FRANCE

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0-SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS

	RESIDENTS	NON-RESIDENTS
CORPORATE INCOME TAX	25% + On turnover higher than € 7,630,000: 3.3% social contribution SME: - 15% on the first € 42,500 - 25% on the remaining	25%
TAXES ON CAPITAL GAINS	Taxed as ordinary income. Capital gains from some shares are taxed at 10% - 15% - 19%	
WITHHOLDING TAXES Dividends Interests Royalties	 0%, 15%, 25% / 75% 0% / 24% / 75% 25% / 75%	
PERSONAL INCOME TAX	11% - 45%	
OTHER TAXES Tax on real estate transfer Tax on the transfer of shares and securities Tax on insurance premiums Economic territorial contribution	 From 3.8% to 4.5% depending on local councils 2.2%, 0.1%, 3% and 5% Variable according to category of insurance and risks covered From 0.125% to 0.375%	
VAT	20%, 10%, 5,5%, 2,1%. Exports exempt	
LOSSES Carried forward Carried back	 Unlimited – 10 ys for long term capital losses 1 year	
DEPRECIATION Fixed assets Intangible assets	 5% -25% Incorporation: 5 years Goodwill: normally not depreciable	

1- AN OUTLINE OF COMPANY LAW

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
Joint stock company (Société anonyme - SA)	The minimum share capital of a privately held SA is €37,000. The minimum share capital of a publicly traded SA is €225,000. An SA must have at least 2 shareholders when privately held and 7 shareholders when publicly traded. There is no maximum number of shareholders for an SA. There are no restrictions on shareholder residence or nationality and shareholders may be individuals or legal entities. The legal liability of a shareholder of an SA for the debts and obligations of the company is limited to the shareholder's capital contribution.	An SA must maintain at least one statutory auditor registered in France to prepare annual audited financial statements when at least 2 of the following conditions are met: -balance sheet is more than €4 million / -turnover is more than €8 million / -at least 50 permanent employees are employed during the year.	
Limited liability company (Société à responsabilité limitée - SARL)	It's usually used for mid cap entities. Share capital: the minimum required (€ 1). It may have as few as one shareholder but may not have more than 100 shareholders.	A SARL must maintain a statutory auditor when at least two of the following conditions are met: -balance sheet is more than €4 million -turnover is more than €8 million, and -at least 50 permanent employees are employed during the year.	The Limited liability companies must file a corporate income tax return each year, unless the company has elected for the partnership tax regime to apply. Corporate income tax is assessed on an annual basis.
Economic interest group (Groupement d'intéret économique – GIE)	A GIE is a business form used by two or more entities and/or individuals to pool their resources in order to promote and streamline their business interests in the pursuit of a specific economic activity. A GIE can be civil or commercial, depending on the nature of its activities, and may be set up solely with European members as a European economic interest group (groupement européen d'intérêt economique or GEIE). Share capital: not required. The members of a GIE are jointly and severally liable for the debts and obligations of the GIE. A GIE is not subject to corporate income tax. GIE members are taxed at their level on the part of the GIE tax results corresponding to their stake into the GIE.		
Partnership (Société de personnes)	The most common are the SNC, SC and SAS.Partnerships are made up of two or more general partners - who can be natural or legal persons - jointly and severally liable for the debts and obligations of the company.		
Branch	It is an extension of a French or foreign company and is not considered as a separate legal entity, but is part of the headquarters and has no separate legal assets or liabilities. It can deal with advertising and contracts.		
Undisclosed entity (Société en participation - SP)	It is a confidential agreement between two or more natural and / or legal persons in order to carry out a specific economic activity together. It has no legal personality, no capital or balance sheet requirements.		

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
Business Trust (Fiducie)	It is not open to individuals, it cannot make donations, and the trustees can only be financial institutions.		
Sole proprietorship (Entreprise individuelle - EI)	The owner is responsible for the company's debts and obligations and the company's income is subject to personal tax.		

2- WHEN FRENCH COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?

For tax purposes, companies are resident in France if they are:

- incorporated in France
- registered outside France, but controlled and managed in France.

France includes European France, Corsica and the overseas departments (Guadeloupe, Guyane, La Réunion, Martinique and Mayotte).

3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICE, ETC.)

A non-resident company carrying on business activities in France through a branch is subject to tax on the French source income connected with such activities.

The taxable income of a French branch or other permanent establishment of a foreign company is computed under the rules that govern the computation of the taxable income of resident companies, with the exception that interest and royalties paid by a French branch to its foreign head office are not deductible for French tax purposes.

French source income of a foreign company is deemed to be distributed abroad each year to a non-French beneficiary and is subject to a 25% branch tax. Branch tax is not applicable to a beneficiary that is located in an EU member state and is subject to corporate income tax in its country.

The "liaison" office is used to buy goods, collect information or advertise products and is not subject to French tax.

Headquarters located in France which act for the benefit of a group and perform administrative functions, such as control, management or coordination, may be qualified as a permanent establishment in France.

4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN FRANCE: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?

Pursuant to French law, corporate income tax is assessed only on profits generated by "an undertaking operating in France".

The French Revenue understands that it is possible for an entity to have its registered head office abroad and its operational head office in France. In such cases, French Revenue defines the effective head office as the place from where the entity is actually managed and controlled.

