



A GUIDE TO DOING BUSINESS IN FRANCE

January 2016

RSM INTERNATIONAL

RSM International is a worldwide network of independent accounting and consulting firms. RSM International and its member firms are separate and independent legal entities. RSM International does not itself provide accounting or consultancy services. Affiliate members practicing on their own account provide all such services.

RSM is represented by affiliate independent members in 120 countries and brings together the talents of over 38,000 individuals in over 760 offices worldwide. The network's total fee income of US\$ 4.64 billion places it amongst the top 6 international accounting organizations worldwide.

Affiliate member firms are driven by a common vision of providing high quality professional services, both in their domestic markets and in serving the international professional service needs of their client base. RSM International is a member of the Forum of Firms. The objective of the Forum of Firms is to promote consistent and high quality standards of financial and auditing practices worldwide.

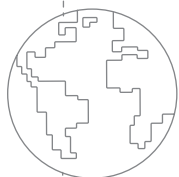
RSM FRANCE

RSM France, the French member of RSM International, is a network of independent professional services firms providing audit, accounting, tax and consulting services to local and internationally active growing firms and organizations. RSM France is solidly represented in French regions (in Paris, Rhône-Alpes, West, East and South of France on the Mediterranean coast and recently in the Indian Ocean in the Reunion and Mayotte Islands). RSM France gathers 725 staff and 55 partners. The total fee income (US\$ 65 million) places it amongst the top 8 audit firm in France.

Services, tailored to our clients, include:

- ◆ Statutory audit
- ◆ Consolidation and reporting under international standards (IFRSs)
- ◆ Outsourcing (accounting, administration, payroll)
- ◆ Expatriate management
- ◆ Tax
- ◆ International business services
- ◆ Transaction services
- ◆ Risk management and internal control

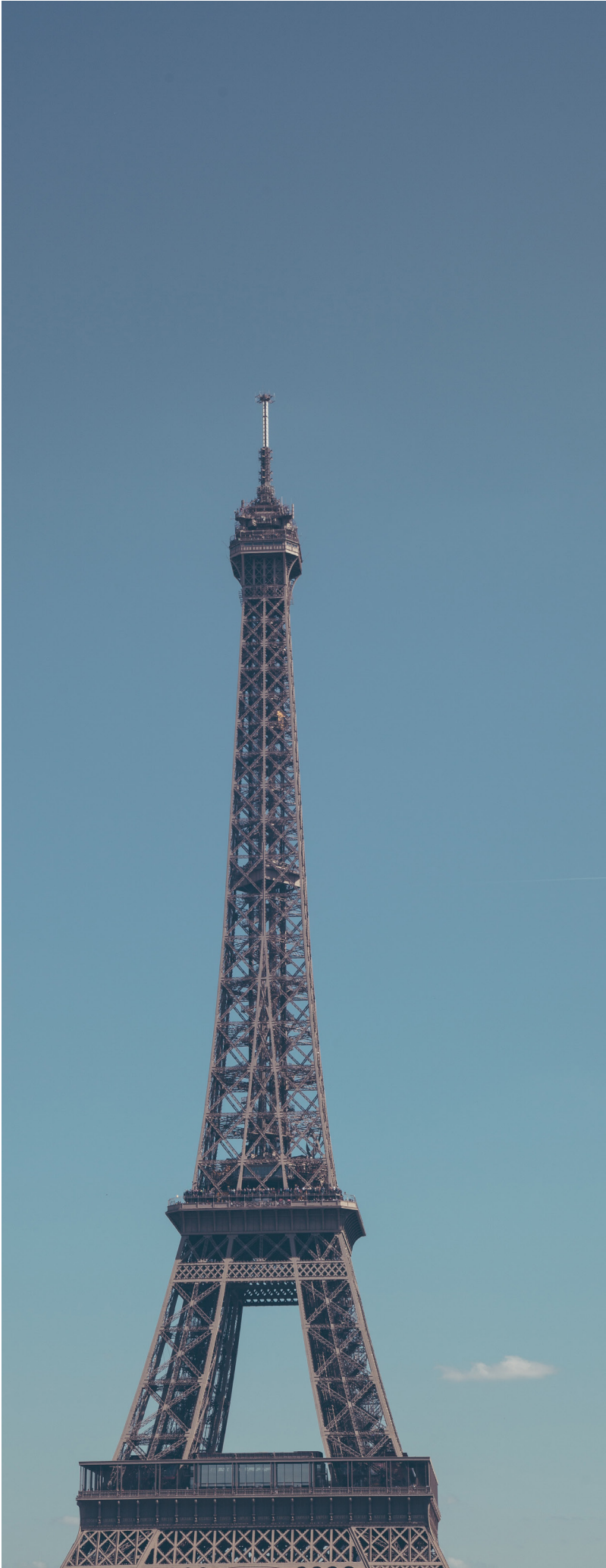
Our belief is that we generate lasting success by working closely together and constantly striving for excellence.



- ◆ We are the 6th largest global audit, tax and consulting network.
- ◆ We have firms in over 120 countries and are in each of the top 40 major business centres across the world.
- ◆ Across our member firms, we have more than 38,300 staff in over 760 offices covering Africa, Asia Pacific, Europe, Latin America, the Middle East and North America.

CONTENTS

RSM INTERNATIONAL	2
RSM FRANCE	2
1. GENERAL INFORMATION	5
1.1. Geography and population	5
1.2. Political institutions	5
1.3. Economy	5
1.4. Local Customs	5
2. TYPES OF BUSINESS ORGANIZATION	6
2.1. Introduction	6
2.2. Formation of a company	6
2.3 Dissolution and liquidation of business entities	8
2.4 The implied trust – fiducie	9
3. EMPLOYMENT	11
3.1 The French labor contract	11
3.2 Hiring procedures	11
3.3 Profit-sharing and share ownership programs	11
3.4 Termination of the employment contract	11
3.5 Working hours	12
3.6 The social security system	12
3.7 International mobility	12
4. TAXATION	14
4.1 Overview	14
4.2 Company taxation	16
4.3 Local taxes	19
4.4 Incentives and special deductions	20
4.5 Value added tax (VAT)	21
4.6 Taxation of individuals	21
4.7 Other taxes	23
5. ACCOUNTING REGULATIONS AND STANDARDS	24
5.1 Reference texts	24
5.2 Accounting obligations for companies	24
5.3 Mandatory accounting documents	24
5.4 Form and content of financial statements	24
5.5 Auditing	25
5.6 Focus on listed companies	25
5.7 Accounting and tax audit	25
5.8 Adoption of IFRS in France	25
6. CONTACTS IN FRANCE	26



1. GENERAL INFORMATION

1.1. Geography and population

France is one of the largest countries in Europe with an area of about 548,000 square kilometers (211,200 square miles) and with 66.3 million inhabitants in 2015. It has the lowest population density amongst major Western European Countries (118 people per square kilometer).

The Paris region has the largest concentration (with about 12 million inhabitants). Other large cities include Bordeaux, Lille, Lyon, Marseille, Nantes, Nice, Strasbourg and Toulouse. They are very well connected to Paris by High Speed Trains (TGV for Trains à Grande Vitesse) and a very efficient highway network. France also has some of Europe's most important international airports (Roissy Charles de Gaulle, Orly, Nice-Côte d'Azur, Lyon-Saint-Exupéry, Marseille Provence).

Other major French towns are also serviced by domestic airlines, many of them having international services. Bordered by Spain, Italy, Monaco, Switzerland, Germany, Luxembourg and Belgium, France has always been a center for international trade and commerce. The Channel Tunnel also links France to the United Kingdom.

1.2. Political institutions

France is a Democratic Republic, subdivided administratively into 13 regions since 1st January 2016 (instead of 22 in 2015), 96 departments and about 36,000 communes. There are also five overseas regions and territories known as "DOM-TOM".

France is governed by the 1958 constitution of the 5th Republic, which is a centralized parliamentary system. The Executive Branch of Government includes the President of the Republic, the head of State (currently François Hollande) elected for five years by direct universal suffrage and the Prime Minister, head of government. He is appointed by the President who heads the Council of Ministers which generally meets each Wednesday morning at the Elysée Palace.

The legislative branch is composed of the National Assembly (Assemblée Nationale), the lower Chamber and the Senate (Sénat). Members of the National Assembly, the principal legislative body, are elected by universal suffrage every five years (renewable). Members of the Senate are elected by indirect suffrage for nine years (renewable third by third every 3 years).

Each region is administered by a Regional Council (Conseil Régional) and each department by a County Council (Conseil Général). The Préfet (a specifically French institution brought in by Napoleon) represents central government in each department and act as chief administrative officer. In the international context, France is a founding Member State of the European Union. The currency is the Euro.

1.3. Economy

France is the second largest consumer market in Europe after Germany and the sixth largest economy in the world with GDP of US\$ 2,423 billion (equivalent to €2,151 billion) behind the USA, China, Japan, Germany and the United-Kingdom. It has substantial agricultural resources (France is the European Union's leading agricultural producer), a large industrial base and a highly skilled labor force. Services represent about 79% of France's domestic product (estimated 2015).

France is a leading country in high technology, with a long tradition of innovation. Spending on R&D represents 2.24% of Gross Domestic Product (Insee, 2013). Leading industrial sectors in France are telecommunications (including satellite communications), aerospace and defense, aircraft, shipbuilding, pharmaceuticals, chemicals, construction and civil engineering.

Other key sectors include automobiles, machinery, metallurgy, electronics, textile, food processing and tourism. Despite significant liberalization over the past 15 years, the government continues to play a significant role in the economy. The government continues to own shares in corporations in a range of sectors including energy production, telecommunications and transportation.

