

**DOING
BUSINESS
IN**

FRANCE



Doing business in France

Foreword

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Member firms provide clients with a comprehensive and personal service relating to auditing, taxation, accounting, and general and financial management advice.

Up-to-date information and general assistance on international matters can be obtained from any of the member firm partners of HLB France listed in this booklet or from the Executive Office in London.

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Contents

	Page
FOREWORD	1
ABOUT HLB INTERNATIONAL	2
SEPERATING FACTS FROM FICTION	6
GENERAL INFORMATION	7
WHY INVEST IN FRANCE	8
EMPLOYMENT REGULATIONS	9
TYPES OF BUSINESS ORGANISATIONS	10
TAXATION	13
AGRICULTURE	16
HLB FIRMS IN FRANCE	17

France: separating fact from fiction

“France is on the decline”

France is the fifth largest economy in the world by GDP, and the second largest in Europe, with more than 65 million consumers (IMF 2014, Eurostat 2014).

France has the second highest fertility rate in Europe (Eurostat, 2014), with a birth rate that has remained constant for 40 years, unlike Germany, Italy, or Spain (INED, 2014).

“The French don’t work hard enough”

On average, employees in France work longer hours than in Germany: 44.3 hrs. vs. 42.9 hrs. for managers, and 36.2 hrs. vs. 34.5 hrs. for non-managers (Eurostat, 2014).

“The French just don’t have a work for entrepreneur”

France is Europe’s number one country for newly founded businesses (Eurostat, 2014 – data for 2011).

In 2013, more than 538,000 new businesses were founded in France, of which nearly 275,000 were established under the ‘auto-entrepreneur’ business scheme (INSEE, 2014).

“Too little flexibility in France”

A termination agreement (‘rupture conventionnelle’) is a flexible procedure enabling employers and employees to terminate a permanent contract amicably by mutual consent. Moreover, the Employment Act of June 14, 2013 passed in the wake of an agreement between employer federations and trade unions responds to the needs of companies to adjust output, while consolidating employment security and career paths. It builds upon renewed social dialogue within the corporate sphere, and demonstrates that France is capable of reform through negotiation.

“There’s so much paperwork in France”

France is among the simplest countries in the G20 in which to found a company: only five administrative procedures and 7 days are required, compared with a G20 average of 7.6 procedures and 22 days. France is ranked first in Europe and fourth in the world for e-government (E-Government survey, UN, 2014).

“French taxes are so high”

A 2014 Competitive Alternatives report compares effective corporate tax rates in 10 different countries:

- France is ranked first for R&D services
- France is ranked third for digital services
- France is ranked fourth for manufacturing

“France is lagging behind on R&D and innovation”

France is ranked second in Europe and sixth in the world for the number of international patents filed (WIPO, July 2013).

“France doesn’t attract foreign talent”

On average, 13 foreign company directors decide to invest in France every week. France is ranked third in the world for hosting foreign students (Campus France, 2014).

Nine students in 10 who come to France recommend the country as a study destination (Campus France survey, 2013).

“France hasn’t embraced globalisation”

France attracted 6,660 job-creating foreign investments between 2003 and 2013 (IFA 2013 Annual Report: Job-creating foreign investment in France).

More than 20,000 foreign-owned companies do business in France, employing nearly 2 million people (INSEE, 2014).

Foreign investors account for 46.7 % of holdings in the market capitalization of CAC 40 companies (Banque de France, 2014).

“France is great ... for luxury goods and cheese”

France has no fewer than 17 major groups – excluding these two business sectors – among the 200 largest in the world (Fortune Global 500, 2014); these groups are very diverse: from energy to construction to insurance.

France is also ranked first in Europe in an index of the 100 most innovative organizations in the world that includes seven French companies or institutions (Thomson Reuters, 2014).

General information

Location and climate

France includes overseas territories and communities all over the world:

- Caribbean Sea: Martinique, Guadeloupe;
- Indian Ocean: Réunion, Mayotte;
- Pacific Ocean: New Caledonia, French Polynesia, Wallis and Futuna;
- Off Newfoundland: St Pierre and Miquelon;
- South America: French Guyana;
- Antarctic islands and territories.

The climatic conditions in metropolitan France are divided into three main areas.

