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## Introduction

This guide is written for companies interested in doing business in France. It outlines key facts and figures on France's economy, business infrastructure, laws and taxation. Sources quoted include Invest in France and the CIA World Factbook. The information contained herein should be used for guidance only and is current as at February 2009. Every effort has been made to ensure that the facts contained in this publication are correct at the time of publication; however, no responsibility for loss resulting from action taken based on any material herein can be accepted. It is recommended that readers obtain further information and professional advice prior to making any decision.

## About JHI

With offices in the Americas, Asia-Pacific and Europe, JHI is a leading international association for independent business advisors, financial consulting and accountancy firms. JHI exists to support the development of its member firms by facilitating communication, exchange, networking and resource sharing worldwide. Its members benefit from global networking while maintaining total practice independence. Admissions are subject to a rigorous selection process based on criteria including the quality of practice, reputation and geographical location.

JHI is one of the largest associations of its kind, with some 120 member firms in over 50 countries worldwide. Its members offer a broad range of accounting, auditing and management consultancy services, and develop their business capacity through the association's global network. JHI's worldwide coverage enables its members to access support and cost effective business solutions, no matter where in the world their business takes them. JHI members benefit from a diverse programme of regional and international conferences, designed to engage, facilitate professional development, challenge and stimulate member firms, whilst offering unparalleled opportunities for networking and business development. JHI is also a leader in providing value-adding services to members, including Special Interest Groups addressing the latest market trends on information technology, tax and auditing, financial services, practice management, forensic accounting and litigation support, as well as topic-specific discussion forums addressing the professional needs of managing partners and doing business in different countries.

For further information on JHI's work and its members, see [www.jhi.com](http://www.jhi.com).



## JHI in France

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## Key facts

**Population:** 62 million

**Currency:** 1 Euro = 6.55957 former French Francs

**Time zone:** GMT +1

**Language:** French

**Fiscal year:** 1 January - 31 December

**Business hours:**

0900 - 1200 and 1400 - 1800, Monday to Friday and business is often conducted during lunch or dinner.

**Public holidays are:** 1 January, Easter Monday, 1 May, 8 May, Ascension Day, Whit Monday, 14 July, 15 August, 1 November, 11 November, 25 December.

## Political context

France is a parliamentary republic governed by the 1958 Constitution of the Fifth Republic. The President is the Head of the State, monitoring the functioning of the democratic institutions in accordance with the Constitution, and the Prime Minister is in charge of day to day policy. The country is governed by a bicameral parliament, comprising a House of Representatives

(Assemblée Nationale), elected every five years by universal suffrage, and a Senate (Sénat) of directly elected representatives from the regions and departments. Metropolitan France comprises 22 regions with a total of 96 departments and all regions, departments or communities share in centrally collected tax revenues.

## Economy

France is in the midst of transition from a well-to-do modern economy that has featured extensive government ownership and intervention to one that relies more on market mechanisms. The government has partially or fully privatised many large companies, banks, and insurers, and has ceded stakes in such leading firms as Air France, France Telecom, Renault, and Thales. It

maintains a strong presence in some sectors, particularly power, public transport, and defence industries. The telecommunications sector is gradually being opened to competition. France's leaders remain committed to a capitalism in which they maintain social equity by means of laws, tax policies, and social spending that reduce income disparity and the impact of free markets on

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public health and welfare. Widespread opposition to labour reform has in recent years hampered the government's ability to revitalise the economy. In 2007, the government launched divisive labour reform efforts that will continue into 2009. GDP growth dropped to 0.9% in 2008 on account of the economic and financial crisis. The French government plans to increase public investment and continue injecting capital into the banking sector to alleviate the negative effects of the

crisis into 2009. As a result of lower fiscal revenues and increased expenditures the general government deficit is expected to exceed the eurozone's ceiling 3% of GDP. France's tax burden remains one of the highest in Europe - at nearly 50% of GDP in 2005. With at least 75 million foreign tourists per year, France is the most visited country in the world and maintains the third largest income in the world from tourism.

## Legal and judicial system

France is a civil code country, with laws substantially influenced by European regulations. Since 1994, protection has increased against infringements of intellectual property rights by applying stricter criminal penalties.

