MAKE A *FRENCH* START
10 insights to grow your business in France

THE FRENCH TAX SYSTEM

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FOREWORD

MAKE A *FRENCH* START
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Even in a global economy, investment remains local. Investing in a foreign country for the first time is a leap into the unknown: from language to culture, business practices and regulations, nearly everything is different, and having a good product or service may not be enough to succeed. The size and buoyancy of a country's market, its infrastructure, ecosystems, human capital and business environment are all crucial factors that need to be analyzed to assess the challenges at hand, seize opportunities and make the right choices when considering all the various options.

More than 28,000 foreign companies made these choices when they established themselves in France. Many have been expanding here for some considerable time, offering proof that businesses can prosper in the French economy.

This figure also reflects France's investment attractiveness, which is founded on a powerful economy – the fifth largest in the world – and various structural advantages, as well as highly effective incentive schemes, including one of the best research tax credits available in OECD countries. It also shows the confidence investors have in France's ability to face up to the challenges of the digital revolution, knowing that it is one of the most creative and innovative nations in the world. It is worth remembering, too, that France boasted the largest delegation of startups after the United States at the Las Vegas Consumer Electronics Show in January 2018, and that Paris is now home to Station F, the world's largest startup campus.

Ever at the cutting edge of technological progress, France embarked on a path of structural transformation in 2017, starting with far-reaching reforms to employment and tax law. With companies now enjoying greater flexibility and security in managing their workforce, corporate tax being gradually reduced to 25% by 2022, and capital gains tax and labor costs both falling, France's investment attractiveness is taking a major step forward. These changes will continue over the coming months, which should encourage an ever greater number of investors to choose France.

Mazars and Business France are convinced of France's growing attractiveness and are keen to explain these latest reforms as clearly as possible. This is why they have decided to join forces and use their combined skills to create this guide. Mazars offers internationally renowned consulting, auditing, tax and accounting services in 86 countries, with 20,000 employees in 300 branches, while Business France is the national agency supporting the international development of the French economy, providing support each year to more than 1,000 foreign investment projects. What better partnership could there be to provide you with an operational response to your key preoccupations regarding tax issues, employment regulations, state aid and corporate law? What better alliance of expertise could there be to provide answers tailored to the specificities of your investment project and to help you with the various formalities involved? We hope this guide will fully satisfy your requirements and provide valuable insight.

Caroline Leboucher,
COO of Business France

Marc Biasibetti,
Partner - Mazars

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DISCLAIMER

MAKE A *FRENCH* START
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your business in France

Drawing on conversations with hundreds of foreign business leaders looking to set up in France and all of their combined experience, Business France and Mazars have identified **10 key questions on this issue to which this guide seeks to provide some initial answers.**

However, by their very nature, the various schemes discussed hereafter are subject to potential regulatory changes. Should you wish to obtain the very latest information, and for any further enquiries, we would therefore recommend that you contact Mazars and Business France experts, whose details can be found at the end of this guide.

INTRODUCTION

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France is back!

The President of France has initiated a series of reforms to radically transform France's economic model and the country in general.

The 2018 French Government Budget Act passed in late 2017 is a key part of this reform agenda, seeking to help companies recruit and invest, as well as increasing the spending power of employees, the lifeblood of the French economy. To do so, a gradual reduction of the corporate tax rate from 33% to 25% in 2022 has been approved by parliament, while capital income is now taxed at a flat rate of 30%.

Now that France has created a more favorable business environment, it is essential for investors to understand the following points:

- How to structure the investments they plan to make in France and what tax system they will be subject to.
- The tax system, preferential systems and other taxes in France.
- How to restructure, repatriate and secure their investments in France.
- Upcoming reforms.

INSIGHTS

1 WHAT TAXES WILL I PAY IF I INVEST IN FRANCE?

It all depends on what you intend to do in France...

You just want to test the French market

— Before **making the decision** to invest and establish business operations in France, it is important to gather a certain amount of information, contact various parties (potential customers, suppliers, etc.), and quickly organize your communication and advertising strategy.

