



Doing Business in France 2022

mazars

Introduction

Mazars has correspondents and joint ventures allowing the Group to serve clients at the same level of demand and quality in 15 additional countries.

Based on an innovative and customised interpretation of their issues, Mazars are not only a warranty of reliability based on recognized technical expertise, but also a promise of value creation and performance optimization. In a multipolar world, Mazars knows that collective intelligence gives rise to the most relevant solutions and, in this way, sets out to have all experts serve a progress dynamic that benefits beyond clients to all.

In France, Mazars is one of the top 5 audit firms with a knowledge network of 3,000 people. The Group has long since established itself as the independent challenger, able to deliver fluent and tailor-made solutions to large international groups and their subsidiaries. The complete, adaptable and flexible services offered allow us to be the ideal partner of small and medium-sized companies and individuals.

Our French offices include an outsourcing and accounting department of more than 300 people, with specialized English speaking professionals able to perform suitable accounting and administrative work for our clients in their expansion, in particular within the framework of outsourcing engagements. Moreover, having in-house lawyers allows us to be very reactive to the requests of our clients should they need assistance on specific subjects.

A significant number of international corporations have chosen Mazars to supervise their accounting function.

Over the years, Mazars has been working with many businesses establishing themselves within France. They have all experienced the frustration of getting to grips with the complex regulatory environment. The overall purpose of this guide is to provide valuable information and tips to foreign business persons when planning to launch a business in France.

Disclaimer: The information contained in this document is general only. It is not meant to be comprehensive and you should not act upon the information contained in this publication without consulting a professional in connection with any particular matter or issue.

Mazars cannot be held liable for any actions or business decisions taken on the basis of information in this booklet.

Executive summary

Why France such a great place to do business?

Investing in France has many advantages. With more than 65 million people, and the second largest market in Europe, France is critical for most global companies. As a location, France offers a predictable and transparent legal system, outstanding infrastructure, and access to one of the world's most lucrative consumer markets.

Economy: Take advantage of the eighth largest economy in the world, with a GDP of approximately €2 500 billion.

Consumer market: global companies operate in France to be closer to their suppliers and customers within a dynamic marketplace.

Research and Development: France offers the most generous research & development tax treatment for companies.

Technology: French companies are leaders in breakthrough technology and innovation in key industries ranging from electronics, transportation, tourism, food processing and luxury.

Productive Workforce: investors in France gain access to a highly productive and adaptable workforce. The French workforce ranks as one of the best educated, most productive, and most innovative in the world.

Transportation/Infrastructure: France has one of the largest paved roadway systems, railway networks, and number of airports in the world. Its strategic location serves as a hub to address both eastern and western European markets.

Dynamic service sector: an increasingly large share of economic activity relies on services and internet technology and it accounted for a large part of job creation in recent years.



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Customizing your project



Customizing your project

More than one way to skin a cat...

Look before you leap (choose either above strap line or this one on the left – having both looks sloppy) . As exciting as launching a business could be for any project holder, it is of great importance to figure out your main investment objectives and goals in order to pick the right “vehicle” and cruise through one of the best business-friendly places in the world.

01. Liaison office

Utilizing a liaison office is the perfect way to perform non-commercial activities, such as prospecting, advertising, providing information, storing merchandise, or other operations of a preparatory or auxiliary nature.

A liaison office is the best lookout for enabling foreign parent companies to gain new contacts on the spot with various interlocutors (potential customers, suppliers, etc.), collecting information and ensuring clear communication and public relations before “going live”. Bear in mind that the liaison office can never conclude a contract in the name and on behalf of the parent company since its purpose is not to carry out commercial activity.

The office plays only a relay role, in preparation for the negotiation of commercial contracts between customers and the foreign company. Invoices and contracts must be sent and signed by the foreign parent company.

Liaison offices are not subjected to corporate tax or VAT as they are not considered permanent establishments and are not involved in commercial activities.

02. Branch

What’s wrong with just setting-up a branch of my company?

Within France, a branch of a foreign company is just an extension of its parent company.

Its management is carried out by a representative of the parent company (manager) who has the power to deal with third parties. It has a certain independence in the management of the branch (responsibility for the goods, initiative in the execution of the commercial activity, hiring of staff) while remaining under the control of the foreign-based corporate’s head office.

It has its clientele that deals with it directly, and it acts on behalf of the foreign-based corporate’s head office.

What features would make it a suitable choice for me?