The French judicial system is equally applicable on the whole territory. It is comprised of two sets of parallel but independent court systems: an administrative jurisdiction and a judicial system. Both have three levels of jurisdiction: first instance, appeal and supreme court. Cases are brought before different courts: civil, criminal and commercial. If no specific jurisdiction is pointed at

as specifically competent, the case will be decided by the Tribunal de grande instance (TGI). As the French system is generally perceived as impartial, French decisions can, in principle, be enforced outside the country. Reciprocally, foreign decisions can also be enforced in France. When purchasing goods in France, a foreign investor must consider that he may not be able to dismiss the jurisdiction of the French courts (Articles 14 and 15 of the French Civil Code).

Mediation and arbitration are the main methods of resolving any disputes.



## Foreign investment

In principle, there are no administrative restrictions on foreign investment in France. International companies may open locations in France under a variety of forms, depending on investors' development strategies. Short term and long-term options can all be implemented with

absolutely no legal risks and investors are free to amend their plans once they have been submitted, subject to some simple and inexpensive procedures.

## Formalities for international investors in France

Current regulations require international investors to complete the following formalities:

- File a statistical return with a credit institution for transactions in which non-residents acquire more than 10 % of the equity or voting rights in a resident company.
- File an administrative return with the Ministry of the Economy (Treasury Directorate) for investments that create new companies or result in the acquisition of an equity interest in a French company involving more than a third of its shares or voting rights, if the investment is greater than € 1.5 million.
- Request prior authorisation from the Ministry of the Economy (Treasury Directorate) for investments relating to national defence, weapons and explosives or investments likely to affect public order and safety or create serious public health risks.



## Setting up

Practical implementation of a decision to set up in France depends on the investor's strategy and the degree of independence that the French operations are to have from the parent company. Each option creates specific

obligations with regard to tax and company law. Temporary solutions cannot be used for too long, or the administration will deem them to be permanent arrangements.

### Short-term solutions

A foreign company that wants to prospect for business in France and promote its products can start by having a single employee or by opening a liaison office.

#### Liaison offices: locations that do not engage in commercial activity

A foreign company may recruit or second an employee in France to represent it through a local liaison or representative office. Liaison offices may conduct only non-commercial operations, such as prospecting, advertising, providing information, storing merchandise, or other operations of a preparatory or auxiliary nature. Such offices are not separate legally. They may draw up purchase orders, but the parent company must issue invoices and sign any contracts. Liaison offices are not permanent establishments with respect to tax laws. They are not subject to corporate income tax or VAT, but must pay certain local taxes and payroll taxes. Liaison offices can only be a temporary solution. If they become lasting

arrangements, the tax authorities or the courts may deem them to be permanent establishments.

In principle, a liaison office does not need to be registered, but companies with no commercial activity must be registered if they have their own premises or if they have more than one employee in France. Documents to be submitted concern the representative (proof of identity, police record, specific documents for expatriates, business permits if necessary), two copies of the articles of incorporation of the parent company translated into French, and proof of tenancy or ownership of the premises.

## Sales representatives

Sales representatives may either be employees of foreign companies or travelling sales representatives (VRP). Travelling sales representatives are sales intermediaries employed by one or more companies to call on their customers in the representative's sales territory. These representatives work independently,

calling on prospects to offer goods and services. Their primary tasks are making sales calls, taking orders and submitting them to their employers. Their sales activities are taxed in France and require that the representatives be empowered to sign contracts on the employer's behalf.

## Sales agents

Foreign companies may also use the services of a sales agent, i.e. a self-employed individual or a company that acts on their behalf. Agents are responsible for negotiating and in some cases signing contracts for sales, purchases, leases and provision of services on

behalf of their principals. They may work for one or more companies, and are paid in part or in full by commissions on completed transactions. Smaller companies often prefer to use sales agents as a flexible and inexpensive means of introducing their products to foreign markets.

## Formalities to be completed by lone representatives in France

Representatives must register with URSSAF directly using the 'EO' form and submit a copy of their contract of employment. URSSAF will assign them a SIRET number and notify the authorities concerned. Such employees pay their own employer and employee social security

charges every quarter. Travelling sales representatives must apply for a professional identity card (issued by the Prefecture). A sales agent must be registered with the special register of sales agents.

## Long-term solutions

Companies can set up a branch or a subsidiary to conduct manufacturing or sales operations in France through a permanent principal or secondary establishment.