Entities with their effective head office abroad can be taxed in France on earnings made through one of the following:

• a permanent establishment located in France. A permanent establishment is a fixed business installation operating with some degree of autonomy (eg a branch, sales office, etc)

• a French dependent agent which does not carry out any kind of professional activity on its own (see below), or

• a complete commercial cycle in France (eg purchase and sale).

If a commissionaire, commercial agent or, more generally, an intermediary for sales purposes is present in France and acts on behalf of a foreign principal, the tax inspector examines two criteria in a tax audit to determine if the agent's activity in France qualifies as a French permanent establishment. The applicable criteria are as follows:
• the French agent or intermediary is dependent, from a legal and economic standpoint, on its foreign principal (eg exclusivity, power to negotiate prices), and
• the French agent or intermediary can commit the foreign principal in a commercial relationship in the ordinary course of its business (signature of contracts, booking of orders which are executed by the principal).

5- CALCULATING TAXABLE INCOME

Trading profits are computed in accordance with the French General Accounting Plan (Plan Comptable Général or PCG), with adjustments for tax purposes.
The main adjustments to taxable income are:

- dividends eligible for the participation exemption regime
- interest
- legal profit-sharing expenses
- expenses to be booked as fixed assets
- income from investments in French overseas departments
- foreign exchange gains and losses
- organic tax
- long term capital gains or losses
- expenses and charges linked to the acquisition of participation shares
- retirement reserves if booked
- profits or, in some circumstances, losses attached to a foreign PE or subsidiary
- vehicles depreciation.

Specifically non-deductible expenses include: expenditure not incurred in the direct operation of the business or in the course of normal management, personal expenses or expenditure that cannot be substantiated, certain expenses that do not correspond to the primary purpose of the business or are classed as luxuries, company car tax and corporate income tax liability, losses associated with enterprises generating foreign source income (the territoriality principle), most fines and penalties and some taxes, including corporate income tax,

6- TREATMENT OF LOSSES

In France, capital losses are treated as ordinary losses.
Capital gains and losses are calculated by deducting the net book value (ie the value for which the asset is written down in the seller's accounts) from the net sale proceeds.
Long term capital losses can be carried forward for 10 years.
Under French tax law, capital gains or losses incurred on the transfer between two related companies of shares held for less than two years are deferred for two years following the acquisition date of those shares by the transferor. The deductibility of losses is deferred automatically, while the deferral of the taxation of capital gains is subject to the filing of a specific form which must be attached to the corporate income tax return. By exception, the deferred capital gains/losses are immediately taxed/deducted under the ordinary capital gains tax if any of the following events occurs before the two-year holding period expires:

- the transferor ceases to be liable to corporate income tax or is merged into a company that is not related to the transferee, or
- the shares of the transferred company are no longer held by a company related to the transferor (except if the transferred company is merged with a related company or with a company which becomes related to the transferor upon this merger).

At the end of the two-year holding period, the deferred capital gains should benefit from the participation exemption or the 19% reduced rate. Deferred capital losses become non-tax deductible or deductible at the 19% reduced rate. These provisions are applicable to financial years ending 31 December 2010 onwards.

7- IS INTEREST DEDUCTIBLE?

The deduction of interest paid to direct controlling shareholders is limited to interest computed on the basis of the annual average interest rate granted by credit institutions to companies for medium-term loans exceeding 2 years.

The average quarterly interest rate from 1 July 2022 to 30 June 2023 was between 2.38% and 5.54%.

8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?

The depreciable base of an asset is generally its acquisition value excluding VAT.

French law authorises 2 methods for taking depreciation deductions on capital assets:

- the straight line method, and
- the accelerated declining balance method.

The accelerated declining balance method cannot be used for all assets. Excluded assets include used assets, buildings other than hotels, etc.

A company may change its depreciation method from the straight line method to the accelerated declining balance method or vice versa.

Depreciation is available on a pro rata basis when an asset is bought or sold during an accounting period.

For tax purposes, a taxpayer must book and deduct depreciation each year for each asset. If a taxpayer fails to book and deduct depreciation for a given year, the taxpayer loses the right to deduct that amount.

For fiscal years ending after 1 January 2005, France enacted amortisation, depreciation and depletion rules to establish a per component method based on the idea that an asset may be divided into 2 general parts: structure and components. Components are defined as spare parts which generally are worn faster than the structure and must be changed regularly. The per component method allows depreciation of a component on a shorter period than the depreciation period of the structure.

Additionally, the duration of depreciation is defined by reference to the asset's expected time of use from an accounting standpoint. The tax depreciation of annuities, however, remains based on the standard time of use based on administrative regulations. Adjustments are made each year for the computation of the taxable result.

Straight line method

The rate of annual depreciation of a fixed asset is calculated according to the useful economic life as follows:

Asset	*Depreciation rate (%)*
Land	not depreciable
Industrial buildings	5
Commercial buildings	2–5
Office buildings	3–4
Fixed industrial machinery and equipment	5–15
Office furniture and equipment	10–20

Tools	10–20
Motorcars, trucks	20–25

Passenger cars can be depreciated only up to a maximum limit for tax purposes, depending on date acquired and carbon emissions.

For intangible assets such as patents, depreciation can be booked over the protected life of the intangible asset. Patent rights acquired since 1988 may be amortised over a 5-year period.

Goodwill normally is not depreciable, but under exceptional circumstances a taxpayer may claim a deduction where the value of the business as a whole has been reduced.