The French economy welcomes foreign investment. Since 2007, many reforms in France have participated in the development of foreign companies in France by greater flexibility of labor law, an improved tax system and the encouragement of innovation, R&D and sustainable development. In 2009, about 23,000 foreign companies were doing business in France, employing 2.3 million people. (Source: Invest In France).

1.4. Local Customs

The French enjoy 11 national holidays (jours fériés) and, under the law, five weeks of paid vacation annually. The months of July and August are traditionally when the French take their holidays.

Public holiday	2016	2017	2018
News Year's Day	January 1	January 1	January 1
Easter Monday	March 28	April 17	April 2
Labor Day	May 1	May 1	May 1
Ascension	May 5	May 25	May 10
1945 Victory Day	May 8	May 8	May 8
Whit Monday (Pentecôte)	May 16	June 5	May 21
Bastille Day	July 14	July 14	July 14
Assumption	August 15	August 15	August 15
All Saint's Day	November 1	November 1	November 1
Remembrance Day	November 11	November 11	November 11
Christmas Day	December 25	December 25	December 25

Only Labor Day (May 1st) is a public holiday by statute. The rest of the holidays are granted by collective bargaining agreements ("convention collective" agreements between employers' and employees' unions) or by agreement of the employer.



2. TYPES OF BUSINESS ORGANIZATION

2.1. Introduction

In France, an entrepreneur can choose between two kinds of legal structure: sole trader (entreprise individuelle) and partnership/company (société).

There are two kinds of entities in France, civil (mainly restricted to either professional services or real estate activities) and commercial ones (engaged in trade or business).

A sole partner may also choose to run a business without creating a company.

Regarding the partner/shareholder liability, several kinds of commercial companies can be used as corporate veils in order to protect the partners'/shareholders' personal assets in case of bankruptcy.

Depending on the form of the company, the rules applicable may be different and cover the following subjects:

- ♦ Structure of the management and managers' level of power,
- ♦ Shareholder meeting quorum and majority rules,
- ♦ Minimum capital required,
- ♦ Sale of shares to third parties,
- ♦ Audit requirements.

2.2. Formation of a company

Unlike other countries, in France the rules, rights and obligations are the same for all companies whether French or foreign.

There are numerous types of company structure which are provided by French commercial and civil law, however today the great majority of trading entities in France have taken one of the following forms:

- ♦ Entreprise individuelle – “One-man business” – EIRL,
- ♦ Société anonyme (S.A.) – “Corporation”,
- ♦ Société à responsabilité limitée (S.A.R.L. / E.U.R.L.) – “Limited liability company”,
- ♦ Société par actions simplifiée (S.A.S. / S.A.S.U.) – “Simplified joint stock company”,
- ♦ Société en nom collectif (S.N.C.) – “General partnership”,
- ♦ Société civile (S.C.) – “Civil company”.

The corporate veil of SA, SAS and SARL companies limits the liability of their shareholders to the amount of their share capital except for instance in case of fraud. These entities have legal personality and can have a maximum duration of 99 years (renewable).

Before setting-up your legal structure, you need to know if you will be a sole partner, have several partners or just need a representation in France.

2.2.1 Sole partner

If there is a sole partner, one of the following types of legal structure may be chosen.

2.2.1.1 Self-entrepreneur ("Auto-entrepreneur")

The self-entrepreneur scheme allows individuals to create a small business very easily by a simple declaration of activity. The scheme is only for very small businesses whose turnover is less than:

- ♦ €32,900 for services,
- ♦ €82,400 for trade in goods.

Self-entrepreneurs have tax advantages as they benefit from a flat tax rate for their income tax and wage tax due on their activity as self-entrepreneurs. The flat tax rate depends on the activity.

In this scheme, no annual accounts are needed. The self-entrepreneur is liable for all debts on his or her own assets.

2.2.1.2 One-man business ("Entreprise individuelle")

This structure is suitable for small businesses run by a single individual. The structure is simple as just one person is in charge. The manager has full power to manage the business and takes decisions alone. He or she does not have to file management reports or publish yearly accounts but will have to close accounts for tax purposes at the end of each civil year.

There is no notion of capital. The business assets are intermixed with those of the manager. The manager is liable for all debts on all of his or her own assets.



2.2.1.3 One-man business with limited liability

"Entreprise individuelle" is one of the easiest business structures to start in France. However, its huge downside is that the entrepreneur is liable on his or her personal assets for all debts generated by the business. There is no distinction between the business and the entrepreneur, unlike the EURL whose purpose is to protect entrepreneurs and avoid them going into personal bankruptcy.

Entrepreneurs are therefore only liable on their business assets in the event of financial difficulty.

The EURL has a sole partner (an individual or a company).

The EURL is run by a manager. This may be either the sole partner, or a third party. His appointment and powers are set forth in the articles of association or by means of a separate legal instrument.

The appointment of a statutory auditor is mandatory whenever the company exceeds 2 of the following thresholds:

2.2.1.5 Simplified joint stock company under sole ownership

The SASU has a sole partner (an individual or a company).

The partner is free to determine the organizational rules of the company according to the company's articles of association. His only obligation is to appoint a president.

The nomination of a legal auditor is compulsory if one of the following conditions is met:

2.2.2 Several partners

2.2.2.1 Limited Liability Company

This structure is the most used by small and medium-sized businesses.

The capital is owned by 1 or more shareholders (max. 100) that can be individuals or legal entities. The shareholders' liability is limited to the amount of their contributions.

There is no obligation to appoint a statutory auditor, unless 2 of the 3 following thresholds are exceeded:

- ♦ Total balance sheet > €1.55 million,
- ♦ Yearly pre-tax turnover > €3.1 million,
- ♦ Average number of employees > 50.

2.2.2.2 Corporation ("Société Anonyme", SA)

This structure is suitable for large projects and/or public issue.

The minimum capital requirement is €37,000 (if there is no public issue). At least half of the capital must be paid when forming the company, the rest within 5 years. The capital may be comprised of contributions in cash or in kind. Contributions in kind have necessarily to be approved by a legal auditor appointed by the commercial court or by all the partners.

This structure needs at least 7 shareholders – Individuals or legal entities.

The shareholders' liability is limited to the amount of their contributions. The company is run by a board of directors with a minimum of 3 and a maximum of 18 members. The directors may have to be shareholders.

The appointment of a legal auditor is mandatory.

2.2.2.3 Simplified Joint Stock Company ("Société par Actions Simplifiée", SAS)

Very flexible, this structure is appreciated for large-scale projects and by investors. Such flexibility implies that the partners pay attention to the level of their engagement and the organization of powers.

The partners are individuals or companies.

The minimum capital is €1. It is prohibited to go public. The partners are free to determine the organizational rules of the company according to the company's articles of association. Their only obligation is to appoint a president.

The way in which collective decisions are adopted is also determined freely by the partners, according to the company's articles of association. That said, it is obligatory to take certain decisions collectively (approval of the accounts, changes to the share capital, etc.).

The shareholders are only liable for debts up to the amount of their investment. The liability of the director(s) is, however, much heavier. For example, it may extend to their personal assets if they have managed the company incompetently.

The nomination of a legal auditor is compulsory if one of the following conditions is met:

- ♦ The SAS is held by another entity by more than 50%; or
- ♦ The SAS controls another entity (more than 50% of the shares); or
- ♦ The SAS exceeds 2 of the 3 following thresholds:
 - o Total balance sheet > €1 million,
 - o Yearly pre-tax turnover > €2 million,
 - o Average number of employees > 20.

2.2.2.4 General Partnership ("Société en Nom Collectif", SNC)

The minimum capital is €1.

This structure must be created with at least 2 partners. The partners have joint and unlimited liability.

There is no obligation to appoint a legal auditor, unless 2 of the 3 following thresholds are exceeded:

- ♦ Total balance sheet > €1.55 million,
- ♦ Yearly pre-tax turnover > €3.1 million,
- ♦ Average number of employees > 50.

2.2.2.5 Civil company ("Société Civile")

The minimum capital is €1.

The company must have at least two shareholders. This structure must be created with at least 2 partners. The partners of the company have unlimited liability in proportion to their share ownership.

The activity must not involve trade.

In the case of real estate, an SCI (Société Civile Immobilière) is generally used to purchase, sell and rent properties.

Children under eighteen years of age can hold shares in the company, provided they receive separate legal advice about their rights and obligations. It would also be possible, within the articles of association of the company, to limit in some manner the liability of any minors in the company.

Like any other companies the SCI is a separate legal entity from those who own it.

Depending on how the operation is structured, some tax advantages may be enjoyed with SCIs.

2.3 Dissolution and liquidation of business entities

Different factors – e.g. retirement, health, divorce, inheritance, disputes between associates, bankruptcy – may cause a business to be wound up.

In France, a business can be terminated without government approval.

2.3.1 Termination – solvent companies

The dissolution of a company can result from the company's term or from a contractual dissolution between the partners. It can also be decided by the commercial court either at the end of a bankruptcy procedure or on the request of one of the partners.

The shareholders are free to organize the conditions of the winding up or dissolution. However, some rules have to be followed.

From a tax standpoint, there is immediate taxation of profits not yet taxed.



2.3.2 Termination – Insolvent companies / bankruptcy

2.3.2.1 Insolvency

If a company becomes insolvent, i.e. does not have enough money to pay off its debts, the law makes it an obligation for the managing executive of the business to file a petition for bankruptcy at the commercial court within 15 days of the suspension of payments. If the executive manager does not comply with this legal obligation of filing, he may be exposed to civil or even criminal actions (action for the replenishment of liabilities; personal bankruptcy; prohibition to manage companies).

2.3.2.2 Bankruptcy

If a company defaults on payments, it must open bankruptcy proceedings by notifying the office of the commercial court.