## Branches - the simplest solution

Branches are the preferred form for foreign companies' first locations in France. Branches are headed by a legal representative and operate like agencies that report to headquarters, with no official restrictions on their decision-making powers. They may conduct all the operations of an industrial or commercial company, but are not separate legal entities. If they encounter financial problems, the parent company bears unlimited joint liability for their debts. Branches are permanent establishments with regard to tax laws and must pay corporate income tax and VAT. Subsequent conversion of a branch into a separately incorporated subsidiary is possible, but must comply with rules governing the sale and transfer of business and is subject to tax.

Registration is required for branches. The registration application must include:

- Two copies of the parent company's articles of incorporation (two originals and two translated into French by a court approved translator)
- Proof of address
- Certificate of good standing from the foreign company register
- Documents relating to the person empowered to act on behalf of the company (including the business permit, as appropriate)

## Subsidiaries – companies incorporated under French law

Subsidiaries are new companies incorporated under French law and separate legal entities. They offer several advantages:

- Segregation of subsidiaries' and parent companies' assets means that foreign companies do not bear unlimited liability for the debts of their French structures. On the other hand, parent companies' profits cannot be offset against subsidiaries' losses.
- Subsidiaries are entitled to renewable "commercial leases".
- Subsidiaries may apply for government assistance when starting up or expanding.
- Subsidiaries can enter agreements on sales and technical royalties, commissions, management fees, etc.

The basic preliminary steps for setting up a subsidiary are:

- Seeking public or private sector financing (loans, venture capital, business angels, innovation mutual funds, etc.)
- Seeking business premises and the domiciliation of the company's headquarters through a domiciliation agreement, a commercial lease, or a real estate purchase
- Gathering the company's capital
- Opening a bank account in France and depositing the new company's initial capital reserve

- Having capital contributions in kind appraised by an official appraiser
- Drawing up the articles of incorporation and signing them (in front of a notary if the company owns real estate)
- Registering the articles of incorporation with the tax office for the headquarters location (no fee for this formality)
- Obtaining long-term visas and business permits for non-EU directors
- Publishing notification of the new company's inception in a legal gazette.

The company becomes a separate legal entity when it is entered in the company register (Registre du Commerce et des Sociétés). The founders are personally liable for their legal commitments during the inception phase, which are then assumed retroactively by the newly incorporated company. The subsidiary must pay all applicable taxes.

The registration application for the new company must include:

- Two original copies of the articles of incorporation giving the names of the directors and, where appropriate, the names of the statutory auditors (for SA and SAS)

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- Two copies of the official appraiser's report, if capital contributions in kind are involved
- A copy of the lease or ownership deed to the business premises
- A copy of the legal gazette containing notification of the company's inception
- Copies of the directors' birth certificates, identity cards or passports, along with their police records
- If appropriate, a copy of the professional card, or degree or certificate required to engage in regulated professions
- If appropriate, the business permit or residence permit of the directors
- A certificate of deposit from a bank for the new company's initial capital reserve
- A summary of the formalities completed on behalf of the new company.

The K-Bis extract issued by the court clerk's office is proof that the company has been set up.

## Streamlined formalities: one-stop shop

The introduction of one-stop service has greatly simplified the administrative formalities for setting up businesses and all of the formalities for setting up a new company can be dealt with in one place: the Centre de Formalités des Entreprises (CFE), but it's possible to make the registration directly on the web site of the Commercial Court Clerk's Office. The centre will take charge of all documents required to set up, change or close down companies and deliver them to the relevant authorities:

- The Commercial Court Clerk's Office will first issue, free of charge, a Business Creation Certificate, and then issue the 'K-bis' register extract, once the company has been registered
- The French National Statistics Institute (INSEE) will determine the relevant activity code (NAF) for the company and issue SIREN (company identification) and SIRET (local unit identification) numbers required for recruiting staff
- The tax authorities (tax office) and social security agencies, including URSSAF (Union de Recouvrement des cotisations de Sécurité Sociale et d'Allocations Familiales), which collects payroll taxes.

The Business Formalities Centre provides the registration application form ('MO' form) and the list of documents to be submitted (translated into French). The application must be filed by a duly empowered person with written authorisation from the company. It takes about two

weeks for a company to be recorded in the company register (RCS). When a company is 'pending registration', its legal representative can use the Business Creation Certificate for dealings with the authorities and public and private sector organisations (e.g. accessing the new company's bank accounts). Administrative formalities cost approximately € 90, plus the cost of publishing a notice in the legal gazette (approximately €200).

