including: a layoff 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 62) or older. Employers may also decide

to have employees retire but not before they reach the legal retirement age (70).

- Organising work hours

The legal working time is 35 hours per week. Beyond this, any extra time worked is considered overtime and involves an overtime premium. A limit to overtime is set in the applicable collective agreement (see below).

The maximum working time is 10 hours per day and 48 hours per week, with a maximum of 44 hours per week on average over a period of twelve weeks.

France offers very flexible working organisation and hours to enable companies to put their plant and equipment to the best possible use, and thus to increase productivity.

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. As mentioned above, 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% more than regular pay in all companies since 1st October 2007 (except where a collective agreement provides for a lower rate, which may not, however, be less than 10%) for the first 8 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 1,827, which works out at 39 hours per week for 47 weeks.

This limit on overtime may be exceeded by employees who so wish, with the agreement of their employer, subject to a collective agreement (*régime des heures choisies*).

In addition to extra pay, working overtime may also give employees a statutory right to extra time off. Extra time off in lieu of overtime pay is also a possibility. Time off in lieu of overtime pay must be added to the statutory time off entitlement.

Continuous shift work (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.

The 35-hour week does not apply to executives; neither do regulations governing night work, daily and weekly rest periods, and days off. By the same token, management personnel who are free to organise their own work and non-management employees working off the premises – such as sales representatives, maintenance technicians, etc. – may be subject to agreements founded on a basic number of hours or days worked; such agreements must be in writing.

Those executives and managers whose work does not directly relate to production 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.

Reductions in social security charges

Companies of all sizes and in all industries have been entitled to reductions in social security charges on low wages. The reductions are calculated on the basis of the hourly wage rate per employee and per month. They can represent up to 26% 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 and pay are no longer factored into the calculation of reductions in charges to employees for minimum wages, neutralising the impact of the increase in pay. Charges to employers for overtime are diminished by set amounts of €0.50 to €1.50 per hour.

Staggering paid leave

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

Another key characteristic of the French labour market lies in the possibility to use 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 temping 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). 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 staff representation system 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 labour 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 labour 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.
- Only around 8% of French workers are unionised.

- 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 that are attractive for workers and provide tax benefits for both employees and employers.

The range of schemes available enables companies to set up compensation 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 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 staff representatives. The sums accrued by an employee under a mandatory profit sharing scheme cannot be accessed for 5 years except where access is brought forward.

Recent additions have been made to these provisions. It is now possible to make additional payments to supplement voluntary or mandatory profit-sharing premiums.

These schemes are collective; individual arrangements are not permitted. The employer has a wider control over the amount of supplement money to be distributed and is not obliged to maintain the same figure in subsequent financial years.

Supplements to mandatory profit sharing are not accessible immediately, unlike supplements to profit sharing (immediately available or transferred to a savings/share-ownership scheme).

Provision has also been made for project-based voluntary profit sharing for the benefit of some or all of the employees of different companies working together on a clearly identified, coordinated project.

Companies that offer savings/share-ownership schemes must present employees with a booklet setting out the provisions of the scheme when they sign their contract of employment.

f. Corporate taxes, VAT, social security and other business taxes

- Capital taxes

For registration taxes on incorporation see Section 2 b. No wealth tax or net worth tax is levied on corporate entities or partnerships.

- Corporate taxes

Taxable corporate entities

France applies the territorial taxation system. 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 holding companies) are not subject to French taxes.

Corporate income tax is due by French corporate entities (*SA*, *SARL*, and other entities which elect to pay French corporate tax) and by French branches of foreign corporate entities. 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 headquarter 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.

Tax rate

Corporate tax is levied at a rate of 33 1/3% whether profits are distributed or not. In addition, corporate taxpayers are subject to a minimum tax depending upon their annual turnover.

Turnover	Minimum corporate income tax
From 15 up to 75 million Euro	EUR 20,500
From 75 up to 500 million Euro	EUR 32,750
Above 500 million Euro	EUR 110.000

This minimum payment is due even if there is no taxable income.

