



Doing Business in France

2011 Edition

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Business
in France





Message from the Ambassador

This guide, written by IFA experts in association with recognized specialists (law firms, auditors, accountants and human resources consultants) is intended to be a working reference guide.

It has been designed especially for foreign company directors who would like to invest in France, where more than 20,000 foreign companies are already established, running businesses under many different legal forms.

The reforms that France has pursued in recent years to promote competitiveness and improve the business environment are fundamentally changing the legal framework in which companies can be set up and expanded by:

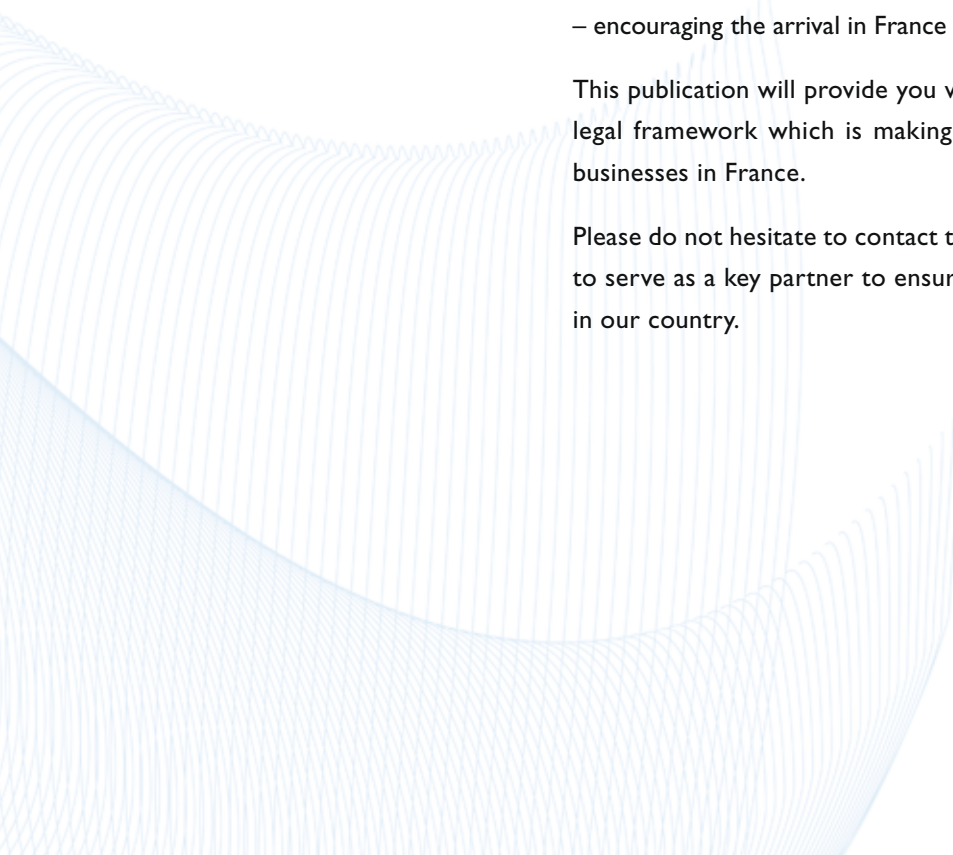
- simplifying and reducing corporate taxation;
- introducing more flexibility in the labor market;
- promoting R&D, notably through the establishment of innovation clusters and France's research tax credit;
- supporting key projects through the “National Investment Program” focused around five strategic priority areas for companies and the French economy: higher education and training, research, SMEs and the industrial sector, sustainable development and the digital economy;
- encouraging the arrival in France of foreign skills and expertise.

This publication will provide you with an authoritative guide to this revised legal framework which is making it easier to invest, innovate and create businesses in France.

Please do not hesitate to contact the Invest in France Agency, which is ready to serve as a key partner to ensure the success of your investment project in our country.

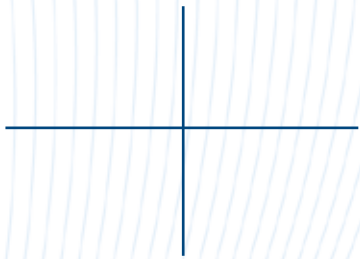
David Appia

*Ambassador for International Investment,
Chairman and CEO of the Invest in France Agency*



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Setting up business in France successfully

Chapter I Doing Business in France

SETTING UP BUSINESS IN FRANCE SUCCESSFULLY

There are no administrative restrictions on foreign investment in France, although mandatory declarations or permits are required in some cases (see “In detail” section below). 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 forward in an uncomplicated and inexpensive environment.

IN DETAIL

Simple steps for foreign investors to follow:

→ A return to be filed with a credit institution for statistical reasons detailing transactions in which a non-resident acquires 10% or more of the equity or voting rights in a resident company.

→ An administrative return to be filed with the Ministry for the Economy, Industry and Employment (Treasury Directorate): 1) for investments that create new companies where the investment exceeds €1.5 million, and more generally, 2) transactions (with no minimum amount) that result in the acquisition of all or part of a line of business, or the acquisition of a direct or indirect equity interest in (or any other transaction with) a French company amounting to more than a third of its shares or voting rights (unless the investor already has a majority interest in the French company.)

→ **Special cases:** As in many other countries, prior authorization is required for investments in certain business sectors.

Sectors concerned: *Gambling; private security services; the prevention of illicit use of biological or toxic agents; equipment designed to intercept communications; the evaluation and certification of systems used in information technology; the production of goods or provision of services relating to the security of information systems; goods and technology with dual applications; encryption and decryption systems for digital applications; businesses certified for national defense; trade in weapons, munitions and explosives for military applications or equipment used in warfare; businesses under contract to supply*

research or equipment to the Ministry of Defense or its subcontractors.

In these sectors, authorization is required to acquire a controlling interest (i.e. a majority of voting rights) and the direct or indirect acquisition of all or part of a business line by a foreign investor. For investors from countries outside the EU and the European Economic Area, authorization is also required for the acquisition of direct or indirect interests exceeding 33.33% of equity or voting rights (unless the investor has already been authorized to acquire a controlling interest).

Authorization is given by the Ministry for the Economy, Industry and Employment within two months (tacit agreement to be assumed if no reply is received).



For more information:

Articles L151-1 to L152-6 of the French Monetary and Financial Code.

Articles R153-1 and following of the French Monetary and Financial Code (codifying Decree 2005-1739 of December 30, 2005 on regulation of foreign financial relations)

Ministerial order of March 7, 2003, detailing the information necessary to complete returns or requests for authorization.

I. Multiple solutions for your business

Choosing a business structure in France depends on the investor's strategy and the degree of independence that the French operations are to have from the parent company.

I.1. Reducing administrative procedures: short-term solutions

A foreign company wishing to prospect for business in France can start by hiring a single employee or by opening a liaison office. This option involves a specific tax and company status.

I.1.1. Liaison offices: representation without commercial activity

A foreign company may recruit or send an employee to France to represent it through a local liaison or representative office.

Liaison offices may conduct only a very limited amount of non-commercial operations, such as prospecting, advertising, providing information, storing merchandise, or other operations of a preparatory or auxiliary nature. Such offices are not separate legal entities. Invoices must be issued by the parent company, which must also sign any contracts.

Liaison offices are not permanent establishments with respect to tax laws. They are not subject to corporate tax or VAT, but must pay certain local taxes and social security contributions. If, however, the office conducts commercial activities, in particular where an employee signs contracts on behalf of the foreign company employing them, or fulfills a complete manufacturing cycle, or acts as a fixed place of business through which the company conducts all or part of its trade, it may be reclassified as a branch or permanent establishment.

Companies wishing to safeguard their business may ask the tax authorities to rule in advance whether or not their establishment qualifies as a permanent establishment in France (the tax authorities are deemed to have given tacit consent if no reply is received within three months).

I.1.2. If you wish to develop a commercial activity: sales representatives

Sales representatives may be a VRP (*voyageur de commerce, représentant ou placier* – business traveler, representative or travelling salesperson) which is a company employee with a special legal status. VRPs are intermediaries employed by one or more companies (*VRP exclusif ou multicarte*) to visit customers in the representative's sales territory. These representatives work independently, contacting prospective clients to offer goods and services. Their primary responsibilities are making sales calls, taking orders and submitting these to their employers.

VRPs have a special legal status in France and receive special compensation should their contract be terminated.

These representatives, including those with "multi-card" status, are subject to income tax on their salary. The business activity of a VRP may be considered as a permanent establishment of the foreign company employing the VRP if they sign contracts on behalf of the company.

I.1.3. Another solution: sales agents

Foreign companies may also use the services of a sales agent, i.e. a self-employed individual or a company that acts on their behalf.

Agents are responsible for negotiating and, in some cases, signing contracts for sales, purchases, leases and provision of services on behalf of their principals (i.e. not in their own name). They may work for one or more companies, and in most cases are responsible for a defined geographical area and/or sector of activity. They are paid in part or in full by commission on completed transactions.

Since sales agents are external suppliers and not salaried employees, specific rules apply when agreements with them are terminated. Except in cases of professional misconduct, the agent is entitled to compensation based on gross commissions received (in principle, this will be the equivalent of two years of the same).

Small companies often prefer to use sales agents as a flexible and inexpensive means of introducing their products to foreign markets.

1.2. Planning for the future - two key decisions

Companies can set up a branch or a subsidiary to conduct manufacturing or sales operations in France through a permanent principal or secondary establishment.

1.2.1. Branches - a basic option

Branches enable foreign companies to establish a foothold in France for a commercial activity. Branches are headed by a legal representative, functioning like an agency and reporting to headquarters, and have no official restrictions on their decision-making powers. They may carry out all the operations of an industrial or commercial company, but are not separate legal entities and the parent companies are responsible for their initiatives. If they encounter financial problems,

the parent company bears unlimited liability for their debts.

Branches are permanent establishments with regard to tax laws and must pay corporate tax and VAT. The subsequent conversion of a branch into a separately incorporated subsidiary is possible, but must comply with rules governing the sale and transfer of business, and is subject to taxation.

1.2.2. Creating a subsidiary a company incorporated under French law, offers certain advantages.

→ Segregation of subsidiaries' and parent companies' assets means that foreign companies do not bear unlimited liability for the debts of their French structures. On the other hand, subsidiaries' losses cannot be offset against parent companies' profits.

IN DETAIL

The first key steps in creating a subsidiary

Creating a company involves carrying out a number of steps before the company can be registered. Investors who wish to create a separate legal entity rather than a subsidiary or a liaison office should anticipate the following steps:

- Seeking public or private investment (loans, venture capital, business angels, mutual investment funds in innovation etc.)
- Seeking business premises and a business address agreement for the company's registered office, a commercial lease or the acquisition of real estate;
- The type of legal structure for the business (e.g. SAS / SARL or SA);
- Drafting and signing the company

articles (before a notary where the company owns property) which requires preliminary steps to be taken (address, directors, definition of business etc.)

- Planning the appointment of the company officers;
- Obtaining where appropriate (for a foreign director outside the European Economic Area) a long-stay visa and residence permit ("Business Activity" or "Skills and Expertise") or making a prior declaration for a foreign director not wishing to reside in France.
- Choosing a company name (and ensuring it can be used by conducting searches at the French Institute of Intellectual Property (INPI) and the Commercial Court Registry – *Grefe du tribunal de*

commerce), address and the appointment of directors

- Appointing the statutory auditor(s) where relevant;
- Evaluating capital contributions in kind by an independent auditor;
- Constituting the share capital;
- Opening a bank account in France and depositing the capital of the company being formed;
- Registering the articles at the Tax Office of the registered office's location (free of charge);
- Publicizing the notification of establishment in a legal gazette.

Since some of these steps involve procedures in both the country of origin and in France, they may take several weeks to complete.

legal advice

Rémy Blain, Partner, Attorney at law, and Marie Lambeau, Lawyer – WSA Avocats

HOW TO SET UP A COMPANY IN FRANCE

1. Choosing a legal structure

Incorporating a subsidiary company is the most common way of setting up a commercial or industrial activity in France. This involves selecting an appropriate legal structure.

The société à responsabilité limitée (SARL) and the société par actions simplifiée (SAS) are the most commonly used company forms. Comparable structures are the limited company (Ltd.) in the UK, the corporation (Corp.) in the United States, or the Gesellschaft mit beschränkter Haftung (GmbH) in Germany. Recently, the SAS has been the form of choice due to its simplified rules.

Since 2009, these two types of companies have shared many similarities:

- Liability of shareholders is limited to their equity contributions;
- At least one shareholder;
- No minimum equity;
- Cash contributions may be released over a period of five years;
- The appointment of auditors is required only if a company exceeds certain financial thresholds or if a company incorporated as an SAS belongs to a group.

However, while the organization and operation of a SARL is regulated by law, the rules governing an SAS are particularly flexible and allow greater freedom for the shareholders to define how the company is run in the articles of association.

2. Steps to be taken

While deciding upon the company's legal structure, the following should also be considered:

- Constituting the share capital (either through cash contributions or, via a special procedure, contributions in kind).
- Choosing a bank (opening a bank account and depositing the initial equity).
- Choosing a company name (a search at the French Institute of Intellectual Property (INPI) may be necessary to ensure that the name is available).
- Determining the registered address (finding business premises, signing a domiciliation agreement, acquiring real estate).

- Choosing the directors (number, defining their powers, setting up a management and/or supervisory board for an SAS) and determining their status (with particular care to be exercised if they combine an employment contract with a company directorship).
- If appropriate, appointment of the statutory auditors.
- If appropriate, the drawing up of internal rules.
- In the case of an international group, the interaction between the articles of association and the group's internal policies and procedures should also be analyzed.

Once the articles of association have been signed, the following legal formalities should be completed:

- Registering the articles of association with the competent tax authorities.
- Publishing the notification of existence in a legal newspaper.
- Filing the bank's certificate of payment of equity contributions, the commercial lease, the identity of the directors and, if appropriate, the statutory auditors with the Business Formalities Center (Centre de formalités des entreprises – CFE).