There are some formalities that the business formalities centre does not handle:

- Applications for authorisation to engage in regulated professions, professional cards (sales representatives), licenses or registration with professional associations for lawyers, accountants, architects, physicians, etc.
- Proof of address
- Formalities to register trade names and brands with France's National Industrial Property Institute (INPI)
- Registering internet domain names ending in '.fr' with the French Internet Names and Cooperation Association (AFNIC)
- Registration of the company with an insurance centre
- Registration with an employee retirement plan (must be done within three months of registration).

Formalities relating to hiring employees must be completed with URSSAF.



## Legal Structures

The choice of legal structure depends on the investor's strategy. This choice will affect the company's legal status, taxes, assets and labour relations.

### Joint stock companies - the most common choice in France

Joint stock companies limit the owners' financial liability to the amount of their capital contributions. Such entities can easily be converted into other forms of companies with minimal tax consequences. The rules governing companies have become much more flexible, with the introduction of simplified joint stock companies (SAS/SASU), which have greater freedom to draft their articles of incorporation to suit their own purposes. The elimination of the minimum capital requirement for limited-liability companies (SARL) has also resulted in greater flexibility.

## Comparison of the main forms of joint stock companies in France

<i>Company type</i>	<b>Limited-liability Company (SARL) (1)</b>	<b>Limited company (SA) usual form (Board of directors) (9)</b>	<b>Simplified joint stock company (SAS)</b>	<b>Partnership limited by Shares: SA with Supervisory Board (9)</b>
<i>Key advantages</i>	Easy to set up and operate for a closed ownership structure.	Structured for "monitored delegation". Organisation of ownership	At least one partner. Freedom to amend articles of incorporation (6)	Structured for a high degree of delegation. Takeover-proof structure
<i>Directors</i>	One or more directors, who must not be corporate entities, but do not need to be partners.	- One individual to be the Chairman of the Board and CEO or two individuals to be Chairman and CEO respectively. - Deputy CEOs (up to 5) - Board of directors with 3 to 18 members and a statutory auditor.	- At least 1 chairman (individual or legal entity) and possibly a board with other members. - The company can be represented by a person so empowered by the articles (CEO or deputies).	One or more directors who do not have to be partners - A supervisory board: with at least 3 silent partners
<i>Minimum capital (2)</i>	No minimum. The capital (3) amount is set by the articles of incorporation. Industrial contributions possible (7)	€37,000. Public offerings allowed if share capital is greater than €225,000. No industrial contributions allowed (8)	No minimum. No public offerings allowed. No industrial contributions allowed. (8)	€37,000. Industrial contributions allowed for general partners and banned for limited partners.
<i>Partners/ shareholders</i>	1 to 100 individuals and legal entities. At least 1 meeting per year: annual approval of the accounts, review of contracts by simple majority at AGM, changes to articles of incorporation require 3/4 majority at EGM.	At least 7 (with at least one natural person). At least 1 meeting per year: annual approval of the accounts and ordinary decisions by simple majority at AGM, changes to articles of incorporation require 2/3 majority at EGM.	At least 1 individual or corporate entity. Only certain decisions made by AGM: approval of the accounts, mergers, changes in capital, liquidation.	At least one general partner and 3 silent partners. Decisions made by general partners (usually unanimously) and silent partners.
<i>Blocking minority</i>	50% + 1 vote for amendments to the articles of incorporation.	1/3 of shares at EGM 1/4 of shares in AGM	According to articles	1/3 of shares at EGM 1/4 of shares in AGM

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<i>Company type</i>	<b>Limited-liability Company (SARL) (1)</b>	<b>Limited company (SA) usual form (Board of directors) (9)</b>	<b>Simplified joint stock company (SAS)</b>	<b>Partnership limited by Shares: SA with Supervisory Board (9)</b>
<i>Liability of partners / shareholders</i>	Limited to contributions, except in civil or criminal suits	Limited to contributions, except in civil or criminal suits	Limited to contributions, except in civil or criminal suits	General partners: Unlimited joint liability. Silent partners: Limited to contributions.
<i>Transfers (4)</i>	Shares are transferable unless otherwise stated (4)	Shares are transferable unless there is a clause requiring approval of new shareholders (registration tax: 3% of amount transferred)	Shares transferable unless there is an approval clause	Transfer of shares for silent partners. Transfer of shares for general partners (unanimous decision).
<i>Specifics</i>	Registration tax for transfers	Statutory auditor required	Statutory auditor required (10)	Statutory auditor required
<i>Tax regime</i>	Corporate income tax (1)	Corporate income tax	Corporate income tax	Corporate income tax