— **A liaison office,** which allows you to be represented in France without engaging in commercial transactions, is easy to set up, does not need to be registered in the Company Register (*Registre du commerce et des sociétés* – RCS) and will not be subject to tax.

— However, liaison offices must register with URSSAF (the agency responsible for collecting social security contributions) if they recruit employees.

You have decided to invest in France

— France applies the principle of territoriality to taxation.

— French and foreign companies are only taxed on the earnings generated by the companies they operate in France. Profits made by companies operated abroad are not taxable in France.

— This rule applies regardless of whether the company is run as a subsidiary, a branch office or a permanent establishment.

Commercial transactions performed by a liaison office in France, or by any employees sent out to work for the entity, may be subject to tax in France.

FRANCE STANDS APART!

The vast majority of governments apply taxation to earnings worldwide. This involves taxing all the profits a company generates, both domestically and in foreign countries. This is notably the case in the United States, Canada, Germany and the Netherlands, among others. However, this is not the case in France, which only taxes profits made within its borders.

Three types of legal structure

Subsidiary

— **A subsidiary** is an entirely separate legal entity.

— Even if it is wholly owned by a shareholder, a subsidiary remains a separate entity from its owner. It has its own asset base that is independent from that of its associate(s).

— **Tax obligations:** By definition, subsidiaries are subject to pay taxes in France.

Branch office

— **A branch office** is a permanent establishment set up by a company.

— It is not a separate legal entity, but for tax purposes it is considered to be an independent taxpayer in France.

— **Tax obligations:** Like subsidiaries, branch offices are subject to pay taxes in France.

Liaison office

— **A liaison office** simply serves to represent a company in France without engaging in commercial transactions.

— In principle, registration is not required (except with URSSAF if the office has employees).

— **Tax obligations:** A liaison office is not subject to pay taxes in France.

For further information, please visit:

http://www.gouvernement.fr/en/action-plan-for-company-investment-and-growth

2

HOW ARE MY INVESTMENTS IN FRANCE TAXED?

You are merely acquiring a stake in a French company

Option 1: You are acquiring a cash stake in a French company increasing its share capital

— Investor's cash contributions and their stake in the company's share capital are not subject to tax.

— Companies increasing their share capital must pay a fixed registration fee of either €350 or €500.

Option 2: You are acquiring shares in a French company

If the transaction is taxable in France, acquiring shares in a French company requires a registration fee to be paid in accordance with the type of securities being purchased:

— Share issue: 0.1% of the value of the shares.

— Preferential share issue: 3% of the value of the preferential shares.

— Share issue in companies whose assets are predominantly real estate: 5% of the value of the shares.

So are the dividends I receive taxable?

In principle, the dividends paid by French companies (that are subject to corporate tax) are taxed in the beneficiary's country of residence. In France, such income is only taxed at a low rate, if at all, with numerous tax treaties (more than 140) having been signed to limit or completely offset French withholding tax.

You intend to do business in France

You are setting up a company in France

- Companies established in France are subject to all main business taxes, as presented in **Fact sheet 6.**
- Only profits generated in France are subject to corporate tax (territorial principle) – see **Fact sheet 1.**
- The aforementioned network of tax treaties limits 'tax friction' when earnings generated by French companies are repatriated – see **Fact sheet 4.**

Real Estate Collective Investment Undertakings (OPCIs), Open-ended Real Estate Investment Companies (SPPICAVs) or Local Investment Funds (FIPs) are all bespoke schemes for certain types of investment, particularly financial and real estate investments.

You are not creating a business structure in France

- Branch offices (permanent establishments of foreign companies) are subject to all main business taxes in France.
- Only profits generated in France are subject to corporate tax (territorial principle) – see **Fact sheet 4.**
- Because a branch office is not a separate legal entity, the foreign company bears unlimited liability for the tax obligations of its establishment in France.
- The earnings generated by the branch office are considered to be paid out to the foreign parent company and are liable for withholding tax in France (branch tax system).
- However, branch tax does not apply in the European Union, with various countries having signed a tax treaty with France providing for this. Similarly, it does not apply if the French establishment can demonstrate that it has not paid out any dividends.