A social security surtax of 3.3% is also levied on the corporate tax. This surtax is imposed on the portion of corporate tax due exceeding EUR 763,000 before offsetting the tax credits granted under tax treaties. The 3.3% surtax 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 by natural persons.

Taking into account the social security surtax, the effective rate of French corporate income tax is 34.43%.

The normal corporate tax can be reduced to 15% on up to EUR 38,120 a year if the company has a turnover of less than EUR 7,630,000 and at least 75% of the company is directly or indirectly owned by natural persons.

Taxable income

With the exception of dividend and interest income, French and foreign corporations 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.

Net taxable income is defined as the net profit derived from all operations of every kind carried out by a business including the transfer or sale of every type of asset.

Depreciation

In principle, assets are depreciated using either the straight-line method depending on their estimated useful life or the declining depreciation method. Though for specific fixed assets an accelerated depreciation might be recorded for tax purposes only (*amortissements dérogatoires*).

Certain specific assets may be depreciated using accelerated depreciation methods. For example certain software may be depreciated over a 12-month period.

Losses

Losses incurred during any one year can be deducted from future profits without time limit (carry forward). However since 2011 past losses may be used fully up to a profit limited to 1 Million Euro. Above this threshold a portion of 40% of the profit is subject to taxation.

Under certain conditions, losses can also be carried backwards to the preceding year. 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.

Interest payable

Interest payable by businesses is a deductible expense. However, French provisions provide some thin capitalisation rules relating to the deduction of interest paid by a French company to a group company.

As of 1st January 2007, new thin capitalisation rules are applicable. The interest paid by a French company subject to corporate income tax to a group company can only be deducted if:

- The stated capital of the paying company is fully paid-up,
- The interest is deductible only in as much as it does not exceed the average yearly interest rate paid by private companies for loans with variable interest issued by credit institutes (T.M.P.v.) (i.e. in 2011 3.99%) or the “arm’s length” interest rate, if higher.

If the above two requirements are met, the interest paid may only be deducted provided the company is not thin capitalised. The tax deductibility of the net interest could be denied when the interest exceeds all of the three following limits during the same financial year:

- Financing of any kind granted by related parties exceeds the limit of 1.5 times the net equity of the borrower,
- 25% of the current result before tax increased by *inter alia* i) the amount of the interest owed to related parties, ii) amortisation and depreciation; and
- Interest income received by the borrower in connection with financing granted by the borrower to related parties.

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

Non-deductible interest may be 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 could not 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.

Specific provisions apply for tax groupings resulting, in most cases, in an overall deduction greater than the sum of the deductions available at each member's level. Thin capitalisation rules do not apply if the overall level of debts within the group is higher than the one in the French subsidiary.

Expenses

All expenses relevant to the company's activities are deemed to be deductible. Unreasonable expenses as well as any part of the corporate officers' remuneration considered excessive by the tax authorities are not deductible.

Moreover, in an effort to fight tax evasion, profits transferred abroad to related companies (by way of the artificial increase or reduction of prices, excessive commissions and royalties, low interest loans etc) are subject to French income tax. When payments are made to tax havens, the taxpayer has the burden of proving that the transaction with the foreign-based person was real and at arm's length, and does not disguise a transfer of profits.

Inter-company dividends

Dividends paid to a French parent company by its French or foreign affiliated company (in which it has an equity interest of at least 5%) are exempt of tax except for a 10% portion deemed to cover the administrative cost incurred by the shareholder for his shareholding.

Capital gains

Gains from investments held for less than two years, and gains attributed to items held longer than two years on which depreciation has previously been allowed as a deduction from taxable income, are considered short-term gains and are subject to normal corporate tax at the standard rate of 33 1/3%. Excess short-term losses may be set off against ordinary income.