The company acquires legal personality upon its registration with the Companies Register (Registre du commerce et des sociétés – RCS). However, the company may accomplish certain acts during the incorporation period before it is registered with the RCS (e.g. signing a lease, employment declarations, etc.); the founding shareholders are liable for all commitments until the company is registered with the RCS, whereupon these commitments are assumed by the company in its own name.

3. Costs and timeframes

The timeframe for setting up a company depends on how promptly the documents required to be filed at the CFE can be produced. Registering a company with the RCS takes between 8 and 15 days on average once all the necessary documentation has been submitted. Company registration costs are about €400 (publication, registration, ordering and stamping the legal registers, etc.) to which should be added the fees payable to a legal expert, whose involvement is highly recommended, particularly when creating an SAS.

- Subsidiaries are entitled to renewable commercial leases.
- Subsidiaries may apply for government support when starting up or expanding.
- Subsidiaries can enter into agreements on sales and technical royalties, commissions, etc.

The company becomes a separate legal entity when it is entered in the Company Register (*Registre du commerce et des sociétés* - RCS). The founders are personally liable for their legal commitments during the incorporation phase, and these are consequently assumed by the newly incorporated company. The subsidiary must pay all applicable taxes. Investors are advised to seek specialist legal advice when setting up a subsidiary. Bar associations can provide lists of lawyers in France.

II. Setting up your business rapidly

The formalities for setting up businesses have been greatly simplified and the whole procedure can be carried out over the internet.

II.1. A one-stop shop: the *Centre de formalités des entreprises* (CFE)

All the formalities for setting up a new company can be dealt with in one place: the *Centre de formalités des entreprises* (CFE). This center handles all the documents required to set up, change or close down companies and delivers them to the relevant authorities, including:

- The Commercial Court Registry, which first issues, free of charge, a business creation certificate (*récépissé de création d'entreprise*, allowing procedures to go ahead for companies being set up), and then, once the company has been registered, issues a “K-bis” registration certificate.
- The French Office for National Statistics (INSEE) which allocates the APE code corresponding to the company’s business and the SIREN and SIRET numbers (company registration numbers) required for hiring employees;

- The tax authorities (*Centre des impôts*) and social security agencies, including URSSAF (*Unions de recouvrement des cotisations de sécurité sociale et d’allocations familiales*), which collects social security contributions.



For more information:

Find out where your nearest CFE is located and complete your company registration procedures over the internet: www.cfenet.cci.fr/

II.1.1. Speedy registration process

The CFE provides the application form (“M0 form”) and list of documents to be submitted, which must be translated into French. The application must be filed by a duly empowered person with written authorization from the company.

It takes a few days for a company to be recorded in the Company Register (RCS). When a company is “pending registration”, its legal representative can use the business creation certificate for dealings with the authorities and public and private-sector organizations (e.g. accessing the new company’s bank account).

The cost of administrative formalities is €84 (since January 1, 2008), plus the cost of publishing a notice in the legal gazette (approximately €230).

It is now possible to complete the formalities for setting up, changing or closing a company online. There are some formalities that the CFE does not handle:

- Applications for authorization to engage in regulated professions, licenses or registration with professional associations for lawyers, accountants, architects, doctors, etc.;
- Proof of address;
- Formalities to register trade names and brands with France’s National Intellectual Property Institute (INPI);
- Registering internet domain names ending in “.fr” with the French Internet Names and Cooperation Association (AFNIC);
- Registration of the company with an insurance center;

→ Registration with an employee retirement plan (must be done within three months of registration).

Formalities relating to hiring employees must be completed with URSSAF using a special form (*déclaration unique d'embauche*).

II.1.2. Intellectual property rights

French intellectual property laws provide effective protection for patents, trademarks, models and designs. The INPI is the core of the French protection system, and filings with it are the starting point for patent and trademark protection. Intellectual property rights entitle patent holders to a monopoly on use for 20 years. Trademarks are valid for 10 years and can be renewed indefinitely. Models and designs are protected for 25 years.

Company names, trade names and logos are also protected and can be cited in unfair competition lawsuits.

II.2. Registering your Liaison Office

In principle, registering your Liaison Office is not required. It becomes necessary for dormant companies where the office has its own premises or is to going be used to employ several employees in France.

Documents to be submitted concern the representative (proof of identity, police clearance record, specific documents for expatriates, including the declaration to the *Préfecture* or "Business Activity" residence permit if necessary), two copies of the company's articles translated into French, as well as a document attesting tenancy or ownership of premises.

II.3. A single contact handling your administrative procedures

The **representative** of a foreign company with no business establishment in France but which employs salaried personnel covered by the French social security system must register with URSSAF directly using the "E0" form and submit a copy

of their employment contracts, as well as the *déclaration unique d'embauche*. URSSAF will assign a SIRET number to the representative and notify the authorities concerned. Such employees pay their own employer and employee social security contributions every quarter.

A **sales agent** is self-employed and must be registered with the special register of sales agents.

II.4. Registering your branch

Registration is mandatory for branches. The registration application must include (in addition to the M0 form):

- Two copies of the parent company's articles (two originals and two copies translated into French and certified by the legal representative);
- Proof of address;
- Registration Certificate from the foreign company register;
- Documents relating to the person empowered to act on behalf of the company: identity cards and a police clearance record; a declaration to the *Préfecture* (for directors from non-EEA countries) or residence permit as appropriate and documents certifying the required qualifications if the business is regulated.

II.5. Simplified registration formalities

The registration application for the new company must include (in addition to the M0 form):

- Two originals of the articles giving the names of the directors and, where appropriate, the names of the statutory auditors;
- Two copies of the independent auditor's report, if capital contributions in kind are involved;
- A copy of the lease or ownership deed to the business premises;
- A copy of the legal gazette containing notification of the company's establishment;
- Copies of the directors' birth certificates, identity cards or passports, along with a police clearance record and a representative's mandate;

- If appropriate, a copy of the professional license, degree or certificate required to exercise a regulated profession;
 - If appropriate, the declaration to the *Préfecture* by any director(s) from non-EEA countries not residing in France, or residence permit(s) of any foreign director(s) (“Business Activity” or “Skills and Expertise” type);
 - A certificate of deposit from a bank for the new company’s initial capital reserve;
 - A summary of the formalities completed on behalf of the new company.
- The “K-Bis” certificate issued by the Commercial Court Registry is proof that the company has been set up.

III. Multiple legal structures tailored to your needs

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

III.1. Limited liability companies: the most common structure in France

In this case, financial liability is limited to the amount of owners’ capital contributions. Such entities can easily be converted into other forms of companies with minimal tax consequences. The rules governing companies have become much more flexible, with the introduction of simplified companies (SAS), which have greater freedom to draft their articles to suit their own purposes. The elimination of the minimum capital requirement for SARLs has also resulted in greater flexibility.

By the same token, French company law has kept in step with modern technology: meetings of boards of directors and supervisory boards may now be held remotely (by video-conference or other means) except in cases where company articles stipulate physical meetings or where annual or consolidated financial statements and management reports are to be approved.

III.1.1. The three main types of limited liability companies

The most popular company forms are the *société anonyme* (SA), the *société à responsabilité limitée* (SARL) and the *société par actions simplifiée* (SAS). SARLs and SASs can be formed with a single partner [SAS *Unipersonnelle* (SASU) or single-shareholder limited liability company (EURL)], whereas seven partners 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 (or SAS *unipersonnelle*) 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.

III.1.2. Approval of annual accounts

This decision is made by partners at the Annual General Meeting.

The decision to approve the accounts must be made no later than six months after closure of the accounts for the financial year. This is essential so that profits can be allocated and any dividends distributed.

Any limited liability company must file:

- their annual accounts, business report and where applicable their consolidated statement and auditors’ reports.
- the motion or resolution regarding allocation of the profits.

These must be filed in duplicate with the Commercial Court Registry within one month of the annual accounts being passed.

III.2. Additional, more flexible options are available

These are mainly general partnerships (*société en nom collectif*), non-trading partnerships (*société civile*) and economic interest groupings (*groupement d’intérêt économique*). They are less common because they require a greater level of partner liability in the event of financial difficulties. However, there are no minimum capital requirements and these structures offer significant

Comparison of the main forms of limited liability companies in France

	<i>Société anonyme à responsabilité limitée (SARL)</i>	<i>Société anonyme (SA) usual form</i>	<i>Société par actions simplifiée (SAS)</i>
Key advantages	Easy to set up and operate.	Structured for “monitored delegation”. Organization of ownership.	At least one partner. Freedom of constitutional arrangements for relations with shareholders, management, structure and transfer of capital.
Directors	One or more directors, who must not be corporate entities, but do not need to be partners.	One individual to be the Chairman of the Board and CEO or two individuals to be Chairman and CEO respectively. Deputy CEOs (up to 5). Board of directors with 3 to 18 members and a statutory auditor.	At least 1 Chairman (individual or corporate entity) and possibly a board with other members. The company can be represented by a person so empowered by the articles (CEO or deputies).
Director’s status	A director/minority shareholder can also have an employment contract if certain conditions are met (work separate from company officer role, management hierarchy).	The Chairman can also have an employment contract if certain conditions are met (work separate from company officer role, management hierarchy).	Same as an SA as regards simultaneously holding both company officer position and employment contract.
Appointment and dismissal of Directors	Decision of partners representing more than half the company shares. Compensation payable for dismissals without due cause.	Decided by the Board of Directors.	Defined by choice in the articles.
Minimum capital	None: sufficient capital to finance long-term needs. The amount is defined in the articles. Restrictions apply to issuing bonds. At least one-fifth of contributions must be paid up capital and must remain so for a period of 5 years.	€37,000. Public offerings permitted. Half the capital must be paid up at the time and must remain so for 5 years.	None: sufficient capital to finance long-term needs. The amount is defined in the articles. No public offerings permitted but an offer may be made to accredited investors. Half the capital must be paid up at the time and must remain so for a period of 5 years.
Contributions	Sweat equity permitted: a partner offers the company his time, work and professional knowledge. Does not contribute to forming the capital but has right to shares in company (share of profits and participation in collective decisions).	No sweat equity permitted.	Sweat equity permitted.
Partners / shareholders	2 to 100 individuals or corporate entities. Or single shareholder (EURL). At least 1 meeting per year: annual approval of the accounts, review of contracts by simple majority at Ordinary General Meeting.	At least 7 (with at least one individual). At least 1 meeting per year: annual approval of the accounts and ordinary decisions by simple majority at Ordinary General Meeting, changes to the articles require 2/3 majority at Extraordinary General Meeting.	At least 1 (<i>SAS unipersonnelle</i>) individual or corporate entity. Only certain decisions made by Ordinary General Meeting: approval of the accounts, mergers, changes in capital, liquidation.
Quorums for meetings	25% of voting rights on first notice and 20% on second notice of Extraordinary General Meeting (since August 2, 2005).	For an Extraordinary General Meeting, 25% of voting rights on first notice and 20% on second notice. For an Ordinary General Meeting, 20% on first notice and no quorum on second notice.	According to the articles; no obligation to hold an annual meeting of shareholders.
Blocking minority	Extraordinary General Meetings: 33% + 1 vote for amendments to the articles (from Aug. 2, 2005). Ordinary General Meetings: 50% of voting rights + 1 (or majority of votes on second notice).	1/3 of votes at Extraordinary General Meeting. 50% of votes in Ordinary General Meeting.	According to the articles.
Liability of partners / shareholders	Limited to contributions, except in civil or criminal lawsuits	Limited to contributions, except in civil or criminal lawsuits	Limited to contributions, except in civil or criminal lawsuits
Transfers	Flat rate of 3%. €5,000 ceiling for transfers of shares. For share capital: an equal deduction for each share, to the ratio between €23,000 and the total number of shares in the company.		
Auditors	Auditor necessary if company exceeds two of the three thresholds below: net turnover over €3.1 million; total balance sheet over €1.55 million; more than 50 employees.	Statutory auditor required.	Statutory auditor required for companies held by (or holding) another company OTHERWISE Statutory auditor required if company exceeds two of the following three thresholds: Pre-tax turnover > €2 million; total balance sheet > €1 million; over 20 employees.
Tax system	Corporate tax or option of paying income tax (if company is less than 5 years old).	Corporate tax or option of paying income tax (if company is less than 5 years old).	Corporate tax or option of paying income tax (if company is less than 5 years old).

levels of flexibility and fiscal transparency that make them attractive as subsidiary companies. A special form of company, the *société en participation*, is used in the construction industry and in the performing arts and publishing sectors. These are very simple to set up (RCS registration not required) and no legal announcements are required.

III.3. Incorporating as a European Company

Businesses present in at least two Member States of the European Union can opt for European Company status (SE for *société européenne*). In this case, the company benefits from a unique set of regulations and a unified system of management and disclosure of financial details. SEs have a minimum capital of €120,000. The company's headquarters is stated in the articles, and its location determines the business law that applies to the company: the company is registered in the country where the headquarters is located. SEs are subject to taxation in all EU countries where they have a permanent business.

IV. Acquiring companies and equity interests

French law makes full provision for business partnerships and takeovers.

IV.1. Acquiring equity in a company

Acquiring an equity interest may be the result of an agreement between companies or an unsolicited bid to buy shares (hostile takeover bid).

IV.1.1. Administrative formalities: transparency required

Buyers are required to make certain disclosures when more than 5% of the shares or voting rights in a listed company are likely to change hands:

→ A declaration must be filed with the financial market authority within five days;

→ The target company must be notified within 15 days.

The same rules apply to transactions that exceed thresholds, up or down, of 10%, 15%, 20%, 25%, 33%, 50%, 66%, 90% and 95% of the shares or voting rights.

When buyers intend to acquire more than 30% of the shares in a listed company, they are required to make a bid for all of the outstanding shares so that minority shareholders have an opportunity to sell their shares.