The structure of your investments in France must be determined at an early stage.
Feel free to contact us!

3

WILL CORPORATE TAX CONTINUE TO FALL?

Yes!

Falling corporate tax rate

— **A standard rate of 25% by 2022**

> **The standard rate of corporate tax is currently 28% on earnings up to €75,000 in 2017 and 33.33% above this threshold. The threshold will be increased to €500,000 in 2018 and €1 million in 2019. In 2020, the higher rate of 33.33% will be abolished.**

> Companies whose revenues exceed €7.63 million are subject to an additional corporate tax contribution of 3.3%, resulting in an overall corporate tax rate of 28.9% (or 34.43%).

— A reduced rate of 15%

> This rate applies to certain SMEs on earnings that fall under the €38,120 threshold.

> It also applies to certain earnings from industrial property (royalties and capital gains from the sale of patents).

— An effective rate of between 3.36% and 3.47% applies to certain capital gains.

> Capital gains from the sale of shares are taxed at a rate of 12%.

> **The effective tax rate is expected to be 25% by 2022.**

— An effective rate of between 1.4% and 1.72% applies to dividends.

> Dividends paid out by companies to shareholders who have owned a stake of at least 5% for at least two years are taxed at a rate of just 5%.

And also

An attractive tax base

— The corporate tax base comprises:

> The earnings generated by companies operating in France...

> ... minus deductible expenses.

— Only 5% of certain dividends and 12% of certain capital gains are included in the corporate tax base.

- In principle, all types of expenses are deductible when they are incurred for the requirements of the business.
- Fixed assets are depreciated on a straight-line basis over their expected operating life. However, some expenses may be depreciated on an accelerated basis (declining balance system).
- Certain types of provisions are also permitted (for depreciation, risks, renovation work, price rises, etc.).

Losses carried forward or back

- Losses recorded by a company in France, including starting losses, can be carried forward or back.
- Losses carried forward:
  - In France this can be done indefinitely, unlike in certain other countries (Netherlands, Poland, Portugal, Switzerland, etc.).
  - In each financial year, companies may offset losses up to €1 million + 50% of profits exceeding €1 million.
- Losses carried back:
  - Losses can be offset against the previous year's earnings.
  - Losses of up to €1 million can be offset.

4 WILL I BE TAXED BOTH IN FRANCE AND IN MY HOME COUNTRY?

Protection against double taxation

— To ensure that the same income is not taxed both in France and in the beneficiary's home country, France has signed tax treaties with more than 120 countries.

— Double taxation can be avoided either by granting exclusive taxing rights or double taxation relief (offsetting).

Exclusive taxing rights

— Tax treaties can grant a country the exclusive right to tax a company's income.

— In this case, the country of residence does not tax the income and the latter is only taxable in the state in which it was generated.

— Thus, the income is only taxable in the source country and is exempt from tax in the country of residence.

Offsetting

— Offsetting is applied when the country of residence and the country in which the income was generated are both able to tax these earnings.

— To compensate for this double taxation, the tax paid in the source country is offset against the tax paid in the country of residence.

— In the source country, income is often subject to withholding tax.

— In many cases, a tax treaty caps the withholding tax rate to between 0% and 15%, depending on the treaty and the category of income.

Has my country signed a tax treaty with France?

France has an excellent network of treaties

— List of governments/territories that have signed a tax treaty with France:

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

5

WHICH PREFERENTIAL TAX SYSTEM ARE MY INVESTMENTS ELIGIBLE FOR?

Business starters **welcome!**

New companies

— **New companies can be granted an exemption from corporate tax for between five and seven years, depending on the area in which they are established.**

— They may also be exempted from the corporate property contribution (CFE) and/or property tax (for two to five years), as well as the business value-added contribution (CVAE).

Innovative new companies (JEIs)

— Innovative new companies (*jeunes entreprises innovantes – JEIs*) whose R&D expenses account for at least 15% of their tax-deductible costs **are completely exempt from tax on their profits for a 12-month period, before benefiting from a 50% deduction for an additional year.**

— They are also exempt from the local economic contribution (*contribution économique territoriale* – CET) and/or property tax for seven years.

