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## Doing Business in France

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MSI's guide on Doing Business in France provides current information about the financial, regulatory and legal considerations that could affect business dealings within France. For further assistance please contact one of our MSI member firms in France.

## Country overview

### Population

France has a total population of 67.8 million inhabitants (January 2018).

### Government

The French Republic is a unitary semi-presidential representative democratic republic with strong democratic traditions.

The executive branch has two leaders: the President of the Republic who is head of state and is elected directly by universal adult suffrage for a 5-year term, and the Government, led by the president-appointed Prime Minister.

The French parliament is a bicameral legislature comprising a National Assembly (*Assemblée Nationale*) and a Senate.

The French republic is divided into 18 regions (located in Europe and overseas), five overseas collectivities, one overseas territory, and one special collectivity.

### Languages

According to Article 2 of the Constitution, the official language of France is French.

### Currency

The national currency is the Euro.

### Economic summary

GDP: €2.835 billion

Income per capita: €43,760

Inflation: 1%

### Main sectors of the economy

The leading industrial sectors in France are telecommunications (including communication satellites), aerospace

and defense, ship building (naval and specialist ships), pharmaceuticals, construction and civil engineering, chemicals, textiles, and automobile production.

Research and development spending is also high in France at 2.26% of GDP, the fourth-highest in the OECD.

France is the world-leading country in nuclear energy, home of global energy giants Areva, EDF and GDF Suez.

France is the world's sixth largest agricultural producer and EU's leading agricultural power, accounting for about one-third of all agricultural land within the EU.

France is the world most popular tourist destination.

### EU country / Non-EU and its impact on businesses and investors

France is a member state of the European Union.

With its global outlook and warm welcome for talent in all its forms, France is committed to doing all it can to attract and help investors expand their businesses on French soil.

Competitiveness, innovation, start-ups... France has more than one string to her bow and has reclaimed its appeal to global business leaders.

## Setting up a business

There are no administrative restrictions on foreign investment in France.

Whatever your business development strategy, in France you will find an appropriate legal structure for the kind of business you wish to set up. Investors can set up a permanent or temporary structure and enjoy full legal peace of mind; they are then free to drive their project.

### Legal types of business entities

1. Liaison office
2. Branch
3. Limited liability company

The most popular company forms are the SARL (*société à responsabilité limitée*), the SAS (*société par actions simplifiée*) and the SA (*société anonyme*). SARLs and SASs can be formed with a single partner or single-shareholder, whereas two shareholders are required for an SA.

The SA is the most sophisticated type of French company and is able to launch a public offering.

The SAS is the most recent form of French company and is well suited to holding companies and foreign companies wishing to maintain 100% control of one of their subsidiaries. This option has gained popularity since the reform allowing shareholders to draft articles setting any level of capital they choose (like for SARLs).

Choosing a legal structure will affect the company's legal status, taxes, assets and employment relations.

Many foreign companies may use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is the limitation of liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

#### **Process of how to set up a business**

It takes a few days for a company or branch to be registered with the Company Register (*Registre du commerce et des sociétés* – RCS).

#### **Financial year for financial accounts**

The financial year is equal to the calendar year. However, legal entities may choose a different financial year.

#### **Accounting and auditing**

When is a statutory auditor required?

For SARL, a statutory auditor is required when 2 out of the following 3 criteria are met:

Annual turnover > €3.1 million;  
Total assets > €1.55 million;  
Number of employees > 50

For SA, a statutory auditor is always required.

For SAS, a statutory auditor is required for companies held by (or holding) another company  
Otherwise, a statutory auditor is required if company exceeds 2 out of the following 3 criteria:

Annual turnover > €2 million;  
Total assets > €1 million;  
Number of employees > 20

#### **Economic and fiscal incentives**

The French government offers a number of incentive schemes in various sectors to support companies in their business operations.

#### **France's research tax credit (CIR)**

Manufacturing, trading and agricultural companies that spend money on research are eligible to receive a tax credit. The research tax credit amounts to 30% of total annual expenditure on

research activities up to €100 million, and 5% of annual expenditure above this level.

#### **Corporate competitiveness tax credit (CICE)**

The tax credit amounts to 6% of remuneration paid as of January 1, 2017 for all salaries up to 2.5 times the statutory national minimum wage (i.e. €3,746 gross per month in 2018). The CICE is not capped and can be offset against corporate tax.

#### **French inpatriates regime**

The purpose of this regime is to grant a favorable tax regime to individuals moving to France for work.

The French inpatriates regime provides the following tax incentives:

- impatriation premium that may be received by the employee during his entire stay in France is fully exempted for income tax purposes,
- employees hired directly by a French company or by a French affiliate of a foreign company may elect to have 30% of their net remuneration treated as an impatriation bonus, and thus be exempted from income tax,
- the portion of such employee's remuneration related to work carried out abroad is also fully exempted for income tax purposes.

## **Taxation**

While France used to rank among EU's second-rate destinations to favour for tax purposes, recent reforms have brought the country back to a strong position in global competition.

All of these recent changes contribute to render France's tax law attractive for international groups and private individuals.

As of January 1<sup>st</sup> 2018, France has signed more than 125 tax treaties which avoid double taxation mainly in the fields of income taxes as well as donation, inheritance and wealth taxes.