Then the commercial court may rule on a restructuring plan. Restructuring results in an observation period, during which the business owner prepares economic and social analysis and a restructuring plan with the help of an administrator or an expert.

This observation period begins at the request of the business owners of the company or the creditors of the company.

If the restructuring plan shows that it is impossible for the company to continue running the business, the court will initiate a receivership procedure. This curtails all business activity and allows the firm's shares and assets to be distributed.

2.3.2.3 Conciliation

If a company meets financial, legal or economic difficulties but is not yet in default of payment (or has been for less than 45 days), it can use the conciliation procedure.

This is a confidential procedure which is opened at the company's application to the commercial court.

The commercial court appoints a conciliator for a 4 month period which can be extended by 1 month.

The conciliator aims to find an amicable agreement between the company and its main creditors in order to put an end the company's difficulties.

The agreement is either:

- ♦ Recorded by the president of the commercial court: it remains confidential, only the signatories are aware of the agreement; or
- ♦ Approved under conditions (the entity does not default, the agreement allows continuation of the company and does not harm the interests of creditors who did not sign it): it is published in France's Official Bulletin of Civil and Commercial Announcements (BODACC). Approval gives the agreement greater force than mere recording.

2.4 The implied trust – fiducie

The trust is a well-known English mechanism. In very simple terms, it allows the ownership of an estate to be transferred to a trustee. The trustee manages the estate and, in turn, transfers the ownership to a beneficiary.

But the trust institution does not exist under French law.

The similar French institution is the fiducie.

The fiducie was introduced into French law in 2007. It is intended to be a similar mechanism to the trust mechanism although, as will be described below, its use is more limited.

A fiducie can be created by an individual or a legal person.

However the trustee ("fiduciaire") can only be a bank, a credit company or a solicitor. No such limitations apply to the beneficiary, i.e. anybody can be a beneficiary.

Tax is only due when the estate is transferred to the beneficiary. Therefore, the fiducie has a distinct tax advantage over the trust.

Furthermore, like a trust, the fiduciaire's estate is divided into two separate components: a personal estate and a "fiducial" estate. This can be very useful in the event of bankruptcy for example.

Under French law the fiducie contract must be drafted with great care. Some mandatory clauses must be included in the contract; otherwise the whole operation could be cancelled.

For those reasons, the drafting of a fiducie contract can be more complicated than the setting up of a trust.

The fiducie is not used as much in France as in other countries.



3. EMPLOYMENT

Labor relations are governed by the Labor Code and by industry-specific collective bargaining agreements that reflect the practices of each sector.

3.1 The French labor contract

The most common form of employment contract is an open-ended contract / permanent contract / undefined term contract (contrat à durée indéterminée or CDI). In principle, parties are free to write their own contracts and have a great deal of liberty with regard to content. However, contractual clauses must comply with the French Labor Code and the Collective bargaining agreement that applies to the employer.

The company's actual activity, as stated in its articles of association, determines which collective bargaining agreement is applicable.

An employment contract must stipulate the employee's remuneration and job description, along with the working hours and place of work.

The contract may also provide for a probationary period, which may be as long as four months for a managerial post. If nothing is foreseen in the contract, the probationary period cannot be presumed.

Compensation must be at least equal to the minimum wage provided by the applicable collective bargaining agreement and the statutory minimum wage, which is set at €9.61 gross per hour for 2015, or approximately €1,466.65 a month on the basis of a 35-hour working week. The contract may also provide for additional benefits and a profit-sharing scheme.

Extra staff can also be hired to meet temporary needs. However, the law restricts the use of fixed term contracts and temporary agency workers to specific situations and generally sets an upper limit of 18 months on such arrangements.

Changes in the labor contract

Employers may propose changes to an employee's contract. Depending on whether this involves a substantial change or simply a change in working conditions, it may be obligatory to obtain the employee's consent.

A change to a contract may relate to an essential component such as pay, qualifications, working time, place of work and more generally, the work assigned to the employee. In this case, the employer cannot impose a change to the contract but must propose the change to the employee.

Simple changes to working conditions may however be imposed by the employer within the remit of their managerial authority.

3.2 Hiring procedures

A company can start hiring as soon as it has been registered.

The administrative formalities involved in hiring employees have been streamlined with the introduction of a single reporting form for newly hired employees (DPAE – Déclaration Préalable à l'Embauche).

The employer must fill in the form in the 8-day period before a new employee starts work and send it to the local URSSAF office. The form can also be submitted online.

In addition to the DPAE, the following are also required:

- ♦ Affiliation to complementary retirement funds within 3 months of setting up the business (failing which automatic affiliation will be made);
- ♦ Carrying out the required procedures for hiring foreign members of staff (excluding European nationals);
- ♦ Medical visits.

3.3 Profit-sharing and share ownership programs

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 and social security benefits for both employees and employer.

3.4 Termination of the employment contract

Employment contracts can be terminated at the employee's initiative (resignation) or at the employer's initiative (dismissal). Except during probationary periods, employers must provide real and serious reasons for dismissal and comply with the legally prescribed procedures.

The law of June 25, 2008 on modernizing the labor market establishes a new way of terminating an employment contract: "rupture conventionnelle" or agreed termination.

3.4.1 Economic layoffs

This kind of layoff can be individual or collective. There is a process to respect, which is longer and more onerous than dismissal for personal reason even if the employer must respect a similar process. Employees must also be asked to attend a preliminary interview before they are laid off. The head of the company must meet with the works council and consult it about collective layoffs.

During the preliminary interview, employers with less than 1,000 employees must offer the employee(s) to be dismissed a CSP: "Contrat de sécurisation professionnelle" or reemployment support agreement. This kind of contract is concluded with the French unemployment body to help the employee(s) find a new job.

A job preservation plan ("Plan de Sauvegarde de l'Emploi" or PSE) must be drawn up when a business with 50 employees or more decides to lay off 10 or more employees in any 30-day period. This plan must explain all action taken to avoid loss of jobs, such as reorganizing work, job-sharing, reassignment of employees inside and outside the company, etc. The plan must also explain the financial terms of the severance package. It is then submitted to the staff representatives and labor authorities.

3.4.2 Layoff for personal reasons

Personal dismissal procedures can be initiated for misconduct on the part of the employee or conduct that is not actually misconduct, but nevertheless significantly harms the company's interests (for example professional inadequacy).

Employees dismissed for personal reasons are entitled to severance pay equal to a percentage of monthly salary in relation to years of service, as for economic layoffs. Employees are not entitled to severance pay in cases of serious misconduct or willful misconduct.

The employer must ask employees to attend a preliminary interview, respecting a period for notification.

3.4.3 Negotiated termination

An employer and an employee may negotiate an end to the employment contract, the so-called "rupture conventionnelle". The procedure is quite flexible. The employer and employee sign an agreement, in writing, setting out the termination date and conditions including the payment due to the employee.

However there is also a specific process to respect, with at least a period of 15 calendar days during which both parties may question the agreement and 15 working days for the Administration to give its approval. These schemes are collective and individual arrangements are not permitted.

Important, the benefit paid to the employee is submitted to a "forfeit social" of 20% fully borne by the employer.

3.5 Working hours

Working hours have to be negotiated within the company.

3.5.1 35-hour week: greater flexibility since 2003

Statutory working hours in France are 35 hours worked per week. These hours serve as the basic reference beyond which overtime is calculated. Overtime hours ("heures supplémentaires") worked in excess of statutory working hours are paid to employees at 25% more than regular pay (for the first 8 hours, then 50% more) in all companies as since October 1, 2007 (except where a collective agreement provides for a lower rate, which may not in any case be less than 10%).

The extra hours are an employer's prerogative and the employee cannot refuse to work them if the company's level of activity fully justifies them.

Under 35 hours, the employee is considered as working part-time and particular rules may be applied, especially regarding additional hours to those contracted for.

3.5.2 Major reductions in social security contributions

Companies of all sizes and in all industries have been entitled to reductions in social security contributions on low wages since 2003. Reductions are calculated according to the hourly wage rate per employee and per month. They can amount to 26% of gross wages for an employee earning the statutory minimum wage (SMIC). Average employer contributions for employees earning the minimum wage are between 17 and 19%, depending on the size of the business.

3.5.3 Paid leave

Employees in France are entitled to five weeks of paid leave. The employer can refuse to let an employee take paid leave if the workload is too great. However, employers must let employees take at least four weeks of paid leave between May 1 and October 31. In addition to paid vacation, there are 10 legal holidays and personal leave days (marriage, birth, death).

3.5.4 Without special dispensation, Sunday is a day off

Employees must be given a weekly day of rest lasting at least 24 hours on Sunday. However, there are many exceptions to the Sunday rule. Extra compensation has to be paid to employees working on Sundays and they are still entitled to a weekly day of rest.

3.5.5 Daily and weekly rest

Independently of employees' working hours, they must have a daily rest of 11 continuous hours and a weekly rest of 35 continuous hours (24 hours on Sunday plus 11 hours).

3.6 The social security system

France's health and social security system pays virtually all healthcare costs incurred by employees and their families.

The system is backed up by compulsory unemployment insurance, supplementary retirement and collective health insurance schemes. Employers are free to add other insurance coverage for employees.

Since January 1st 2016, all the companies have the obligation to implement a collective health insurance contract for their employees working in France. The conditions of this insurance are either defined by the collective bargaining agreement, or filing that, by the company.

Health and retirement benefits for employees compare favorably with those offered in many other OECD member countries.

The law of June 14, 2013 set up a general obligation for every employee to have health insurance and social coverage. This obligation must be respected from January 1, 2016 at the latest.

Social security contributions relieve the company of responsibility in case of sickness, retirement and unemployment.

Employer and employee contributions are collected by the URSSAF (French organism for payroll taxes). The employers' share of contributions represents at most 42% of gross wages and the employees' share amounts to about 21%.