Setting up a branch would cater for investors that:

- want to have a light permanent establishment in France
- already have a good experience and knowledge of the French market
- seek to avoid statutory audit requirements
- seek to avoid financial statements filing with the Commercial Court
- need to obtain a VAT number in France for business purposes and a specific project (building site...)
- seek to avoid the 3% levy on dividends paid if the company is located in an EU country and is not a SME

Expand into France and let your company branches expand your business family tree by including a fully owned brand new French subsidiary. This is the most common way to adopt a portfolio approach when considering an investment in France.

Customizing your project

More than one approach...

03. Subsidiary: a glimpse of the legal forms

As the issue at hand is to set up a wholly-owned French company, there are many reasons a subsidiary makes sense with respect to:

- satisfying existing customers and prospects with a legal presence in France
- manufacture of goods, assembly of products, or provide services
- to protect against liability claims
- to minimize certain tax or customs duty-related costs
- to segregate subsidiaries' and parent companies' assets for liability purposes
- to apply for government support when starting up or expanding

The subsidiary must pay all applicable taxes like a regular French corporation. Investors are advised to seek specialist legal advice when setting up a subsidiary. The most common legal forms are set out below to provide a short overview.

« Société à Responsabilité Limitée » (SARL)

The Limited Liability Company (SARL) is a commercial company where the shareholders' liabilities are limited to the amount of their contribution represented by the company's shares.

To become a legal entity, the company needs to be registered in the Trade and Companies Register (RCS).

The share capital can be held either by one or several natural persons or legal entities (whether incorporated in France or in a foreign jurisdiction) and no minimum requirement applies to the capital.

The SARL is run by one or several general managers ("gérant(s)") appointed by the shareholders:

- the manager ("gérant") is necessarily a natural person, whether he is or is not shareholder of the company,
- the manager can be dismissed on justified grounds ("juste motif") only.

Decisions are made through ordinary general meetings or extraordinary general meetings depending on stakes.

The financial statements must be filed with the Commercial Court once a year.

« Société par Actions Simplifiée » (SAS)

The Simplified Stock Company (SAS) is also a commercial company as well. The share capital can be held either by one or several natural persons or one or several legal entities (whether incorporated in France or in a foreign jurisdiction). The liability of the shareholders is limited to the capital invested and the share capital can be freely decided within the articles of association.

Its main feature is a greater freedom to draft their articles of association with respect to internal organisation and decision-making process.

The administration and management are governed by the articles of association:

- The appointment and dismissal of the Managers (Chairman/CEO, Managing Director, so called Directeur Général and Directeur Général Délégué)
- the number of Managers, their term, their compensation and their powers

It is possible to allow the dismissal of directors without providing for justified grounds and compensation.

The SAS can be managed either by an individual or a legal entity (whether shareholder or not).

The legal person appointed as director, the director of this legal person is personally held liable for civil and criminal charges, as if appointed in person. The SAS can also be managed by a collegiate executive body.

The mechanisms of control are also freely decided upon within the articles of association. Such as in a classical public limited company (French "SA"), a supervisory board can be provided for.

The sole executive body that is provided for by law is the "président", who disposes of the complete authority to represent the company towards third parties. This stands even if a collegiate body is appointed for the management of the company. Only one "président" can be appointed. One or several general managers ("directeurs généraux") can be given the authority to represent the company towards third parties, if the articles of association provide for it.

Customizing your project

More than one approach...

« Société en Nom Collectif » (SNC)

The General Partnership is a commercial company of two or more individuals or corporate partners, with the status of merchants (“commerçants”). Each partner is wholly and jointly liable for the debts of the company, which is tantamount to an unlimited liability.

The rules for the sharing of profits and losses between partners are not necessarily proportionate to the partners’ share of capital but derived from what has been decided within the articles of association.

There is no minimum capital requirement, the status of each partner relates to its contribution to the nominal capital, and each partner receives shares in return for their subscription. Contributions may be either in cash or in kind.

The shares may be sold, when authorised by all the other partners.

« Société Anonyme » (SA)

The Public Limited Company (SA) is a commercial company. Its capital is divided into shares, owned by at least seven shareholders (or two if the company is not listed) with limited liability.

Their financial commitment towards the company is limited to the value of their share in the capital of the company. They can be individuals or legal entities. This legal form is suitable for listed companies.

The articles of association must contain the name of the company, lifespan (maximum 99 years, renewable), activity, registered office address, amount of share capital, the founder’s name, management, and name of the statutory auditors. The AOA are signed by the shareholders themselves or a representative and should be published in an official journal

To obtain legal entity status, the company needs to be registered at the Commercial Register.