IV.1.2. Prior notification to competition authorities of large concentrations between undertakings

Concentrations between undertakings arise from one of the following transactions:

→ Mergers of two or more independent companies;

→ Full or partial takeovers;

→ Creation of joint ventures that conduct their business independently on a long-term basis.

In principle, concentrations are authorized, however large concentrations may require prior authorization from national or European authorities. Restrictions on concentration are intended to ensure that market dominance by a single company does not distort competition.

Concentrations require the prior authorization of the French Competition Authority (*Autorité de la concurrence* – an independent body) if:

→ The aggregate turnover of the companies concerned exceeds €150 million, excluding tax, and

→ The aggregate turnover of at least two of the companies in France exceeds €50 million, excluding tax, and

→ Turnover remains below EU thresholds.

Specific thresholds have been set for the retail distribution sector (lower notification threshold).

The French Competition Authority's decision will be made within 25 working days of the date when full notification procedure documentation is submitted. However if the transaction is likely to distort competition, the Competition Authority may open

a second phase in order to conduct a more extensive analysis of the transaction (in principle, a period of up to 65 days is set aside for this second phase). The European Commission in Brussels must be notified of concentrations between undertakings if:

- The aggregate global turnover of the companies concerned are more than €5 billion, and
- Individual turnover of at least two of the companies concerned in the European Union total more €250 million, except if turnover within a single country accounts for more than two-thirds of each of the companies' total European Union turnover.

The European Commission must also be notified of concentrations that do not exceed the above thresholds if they affect three or more European Union countries.

The procedure can take up to eight months and the concentration is frozen until authorization is granted.

IV.2. Management lease: a flexible temporary takeover option

Under a management lease, the owner or operator of a business or a manufacturing establishment signs a contract with a lessee, who manages the leased company at his own risk and pays a lease payment. The lessor collects the lease payments and has no say in the management of the leased business.

This arrangement enables the lessee manager to operate a company without having to buy it. It is a temporary solution that can be used to assess the viability of a business. At the end of the lease, the company may be sold or transferred to the lessee.

IV.3. Streamlined procedures for acquiring a distressed company

Legislation dated July 26, 2005 that came into force on January 1, 2006 – subsequently amended by the Ministerial order of December 18, 2008 – modified bankruptcy law in France, in particular the procedures surrounding the takeover of a distressed company.

With the introduction of a procedure affording protection before insolvency (*procédure de sauvegarde*), measures can now be taken when a company's difficulties are such that they will most likely prove insurmountable. This procedure does not provide for the sale of all or part of company assets, for which liquidation proceedings are necessary. Likewise, any partial insolvency is subject to bankruptcy law.

Receivership (*redressement judiciaire*) can only take place when the company is insolvent and when its assets are not enough to cover liabilities. Following the reform, the sole aim of this procedure is to facilitate the drafting of a plan that will enable the company to remain in operation, maintain jobs and reduce its liabilities. Any sale of assets must comply with liquidation procedures.

Once a protection or receivership procedure has been initiated, third parties may submit offers to the administrator to save the company as a going concern, through the total or partial sale of business; such sales must be conducted in keeping with liquidation procedures.

Buyers must make their offers to the commercial court-appointed administrator before the deadline set in the court ruling initiating the proceedings (court rulings are published in the legal gazette, *Bulletin officiel des annonces civiles et commerciales*).

IV.4. The acquisition solution preferred by judges

During liquidation procedures, the courts prefer buyers offering the best prospects of keeping the company in business, saving jobs and repaying creditors.

Part or all of a company's assets may be sold to ensure that those operations that can be conducted independently remain in business, to preserve all or part of the associated jobs, and to reduce liabilities.

Offers must include a detailed list of assets, rights and contracts included in the offer; a business recovery plan and financing forecasts; the purchase price and how this will be paid; information about

the providers of funds and any guarantors (if the offer is based on loans, it must specify terms and duration), the date of sale, job numbers and outlook based on projected operations, financial guarantees underpinning execution, asset disposal plans for the next two years, and the duration of each commitment made by the buyer.

Offers cannot be amended or withdrawn once they have been filed with the Commercial Court Registry except for amendments that improve conditions for employees and creditors, which may be presented up to 48 hours prior to the hearing. The court then decides whether to make a partial or full sale of the business and gives the reasons for its decision.

Some contracts may be transferred to the new owner, including employment contracts, equipment and finance leases, supply contracts for goods and services necessary to keep the business going, stock pledge agreements, contracts with customers, etc.

If no solution can be found to keep a business going or if recovery is clearly impossible, the court will liquidate the distressed company and the assets will be sold to the highest bidders once the court proceedings have been completed.

V. Corporate real estate: meeting your needs

V.I. Short-term, low-cost solutions

V.I.1. Using your director's personal address for the company

A company may use its legal representative's personal residence for its registered office and, in principle, conduct its business there indefinitely. If the residence is rented, the landlord's written consent is required.

Using the director's personal residence for the company's business is sometimes subject to three conditions. These restrictions stipulate that the premises must be: i) the director's principal place of residence; ii) business done there must be conducted by the director and

the other occupants of the premises only and iii) no customers or merchandise can be received at the residence.

If legislative or contract provisions rule out the use of the director's personal residence as the company's registered office, it is still possible to use the address for administrative purposes for up to five years.

V.I.2. Using a business center

A business center (*centre d'affaires*) can be used as the company's temporary registered office. Business centers are specialized service companies that provide registered office addresses for other companies and rent them rooms for holding periodic board meetings. These centers also provide other services, such as answering telephone calls and secretarial services. A contract must be signed between the company using the address for its registered office and the owner or tenant of the premises.

V.I.3. Temporary manufacturing facilities

Companies can use temporary manufacturing facilities (*ateliers-relais*) to train new employees and even start up their business while their new plants are being built. Many local authorities offer such facilities to companies locating in their area. The leases run for up to 23 months and, in some cases, they come with a purchase option, subject to certain conditions.

V.I.4. Business incubators

Business incubators (*pépinières d'entreprises*) provide premises (offices, workshops, laboratories, common areas) for start-ups and enable them to share the costs of faxes, secretarial services, photocopiers, switchboards, training and database access. Business incubators also advise new companies on business development.

V.I.5. Short-term leasing options for business premises

Sub-letting: In its early stages, a company can sub-let premises from another company. If the host company holds a commercial lease, the lease must

legal advice

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USING LEASE FINANCING TO FINANCE AN INVESTMENT IN FRANCE

Lease financing or lease purchase (*crédit-bail*) is a specialized financing solution that can be the perfect answer to the financing requirements of foreign investors seeking to set up shop in France, regardless of their business sector.

With lease financing, the company uses the equipment or building without owning it. Ownership is separated from use. Because what counts is not value in use but cost of use (including rent) versus financial return, it is possible to finance the actual cost of the property. Unlike an operating lease, a lease purchase agreement gives the lessee the option up front of buying the property for a specific price at the end of the lease.

Practically any capital equipment can be financed through lease financing as long as its use is long-term, identifiable and depreciable. For example, foreign companies investing in France could use a lease purchase agreement to finance manufacturing equipment or solar photovoltaic panels for long-term use.

It is easier to obtain lease financing than a long-term loan because the lease is secured by the lessor's title to the property. For the company, lease financing conserves equity and offers tax advantages, particularly with respect to VAT, since it optimizes the match between payable amounts and deductible expenses.

All agreements with terms of more than 12 years must be reported to the French tax authorities (specifically, to the *Conservation des Hypothèques*).

The creation of a port logistics terminal near Toulouse was recently financed by lease purchase (investment of more than €11 million, financed over 15 years).

Before proceeding, the prudent risk-taker determines whether lease financing is feasible by analyzing its various component risks, from real estate-related risks (location, asset value, cash flows from renters and cost recovery) to risks assumed by the lessee. From an operational standpoint, a lease financing transaction implies assistance on tax issues and preparing the contract documents (lease transfer agreements, the lease purchase agreement and insurance provisions), or even complying with urban planning requirements.

Banks may also participate through medium- or long-term direct loans for equipment or real-estate complexes, the amortization period depending on the object financed. Financing of this type must be secured by actual collateral - pledges of equipment or mortgages on real property - or by guarantees issued by the French government innovation agency OSEO to provide developing companies with financial assistance or support for innovation.

explicitly authorize the sub-let and the lessor must be asked to be a party to the sub-letting contract.

Short-term leases: Short-term leases are available with terms up to 24 months. The advantage of such leases is that the term can be tailored to the tenant's needs; the drawback is that the tenant is not entitled to automatic renewal of the lease.

V.2. Long-term options

Several options are available, depending on the needs of investors.

V.2.1. A commercial lease is the most common option

Manufacturing and trading companies generally sign commercial leases, which are governed by strict legal provisions protecting the tenant's rights. The statutory term is nine years, but the tenant can terminate the lease at the end of the third or sixth year. The tenant is legally protected against non-renewal or eviction, and the lessor must pay eviction compensation proportionate to the value of the business and the right to the lease. Rent increases are capped. The lease stipulates the commercial purpose of the premises (*activité*), but the parties to the lease can agree to amend the lease to change the initial purpose or add another activity (*déspécialisation*).

The right to lease renewal extends to all companies subject to French law. It does not extend to non-EU branches of foreign companies, unless provided for by a reciprocity clause in an international agreement.

V.2.2. A more flexible but less secure option: the professional lease

Non-trading businesses may rent premises under the terms of "professional" leases which are contractually flexible but offer less protection for the tenant than commercial leases. The statutory term is six years with no early termination option.

V.3. Purchasing property - several options available

V.3.1. Full ownership offers the greatest legal security

Foreign companies are entitled to buy commercial and industrial land and buildings from private-sector and public-sector owners. Real-estate agents can help them find suitable properties. The laws governing property purchases and the services of intermediaries such as notaries ensure the legal security of real-estate transactions.

Government support for real estate purchases may be available, subject to certain conditions.

V.3.2. Leasing to own is a common practice

Many companies acquire industrial and commercial buildings by signing a property finance lease. Such leases generally run for nine to 15 years and title to the property is transferred to the tenant at the end of the term. Local authorities may help companies obtain finance leases by arranging meetings with financing organizations. Government investment support in the form of discounts on finance lease payments is also available subject to certain conditions.

V.3.3. Construction of industrial and commercial buildings

Foreign investors can erect industrial and commercial buildings in France. Local maps show zones in which construction is allowed and mayors have the power to authorize construction by issuing planning permission and construction permits. The local *mairie* (municipal town or city hall) offers land owners and other persons entitled to erect buildings a one-stop service for construction permit applications.

V.3.4. Commercial buildings

The construction of a retail outlet or commercial premises with a surface area of more than 1,000m² requires an installation permit, in addition to a construction permit. A Commercial Urban Planning Commission (*Commission d'aménagement commercial*) in the

département concerned oversees the application procedures.

Since 1 January 2009, some business activities no longer require this special permit. These activities are hotels, service stations and motor vehicle dealerships.

V.3.5. Acquiring premises through a real estate partnership (SCI)

A real-estate partnership (*société civile immobilière* – SCI) is a separate legal entity where the capital is contributed by companies or individuals. It is used to finance premises that can then be occupied by the company. This solution protects the real-estate assets from the company's creditors. It can also provide tax benefits, since the company can deduct rent and maintenance fees from its taxable income and the partnership can deduct acquisition costs for the buildings if it opts to pay corporate tax.

Investors should seek legal advice to work out the details of such an arrangement.

VI. Simplified rules for listed facilities

Concern for preventing hazards, pollution and other environmental nuisances means that preliminary administrative formalities are required before operating certain types of manufacturing plants called *installations classées* (listed facilities). A nomenclature specifies whether facilities must obtain a permit or make a prior declaration,

depending on the scale of the hazard or pollution that they cause. This nomenclature is currently being revised, leading to the creation of an intermediary category, “registering” a listed facility.

VI.1. Simplified permit procedure

Permits are required mainly for businesses falling within the scope of the European Union “Seveso” or “IPPC” directives (as well as the Waste Framework directive). The Seveso directives require supervision of high-risk establishments, such as petrochemical plants or storage facilities for toxic products and liquefied gas, where there are risks of fire, explosion or noxious gas leaks, etc. IPPC directives relating to the prevention and reduction of pollution oblige the use of the most advanced technologies available at an economically acceptable price.

Manufacturers operating such facilities must conduct a safety report and identify hazards involved in their activities. In some cases, they must draw up internal emergency action plans. Local mayors are notified of potential risks.

Administrative formalities have been streamlined in two ways:

- A single environmental protection permit is issued for each manufacturing site;
- The Prefect is the only authority with the power to enforce this legislation, with the assistance of the technical staff from the Regional Directorate for the Environment, Development and Housing (*DREAL - Direction régionale de l'environnement, de l'aménagement et du logement*).

IN DETAIL

Construction permits

Construction permit applications consist of a printed form and a portfolio of drawings and written documents that will enable the authorities to ensure that the application is compliant with urban planning regulations.

Applicants must use the services of an architect when preparing their applications. The relevant authority has one month in which to request further documents. The timescale for the procedure is between one and three months

from the date of notification. When planned construction work concerns a listed facility, the construction permit application needs to include proof that a permit application or a declaration has been filed with the *Préfecture*.

The Prefect's decision is based on the findings of an enquiry, during which the public is notified and invited to comment (see local information and monitoring commissions and the permanent secretaries' offices for the prevention of industrial pollution - SPPPI - *Secrétariats permanents pour la prévention des pollutions industrielles*). The same notification rules are already in force for "Seveso" facilities. Two key documents in the report on a facility's potential impact on a given area are the environmental impact and safety reports.

The Prefect's order authorizing operations at the facility also sets out the operating requirements. In principle, this order should be issued no more than 8 to 12 months after the application is filed.

The Prefect may ask their staff to advise and help investors during the earliest stages of preparing permit applications to ensure the legal security of major manufacturing projects.