The North and North East which has a temperate and more continental climate, the West being oceanic and the South is Mediterranean.

Constitution

France is governed by the 1958 constitution of the Fifth Republic, which is a centralised parliamentary system.

Legal System

The French legal system was put into place by Napoleon in 1800.

These laws are being continuously updated, by internal regulations, decrees and international treaties.

Facts and figures

Area	551,000 sq. km
Population	65 million
Capital	Paris
Currency	€ Euro
Language	French
Time	GMT+1

France is visited by over 76 million tourists every year.

Business hours and public holidays

09H00 - 18H00

Business is often conducted during lunch.

Public holidays are: January 1st, Easter Monday, May 1st (Labour Day), May 8th (1945 Victory Day), Ascension Day, July 14th (Independence day), August 15th (Assumption Day), November 1st (Memorial Day), November 11th (Veterans Day), December 25th.

Economy and trade agreements

France is a member of the European Union ("EU") and is the 5th largest exporting country in the world. France is a member of many international organisations and numerous treaties and international agreements.

Transportation

France has an excellent network of domestic and international transport, for passengers and goods, with Paris as the main hub. High speed trains (TGV) now connect most cities to Paris at speeds of up to 300 km/h (185 mph).

Why invest in France

A global economic power

France is the second largest economy in the European Union (IMF, 2014), the sixth largest exporter of goods and the fourth largest exporter of services (WTO, 2013). Thirty-one French companies are among the world's leading 500 (Fortune Global 500, 2014).

A country open to inward investment

France is Europe's leading recipient of foreign investment in industry. It is also the world's fourth largest recipient of cumulative FDI stock, and the second largest in Europe (UNCTAD, 2014).

One of Europe's largest markets

France is the second largest market in Europe, with more than 65 million inhabitants. It also has Europe's second highest fertility rate (Eurostat, 2014).

Excellent connections throughout Europe and worldwide

France has **Europe's largest road network** (Eurostat, 2014) and is also renowned for its airports: Paris-Charles de Gaulle is ranked second by passenger numbers and first for cargo in Europe (Airports Council International, 2013). It also boasts Europe's second largest high-speed rail network, while in 201 the Port of Marseille was ranked sixth and the Port of Le Havre eighth in Europe by tonnage (Port of Rotterdam Authority, 2014).

Competitive labour costs

Average costs per employee (wages, salaries and statutory costs) are lower in France than in Japan, The United States and Germany. Similarly, business setup and operating costs are lower in France than in Italy, Japan, the United States and Germany (Competitive Alternatives, 2014). "Hourly labour costs in France in industry have once again fallen below those of Germany" (Emmanuel Macron, November 17, 2014).

A highly qualified and highly productive workforce

France invests more in its education system (over 6% of GDP) than many European countries, such as Germany, Italy and Spain (OECD, Education at a Glance, 2014). France is ranked sixth in the world for hourly labour productivity, ahead of Germany (7th) and the United Kingdom (13th) (Conference Board, 2014).

Tax measures to foster competitiveness

The competitiveness and employment tax credit (CICE) is reducing labor costs by 6% in 2015, amounting to **€20 billion in annual savings** for companies. This tax credit is calculated in proportion to the company's gross payroll costs, excluding all salaries greater than 2.5 times the national minimum wage (SMIC).

France's research tax credit is the most attractive tax incentive program of its kind in Europe: a tax break amounting to 30% of annual R&D expenses, up to €100 million, and 5% above this threshold.

A country prioritising R&D and innovation

For the fourth year running, France was once again ranked first in 2014 by the Deloitte "Technology Fast 500 EMEA", with 86 of the top 500 fastest growth companies based on percentage revenue growth in Europe, the Middle East and Africa. France is also ranked first in Europe in an index of the 100 most innovative organizations in the world. (Thomson Reuters, 2014)

The first and second phases of the "National Investment Program", backed by €35 billion

and €12 billion of funding, are supporting growth in strategic priority sectors

A warm welcome for foreign talent

Streamlined immigration formalities for foreign talent, for example through the "Skills and Expertise" resident permit for non-EU nationals appointed chief executive of a subsidiary in France. The "Expatriate Employee" resident permit exists for intra-group job transfers, and the European Union Blue Card for highly qualified employees. Moreover, the "French Tech Ticket", a "welcome pack" for foreign entrepreneurs founding their start-up in France (€30,000 grant, visa, single "Helpdesk" contact point, business set-up support, etc.), is due to open in 2015.