Long-term gains (gains not classified as short-term gains) are tax exempt except for a 10% portion deemed to cover the administrative cost incurred by the shareholder for his shareholding.

Payment of tax and filing returns

Corporate income tax is prepaid in four instalments. Companies with a year-end of 31 December must pay the instalments on 15 March, 15 June, 15 September and 15 December. The balance of corporate income tax is due by 15 April 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 1/3% of the previous year's profit. The rules governing the payment of corporate income tax also apply to the payment of the 3.3% social security surtax.

Companies are required to file their annual tax returns within three months of the year-end. Those, which have a 31st December year-end, may file returns up until end of April / mid of May. Usually tax returns are not examined upon their filing. They are reviewed only when the company's accounting is subject to a full tax audit by the authorities. The statutory limitation for a tax audit is three years.

- *Withholding tax*

Subject to double taxation agreements (see Part 4-f.) the usual withholding rates on income paid to non-residents are as follows:

- Dividends: 30% or 21%
- Interest on bonds: 24%
- Interest on loans other than bonds: 24% to 60% (Nil for term loans incurred abroad by companies under certain conditions.)
(Treasury bills, certificates of French deposit, bank deposits etc)
- Royalties: 33 1/3%
- Management fees: 33 1/3%

- Value added tax

Value added tax (VAT) or *taxe sur la valeur ajoutée (TVA)* is payable on all the various transactions which a business may perform, and on imports, certain operations on real estate, and certain purchases from persons not subject to VAT, such as farmers. Exports are not subject to VAT.

The normal VAT rate is 19.6% with reduced rates of 7.0% (e.g. for books and certain works on households), 5.5% (e.g. for most food stuffs) and 2.1% (e.g. drugs and newspaper).

Businesses account monthly for VAT on their sales and services and are allowed to credit against this liability for VAT incurred on business purchases.

Foreign businesses

Foreign businesses pursuing taxable activities in France can recover VAT in the same way as any French business.

Foreign businesses which are not established in France and which do not have any taxable activities in France can recover the VAT paid on purchases made for business purposes, provided that such activities would justify the VAT recovery if they were taxable in France,

- Employers' social charges

Employers are obliged to bear part of the cost of each employee's social security contributions.

The French social security system comprises four types of coverage:

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

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

Health and retirement benefits are more generous than those available to employees in many countries like, for instance, the United States and the United Kingdom.

Mainly employer and employee contributions are collected from the employer by URSSAF. Employer contributions amount to approximately 40-45% of gross payroll, while the employee's share is approximately 22% 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 rates (employer's contribution) are those enacted for 2012. For monthly salaries exceeding EUR 12,124 different rates and additional contributions may apply.

Social security contributions

Amount of monthly salary	EUR 0 - 3,031	> EUR 3,031
Health insurance	12.80%	12.80%
Old age pension	8.30%	1.60%
Family allowance	5.40%	5.40%
Work accident insurance	Variable	Variable
Transport contribution	Variable	Variable
Housing aid	0.10%	-
Additional housing aid (> 20 employees)	0.40%	0.40%
Compulsory care insurance	0.30%	0.30%

Unemployment insurance

Unemployment insurance is levied at a rate of 4.0% plus 0.3% on salaries up to a ceiling of EUR 12,124 in 2012.

Retirement plan

Amount of monthly salary	EUR 0 - 3,031	EUR 3,031 - 9,093	
Non-executives	5.7%	13.3%	
	EUR 0 - 3,031	EUR 3,031 - 12,124	EUR 12,124 - 24,248
Executives			
■ Retirement	5.92%	14.156%	12.82%
■ Death	1.50%	optional	optional

Please note that the rates given above are the minimum rates.

Other charges

In addition, some other taxes and contributions imposed on salaries are paid annually:

- Construction levy
 - 0.45% on total salary (only companies > 20 employees)
- Apprenticeship tax
 - 0.68% on total salary ⁽¹⁾
- Continuous professional training contribution
 - 0.55% on total salary (< 10 employees)

- 1.05% on total salary (10-19 employees)
- 1.60% on total salary (> 20 employees)

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

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

⁽¹⁾ Should a company employ not enough apprentices an additional contribution may be due (applicable only to companies with more than 250 employees).