The system of "registering" listed facilities, introduced by the Act of February 17, 2009, is a simplified permit procedure which does not require the submission of an impact or a safety report, or public consultation via a public inquiry,

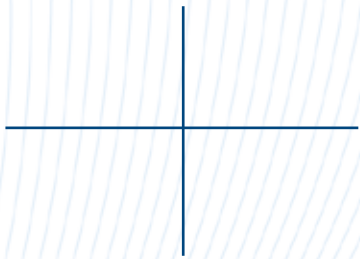
or an opinion from a *département* consultation commission. Public consultation is provided for via the local *mairie* (municipal town or city hall) which allows the public to examine the project and lodge their views. A maximum period of five months (four months plus a possible additional two months) is provided for in order to ensure a meaningful examination of the project.

VI.2. Logistics facilities

Logistics facilities are used to store merchandise. Accident prevention rules for indoor storage facilities must obtain a permit in advance if the volume of the buildings exceeds 50,000 m³.

VI.3. The "polluter pays" principle

The "polluter pays" principle is applied in France as in all the countries of the European Union. This rule ensures that polluters bear the cost of their emissions and waste. However, the taxes levied are much lower than the actual cost of damage. France has also introduced measures to help companies invest in technologies that are less harmful to the environment.



French employment law

Chapter II Doing Business in France

FRENCH EMPLOYMENT LAW

France is an industrialized country with employment laws designed to both protect the interests of employees and match the economic priorities of business. Employment relations are governed by the French Labor Code (*Code du Travail*) and by industry-specific collective agreements that reflect the practices of each sector. Flexible working hours and shift patterns can be organized to suit production requirements. Employee profit-sharing schemes are encouraged through tax and social security contribution exemptions.

I. Employment relations within a company

Employment relations within a given company are increasingly based on collective agreements at industry level and at the level of individual companies, with employee and employer representatives playing a key role in ensuring flexibility in the organization of working hours.

I.1. A freely negotiated employment contract

The most common form of employment contract is an open-ended contract (*contrat à durée indéterminée* or CDI) which is generally written in French (although the CDI does not necessarily have to be a written document). In principle, parties are free to write their own contracts and have a great

IN DETAIL

Governing texts: hierarchy

Parties are free to substitute agreements reached through collective agreements for certain legislative and regulatory measures so long as these do not contravene the law. Such agreements include:

- Inter-professional agreements reached at national level to ensure a cohesive overall system;
- Industry-specific agreements covering a given profession, which must stipulate: minimum wage levels, job classification, collective guarantees for insurance and

mutualization of training funds;

→ Company or plant agreements reflecting specific features of a company and its employees.

Under legislation adopted on May 4, 2004, lower-level agreements reached or revised from this date may replace agreements at a higher level insofar as the latter do not expressly exclude this and on condition that the requirements of industry-specific collective agreements are respected. This arrangement is valid for agreements signed or

revised since this measure came into force (May 7, 2004). The law and these collective agreements are the framework for employment contracts. The Act of August 20, 2008 on corporate democracy and working hours reform goes still further, setting out the principle that a company-wide agreement prevails in negotiating working hours: an employer organizes the working hours of his employees on the basis of a company-wide agreement which can override higher-level agreements.

 For more information:
www.legifrance.fr (*conventions collectives / collective agreements*)

deal of liberty with regard to content, which may include clauses specifying targets for pay, providing for geographical mobility or requiring employees to assume different professional roles, as well as non-compete clauses, clauses covering ownership of inventions and intellectual property rights, etc. Contractual clauses must not be contrary to the French Labor Code or to any industry-specific collective agreement that applies to the employer. The company's actual activity, as stated in its articles, determines which collective agreement is applicable.

An employment contract must stipulate the employee's pay and job description, along with the working hours and place of work. The contract may also provide for a probationary period, which may be as long as four months for a managerial post (renewable once if an industry-specific agreement allows this). The employee's pay must be at least equal to the minimum wage stipulated by the applicable collective agreement and the statutory minimum wage (SMIC), which was set at €9.00 gross per hour on January 1, 2011, i.e. €1,365 a month on the basis of a 35-hour working week, or €1,560 a month on the basis of a 39-hour working week including a 25% increase for overtime hours. The contract may also provide for additional benefits and a profit-sharing scheme.

→ Extra employees can also be hired to meet temporary needs. However, the law restricts the use of fixed-term contracts (CDD) and temporary agency employees to specific situations and generally sets an upper limit of 18 months on such arrangements.

Short-term employment is an effective way for companies to meet their needs, but fixed-term contracts cannot be used on a long-term basis to fill jobs that are related to the company's regular business. These types of contract must be in writing and must specify the reason why they are being made: I) Replacement of an absent employee; II) Replacement of an employee who has temporarily moved to part-time work; III) Gap before a new employee takes up their post; IV) Temporary

increase in the company's business; V) Seasonal work; VI) 'Standard' fixed-term contracts (according to certain practices within a given profession).

→ It is now possible to draft fixed-term contracts for managers and engineers which have a fixed-purpose of a minimum of 18 months and a maximum of 3 years (provision must however be made for this in the collective agreement).

→ Employers may propose changes to an employee's contract. Depending on whether this involves a substantial change or simply a change in working conditions, it may be necessary to obtain the employee's consent.

A change to a contract may relate to an essential component such as pay, qualifications, and more generally, the work assigned to the employee. It may also relate to an element of the contract which might have been a determining factor for the employee when they signed the contract, providing it was expressed in a clear and precise clause. In this case, the employer cannot impose a change to the contract but must propose the change to the employee. If the employee refuses, it is up to the employer either to decide against the change or to dismiss the employee.

→ For example: a change from day work to night work is a substantial change: a relocation of the workplace from the north to the south of France is a substantial change, unless mobility clauses in the contract provide for this.

Simple changes to working conditions may however be imposed by the employer within the remit of their managerial authority. Refusal on the part of the employee does not lead automatically to termination of the contract but may constitute professional misconduct which the employer could invoke to dismiss them on these grounds.

1.2. Simple hiring procedures that can also be completed online

→ A company can start hiring as soon as it has been registered.

France's National Employment Office (*Pôle emploi*) can help companies by publicizing their vacancies, identifying and short-listing applicants. The *Pôle emploi* can also offer and organize training courses for applicants. Central government and regional councils, which are responsible for vocational training, can also organize training courses to upgrade and improve the skills of certain categories of future employees to suit the needs of companies locating in France. Companies can obtain government support in the form of reduced social security contributions (relief on low salaries or exemptions in certain regional zones) and grants for hiring certain categories of employees (state-subsidized jobs for certain categories of employees). Since January 1, 2010, all companies have the right to request a *rescrit social* (assessment ruling) called *aide à l'emploi* (subsidized employment) which advises them on their eligibility for these forms of support.

→ The administrative formalities involved in hiring employees have been streamlined with the introduction of a single reporting form for newly hired employees (DUE – *déclaration unique d'embauche*).

The employer must fill in the form in the 8-day period before a new employee starts work and send it to the local URSSAF office. The form can also be submitted online. In this way, the following can be carried out in a single procedure: the pre-hiring declaration, registration of the employee with the social security system (unless on secondment), affiliation to occupational health and the organization of the mandatory medical check-up (during the probationary period) as well as affiliation to the unemployment insurance body (*Pôle Emploi*).

In addition to the DUE, the following is also required:

- declaring the first employee hired to the labor inspection;
- affiliating to the supplementary retirement funds within three months of setting up the business;
- carrying out the necessary procedures for hiring a foreign employee (excluding European nationals).

1.3. Offering employee status to expatriate managers

As a general rule, company directors cannot be bound to their company by an employment contract; the articles of incorporation stipulate the terms of their appointment, pay and dismissal. However, some directors may sign employment contracts with their companies, subject to certain prohibitions (e.g. managing directors of *sociétés anonymes*, chairmen of *sociétés anonymes* and *sociétés par actions simplifiées* and directors with minority interests in *sociétés à responsabilité limitée*).

1.4. Layoffs on personal or business grounds

Employment contracts can be terminated at the initiative of the employee (resignation) or the employer (dismissal). Except during probationary periods, employers must provide genuine and serious reasons for dismissal, and comply with the legally prescribed procedures, which vary according to the reason for termination, the number of employees concerned, and the number of people employed by the business.

The Act of June 25, 2008 on modernizing the labor market establishes a new way of terminating an employment contract: '*rupture conventionnelle*' or termination by mutual consent (see below).

1.4.1. Layoffs for business reasons

Layoffs can be individual or collective. Individual employees must be asked to attend a preliminary interview before they are laid off. The head of the company must meet with the works council and consult with it about collective layoffs.

Individual layoffs and layoffs of two to nine employees can only become effective seven days after the interview date, or 15 days later, in the case of supervisory personnel.

A job preservation plan (*plan de sauvegarde de l'emploi* - PSE) must be drawn up when a business with 50 employees or more decides to lay off 10 or more employees in a 30-day period. This plan must explain all action taken to avoid job losses, such

legal advice

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FLEXIBILITY AND SECURITY IN WORK RELATIONS IN FRANCE

Increased flexibility in the termination of contractual relations: termination by mutual consent

Until June 2008, contractual relations between employers and employees in France could be terminated essentially either at the employee's initiative (resignation), which precludes entitlement to any severance pay or unemployment benefit, or at the employer's initiative (dismissal), a measure which must be justified by genuine and serious grounds and which entitles the employee to severance pay, as defined by law or by a collective bargaining agreement, as well as support from the *Pôle emploi* (National Employment Office).

Until the Act of June 25, 2008 ("Modernizing the labor market") which established independent means of terminating employment contracts, i.e. by mutual consent, it was not always straightforward to settle certain non-contentious situations between employer and employee (difference of opinion/disagreement between the parties not arising from any specific conflict or the employee's wish to seek employment elsewhere). As such, the possibility of terminating contracts by mutual consent has provided an answer to a great number of cases. Since it came into effect, a large number of employment contracts have been terminated by mutual consent, without grounds having to be justified, while securing collective severance pay for departing employees (or statutory severance pay if the latter is more favorable) as well as support from the National Employment Office once their contract comes to an end.

While termination by mutual consent is not a settlement agreement, it nevertheless remains a useful measure in settling a certain number of departures amicably, while limiting the risks of employee disputes. In principle, the employee only has 12 months (instead of 5 years following a dismissal) to contest the validity of this termination on the grounds of absence of consent. Furthermore, it is up to the employee to prove any absence of consent, while it is up to the employer to prove the genuine and serious grounds for dismissal.

As such, termination by mutual consent simplifies employee departures in certain cases and offers a more consensual approach to employer/employee relations.

Flexibility and security in work relations: working time arrangements

It should be noted that although the legal working week in France remains set at 35 hours, the introduction of reforms to working time arrangements over the last 10 years means that companies now have many options (particularly through negotiations at sector or company level) to adapt working hours as they see fit. It is even possible, through an agreement concluded at company level, to depart from the provisions of any applicable collective bargaining agreement, specifically concerning questions such as working hours and part-time arrangements, even if this is to the detriment of employees.

Similarly, the annual overtime quota is in principle defined by the applicable collective bargaining agreement or at company level by a company agreement. It is only in the absence of any such agreement that the statutory quota, set at 220 hours per year, is applicable.

Finally, a departure is possible from the increase in the overtime payment rate (set by law at 25% for the first eight hours, i.e. from the 36th to the 43rd hour inclusive, then at 50% as from the 44th hour) by the collective bargaining agreement or company agreement, although the increased rate may not fall below 10%. This pay increase may also be replaced by time off in lieu.

While the legal and regulatory framework for working hours has therefore been made considerably more flexible over time, the fact remains that employers must remain vigilant in controlling and supervising the number of hours worked, and more generally the effective working hours of their employees in order to ensure not only compliance with French law but also to assist their employees as best they can in managing their time properly and prioritizing tasks.

as reorganizing work, job sharing, redeployment of employees inside and outside the company, etc. The plan must also explain the financial terms of the severance package. It is then submitted to the employee representatives and the employment authorities.

The notification period for layoffs under a job preservation plan varies according to the number of employees concerned. Layoffs of up to 100 employees can take place 30 days after the employment authorities have been notified of the plan. The waiting period is 45 days for layoffs of 100 to 249 employees and 60 days for 250 or more employees.

Severance pay for layoffs resulting from business conditions is at least one-fifth of the employee's monthly pay (including bonuses) for each year of service after one year and two-fifteenths of the employee's monthly pay for each additional year beyond ten years.

For example, an employee with 10 years of service and a gross monthly salary of €2,500 will be entitled to €5,000 or two months' pay. However, collective agreements in some cases provide for higher severance pay than this statutory minimum.

Severance pay is treated favorably by the tax and social security system, receiving partial exemptions from social security contributions and income tax. Voluntary departures following job cuts, redeployment or reorganization, and refusals to accept substantial changes to employment contracts are treated as layoffs.

1.4.2. An employee can be dismissed for misconduct

Personal dismissal procedures can be initiated for misconduct on the part of the employee or for actions that fall short of misconduct but nevertheless significantly harm the company's interests. A warning is often issued before initiating the dismissal procedure. The employee must be given an opportunity to provide explanations at a preliminary interview, before the dismissal becomes effective. The employer must also comply with the notice period to which the employee is entitled by law or the relevant collective agreement. In principle, the notice period is two months for

employees with more than two years of service.

Employees dismissed for personal reasons are now entitled to severance pay equal to that paid for layoffs on business grounds.

Employees are not entitled to severance pay in cases of serious misconduct.