A renowned quality of life

France is the **world's leading destination for foreign tourists**, ahead of the United States and China (UNWTO, 2014), and is ranked third in the world for having healthcare infrastructure that matches the needs of society (IMD, 2014).

France is ranked sixth in the world for life expectancy at birth (82.6 years) (World Bank, WDI, 2014) and boasts a wide array of cultural and creative excellence: the Louvre is by far the most visited museum in the world.

Employment regulations

Industry wide collective agreements

Labour legislation in France is governed by master collective agreements adapted to the needs of each economic or industrial sector.

These documents cover all labour aspects such as working days, health and safety, trade unions, minimum wage, employee representation and works councils, employee training, employee profit sharing, labour disputes and courts, collective agreements applicable to each industrial sector.

Employee representation in companies

Employees are represented in the following ways: firstly in smaller companies with over 10 employees by staff representatives, secondly for larger companies with over 49 employees by a works council and by trade unions in some larger companies.

Social welfare and security

All persons employed in France are covered by the national wide social security system. This includes health insurance, retirement insurance, unemployment benefits, family allowances and accidents at work. Every employer must register all new employees with the social security organisation.

The employer's contribution ranges from 25%-45% of the gross payroll. Employees contribute between 20%-25%.

Employment contracts

Relations between management and employees are governed by three sets of legal rules: firstly a national wide Labour Code (Code du Travail), secondly Master Collective Agreements for sectors (conventions collectives) and lastly Company agreements and employment Contracts.

The most common type of work contract is the permanent contract ("contrat à durée indéterminée"), which has no set time limit. All contracts contain a minimum probation period of one month for employees and three months for managerial staff.

The legislation allows for the hiring of temporary employees under fixed-term contracts ("contrat à durée déterminée"), for example to cover maternity leave, seasonal employment and unexpected increases in business.

Flexibility of employment

Firstly, as there is a probationary period employers and employees can terminate an employment contract during this period. Secondly, employment contract termination can be executed at the employee's initiative (resignation) or at the employer's initiative (dismissal). Furthermore, a termination agreement ('rupture conventionnelle') is a flexible procedure enabling employers and employees to terminate a permanent contract amicably by mutual consent.

Profit sharing

French Law stipulates 2 types of economic incentives for employees. Firstly a legal system for collective profit sharing is applicable in companies with 50 or more employees and secondly an optional system of equity ownership (stock options) or profit sharing.

Work permits

All non EU foreigners and certain EU citizens must have a work permit (carte de travail) and a resident permit (carte de séjour). Standard practice is when any new employee is hired, an employment contract stating the duration and income is signed. Work permits are issued for a minimum period of one year.

Types of business organisations

PRINCIPAL FORMS OF BUSINESS

It is highly recommended that the potential investor selects the appropriate type of organisation, after taking into account the main features of the different types and which of these is most compatible with their business unit.

Sole proprietorship

For the self employed, there are 3 appropriate categories:

- Professionals (profession libérale) e.g. doctors, architects. People who work independently and are not members of any company or industry area;
- Craftsmen (artisans): these trades must be registered with the relevant professional guilds (Registre des Métiers);
- shop owners (commerçants) e.g. retailers, restaurant owners must be listed on the National Designated Register of Commerce.

A special work permit is required for non- EU members. Sole proprietors are fully responsible and liable for their businesses and debts.

Operations in France with no officially registered representation

Before any registration, a foreign company may rent an office or set up operations at a business centre and open a non-resident bank account.

Once the company moves to larger premises and hires employees, it is obliged to be formally registered as a liaison office, branch or subsidiary.

Liaison office

A foreign company, whose activities in France are not of a commercial nature (for example prospecting, advertising, providing information, storing merchandise ...) may be represented by a liaison office (bureau de liaison). The tax law considers it as a non-permanent establishment and it is also exempt from corporate income tax and VAT, however it is liable for certain local and wage based taxes.

If the office engages in a commercial activity, the tax administration will consider it as a permanent establishment.

