

# Doing Business in France

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in France.



## Background

### Country overview

France is part of the European Union (EU) which has 28 countries and 510 million inhabitants. With 66.7 million, France represents 13% of EU's total population.

France, as well as the 19 other members of the euro zone, uses the Euro. The euro is approximately worth 0,87 GBP and 1,12 US\$ (as at 31/05/2017).

French people speak French although English can be spoken in bigger cities. All legal, accounting and tax documents must be prepared or made available in French.

France covers approximately 641,185 km<sup>2</sup>. As of January 1st, 2016, the French population is about 66.7 million people including 28.7 million working people. The unemployment rate is about 10 % of the working population.

The French GDP stands at 2801 billion US\$ and is the 6th largest in the world (2016).

### Economic overview

The annual inflation rate was around 0,2% in 2016. The Euribor annual interest rate is negative at 0.130%.

Growth rate for 2017 is expected to be around 1.4% (1.1% in 2016).

The tax administration is quite powerful and attention should be paid to existing constraints but also possible opportunities.

Payroll regulations and obligations should be considered very carefully as most benefits are defined by law and must be applied.

### Transport infrastructure

France has a sophisticated transport infrastructure: modern highways and road networks, railway and high-speed train networks, canals and rivers which are well connected to other European Union countries.

Air transport has been largely developed both nationally and internationally. Paris Charles de Gaulle is ranked 10th in the world for its number of passengers. Each regional city has its own airport with direct domestic flights and numerous international connections.

## Choice of Legal Form



Foreign investments in France are controlled and can be subject to public agreement according to the origin of funds or nature of business. In practice, administrative agreements are rarely needed, but this should be checked before starting a project.

For individuals, working in France is easy if you are an EU national. Foreigners (outside the EU) will need to obtain legal documents and fill-in administrative documents prior to settling in France. You should consider this when choosing your directors or equivalent to conduct your business in France.

### Branches

A foreign firm is not compelled to operate in France through a local company but can-do business through a permanent establishment or a branch. These branches will remain part of the foreign company and will not be legally independent but will have to comply with local tax obligations.

Such branches must be registered in France and must issue local accounts in French Gaap. Branches must be compliant with company taxes, VAT and more generally to the French labour obligations.

### Individual firms

Such firms are managed and developed by a sole person, working in his own name. His business property is included in his personal property. Consequently, such businesses do not have limited liability and the owner can be sued on his own assets.

Accounting obligations are limited and are mostly necessary for tax purposes. Tax and legal periods generally last 12 months (one calendar year). Taxable profit or loss from operations for the year must be issued to the tax authorities on a special tax form within 3 months after year end. The total profit or loss from operations is considered as personal revenue for the individual and is included in his personal tax return.

### Shareholding companies

These companies have a limited liability status and should be considered for more elaborated operations and bigger businesses. These are free to set their closing date.

#### The SARL:

The most common form is the Limited Liability Company (SARL) where each partner is only liable for the capital shares. The partners may be only one person or up to 100 people, either individuals or firms. Share capital is freely set in the by-laws by the partners as there is no minimum set by law.

These companies are managed by one or more directors (the Gérant) who may be

or may not be a partner. However, if the “gérant” is a partner and receives wages, this could influence the level of social contributions and should be considered carefully.

LLCs are automatically subject to corporate tax and commercial taxes (VAT and “business” tax). Certain specific LLCs can choose income tax instead of corporate taxation.

#### The SAS:

A simplified Limited Company frame (SAS) was created to answer the need for middle size firms and subsidiaries of large LCs including subsidiaries of foreign groups as well as holding companies.

The organisation is much simpler than the LC particularly for management, AGM’s and accounting and legal documents.

This company frame is largely flexible: one shareholder minimum (individual or company), no minimum capital. The president of the SAS can be a company or an individual. The company’s management is carried out by a Chairman or by any desired management structure adapted to the needs of the business.

Some legal rules must be followed but most ways of functioning are determined by their own by-laws.

The SAS are automatically subject to corporate tax and commercial taxes (VAT and “business” tax).

### The SA:

Limited Companies (SA) must have at least one shareholder (individuals or companies) without any upper limit. The minimum capital amounts to 37.000 euros and each shareholder is only liable for its capital involved. These structures can go public and can be listed (PLCs).

These companies are managed by a Board of Directors (Conseil d'Administration) which includes 3 to 18 members. The Chairman of the Board is appointed among the board and oversees the management. He may appoint officers in the day to day management of the firm.