Accelerated declining balance method

For the accelerated declining balance method of depreciation, the rate of depreciation is calculated by multiplying the following ratios to the straight-line rates:

- 3 or 4 years: 1.25 (1.75 for assets acquired or manufactured between 4 December 2008 and 31 December 2009)
- 5 or 6 years: 1.75 (2.25 for assets acquired or manufactured between 4 December 2008 and 31 December 2009)
- over 6 years: 2.25 (2.75 for assets acquired or manufactured between 4 December 2008 and 31 December 2009).

Expenses incurred for the incorporation of the company may be amortised over a 5-year period.

9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?

The standard French corporate income tax rates for 2022 and 2023 is a flat 25%.

For 2021 the corporate income tax rates were:

- for companies whose annual turnover is less than €250 million: 26.5% on taxable income
- for companies whose annual turnover is €250 million or more:
  – 26.5% on the first €500,000 of taxable income, and
  – 27.5% on the excess over €500,000.

Corporate income tax is levied on taxable income after the offset of available tax losses, if any.

Taxable income is derived from the accounting result, after specific tax adjustments (non-deductible charges, non-taxable income, available tax losses, etc).

In addition to the standard corporate income tax, companies whose turnover exceeds €7.63 million and whose corporate income tax exceeds €763,000 are subject to the social contribution at a rate of 3.3%. The social contribution applies to companies subject to corporate income tax at the standard rate or the reduced rate applicable to capital gains.

The social contribution basis is the corporate income tax due minus €763,000. The social contribution is levied at 3.3% on this basis.

Small and medium sized businesses are subject to a reduced corporate income tax rate of 15% on the first €42,500 of taxable income earned in a 12-month period.

Temporary tax exemptions are also provided for companies established by 31 December 2020 in certain rural and urban areas. Generally, the exemption is retroactive and limited to the first five years.

10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?

France’s tax consolidation regime allows a French parent company to pay corporate tax on behalf of the other members of its consolidated tax group. The consolidated tax liability of a group is calculated on the basis of the algebraic sum of the taxable income (profits or losses) of each member. All taxable income is aggregated and adjusted to eliminate intra-group impacts and form the group’s taxable income.

The parent company must directly or indirectly hold at least 95% of the financial rights and voting rights of the consolidated subsidiaries.
French companies subject to corporate income tax at the standard rate may elect fiscal unity. The tax consolidation regime is elective, and it is possible to modify the scope of the tax consolidation.
The head of the tax group must file an election for tax consolidation with its local tax centre. The election must contain a list of the members of the group and their respective acceptance of consolidation. The head of the tax group must make this election before the end of the third month following the beginning of the fiscal year for which the election is made. The election is made for an initial period of 5 years and is renewed by tacit agreement.
Consolidated companies must have the same accounting year. However, the parent company may decide to have the first term of less than 12 months, in order to include any newly acquired subsidiary or associated company.
Each member of a consolidated group submits its own tax return, while the parent company delivers the consolidated return and pays the tax for the entire group.

11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?

A non-resident company carrying on business activities in France through a branch is subject to tax on the French source income connected with such activities. The taxable income of a French branch or other permanent establishment of a foreign company is computed under the rules that govern the computation of the taxable income of resident companies, with the exception that interest and royalties paid by a French branch to its foreign head office are not deductible for French tax purposes.
Dividends paid to non-resident companies are subject to a withholding tax of 25% unless a tax treaty reduces or sets aside the tax.
Dividends paid to non-resident companies located in a non-cooperative country or territory are subject to a withholding tax of 75% unless a tax treaty reduces or sets aside the tax.
In the absence of an artificial arrangement, dividends paid to parent companies that are residents of another EU member state or that are located in a European Economic Area member state are exempt from withholding tax when the parent company meets the following criteria:
• holds more than 5% of the share capital of the distributing subsidiary, and
• conforms to local taxation rules that do not allow offsetting the French withholding tax according to a domestic participation exemption regime.
Passive investment income (dividends, interest and royalties) of a foreign company not effectively connected to business activities in France are subject to withholding taxes.
French source income of a foreign company is deemed to be distributed abroad each year to a non-French beneficiary and is subject to a 25% branch tax. Branch tax is not applicable to a beneficiary that is located in an EU member state and is subject to corporate income tax in its country.

12- ARE CAPITAL GAINS TAXED?

Capital gains on the sale of assets are considered as ordinary income taxable at the standard French corporate income tax rate, except in specific cases.
Capital gains realised on the sale of specific shares, not qualifying for the participation exemption regime, are subject to reduced rates. The reduced rates and the shares to which the rates apply are as follows:
• 15% rate: shares in venture capital investment funds or companies (FCPR, SCR) held for more than 5 years
• 10% rate: patents
• 19% rate: shares in quoted real estate companies held for more than 2 years.

Long term capital losses can be carried forward for 10 years.
On the sale of shares qualifying as participation and held for more than 2 years, 88% of the capital gains realised are tax exempt for French tax purposes. A 12% lump sum amount of costs and expenses included in the gross income is taxable at the standard current corporate income tax rate The following shares qualify as participation shares:

- shares whose dividends qualify for the participation exemption regime
- shares qualifying as participation shares from an accounting standpoint
- shares acquired through a public takeover bid and qualifying as participation shares from an accounting standpoint.