Innovators, **welcome!**

France's research tax credit

— Companies that incur expenses relating to research or innovation can **receive a tax credit worth 30%** of eligible research expenditure up to €100 million, and 5% above this threshold.

— France's research tax credit (*crédit d'impôt recherche* – CIR) is offset against the tax payable by companies for the year in which the costs were incurred and for the following three financial years. Any surplus that cannot be offset is paid to the company as a rebate.

Innovation tax credit

— **SMEs can receive a tax credit worth 20% of the expenses they incur** to design and/or build prototypes or pilot versions of new products, up to a maximum of €400,000 in eligible expenditure.

— The innovation tax credit (*crédit d'impôt innovation* – CII) is offset against corporate tax or, if this is not possible, paid to the company as a rebate.

Prospective buyers **welcome!**

Taking over an ailing company

— Businesses that acquire ailing companies can be **exempted from corporate tax for the first 24 months following the takeover.**

— This exemption from corporate tax may be extended to specific local taxes (CFE, property tax, CVAE, etc.).

Film, animation and video game industries **welcome!**

Cinema tax credit

— Cinema and audiovisual production companies (fiction, documentaries, animations, etc.) that are subject to corporate tax in France can, under certain conditions, obtain a **tax credit worth 25% or 30% of the expenses incurred** in filming and producing cinematographic works.

— This tax credit is offset against corporate tax and any surplus is paid to the company as a rebate.

Tax credit for the creation of video games

— Video game publishers that are subject to corporate tax in France can receive a **tax credit worth 20% of the expenses incurred** in creating video games that meet certain criteria.

— Capped at €3 million per year, this tax credit is offset against corporate tax and any surplus is paid to the company as a rebate.

A whole host of additional tax credits

Competitiveness and employment tax credit (CICE)

- French companies receive an annual tax credit worth 6% of gross payroll on all salaries up to 2.5 times the statutory national minimum wage, i.e. €25 an hour.
- The competitiveness and employment tax credit (*crédit d'impôt pour la compétitivité et l'emploi* – CICE) is offset against the tax payable by companies for the year in which the costs were incurred and for the following three financial years. Any surplus that cannot be offset is paid to the company as a rebate.
- Starting in 2019: This tax credit will be set in stone in 2019 when it is transformed into a permanent reduction in employer social security contributions.

Collection tax credit

- Expenses incurred in the creation of new collections by manufacturers in the textiles, clothing and leather industries can receive a collection tax credit.
- This sum is included in research tax credit.

Setting up business in certain areas

- Companies can also take advantage of exemptions or deductions depending on where in France they are established: Urban enterprise areas (ZFUs), urban regeneration areas (ZRUs), rural regeneration areas (ZRRs), etc.
- These exemptions may apply to corporate tax and specific local taxes.

6 APART FROM CORPORATE TAX, WHAT OTHER TAXES DO COMPANIES PAY?

VAT

A neutral tax for businesses

— The VAT system is designed so that only the end consumer (the customer) bears the burden of the tax on a product or service. With this system, companies play an intermediary role: they collect VAT from their customers and pay it to the government, minus the VAT the company has paid in acquiring goods or services.

— VAT credit (VAT collected < VAT deductible) that has not yet been offset is paid as a rebate.

VAT rates

— The standard VAT rate is 20% and applies to the majority of commercial transactions.

— The reduced rate of 10% applies to certain transactions, notably in the restaurant trade.

— The reduced rate of 5.5% applies to specific products: food, gas and electricity, renewable energy, and books.

— An extra reduced rate of 2.1% applies to medicines, performing arts and the written press.

Exemptions

— Numerous types of transactions are exempt from VAT, including banking and financial transactions, insurance and reinsurance transactions, as well as, in some cases, the rental of empty buildings (for which it is still possible to opt for VAT).

