



# The French Tax System: Promoting Competitiveness and Investment

In stark contrast to perceptions still held abroad, international tax benchmarks now view the French tax system in a favorable light. This follows a raft of recent reforms to foster business competitiveness, innovation, talent and sustainable development in France.

## High international rankings

- With regard to **corporate taxes**, a study by KPMG<sup>1</sup>, based on effective corporate tax rates (taking into account different tax bases by country, which the Forbes Tax Misery Index fails to do), ranked France:
- 5<sup>th</sup> for **manufacturing operations**, with an effective tax rate of 23.8%, compared with 28.9% for Germany and 22.7% for the United Kingdom.
  - 2<sup>nd</sup> for **R&D operations**, with a negative effective tax rate of -106.2%, thanks to France's research tax credit, compared with -12.2% for the United Kingdom and 34.8% for Germany (which does not offer a research tax credit but does grant subsidies).
- Out of 29 major economic powers, **France has signed the most bilateral tax treaties aiming to eliminate double taxation situations.**

## The French tax system fosters competitiveness thanks to a broad range of reforms encouraging:

### PRODUCTIVE INVESTMENT

The abolition of the local business tax (*taxe professionnelle*) on productive investments generated an annual tax cut for businesses worth €7.3 billion in 2010. This will lower the cost of productive investments made over 10 years by more than 20%. A simulator is available at the French government website [www.impots.gouv.fr](http://www.impots.gouv.fr) to help businesses assess their tax liability under the streamlined replacement tax, the *contribution économique territoriale*.

For further information and to use the simulator, visit:

<http://www.impots.gouv.fr/portal/dgi/public/professionnels> and click on the menu "Vos impôts".

Furthermore, France has **one of the most generous depreciation allowance schemes among OECD countries**, with accelerated depreciation periods and rates that generate corporate tax savings.



## INNOVATION

France boasts Europe's most generous research tax credit:

- **High rate:** covering 40% of R&D costs in the first year, 35% in the second year and 30% in subsequent years up to €100 million, and 5% above this ceiling; furthermore, expenditure on R&D operations subcontracted to public-sector laboratories are double-counted.
- **Covers all R&D spending:** salaries and social security contributions, research partnership expenses, operating costs, depreciation allowances, patent and technology watch expenses, etc.

**Appraisal:** Nearly 16,000 companies have completed a tax credit return detailing their R&D spending incurred in 2009. Among them, over 2,000 foreign companies have made a research tax credit claim for the same year. In 2011, the amount of tax relief for companies receiving the research tax credit is due to amount to €2.2 billion.

Moreover, **income from intellectual property rights** (royalties and gains on transfers of patents, patentable inventions and manufacturing processes, as well as improvements to patents and patentable inventions as of January 1, 2011) is **subject to a reduced corporate tax rate of 15%<sup>2</sup>**.

Under the **innovative new company** (*jeune entreprise innovante* – JEI) status, companies can claim certain **exemptions from tax (corporate tax and local taxes) and social security contributions**.

## FINANCIAL OPERATIONS

The **stock exchange tax** (*impôt sur les opérations de bourse*) was **abolished** for all stock market traders on January 1, 2008.

## SETTING UP DECISION-MAKING CENTERS

Generous tax incentives make France one of the world's most attractive locations for setting up decision-making centers and holding companies.

- The **'tax integration' system** enables **consolidated groups of companies to transfer earnings** between members, thereby reducing their overall tax burden. In addition, under the 'parent company system', if a parent company owns at least 5% of a subsidiary, dividends from that subsidiary – whether it is a French or foreign-owned – are tax-exempt, and losses can be carried forward indefinitely.
- The **French tax system offers advantages for holding companies**, thanks to tax exemptions on capital gains arising from equity sales and the tax-deductibility of interest paid on loans.
- Combined with tax consolidation, these measures make France an especially attractive location for executing leveraged buyouts and setting up holding or parent companies.
- A **special tax break approval system** (*agrément fiscal*) for **corporate headquarters** enables them to pass on service costs to other group companies by negotiating a cost-plus margin with the tax authorities, which generally ranges from 6 to 8%.

### RESEARCH TAX CREDIT COMPARISON

- ↻ **The Netherlands:** Rate varies from 18% to 64%, primarily applies to employer social security contributions.
- ↻ **United Kingdom:** 21% of R&D spending, 24.5% for SMEs.
- ↻ **Belgium:** 14.5% of R&D investment costs.
- ↻ **Germany:** No tax incentives for R&D, but direct support does exist in the form of subsidies.

**IN ADDITION:**

→ Legal certainty has been improved:

- by adjusting and extending eligibility to request an advance tax ruling procedure (*rescrit fiscal*), which must be answered within a statutory response time (generally three months), and which can be reexamined if the taxpayer is not satisfied by the initial response;
- and by extending the advance ruling procedure for social security contributions (*rescrit social*) to all requests relating to exemptions from social security contributions or employment subsidies.

For further information, visit the government website:

<http://www.impots.gouv.fr/portal/dgi/public/professionnels>  
and choose the menu “Vos droits”.

→ Tax administration for companies has been simplified:

- Introduction of a single tax authority contact point: a tax department for large businesses (*Direction des grandes entreprises – DGE*) was created in 2002, while for SMEs regional business tax departments (*Services des impôts des entreprises – SIEs*) were created in 2006. Since this time, all companies established in France have had a single contact point for tax matters.
- Electronic tax return filing and payment procedures have been fully implemented.
- Forthcoming introduction (end of 2011) of a **single tax center for non-resident companies in France**. This center will be responsible for:
  - providing any tax information regarding investment projects in France;
  - conducting simulations to estimate a company’s tax liabilities in France.

In order to protect their investments, companies will be able to request advance rulings (*rescrits*) on tax matters.

**SPOTLIGHT ON EXPATRIATE TAXATION**

Several measures have recently addressed the income tax liability of foreign investors in France, depending on personal circumstances.

➤ **Tax rules for certain expatriates (eligible for the *impatrié* regime) have been enhanced:** income tax exemption can be claimed by expatriate employees and executives working in France, as well as exemption on their “expatriation bonus” and allowances for business trips abroad. In addition, these investors can also receive partial tax exemption on income from investments and intellectual property earned outside France, as well as certain capital gains from the sale abroad of transferable securities and corporate rights.

For further information, visit the government website: <http://www.impots.gouv.fr/portal/dgi/public/particuliers> and choose the menu “Vos préoccupations”, then “Installations ou retour en France”.

➤ **Wealth tax reform:** Cash subscriptions to the capital of SMEs or certain funds, e.g. local investment funds (*Fonds d’investissement de proximité – FIPs*) and innovation mutual funds (*Fonds communs de placement dans l’innovation – FCPI* etc.) are wholly or partially exempt from the wealth tax (ISF), while assets held by *impatriés* outside France are exempt for five years.

<sup>1</sup> KPMG, Competitive Alternatives 2010, KPMG’s Guide to International Business Location: a comparison of business competitiveness in 10 countries (Australia, Canada, France, Germany, Italy, Japan, Mexico, the Netherlands, the United Kingdom and the United States) through an examination of business setup and operating costs.

<sup>2</sup> Except for transfers between companies belonging to the same group.