The French tax system includes taxes based on income, profit and assets, Company Value Added Contribution ("CVAE") as well as taxes based on wages.

#### **VAT**

The general VAT rate is 20%. Particular goods, services and territories (e.g. Corsica) are subject to specific rates which amount to –essentially– 5.5% (e.g. food) and 10% (e.g. medicines to such extent).

#### **Corporation tax**

In 2018, profit generated by companies which are subject to corporation tax and branches of foreign investors located in France are taxed at 28% for the first €500 000 (with exception for certain SMEs: 15% for the first €38 120) and 33.33% for the profit above.

Progressive tax reduction implemented over the years 2019 – 2022 aim at lowering the top marginal rate to 25% from 2022 and after (in 2019: 28% on the first €500 000 and 31% beyond; from 2020, same rate on the whole profit: 28% in 2020, 26.5% in 2021 and 25% in 2022 – also with exception for certain SMEs: 15% for the first €38 120).

#### **Participation exemption**

Specific rules allow dividends received by parent companies to be exempted from corporation tax for 95% of their amount (increased to 99% when the parent company holds at least 95% of its subsidiary). These rules benefit parent companies subject to corporation tax holding at least for a duration of two years 5% of a French or foreign subsidiary subject to corporation tax.

Similar rules apply to capital gains arising on the sale of the shares owned by a parent company. The exemption of capital gains covers 88% of their amount.

#### **Main other taxes due by companies**

Companies are subject to a tax on business added value which top marginal rate amounts to 1.50%.

Companies employing staff are also subject to various taxes based on wages.

### Income tax

Income tax applies to income earned by private individuals directly and via “pass-through” entities (i.e. entities not subject to corporation tax). Except when specific withholding taxes apply, non-resident taxpayers may be chargeable to French income tax if they are viewed as earning income which originates from France.

The two following regimes apply depending on the nature of the taxable income:

- Flat tax which mainly applies to dividends, interest and capital gains on shares, at a 30% rate (a specific rate applies to real estate capital gains).
- Progressive taxation which rates range from 0% to 45% applicable to the net taxable income except income that is subject to flat tax (e.g. wages and directors' compensation, retirement pensions, real estate income).

### Real estate wealth tax

Individual taxpayers who own real estate with a net value exceeding €1 300 000 are subject to a wealth tax (“IFI”) which is a progressive taxation based on the taxpayer's real estate net value and which top marginal rate amounts to 1.50%.

### Withholding taxes for non-resident taxpayers

Certain types of income earned by non-resident taxpayers trigger specific taxes which payers are required to withhold.

Dividends are one the main types of income subject to these specific taxes which rate may essentially amount to either 12.8% (if paid to a natural person) or 30% (if paid to a company). Many rate reductions (depending on the tax treaty) or exemptions may apply, such as participation exemption for the dividends paid by a French subsidiary to its EU parent company.

## HR/ Labour Law

### Employment law

There are two main types of employment contract: the open-ended contract (CDI - *Contrat à durée indéterminée*) and the fixed-term contract (CDD - *Contrat à durée déterminée*), which has to be drawn up under the rules of French labor law.

The rules are very strict.

The maximum term of CDD contracts is, in principle, 18 months and varies according to the justification of the contract.

The renewal of a CDD must necessarily be in writing. If the contract has a fixed term, it can only be renewed twice.

When the employee continues to work beyond the fixed term of the CDD, the contract is automatically transformed into a CDI.

### Social security

Participation in a social security program is compulsory. Workers in France are insured for health, maternity and paternity, accidents at work and occupational diseases, retirement and unemployment.

The Social Security contributions finance the reimbursement of medical care, medical leave, maternity, industrial accident benefits, fund basic pensions and family benefits for those covered by the general Social Security scheme.

The URSSAF agencies collect and distribute these Social Security contributions.

All employers must also put in place a complementary health insurance for the benefit of their employees.

### Pension

In France, private-sector employees' basic pensions are topped up by the compulsory supplementary pensions ARRCO-AGIRC, which, are also financed on a pay-as-you go basis.

For supplementary pension schemes, employees are registered with the scheme to which their employer belongs which will depend on the company's location or field of activity.

The age pension starts varies depending on the future mortality rates, but will be at least 62 years in 2018. However, the full-rate retirement age is 67.

### Payroll

In France, all employers hiring an employee are first required to file a pre-employment declaration (*déclaration préalable à l'embauche / DPAE*) with the relevant institution in charge of collecting social security contributions (URSSAF).

The declaration enables registration for social security purposes of employees without a Social Security Number, as well as registration for unemployment insurance purposes.

The process of registration is relatively fast.

However, certain categories of staff are exempted from this registration, such as interns.

### Visa and work permits

All EU inhabitants can work freely anywhere in the EU without a special working permit or visa. If an EU inhabitant from outside France is employed in France, its employer will merely be required to file the usual pre-employment declaration (DPAE) with the URSSAF.

People from outside the EU must apply for a work permit before taking employment in France.

## Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in France should seek professional advice from our member firms before making any business or investment decision.

### Contact our member firms in France to discuss your requirements:

*Legal member: Marseille*

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