Branch office

This type of business entity is necessary for industrial and commercial activities. The setting-up of a branch office by a company's board of directors or other competent body requires special registration formalities.

The branch office director must hold a business permit for foreign residents unless they benefit from waivers applying to nationals of European Union member countries.

Branch offices must be registered with the "Centre de Formalités des Entreprises" for the region in which they operate. They must provide a number of supporting documents confirming various aspects of board decisions made by the parent company and the proposed director of the branch office.

Unlike the liaison office, branch offices are considered to be permanent establishments for tax purposes, and therefore subject to corporate income tax and VAT.

If the company is taxed on its world wide income in its country of origin, the profits or losses of its branch office are included in its entire taxable income.

However, this inclusion has no effect on the tax liabilities of the branch office in France.

At this point it is extremely important to clarify the permanent position of the branch office by investigating the existence of a relevant Double Tax Treaty.

Branch offices are managed by a legal representative, under the authority of the company's headquarters.

Subsidiary as a legal form for a permanent activity

Subsidiaries have a legal identity quite separate from that of their parent company. It gives a better image than the branch office to potential clients and improves its credibility for state aid, tax exemptions, and taxation of intra-group transactions. Generally it is easier to sell a subsidiary than a branch office. Subsidiaries can have different legal forms.

Public Limited Company (S.A.)

Two types of management structure are possible.

- 1) Chairman (CEO) with a Board of Directors;
- 2) Supervisory Board (same as Board of Directors above) and Executive Board.

Non-French citizens can be directors of a French S.A without holding a trading permit except for the Chairman and the President or Vice President of the Executive Board. The Board of Directors or the Executive Board convenes the shareholder meetings, draws up the agenda, prepares the annual accounts and management reports, appoints or dismisses the CEO.

The AGM votes on decisions, approves the annual accounts, allocates profits, appoints and removes directors and supervisory board members, appoints the statutory auditors and approves or rejects agreements made between the company and any of its directors.

Only an extraordinary meeting can alter the company's articles and memorandum of association.

All companies must send a copy of the annual financial statements, including the Auditors' Report, to the Register of Commerce, which are accessible to the public. Transfers of shares are unrestricted amongst shareholders.

Limited liability Company (S.A.R.L.)

This form is appropriate for wholly owned subsidiaries and small operations.

The AGM approves the year end financial statements and the director's management report.

To be a legal manager, foreigners must obtain a trading permit if they are not EU members. Annual accounts are filed at the Register of Commerce, which are accessible to the public if required except for small and micro entities.

Simplified PLC (S.A.S.)

This type of organisation is suitable for expanding medium-sized businesses.

An SAS is a privately owned company. It is not allowed to raise funds from the public.

Membership is permitted to any physical person or legal entity, even if the company has only one member.

The by-laws define the internal rules and regulations of the SAS: management, decisions, reporting to the shareholders.

If there are two or more members, the company's articles may include clauses according to which members cannot sell their shares without approval of the others.

OTHER LEGAL POSSIBILITIES

Economic interest grouping (Groupement d'intérêt économique - GIE)

This is an appropriate structure, equivalent to a pooling of resources between several firms working on the same project, e. g. Research & development. Partners are jointly and severally liable for the profits and liabilities of the operations of the 'GIE'. GIE's must be incorporated.

Silent partnership (Société en participation - SEP)

A SEP is a confidential arrangement between companies who want to co-operate on a project. It has no corporate identity and no financial statements.

It is deemed to be a general partnership with unlimited joint liabilities when its existence is made public.

A SEP is not incorporated.

General Partnership (Société en nom collectif – SNC)

This is a commercial company whose partners are all traders and have unlimited liability for the debts of the partnership. The SNC offers a guarantee of stability.

Non Trading Partnership (société civile – SC)

The purpose of the SC is to carry out purely civil transactions, such as the management of real-estate assets, or the pooling of resources for the practice of a profession.

The partners have unlimited liability for the debts of the partnership.

LEGAL, ACCOUNTING AND AUDITING REQUIREMENTS

Accounting and reporting

Most regulations are based on EU directives and apply to all business entities, with more detailed information depending on the size and the legal form of the business.