A harmonized VAT system in the European Union

- **Territoriality rules shared by all Member States:** Transactions within the EU can only be subject to VAT by one Member State.
- **A reverse-charge mechanism:** In the case of many B2B transactions within Europe, the VAT system is reversed: the customer is required to pay VAT in the country in which they are established (they are usually able to deduct 100% of the VAT paid). Thus, no VAT flows are recorded in relation to these transactions.
- **Harmonization of the facility to pay the VAT rebates of other Member States.**

Customs duty

- Customs duty is only charged once, when goods enter French territory.
- Goods circulate freely within the EU. No specific formalities are required, other than the completion of a declaration of trade in goods (DEB) or a declaration of trade in services (DES) for purely statistical purposes.
- In addition, a number of VAT exemption or suspension mechanisms are applicable to the purchase of goods (suspensive procedure, EU customs regime, etc.).

Other taxes

Local economic contribution (CET)

The CET comprises the corporate property contribution (CFE) and the business value-added contribution (CVAE). To improve the competitiveness of French firms, tax is not applied to facilities and movable assets classed as productive investments (machinery, tools, equipment, fixtures and fittings).

- CVAE:
  - This contribution is payable only by companies and self-employed individuals with revenues of €500,000 or more.
  - Its rate ranges from 0% to 1.5% depending on the value added generated by the company.
- CFE:
  - This contribution is payable only by companies whose revenues are higher than €152,500.
  - It is based on the rental value of any real estate that is subject to property tax and used by the firm for business purposes.

The CET is capped at 3% of the value added generated by the company. This contribution is deductible from the corporate tax base.

C3S

— The corporate social solidarity contribution (*contribution sociale de solidarité des sociétés* – C3S) is applicable to companies whose revenues exceed €19 million. Its rate is 0.16% of any revenues above this amount. **The C3S is deductible from the corporate tax base**

Property tax

— In principle, all property owners are subject to property tax. The value of this tax varies according to the property's location, and is based on the land registry rental value of the land on which the building stands, minus a 50% fixed rebate for costs. **Property tax can be deducted from corporate tax.**

Other taxes

— A number of specific local taxes apply to certain business activities (e.g. those that cause pollution) and establishments in particular areas (e.g. the special tax for Ile de France / Paris region).

Certain preferential systems exempt companies from local taxes, in particular the CVAE (see above).

7

AM I FREE TO (RE) STRUCTURE MY INVESTMENTS IN FRANCE?

Particularly advantageous structuring options

Tax consolidation in France

— The French tax consolidation system allows the earnings of companies that are subject to this system to be taxed at group level.

— This allows a group to:

> Offset, without restriction, profits and losses recorded by consolidated companies.

> Neutralize intra-group transactions.

> Offset the tax credit generated by consolidated companies against the tax payable by the group.

> Reduce the effective tax rate by between 0.28% and 0.33% of total earnings paid out.

— In France, tax consolidated groups include:

> Companies subject to French corporate tax, when at least 95% of the company is directly or indirectly owned by:

- **Another French company** that is subject to French corporate tax, or
- **A foreign company** that is subject to French corporate tax or the equivalent tax in another European Union Member State.

> Another company subject to French corporate tax must not own 95% or more of the parent company's share capital.

> Consolidated companies must start and end their financial year, which must last 12 months, on the same date.

— The tax consolidation system is optional, not mandatory.

— The tax consolidation scope can be revised each year.

Attractive rules for holding companies

— Dividends paid out by subsidiaries in which a 5% stake has been held for at least two years, are taxed at an effective rate of between 1.4% and 1.67%, or between 0.28% and 0.33% in the case of tax consolidation. This preferential rate can be applied starting in the first year in which the stake is held.

— If shares held for at least two years are sold, the resulting capital gains are subject to corporate tax at an effective rate of between 3.36% and 3.99%.

Low taxes on restructuring operations

The preferential system for mergers and equivalent transactions

How much does a merger cost?

— General tax system applicable to mergers: Mergers, partial transfers of assets, spin-offs, universal transfers of assets, etc., have the same consequences for the business being taken over as the sale of a company:

> Taxation of operating profits that are yet to be taxed.