1.4.3. Rupture conventionnelle : terminating an employment contract by mutual consent

An employer and employee may negotiate to terminate an employment contract by mutual consent. This procedure, known as *rupture conventionnelle* is quite flexible. At least one interview is required to enable both the employer and the employee to agree upon the termination and to determine the accompanying conditions (no formal legal procedure). The employee may be assisted by a person of their choice from among the company personnel. The employer and employee sign an agreement in writing, setting out the termination date and conditions including the payment due to the employee. The employer and employee then have 15 calendar days during which they can withdraw their position. The agreement must then be approved by the employment authorities (local unit – *unité territoriale* – UT – within the *Direction régionale des entreprises, de la concurrence, de la consommation, du travail et de l'emploi* – *DIRRECTE*) within 15 working days, subject to the UT checking that the procedure has been carried out correctly, the mutual consent of both parties and the termination payment, which cannot be less than the statutory severance pay due (or the contractual severance pay due, should this be higher).

This procedure can only be used following redundancy or resignation, as it cannot be imposed upon the other party.

1.5. Gradual increase in retirement age to 62

In principle, employees cannot be forced by their employer to retire before they are 70. The employer can however propose retirement to an employee once they reach an age of between 65 and 67, depending on their date of birth.

Employees must be at least 60 before they can retire; the exact age is rising gradually for all employees by four months every year, starting on July 1, 2011, and will reach 62 for people born in or after 1956 (Act of November 9, 2010). Retirement pension benefits are paid by specific benefit offices.

II. Profit sharing and employee savings plans

In addition to their wages and salaries, employees and company directors may be offered attractive employee profit-sharing schemes and savings plans providing tax and social security benefits to both employees and employers.

The range of schemes available enables companies to set up pay and benefit systems tailored to their

IN DETAIL

Employee representation

The employee representation system varies according to the size of the company and concerns three separate institutions:

→ In companies with more than 10 employees, employee representatives are elected by the employees to present individual and collective pay claims and to ensure compliance with employment laws.

→ A works council must be set up when a company has 50 or more employees. The council is elected for a period of four years by the employees to represent their interests when decisions are made about economic changes in the company (such as company development and changes in work organization) and social and cultural issues.

If the company has fewer than 200 employees, the employer may decide, after consultation with employee representatives, to opt for a single employee representation delegation which combines employee and works

council representatives in the same elected body.

→ Establishments with 50 or more employees must also set up a Joint Safety Committee (CHSCT – *Comité d'hygiène, de sécurité et des conditions de travail*) to involve employees in training and other initiatives to prevent occupational risks and improve working conditions.

Only union representatives have the power to negotiate and enter into collective agreements. Where there are no union representatives, an industry-wide agreement may allow the employer to negotiate with elected employee representatives, either those making up the works council or those chosen as delegates. Failing this, in which event the situation must be confirmed in a written report, the employer may be authorized to negotiate with an employee mandated for this purpose. The result of these negotiations must then be submitted to employees for approval by a

majority of votes cast. Trade unions are also entitled to set up bargaining units within a company.

Only around 8% of French employees are unionized. In order to ensure improved employee representation in companies and better dialogue between employers and employees, a reform initiated by the government on union representation in companies was passed and transposed into the Act of August 22, 2008.

Since January 1, 2009, collective company-wide agreements have only been valid if they are signed by one or more unions with at least 30% of votes and in the absence of union opposition accounting for over 50% of votes.

Union representation in companies has also been reformed to improve employer-employee dialogue. From the next professional elections, a union will have to obtain at least 10% of the votes cast in the first round of the union elections to be represented.

Chapter II

specific needs, including supplementary retirement and family benefits, stock options, corporate and inter-company employee savings plans, etc.

Employee profit-sharing is mandatory in companies with more than 50 employees and in this case is referred to as *participation*, as opposed to voluntary profit-sharing which is referred to as *intéressement*.

→ *Participation* involves allocating employees a fraction of company profits in accordance with clearly defined rules. Procedures for implementing the scheme are established by an agreement between employer and employee representatives. Monies accrued by an employee under a profit-sharing scheme no longer have to be frozen for five years; employees can request immediate payment of all or part of the corresponding sums. Tax and social security relief apply to sums which have been frozen; sums

paid out immediately are only eligible for social security contributions relief.

→ *Intéressement* allows employees to benefit financially from the results or performance of their company (or companies belonging to the group of employers for which the employees work). Immediately available (with no period during which sums are frozen), the sums are calculated in accordance with the agreement which established the measure. These schemes are collective and individual arrangements are not permitted. Companies that offer an employee savings plan must present employees with a booklet setting out the provisions of the plan when they sign their employment contract. Provisions can also be made for employee savings plans (PERCO promoting retirement saving or PEE for constituting a securities portfolio).

IN DETAIL

Employee incentives

FOR YOUR BUSINESS

	SOCIAL SECURITY CONTRIBUTIONS	TAX
MANDATORY PROFIT SHARING (PARTICIPATION)	<ul style="list-style-type: none"> → Exempt from social security contributions → Fixed 6% social contribution (payment from 1/1/2009) 	<ul style="list-style-type: none"> → Deducted from taxable income → Exempt from deductions to finance apprenticeships, training and housing → Recognition of a provision for investment equal to 25 or 50%, depending on the circumstances
VOLUNTARY PROFIT SHARING (INTERESSEMENT)	<ul style="list-style-type: none"> → Exempt from social security contributions → Fixed 6% social contribution (payment from 1/1/2009) 	<ul style="list-style-type: none"> → Deducted from taxable income → Exempt from deductions to finance apprenticeships, training and housing → Recognition of a provision for investment equal to 50% of the employer contribution supplementing entitlements, subject to certain conditions, provided profit-sharing is within the framework of an employee savings plan. Companies with fewer than 50 employees which conclude a profit-sharing agreement of this sort before December 31, 2014 will receive a tax credit amounting to 30 % of the sums paid to employees, up to € 200,000 over three years.

FOR YOUR EMPLOYEES

	SOCIAL SECURITY CONTRIBUTIONS	TAX
MANDATORY PROFIT SHARING (PARTICIPATION)	<ul style="list-style-type: none"> → Exempt from social security contributions → Subject to CSG and CRDS deductions (after 3% reduction)* → Income generated by the plan subject to CSG and CRDS deductions (no reduction) and 2.3% social deduction and to the tax financing the RSA (1.1%) 	Not taxable (except interest on frozen accounts received annually and not reinvested)
VOLUNTARY PROFIT SHARING (INTERESSEMENT)	<ul style="list-style-type: none"> → Exempt from social security contributions → Subject to CSG and CRDS deductions (after 3% reduction) 	Not taxable provided profit-sharing is within the framework of an employee savings plan.

III. Organizing working hours: agreement negotiated within the company

Companies in France have a great deal of flexibility in how they organize their working hours. Since the Act of August 20, 2008, executives have been able to negotiate working hours within their company.

III.1. 35-hour week: greater flexibility

Statutory working hours in France are 35 hours per week. These hours serve as the basic reference, beyond which overtime is calculated.

Overtime hours (*heures supplémentaires*) worked in excess of statutory working hours are paid to employees at an increased rate (25% more than regular pay for the first 8 hours; 50% more thereafter) in all companies as from October 1, 2007 (except where a collective agreement

provides for a lower rate, which may not in any case be less than 10%). The limit on overtime available to an employer is negotiated through a company-wide agreement (by default this is 220 hours per year per employee), which increases annual working hours to 1,827, the equivalent of over 39 hours per week for 47 weeks. The payment of overtime can be substituted by time off in lieu if this arrangement is agreed within the company.

The collective company-wide agreement (or industry-specific agreement) which now determines the company's working hours may also state how overtime can be performed beyond this overtime limit. As well as overtime pay, the works council's opinion must also be sought and mandatory time off in lieu planned. Maximum working hours are 10 hours per day (a contractual exemption up to 12 hours can be made) and 48 hours in any one week, with a maximum average of 44 hours per week over a 12-week period.

IN DETAIL

Working hours in France

	LEGAL PROVISION	STANDARD OVERTIME QUOTA	BEYOND STANDARD OVERTIME QUOTA	
COMPANIES CONCERNED	All companies	All companies	Small companies ⁽¹⁾	Large companies ⁽¹⁾
WORKING HOURS	35 per week or 1,607 per year	Set by collective agreement (company- or industry-specific) or statutory annual limit of 220 overtime hours or 39 hours per week over full year = 1,827 hrs/year	Set by a collective agreement (company- or industry-specific) without exceeding the maximum working hours limit (EU legislation)	
ADMINISTRATIVE FORMALITIES	None	Simply inform the Works Council	Works Council must be consulted	
OVERTIME PAY RATES ⁽²⁾	Not applicable	Rate provided for in collective agreement for the business or sector (10% minimum) or by default 25% from the 36th to the 43rd hour or 50% beyond that	Same as standard overtime quota	
MANDATORY TIME OFF IN LIEU	Not applicable	None Time off in lieu is optional within the standard overtime quota and must be included in a collective agreement	50% beyond quota (=1/2 hour per overtime hour over 36 hours)	100% beyond quota (= 1 hour per overtime hour over 36 hours)

⁽¹⁾ Small companies have up to 20 employees and large companies have at least 21 employees.

⁽²⁾ If provided for in the collective agreement, time off in lieu can partially or entirely replace overtime pay.

→ Provision can be made for a package of hours or days for particular categories of employees stated in the company-wide agreement (managers and employees free to organize their own work). Where a package is over a year, it must be part of the collective agreement (unlike the weekly or monthly hours package).

In every case, the use of a package implies the agreement of the employee.

As such, the 35-hour week does not apply to executives, to whom regulations on night work, daily and weekly rest periods, and legal holidays do not apply either. By the same token, management personnel and non-management employees working off the premises (such as sales representatives, maintenance technicians, etc.) are free to organize their own work but may be subject to agreements based on a basic number of hours or days worked (such agreements must be made in writing).

These personnel free to organize their own work are offered annual packages that stipulate the annual number of days worked, with a maximum of 218 days. Employees may have their time off “bought back” (excluding paid leave) in return for a salary increase: the number of working days may then reach 235 days per year.

The salary increase paid to the employee is set by an amendment to the initial package agreement and must be at least equal to an increase of 10%.

The employer must respect the weekly 11-hour rest periods, paid leave and unworked days in the company.

III.2. Major reductions in social security contributions

Companies of all sizes and in all industries have been entitled to reductions in social security contributions on low wages since 2003. The reductions are calculated according to the annual salary of the employee. They can amount to 26% of gross wages for an employee earning the statutory minimum wage (SMIC). Average employer contributions on behalf of employees earning the minimum wage are between 17 and 21%, depending on the size of the business.

Overtime hours and pay are no longer factored in when calculating reductions in employer contributions at minimum wage level, neutralizing the impact of the increase in pay.

IN DETAIL

Important incentives for increasing working hours

Under legislation which came into force on October 1, 2007, significant incentives are offered to employees to accept overtime: overtime pay is exempt from social security contributions and income tax. Reductions in employee contributions may amount to a maximum of 21.5% of an employee's total pay.

For example:

An employee earning €3,000 gross per month at a gross standard hourly rate of €19.78 works eight hours of overtime.

These eight overtime hours are paid at 125% of the standard hourly rate, which yields a total gross monthly salary of €3,197.80.

The extra pay employees receive for overtime hours is fully exempt from income tax and is subject to reduced social security contributions (capped at 21.5%).

Employers also benefit from reduced employer contributions at a fixed rate of €0.50 for each overtime hour.



For more information:

→ Act n°2007-1223 dated August 21, 2007 - Decree 200761380 dated September 24, 2007 - Circular dated October 1, 2007

III.3. Staggering paid leave

Employees in France are entitled to five weeks of paid leave. The employer can refuse to let an employee take paid leave if the workload it is too great. However, employers must let employees take at least four weeks of paid leave between May 1 and October 31. In addition to paid vacation, there are 10 legal holidays and personal leave days (births, marriages, bereavements).

III.4. Sunday is a day off but relaxed regulations introduced in 2009

Employees must be given a weekly day of rest lasting at least 24 hours on Sunday. However, there are many exceptions to the Sunday rule. Permanent exemptions are granted when warranted by the nature of the company's business (e.g. manufacturing firms using or producing perishable goods, factories operating around the clock, maintenance firms, etc.). Exemptions also exist for businesses located in communes categorized as tourist or spa attractions, or at certain other highly popular tourist sites, under the Act of August 10, 2009.

The authorities may also grant temporary exemptions, for example when manufacturing firms are operating with extra shifts. Exemptions may also be granted within a month by the local *Préfecture* to avoid a situation detrimental either to the public or business interests. The authorities may also allow Sunday opening within urban areas of over 1 million inhabitants (*périmètre d'usage de consommation exceptionnel* – PUCE). These exemptions, granted on an individual or collective basis, are granted by the State Prefect in the *département* for a five-year period.

The local mayor may also allow non-food retail stores to open five times a year on Sundays.

Employees who work on Sunday receive extra pay and are still entitled to a weekly day of rest.

III.5. Organizing work time over the year by averaging pay

Companies have several ways of adjusting working hours to suit their business requirements without incurring extra payroll costs. Organizational arrangements of working time are integrated into a single framework by the Act of August 20, 2008: a collective agreement may organize working hours over a period of longer than a week to up to a year. If the company experiences uneven fluctuations in business which can be forecast, working hours can be increased or cut in certain periods without incurring additional costs or exceeding legal limits.

III.5.1 Shift work does not entail additional payroll costs

Shift working, over a period of several weeks, can be introduced by the employer. The exemption from the Sunday rule may be automatic or may require local authorization, depending on the activities concerned.

III.5.2 Working time arrangements (by production cycle / special agreements etc.) are organized by company-wide agreements

Provision is made in the collective agreement for the conditions and notice required of changes to working hours or times (by default, seven days), the limits for calculating overtime, how to calculate an average salary and the threshold for triggering overtime.

Production cycle work is used to manage variations in activity over short periods (eight to 12 weeks). Work may also be organized with rotating shifts or teams.

In all of these cases, the company is not required to pay increased wages or overtime pay, and it is not required to provide time off in lieu, as long as the statutory working hours are not exceeded on average over the cycle.

IV. Extensive high-quality welfare cover

The quality and scope of welfare cover in France ensure that both employers and employees can benefit from a stable professional and family environment.