3.7 International mobility

In order to improve France's economic attractiveness, recent laws have placed international mobility at the center of innovative measures that meet companies' needs; as such, residence permits valid for several years have been introduced for the first time, providing foreign nationals with a complete legal framework.

The extension of Skills and Expertise residence permits to company directors and admission to and residence in France require a visa, except in special cases for certain business travelers (according to their nationality).

3.7.1 Visiting and residing in France

Short-stay in France: circulation visa

The circulation visa is a short-stay visa for people who wish to conduct business relations in France without actually residing in the country. The circulation visa is issued for 1 to 5 years and authorizes stays of up to 90 days per six-month period. To receive this visa, proof of business activity in France is required.

Long-stay in France

Stays of more than three months require a residence permit specifying the nature of the stay: salaried employee, scientific activity, student, visitor etc.



3.7.2 Working in France

In principle, a work permit is required to carry out salaried professional activity in France. Some residence permits allow residency in France and also act as work permits (single residence/work permit), e.g. the "Expatriate Employee", "Employee", "Temporary Worker", "Scientific Activity", "Student" and "Skills and Expertise" residence permits.

The "Expatriate Employee" temporary residence permit

This is a new residence permit; it concerns employees seconded or expatriated to France as part of an inter-company transfer. It is valid for 3 years.

The "Employee" temporary residence permit

This type of residence permit is geared towards foreign nationals employed in companies in France, for a period of one year or more. It is valid for one year and can be renewed.

The "Temporary Worker" residence permit

This type of residence permit is issued to employees admitted to France to work for a period of less than one year. This especially applies to employees seconded by a foreign company to provide a particular service.

The "Scientific Activity" temporary residence permit

This residence permit is issued to foreign nationals who are engaged in research activities or teaching at university level.

The permit is valid for one year, and can be renewed for a period of one year.

The "Student" temporary residence permit

This type of permit is issued to foreign nationals studying in France who are financially self-sufficient.

This type of residence permit is valid for one year.

The "Skills and Expertise" residence permit

This is a new multi-year residence permit (3 years). It can be issued to any foreign national whose skills and expertise contribute in a significant and lasting way to the economic development or intellectual, scientific, cultural, humanitarian or sporting progress of France.

3.7.3 Employee treatment in France

Salaried activity in France is subject to French labor regulations, particularly concerning statutory working hours, payment of French social security contributions (in the absence of applicable agreements) and equal rights.

3.7.4 Health cover for employees in France

Your employees may opt for continued cover by the health and social security system in their home country if a reciprocal agreement exists between their home country and France.

In the absence of a reciprocal agreement, any employee working in France, irrespective of their nationality, age or type of employment contract, must be registered with the French social security system (territorial principle).

International agreements and EU regulations provide for exemptions from French social security contributions.

Nationals of countries which have signed bilateral social security agreements with France may remain registered with the social security system of their country of origin during their secondment in France for the maximum period provided by each agreement.

A secondment is always limited in time and at the end of this period the seconded national must register with the social security system of the host country (in this case France). They can however continue to contribute to the social security system in their country of origin; this is called making dual contributions.

In practical terms, the employee must supply proof of registration in his or her country of origin to be able to benefit from the application of social security bilateral agreements.

For any further details you may need, please feel free to ask for our "Employer's main social obligations" updated in October, 2014.



4. TAXATION

4.1 Overview

Companies

Corporate income tax

The normal rate of corporate income tax is 33.33%.

An additional 3.3% social contribution is levied on the portion of corporate income tax that exceeds €763 thousand.

A temporary 10.7% surtax (increased from 5% as from January 1, 2014) also applies based on corporate income tax liability for companies whose turnover exceeds €250,000 thousand, for financial years closed between December 31, 2013 and December 30, 2016.

Small companies with gross revenues of under €7,630 thousand benefit from a reduced corporate income tax rate of 15%. The reduced rate applies only to the portion of taxable income that does not exceed €38.12 thousand.

Territorial (active income) meaning that industrial and commercial profits are subject to French tax only if they are earned in France, except when CFC rules apply.

Worldwide (passive income, i.e. dividends, interest payments and royalties).

Capital gains

Short-term capital gains are subject to the standard corporate tax rate of 33.33% and potentially to the additional contributions mentioned above.

Long-term capital gains derived from disposals of substantial shareholdings are tax-exempt, except for a 12% share of expenses. Other long-term capital gains are taxed at 15.5% (notably gains deriving from disposals of patents as well as royalty fees on patents) or 19% (gains deriving from the sale of shares held in listed predominantly real estate companies).

Participation exemption

Yes, specific tax rules apply to dividends received by French companies that qualify as parent companies. If certain conditions are fulfilled, 95% of the dividends received from the subsidiary are exempted from corporate income tax.

In addition, as mentioned above, long-term capital gains derived from disposals of substantial shareholdings are 88% tax-exempt under certain conditions.

4.2 Company taxation

Any foreign entity doing business in France is liable to pay French tax on its earnings in France. This rule applies regardless of the types of entity (subsidiary, branch or permanent establishment). According to the territoriality principle, activities that a French company carries on abroad through a foreign branch are, in principle, not subject to tax in France, except in the case where specific CFC rules apply.

4.2.1 Taxable entities

Liability to corporate tax may be either mandatory or optional. The most important entities subject to mandatory corporate tax liability are corporations (Société Anonyme, SA), simplified stock companies (Société par Actions Simplifiée, SAS), limited liability companies (Société à Responsabilité Limitée, SARL) and partnerships limited by shares (Société en Commandite par Actions, SCA).

General partnerships (Société en Nom Collectif, SNC) and silent partnerships (Société en Participation, SEP) are excluded from the scope of corporate income tax but may become subject if they so elect.

Civil companies (Société Civile, SC) are subject to corporate income tax if they carry out a commercial activity. Otherwise, they are treated as transparent entities and are not subject to corporate income tax unless they so elect.

Foreign companies' branches are, as a rule, subject to corporate income tax.

Entities that are not subject to corporate income tax receive partnership treatment, meaning that as such they are not considered as taxable entities. Each member of the partnership is subject to taxation according to the regime applicable to itself (personal or corporate income tax) on the portion of income it derived from the entity.

4.2.2 Tax assessment basis

Any income received, whether realized or accrued, needs to be taken into account when computing taxable profits. Apart from the participation exemption on dividends and capital gains, there are no significant corporate tax exemptions.

A distinction must be made between three main types of expenses: general expenses, depreciation and provisions.

4.2.3 General expenses

General expenses include all expenses connected with the day-to-day operations of the company: purchases of goods and raw materials, compensation and related social security, rent etc.

As a rule, financial expenses incurred in the normal course of business are deductible but interest paid to related parties is subject to limitations (please refer to the thin capitalization section).

Apart from the corporate tax itself, the most important taxes paid by companies are deductible.

Input VAT related to business transactions which is not recoverable can be deducted for corporate income tax purposes.

It should be noted that some expenses are never deductible, even though they are incurred for the purpose of acquiring and preserving taxable income, such as: luxury expenses, entertainment expenses (e.g. hunting and fishing) and the acquisition and maintenance costs of luxury residences and boats.

Penalties and fines are not deductible.

Acquisition costs of "participation" shares incurred by companies subject to corporate tax must be included in the cost of the acquisition. The tax deduction of such costs is spread over a period of 5 years.

Expenses resulting from transactions with affiliated nonresident parties are deductible only where based on the arm's length principle. This applies, for example, to purchases from an affiliated company and fees or royalty payments. Management services are subject to close scrutiny from the tax authorities. Therefore, appropriate substantiating documentation is required to ensure deductibility (please see the transfer pricing section).

4.2.4 Depreciation and provisions

French companies must apply the accounting rules on asset amortization and depreciation to their individual and consolidated accounts. Companies must implement the component depreciation method ("méthode d'amortissement par composants"). Under this method, companies must account for and depreciate the principal components of tangible assets separately when such components must be frequently renewed, have different uses or provide economic benefits that vary over time.

Based on the French tax rules, the taxpayer may use three main depreciation methods to determine its tax-deductible allowances:

- (i) Straight-line depreciation which must be applied to all assets that are ineligible for the other methods mentioned below. As a general principle, straight-line depreciation rates are computed by dividing the expenditure by the estimated useful life as determined in accordance with accepted business practice.
- (ii) Accelerated depreciation (declining-balance depreciation). This method is optional and applies only to assets that are new or renovated, have an estimated useful life of at least 3 years and are not expressly excluded from the scope of this method.
- (iii) Exceptional depreciation is optional and applies to assets expressly designated in the French Tax Code (software, energy-saving equipment etc.).

Provisions (including accrued expenses) are tax-deductible only if certain conditions are fulfilled: (i) the loss or expense to which the provision applies is specific in both its nature and its amount (such loss or expense should itself be deductible and clearly identified); (ii) the corresponding loss or expense must be probable and not merely possible; (iii) the likelihood of the loss or expense should result from the factual situation that exists at the time the provision was recorded, and (iv) the provision must be recorded in the company's books.

4.2.5 Controlled Foreign Companies (CFCs)

Profits made by Controlled Foreign Companies (CFCs) that are established in low-tax countries and whose parent company is subject to French corporate tax are subject to tax at the French parent company's level (i) wherever the French company directly or indirectly holds more than 50% of the shares in the subsidiary and (ii) wherever it cannot be proven that the subsidiary's main activity is truly industrial or commercial carried on with non-affiliated companies in the said low-tax country.

Safe-harbor clauses are provided by the French Tax Code in particular for CFCs established in the European Union.

4.2.6 Transfer pricing

The French Tax Code allows the French tax authorities to levy tax on a French enterprise that transfers profit to a related entity located abroad, if inter-company transactions are not carried out at arm's length prices.