The capital of at least €37 000 must be subscribed, in cash and/or in kind, and deposited at a bank or with a Notary Public in an escrow account. Subscriptions in kind are assessed by a professional, namely the valuation auditor.

« Société Civile Immobilière » (SCI)

The Real Estate Company (SCI) is often used to acquire properties in France. This provides a form of corporate ownership with minimal French taxation. It allows the owners of properties in France to organise their estate planning effectively for succession purposes.

Since 1978, civil companies need to be registered. The partners (at least two) are individually but not jointly liable to the creditors for the company’s debts. Their liability is not limited to the amount of contribution in the capital of the company. A new partner joining the company will therefore be liable for future and past debts. Therefore, there is no requirement for a minimum amount of capital. The capital of the SCI is divided into shares.

All profits made by a SCI whose associates are individuals will therefore be taxed in France as personal income tax, making the SCI a transparent company. However, if the SCI carries out a commercial activity it will be liable to French corporation tax.

A SCI is not required by law to file financial statements with the Commercial Court (as required for commercial companies).

Customizing your project

Go live 101

01. Simplified formalities in few steps

A “one-stop shop” called Centre de formalités des Entreprises (CFE) is the place where all the logistics for creating a new company can be dealt with. It handles all administrative details, gathers all necessary documents and delivers them to the relevant authorities. It then only takes a few days for a company or branch to be recorded in the Company Register.

The 10-step process for the setting-up of a company in France:

1. Seeking business premises for the company's registered head office : business address agreement vs commercial lease
2. Figuring out the most appropriate type of legal structure
3. Drafting and signing the company articles of association which requires preliminary steps to be taken (Head office address, definition of business, shareholders, etc.)
4. Planning the appointment of the chairman by a shareholders 'general meeting
5. Declaring the domain name of the company website, if one exists
6. Appointing the statutory auditor(s), where relevant
7. Constituting the share capital: opening a bank account in France and depositing the capital of the company being formed
8. Registering the articles of association within a month of their adoption with the tax authorities at the registered office's location (free of charge)
9. Drafting of the form MO (for registration of a company)
10. Publishing the notification of establishment in a legal gazette

Please note that this list does not include specific formalities to be carried out with French authorities for certain types of regulated activities.

There are different ways of completing formalities at the CFE:

- Perform the procedures yourself, acting under the authority vested by the foreign company as the future legal representative of the company's new establishment in France
- Delegate powers to an attorney to represent you
- Delegate powers to one of your personnel or a partner in the company to be founded

You will be asked to show proof of authorization or power of representation to complete the formalities when filing your application with the CFE.

What are the costs for registration formalities?

€50, plus the cost of publishing a notice announcing a new company in a legal gazette (around €500).

02. Practical know-how

When it comes to business premises, France is a place where a large array of options is available to fit your needs.

Short term affordable solutions enable you to set up the company's registered office in a business centre offering services such as a physical business address, mailboxes, phone answering service, meeting rooms etc.

Local authorities are also keen to provide premises, such as so called “business incubators” or temporary manufacturing facilities.

A Long term option is within the form of commercial lease.

The statutory term for commercial leases is nine years, but tenants can terminate the lease at the end of the third or sixth year.

Tenants are legally protected against non-renewal or eviction. The lessor must pay eviction compensation proportionate to the value of the business and

the right to the lease. Rent increases are capped. The commercial lease agreement stipulates the commercial purpose of the premises (activity), but the parties to the lease can agree to amend the lease to change the initial purpose or add another activity. The tenant shall hold a civil liability insurance contract for the rented premises.

Another long-term option is the acquisition of a property, a massive investment that must be thought through thoroughly.

Customizing your project

Go live 101

What about a corporate bank account?

All foreign companies can access banking services in France (and thus open bank accounts and obtain financing) either directly, or through an establishment or subsidiary in France.

A bank account in France is vital for any company and it is a requirement for incorporation. However, because of the French penchant for bureaucracy and paperwork, anti-money laundering and counter-terrorism legislation inevitably involves a few extra hoops to jump through.

Still, the lucrative opportunities in the French market easily offset this slight difficulty.

03. Hiring staff

The only genuine form of wealth is...people

Employers can hire staff according to their needs using a variety of different employment contracts. Contractual clauses can provide for greater flexibility in employment relationships, provided they are not contrary to the French Labor Code or to any collective agreement applying to the company.