1. A limited-liability company (SARL) may be set up with a single shareholder (EURL), who can then choose to pay personal income tax or corporate income tax on the company's earnings. But Corporate income tax is due if the single owner is a company.
2. Cash contributions can be made in instalments: half at the time the company is set up and the remainder over 5 years (1/5 for SARL).
3. Variable capital is possible.
4. 3 % of the acquisition price paid by the buyer. Exemption on first € 23,000. And 3 % for shares of SA or SAS with a maximum of € 4,000.
5. Relationships between shareholders, management, organisation of ownership and share transfers.
6. A simplified joint stock company (SAS) can also be set up with a single individual or corporate shareholder (SASU).
7. However, a company must have enough capital to meet its long-term needs.
8. Contributions where a partner or future partner gives the company the benefit of his activity, work and working knowledge. Such contributions are not added to capital but they do give rise to a distribution of shares entitling the holder to a percentage of earnings and a voice in company decisions.
9. There are also companies with an executive board, which are one variety of limited company. The executive body is an executive board with 2 to 5 members or a single general manager. The supervisory board has 3 to 18 members, who must all be shareholders. Its job is to supervise operations, but it also takes part in management.
10. An auditor is not required in an SAS with turnover less than €2m, staff less than 20, total assets less than €1m.

## Other structures

Other structures may also be considered, such as partnerships (SNC), non-trading companies and European Economic Interest Groupings (GIEE). These structures are less common because the partners' financial liability is greater or even unlimited. On the other hand, they entail no minimum capital requirement, they are flexible to operate and their earnings and gains

are tax transparent. These features make them attractive options for subsidiaries. Undeclared partnerships are used in the construction industry, in showbusiness and in publishing. They are easy to set up, since registration is not required, and they shield the investors' identities, since there are no disclosure requirements.

## Societas Europae

By incorporating as a European Company (SE), companies can benefit from a single set of rules and a unified management and financial disclosure system. European Companies must be established in at least two European Union Member States and the minimum capital requirement is €120,000. The registered office stipulated in the articles of incorporation must be in the same place

as the company's administrative headquarters. The location of the registered office determines which country's business laws apply and in which country the company is incorporated. A European Company is subject to taxation in all of the Member States where it has permanent establishments.



## Employment

France is an industrial economy where the labour laws are designed to protect the interests of employees and yet are suited to the economic priorities of business. Labour relations are governed by the Labour Code and by industry-specific collective bargaining agreements that reflect the practices of each industry. Employee profit-

sharing and share-ownership plans are encouraged though income tax and payroll tax exemptions. Flexible working hours and manning levels are designed to suit production constraints.

### Key features

- **Employment contracts:** the most common form of contract is an open-ended contract (contrat à durée indéterminée (CDI)) that is written in French. Many conditions of the contract must refer to the outcomes of collective bargaining.
- French labour law allows companies to hire extra staff to meet temporary needs, but restricts **temporary employment** contracts and temp agency workers to specific situations - the limit is generally 18 months for these arrangements.
- As a general rule, **company directors** cannot be bound to their company by an employment contract; their terms are stipulated by the articles of incorporation. Some directors sign employment contracts with their companies - exceptions include managing directors of limited companies, chairman of joint-stock companies and directors holding a minority stake in limited liability companies.
- Compensation must be at least equal to the **minimum wage**, which was set at € 8.71 gross per hour on 1 July 2008 (€ 1,321.05 / month), but branch collective bargaining define minimums by categories of employee.

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- **Statutory working hours** in France are 35 actual hours (1) worked per week. Maximum working hours are 10 hours per day and 48 hours per week. Over a 12-week period, the maximum is an average of 44 hours per week (see adjustable working hours).
- The **35-hour week does not apply** to executives and management personnel, who are free to organise their own work, nor does it apply to employees working off the premises, such as sales representatives, maintenance technicians etc. In exchange, these employees are offered annual packages that stipulate the annual number of days worked, with a maximum of 218 days (1) and 13 hours per day.
 