In addition, the French tax authorities are allowed to request information and documentation involving transactions between associated enterprises. In practice, the French Tax Code provides that if, in the context of a tax audit, the French tax authorities have gathered sufficient evidence to presume that the French company transferred profits abroad, they may require the company to provide the following documents and information:

- (i) The features of the commercial relations existing with foreign affiliated enterprises with which transfers of profits are deemed to have occurred;
- (ii) The method used to set the prices of the industrial, commercial and financial transactions carried out in the above affiliated enterprises, as well as evidence supporting this method and potential forms of consideration granted;
- (iii) The activity carried out by the affiliated enterprises with which transfers of profits abroad are deemed to have occurred;
- (iv) The tax treatment applied to the above transactions by the foreign affiliated companies in question.

This information and documentation must be provided to the tax authorities within two months after request.

If the company fails to reply or does not provide sufficient information, a €10 thousand fine may be incurred for each fiscal year in question, or 0.5% of the profit transferred on the basis of any information the tax authorities may have in their possession, or 0.5% on non-documented transactions.

As from January 1, 2010 companies that meet certain thresholds (notably that have an annual turnover of at least €400 million, excluding VAT, or that belong to a tax-consolidated group which meets the revenue threshold), are required to have transfer pricing documentation available to the French tax authorities at the beginning of a tax audit or, at least, to provide them with the required documentation within 30 days upon request.

Finally, please note that French law provides for bilateral rulings (Advance Pricing Agreements, APAs) which aim at avoiding the risks of double taxation and to provide French entities with a guarantee that the tax authorities will not challenge their transfer pricing policy.

Companies (the group) must provide, within 6 months following the annual tax return, transfer pricing documentation with additional information, namely a list of intangible assets and a list of intra-group transactions, by nature and amount, for all transactions exceeding €100,000.

This obligation is effective since November 2014.

From 1st January 2018, companies belonging to a tax consolidated group with a turnover of more than M€ 750 are requested to do a reporting country by country of the company's profit. This measure is inspired from the BEPS actions.

4.2.7 Withholding taxes, international agreements and European Union regulations

4.2.7.1 Withholding tax on dividends

From a domestic standpoint, dividends paid by a French company to its foreign parent company are in principle subject to a 25% withholding tax.

However, this tax can be reduced or eliminated when a tax treaty applies. In addition, dividends paid to parent companies established in an EU Member State are exempt from such withholding tax under certain conditions. In particular, the parent must hold directly at least 10% of the share capital and voting rights of the subsidiary continuously for at least 2 years.

In addition, as from January 1, 2014 dividends paid to an entity established in a non-cooperative country / territory are subject to a 75% withholding tax (see below the list of countries concerned updated as of January 1, 2016):

- ♦ Brunei,
- ♦ Guatemala,
- ♦ Marshall Islands,
- ♦ Nauru,
- ♦ Niue,
- ♦ Botswana

4.2.7.2 Withholding tax on interest

Interest paid by French companies to foreign companies was, in principle, subject to withholding tax. However, most of the interest was exempted under specific provisions of the French Tax Code.

Only the interest paid by French companies to entities established in a non-cooperative country / territory (please see the list above) is subject to withholding tax, at an increased rate of 75%. Interest paid to entities established in other countries is exempted from a domestic standpoint.

4.2.7.3 Withholding tax on royalties

Royalties paid by French companies to foreign companies are, in principle, subject to withholding tax. This rate can be reduced or eliminated when a tax treaty applies.

This rate is increased to 75% for royalties paid by French companies to entities established in a non-cooperative country / territory (please see the list above).

In addition, outbound royalty payments are exempt from the 33.33% withholding tax provided that the beneficial owner of the payment is an "associated company" (according to EU requirements) and is resident in an EU Member State. In particular, a minimum holding of 25% in the capital of the paying entity is necessary.

4.2.7.4 Withholding tax on foreign companies' branches in France

Foreign companies' French branches are subject to corporate income tax. In addition, for French tax purposes, such branches' after-tax profits are deemed to be distributed to the foreign company's shareholders. Therefore, a 25% withholding tax applies to their after-tax profits. The French branches of companies established in EU Member States are, however, exempt from such withholding tax.

In addition, the above rate can be reduced or eliminated when a tax treaty applies or when evidence can be provided that the foreign company has distributed no dividends. It can also be eliminated on any distributions that the foreign company makes to French residents.

4.2.8 Capital gains taxation on the sale of shares

4.2.8.1 Participation exemption

Long-term capital gains derived from disposals of substantial shareholdings are tax-exempt, except for a 12% share of expenses, leading to an effective tax rate of 4%.

4.2.8.2 Reduced capital gains taxation

Long-term capital gains derived from the disposal of substantial shareholdings in listed French predominantly real estate companies are taxed at 19%.

Other long-term capital gains are taxed at 15.5% (notably gains deriving from disposals of patents as well as patent royalties). Capital gains on shares in non-listed real estate companies are taxed at the rate of 33.33%.

4.2.9 Thin capitalization rules

From January 1, 2007 all loans that French companies receive from "associated companies" are subject to thin-capitalization rules.

Two companies are "associated companies" if (a) one of them has a direct or indirect minimum holding of 50% in the capital of the other or controls the other company de facto or (b) a third company has a direct or indirect minimum holding of 50% in the capital of the two companies or exercises control de facto over the two companies.

The thin-capitalization mechanism provides for two limits to the tax deductibility of intra-group interest.

Firstly, interest paid to another company of the same group is tax-deductible at a rate limited to the annual average effective rate that credit institutions offer companies for variable interest rate loans with an initial term of at least two years (based on average quarterly rates published in the Journal Officiel). For calendar year 2014, the maximum tax-deductible rate was 2.79% (for 2013, 2.74%).

Nevertheless, a higher rate is accepted but the taxpayer will have to demonstrate that it would have paid a similar or higher rate to a bank in a comparable situation.

Secondly, if the amount of interest paid during a given fiscal year meets the following 3 conditions simultaneously, a portion of the interest must be added back into the borrowing company's taxable income.

- ♦ The overall indebtedness (related party debt-to-equity ratio) exceeds 1.5 to 1. This ratio is determined by comparing loans from associated companies with the equity capital of the borrower;
- ♦ The total amount of interest paid to associated companies exceeds 25% of the pre-tax profits, adjusted for intra-group loan interest and depreciation taken into account in determining the said pre-tax operating profit or loss; and
- ♦ The amount of interest paid to associated companies is higher than the amount of interest received from such companies.

Interest exceeding the higher of the above limits is not tax-deductible (unless the excess portion is less than €150,000) but can be carried forward within certain limits.

Nevertheless, the limitation mechanism will not apply if the borrower can prove that its rate of indebtedness is less than or equal to the overall rate of the group to which it belongs.

Moreover, specific thin-capitalization rules are applicable to tax-consolidated companies.

The Finance Act for 2013 introduced a provision under which finance charges are capped at 75% of their net amount as from FY 2014 (85% previously). However, the cap does not apply if the total finance charges including expenses disallowed under the thin capitalization rules are below €3,000,000.

Non-deductibility of interest attributable to the acquisition of certain shares: interest on loans for the acquisition of shares are not deductible if decisions related to the shares are not taken in France, meaning if the effective management of the subsidiary is not located in France.

However, interest is deductible if:

- ♦ The total amount of equity shares does not exceed €1 million; or
- ♦ The shares have not been financed by a loan; or
- ♦ The indebtedness of the company is less than the indebtedness of the group to which it belongs.

4.2.10 Tax consolidation

The income of a group of companies may be consolidated under the tax consolidation regime.

When a French parent company (or a foreign company's French branch if the branch is subject to corporate tax in France) holds, from the beginning of the fiscal year, at least 95% of the capital and voting rights of other companies, the subsidiaries may be treated, for tax purposes, as the parent company's branch. Their profits or losses are then included in the parent company's tax results on which corporate income tax is assessed.

To benefit from this tax treatment, the French company (or branch) and its tax-consolidated subsidiaries must file an election for this regime, which will be binding for 5 financial years. The election for tax consolidation is renewed automatically for subsequent 5-year periods except if the parent company expressly renounces the option for tax consolidation.

In addition, any subsidiary member of the tax-consolidated group must be at least 95% held, directly or indirectly, by other French tax-consolidated companies, even via a foreign EU subsidiary or permanent establishment for financial years ending from December 31, 2009.

Specific adjustments are made for determination of the consolidated tax result. Waivers of debt as well as direct and indirect subsidies are neutralized in a tax-consolidated group by (i) adding the waived sums or subsidies back into the results of the company granting the waiver or subsidy and (ii) deducting said sums from the results of the company benefiting from such advantages.

Any dividends that subsidiaries pay to other group members are neutralized. The 5% service charge applicable in the event of a distribution to a parent company is neutralized if the distributing company has been a member of the group for more than one year.

In addition, according to specific provisions called the Charasse Amendment, financial costs that a group incurs to purchase shares in a company already controlled by a related company are not tax-deductible if the company whose shares are purchased becomes a member of the tax-consolidated group. The non-deductible

amount is the portion of the group's financial charges that is equal to the ratio of the purchase price of the shares to the total average of the group's debt. The provisions do not apply, however, when "associated companies" purchase the shares from unrelated parties in order to immediately place them under a related French entity or when the share transfer is carried out between companies in a tax-consolidated group. When the purchased company leaves the group, the add-back of interest ceases.