Recruitment support services exist in France for you to find the right employees for your company. France's National Employment Office (Pôle emploi) can help companies by publicizing their vacancies, identifying and short-listing candidates, as well as offering and organizing training courses for candidates. Most of French job seekers also use the internet to find opportunities (Indeed, Monster, Cadremploi...).

The most common employment contracts in France are open-term contract ("Contrat à Durée Indéterminée"), short-term contract ("Contrat à Durée Déterminée"), and temporary work contract ("Contrat de Travail temporaire").

The open-term contract (CDI) is an unlimited term contract, between an employer and an individual. This is the most common basic employment contract, all the more that it provides a certain degree of security for the employee. This type of contract does not need to be written by law, but it is highly recommended.

The short-term contract (CDD) can be used in different specific situations strictly defined by the regulation: to replace someone temporarily absent, when there is an exceptional increase of work, etc. The contract must be written. A permanent position can never be filled up with a short-term contract.

The temporary work contract (CTT), or "intérim", requires two contracts – an availability contract ("contrat de mise à disposition"), signed between the temporary employment agency and the customer, and an assignment contract "contrat de mission", signed between the temporary employment agency and the temporary worker.

International mobility insights

A work permit is required to carry out salaried professional activity in France. Some residence permits allow residency in France and act as work permits. The expatriate employee temporary residence permit valid for 3 years concerns employees seconded or expatriated to France as part of an inter-company transfer. It is valid for 3 years.

The employee temporary residence permit is relevant to foreign nationals employed in companies in France, for a period of one year or more. It is valid for one year and can be renewed.

The temporary worker residence permit enables employees admitted in France to work for a period of less than one year.

The scientific activity temporary residence permit enables foreign nationals who are engaged in research activities or teaching at university level. The permit is valid for one year, and can be renewed for a period of one year.

The skills and expertise permit is a brand new multi-year residence permit (4 years) which allows skilled foreign nationals to work in France, provided their output contribute in a significant and lasting way to France.

Customizing your project

Focus on additional compensation schemes for employees and managers

01. Specific social schemes for the association of employees with the company's results

Employees profit-sharing

Employees profit-sharing is a collective mechanism granting part of the company's profits to the employees. It is compulsory for all companies that employ more than 50 employees per month, over the past five years (optional for the others) and must be put in place by a collective agreement which defines the details of calculation and payment. The beneficiaries receive a profit-sharing bonus. This bonus is exempted from personal income tax if invested on a company savings plan. It can also grant tax breaks to the company.

Performance-related bonus

The performance bonus is an optional mechanism allowing additional profit-sharing with employees. It is put in place by a collective agreement which defines the details of calculation and payment. The beneficiaries receive a performance bonus. This bonus is immediately available but can be exempted from personal income tax if invested on a company savings plan. It can also grant tax breaks to the company.

02. Employee and management shareholding

Measures to encourage employee and manager share ownership:

Several mechanisms allow French companies to remunerate their managers and employees by the subscription or the acquisition of shares in their company.

Stock options (options to subscribe for or purchase shares): this mechanism gives employees and/or managers the right to subscribe for or purchase shares in their company at a set price. The latter have a certain period to exercise their option. If the value of the share increases, they will be able to subscribe or acquire shares at a price lower than their current market value.

Free Shares: free shares are based on the same principle as stock options, with the difference that employees and managers do not have to make any payment to acquire their shares as they will be allocated free of charge.

BSPCEs (bons de souscription de parts de créateur d'entreprise/ company founder share warrants):

Also based on the same principle as stock options, French joint stock companies can grant their employees or managers share subscription warrants under more advantageous tax and social conditions. Since January 1st, 2020, foreign companies established in the EU or in a State or territory that have concluded a tax treaty with France containing an administrative assistance clause in order to combating fraud and tax evasion, may grant warrants to their employees in France.

The company savings plan (PEE): The company savings plan is a collective savings system that allows employees of a company to participate, with the company's help, in the constitution of a portfolio of stock and shares. Managers can also participate, even without an employment contract, provided that their company has fewer than 250 employees. The plan can be invested in shares issued by the company. These can be purchased or subscribed to directly by employees or via a mutual fund.



Customizing your project

Focus on additional compensation schemes for employees and managers

03. Highlights on the tax and social regime applicable to Stock-options and Free Shares

As a preliminary remark, a distinction should be made between French employee incentive plans that:

- meet the requirements of French law to benefit from a specific and favorable tax and social regime (such as, e.g. for stock-options (“SO”) and free shares (“FS”) – so-called “Qualifying Incentive Plan”); and
- do not meet these requirements and hence not qualify for specific tax and social regimes (“Non-Qualifying Incentive Plan”).