- Other business taxes

Stamp duties on transfers of intangible assets

No duty is levied on transfers of intangible assets worth less than EUR 23,000. Amounts comprised between EUR 23,000 and EUR 200,000 are subject to a duty of 3%; this levy rises to 5% for all amounts above EUR 200,000.

Business tax

Since 2010 the business tax (*CET contribution économique territoriale*) is composed of *CFE contribution foncière des entreprises* and *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*).

The business tax (*CET*) to be paid by enterprises whose turnover exceeds EUR 152,500 (tax excluded) during the previous year shall 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 are subject to payroll tax. The payroll tax is assessed on the gross total amount of paid remuneration plus benefit in kind.

Nevertheless the assessment basis may be reduced for employers who are partly charged to VAT. This reduction takes the form of a percentage applied to the basis, corresponding to the amount of the turnover charged to VAT.

In 2012, when due, payroll tax is payable at a normal rate of 4.25%, which is increased to 8.5% on the part of yearly individual salaries between EUR 7,604 and EUR 15,185 and to 13.6% on the portion exceeding EUR 15,185.

4. Personal taxation

a. Income tax

Persons liable

Individuals resident in France are generally taxable on their worldwide income and capital gains, regardless of source.

A person is deemed resident in France when he has his home in France or spends most of his time in France (more than 183 days a year) or pursues his primary professional activity in France, or has his “centre of economic interests” in France.

Computation of taxable income

Income of French residents is subject to progressive rates of taxation by brackets ranging from zero to 41%. Taxation is calculated on the total income of the fiscal household, 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, which depend on the size of the taxpayer’s household. A single taxpayer is granted only one unit; a married taxpayer is granted two units, and an additional one-half unit per dependent child, plus another one-half for each child unit when there are at least three children. However, tax savings derived from dependent children are limited.

The following progressive tax rate schedule is then applied to the income divided by the number of units, and the resulting tax is multiplied again by the number of units. Each year, the tax rate schedule is revised by the Finance Bill.

Progressive tax rate schedule for 2012 (applicable to 2011 income):

Taxable income bracket	EUR	Rate (%)
On income less than	5,963	0
On the following portion of income up to	11,896	5.50
“	26,420	14.00
“	70,830	30.00
On the amount in excess of	70,830	41.00

Since for the 2011 income an additional tax is levied if the total taxable amount exceeds 250,000 EUR or 500,000 EUR for a couple. It amounts to 3% for the taxable amounts comprised between 250,000 EUR and 500,000 EUR (500,000 EUR and 1 Million EUR for a couple) and 4% for the portion above 500,000 EUR (1 Million EUR for a couple).

Assessment of taxable income

Taxable income is the total of net income or losses from each category of income (salaries and pensions, business income, agricultural income, capital gains, dividends and interest) subject to various deductions.

Lump-sum professional expense deduction: all employees may deduct an automatic 10% professional expense allowance from their salary income; the maximum allowance is EUR 14,157 (for taxation of 2011 income).

Business income

The calculation of an individual's business income is broadly similar to that for a corporation (see Part 5).

b. Capital gains

Real property capital gains

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:

- Principal residence,
- Agricultural land and forests,
- Real estate held for more than 30 years,
- Sales of real property for less than EUR 15,000.

Moreover, capital gains on real estate are exempt up to an annual limit of EUR 1,000.

The taxable real property capital gain is reduced by 2% for each year after the fifth and till the 17th, 4% between the 17th and 24th and 8% for each year of ownership afterwards. Capital gains on the sale of shares in a company having real estate assets amounting to more than 50% of its total assets are taxable as real estate capital gains.