Accounting principles are governed by the Commercial Code (Code de Commerce) and the General Tax Code (Code Général des Impôts).

Auditing

Statutory auditors are appointed to a company for a 6 year period. The appointment of a statutory auditor is compulsory for the following companies: SA, and certain SAS and SARL.

Incorporation procedures

All businesses must be registered at the Trade and Companies Register.

All the formalities for setting up companies can be dealt with in one place: the Centre de Formalités des Entreprises (CFE).

Therefore, companies must provide detailed information about management, equity capital, by-laws and the shareholders list.

Companies must also publish a notice in a legal gazette at the time of their incorporation.

MAIN TYPES OF COMPANIES

	Public limited company (Société Anonyme - SA)	Simplified PLC (Société par Actions Simplifiée -SAS)
Main advantages	Structure for management under supervision. Capital structure	Freedom to set terms of association Suitable for joint ventures
Management	Number of directors or members of the supervisory board: 3 to 18 Number of members of the executive board: 1 to 5 (the maximum can be 7 in the event of public subscription)	1 chairman : Physical person ; Or legal entity In addition, it is possible to appoint a board with other members or a CEO and deputies
Minimum capital	€ 37,000 €225,000 for listed companies	Fixed by members
Shareholders	Minimum of 7, individuals or legal entities	Minimum of 1, no maximum
Liability of shareholders	Limited to capital contributed	Limited to capital contributed.
Special features	Statutory auditor required	Statutory auditor required if the company exceeds at least 2 of the following 3 thresholds at year end Total balance sheet: €1,000,000. Turnover before taxes: €2,000,000. Average number of salaried personnel: 20 Also required if the company is owned by another company / or if the company owns another company
Tax system	Corporate income tax	Corporate income tax

MAIN TYPES OF COMPANIES

	Limited liability company (Société à responsabilité limitée - SARL) / SARL Unipersonnelle or EURL when the Company is formed with a single member
Main advantages	Simple to set up and operate. Closed ownership
Management	1 or several legal managers (member or not) Only physical person
Minimum capital	Fixed by members
Shareholders	1 to 100, individuals or legal entities
Liability of shareholders	Limited to capital contributed
Special features	Statutory auditor required if the company exceeds at least 2 of the following 3 thresholds at year end Total balance sheet: €1,550,000. Turnover before taxes: €3,100,000. Average number of salaried personnel: 50
Tax system	Corporate income tax or fiscal transparency (EURL or family structure)

Taxation

GENERAL

The French tax system consists of six types of taxes:

- Direct taxes;
- Indirect taxes;
- Registration duties;
- Wealth tax (ISF);
- Payroll taxes (contribution to housing construction, apprenticeship programmes and ongoing training);
- Other taxes (Petroleum tax, Mineral taxes, Pharmaceutical taxes, recycling tax...).

The main direct taxes are:

On income

- Corporate income tax (impôt sur les sociétés);
- Personal income tax (impôt sur le Revenu).

On assets

- Territory economic contribution (contribution économique territoriale);
- Property tax (taxe foncière);
- Housing tax (taxe d'habitation).

The main indirect tax is Value Added Tax (TVA).

Structure

France is generally considered to be a country of mainly indirect taxation, as VAT and similar taxes are included in the price of goods and services. Taxes on petroleum and tobacco contribute more to the budget than income tax.

PERSONAL TAXATION

All individuals who have their tax residence in France are subjected to tax on their world wide income. The tax year runs from January 1st to December 31st.

All individuals are regarded as having their tax residence in France if they:

- have their personal home or principal residential address in France (they spend more than 183 days/year in France);
- have an occupation or employment in France unless incidental to a foreign activity;
- have their main financial interests in France.

Reference should be made with regard to any relevant Double Tax Treaties which may override the above rules.

Income subject to tax

Any income recurring at regular intervals is subject to income tax. Isolated private transactions are not considered as income unless they recur and can thus be regarded as habitual transactions.

The personal tax system is progressive from 0% to 45%. The categories of income are: salaries, industrial or commercial profits, income from property, agricultural profits, professional and non-commercial profits, investment income, capital gains.

Earnings and salaries

Standard deductions may total up to 10% of yearly gross income before taxation.

Industrial and commercial profits

Profits made by self-employed people are calculated in the same way as corporate profits.