IV.1. The social security system

France’s health and social security system pays virtually all healthcare costs incurred by the employees and their families.

The system offers four types of benefits:

- Health insurance (healthcare, maternity, disability and death benefits);
- Old-age pensions;
- Family allowances;
- Accidents at work.

The system is backed up by compulsory unemployment insurance and supplementary

retirement schemes. Employers are free to add other insurance coverage to suit their employees. The health and retirement benefits for employees compare favorably with those offered in many other OECD member countries.

IV.2. Social security contributions relieve the company of responsibility in cases of sickness, retirement and unemployment

Employer and employee contributions are collected by URSSAF. The employers’ share of contributions amounts to 42% on average of gross wages and the employees’ share amounts to nearly 21%. Employer social security contributions are substantially lower on low wages: depending on the size of the company (more or fewer than 20 employees), they vary between 17% and 21% on behalf of employees earning the legal minimum wage (SMIC).

IN DETAIL

Working arrangements

	Conventional shift work	Alternating shifts
Principle	Fixed round-the-clock shifts ⁽¹⁾	Shifts longer than normal working hours
Example	Shift A: 6am - 2pm Shift B: 2pm - 10pm Shift C: 10pm - 6am (3 eight-hour shifts)	Shift A: 6-10am/2-6pm Shift B: 10 am-2 pm/6 pm-10 pm Or: Shift A: 6 am - 2 pm Shift B: 9 am - 5 pm Shift C: 12 pm - 8 pm
Average working week	35 hours	35 hours

	Rotating shifts	Cycle de production
Principle	Working days and days off divided among employees ⁽¹⁾	Working hours are scheduled over the cycle
Example	Shift A: Monday to Friday Shift B: Tuesday to Saturday	Weeks 1 and 2: 44 hrs Week 3: 38 hrs Weeks 4 and 6: 28 hrs
Average working week	35 hours	average of 35 hours over cycle

⁽¹⁾ With special arrangements for working on Sunday.

legal advice

Mr. Olivier Maurin, Chartered Accountant and Auditor, Managing Partner of Audit & Diagnostic

UNDERSTANDING FRENCH PAYSLEIPS

Obligations

Payslips must be issued to all individuals who live and work in France:

- To employees who are covered by the general French social security scheme.
- To seconded employees, as required by the mandatory formalities laid down in the French Labor Code that apply to employees temporarily seconded to France.

Employers must issue payslips whenever employees are paid, generally every month, and must keep copies of payslips for five years.

Form and content

There are no rules governing the form of payslips. However, the content of payslips is laid down in the French Labor Code.

Standard payslips are very detailed

In general, payslips are printed sheets with three separate sections.

The top of the payslip usually contains general information, specifically about:

- the employer: name, address, registration number, APE code, SIRET number, etc.;
- the employee: name, position held, position in the classification contained in the relevant collective agreement;
- the French social security office (URSSAF) to which social security contributions are paid;
- the relevant collective agreement;
- the period of work which the salary covers;
- the payment date of the sum actually received by the employee.

The middle of the payslip contains details of types of remuneration and lists all the social security contributions made by the employee and the employer during the period in question.

Gross remuneration consists of gross salary, ancillary amounts on which contributions must be paid (bonuses, length of service bonuses, benefits in kind, etc.) and amounts paid in respect of paid leave.

Gross salary (or base salary) is the amount negotiated with the employee and stated in the employment contract. Net salary is the amount received by the employee at the end of the month and corresponds to gross salary less employee contributions. Employer contributions do not form part of an employee's remuneration. They are not deducted from the employee's gross salary and are shown on the payslip solely for information purposes.

Below is a simplified general example:

Gross salary =	€2,000	€2,000
Employee contributions (approx. 21%) =	- €420	
Net salary =	€1,580	
Employer contributions (approx. 42%) =		€840
Total amount payable by the employer =		€2,840

All social security contributions (employee and employer) are paid every three months (for companies with fewer than 10 employees) or every month (for companies with 10 employees or more) by the employer, mainly to six bodies:

- The French social security office (URSSAF) to cover illness, old age, industrial accidents, family allowances and special contributions (contribution to the repayment of the social security debt, or "CRDS", and the general social contribution, or "CSG").
- The National Employment Office (*Pôle emploi*) for unemployment insurance.
- The ARRCO⁽¹⁾ fund for supplementary pensions.
- The AGIRC⁽²⁾ fund for supplementary pensions for management-level staff.
- A supplementary health insurance fund, for additional cover in the event of illness.
- A contingency fund, for additional benefits in the event of death or disability.

The bottom part of the payslip contains cumulative figures since the start of the financial year, including paid leave and net taxable income (the amount to be reported by the employee to the tax authorities for income tax purposes).

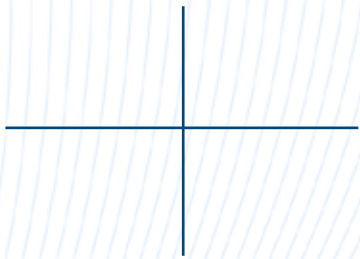
Two possible methods of simplifying matters

The information relating to social security and tax deductions can be grouped into six main categories: social security contributions, special contributions (CSG and CRDS), unemployment insurance, supplementary pension, contingency fund, and other employer contributions.

Furthermore, since 2009, employers have been able to issue payslips in electronic form to employees who have given their consent. However, data integrity must be guaranteed: it must be impossible to change the format of the payslip and the company must use a secure software application.

⁽¹⁾ARRCO: French Association for Employee Supplementary Pension Plans

⁽²⁾AGIRC: French General Association of Pension Plan Institutions for Management-level Employees



A favorable environment for international mobility

Chapter III Doing Business in France

A FAVORABLE ENVIRONMENT FOR INTERNATIONAL MOBILITY

The laws of July 24, 2006 and November 20, 2007 were introduced to improve France's economic attractiveness, placing international mobility at the heart of a series of innovative measures to meet companies' needs. Residence permits valid for more than one year were introduced for the first time, providing foreign nationals with a complete legal framework to live and work in France.

The extension of the "Skills and Expertise" residence permit to company directors and the launch of the "Expatriate Employee" residence permit for employees transferred within their group are two further illustrations of these changes. Moreover, the families of foreign nationals holding these residence permits are also granted favorable residence and working conditions.

A trial is being conducted in the *départements* of Paris, Hauts-de-Seine and Rhône, where a 'one-stop shop' has been introduced to improve the quality of service to companies expatriating their employees to France or bringing in corporate directors and highly skilled employees through intra-group transfers. Run by the French Immigration and Citizenship Office (OFII), this 'one-stop shop' is streamlining immigration formalities and providing services tailored to the requirements of transferred corporate directors and highly skilled employees, as well as their families.

From a social security and tax viewpoint, expatriate personnel can now benefit from measures specifically designed to offset the costs of expatriation.

IN DETAIL

Flexible conditions for salaried employees from the European Union (EU) and the European Economic Area (EEA)

EU, EEA and Swiss nationals are free to travel and work in France without a visa, residence permit or work permit. They must simply register with the 'mairie' (municipal offices) of their commune within three months of their arrival.

Only Romania and Bulgaria which joined the European Union on May 1, 2007 remain subject to specific rules during a transition period, during which time nationals of these two Member States must obtain a residence permit when carrying out

an economic activity as well as a work permit for any work performed as an employee. There are no restrictions on them finding work in one of the 150 "under pressure" sectors ("*en tension*") listed by the Ministerial Order of January 18, 2008.

legal advice

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ADVICE ON TRANSFERRING AN EMPLOYEE TO FRANCE

Upon your group's decision to transfer one of its employees to France, whether to a subsidiary, a customer or elsewhere, the legal and tax environment in France must be closely examined due to the amount of legislation which applies to expatriating an employee.

Without giving precedence to one specific aspect over another, all of these provisions must be reviewed concurrently insofar as they all impact the cost of an expatriation and how it is managed.

Regardless of the purposes of the expatriation, its terms must be provided for in an employment contract or addendum after having specifically identified, prior to the transfer, which entities must prepare the relevant documentation. This includes being familiar with the employment laws that will govern the new relationship and being aware that the existence of an employment contract executed with a French entity may be a pre-requisite for the award of certain work permits and that the contract's contents and execution date may or may not allow for the application of the preferential "*impatrié*" tax rules for certain employees expatriated to France.

It is also necessary to examine the social security rules that apply to the expatriate during their posting in France. If the employee originates from a country that has signed a social security agreement with France, a check should be made whether it is possible to maintain the employee's affiliation with their home country's social security system, under which conditions and for what duration, and to know which formalities must be completed. Such an affiliation ("*détachement*" or secondment) usually leads to complete exemption from French social security contributions.

If not, the expatriate shall be obliged to respect French social security rules, which may impose specific constraints if, due to their assignment in France, the employee is the representative of their foreign employer: in such a case, a payroll must be set up to pay French social security contributions.

Similarly, it is also important to be aware of the impact of the requested work permit, which may impose obligations such as, for instance, the need for the employee to submit French pay slips when renewing their work or residence permit, even

if they remain on the payroll of their home country for social security purposes due to their secondment. The existence of a French pay slip, even for a short assignment where the employee is not resident of France for tax purposes will, in most cases, trigger taxation of the employee's income in France, as well as tax withholding and reporting obligations for the foreign employer.

The key to a successfully managed expatriation is to be found in tax rules. Firstly, it is essential to consider the place of residence of the individual. If the employee is resident in France and if all conditions (relating to the individual and their employment contract) are satisfied, then the very favorable "*impatrié*" tax rules may apply. In general, these rules will provide for income tax exemption on all remuneration arising strictly from the transfer to France until the end of the fifth year following the employee's arrival.

If the expatriate is found not to be a tax resident in France, it will not be possible to apply the provisions of the French Tax Code (article 81 A) that include specific rules applicable to residents working outside of France. In such event, it is recommended to revise the remuneration structure, specifically to identify the parts of the package that can be exempted due to the non-resident status if their form of payment or delivery is adapted (rules applicable to the double residence expenses) and to assess all of the tax consequences (including in the country of residence).

In addition to the tax rules on remuneration, an employer transferring an employee to France may also wish to examine the impact of French taxation in order to determine whether the employee's total net income will decrease if they are liable to pay the French wealth tax or, on the contrary, increase as a result of tax savings due to the "*impatrié*" status. The employer may either compensate the employee for any possible loss or keep the benefit of the tax savings, however this must be provided for in advance in the terms of the expatriation contract or addendum.

In conclusion, numerous options are available. Employers should look closely to benefit, in a totally lawful manner, from all the opportunities on offer.

I. Admission and residence conditions for foreign nationals in France

Unless special dispensation is granted, admission to and residence in France requires a visa. The category of visa is primarily determined by the duration and reason for residence. The main visa categories for international mobility are the short-stay visa (up to 90 days) and the long-stay visa (more than 90 days).

I.1. Short-stay visa

The short-stay visa is commonly referred to as the “Schengen visa” because it enables the holder to travel throughout the 25 States of the Schengen area.

This visa can be issued for a maximum of 90 days per six-month period.

A request must be filed with the embassy or consulate of France in the country of residence.

This visa is primarily intended for travelers on business, official visits and personal visits.

Business people wishing to conduct business relations in France without actually residing in the country may request a circulation visa. The circulation visa is a specific Schengen visa issued for a total period of one to five years, thereby saving holders with legitimate business activities in France from having to apply for a new visa each time they travel.

The short-stay visa does not authorize the holder to engage in paid employment, for which a work permit must be requested.

As such, when a company wishes to send or receive an expatriate employee in France for an assignment of less than three months, the reason for the stay must be specified:

- **If the employee is traveling to France on a business trip** to attend an occasional meeting or to meet clients, a short-stay visa is sufficient, unless special dispensation is granted (based on nationality).
- **If the employee is traveling to France on a short-term assignment** to train, advise, or provide technical assistance or expertise to the

company in France, a temporary work permit (*autorisation provisoire de travail*) is required as well as the visa.

The deciding factor is whether the employee provides a service and/or effectively participates in the host company and/or is under orders from the host company.

The company sends a completed temporary work permit application to the French local employment authorities (*Unité territoriale*) at least three weeks before the arrival of the foreign employee to obtain a temporary work permit. The temporary work permit is valid for up to 90 days; the short-stay visa cannot be renewed and the company must ensure that the validity periods for the work permit and the visa correspond.

For foreign companies that regularly send employees to their subsidiaries in France for assignments shorter than 90 days, a government memorandum on November 12, 2010 allows them to apply for an annual work permit. Employees can use this work permit to obtain a multiple-entry short-term visa from their local Consulate which is valid for 12 months. The visa and the work permit authorize three-month stays in France in every six-month period to conduct business-related activities. This simpler process means companies no longer have to apply for work permits and visas several times a year on behalf of employees who need to make frequent trips to a subsidiary in France.

I.2. Long-stay visa

Foreign nationals who wish to stay in France longer than 90 days for personal reasons (family reunion, retirement, etc.) or professional reasons (to create a company, or engage in paid employment, etc.) must submit an application for a long-stay visa to the French consular authorities in their country of residence.

The long-stay visa is in principle valid for a three-month period, during which the visa holder must go to the *Préfecture* to complete the administrative formalities to obtain the residence permit corresponding to the reason for the stay:

“Expatriate Employee”, “Scientific Activity”, “Skills and Expertise”, etc.

Since June 1, 2009, some categories of foreign nationals have been issued a “long-stay visa equivalent to a residence permit” (*visa long séjour valant titre de séjour*), which is valid for 3 to 12 months and does not require the holder to apply at the Préfecture for a residence permit for the first year.

This simplified procedure is available to students, spouses of French nationals and visitors as well as employees with a work contract at a company based in France and employees whose foreign-based company has temporarily seconded them to work in France for a specific period of time. Immigration procedures remain the same. Within three months of arriving in France, holders of this type of visa are summoned by the French Immigration and Citizenship Office (OFII) to pass a medical examination.