Gains on participation shares held for less than 2 years are taxable at the standard corporate income tax rates, while capital gains on the sale of a participation held in a company located in a non-cooperative country are excluded from the 88% exemption.
Business entities involved in mergers, contribution of assets, winding-up and spin-offs can be structured under a favourable merger tax regime to allow for a deferral of applicable French capital gains taxation, but only if the entities involved are fully subject to corporate income tax and the beneficiary makes satisfy certain conditions.

13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?

In the year of liquidation, previously untaxed income becomes taxable.
Deferred depreciation and outstanding loss carry-forwards may offset taxable income.
Capital gains and losses are calculated and offset under the ordinary rules.
Liquidation surplus equals the difference between the net assets and the contributed capital which was not reimbursed prior to dissolution. Liquidation surplus is generally taxable at shareholder level under the participation exemption tax regime if applicable.
The repayment to the shareholder qualifies as a distribution equal to the difference between the liquidation surplus, and the amount of contributions, or book value if higher. If the book value is lower than the amount of the contribution, the difference between the book value and the contribution is treated as a capital gain.
From 1 January 2018, foreign shareholders are subject to tax at the standard corporate income tax rates on the liquidation surplus (previously, foreign shareholders were subject to a 30% withholding tax on the liquidation surplus).

14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?

A repurchase of shares not motivated by losses is taxed under French law as a distribution, which could be exempt if the companies meet the conditions required by the parent/subsidiary regime.
The repurchase also qualifies as a profit or a loss equal to the difference between the fiscal cost price of the acquired securities and the amount of the initial contribution or, if higher, the book value of the shares.
For non-resident shareholders, the distribution is subject to a 25% French withholding tax (26,5% before 1 January 2022). The taxable basis is the difference between the repurchase price of the shares and the amount of the capital contribution or the initial purchase cost if higher and properly evidenced.

15- WHAT OTHER TAXES ARE APPLIED IN FRANCE?

VAT

The standard French VAT rate is 20%, but reduced rates are applied:

- A special reduced VAT rate of 2.1% applies mainly to major medicine products, newspaper sales and online news services.

- A reduced VAT rate of 5.5% applies to paperbacks and e-books, most food, energy, certain energy efficient building improvements, and products and services for disabled people.
- A 10% rate applies to various products, including food products sold in restaurants, takeaway food, hotels, certain pharmaceutical products, art works and products used in agriculture.

The following goods and supplies, among others, are exempt from VAT: goods which are exported from France, goods which are delivered from France to another EU state, nursing and medical services or services supplied by organisations performing sports, and some financial services.

Tax on the transfer of shares, securities and bonds

A contribution of assets (real estate or going concern) to a company subject to corporate income tax is exempt from any transfer tax if the contribution is made when the company is set up by another company subject to corporate income tax, and if the contribution is fully remunerated by shares. If these conditions are not met, then a 2.2% transfer tax is due on the market value of the contributed asset for real estate.

Transfers of shares in SA and SAS that are not real estate companies are subject to a transfer tax of 0.1%; Transfers of SARL and SC shares are subject to a 3% transfer tax, assessed on the transfer price minus a rebate of €23,000 if 100% of the shares are transferred; Transfers of real estate company shares are subject to a 5% transfer tax, assessed on the fair market value of the shares.

Tax on the transfer of real estate property

Transfers of real estate property are subject to a 3.8% transfer tax (some locations may be eligible for lower rates). Local councils are permitted to increase the maximum transfer tax to 4.5% for transfers completed from 1 March 2016.

Territorial economic contribution

Territorial economic contribution, payable annually by companies that carry out a professional activity in France.

It is calculated on the rental value of real estate, according to a tax rate set by Municipalities on an annual basis, plus an additional contribution, from 0.125% to 0.375% on the added value produced by companies with turnover exceeding €152,500.

Payroll taxes

In addition to social security contributions payable by the employer, there are 4 taxes due by companies which hire a minimum number of employees:

- Salary tax: paid annually by companies with a VAT deduction ratio below 90% and hiring at least one employee. The tax is not due if the annual salary does not exceed a ceiling from 4.25% to 13.6%, according to the salary.
- Apprenticeship tax: paid annually by companies hiring at least one employee. The tax rate is generally 0.68% assessed on annual salaries paid. Companies with insufficient apprentices are subject to a further additional contribution of between 0.05% and 0.6%, depending on the size of the company and the percentage of employees on a training or apprenticeship scheme.
- Contribution to employees training: paid annually by companies hiring at least one employee and assessed on the annual salaries at rates ranging from 0.55% to 1%.
- Contribution to housing construction: paid annually by companies hiring at least 50 employees which do not invest in residential housing construction in an amount corresponding to at least 0.45% of the salaries paid to their employees. If employers did not invest enough during a fiscal year, the tax rate is 2% on annual salaries.

Tax on company cars
A tax on company cars is calculated on a quarterly basis and payable annually by companies owning or renting cars for their employees. The tax amount per car depends on the size of the car, the date of registration and the carbon emissions. A company may be eligible for a rebate of 25%, 50%, 75% or 100% plus a €15,000 rebate on the tax due if the car is registered or hired in the name of the employee using the car and the employee receives reimbursement from the company calculated on the number of kilometres driven.
The taxes do not apply to:

- electric or hybrid vehicles with a CO_2 emissions rate of less than 60 grams per kilometre
- cars combining electricity and E85 superethanol fuel
- cars running on liquefied petroleum gas (LPG) and compressed natural gas (CNG)
- vehicles that are able to accommodate a person in a wheelchair.