If a tax-consolidated company ceases to be a member of the group, the consequences are in particular as follows: (i) the departing company's taxable result is not included in the group's taxable result for the financial year of the departure; (ii) indirect subsidies resulting from transfers of fixed assets at prices lower than their fair market value are added-back into the taxable result for the year of departure of the company benefiting from such transactions; (iii) other subsidies and waivers of debt are added back into the taxable result for the year of departure of the company receiving or paying them, but only where they have been deducted from the group's taxable result in one of the five years preceding the departure.

The 2014 Amending Finance Act contains new provisions that aim at allowing horizontal company structures to constitute a French tax group, i.e. two French companies held by a non-French company.

Under the new provisions, several conditions have to be met for two French sister companies to form a consolidation when their parent company is non-French. It is necessary for the parent company to be located in a Member State of the EU.

4.3 Local taxes

4.3.1 Local economic contribution

The Local Economic Contribution (hereinafter "CET") is applicable to all companies and branches. In addition, individuals and legal entities engaged in leasing and subleasing of buildings (other than unfurnished residential premises) are also subject to CET.

CET is composed of the following two parts:

- ♦ A Cotisation Foncière des Entreprises, assessed on the rental value of assets subject to property tax. The rental value of industrial facilities as determined according to the accounting method may benefit from a 30% deduction; and
- ♦ A Cotisation sur la Valeur Ajoutée, assessed on the value added generated by the business. The value added taken into account may not exceed 80% of the company's annual revenue (85% if its revenue exceeds €7.6 million). The contribution is assessed on at rates that vary according to annual revenue, from a minimum of 0.5% of the added value for turnover of up to €0.5 million to a maximum of 1.5% of the added value for turnover of more than K€50,000.

4.3.2 Tax on undeveloped and developed properties

The tax on undeveloped properties (taxe foncière sur les propriétés non bâties) is due from owners of undeveloped land. It is based on a "cadastral value" determined by the land registry office multiplied by a coefficient that is determined yearly by the local municipality. The tax is assessed on the net cadastral value, which is 80% of the total cadastral value.

The tax on developed properties ("taxe foncière sur les propriétés bâties") is assessed in a manner similar to the tax on undeveloped land, i.e. on the net cadastral value, which for this purpose is one half of the cadastral value stated in the local municipality's official records. This one-half tax base reduction is deemed to take into account the expenses of depreciation, insurance, maintenance etc.

4.4 Incentives and special deductions

4.4.1 Exemptions from corporate income tax

- ♦ Companies established in Urban Free Zones (UFZs)
Companies conducting business activity (with the exception of certain specific activities) and created in a UFZ between January 1, 2006 and December 31, 2020 may benefit from a corporate tax exemption during their first five years and from a declining exemption during the following 3 years (9 years if there are fewer than 50 employees). The taxable profit eligible for the UFZ exemption is capped at €100 thousand per twelve-month period. The excess is subject to corporate income tax.
- ♦ Companies established in Zones de Restructuration de la Défense (ZRD)
From January 1, 2009 companies that set up a business activity (with the exception of certain specific activities) in a ZRD, a zone previously used for national defense activities, benefit from an exemption from corporate tax on their income deriving from their activity in the ZRD. This exemption is equal to 100% over the first 5 years, 60% during the 6th year, 40% during the 7th year and 20% during the 8th year. The ZRD income tax exemption is capped according to "de minimis" and "State aid" regulations.
- ♦ Innovative start-up companies
From January 1, 2004 small and midsize companies (fewer than 250 employees, annual revenue < €50 million or balance sheet totals < €43 million) that are less than 8 years old and that have annual R&D expenses exceeding 15% of their overall tax-deductible expenses may benefit from a three-year corporate tax exemption and a 50% rebate for the following two years. The corporate income tax exemption is capped according to "de minimis" and "State aid" regulations.

4.4.2 Research and development (R&D) tax credit

The R&D tax credit is computed on the portion of eligible expenses incurred during a calendar year. The applicable rate is 30% for the portion of R&D expenses below €100 million and reduced to 5% for the portion exceeding €100 million. Higher rates apply, for a two-year period, to both newly created companies and companies that have not benefited from the R&D tax credit in the previous five years (40% for the first year, 35% the second). Higher rates do not apply for expenses from January 1, 2014.

In order to compute the R&D tax credit, qualifying R&D expenses include in particular: (i) payroll expenses and depreciation allowances for equipment directly involved in carrying out R&D programs, (ii) expenses relating to the registration, maintenance and defense of patents, (iii) depreciation allowances for patents acquired from third parties, (iv) expenses for research entrusted to public or private institutions, universities and technical centers, and (v) expenses relating to R&D activities carried out in the EU, Iceland and Norway.

4.4.3 Tax credit for competitiveness and employment

All companies are granted a tax credit of 6% of wages less than 2.5 times the minimum wage (€43,725 per year in 2015) for 2015.

4.4.4 Training tax credit

4.4.5 Family tax credit

4.5 Value added tax (VAT)

4.5.1 Taxable persons and transactions

All entrepreneurs, i.e. persons making taxable supplies of goods and services in the course of business, are taxable persons for VAT purposes. Importation of goods is also subject to VAT, regardless of the type of importer. However, small and medium-sized enterprises with small turnover are exempt but may elect to become taxable persons.

Unless expressly exempt, all supplies of goods and services, including intra-Community acquisitions and self-supplies, made in the course of business are subject to VAT.

4.5.2 Rates

The standard VAT rate is 20%. A reduced VAT rate of 5.5% or 10% applies to most food products, takeaway food, hotels, gas and electricity delivery services, art works and products used in agriculture. A special reduced VAT rate of 2.1% applies mainly to major medicines and to newspaper sales. The following goods and supplies, among others, are exempt from VAT:

Goods which are exported from France,

- ♦ Goods which are delivered from France to another EU Member State,
- ♦ Nursing and medical services,
- ♦ Educational services,
- ♦ Some financial services.

4.5.3 Registration, filing obligations and formal requirements concerning invoices

4.5.3.1 Registration

There is no VAT registration threshold for resident and non-resident businesses. Resident businesses or permanent establishments of non-resident businesses should register with the Enterprises Formalities Centre in which the principal business is established within 15 days after the start of the business.

4.5.3.2 Filings

Monthly or quarterly forms must be filed. If output VAT is higher than input VAT, payment must be made at the time of declaration. A 10% fine is applied in case of late payments.

4.5.3.3 Invoices

Taxpayers must issue invoices immediately upon the supply of goods and services. There are no tax-specific invoicing requirements for export transactions. The specific tax invoicing requirement for EU transactions is that the invoice must contain the VAT identification number of the customer and a reference to the French Tax Code when the operation is VAT-exempt. The invoice must contain certain data. Invoices issued by businesses must comply with French tax and commercial requirements.

4.6 Taxation of individuals

4.6.1 Personal income tax

This tax applies to each family unit and is progressive.

The taxable period is the calendar year. The overall income received during a civil year must be declared in the following year (assessment year) in a detailed tax return covering each type of income. The amount of tax payable is assessed by the tax authorities which issue a tax bill ("avis d'imposition").

4.6.1.1 Taxable persons: notion of residence for tax purposes

French tax law provides that a person, regardless of nationality, will be regarded as resident in France for the purpose of income tax if any of the applicable personal, professional or financial criteria are met. Whenever an individual fulfills any one of the three applicable criteria, he will be deemed to be resident in France and all his income, wherever sourced, will be taxed in France. In order to avoid double taxation a tax treaty, if it exists, may be applied.

Personal criteria

An individual with a family and/or principal place of residence in France will be a French tax resident.

Professional criteria

An individual who carries on a trade, business or profession in France is regarded as resident in France for tax purposes unless he can demonstrate that this activity is only ancillary.

Economic and financial criteria

An individual having the center of his economic interests in France will be deemed to be resident in France. This will be the case if France is the place where the individual has made major investments, has a main office or effective place of management or derives most of his income.

4.6.1.2 Establishment of overall income and calculation of tax

Taxable income is the total of the net amounts of each of the taxpayer's income categories. The main income categories are:

- ♦ Property income (revenus fonciers)
- ♦ Business income (bénéfices industriels et commerciaux)
- ♦ Agricultural income (bénéfices agricoles)
- ♦ Employment income (traitements et salaires)
- ♦ Professional income (bénéfices non commerciaux)
- ♦ Investment income (revenus de valeurs mobilières)
- ♦ Capital gains (plus-values)

The net amount of each category is the gross income less the expenses incurred in acquiring or preserving the taxable income.

Once the net overall income has been determined (by addition of the net amounts of each category), the tax is calculated by applying the increasing rates applicable to each income increment.

The rates currently in force (2015) are as follows:

- ♦ Income splitting system:
- ♦ One person: 1 portion
- ♦ The first and second children: 0.5 portion each
- ♦ The third and following children: 1 portion each (example: a couple with 4 children = 5 portions)

Portion of taxable income (one portion)	Rate %
Up to € 9 700	nil
From € 9 700 to € 26 791	14%
From € 26 791 to € 71 826	30%
From € 71 826 to € 152 108	41%
More than € 152 108	45%

Lastly, this partial tax is multiplied by the number of portions for determination of the gross tax payable.

4.6.1.3 Obligations

Every individual subject to income tax must complete a detailed return comprising a general form and special forms (one for each category of income) indicating the previous tax year's income.

For 2015 incomes declared in 2016, the tax return must be submitted by May 31, 2016. Extended deadlines are granted for declarations made via the internet or for non-residents.

The online filing will become compulsory for all from 2019 (income 2018). A penalty of € 15 will be applied for non online filing.

4.6.2 Net wealth tax

4.6.2.1 Taxable persons

French residents are subject to net wealth tax ("impôt de solidarité sur la fortune", ISF) on their worldwide assets. However, from January 1, 2015 taxpayers who become French tax residents, but who have been non-resident on a continuous basis over the preceding 5 years, are subject to net wealth tax during the initial 5-year period only on their assets located in France.