> Taxation of capital gains from fixed assets.

> Write-off of losses.

> Payment of registration fees.

— Preferential system:

> Capital gains and provisions that remain pertinent are exempt from corporate tax.

> Profits for the financial year are taxed (except for transactions that have retroactive effect at the start of the financial year).

> Upon administrative approval, losses are systematically transferred to the company conducting the takeover, subject to certain conditions being fulfilled.

> Registration fees are generally limited to €375 or €500.

Which other types of transaction can benefit from this system?

— The preferential system for mergers also applies to spin-offs and partial transfers of assets.

— The preferential system applies systematically.

— If the various eligibility criteria for this system are not met, special approval can be sought.

— A common tax system applicable to restructuring operations carried out within the European Union was introduced in 1992 and consolidated in 2006.

— Its purpose is to remove any tax barriers hindering the cross-border restructuring projects of companies established in two or more Member States, by instituting a tax carry forward scheme applicable to income or capital gains earned by the shareholder of the acquiring company or the company being taken over.

8 HOW CAN I REPATRIATE MY EARNINGS?

Attractive terms for repatriating earnings

Dividends

— Dividends paid to a company based in the European Union:

> **In principle, no withholding tax is applied** when the beneficiary company is based in the EU and has a minimum holding of 5% in the French subsidiary paying out the dividends.

— Dividends paid to a company that is not based in the EU:

> The vast majority of tax treaties France has signed with major industrial nations provide for the application of a **withholding tax on dividends that is limited to 5%** (subject to the company holding a minimum stake in the French subsidiary).

> **Some tax treaties provide for no withholding tax to be applied,** including those signed with the United States, Japan and certain Gulf nations.

Interest

— **In principle, any interest paid to foreign companies is not taxable in France** and no withholding tax is payable in France in such cases.

Royalties

— As a general rule, tax treaties limit the rate of withholding tax applicable to royalties originating in France and paid to foreign companies.

— **This rate varies between 0% and 15% depending on the tax treaties in force.**

— In the absence of a tax treaty, the official withholding tax rate is 30%.

No tax obstacles to invoicing services or management fees.

No withholding tax

— No withholding tax is applied when a foreign company invoices a French company for services provided.

— In principle, the cost of these services is also deductible from the French company's corporate tax base.

Transfer pricing

— France adheres to the OECD's guidelines on transfer pricing.

— Consequently, any amounts invoiced by the foreign company to the French company must be justified and comply with the prices applying to arm's-length transactions between independent companies.

— The French authorities may request evidence that transfer prices are in line with standard market prices.

Tax havens

— Special provisions, often disadvantageous, apply to tax havens officially referred to as Non-Cooperative States and Territories (NCTSs).

— A list of NCTSs is established each year, by official decree, for the following year.

— In 2017 there were seven states on the list: Botswana, Brunei, Guatemala, Marshall Islands, Nauru, Niue and Panama.

9

HOW CAN I SECURE MY INVESTMENTS?

Advance tax rulings: a crucial step in securing your investments

Struggling to understand or interpret a tax law? How should your specific case be treated when it comes to taxation?

— The answer to your questions is the advance tax ruling. You may request an advance tax ruling for all taxes, levies and duties provided for by the General Tax Code in France. For instance, you can ask whether your circumstances would make you eligible for a tax reduction.

ADVANCE TAX RULINGS	GENERAL SYSTEM	SPECIFIC SYSTEMS	TACIT AGREEMENT
ADVANCE TAX RULINGS AVAILABLE	**Request for a ruling from the authorities regarding the compliance of an existing situation**	**Preliminary agreement on transfer pricing:** Allows groups to have their transfer pricing policy approved by the authorities **Valuation ruling:** A request made to the authorities to rule on the valuation of a company with a view to its transfer	**Permanent establishment ruling:** Allows foreign companies to verify that they have no permanent establishments in France **Research tax credit ruling:** Confirms whether R&D expenses qualify for tax credit
HOW TO ISSUE A REQUEST	The request must be made to the appropriate tax authorities (by registered mail with acknowledgment of receipt)		
RESPONSE TIME FOR THE TAX AUTHORITIES	Within **three months** of receipt of the request		
SCOPE OF THE RESPONSE ISSUED BY THE TAX AUTHORITIES	If no response is received after the official response time has elapsed, this does not equate to approval from the authorities		**No response = tacit approval**

TAX4BUSINESSFR
Direction Générale des Finances Publiques

A single tax contact point for foreign investors

— The French tax authorities have created a dedicated service to guide, help and inform foreign investors regarding the taxation of their investment projects.