LCs are automatically subject to corporate tax and commercial taxes (VAT and "Business" tax).

LCs functioning rules are legally strictly defined and their by-laws offer few possibilities to vary from the legal frame.

There are other forms of shareholding companies, however these are fairly uncommon and are normally not appropriate to set-up an activity in France. These would have limited liability and would be subject to corporate taxation, VAT and "business" tax.

### Other types of companies

Other legal types of firms can be sorted between persons and shares capital companies.

Partnerships (SNCs, SCIs) are liable on their own property (just as individuals), jointly or separately. In most cases, SNCs and SCIs are deemed transparent and partners will have to pay taxes depending on their status, either income tax or corporate taxation. SCI are commonly used for the acquisition of real estate.



## Audit Requirements



Statutory auditors (Commissaires aux Comptes) are required for most types of companies, even though only **SAs** (LCs) will have to appoint auditors anyway. Statutory auditors are appointed for six years by law.

For simplified LCs (**SAS**), the designation of a statutory auditor is mandatory for an SAS exceeding two of the following thresholds at the close of a financial year:

- Total balance sheet: € 1,000,000
- Amount of turnover excluding tax: 2,000,000€
- Average number of employees in a financial year: 20
- Or if the SAS is a subsidiary or a holding company.

For LLPs (**SARL**) an auditor must be appointed if 2 of the following thresholds are met:

- 1.55M€ or more of total assets,
- sales exceeding 3.1M€,
- 50 employees or more.

A second statutory auditor must be appointed when the company must file consolidated accounts by law.

## Taxation

The main company taxes in France are corporate tax ("Impôt sur les sociétés"), value added tax ("TVA"), property tax ("Taxe Foncière") and "business" tax (CVAE and CFE).

For individuals, there is established a single annual tax on the income of individuals referred to as "income tax". It is a tax on the total net income obtained by adding the income of all categories such as: property income, Industrial and commercial benefits, Profits from farming; Wages, salaries and income from movable capital. The Income subject to tax is net income free of related expenses. The tax rate is applied according to a scale defined and per income brackets.

### Corporate tax

The present general rate is **33,33%** based on the annual taxable result which is linked to annual accounts, even though a specific return is needed.

Additional rates will apply if:

- the amount of corporate taxation exceeds 763 K€ and with turnover in excess of 7.630K€; 3.3% additional tax charge will apply increasing the rate to 34,43%.

**For smaller companies**, mostly owned by individuals, a **15%** rate is applied on the first 38K€ of taxable profit. Important changes are awaited in the foreseeable future with a reduction of the taxation rate to 25% by 2022.

**When companies show deficits, they are subject to corporation tax and must choose between two deferral regimes:**

- **Tax losses carry forwards** may be used in the future against tax profits without any time limit. In case losses carry forwards exceed 1 million €, the usage of losses carries forward is limited to 1 million € plus 50% of the amount exceeding a million euro.
- **Tax losses carry back** (option): losses for the current tax period can be used against profit made in the previous year, limited to one tax period. The carry-back is authorized only on a single profit, that of the previous financial year, and up to a limit of € 1 million.

Corporate tax is payable in 4 quarterly instalments based on the preceding year tax. The final amount of tax is adjusted once the tax return is submitted, but no later than the second working day of May for a December year-end.

A corporate tax integration system is available for groups of firms in order to favour tax profit and loss compensations.

Capital gains on financial holdings held over 2 years are taxable based on 12% basis at the rate of 3.33% which is an effective tax rate of 4%.



### Value added tax

VAT is applicable for goods supplied and services rendered, applicable in France and the EU, in accordance with EU directives.

Exports are generally VAT exempted.

Intracom sales to the EU are exempted of French VAT when invoiced to EU VAT registered firms, bar a few exceptions.

Imports are VAT taxable when entering France or EU.

Intracom purchases from the EU are subject to French VAT when the company is registered for the VAT in France, bar a few exceptions.

The general present rate is 20% with two special reduced rates of 5.5% (e.g. food, books) and 10% (e.g. medicines, take-away, hotels).

The companies that benefit from free VAT are generally those whose turnover for the previous year is below 83K€ (selling goods) and 33K€ (services).

VAT is to be declared on a monthly, quarterly, or annual basis depending on the size of operations.

**VAT is declared on an accrued basis except for services which are declared on a cash basis.**

### Property and trade taxes

Local public administration services recover these taxes annually, based on buildings and building improvements, and on other fixed assets used by the firms.