Non-residents are taxable only on their assets located in France.

4.6.2.2 Taxable base

Net wealth tax applies to all assets (including movables, securities, cash and real property) which are not specifically exempt if their overall net value (i.e. after deduction of qualifying liabilities) exceeds a certain threshold, which is revised annually and which is currently €800,000.

All items must be assessed at their market value on January 1 of the relevant year.

The value of the taxpayer's main residence may be discounted by 30%. The tax is assessed and paid spontaneously by the taxpayer when filing his wealth tax return, except for small wealth amounts, which are declared at the same time and on the same form as for income tax.

The following assets are exempt in whole or in part from tax:

- ♦ Business assets,
- ♦ Antiques, works of art and collector's items,
- ♦ Literary and artistic property rights,
- ♦ Financial investments by non-residents (subject to certain limitations) other than in real property companies,
- ♦ Forestry (for three quarters of its value),
- ♦ Agricultural properties on long-term lease (which enjoy full or partial exemption subject to certain conditions), and
- ♦ Retirement pensions and annuities (subject to certain conditions).

Debts other than those relating to exempt assets may be deducted when assessing the tax base.

4.6.2.3 Calculation

Net wealth tax is assessed on the following cumulative progressive scale:

Taxable amount (€)			Rate (%)
Up to		800,000	0
800,000	–	1,300,000	0.50%
1,300,000	–	2,570,000	0.70%
2,570,000	–	5,000,000	1.00%
5,000,000	–	10,000,000	1.25%
over		10,000,000	1.50%

4.6.3 Inheritance and gift tax

4.6.3.1 Inheritance tax

In case of death, the heirs and legatees must file a detailed declaration exhaustively listing and valuing the assets which are bequeathed to them, within 6 months from the date of death (12 months in the event the deceased resided outside France at the time of death).

Where the deceased was resident in France, all assets, including property, whether movable or immovable, owned by the deceased at the time of death are taxable in France (unless applicable tax treaties provide otherwise) and should be declared. Where the deceased was non-resident, French inheritance tax is due in respect of assets (movable and immovable) located in France. This would include French property and shares issued by French-registered companies.

Subject to treaty provisions assets, wherever located, are taxable in France since January 1, 1999, where the beneficiary has been fiscally resident in France for at least 6 years during the 10-year period preceding that in which the inheritance occurs.

Some assets are either exempt or enjoy a deduction. This is the case for life insurance proceeds (subject to certain restrictions) and for shares in companies or assets in businesses carrying on a commercial, industrial, agricultural or liberal activity, 50% of the value of which is exempt, provided the beneficiaries undertake to keep the shares for at least 8 years and at least one of the beneficiaries runs the business.


Inheritance tax applies only on the net assets, i.e. after deduction of the liabilities of the deceased existing at the time of death.

Where assets are owned jointly between husband and wife, inheritance tax will be owed only in respect of the half share of the property which is passed on.

The persons liable for the tax are the heirs and legatees.

4.6.3.2 Gift tax

The rules for gift tax are to a large extent identical to those relating to inheritance tax.



4.7 Other taxes

4.7.1 Tax on company cars

A tax on company cars is due quarterly by companies owning or renting cars for their employees or managers. The tax amount ranges between €750 and €4,500 per car.

In relation to vehicles registered before June 2004, and not owned by the company before January 2006, it is based on the size of the engine.

For vehicles registered after June 2004 the rate of taxation depends on the level of CO₂ emitted.

4.7.2 Payroll taxes

There are four taxes due by companies which hire a minimum number of employees.

4.7.2.1 Salary tax ("taxe sur les salaires")

Salary tax is paid annually by companies which are not subject to VAT, or only subject to the extent of 10% of their turnover, and hiring at least one employee. The tax is not due if the annual compensation does not exceed a ceiling which is voted each year.

4.7.2.2 Apprenticeship tax ("taxe d'apprentissage")

Apprenticeship tax is paid annually by companies hiring at least one employee. The tax rate is 0.5% assessed on annual salaries paid. Since January 1, 2006 an additional contribution of 0.18% is due on the same basis.

4.7.2.3 Employee training contribution ("participation formation")

The employee training contribution is paid annually by companies hiring at least one employee. The tax is assessed on annual salaries and the rate depends on the number of employees as follows:

- ♦ Less than 10 employees: 0.55%,
- ♦ Between 10 and 19 employees: 1.05%,
- ♦ 20 or more employees: 1.60%.

4.7.2.4 Housing contribution ("participation construction")

The housing contribution is paid annually by companies hiring at least 20 employees which do not invest in residential housing construction in an amount corresponding at least to 0.45% of the salaries paid to their employees. If employers did not invest enough during a fiscal year, the tax rate is 2% on annual salaries.

4.7.3 Tax based on environmental issues

There is an energy tax ("taxe sur l'électricité"), beer and soft drinks tax ("taxe sur les bières et boissons non alcoolisées"), a tax on polluting activities ("taxe sur les activités polluantes") and a mud tax ("taxe sur les boues d'épuration urbaines ou industrielles").

4.7.4 Tax on insurance premiums

There is an insurance tax ("taxe sur les conventions d'assurances") imposed on French or foreign insurance companies that conclude insurance contracts that cover risks that may occur in France. The base for this tax is all the sums paid to insurance companies (premiums, indemnifications etc.). The rate varies according to the category of insurance and risk covered, for example:

- ♦ Illness: 7%,
- ♦ Transports: 18%,
- ♦ Fire on assets used for the business: 7%,
- ♦ Other risks: 9%.

4.7.5 Tax on gambling

There are two taxes on gambling, a tax on gambling winnings ("droits sur les jeux de hazard") and a tax on casinos ("taxe sur les cercles et maisons de jeux"). The rate varies from 10% to 70%.

4.7.6 Excise tax on consumer goods

There is an excise tax ("droit d'accise") on consumer goods such as alcohol, tobacco and mineral oils.



5. ACCOUNTING REGULATIONS AND STANDARDS

5.1 Reference texts

French accounting principles are defined in Regulation 2014-03 of June 5, 2014. Moreover, accounting principles are based on the opinions and interpretations of France's accounting standards authority ("ANC") and on recommendations made by various professional organizations. Fundamental accounting concepts, such as prudence, going concern, accruals and consistency, have a legal basis in France.

5.2 Accounting obligations for companies

Commercial companies must keep qualitative accounts and notably:

- ♦ Chronologically record the entries affecting the financial holdings of the company;
- ♦ Control, at least once a year, with an inventory, the existence and valuation of the assets and liabilities of the company;
- ♦ Prepare annual financial statements based on accounting entries and on the annual inventory.

In order to comply with these 3 fundamental accounting obligations, commercial companies must follow certain rules:

- ♦ Regarding the form of the balance sheet and income statement and of the matters to be included in the notes to the financial statements;
- ♦ The annual financial statements must be honest and truthful and ensure fair representation of the assets, financial position and results of the undertaking;
- ♦ Need to prepare a document describing the applicable policies and accounting organization if necessary for an understanding of the accounting system;

Compliance with the chart of accounts defined in the general chart of accounts established nationally. Companies whose head office is located on French territory must express their documents in euro and draft them in the French language. Accounting documents and supporting documentation must be kept for ten years.

5.3 Mandatory accounting documents

Commercial companies must keep:

- ♦ A ledger,
- ♦ A general ledger,

The general ledger is not a mandatory document according to the accounting rules but, for companies for which a statutory auditor is mandatory (cf. § auditing), it is a means of control that they must have at their disposal.

All commercial companies must abide by their rules, whatever their tax status and whatever their accounting system. From a tax standpoint, the French Tax Code states that tax agents are allowed to request these documents.

For companies whose books are recorded using software, the Tax Code imposes to certain additional requirements including the Account Booking File ("Fichier des Ecritures Comptables" – FEC).

5.4 Form and content of financial statements

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

- ♦ A balance sheet, where headings are classified by function (e.g. finance and customers etc.) rather than by liquidity,
- ♦ An income statement, where revenues and expenses are classified by origin, and are systematically presented under three overall categories:
 - Operating revenues and expenses,
 - Financial revenues and expenses,
 - Exceptional revenues and expenses,
 - Explanatory notes.

Consolidated statements are required for groups of companies who have met, during two consecutive years, two of the three following criteria:

- ♦ Over 250 employees,
- ♦ €48 million turnover (€30 million for accounting years opened until 2015/12/31), and
- ♦ €24 million total balance sheet value €15 million for accounting years opened until 2015/12/31).

Subsidiaries under the control of the holding company or corporate structures in which the holding company has significant influence (at least 20% of the shares) must be consolidated.

Consolidated statements are not required if the Group is also held by a French or foreign company and is already included in its own consolidated statements.

- ♦ The consolidated statements include:
- ♦ The consolidated balance sheet,
- ♦ The consolidated income statement,
- ♦ The statement of cash flows,
- ♦ The statement of changes in owners' equity,
- ♦ Notes to the consolidated statements.

Simplified financial statements apply for very small companies:

- ♦ Micro-companies: entities meeting two of the following criteria during the last fiscal year: turnover less than €700 thousand, total balance sheet value < €350 thousand, less than 10 employees. Those entities are exempted from explanatory notes and can ask not to deposit their financial statement at the company registry;
- ♦ Small companies: entities meeting two of the following criteria during the last fiscal year: total assets less than €4 million, turnover less than €8 million, less than 50 employees. These entities can establish simplified financial statements.

5.5 Auditing

French corporations are required to submit their financial statements for audit. However, other companies (such as SNCs, SARLs) are only subject to this requirement if they exceed certain thresholds (in terms of total assets, number of employees, turnover etc.).