Tax based on environmental issues
There is an energy tax, a beer and water tax and a tax for polluting activities.
Tax on insurance premiums
There is an insurance tax imposed on French or foreign insurance companies that conclude insurance contracts that cover risk that may occur in France. The rate varies according to the category of insurance and the risk covered (transports 18%, fire damage 7%, others 9%)
Land tax
Land tax is payable annually by land owners in all municipalities, based on the rental value of lands and buildings. Rental value is determined by the tax authorities on the basis of the characteristics of the property and on the basis of a valuation scale based on comparable properties.
Fixed tax on networkorking companies
French energy companies, rail companies and telecommunications companies are subject to a fixed tax applying, in particular, to energy companies (€7.82 per kilowatt capacity) and hydraulic electricity (EUR3.254 per kilowatt capacity), rail companies (from €2,681 to €39,104) and telecommunications companies (€16.32 per line in operation).
Tax on gambling
Rates vary from 10% to 70%.
Excise tax on consumer goods
There is an excise tax on consumer goods such as alcohol, mineral water, tobacco and mineral oils.
Economic and Social Committee contribution
From 1 January 2018, an annual contribution of 0.2% of wages is payable by companies that have between 50 and 2,000 employees to the Economic and Social Committee.
Tax on soft drinks
Soft drinks are subject to a tax of between €3.12 and €24.39 per hectolitre, depending on the sugar content.
Financial transactions tax
A financial transactions tax of 0.3% applies to transactions involving listed shares.
Digital services tax
A 3% tax applies on gross revenue from digital services (such as advertising and digital intermediation) provided in France. The tax only applies to companies whose revenue from digital services exceeds €750 million worldwide and €25 million in France.
Temporary solidarity contribution on the fossil fuel sector
From 1 January 2022, a temporary solidarity contribution applies to companies operating in France if at least 75% of their turnover is derived from oil and gas activities. The contribution rate of 33% applies to taxable income exceeding 120% of average annual taxable income in the preceding 4 years.

16- DIVIDENDS, INTERESTS AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?

Dividends

Dividends received by a French company or permanent establishment in France from a foreign company are subject to corporate income tax at the standard rate, unless the dividends come under the participation exemption regime.

A tax imputation system applies in France. Tax credits corresponding to any foreign withholding tax can offset the company’s corporate income tax.

The withholding tax on dividends received from payers in other EU countries varies from 0% to 15%. Dividends that qualify under the EU Parent Subsidiary Directive are exempt. There is no withholding tax on domestic dividend payments.

Participation exemption regime

A French or foreign company whose profits are fully or partially taxable in France, owning (in full or in bare ownership) a minimum of 5% of the share capital of a French or foreign company for at least 2 years is exempt from corporate income tax on 95% of the gross amount of dividends received. The remaining 5% is treated as a lump sum amount for costs and expenses included in the income, and is taxable at the standard current corporate income tax rate.

Dividends received by non-resident companies engaged in a French business are subject to French corporate income tax if such income is attributable to a permanent establishment in France. Otherwise, they are subject to French domestic withholding tax of 25%.

Distributions in whatever form are subject to withholding tax when the payment is made to individual foreigners. The withholding tax rate is 12.8% from 1 January 2018.

Dividends paid to non-resident companies located in a non-cooperative country or territory subject to a withholding tax of 75%, unless a tax treaty reduces or sets aside the tax.

From 1 January 2018, dividends paid to resident individuals are subject either to a flat tax of 30% or to income tax at the progressive rates

Dividends that are exempt from withholding tax include dividends that qualify under the EU Parent Subsidiary Directive, dividends issued by certain venture capital companies and dividends issued by companies located in the EEA.

Interest

There is generally no withholding tax on income from interest arising in France and paid to non-residents, whereas interest paid to non-resident companies located in a non-cooperative country or territory is subject to a withholding tax of 75%.

Interest payments made by a French company to an EU recipient are not subject to withholding tax if:

- the recipient is the beneficial owner which has its effective head office in another EU member state
- interest is paid to a direct parent or subsidiary company (at least 25% shareholding) or to a direct sister company 25% of which is held by the same EU parent company
- the French shareholding is kept directly and continuously for at least 2 years
- the recipient is a company subject to corporate income tax in its own country on the date the interest is received.

Royalties

Royalties paid to non-resident companies are subject to withholding tax of 25% for 2022 and 2023, unless reduced or set aside by treaty. For 2021, the withholding rate was 26,5% if the annual turnover of the paying company was less than €250 million, or 27.5% if the annual turnover of the paying company is €250 million or more. Royalties paid to non-resident companies located in a non-cooperative country or territory are subject to a withholding tax of 75% unless a tax treaty reduces or sets aside the tax.

17- HOW ARE CALCULATED STOCKS OR INVENTORIES?

Stock and work in progress are valued at the lower of cost or market value at the year end on a first-in first-out (FIFO) or weighted average cost basis. Last-in first-out (LIFO) valuation is usually not available.

18- HOW ARE RESIDENT INDIVIDUALS TAXED?