*(1) But the government has decided to offer the possibility to “work more and earn more” over this limited time, with exemption of social charges and income tax for the employees. (Law of August 20th 2008)*
- **Formalities:** As soon as they are registered, companies can **hire staff** - France’s national employment agency (ANPE) can assist by publicising vacancies, identifying and shortlisting applicants.
- Once employees have been hired, there is a single **reporting** form to complete (the DUE) which needs to be sent to the local URSSAF office, or submitted online.
- France’s **health and social security system** pays virtually all healthcare costs incurred by employees and their families, and is backed up by compulsory unemployment insurance and supplementary retirement schemes. Health and retirement benefits compare favourably with those offered in other countries, including the UK and US.
- **Staff representation** varies with size of the company; firms employing more than 10 staff have an employee-elected staff representative, whereas those firms with more than 50 staff have an employee-elected works committee. These firms must also set up a Joint Safety Committee (CHSCT).
- **Overtime pay** is at least 10% and often 25% more than regular pay; the regulatory limit on overtime is 180 hours per year, or 39 hours per week for 45 weeks; government authorisation is required to exceed this limit.
- Employees are entitled to five weeks’ paid **vacation**, of which at least four weeks must be allowed between 1 May - 31 October. In addition, there are 11 legal holidays plus personal leave days (for marriages, births, deaths) depending on the collective bargaining.
- **Sunday** is a day of rest, although there are many exceptions (such as manufacturing or maintenance firms); extra compensation is paid to Sunday workers, who are still entitled to a day of rest.
- Both employers’ and employees’ charges are collected by URSSAF. The employers’ share of charges represents about 42% of gross wages and the employees’ share represents about 22%. **Social security charges** are substantially lower on low wages and for companies that apply the 35-hour working week. There are also subsidised employment contracts for certain categories of jobseekers that entail lower rates.
 

These 42% and 22% include: social security, retirement pension, unemployment charges. Some collective bargaining provide other charges.
- **Trade unions** are entitled to set up bargaining units within a company; around 6% of French workers are unionised.

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- **Layoffs** can be individual or collective; individuals must be asked to attend a preliminary interview before they are laid off. In the case of collective layoffs, the head of the company must meet with the works committee.

*The layoff procedures are very strict, but a law from June 25th 2008 offers the possibility of a negotiated layoff procedure.*

- **Layoffs of up to 9 people** can only become effective 7 days after the interview date (or 15 days in the case of supervisory staff).
- A 'job preservation plan' must be drawn up when **more than 10 layoffs** in a 30-day period are planned, and the notification period for layoffs then varies according to the number of employees concerned, ranging from 30 to 60 days after notification of the layoff plan.
- **Severance pay** is at least one-fifth of the employee's monthly pay (including bonuses) for each year of service up to 10 years and one third of the employee's monthly pay for each additional year.
- **Voluntary departures** following job cuts, redeployment or reorganisation, and refusals to accept substantial changes to employment contracts are treated as layoffs.
- Personal **dismissal procedures** can be initiated for misconduct on the part of the employee or conduct that is not actually delinquent, but nevertheless harms the company's interests. A warning is often issued before initiating the dismissal procedure, and there must be a preliminary interview with the employee before the dismissal becomes effective.
- The employer must comply with the **notice period** that the employee is entitled to under the law or the relevant collective bargaining agreement. In principle, the notice period is two months for employees with more than two years of service. Employees are not entitled to severance pay in cases of serious misconduct.
- The statutory **retirement age** is 65, but employees may retire after their 60th birthday if they have paid into the statutory retirement scheme for 40 years, or 160 quarters. This requirement will be extended to 42 years in stages between now and 2020. The French government pays retirement pension benefits.



## Taxation

France's corporate tax system is designed to promote business investment, regional development and international expansion. Tax rules for groups also testify to France's commitment to equal tax treatment. France

has signed tax treaties with more than one hundred countries and provides foreign investors with outstanding protection against double taxation.