The grant of SO or the attribution of FS under a Qualifying Incentive Plan may benefit from a **favorable tax and social regime in France**.

On the other hand, the grant of SO or the attribution of FS under a Non-Qualifying Incentive Plan may not benefit from the favorable tax and social regime. In such a case, any gain realized or recognized upon the grant or exercise of a SO and/or the attribution or acquisition of a FS, is treated as ordinary employment income (benefit in kind) from a French tax and social perspective (progressive income tax up to 45% - employer & employee social security contributions for healthcare, unemployment, retirement).

When SO and/or FS plans are issued by a foreign company to French resident employees of a French company, the foreign plan must be analyzed to define whether it is a qualifying or non-qualifying incentive plan under French law. If the foreign plan does not qualify, drafting a qualifying sub-plan for the French employees is an alternative. Please find below a summary of the favorable tax and social regime applicable to qualifying incentive plans under French law:

Acquisition gain: Value of share at the date of its attribution	Free Shares	
	Portion of gain < 300 k€	Portion of gain > 300 k€
Income Tax	Rebate of 50% on the acquisition gain, then progressive rates (up to 45%)	Progressive rates (up to 45%) without rebate
Social surcharges (CSG-CRDS-PS)	17.2% (including 6.8% of CSG deductible from income in Y+1)	9.7% (including 6.8% of CSG deductible from income in Y+1)
Exceptional income tax for high income	3% or 4%	3% or 4%
Special employee social contribution	N/A	10%
Special employer social contribution	20% being levied on the fair value of the shares, evaluated at the date of their acquisition	
Capital gain: Sale price – Value of share at the date of its attribution	Income tax: 12.8% Social surcharges (CSG-CRDS-PS) : 17.2%	

Customizing your project

Focus on additional compensation schemes for employees and managers

Stock-Options	
Exercise gain	Capital gain
<p>Income tax: progressive rates (up to 45%) without rebate</p> <p>Social surcharges (CSG-CRDS): 9.7% (including 6.8 % of CSG deductible from income in Y+1)</p>	<p>Income tax: 12.8%</p> <p>Social surcharges (CSG-CRDS-PS): 17.2%</p>
Special employee social contribution: 10%	N/A
Special employer contribution: 30% levied on 25% of the value of the shares evaluated at the date of grant of the option (or on 100% of the fair value of the options)	N/A



Customizing your project

Main requirements

01. Accounting and audit

Accounting and tax go hand in hand in France as the books are meant to fuel most tax reporting requirements.

A French-based company is required to produce financial statements consisting of the balance sheet (bilan), income statement (compte de résultat) and accompanying disclosure notes (annexe) in accordance with French GAAP supporting with back-up documents.

French accounting principles authoritative rules are laid down by the French Commercial Code:

True and fair view principle

Accounting is a system of organizing financial information to capture, classify, and record basic figures and present statements reflecting a true and fair view of the financial position and profit or loss of the entity at the closing date.

Comparability principle

Accounting allows for periodic comparisons and an assessment of the entity's evolution from a business continuity perspective.

Regularity and fairness principle

Accounting is held in accordance with the rules and procedures in force which are applied with sincerity in order to translate knowledge that the preparer of the accounts have of the reality and the relative significance of the recorded events. In the exceptional cases where the application of an accounting rule would be unsuitable for giving an accurate image, this requirement may be waived. The justification and consequences of the derogation are set out in the disclosures notes to the financial statements.

Precautionary principle

Accounting is established on the basis of conservative assessments, to avoid the risk of transfer, on future periods of uncertainty likely to affect the assets and results of the entity.

Principle of consistent accounting methods

The consistency of accounting information implies the application of rules and procedures over successive periods. Any exception to this principle of permanence must be justified by an exceptional change in the situation of the entity or by better information under preferential method. Preferential methods are those considered to lead to better information by the standard setting body.

Historical cost principle

Under the historical cost accounting principle, assets acquired are recorded at acquisition cost, assets acquired free of charge are recorded at their market value or use value, and revenues are recorded at cost of production. Latent capital gain on assets shall not be recorded.

Going concern principle

Under the going concern principle the financial statements must be drawn up on the assumption that the company will continue its business in a normal manner. This principle is at the basis of the asset valuation rules. It implies taking into account an economic perspective without serious disruption of the activity. Where there is no longer any continuity of operation (divestment of an industry, interruption of operations, judicial liquidation, etc.), the use of other valuation assumptions should be considered (market value, scrap value...).