II. Greater opportunity for foreign nationals to work

Immigration procedures in France depend on the type of activity being conducted by the foreign national. In this respect, a distinction should be made between a salaried employee and a company director. This category includes, for example, independent business people (*commerçants*), self-employed entrepreneurs (*artisans*), or persons holding the authority to make company decisions. The latter category concerns, in particular, directors of a *société à responsabilité limitée* (SARL – limited liability company), CEOs of a *société anonyme* (SA – public limited company), or individuals (*personnes physiques*) who have the authority to direct a foreign company in France (representative of a branch or a liaison office). Some residence permits allow any type of activity to be undertaken on French soil (salaried or commercial activities) without any specific formalities: these are the “Private and Family Life” temporary residence permit and the standard residence permit.

2.1. A foreign company director’s status when conducting a commercial or industrial activity

Setting up a company in France does not require any specific formalities to be undertaken by EU citizens or those of Iceland, Lichtenstein, Norway or Switzerland.

The administrative formalities for nationals from third-party States primarily entail choosing between one of two statuses: either the foreign director wishes to permanently relocate to France or the director is a non-resident, meaning he or she resides in a foreign country and directs a company in France but does not intend to live there.

Lastly, certain categories of investors can directly obtain a permanent residence permit called the “Exceptional Economic Contribution” residence permit.

2.1.1. Foreign directors who wish to reside in France can obtain a multi-year “Skills and Expertise” residence permit

If a director **creates or takes over an existing company**, under certain conditions they may obtain a “Skills and Expertise” residence permit, which is valid for three years on a renewable basis.

To do so, the director presents a project for starting up or taking over a company that meets one of the following criteria: investment of at least €300,000 (tangible and intangible assets), creation of at least two jobs, or creation of a subsidiary whose parent company has existed for at least two years.

Foreign nationals who are named legal representative of a company in France and who do not reside there or do not hold a residence permit authorizing them to conduct an industrial or commercial activity can also apply for this permit, subject to certain conditions, primarily if their salary is equal to at least 150% of the SMIC (French statutory minimum wage), i.e. €4,095 gross per month as of January 1, 2011. If the conditions for issuing a “Skills and Expertise” residence permit are not met, they

can apply for a “Business Activity” visa, which is valid for one year on a renewable basis.

Where an application for a residence permit (“Business Activity” or “Skills and Expertise”) is made abroad, the Consulate has the authority to process the application and decide whether to issue the permit; where foreign nationals already residing in France currently hold a residence permit that does not permit them to conduct commercial or industrial activity, they can apply for a change of status at the Préfecture of their place of residence.

As a rule of thumb, the application for creating a new entity entails providing supporting documents such as those relating to the applicant’s civil status (birth/marriage certificate), an excerpt of their police record or similar from their country of origin, a written description of the project and its multi-year projected budget, a copy of the company’s articles, written proof of the appointment or letter of intent from an authorized body. In the case of taking over an existing entity, an excerpt of the company’s registration certificate (*extrait K-bis*) issued within the previous three months by the Companies Register is required, rather than a multi-year projected budget.

The memorandum of February 10, 2011 introduced a trial ‘one-stop shop’ in the départements of Paris, Hauts-de-Seine and Rhône and makes the French Immigration and Citizenship Office (OFII) a single point of contact for holders of the “Skills and Expertise” visa who are conducting business in one of these *départements*. The administrative formalities are faster and there is no need to go to the *Préfecture*. The holder of the “Skills and Expertise” visa and their family simply appear at the OFII for the medical examination and to receive their residence permits.

2.1.2. A single preliminary declaration for non-resident directors

Legal representatives of a company based in France and residing abroad carry out a quick and easy formality called a preliminary declaration

with the local *Préfecture* in their company’s *département*. This declaration is either sent by registered letter with acknowledgement of receipt or delivered in person by the legal representative or their proxy (if a mandate has been actioned). The supporting documents required are the applicant’s civil status papers (birth/marriage certificate), an excerpt of their police record or similar from the country of origin, a copy of the company’s articles and a written statement declaring them director. The Prefect issues a certificate containing the applicant’s name, business activity status and the company’s business name, address and activity. This fast and convenient procedure makes it possible to issue a certificate within 15 days (or immediately if the application is delivered in person).

Family members of a “Skills and Expertise” residence permit holder (spouse and children under 18) are automatically granted a “Private and Family life” residence permit which enables them to seek employment. Family members of a “Business Activity” residence permit holder receive a “Visitor” residence permit.

2.1.3. The “Exceptional Economic Contribution” residence permit

Since the Decree of September 11, 2009, a foreign national who wishes to make an investment in France of over €10 million or plans to create or save at least 50 jobs can apply for an “Exceptional Economic Contribution” residence permit valid for a period of 10 years (renewable). The Prefect where the investment is planned is authorized to review the application.

The Prefect may decide to issue this residence permit even if these numbers are not yet reached if they consider that the applicant’s economic contribution is exceptional due to specific aspects or conditions in the local job market.

Karl Waheed, lawyer, partner - Karl Waheed law firm

HOW TO SUCCESSFULLY TRANSFER A FOREIGN DIRECTOR TO FRANCE

If you are a company director, you are eligible to qualify for one of the most investor-friendly immigration statuses in Europe. Under the “Skills and Expertise” (*Compétences et talents*) category, you will be issued a three-year residence permit that will allow you to be the legal representative of your French subsidiary and exercise any other related or unrelated activity. You will not be required to adjust your immigration status if, besides being the CEO, Managing Director or Manager of your company (depending on its legal structure), you are employed with the same or another company, you are named on the board of directors of another company, or you are vested with the powers by shareholders (i.e. *mandat social*) to head another French business as its *Président, Directeur Général, or Gérant*.

Procedures and timeframes

The current application process timeframe is about four to six weeks before you will be issued with a residence permit (*titre de séjour*) under the “Skills and Expertise” (*Compétences et talents*) category. If you are not already a French resident when you are nominated to be the company’s legal representative, the application process will be initiated at the French consulate which has jurisdiction over your place of residence.

If you are already a resident in France, the Prefecture having jurisdiction over your place of residence will process your application.

Your application must include supporting documents meeting **one** of the following criteria:

- Intercompany transfer of a highly skilled employee to become the legal representative of a French subsidiary belonging to a multinational group;
- Creation of at least two positions (one of which may be filled by yourself) or safeguard of two positions under threat;
- Investment in tangible or intangible assets of at least €300,000;
- The investor is a corporate entity with two years prior existence or which is already established in France.

The consular authorities and the Prefecture will rule on the application, usually after an interview, before issuing a long-stay visa and residence permit.

Family members

Your spouse will be issued a renewable annual residence permit under the “Private and Family Life” (*Vie privée et familiale*) category. This category allows the spouse to accept employment or conduct any other professional activity for which she/he is qualified, with no restrictions.

Renewal and permanent residence within five years

After five consecutive years of residence under the “Skills and Expertise” status you will qualify for a long-term residence status (*carte de résident*), if you and your spouse want to settle down permanently in France. This latter residence permit (*titre de séjour*) is valid for 10 years and is renewable.

No need to wait five years!

You can also obtain long-stay residence without waiting five years by making an investment which will qualify as an Exceptional Economic Contribution (*Contribution économique exceptionnelle*). Your investment must meet one of the following criteria:

- An investment which creates or saves at least 50 jobs; or
- An investment of at least €10 million in tangible or intangible assets.

These criteria may be lowered by the Prefect of the *département* where the investment is made, to take local economic circumstances into account.

The investment may be made through a corporate vehicle in which you have a stake of at least 30%.

Applications for this status must be made in France at the Prefecture of the *département* where the investment is to be made. A long-stay visa will not be necessary and you will be allowed up to 12 months to start executing the plan.

2.2. Temporary residence permits authorizing salaried employment

In principle, a work permit is required to engage in salaried employment in France.

If a foreign national plans to stay in France longer than 90 days, the competent authorities issue them a single permit that is valid for both residency and work in France. Specifically, this applies to the “Expatriate Employee”, “Scientific Activity” and “Skills and Expertise” residence permits and, since June 1, 2009, the “Employee” and “Student” long-stay visas equivalent to a residence permit.

2.2.1. The “Expatriate Employee” temporary residence permit

This three-year residence permit (renewable) is specifically reserved for intragroup transfers. It can be issued either for a secondment (the initial work contract remains in force and the employee is paid by the company of origin) or for an expatriation (the initial work contract is suspended for the duration of the assignment in France and a new work contract is signed with the company in France, which pays the employee).

The following conditions must be met to receive this permit: the work contract must have been valid for at least three months, the assignment or expatriation must be to a company in the same group or an organization belonging to the same company, gross monthly salary must be equal to at least 150% of the SMIC (French statutory minimum wage), i.e. €2,047.50 as of January 1, 2011.

The general employment situation in France will not determine whether or not holders of temporary “Expatriate Employee” residence permits can be employed. As such, the employer is not obliged to justify their recruitment in terms of employment levels in the local labor market.

If the “Expatriate Employee” permit holder resides in France continuously for more than six months, family members (spouse and children under 18) can apply for the “**Private and Family life**” temporary residence permit. This annual residence permit automatically grants family members access to the labor market.

2.2.2. The “Employee” long-stay visa equivalent to a residence permit

This one-year visa is intended for foreign nationals who are hired by a company located in France, for a period of one year or more.

The future employer must request a work permit. If it is renewed, the expatriate employee must go to the *Préfecture* within two months of their visa’s date of expiration to apply for an annual residence permit, which can be renewed.

Holders of this type of residence permit are subject to the “*contrat d’accueil et d’intégration*” (integration contract – CAI). This contract is a means by which the French state provides foreign nationals with access to individual rights and French language training.

2.2.3. The “Temporary Worker” long-stay visa equivalent to a residence permit

This visa is issued to employees admitted to France to work for a fixed period of 3 to 12 months. This especially applies to employees seconded by a foreign company to provide a particular service at a client’s company.

In principle, the visa is valid for the same length of time as the work permit, but only for up to 12 months. However, a renewal application may be submitted two months before the expiry date. In this case, the visa holder then appears before the *Préfecture* to be issued an annual residence permit.

Due to the temporary nature of the work performed in France, holders of this visa are not subject to the integration contract.

2.2.4. The “Scientific Activity” temporary residence permit

This residence permit is issued to foreign nationals who are engaged in research activities or teaching at a university level.

The applicant must possess a hosting agreement issued by a scientific organization or an approved university, certifying their status of scientist and the purpose and length of their stay. A separate work permit is not required.

The hosting agreement must be stamped by the

French consular authorities in the applicant's home country.

The "Scientific Activity" temporary residence permit is valid for one year, and can be renewed.

Holders of this type of residence permit are not subject to the integration contract.

A scientist may also choose to apply for a "Skills and Expertise" permit, valid for three years on a renewable basis.

2.2.5. The "Student" long-stay visa equivalent to a residence permit

This one-year visa is issued to foreign nationals studying in France who are financially self-sufficient.

It allows the student to engage in **secondary** paid employment of up to 60% of the legal working year; a work permit is not required, and the employer need only file a declaration with the *Préfecture* where the student resides.

IN DETAIL

Applying for a work permit

The application for a work permit is filed with the foreign labor department of the local employment authorities (*Unité territoriale*).

The decision to issue or refuse a work permit is made by the local employment authorities (*Unité territoriale*) once the application has been consulted.

Criteria for the issue of a work permit

When deciding whether to refuse or accept the work permit application, the local employment authorities assess the following criteria:

→ The employment situation in the relevant sector and geographic area, taking into account the specificities of the position being offered and the employer's previous attempts to fill it by recruiting a job seeker with help from the local *Pôle emploi* (National Employment Office).

→ The appropriateness of the foreign applicant's qualifications and experience for the position being offered.

→ The employer's adherence to French employment and social security legislation.

→ The employee's adherence to any appropriate regulations concerning the profession in question.

→ The employment conditions and remuneration must be similar to those provided to other employees in the company (or the profession) for a similar position.

→ The salary must be at least equal to the French statutory minimum wage (SMIC) (or greater in certain cases, as for the "Expatriate Employee").

→ Any steps taken by the employer to ensure that the foreign national is able to find decent living accommodation.

The employment situation

The administrative authorities may refuse to issue a work permit if they consider that unemployment is too high for a particular sector or geographic area.

In some cases when the labor situation is not an issue, employees on an intra-group transfer ("Expatriate

Employee") and holders of a "Skills and Expertise" residence permit cannot be refused a work permit for this reason or for "conducting a paid business activity in a profession or geographic area experiencing recruitment issues and included in a list established by administrative authorities" (specific industries like construction, hotels, restaurants and food service, agriculture, mechanics, sanitation, etc.).

Application for a work permit

To be made by the employer.

Documents to be submitted

Several documents must be submitted with the work permit application (see "In Detail" p.51).

Length of procedure

The decision is normally made by the local employment authority (*Unité territoriale*) within two months of the application being filed. For "Expatriate Employee" applications filed at the OFII 'one-stop shop', **this period is reduced to 10 days**. If no reply is received within this time, the application is deemed to have been rejected.

If the student needs to continue their studies and if the terms of enrolment have been met, an application to renew the visa can be filed. The student then appears before the *Préfecture* within two months of their visa's expiry date to apply for a residence permit.

2.2.6. The “Skills and Expertise” residence permit

This multi-year residence permit (three years) can be issued to a foreign national recruited by a company located in France on the basis of a salaried project by filing an application to the consulate or *Préfecture* of their place of residence.

A work permit is not required and the competent authorities process the application on the basis of the employment contract (position, salary, etc.). Holders of the “Skills and Expertise” residence permit are not subject to the integration contract and their employment cannot give rise to objection on the grounds of employment levels.

In addition, the “Skills and Expertise” residence permit holder's family members (spouse and children) are fully eligible for the “Private and Family life” residence permit which gives them automatic access the labor market.