### Corporate Income Tax

#### Taxation of foreign companies in France

Any foreign company doing business for profit in France is liable for French tax on its earnings in France. This rule applies to all types of entities:

- Subsidiaries
- Branches
- Permanent establishments

If a branch or a permanent establishment is not a separate legal entity producing its own financial statements, then its earnings from activities in France are reconstituted using the financial statements of the foreign company. Each individual tax treaty defines the notion of permanent establishment.

#### Calculating taxable income

Taxable corporate income is calculated by deducting eligible expenses from revenue. Revenue comprises all of the proceeds from activities, sales or provision of services. Deductible expenses are those related to the company's business. They include:

- Depreciation and amortization (excluding goodwill)
- Provisions
- Rent for buildings and equipment
- Wages
- Social security charges
- Goods purchased
- Energy consumption
- Advertising
- Financial expenses, etc.

## Deduction limits

There are limits on some deductions (but very few) to prevent abuse. For example, the depreciation allowance and deductible lease payments on company cars are capped at €18,300 including VAT to prevent sumptuary expenditures from being written off as business expenses.

*Only for company cars with 4 seats or more. No limitation for 2 seat cars.*

## Intercompany transfers

Management expenses, interest charges and royalties paid to associated companies are deductible if they correspond to actual services rendered and the amounts invoiced are in line with market prices.

## Depreciation

France's depreciation rules are particularly favourable. Fixed assets are depreciated according to the straight-line method over their likely useful life of production assets bought new, acceleration multiples ranging from 1.25 to 2.25 are applied to the straight-line depreciation rates, depending on the normal useful life of the assets concerned. Equipment and tools used for scientific and technical research and purchased or produced after 1 January 2004 can be depreciated using an accelerated diminishing balance method. The acceleration multiples

in this case range from 1.5 to 2.5. Software, energy conservation equipment, renewable energy production equipment, noise abatement equipment and nonpolluting vehicles (running on electricity, natural gas or LPG) can be depreciated over 12 months. Finally, fixed assets that have been financed by capital grants, regional development grants or agricultural development grants can be depreciated on the basis of their cost price, plus half of the grant amount.

## Provisions

Provisions for impairment of assets are allowed if they can be justified and if they relate to clearly identified claims, inventories, securities or tangible assets.

Allowable provisions include provisions for risks, for work in progress, for price increases, for vacation pay, etc.

## Corporate income tax rates

Excluding temporary additional taxes, the following tax rates are applied:

- Standard rate of 33.33%
- Small businesses pay a 15% tax for the first €38,120 in profits and the standard tax rate on remaining profits. Companies in which at least 75% of the equity is

owned directly or indirectly by individuals or by companies that meet the same conditions and report annual sales of less than € 7,630,000.

An additional social security levy of 3.3% is applied over € 763,000 of corporate income tax if the turnover of the company is over € 7,630,000.

## Carrying losses forward

Losses can be carried forward indefinitely. There is also an arrangement for deducting the current year's losses from income tax from previous years (carryback).

## Carryback rules

The carryback system makes it possible to deduct the current year's loss from income of the three previous years. This results in a claim on the Treasury for previously paid corporate income taxes. The Treasury reimburses the claim after five years, unless the company concerned applies it against corporate income tax owed. The claim can also be discounted by credit institutions (Dailly Act).

Carryback periods in Europe: Germany, Ireland, United Kingdom: 1 year

Netherlands: 3 years

## Groups of companies

France's tax consolidation rules are particularly favorable and offer the advantages of a comprehensive system that enables groups of companies to offset income and losses from their consolidated French businesses and eliminates intercompany transactions. This option is available if the French subsidiaries in the consolidated

group are at least 95% owned by a French parent company. Groups must choose this option for a five-year period and announce their choice before the first day of the financial year of the consolidated companies.

## Repatriation of profits

Profits are usually repatriated in three forms:

- Transfers or distributions of net profit from branches and subsidiaries

- Interest on loans and advances from the foreign parent company
- Royalties or management fees.

## No tax obstacles to invoicing interest, royalties or management fees

The amounts invoiced must be justified and in line with the prices for arms length transactions between independent companies. The French authorities are

entitled to require proof that transfer prices are in line with true market prices.