Tax liability criteria

A person is regarded as a French resident when has their principal place of abode in France (in practice, a person spending more than 183 days in France during a calendar year) a business activity (unless this occupation is of an incidental character), or their centre of economic interests.

Tax rates

Residents are subject to worldwide income and dividend tax.

Before application of the progressive French tax rates, taxable income is divided by a special quotient, which is fixed according to the family status of the individual:

Family status	***Quotient***
Single	1.0
Married/widowed	2.0
Addition per child or dependent person	0.5/1.0

The French income tax rates for 2023 (applicable to 2022 income) are as follows:

Income €	***Tax on band*** %
0 – 10,777	0
10,778 – 27,478	11
27,479 – 78,570	30
78,571 – 168,994	41
Over 168,995	45

Tax is computed by first dividing the taxable income by the family quotient, applying the above tax rates, and then multiplying the result by the quotient. The higher the quotient, the lower the effective tax rate on the income. However, the overall relief provided by the family quotient has a ceiling of €1,678.

From 2011 a temporary supplementary tax of 3% on annual income exceeding €250,000, and 4% on annual income exceeding €500,000 is applied. This tax will remain effective until the public deficit is reduced to nil.

Main deductions and reliefs

A deduction of up to €1,678 is applied for each dependent person. Minor children and the handicapped are considered to be dependent *ipso iure*, while there are other categories that can alternatively be included, at the discretion of the taxpayer.

Furthermore, for residents, there is a 50% tax credit on care costs for children up to 6 years of age.

Inheritance and gift tax

Inheritance tax is due on the transfer of assets of the deceased, whether by succession, inheritance by will or on any other transfer by reason of death. Where the deceased was resident in France at the time of death, the entire estate - worldwide realty and personal property — is liable, although the tax is charged on the beneficiaries/heirs on the amount transferred.

Debts are deductible.

Pension, social security and national health policy

Health insurance is provided through local health insurance agencies, Caisses Primaires d'Assurance Maladie (CPAMs). 89% of the population have insurance under the compulsory general scheme (Régime Général). There are also insurance schemes for some specific employees such as agricultural workers, civil servants and railway workers.

19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?

Tax liability criteria

A person is regarded as a French resident when has their principal place of abode in France (in practice, a person spending more than 183 days in France during a calendar year) a business activity (unless this occupation is of an incidental character), or their centre of economic interests.

Tax rates

The French source income of non-residents is subject to the same tax rates as that of residents, with the following exceptions:

- The tax payable as a result of application of the progressive tax rates must not be less than 20% of French source income up to €78,570 and 30% of French source income exceeding €78,570.
- Withholding taxes apply to certain French source income (dividends, remunerations for artists, athletes, rental fees…) with rates of 0%, 12% and 20%, according to the amount.

Main deductions and reliefs

A deduction of up to €1,678 is applied for each dependent person. Minor children and the handicapped are considered to be dependent *ipso iure*, while there are other categories that can alternatively be included, at the discretion of the taxpayer.

Inheritance and gift tax

If the deceased was a non-resident of France, only those assets situated in France are subject to French inheritance tax in the hands of the legatees/beneficiaries.

Pension, social security and national health policy

Regarding the national social security scheme, non-residents must receive any form of remuneration from which social security and welfare contributions are deducted and there must be a relationship between the non-resident and one or more employers.

Therefore, non-residents are not automatically covered by the French health care program, even if agreements with EU countries allow residents of one member state to take advantage of the medical facilities offered by other member states.

20- TERMS FOR TAX PAYMENT: THE FISCAL YEAR IN FRANCE

French corporate income tax, including the social contribution, is payable after self-assessment, in quarterly instalments for each fiscal year, in March, June, September and December.

The first 3 quarterly prepayments of corporate income tax are calculated by reference to the taxable income of the most recently closed taxable year. Where turnover is €250 million or more, the final prepayment is based on the estimated effective tax liability for the current year (in other cases it is based on the previous year's taxable income).

Late tax payments are subject to simple interest of 0.2% for each month of delay. Penalties vary from 5% to 80% of the additional tax due.

21- WHAT TAX INSPECTIONS ARE MADE?

Taxpayers submit their declarations to the tax authorities.

Where a tax audit is initiated by the French Revenue, the tax inspector makes several visits to the entity's premises to gain access to the legal, accounting and tax documentation for the years being audited. For businesses with a turnover below €236,000 (€783,000 for hotel and restaurant businesses), the tax audit cannot exceed three months, but it is extended to six months in the case of serious irregularities in the accounting books.

Businesses with a turnover below €450,000 (€1.5 million for hotel and restaurant businesses) can request the French Revenue to conduct a tax audit on specific tax issues and on specific years. If the tax audit reveals irregularities, the taxpayer must regularise its tax position and is liable for a late payment penalty at the reduced rate of 0.28% per month. If the tax position examined is fully compliant with tax law, French Revenue will notify the taxpayer with positive approval.

22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?

Taxpayers are allowed to request advance rulings in writing on the following topics:

- abuse of law
- transfer pricing
- specific tax issues.

A ruling represents the positive approval of the French Revenue and is binding.

23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?

No French exchange controls inhibit the normal flow of funds in and out of France between companies.

24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE FRENCH GOVERNMENT?