Besides all these accounting principles certain small and medium sized companies/LLCs have an option to file abbreviated financial statements. Abbreviated financial statements provide condensed balance sheet and income statement, and less disclosures notes.

It is important to note that all French companies must produce and store the Accounting Entries File (FEC) gathering all transactions booked for a given fiscal year. This document must be provided to the tax auditor in case of a tax audit.

Customizing your project

Main requirements

Do I need to appoint a statutory auditor?

No, depending on certain thresholds being exceeded. The role of the statutory auditor is to carry out an audit in order to issue a report specifying to the shareholders whether or not the company's audited financials provide a fair and accurate representation of its actual financial position.

The statutory auditor is appointed by the shareholders at the creation or during the annual general meeting. His mission lasts for 6 consecutive years.

As of 2019, September 1st a company must appoint a legal auditor for a duration of six years, whenever 2 out of the following 3 thresholds are exceeded:

- Turnover > €8 M
- Total Balance Sheet > €4 M
- Average staff number > 50

Groups of entities exceeding these thresholds must appoint a statutory auditor for the parent company, unless this entity is owned by an audited company, as well as for the group members reaching 2 out of the following 3 thresholds:

- Turnover > 4 M
- Total Balance Sheet > €2 M
- Average staff number > 25

In this case the duration of the appointment may be limited to 3 years.

02. Year-end legal paperwork

Just for the record...

Registered companies must file their financial statements with the Commercial Court within 30 days after the shareholders' annual general meeting, which must be held within six months of the close of the fiscal year. The main purpose of the meeting is to allow the shareholders to approve the financial results for the year. The general meeting may not be held more than 6 months after the closing date, unless requested postponement is filed with the Commercial Court. The mandatory filing must include following items:

- Balance sheet
- Profit & Loss
- Management report
- Minutes of the annual general meeting approving the accounts and voting the profit allocation.



Shedding light on French taxes



Shedding light on French taxes

Corporate Income Tax and tax benefits

A resident company is subject to Corporate Income Tax (CIT) in France on its French-source income. In that respect, income attributable to foreign business activity (if there is no tax treaty in force between France and the relevant foreign country) or to a foreign Permanent Establishment (if a tax treaty applies) is excluded from French tax CIT basis.

01. A small tax base combined with a high nominal tax rate

The corporate tax rate is set to fall to 25% by 2022, with the following (remaining) milestones:

- 2021: 26,5% (for companies with a turnover > 250M€, the rate increases to 27,5%)
- 2022: 25%

For small and medium-sized businesses (SMEs): reduced corporate tax rate of 15% up to €38,120 of profits and standard rate on the remainder provided few criteria are met:

- Getting at least 75% of their shares owned directly or indirectly, by individuals, or by companies satisfying the same conditions,
- Annual turnover of less than €10,000,000 for FY opened as of January 1st 2021,
- Fully paid up share capital.

The CIT base is rather flexible and items such as financial costs from IC loans, assets write-downs, provisions for contingencies, regulated reserves, dividends exemptions etc., enable companies to shrink their tax bill despite such a nominal tax rate.

02. Capital gains exemption

Capital gains realized upon the disposal (sale or any kind of transfer) of shares might benefit from the French participation exemption regime, offering a total exemption of the gain, except for a 12% portion thereof (corresponding to related expenses) leading to an effective CIT rate of 3.18% in 2021 (3% as from 2022). To be eligible, the transferring company must have held, for more than 2 years, at least 5% of the voting rights of the company the shares of which are transferred. However, the French participation exemption regime is not applicable to the disposal of shares in French real estate companies.

If shares in a French company are sold by a foreign, non-resident entity, applicable double taxation treaties may prevent France from taxing the capital gains.

Finally, in case of a restructuring (mergers, etc.), the taxation of latent capital gains may be deferred.

03. Innovation friendly environment

When it comes to innovation, France has set a stunning tax landscape for innovation related tax-incentives offering generous research and development (R&D) tax treatment for companies.

France has one of the lowest effective corporate tax rate in the world for R&D operations, taking into account differences in tax bases, depreciation allowances, tax exemptions and tax credits.

As an attractive tax landscape for innovation and R&D, France's patent box regime allows under certain conditions, income derived from the sale or license of patents or patentable inventions being levied at a reduced CIT rate of 10%.