Real estate capital gains are taxed at an effective rate of 32.5% (19% income tax + 13.5% additional social contributions).

Capital gains on the sale of shares

As a general rule, when an individual sells shares, the gain is taxed at a rate of 19% (increased to 32.5% by surtaxes for French residents).

Investment income

A 40% reduction applies on the gross amount of dividends distributed by French or foreign entities subject to corporate income tax to French resident individuals. Those may opt alternatively for a withholding tax of 21% increased by 13.5% additional social contributions.

c. Employees' social charges

Employers have to retain the employee's share of social security contributions on the monthly salary. This share is approximately 22% of gross pay.

The following rates are those enacted for 2012. For monthly salaries exceeding EUR 12,124 different rates and additional contributions may apply.

Social security contributions

Amount of monthly salary	EUR 0 - 3,031	> EUR 3,031
Health insurance	0.75%	0.75%
Old age pension	6.65%	-
Widow allowance	0.10%	0.10%

Unemployment insurance

Unemployment insurance is levied at a rate of 2.40% on salaries up to a ceiling of EUR 12,224.

Retirement plans

Amount of monthly salary	EUR 0 - 3,031	EUR 3,031 - 9,093	
	Non-executives	3.8%	8.9%
Executives	EUR 0 - 3,031	EUR 3,031 - 12,224	EUR 11,436 - 24,248
	3.93%	8.754%	7.83%

Other retentions

The employer is also obliged to retain the following wage taxes:

- General social contribution (CSG): 7.5%
- Contribution for social debt reimbursement (CRDS): 0.5%

Both are computed on 98.25% of the monthly salary and on some employer's social contribution (additional health care and pension schemes).

d. Wealth tax

Individuals resident in France are subject to a wealth tax (*impôt de solidarité sur la fortune* or *I.S.F.*) if the amount of their estate exceeds EUR 1,300,000 for 2011 whether located in France or abroad. The rate for the *I.S.F.* is 0.25% if the value of the estate is between EUR 1,300,000 and 3 Million and 0.5% if the value of the estate is above EUR 3 Million. The tax rates of 0.25% or 0.5% are applicable from the first Euro onwards.

Exemptions include assets used for professional purposes, antiques, art and collectors' items.

Special regulations for non-residents may apply.

e. Inheritance and gift taxes

If the deceased was resident in France at the time of his death, inheritance taxes are due on his total estate, whether located in France or abroad, subject to double taxation agreements.

Taxation between spouses was abolished in 2007.

In direct line of descent, each child is entitled to a EUR 159,325 exemption. The balance is taxable at rates from 5% to 45%.

Brothers and sisters are entitled to a general EUR 15,932 exemption.

The balance is taxable as follows:

- Between brothers and sisters,
on taxable amount not exceeding EUR 24,430: 35%
- On the excess: 45%
- Between uncles, aunts, nephews
and nieces and cousins: 55%
- Between non-relatives: 60%

The tax treatment of gifts is similar to that of inheritance. However, gifts by delivery (i.e. gifts which are not made by deed) are taxed only if the donor dies, and if the gift was made to an heir in direct line of descent.

f. Non-residents

Income tax

French or foreign persons not resident in France are taxed only on their French income. Such income includes income from real estate 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 debtors of pensions, royalties or remuneration in relation to services given or used in France.

The minimum taxation is 20% unless it can be proved that the average tax rate applied to all his revenues (occurred in France and abroad) if they were taxed in France would be less.

Wealth tax

The wealth tax applies to non-residents if their estate located in France exceeds EUR 1,300,000 with the exception of portfolio investments.

Inheritance and gift taxes

Subject to double taxation agreements, if the deceased or grantor is not resident in France at the time of death or grant, such taxes are due only on the deceased's or grantor's estate located in France.