Capital gains on property

A deduction applies for each year of possession beyond the fifth year. Capital gains are fully tax-exempt after 22 years of ownership. In France some social contributions are applicable to capital gains; these are exempt after 30 years.

Capital gains from securities: exit tax for people leaving France to live elsewhere

An exit tax applies on unrealized capital gains relating to direct or indirect shareholding of at least 50% in the share capital or whose value exceeds €800,000. €800,000 now covers securities and rights held and no longer just stakeholding in a company. The payment of this exit tax can be postponed if the host country is a member of the EU or a country with a tax treaty in place with France.

Investment income

Interest on income and dividends are included in the gross income after arbitrary deduction. A withholding tax at a rate of 21% applies on dividends and of 24% on interest revenues (Excluding social security contributions at a rate of 15.5%). This is a downpayment and not an arbitrary deduction. It is adjusted at the final payment of income tax. For foreign investors, tax payable on dividends is governed by the relevant Double Tax Treaties.

Carrying forward losses

Losses may be carried forward over the 6 following years.

Wealth tax

A wealth tax is payable on all private assets on a total value exceeding €1,300,000 (for 2013) on a yearly basis.

There are certain exemptions: e.g. works of art, antiques, national heritage, etc.

In certain cases business assets are exempt.

The rates range from 0.5 % to 1.50 %.

CORPORATE INCOME TAX

Definition of taxable income

All profits made in France are subject to taxation whenever a foreign company has a subsidiary, branch, or a permanent establishment. The investor should make special reference to the definition of permanent establishments provided in all tax treaties entered into by France.

This is defined mainly by the occupancy of any business premises in France and/or employment of two or more people.

Calculation of taxable profit

The general principle is that profits realised in France are taxable, while all costs and expenses incurred by the company for its operations in France are deductible. This includes cost of goods sold, expenses properly incurred in favour of the company, depreciation of property, plants and equipment, as well as amortisation of specific intangible assets such as software, patents and R&D expenditure (except goodwill). Capital expenditure has to be written off over the expected life of the asset.

Some deductions are limited

Deductibility of some types of expenses is limited to avoid abuse, including: the corporate tax itself, certain provisions, excessive salaries and fringe benefits, non-business expenses, luxuries (private yachts, race-horses, and hunting) fines and penalties. Capital expenditure can only be deducted through depreciation. Company car depreciation is only deductible on the basis of a purchase price up to €18,300 or €9,900 per car depending on the carbon dioxide emissions (up to 200g/km or over 200g/km).

Provisions for contingency are deductible if the risks are clearly identified and have to be properly booked in the relevant accounts (inventories, securities, property, plants or equipment).

Rate and calculation of corporate income tax

The standard rate of corporate income tax is 33.3%.

Standard rate	33.33% to which is added 3.3% (1) of social contribution
Rate for smaller companies (2)	Up to a total of €38,120: reduced rate of 15%. From €38,120: standard rate of 33.33%

(1) 3.3 % surcharge for companies in which individuals do not directly or indirectly own at least 75% of the equity, and which report annual revenues of over €7,630,000. This rate is applied to the portion of the corporate income tax above €763,000.

(2) For companies, with paid-up capital, in which individuals directly or indirectly own at least 75% of the equity, and which report annual revenues of less than €7,630,000.

The investor may select the date of the accounting year and can modify this date through a standard procedure.

There is an exceptional rate of corporate income tax for companies with a turnover higher than €250 million of 10.7%

Carrying forward or back losses

Losses may be carried forward within a ceiling of € 1,000,000 plus 50 % of the taxable profit exceeding the first ceiling. There is no limit to the carry forward period.

Losses can be charged to the previous year only, under certain conditions. The maximum carry back ceiling is €1,000,000.

Repatriation of profits

There are 3 repatriation procedures:

- Transfer or distribution of the net income from the branch or subsidiary;
- Interest charged on loans and advances granted by the foreign parent company;

- Royalties or management fees.

There are no fiscal restrictions to invoicing royalties or management fees by the foreign parent company. For interest expenses, deductibility is permitted under certain limits.

This only applies to subsidiaries, not branches. Amounts must be within reason and documented. The French authorities may request evidence that transfer prices within an international group comply with European directives.