Shedding light on French taxes

Corporate Income Tax and tax benefits

04. Many efforts made to attract investors

France's Research Tax Credit (CIR) is one of the most attractive tax incentive programs 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. Salaries for research staff are wholly integrated, plus 43% of R&D operating costs and 75% of investments in R&D operations.

All companies incurring R&D expenses are eligible, regardless of their size, business sector and nationality.

The research tax credit base covers not only all R&D spending (salaries, social security contributions, amortization and depreciation allowances, operating costs, subcontracting, patents and monitoring, etc.) but also innovation expenses incurred by SMEs, at a rate of 20% (up to €400,000 a year).

Please note that, as of 1st January 2022, subcontracting expenses entrusted to public bodies are no longer retained for the double of their amount. In addition, the 2 million increase on the ceiling for subcontracting expenditure is removed.

France's Innovation Tax Credit (CII), combinable with the **CIR**, is equal to 20% of the SME's expenses until €400 k linked to conception, to construction of a prototype, or to testing of new products

Eligible companies can combine the benefits of tax credits with those of the **"Innovative Start-ups" scheme (JEI)**, which provides exemptions for corporate tax, local taxes, social security contributions, capital gains on the sale of shares, as well as an immediate reimbursement of any Research Tax Credit.



Shedding light on French taxes

VAT

What are VAT rules in France?

Upon incorporation of French companies, an EU VAT number is assigned by the French tax authorities. Companies collect the output VAT on their own sales and services and are allowed to deduct the amount of input VAT borne on the purchases of goods and services made in the framework of their VAT taxable activities.

French VAT requires the filing of a monthly, quarterly or annual return (the frequency thereof depending on the level of both sales and total amount of VAT paid during the previous year).

Depending on the size of the company, this declaration is sent to either the corporate tax office (*Service des impôts des entreprises* – SIE) or the large companies tax office (*Direction des grandes entreprises* – DGE) before the relevant deadline.

If companies have generated more input VAT than output VAT on their sales and/or services, a VAT credit would be recognized. The refund of such VAT credit can be claimed to the French tax authorities.

Exports (outside of the EU) and intra-EU business-to-business (B2B) sales of goods and services are fully exempt from VAT, subject to certain formal conditions (specific mentions on the invoices, proof of transportation, etc.).

France's standard VAT rate on sales of goods and services is currently of 20%. Several reduced rates are foreseen such as e.g. a 10% tax rate on restaurants, hotels, public transport, newspapers and magazines, certain leisure activities, a 5,5% rate for food products and some basic necessities, medications, books (including e-books), construction work and renovation of social housing and certain agricultural products, etc.

A reverse charge mechanism may apply for importation (from outside of the EU) of goods under certain condition avoiding cash advances when clearing customs.

For all companies operating in France, online VAT returns filing is mandatory and must be processed out of French Tax Authorities website by creating a corporate subscriber account.

Along with VAT filing requirements, intra-EU sales and purchases, by a French operator, of both goods and services must be reported by filing an Intrastat return on a monthly basis for statistical purposes only.

The form provides information about product categories, countries of origin and destination, values and weights. These returns must be filed electronically from the dedicated French Customs website.



Shedding light on French taxes

Other taxes

What else do I need to know for my tax planning?

There are only a few other taxes that an investor should factor-in when intending to set-up a new business in France. Forewarned is forearmed... This is a glimpse of most common taxes applying to businesses in France:

Taxes	French Name	Basis	Rate	Deadline
Corporate Social Solidarity Contribution	C3S	VAT reported turnover exceeding €19 M	0,16%	May 15 th
Contribution on business value added instalment	Acompte CVAE	Former year Added Value as computed for CVAE purposes	Max 0,75%	June 15 th and September 15 th
Contribution on business value added balance	Solde CVAE	Current year Added Value as computed for CVAE purposes	Max 0,75%	May 3 rd
Annual statement on commissions and fees paid	Déclaration DAS 2	Not applicable	Not applicable	May 1 st
Annual statement on interests paid	Déclaration IFU	Not applicable	Not applicable	February 15 th
Apprenticeship tax	Taxe d'apprentissage (TA)	Gross salaries	0,68%	Should be declared on the same date as the DSN – “Déclaration sociale nominative”: on the 5 th or 15 th of each month- (depending on the number of employees)
Employers' contributions to continuous vocational training	Formation professionnelle continue (FPC)	Gross salaries	0,55% under 9 staff (1% for companies with more employees)	February 28 th
Employers' contributions to construction	Participation de l'employeur à l'effort construction (PEEC)	Gross salaries	0,45% (exemption for companies with less than 50 employees)	February 1 st
Disabled levy if FTE >20	Taxe handicapés	Headcount	6% * 400 times hourly minimum salary	Should be declared on the same date as the DSN – “Déclaration sociale nominative”: on the 5 th or 15 th of each month- (depending on the number of employees)
Business premises contribution Instalment/balance	Acompte CFE/Solde CFE	Business premises rental value	various local rate within each region	On June 15 th / Dec 15 th