Audits are conducted by professionals (legal auditors – “commissaires aux comptes”) duly registered. Legal auditors are appointed by the shareholders for a period of six financial years. The legal auditor issues two formal annual reports to shareholders: the audit report and the special report.

5.5.1 Incompatibility

In France, the functions of auditor and chartered accountant / advisor are separated: a professional cannot be the auditor and the advisor / chartered accountant for a same client (or group of clients).

In order to guarantee audit independence, some functions are prohibited by law to the auditor for any client of which he is the legal auditor, mainly:

- ♦ All services that would make the auditor express an opinion about a position he helped develop,
- ♦ Bookkeeping, preparing financial statements or financial communication,
- ♦ Merger or contribution audit services,
- ♦ Implementation of internal control measures,
- ♦ Assessment, out of the scope of his legal mission, of elements which included in the accounts,
- ♦ Tax, legal, financial etc. advice,
- ♦ And more generally all services which could imperil his impartiality and independence.

These incompatibilities apply also to international networks of accounting and audit firms: if a member of the network of the auditor provides services to the same client. But they can be authorized if precautionary measures are taken in order to guarantee the auditor's independence.

5.5.2 The audit report

The audit report must include a justified opinion on the financial statements and on legal compliance with accounting principles.

If consolidated statements are required, the legal auditors must issue a report on the consolidated financial statements. This report must be signed by two joint legal auditors.

5.5.3 The special report

The special report contains disclosures of those transactions between a company and its directors that either lie outside the normal course of business of the company or are not at arm's length; transactions between companies having a common manager or directors are also concerned.

5.6 Focus on listed companies

5.6.1 Consolidated financial statements

Listed companies have the obligation to present their consolidated financial statements in accordance with IFRSs. The legal auditor's opinion and the directors' report must also be included in the annual report. The financial statements and the legal auditors' and directors' reports must be filed and are available for inspection by the public.

5.6.2 Report on internal control (only for listed companies)

This report presents the observations of the legal auditors on the report of the directors concerning the internal control procedures regarding accounting and financial data processing. The purpose of the legal auditors is to verify that the information contained in the report is presented sincerely, relevant and not likely to be interpreted wrongly.

5.7 Accounting and tax audit

The quality of the accounting system has direct consequences for the level of risk borne by companies in the event of tax audit. Strict respect of the rules of the PCG regarding bookkeeping is therefore very important for any company established in France.

5.8 Adoption of IFRS in France

The application of IFRS is mandatory for the consolidated accounts of NYSE Euronext Eurolist listed companies. For all other companies the application of IFRSs is optional but the presentation of financial statements under IFRS cannot replace financial statements under French GAAP.

Since January 1, 2005 convergence of French accounting towards IFRS has been made in different areas such as assets or mergers and acquisitions.

Even if the convergence process of the French rules towards IFRS has applied for a number of years, there are still many differences between the French rules and IFRS. This is mainly due to a different approach in the two frameworks and to the vision that the financial statements of a company must provide.

In the French rules, economic events are presented from a legal perspective and are valued at historical cost with the principal objective being the calculation of taxable net income.

IFRS support the principle of the predominance of substance (the existence of economic events) over form (legal existence) with valuation frequently on the basis of fair value or present value.



6. CONTACTS IN FRANCE

International contact :

Valérie Guillard
valerie.guillard@rsmfrance.fr
International Desk Manager

RSM FRANCE
26 rue Cambacérès
75008 PARIS
www.rsmfrance.fr

Regional offices:

Paris

26 rue Cambacérès, 75008 PARIS

Rhône-Alpes

2 bis rue Tête d'Or, 69006 LYON

West

L'Arpège – 213 route de Rennes, 44702 ORVAULT

East

50 avenue Alsace, 68000 COLMAR

Mediterranean

100 avenue Alfred Sauvy, 34473 PEROLS

Table of contents

RSM INTERNATIONAL	2
RSM FRANCE	2
1. GENERAL INFORMATION	5
1.1. Geography and population	5
1.2. Political institutions	5
1.3. Economy	5
1.4. Local Customs	5
2. TYPES OF BUSINESS ORGANIZATION	6
2.1. Introduction	6
2.2. Formation of a company	6
2.2.1 Sole partner	6
2.2.1.1 Self-entrepreneur	6
2.2.1.2 One-man business	6
2.2.1.3 One-man business with limited liability	7
2.2.1.4 Private Limited Company under Sole Ownership	7
2.2.1.5 Simplified joint stock company under sole ownership	7
2.2.2 Several partners	7
2.2.2.1 Limited Liability Company	7
2.2.2.2 Corporation	8
2.2.2.3 Simplified Joint Stock Company	8
2.2.2.4 General Partnership	8
2.2.2.5 Civil company	8
2.3 Dissolution and liquidation of business entities	8
2.3.1 Termination – solvent companies	8
2.3.2 Termination – Insolvent companies / bankruptcy	9
2.3.2.1 Insolvency	9
2.3.2.2 Bankruptcy	9
2.3.2.3 Conciliation	9
2.4 The implied trust – fiducie	9
3. EMPLOYMENT	11
3.1 The French labor contract	11
3.2 Hiring procedures	11
3.3 Profit-sharing and share ownership programs	11
3.4 Termination of the employment contract	11
3.4.1 Economic layoffs	11
3.4.2 Layoff for personal reasons	11
3.4.3 Negotiated termination	12
3.5 Working hours	12
3.5.1 35-hour week: greater flexibility since 2003	12
3.5.2 Major reductions in social security contributions	12
3.5.3 Paid leave	12
3.5.4 Without special dispensation, Sunday is a day off	12
3.5.5 Daily and weekly rest	12
3.6 The social security system	12
3.7 International mobility	12
3.7.1 Visiting and residing in France	12
3.7.2 Working in France	13
3.7.3 Employee treatment in France	13
3.7.4 Health cover for employees in France	13

4. TAXATION	14
4.1 Overview	16
4.2 Company taxation	16
4.2.1 Taxable entities	16
4.2.2 Tax assessment basis	16
4.2.3 General expenses	16
4.2.4 Depreciation and provisions	17
4.2.5 Controlled Foreign Companies (CFCs)	17
4.2.6 Transfer pricing	17
4.2.7 Withholding taxes, international agreements and European Union regulations	18
4.2.7.1 Withholding tax on dividends	18
4.2.7.2 Withholding tax on interest	18
4.2.7.3 Withholding tax on royalties	18
4.2.7.4 Withholding tax on foreign companies' branches in France	18
4.2.8 Capital gains taxation on the sale of shares	18
4.2.8.1 Participation exemption	18
4.2.8.2 Reduced capital gains taxation	18
4.2.9 Thin capitalization rules	18
4.2.10 Tax consolidation	19
4.3 Local taxes	19
4.3.1 Local economic contribution	19
4.3.2 Tax on undeveloped and developed properties	20
4.4 Incentives and special deductions	20
4.4.1 Exemptions from corporate income tax	20
4.4.2 Research and development (R&D) tax credit	20
4.4.3 Tax credit for competitiveness and employment	21
4.4.4 Training tax credit	21
4.4.5 Family tax credit	21
4.5 Value added tax (VAT)	21
4.5.1 Taxable persons and transactions	21
4.5.2 Rates	21
4.5.3 Registration, filing obligations and formal requirements concerning invoices	21
4.5.3.1 Registration	21
4.5.3.2 Filings	21
4.5.3.3 Invoices	21
4.6 Taxation of individuals	21
4.6.1 Personal income tax	21
4.6.1.1 Taxable persons: notion of residence for tax purposes	21
4.6.1.2 Establishment of overall income and calculation of tax	21
4.6.1.3 Obligations	22
4.6.2 Net wealth tax	22
4.6.2.1 Taxable persons	22
4.6.2.2 Taxable base	22
4.6.2.3 Calculation	22
4.6.3 Inheritance and gift tax	22
4.6.3.1 Inheritance tax	22
4.6.3.2 Gift tax	22
4.7 Other taxes	23
4.7.1 Tax on company cars	23
4.7.2 Payroll taxes	23
4.7.2.1 Salary tax ("taxe sur les salaires")	23
4.7.2.2 Apprenticeship tax ("taxe d'apprentissage")	23
4.7.2.3 Employee training contribution ("participation formation")	23
4.7.2.4 Housing contribution ("participation construction")	23
4.7.3 Tax based on environmental issues	23
4.7.4 Tax on insurance premiums	23
4.7.5 Tax on gambling	23
4.7.6 Excise tax on consumer goods	23

5. ACCOUNTING REGULATIONS AND STANDARDS	24
5.1 Reference texts	24
5.2 Accounting obligations for companies	24
5.3 Mandatory accounting documents	24
5.4 Form and content of financial statements	24
5.5 Auditing	25
5.5.1 Incompatibility	25
5.5.2 The audit report	25
5.5.3 The special report	25
5.6 Focus on listed companies	25
5.6.1 Consolidated financial statements	25
5.6.2 Report on internal control (only for listed companies)	25
5.7 Accounting and tax audit	25
5.8 Adoption of IFRS in France	25
6. CONTACTS IN FRANCE	26

RSM

26, rue Cambacérès
75 008 Paris
France

T: +33 (0)1 47 63 67 00
E: contact@rsmfrance.fr

The aim of this publication is to provide general information about doing business in France and every effort has been made to ensure the contents are accurate and current. However, tax rates, legislation and economic conditions referred to in this publication are only accurate at time of writing. Information in this publication is in no way intended to replace or supersede independent or other professional advice. No responsibility for any errors or omissions nor loss occasioned to any person or organisation acting or refraining from acting as a result of any material in this publication can, however, be accepted by the author(s) or RSM International. You should take specific independent advice before making any business or investment decision.

RSM France is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and advisory firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London, EC4N6JJ, United Kingdom.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.