## Withholding tax

If the parent company is located in a country that does not have a tax treaty with France, the withholding tax rates are as follows:

- 25% on dividends, branch profits and royalties
- 15% on interest payments

Tax treaties between France and many countries significantly reduce withholding tax rates. For example, there is no withholding tax on dividends or branch

income paid to European parent companies or to the head office of European companies. Another example is the tax treaty between France and the United States, which sets the withholding tax rate on dividends, branch profits and management fees at 5%. The withholding tax rate rises to 15% for dividends paid to individuals who are residents in the United States and own fewer than 10% of the shares in the French company in question.

## Generous exemptions for dividends paid through holding companies

When holding companies located in France and owning equity in French and foreign companies redistribute dividends from companies in which they own more than 5% of the equity to their foreign shareholders:

- There is no tax if the holding company's parent company is located in a Member State of the European Union

- If the parent company is not located in the European Union, the only tax liability is the withholding tax at the rate determined by the relevant tax treaty.

However, holding companies that are more than two-thirds foreign owned enjoy special exemptions and deductions that are not available to holding companies under French ownership.

## Special rules for headquarters and logistics centres

Like other European countries, France has special tax rules for company headquarters and logistics centres. Headquarters and logistics centres each have their specific purpose and provide specialised services. Headquarters provide management, administration, coordination and control functions, while logistics centres handle only packaging, labelling and distribution functions. To be eligible for the special rules, the services must be provided to companies in the same group only. The tax rules are based on a fixed cost-plus formula that is arrived at in agreement with the tax authorities. This agreement on the formula eliminates the risk of a change in the cost-plus rate applied during a

subsequent tax audit. Tax is assessed at the standard rate on income that is derived by applying the agreed cost-plus formula to headquarters and logistics centre expenditures. The cost-plus rate applied is usually between 6% and 10%. Headquarters and logistics centres are subject to business tax, as stipulated by French law. This means that the two-year exemption is applicable to new companies. As part of the tax rules aimed at eliminating expatriation costs, headquarters and logistics centres may pay special compensation to their expatriate employees that is totally or partially exempt from personal income tax. Companies must apply to the tax authorities to benefit from these measures.



## VAT and Customs Duty

Value added tax (TVA) is a tax that consumers pay on the consumption of goods and services. For companies, VAT is a neutral tax; they merely collect the VAT on their sales and deduct the amount of VAT that they have paid on purchases of goods and services. If companies have paid more VAT than they have collected, the difference will be refunded to them on request. Exports of goods outside the European Community are completely exempt from VAT.

France's standard VAT rate on sales of goods and services is 19.6%, but there are also reduced rates. The rate on food products and certain agricultural products is 5.5%. The rate on drugs is 5.5% or 2.1%. The 5.5% rate also applies to books, hotels, public transport, newspapers and magazines, certain leisure activities, etc.

## Customs duties are the same throughout the European Union

Goods move freely inside the European Union and customs duties are only charged once on non-EU imports, even if they are sent from one Member State to another after import. Goods entering France for re-export to another Member State of the European Union may enter France with no VAT charge (VAT is paid in the country where the goods are consumed).

A transit arrangement suspends VAT payment for transactions involving goods that will be placed under the Community system of customs duty reliefs or in a bonded warehouse. The purpose of this arrangement is to delay payment of VAT until a later stage. The New Computerised Transit System (NCTS) which manages the transit arrangement has been compulsory since April 1, 2004. Companies are not required to complete any administrative formalities for the movement of most

merchandise between the countries in the European Community. They must merely file an exchange of goods declaration (Intrastat) on intracommunity trade for statistical purposes. Any company that receives merchandise worth more than €150,000 per year from another Member State or exports the same amount to other Member States must file an Intrastat form each month. The form provides information about types of products, countries of origin and destination, values and weights. The customs administration has designed computerised clearance systems that accelerate clearance formalities and release of goods. Companies may opt for electronic transmission of the forms to the customs data center (CISD) and on-line filing of Intrastat forms. Clearance is carried out by the relevant customs service.

## Clearance of non-European Union goods

Imports and exports of merchandise between Member States of the European Community and other countries require a customs declaration, which must be filed using the Single Administrative Document (SAD). The main data included in the SAD are: the name of the company, the type of declaration (import or export), the type of goods, origin and ex-tax value of the merchandise.

Invoices and any documents required to claim preferential tariff treatment or for inspection of certain imports (agricultural products, etc.) must be included in the declaration. The SAD data are used to calculate the duties and taxes due and for the physical and statistical accounting of the merchandise.