Shedding light on French taxes

Payroll taxes and government subsidies

The French social security system provides insurance against the costs of sickness, retirement, unemployment and training. Workers contribute through payroll taxes paid by employers on the behalf of staff employed.

The collecting agencies are URSSAF (social security covering sickness, maternity, retirement, and unemployment), private retirement funds, private provident institutions, health mutuals.

Payroll taxes must be reported and paid either monthly or quarterly depending on the headcount (respectively above 10 or below that threshold).

The rate of an employer's contributions ranges from 25% to 42% applied to the gross salary. The average employees' contributions stand at 22%.

Thus, for a net in pocket €2 000 amount, the gross salary is around €2 550 and the total cost for the firm is €3 500.

France's economic policy strategy over the last few years has been to support competitiveness and job creation in French businesses. In that respect, many reforms have been launched aiming at reducing staff costs especially for low earners, thereby helping companies to compete internationally.



Shedding light on French taxes

International taxation highlights

01. Transfer pricing within international groups

Transfer pricing refers to the rules and methods for pricing transactions within company groups, especially operating in an international environment.

As an example: some of the global groups in sectors such as internet-based technologies, big data or e-business are structured with regional headquarters. A French subsidiary is owned by a foreign parent company based in a country with an attractive tax system and its revenue is based on the cost plus method as defined by OECD reports and guidelines on Transfer Pricing.

As a business friendly place, France aims to constantly adapt to new paradigms set by businesses globally in order to keep pace with the rest of the world.

The French government strives to implement regulations in line with the OECD's BEPS initiative and is often ahead of some of the changes promoted by the organization.

In this respect transparency has been strengthened by the obligation to include within Transfer Pricing documentation reports, rulings awarded to related parties by foreign tax authorities, even without any link to Transfer Pricing.

French or foreign companies that wish to secure their tax position can receive the tax administration's agreement on an appropriate transfer pricing methodology that will apply to all their future intra-group transactions ("advance pricing arrangements").

02. Withholding tax basics

Outbound interest payments made by French companies do not give rise to French domestic withholding tax, unless they are made to an entity located in a so-called non-cooperative State or Territory (in which case a 75% withholding might apply).

Outbound royalty payments made by French companies are in principle subject to a domestic levy which rate corresponds to the French standard CIR rate (26,5% in 2021 / 25% in 2022).

However, royalties paid by a French company to a non-resident affiliated company will not give rise to withholding tax under certain conditions:

- amounts invoiced must be justified and in line with the prices for arm's-length transactions between independent companies and the French Tax Authorities might demand evidence that transfer pricings are in line with actual market prices
- these transactions can be placed under EU's interests and royalties directive providing for exemptions whenever between companies in different member states

Otherwise, for royalties paid to a foreign recipient, most of double tax treaties concluded by France set out rates that range from 0 to 15%, subject to the treaty eligibility (and might rely on certain specific conditions such as beneficial ownership, anti-abuse provisions, etc.).

As regards outbound dividend distributions performed by French companies, a domestic withholding tax is in principle applicable at the following rates:

- 12.8% for non-resident individuals
- French standard CIT rate (26,5% in 2021 / 25% in 2022) for non-resident companies

Dividends distributed by a French company to an EU / EEA resident parent company are exempt from French dividend withholding tax if such parent company is the beneficial owners of the dividends and holds at least 10% of the share capital of the French distributing company for a continuous period of at least 2 years (or commits to satisfy this holding requirement).

When applicable, the French domestic dividend withholding tax might still either be lowered (generally between 5 and 15%) or exempt by claiming the application of a double taxation treaty concluded between France and the jurisdiction where the company receiving the dividend is established. The benefit of such treaty reductions or exemptions is subject to the treaty eligibility and might rely on certain specific conditions (beneficial ownership, ownership threshold, anti-abuse provisions, etc.).

Similarly as for interest payments, a 75% withholding tax might apply to dividend distributions made by a French company to an entity located in a so-called non-cooperative State or Territory.

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