Withholding taxes

Withholding taxes on French income paid to non-residents are as follows (unless double taxation agreements provide otherwise):

Non-salaried income: 33 1/3% (Withholding tax is offset against income tax)

Salaries and pensions as from 2012:

- On the income less than EUR 14,245: 0%
- On the income between EUR 14,245 and EUR 41,327: 12%
- On the income exceeding EUR 41,327: 20%

Such withholding tax exonerates the amount of income not exceeding EUR 41,327 for 2012 from personal income tax if the recipient is a national of a country that has a double taxation agreement with France.

Taxation of corporate distributions: French domestic tax law imposes a 30% (21% for EU-individuals and 55% for individuals living in a non-cooperative country) withholding tax on dividends paid to non-residents. This withholding tax can be reduced to 15% generally or eliminated pursuant to double taxation agreements (and according to the parent - subsidiary EU Directive).

g. Double taxation agreements

France has concluded agreements with most developed countries and a large number of developing countries. There are no agreements with some countries such as the Channel Islands, Hong Kong and Vanuatu.

The following schedules summarise the withholding tax rates applicable to dividends, interest and royalties paid to beneficiaries located in major countries.

Withholding rates – Dividends

Location of recipient	Withholding rate in %		Notes
	Individuals	Companies	
Australia	15	15	
Austria	15	15 ⁽¹⁾	(1) 0% if the recipient company owns at least 10% of the French company's capital.
Belgium	15	15 ⁽¹¹⁾	(2) 10% if the recipient company owns at least 10% of the French company's capital.
Canada	15	15 ⁽³⁾	(3) 5% if the recipient owns at least 10% of the French company's capital.
Denmark	0	0	(4) 15% if distribution through a French partnership subject to French corporate income tax.
Egypt	0	0	(5) 15% if the recipient owns at least 25% of the French company's capital.
Finland	15 or 0	0	(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.
Germany	15 ⁽⁴⁾	15 ⁽¹⁾⁽⁴⁾	(7) 5% if the recipient company owns at least 15% of the French company's capital.
Greece	25	25 ⁽¹¹⁾	(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.
India	10	10	(9) Exemption for dividends taxed in Morocco
Iran	20	20 ⁽⁵⁾	(10) 10% if the recipient company owns at least 10% of the capital and voting rights of the French company.
Ireland	15	15 ⁽⁶⁾	(11) 0% under parent-subsidiary EU-Directive.
Italy	15	15 ⁽³⁾⁽¹¹⁾	
Japan	10	15 ⁽⁷⁾	
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 ⁽³⁾⁽¹¹⁾	
Philippines	15	15 ⁽¹⁰⁾	
Portugal	15	15 ⁽¹¹⁾	
Saudi Arabia	0	0	
Singapore	15	15 ⁽²⁾	
Spain	15	15 ⁽¹¹⁾	
Sweden	15	15 ⁽¹⁾	
Switzerland	15	15 ⁽¹³⁾	
United Kingdom	15	15 ⁽³⁾⁽¹¹⁾	
United States	15	15 ⁽³⁾	

Note: Dividends paid by French companies to parent companies located in other EU member states are exempt from withholding tax if the parent company makes a commitment to hold at least 20% of the distributing company for an uninterrupted period of at least two years.