Company located in a *zone franche urbaine-territoire entrepreneur* (ZFU-TE)

ZFU-TE is a specific administrative status granted by the Government to specific geographic areas in France which are considered as underdeveloped. The aim of the incentive is to improve employment and activity in these areas.

A company with fewer than 50 employees and a turnover below EUR10 million that was incorporated between 1 January 2015 and 31 December 2023 and located in a ZFU-TE is eligible for full tax exemption from corporate income tax during the first 5 years. After this first period, the company qualifies for the following rebates:

- 60% in year 6
- 40% in year 7
- 20% in year 8.

The amount of the exempt taxable income cannot exceed EUR50,000 per year.

A company with fewer than 50 employees and a turnover below EUR10 million that was incorporated between 1 January 2006 and 31 December 2014 and is located in a ZFU-TE is also eligible for full tax exemption from corporate income tax during the first 5 years. After this first period, the company qualifies for the following rebates:

- 60% from year 6 to year 10
- 40% from year 11 to year 12
- 20% from year 13 to year 14.

The amount of the exempt taxable income cannot exceed EUR100,000 per year.

Company located in a *zone franche d'activité* (ZFA)

A company with fewer than 250 employees and a turnover below EUR50 million that is located in a *zone franche d'activité* (ZFA) in Guadeloupe, Guyane, La Réunion, Martinique or Mayotte (the overseas departments) and taking commitments with respect to professional training is eligible for the following tax rebates regarding corporate income tax:

- 50% from 2008 to 2014
- 40% in 2015
- 35% in 2016 and 2017.

These rates can be increased for specific activities.

The amount of the exempt taxable income cannot exceed EUR150,000 per year.

Rebates can also apply on a territorial economic contribution or real estate tax basis.

French incentives related to business type

<u>Companies carrying on research and development activities (jeunes entreprises innovantes or JEI)</u> are small or medium sized companies that have existed for less than 8 years and incur annual research and development costs representing at least 15% of their total expenses. At least 50% of the company's share capital must be held by individuals, to qualify as a PME, the company must employ fewer than 250 individuals, and have an annual turnover of less than €50 million. A JEI created before 31 December 2025 is eligible for full corporate income tax relief during its first 12 months, and a 50% rebate on its taxable profits during the following 12 months.

<u>Real estate investment quoted companies *(SIIC)*</u> is a listed company with share capital of at least €15,000,000 that engages in the activity of acquiring or constructing immovable properties intended for renting. An SIIC can be eligible for corporate income tax relief on the rental income and on capital gains under specific requirements.

<u>Venture capital company *(SCR)*</u> have the following characteristics:

- at least 50% of the SCR net accounting position must be invested in a portfolio
- the value of each participation held by the SCR cannot represent more than 40% of the voting rights in the subsidiary.

An SCR is eligible for full corporate income tax exemption on capital gains.

The SCR's shareholders are eligible for the following incentives:

- for a French individual: full exemption of the dividends received and capital gains realised if specific requirements are met;
- for a French company: taxation at the standard rate on 5% of the dividends received if specific requirements are met;
- for non-residents: dividends are fully exempt from withholding tax if specific requirements are met. Failing that, dividends are subject to a 16% withholding tax for individuals or 19% for companies, unless a tax treaty provides a lower rate.

<u>Company incorporated to take over a business in difficulty</u> can qualify for a partial or a full exemption of corporate income tax and local taxes for 24 months if it meets specific requirements. These requirements are as follows:

- the share capital of the new company must not be held by shareholders who held more than 50% of the share capital of the company in difficulty during the previous year
- the new company and the company in difficulty must be independent from an economic standpoint, and
- the amount of the corporate income tax exemption depends on the location of the new company and corresponds to a part of the social costs related to newly hired employees.

French incentives related to business location

France offers a system of incentives for French or foreign investors that participate in the creation or the expansion of a business activity in specific areas. Companies located in specific

areas known as *zones d'aides à finalité regionale* (ZAFR) are eligible for a full corporate income tax exemption during their first 2 years of operation and for a rebate of 75%, 50% and then 25% on their corporate income tax during the following 3 years.
The companies have to be set up before 31 December 2023.
These areas are not towns or regions but specific places in a town or in a region.
Companies with fewer than 250 employees and a turnover of less than €50 million which are set up in a ZAFR before 31 December 2023 and which engage in specified activities such as information technology and engineering are also eligible for exemptions on local taxes over a period of 2 to 5 years.
Companies established on or before 31 December 2022 in a specified rural area (*zones de revitalisation rurale* - ZRR) and engaged in specified activities may be eligible for a full exemption from corporate income tax for the first 5 years of operation and for a rebate of 75%, 50% and then 25% on their corporate income tax during the following 3 years. Such companies also benefit from exemptions on local taxes for a period of 5 years.

Tax credits

France provides the following tax credits:

- tax credit for research - is applied to companies that incur significant expenses in this area and amounts to 30% of research costs up to € 100 million and 5% of research expenses exceeding this amount and 20% of the first € 400,000 of the research expenses of SMEs;
- cinema and audiovisual tax credit – is equal to 30% of the expenses incurred up to a maximum amount of €30 million for movie production or of €10,000 per minute produced for audiovisual production;
- for businesses operating in the French overseas department of Mayotte, there is a payroll tax credit of 9% of the wages of employees earning less than 2.5 times the minimum wage (ie those earning up to €4,368 per month from 1 May 2023).