It is compulsory to provide the administration with the transfer pricing procedure annually.

In certain conditions and up to certain limits, it is possible to deduct certain expenses incurred by the foreign parent company from the profit of a permanent establishment. For example: a percentage of expenses incurred by the head office.

Transfer of funds from France is exempt from withholding tax or subject to a reduced rate. Withholding tax rates are defined in tax treaties between France and other countries. No withholding tax is charged on dividends paid to European head offices of European parent companies.

PARENT COMPANIES

Profits received from a 5% subsidiary

When a French parent company holds at least 5% of the equity of a French subsidiary and if this subsidiary pays a dividend to the parent company, this payment is only subject to corporate income tax on 5% of its amount if :

- Both parent and subsidiary are subject to corporation tax;
- The parent company has held at least 5 % of the subsidiary's equity for a period of 2 years.

It is possible to carry out a horizontal tax consolidation between French sister companies (subsidiaries at 95% at least for an entity in the EU).

Tax consolidation

When a French parent company holds at least 95% of the equity of other French companies, the Government allows the parent company to offset profits of one subsidiary against the losses of another within the same group.

VALUE ADDED AND TURNOVER TAXES (TVA)

VAT is charged on all sales and importation of goods and services for consumption in France. It is usually refundable on exports and certain other operations.

VAT tax model

Value-added tax (VAT) is a tax on the consumption of goods and services, and is paid by the consumer. It accounts for over 50% of French fiscal revenue. Businesses are responsible for collecting the tax on sales and deducting the VAT they have paid on purchases and investments from the collected amount. If VAT paid on purchases exceeds VAT collected on sales, the resulting VAT credit is reimbursed by the tax authority to the company on application.

The rates for 2014

The standard rate of VAT on the sale of goods and services is 20%, but lower rates are applicable in many cases. In particular, the rate is 10% or 5.5% for food, some agricultural products, medicine (10%, 5.5% or 2.1%), books, hotels, public transport, newspapers and magazines (10%, 5.5% or 2.1%), some types of entertainment, etc.

Recovery procedure

VAT can be recovered by businesses on all goods and services. However, there are certain exceptions when VAT is not deductible e.g. petrol, services and repairs to private vehicles, travel, etc.

Some services and exports are exempt from VAT

Health services, insurance transactions, interest on loans, teaching and house rentals are the main services exempt from VAT. Exported goods are fully zero rated. Please note that there are no VAT deductions for certain business sectors.

TAX INCENTIVES

The competitiveness and employment tax credit (CICE).

The CICE has existed since 2013 and covers up to 6% of the total remuneration paid over the financial year (not exceeding 2.5 times the minimum wage), there is no ceiling and it is attributable to the corporate tax.

R&D Tax Credit (CIR)

Businesses with expenditure on research can obtain a tax credit attributable to their corporate income tax. Certain conditions are necessary for the expenditure to be considered applicable.

The tax credit is equal to 30% of the total expenses of the project (if less than €100M) and 5% of expenditure beyond this.

Young Innovative Businesses (JEI) Tax Credit

Support is offered for startups which allocate 15% of their total expenditure to research. Tax advantages are given to them in the first years after their set up (exemption from Corporate Income Tax, property tax, CET)

OTHER TAXES

Withholding taxes

Non-residents based abroad are subjected to a withholding tax applied on all payments received. The burden of this tax may be reduced or offset if the transaction is protected under a relevant international agreement (Double Tax Treaty). The rates not covered by the Double Tax Treaty arrangements are as follows:

- Dividends paid to non-resident shareholders are subject to 21 or 30 %
- Residents of certain foreign countries may be granted a tax-credit;
- Royalties or management fees paid to non-residents are subject to up to 33.3 %;
- income from entertainment and sporting events paid to non-resident artists are subject to 15% (provisional) but an annual tax return is compulsory and taxation may reach 40%;

- Capital gains on real estates realized by non-resident private individuals or companies are subject to 19%, regardless of the place of residence of the vendor (inside or outside the EU). There is an additional social levy of 15.5% and if capital gains are higher than €50,000, there is a tax levy at a rate between 2% and 6%. Certain exemptions for non-residents are applicable.