Withholding rates – Interest and Royalties

Location of recipient	Interest on non-negotiable debts	Royalties	Notes
	Rate in % (1)	Rates in %	
Australia	10	10	<p>Notes on interest:</p> <p>(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.</p> <p>(2) Rate limited to 10% on interest on loans contracted by French companies with foreign financial establishments in order to finance their investments.</p> <p>(3) Cancelled or reduced in cases specified by the agreement.</p> <p>Notes on Royalties:</p> <p>(a) cancelled in cases specified by treaty</p> <p>(c) nil on copyright royalties or film rentals if the recipient is an Iranian public entity</p> <p>(d) 33 1/3% on TV and radio records and films</p> <p>(e) 5% on copyright other than films</p> <p>(f) 33 1/3% on copyright</p>
Austria	0	0	
Belgium	15 ⁽²⁾	0	
Canada	10 ⁽³⁾	10 ^(a)	
Denmark	0	0	
Egypt	15 ⁽³⁾	15	
Finland	0/10 ⁽³⁾	0	
Germany	0	0	
Greece	0	5	
India	10	0	
Iran	0 ⁽³⁾ /15 ⁽²⁾	10 ^(c)	
Ireland	0	0	
Italy	0 ⁽³⁾ /10	5 ^(a)	
Japan	0 ⁽³⁾ /10	0	
Kuwait	0	0	
Lebanon	0	33 ^{1/3}	
Luxembourg	10	0	
Malaysia	15 ⁽²⁾	10 ^(d)	
Morocco	10 or 15	5-10 ^(e)	
Netherlands	0 ⁽³⁾ /10	0	
New Zealand	0 ⁽³⁾ /10	10	
Norway	0	0	
Philippines	0 ⁽³⁾ /15 ⁽²⁾	15	
Portugal	12 ⁽²⁾	5	
Saudi Arabia	0	0	
Singapore	0 ⁽³⁾ /10	0 ^(f)	
Spain	10 ⁽³⁾	5	
Sweden	0	0	
Switzerland	0	5	
United Kingdom	0	0	
United States	0	5 ^(a)	

5. Portfolio investment for foreigners

- Financial investments - stocks and shares

The buying and selling of securities must be handled by a bank.

Non-residents are free to invest in stocks and shares quoted on the French Stock Exchange.

Listed French shares acquired by non-residents may be kept by a bank established in France, under a “foreign folder”. However, this is only optional and is not required under existing regulations. Income derived from portfolio investments (dividends, interest) is freely transferable abroad.

Dividends are subject to a 30% or 21% withholding tax, usually reduced to 15% by a double taxation agreement. Interest is subject to a withholding tax, the rate of which varies depending upon the type and date of the loan (24% in most cases), usually reduced by a double taxation agreement to 10% or 15% (see Part 4-g.).

Capital gains derived from the sale of French shares owned by non-residents are normally tax-exempt unless the holding exceeds 25% of the company when the gain realised on the sale is subject to a 19% tax.

- Real property

Non-residents are allowed to acquire real property located in France. If rented, the rental income is subject to taxation (individual income tax when held by a natural person or 33 1/3% when owned by a foreign-based company). Net rental income can be transferred freely.

When the property is owned through a company located abroad, the company is normally subject to a 3% annual tax based on the market value of the property. Exemptions may apply, under certain conditions, for most companies located in countries that have entered into a double taxation treaty with France.

Gains derived from the resale of properties located in France are taxed at a flat rate of 33 1/3%, whether they are held by a non-EU individual or a company, 19% when they are held by an EU individual directly or through an EU partnership. The reduced rate is also applicable to Norwegian and Icelandic citizens.

6. Miscellaneous information

- Modes of transportation

Modes of transportation are excellent either by air, rail or road. Major international airports are at Paris (Roissy and Orly), Lyon, Nice and Marseille. Most West European capitals are within one hour's flying time.

- Language

The national language of France is French. The business community is used to communicating in English.

- Time

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.

- Business hours

Common office hours are 9 a.m. to 6 p.m., Monday to Thursday, and 9 a.m. to 5 p.m. on Friday. Banking hours in Paris are usually from 10 a.m. to 5 p.m., Monday through Friday. Throughout the rest of France, banks are usually open from 10 a.m. to 1 p.m., and 3 p.m. to 5 p.m., Tuesday through Saturday.

- Public holidays

New Year's Day	1 st January
Easter Monday	13 th April 2009
Labour Day	1 st May
Victory Day	8 th May
Ascension Day	21 st May 2009
Whit Monday	31 st May 2009
Bastille Day	14 th July
Assumption of the Blessed Virgin	15 th August
All Saints' Day	1 st November
Armistice Day	11 th November
Christmas Day	25 th December.



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