***De minimis* aid**

EU regulations determine to what extent a company is eligible for several forms of aid granted without affecting trade, distorting or threatening to distort competition between member states.
At the end of a fiscal year, a company must compute all the incentives it may receive and determine whether the global amount of these incentives plus those granted during the previous 2 fiscal years does not exceed €200,000 (however, the threshold was temporarily raised to €500,000 for the 2008 to 2010 period). If the global amount exceeds this threshold, the company is not eligible to receive the excess incentives and aids granted.

25- HAS FRANCE SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

France has concluded tax treaties with a number of countries which specify the withholding tax rates that apply. Non-treaty withholding tax rates apply where they are lower than the rate specified in the treaty.
There is generally no withholding tax on income from interest arising in France and paid to non-residents.
The following rates of French withholding tax apply to non-resident entities:

	Dividends %	*Interests* %	*Royalties* %
Non-treaty countries	25/75	0/24/75	25/75
Treaty countries			
Albania	5/15	0	5
Algeria	5/15	0	5/10
Argentina	15	0	18

Armenia	5/15	0	5/10
Andorra	5/15	0	0/5
Australia	0/5/15	0	5
Austria	0/15	0	0
Azerbaijan	10	0	5/10
Bahrain	0	0	0
Bangladesh	10/15	0	10
Belarus	15	0	0
Belgium	0/10/15	0	0
Benin	25	0	0
Bolivia	15	0	15
Bosnia Herzegovina	5/15	0	0
Botswana	5/12	0	10
Brazil	15	0	10/15/25
Bulgaria	0/5/15	0	0/5
Burkina Faso	25	0	0/26.5/27.5
Cameroon	15	0	15
Canada	5/15	0	0/10
Chile	15	0	5/10
China	5/10	0	10
Congo	15/20	0	15
Croatia	0/15	0	0
Cyprus	0/10/15	0	0/5
Czech Republic	0/10	0	0/5/10
Ecuador	15	0	15
Egypt	0	0	15
Estonia	0/5/15	0	0/5/10
Ethiopia	10	0	7.5
Finland	0	0	0
Gabon	15	0	10
Georgia	0/5/10	0	0
Germany	0/15	0	0
Ghana	5/15	0	10
Greece	0/25	0	0/5
Guinea	15	0	0/10
Hong Kong	10	0	10
Hungary	0/5/15	0	0
Iceland	5/15	0	0
India	10	0	0
Indonesia	10/15	0	10
Iran	15/20	0	10
Ireland	0/10/15	0	0
Israel	5/15	0	0/10
Italy	0/5/15	0	0/5
Ivory Coast	15	0	0/10
Jamaica	10/15	0	10
Japan	0/5/10	0	0
Jordan	5/15	0	5/15/25
Kazakhstan	5/15	0	10
Kenya	10	0	10
Korea	10/15	0	10
Kosovo	5/15	0	0
Kuwait	0	0	0
Kyrgyzstan	15	0	0
Latvia	0/5/15	0	0/5/10
Lebanon	0	0	26.5/27.5

Libya	5/10	0	10
Lithuania	0/5/15	0	0/5/10
Luxembourg	0/15	0	5
Macedonia	0/15	0	0
Madagascar	15/25	0	10/15
Malaysia	5/15	0	10/26.5/27.5
Mali	25	0	0
Malta	0/15	0	0/10
Mauritania	25	0	26.5/27.5
Mauritius	5/15	0	0/15
Mexico	0/5/15	0	0/10
Moldova	15	0	0
Monaco	25	0	26.5/27.5
Mongolia	5/15	0	0/5
Montenegro	5/15	0	0
Morocco	0/15	0	5/10
Namibia	5/15	0	0/10
Netherlands	0/5/15	0	0
New Caledonia	5/15	0	0/10
New Zealand	15	0	10
Niger	25	0	26.5/27.5
Nigeria	12.5/15	0	12.5
Norway	0/15	0	0
Oman	0	0	7
Pakistan	10/15	0	10
Panama	5/15	0	5
Philippines	10/15	0	15
Poland	0/5/15	0	0/10
Portugal	0/15	0	0/5
Qatar	0	0	0
Romania	0/10	0	0/10
Russia	5/10/15	0	0
Saint Martin	0/15	0	0
Saint Pierre and Miquelon	5/15	0	0/10
Saudi Arabia	0	0	0
Senegal	15	0	0
Serbia	5/15	0	0
Singapore	5/15	0/10	0
Slovakia	0/10	0	0/5
Slovenia	0/15	0	0/5
South Africa	5/15	0	0
Spain	0/15	0	0/5
Sri Lanka	25	0	0/10
Sweden	0/15	0	0
Switzerland	0/15	0	0/5
Syria	0/15	0	15
Taiwan	10	0	10
Thailand	15/20	0	5/15
Togo	25	0	26.5/27.5
Trinidad e Tobago	10/15	0	0/10
Tunisia	25	0	5/15/20
Turkey	15/20	0	10
Turkmenistan	15	0	0
Ukraine	5/15	0	0/10
United Arab Emirates	0	0	0
United Kingdom	0/15	0	0

United States of America	0/5/15	0	0
Uzbekistan	5/10	0	0
Venezuela	0/5	0	5
Vietnam	5/15	0	10
Zimbabwe	10/15	0	10

France has signed about 30 TIEAs based on the OECD model convention.