### Income tax

Income tax is attached to each tax household (“foyer fiscal”), not only individuals. This includes investment and property revenues. It is computed using progressive thresholds and rates from 0 to 45% (0%, 14%, 30%, 41%, 45%).

The tax return must be filed by individuals in May of each year for the preceding year’s revenue. It must be noted that personal income tax is still collected by instalments (either by thirds or monthly), but no withholding amounts are yet directly levied from the salaries themselves, as there is no Pay as You Earn system.

Net capital gains are directly included in the individual tax revenue and will support social contributions (15,5%) and are taxed at a flat rate of 19%.

### Wealth tax (called “Impôt de Solidarité sur la Fortune” or « ISF »)

A wealth tax for individuals is payable yearly when the total net assets owned as of January 1st of each year exceed 1.300K€.

A specific return must be filed and the tax paid immediately in June of each year. This tax is computed on a progressive rate of 0,5% to 1,5% but diverse deductions and exemptions will apply (professional assets, paintings, arts) and a maximum total tax of 75% of revenues may limit this charge. Important changes are awaited regarding this tax. All assets but real estate could be excluded from the taxation basis as early as 2018.

### Transfer pricing rules

The French administration may ask any firm to justify transfer pricing methods.

The French administration applies OECD rules and guidance for such matters. Specific thresholds apply for a fully compliant documentation (400M€ of turnover or assets within the group).

However, transfer pricing agreements should be carefully considered to avoid taxation of the local French entity on an estimated basis by the tax auditors.

## Allowances



Allowances are now very limited in their scope in France.

Depreciation of fixed assets can be accelerated for a limited list of assets.

Usual tax rates of depreciation issued by the tax administration are as such:

Buildings	2 - 5%
Material and equipment	10 - 20%
Cars, trucks...	20 - 25%
Furniture and fittings	5 - 20%
Computers (PC)	33,3%

Items under 500 € may be directly charged in the accounts of the year even if matching the definition of an asset.

## Tax Credits

- **Research and Development Tax credit**

Available for any firm (including subsidiaries from foreign firms), this amounts to 30% of yearly expenses with a limit of 100 million euros. Yearly Expenses mainly include payroll and benefits with a mark-up of 50% for expenses (even though no expenses are booked).

- **The CICE « Crédit d'Impôt Compétitivité Emploi »**

This is a direct reduction in social contributions equaling 6% of gross salaries. This tax credit is computed based on the gross salaries paid during the calendar year and not exceeding 44K€ per employee.

- Tax credit for **phonographic works** (20% of expenses), for **movies** (20% of expenses) and **video games** (20% of expenses)

- **Tax credit for recent innovative firms** (less than eight years). These firms must expense in research charges, more than 15% of their total charges for taking benefit of a three years' tax exemption, then a two-year 50% tax relief period,
- Tax credit for firms located on a "Pôle de compétitivité" (Competitive research site) and taking part in an agreed project. These firms will also take benefit of a three years' tax exemption, followed by a two-year 50% tax relief period.

## Employment



People working in France are considered either as salaried people or as non-salaried. According to each class, they pay their social contributions to different bodies and at different rates.

The basic **compulsory** system of benefits is, however, the same and this includes:

- health, accident, invalidity, nursing-care provided by the Sécurité Sociale
- retirement plan provided by the Sécurité Sociale and compulsory pension funds
- unemployment insurance (if salaried).

**Additional benefits** must include:

- additional health coverage

- additional invalidity and death in service

For all of these, a portion of the employee's gross salary is withheld and contributes to the final monthly or quarterly payments made on behalf of employees by the employer. The global cost of all contributions is estimated to 25% for the employees (direct payslip deductions) and to 40-45% of the gross salary for the employer.

**This cost is high but this makes most private insurance coverage and additional retirement useless as mandatory coverage is set at a very high level.**

### Assignment of Staff

Staff may be assigned between parent company and subsidiary for working in France. Visa and working permits are necessary for non-EU residents. Most international conventions concluded

with France provide that income derived from employment abroad is taxable in the state of residence when the employee is abroad less than 180 days per year.

## Withholding Taxes

### Individuals

A specific withholding tax is levied on salaries and pensions paid to non-French residents at a 0-12-20% progressive rate depending on the applicable double tax treaty.

### Companies

Currently, certain dividends paid by a subsidiary company to its parent company are exempt from withholding tax. This is also the case where the two companies are established in different Member States of EU.