— **Tax4business** is geared towards eliminating uncertainty surrounding applicable taxation and can provide written responses to help investors interpret tax rules.

CLARIFYING

— Investors who are planning to set up a company need to have an accurate vision of France's business environment in comparison with other countries:

> What are the main features of the tax system?

> What are the main tax credits and deductions?

— Tax4Business provides information in French and English via its website or in the form of a brief written response to cater for the needs of investors.

SECURING

— Once they are familiar with France's overall tax framework, investors must generally decide how tax will be applied to their investment.

— Tax4Business can supply a written summary of the national and local taxes that would apply.

SIMPLIFYING

— The French tax authorities offer a single contact point for foreign investors seeking information on tax matters. This has already been successfully implemented for individuals and businesses in France.

— **Contact Tax4Business:** tax4business@dgfip.finances.gouv.fr

10 WHAT CAN WE EXPECT IN THE FUTURE?

Further reductions in corporate tax

— **2017-2022**: The standard corporate tax rate (currently 33.33%) will fall to 25% in 2022, in line with the European average.

Lower labor costs

— **Starting in 2018:**
> Employer social security contributions will be reduced by 4% for employees earning up to 1.6 times the statutory national minimum wage, and will be abolished for individuals earning no more than the minimum wage.
> The unemployment contributions (2.4% of the gross salary) and health insurance contributions (0.75% of the gross salary) currently paid by employees will be abolished.

— **Starting in 2019:** The competitiveness and employment tax credit will be transformed into a permanent reduction of employer social security contributions (-6%) for employees earning up to 2.5 times the statutory national minimum wage.

No VAT rises during the French president's five-year term in office (2017-2022).

Tax cuts for individuals

— **Starting in 2018:** Wealth tax will be abolished. It will be replaced by the property wealth tax (*impôt sur la fortune immobilière* – IFI), which will apply to buildings that taxpayers do not use for business purposes. Investments that serve the economy, such as shares and other company securities, will no longer be taxed.

— **Starting in 2018:** A flat tax of 30% (which will include both income tax and social security contributions) will be applied to capital income.

— **Starting in 2019:** Income tax will become a withholding tax.

Introduction of the "right to error"

— Tax / URSSAF audits can sometimes be feared by companies, who have complained about the inflexibility of tax inspectors and the authorities, as well as the lack of dialogue with these parties.

— In the future, the "right to amend errors" will be respected by the tax authorities and URSSAF.

— This means that no administrative penalties will be applied during the first audit, thereby preventing a basic omission or error from being immediately punished.

OUR SERVICES

Business France helps you to:

— Understand the main characteristics of the French tax system.

— Keep abreast of tax changes.

— Identify:

> The main tax credits (research tax credit, competitiveness and employment tax credit and more, depending on your business sector).

> The tax deductions for which your investments may be eligible.

> The tax exemptions that may apply to firms that acquire an ailing company or establish themselves in certain areas of France, for example.

Business France will put you in touch with the tax authorities and Tax4Business to ensure that you can invest within a clear and secure legal framework.

Law firm Mazars has developed ways of addressing any issues a foreign investor might encounter, providing quick, flexible, appropriate and cost-effective solutions.

We therefore offer the following services:

- Tax analysis prior to setting up business
- Tax diagnostic after setting up business
- Tax troubleshooting
- Corporate tax and VAT optimization
- Tax compliance of your business operations and sites
- Tax and reputation risk management

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MAKE A *FRENCH* START
10 insights to grow
your business in France

_ THE FRENCH TAX SYSTEM