Territorial economic contribution (CET)

This tax is made up of the following 2 contributions:

- Companies real estate contribution (CFE)
- Companies value added contribution (CVAE)

The CFE is calculated on the same basis as the property tax, including the rental value of the land built and not built on. The local City Council decides the tax rate depending on the company turnover.

The CVAE is payable when the turnover exceeds € 500,000 excluding VAT. The tax rate follows a progressive scale from 0% to 1.50%.

Property tax and housing tax

Other local taxes include property tax (taxe foncière), charged to land and building owners, and housing tax (taxe d'habitation), charged to the occupants of non-professional premises, whether owners or tenants. They are assessed on the basis of the rental value of the property.

Registration duties

Share transactions are taxed according to the type of business.

For a limited liability company (Sarl), share transactions are submitted to a 3% registration fee. This rate is applied to the portion of the transaction value above a maximum rebate of €23,000.

For a public limited company (SA/SAS), share transactions are submitted to a 0.1% rate.

Business transactions are submitted to a registration fee of:

- Up to € 23,000: 0%;
- From € 23,000 to € 200,000: 3%;
- Above € 200,000: 5%.

Tax on high salaries

Businesses (regardless of their structure) which have a payroll of more than €1,000,000 per employee must pay a tax equal to 50% of the portion of wages exceeding this limit.

Agriculture

French agriculture is particularly diversified (Cereal production, dairy, breeding, wine growing, arboriculture or tree growing ...).

It offers multiple possibilities for patrimonial and professional investment.

It is advisable in this respect to underline that the price of agricultural land is generally lower in France than in the neighbouring countries of the European Union.

However, this activity is governed by a specific set of administrative, legal and tax rules.

A REGULATED BRANCH OF ACTIVITY

Acquisitions of farming business areas are subject to an administrative authorization.

The administration is represented by the « Direction Départementale des Territoires et de la Mer » (DDTM), (Departmental Direction of Agriculture and Forest) and the agricultural profession by a “Commission Départementale d’Orientation de l’Agriculture (CDOA)” (Departmental Commission of Agricultural Orientation).

The setting up or the purchase of an agricultural business and acquisition of the shares of agricultural firms requires administrative authorisation.

In addition, an agricultural land transaction is subject to a mode of pre-emption by a public organization called “SAFER”.

SAFER can hinder a land acquisition by pre-empting the asset sold for the benefit of other farmers deemed to have priority.

THE HIRING MODE OF RURAL ASSETS

The renting of assets is ruled by a particular legal code.

The statute “of farming” globally aims at perpetuating the status of the lessee (called “farmer”).

The leases are obligatory concluded for a minimum 9 year period.

The rent period is not freely fixed by the parties.

It is fixed by both parties within a legal range of prices set by the administrative authority.

Leases settled for a minimum 18 year period are called « long terms leases » and offer the less interesting tax advantages.

A new type of long-term lease called « transferable lease» brings in a number of interesting innovations amongst which some are suited to investors who wish to speculate on a rise in the price of land.

TAX

The profits derived from an agricultural business based in France are taxable in France.

Firms and agricultural companies are subject to a special and favourable tax regime (the so called system of « agricultural profits »).

However they can opt for corporate taxation.

WIDE CHOICE OF LEGAL VEHICLE

French agricultural investors and professionals have a large choice of company legal forms.

Agricultural companies can be run through commercial companies (SARL, SA, and SAS) or through specialized civil companies:

- « les Groupements agricoles d’exploitation en commun » (GAEC) ;
- « les exploitations agricoles à responsabilité limitée » (EARL);
- « les sociétés civiles d’exploitation agricole » (SCEA).

GAEC and EARL are for the use of private persons only.

SCEA can be used as holding entity.

Real estate companies

Land investments can be made through real estate civil companies (« SCI ») or through civil specialized companies called “Groupements financiers agricoles” (« GFA »).

GFA are reserved for individuals. They benefit from a particular system favourable to company shares buyers (including transfer tax reduction).

The GFA from which rural assets are rented with long-term leases offer a range of tax advantages (inheritance and donation taxes, wealth tax).

Similar advantages are granted to “Groupements Forestiers” which hold woods and forests and allow hunting lovers to carry out investments under very favourable conditions.

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