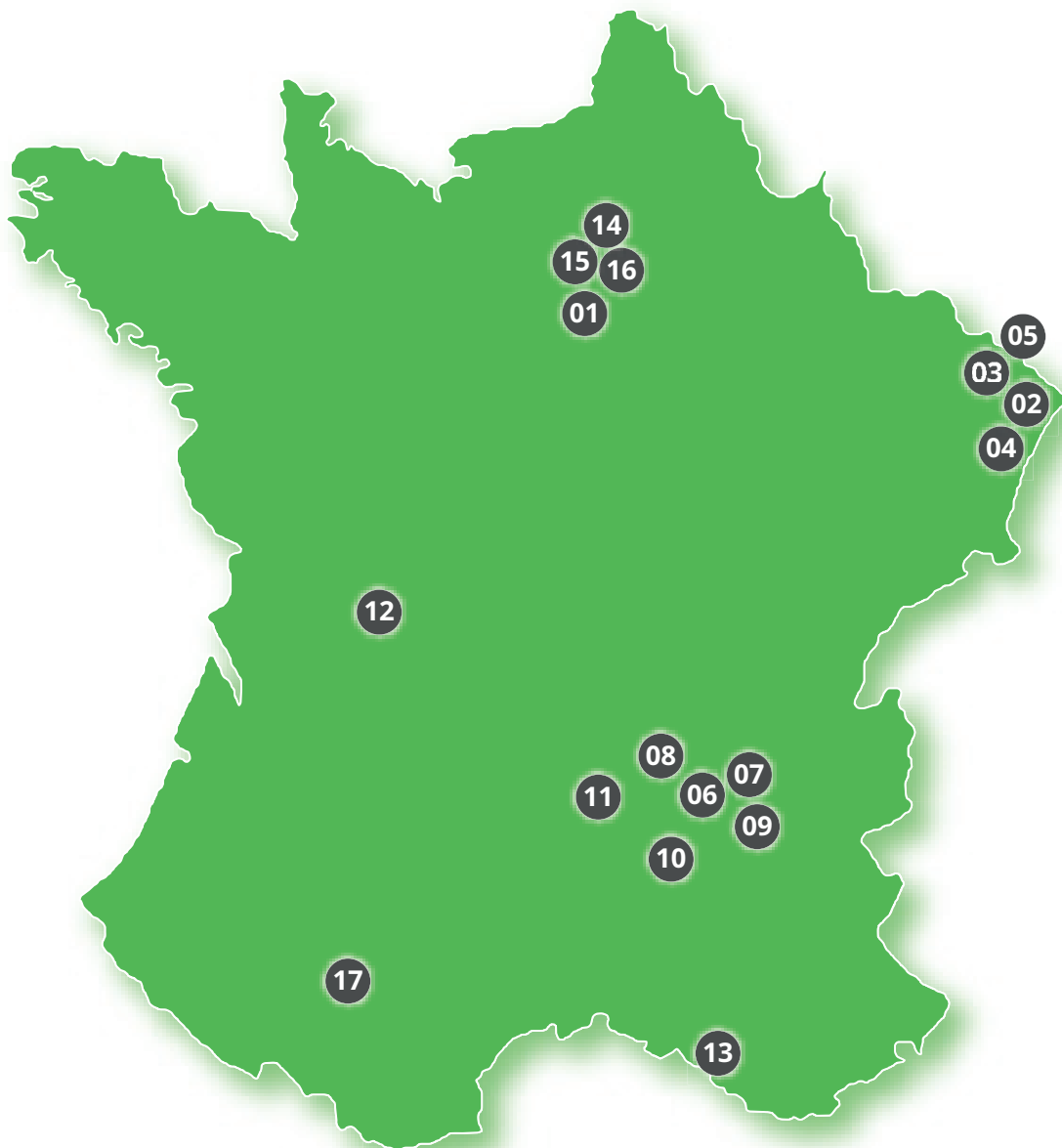
The amending Directive relaxes the conditions for exemption for participation above 10%.

## Miscellaneous

Any company or individual firm must notify a CFE ("Centre de Formalités des Entreprises") before entering business to obtain all necessary documents for legal, tax and social options. Filing takes approximately 2 weeks unless specific items are required.

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**This document is provided by Conseils Associés SA as a general overview of matters to be considered when setting up an overseas business in France. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.**

If you are setting up a business in France, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

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