The memorandum of February 10, 2011 stipulates that holders of this residence permit engaged in paid employment in the Paris, Hauts-de-Seine or Rhône *départements* must refer any first-time requests to the OFII instead of the *Préfecture* for all their immigration formalities, such as the medical examination and receiving their or their family's residence permits (as part of the ‘one-stop shop’ trial).

2.3. Primary admission procedures

2.3.1 The usual admission procedure

If you are an employer wishing to send a foreign national to work in France, you must follow a specific admission procedure, which verifies whether you will be enforcing the French employment laws with the employee, particularly

in terms of French legislation on working hours, social security contribution payments (in the absence of agreements or conventions) and equal opportunities.

This procedure applies to any salaried work performed by a foreign national from a third-party State, particularly:

- for an intragroup transfer (“Expatriate Employee”) except in those parts of the country trialing the ‘one-stop shop’ (see below);
- for a transnational secondment (to provide a service, an operation for your company);
- when a company located in France wishes to hire a foreign national who does not live in France.

It is up to the employer, whether based in France or abroad, to begin the procedure.

First, the employer files an application for admission with the local employment authorities (*Unité territoriale*) where the activity will be conducted at least two months prior to the employment term commencing. The documents submitted with the application should be written or translated into French.

The local employment authorities review the application and decide whether or not to issue a **work permit** (see “In Detail” p.51).

The work permit is obtained by filling out a government form (*formulaire CERFA*) that is submitted to the French Immigration and Citizenship Office (OFII).

The OFII then transfers the application file to the French consulate in the employee's place of residence. The employee then appears at this office to be issued their visa corresponding to the reason for their stay.

Once in France, the foreign national can begin work immediately and they have a maximum of three months in which to submit their application file for a residence permit and attend the OFII medical visit.

The employer must pay the OFII a fee in accordance with the length of the employment contract and the employee's salary.

Depending on the nature and term of the assignment in France, the residence permit issued will be:

IN DETAIL

Immigration for business purposes:

International mobility for company directors (Non-EU/EAA/Switzerland)

STATUS/ POSITION	VISA AND RESIDENCE PERMIT ISSUED	MAXIMUM PERIOD OF RESIDENCE IN FRANCE	ELIGIBILITY CRITERIA	APPLICATION FILING	REQUIREMENT TO OBTAIN WORK PERMIT	ACCOMPANYING FAMILY
Company director not residing in France	Schengen short-stay “business trip” visa. Option to obtain a circulation visa.	90 days maximum per 6-month period	→ Must be the company’s legal representative	Consulate in the applicant’s country of residence	N/A: the applicant is a company director who does not have the status of employee as defined by French employment law.	No.
Company director “Exceptional Economic Contribution”	Long- or short-stay visa; “Exceptional Economic Contribution” residence permit	Permanent residence permit: 10 years, renewable	→ Must run the company or hold an interest of at least 30% → Must invest at least €10 million or → Must create or maintain at least 50 jobs	At the Préfecture local to the planned investment site	N/A	Yes. “Visitor” residence permit issued for one year, renewable.*
Company director residing in France	Long-stay visa + “Skills and Expertise” residence permit	3 years, renewable	→ Must create and run a company, certain conditions apply (intragroup mobility or creation of two jobs and investment of at least €300,000). → Must be an existing appointed, paid company director. → Must be the representative of the branch or liaison office.	Initial application: at the consulate in the applicant’s country of residence. To change status: at the Préfecture local to the applicant’s place of residence.	N/A: the applicant is a company director who does not have the status of employee as defined by French employment law.	Yes. “Private and Family Life” residence permit issued for one year (renewable). The spouse can freely seek employment.
Company director residing in France (ineligible for a “Skills and Expertise” permit)	Long-stay visa + “Business Activity” residence permit	1 year, renewable	→ Must create and run a business company or be a self-employed entrepreneur → Must be an appointed company director (Director of a limited liability company, Chairman of simplified company, etc.) → Must be the representative of the branch or liaison office	Initial application: at the consulate in the applicant’s country of residence. To change status: at the Préfecture local to the applicant’s place of residence.	N/A: the applicant is a company director who does not have the status of employee as defined by French employment law.	Yes. “Visitor” residence permit issued. The spouse must obtain a work permit to seek employment.

IN DETAIL

Immigration for business purposes:

International mobility for skilled employees (Non-EU/EAA/Switzerland)

STATUS/ POSITION	VISA AND RESIDENCE PERMIT ISSUED	MAXIMUM PERIOD OF RESIDENCE IN FRANCE	ELIGIBILITY CRITERIA	APPLICATION FILING	REQUIREMENT TO OBTAIN WORK PERMIT	ACCOMPANYING FAMILY
Employee on intragroup transfer	Long-stay visa + “Expatriate Employee” residence permit	3 years, renewable	<ul style="list-style-type: none"> → Must be on secondment or expatriation within same business group → Must be paid gross monthly salary of at least 150% of the SMIC (French minimum wage) → Work contract must be valid for at least 3 months 	<p>Local employment authorities (<i>Unité territoriale</i>) to where work is to be performed in France: the employment authorities issue the work permit and send the file to the consulate (through the OFII).</p> <p>Consulate: issues long-stay visa (filed at same time)</p> <p>‘One-stop shop’ trial in the Paris, Hauts-de-Seine and Rhône départements. The employer forwards all documentation to the OFII which acts as a single point of contact between the <i>Unité territoriale</i>, the company and the Consulate.</p>	<p>Yes: the employer sends the application file to the local employment authorities, which review the application within 10 days.</p>	<p>Yes. “Visitor” permit if residence is less than 6 months. “Family and Private Life” permit if residence is more than 6 months.</p>
Employee (secondment < 3 months)	Short-stay visa + temporary work permit	90 days maximum	<ul style="list-style-type: none"> → Must be a salaried employee of the foreign company prior to the secondment → Must be seconded for an assignment on the foreign company's behalf or to provide a service with a company based in France 	<p>Local employment authorities (<i>Unité territoriale</i>): issue work permit</p> <p>Consulate: issues short-stay visa</p>	<p>Yes: the employer sends the application file to the local employment authorities.</p>	<p>No.</p>
Employee from outside group secondment < 3 months	Long-stay visa equivalent to a “Temporary Worker” residence permit	Depends on length of assignment: 3 to 12 months, renewable subject to certain restrictions.	<ul style="list-style-type: none"> → Must be a salaried employee of the foreign company prior to the secondment → Must be seconded for an assignment on the foreign company's behalf or to provide a service with a company based in France 	<p>Local employment authorities (<i>Unité territoriale</i>): issue work permit.</p> <p>The employment authorities send the file to the OFII, which forwards it to the consulate.</p> <p>Consulate: issues long-stay visa</p>	<p>Yes: the employer sends the application file to the local employment authorities.</p>	<p>In principle: No (except “Visitor” visa).</p> <p>Exception: procedure for family to join if monthly gross salary is more than €4,203; “Visitor” visa issued.</p>

EU: European Union - 27 countries • EEA: European Economic Area - EU + Iceland, Liechtenstein and Norway - 30 countries • Schengen Area: 22 Member States of the EU • Local employment authorities (*Unités territoriales*, formerly DDTEFPs) • OFII: French Immigration and Citizenship Office (*Office Français de l'Immigration et de l'Intégration*). • * the “Accompanying Family” status must conform to the status of the residence permit holder (“Exceptional Economic Contribution”; “Skills and Expertise”; “Expatriate Employee”). Cf. Government bill pertaining to Immigration, Citizenship and Nationality (due to be published in the first half of 2011).

- an “Expatriate Employee” residence permit valid three years for intragroup transfers;
- a “Temporary Worker” long-stay visa equivalent to a residence permit for employment contracts of less than one year (an annual residence permit will be issued at the end of the first year);
- an “Employee” long-stay visa equivalent to a residence permit for employment contracts of one year or more (an annual residence permit will be issued at the end of the first year).

2.3.2 The ‘one-stop shop’ trial for “Expatriate Employees” in the *départements* of Paris, Hauts-de-Seine and Rhône

The memorandum of November 12, 2010 simplifies the administrative procedures for foreign employees on an intra-group transfer and

introduced a trial ‘one-stop shop’ at local French Immigration and Citizenship Office (OFII) offices for all “Expatriate Employee” procedures in the *départements* of Paris, Hauts-de-Seine and Rhône. This means that from December 1, 2010 until June 30, 2011 companies located in these areas are required to submit their “Expatriate Employee” applications to the OFII, which has become the central agency for all administrative procedures. The company’s local OFII branch oversees all the immigration formalities, including forwarding the work permit to the relevant employment authorities (DIRECCTE), informing the company, contacting the Consulate, scheduling the employee and family for the medical examination when they arrive in France and issuing them their residence permits. The memorandum also specifies that applications for the expatriate employee’s family members are

IN DETAIL

Compiling an admission file for a foreign employee

Main documents to be submitted by the employer to the local employment authorities (*unité territoriale*) to support a work permit application for a salaried employee that the employer wishes to recruit or transfer to France:

1. Letter of motivation for the recruitment of the employee giving details of the employee’s future position and responsibilities.
2. The relevant CERFA form that corresponds to the salaried activity to be carried out in France.
3. A valid K-bis document if the employer is a corporate entity (“*personne morale*”); a valid K document, a tradesperson’s card or, failing this, a tax receipt if the employer is an individual (“*personne physique*”).
4. Documents proving the link between the company based in

France and the company based abroad in the event of an intragroup transfer, etc.

5. A copy of the employee’s passport or national identity card if the employee is resident abroad.
6. The employee’s curriculum vitae or any other document that shows the employee’s qualifications and professional experience; where applicable, a copy of the employee’s educational diploma or certificate entitling the employee to carry out the salaried activity in question; and in the event that the exercise of the salaried activity is subject to specific regulatory conditions, proof that these conditions are properly fulfilled.
7. In the event of the employment situation being an obstacle, documentary evidence of efforts

made to recruit a candidate from the French labor market.

If the employer is based abroad, the application should also include the following documents:

8. A certificate of employment from the company based abroad or initial employment contract, showing at least six months’ service, etc.
9. A certificate of secondment or signed statement of the request for registration with the French social security system.
10. Where applicable, a signed statement of the request for registration with the paid leave fund.
11. Where applicable, a copy of the letter of mandate addressed to the person established in France in order to carry out administrative procedures on the employee’s behalf.

to be processed at the same time as theirs, chiefly in terms of issuing the visa and the medical examination.

This measure to simplify the process provides a higher quality of service for multinational companies and saves employees and their families valuable time by eliminating multiple visits to the *Préfecture*.

2.4. Employees seconded by an employer residing outside France (transnational secondment)

A foreign company may temporarily assign employees to France in order to provide services for a subcontracting contract or to conduct an operation independently without a service contract.

Seconded employees remain under contract with the foreign company before, after and during the term of their secondment in France.

By virtue of this regulation, seconded employees are not employees of the client company nor does that company pay their salary. However, seconded employees are subject to employment laws to the same extent as employees in the client company (working hours, minimum wages and payment of salaries, annual leave, health and safety conditions, etc.)

Employers based outside France who wish to temporarily assign employees to France must make a **mandatory preliminary declaration** to the regional employment inspector in the location where the process is taking place.

The foreign-based company (or its representative) begins the work permit application procedure at the local employment authorities (*Unité territoriale*) of the place of employment.

If the secondment is for a period of less than three months, in addition to the short-stay visa (unless special dispensation is granted) a **temporary work permit** (*autorisation provisoire de travail*) is required.

If the secondment is for a period of more than three months, employees must hold a long-stay visa equivalent to a residence permit bearing the

specification “Temporary Worker”.

If the assignment is for more than three months, the employer must pay the OFII a fee in accordance with the employee’s salary. Foreign companies that do not have offices in France must register with URSSAF in the Bas-Rhin *département* to enroll their employees and pay social security contributions (unless a special dispensation is granted through a social security agreement and a certificate of secondment is obtained).

2.5. Changing from student status

A student who has a qualification at least equivalent to a Master’s degree can apply for a **temporary residence permit**, valid for six months and non-renewable after their “Student” residence permit has expired.

During this period, the holder may seek and perform work related to their training combined with a gross monthly salary of at least 150% of the SMIC (French statutory minimum wage) i.e. approximately €2,047.50 on January 1, 2011.

At the end of this period, and providing they can prove that they are working, they can apply for a change of status through the *Préfecture* to obtain a “Skills and Expertise” or “Employee” residence permit. The general employment situation will not be taken into account provided that the job is commensurate to the employee’s training and is paid 150% of the SMIC.

III. Health cover and social security benefits for your personnel in France

Your employees may opt for continued coverage by the health cover and social security system in their home country if a reciprocal agreement exists between their home country and France. In the absence of a reciprocal agreement, any salaried employee working in France, irrespective of their nationality, age or type of employment contract, must be registered with the French social security system (principle of territoriality).

3.1. Principle of territoriality: in the absence of an international agreement, social security contributions are payable to the social security schemes in the country of employment

The French social security system is based on the principle of territoriality: foreign employees working in France are, in principle, subject to French health cover and social security legislation, regardless of their nationality or the location of their employer. Foreign employees may however contribute to optional social security schemes in their home countries. As such, the salary and benefits (benefits in kind, expatriation bonuses, etc.) paid to foreign employees are subject to social security contributions at the rate in force, payable to the mandatory and supplementary schemes.

The Economic Modernization Act of August 4, 2008 reaffirms the principle of territoriality. It offers an exemption from basic retirement insurance (without supplementary retirement benefits) for foreign employees who make a joint request with their employer based in France, or failing this with their host company in France. To become exempt, proof must be supplied of registration with an insurance scheme. The applicant must not have been registered with a mandatory French retirement scheme, or the social security scheme of a Member State bound by EU rules for coordinating social security systems, during the five years prior to the application. This exemption is granted for three years. It may be renewed for the same period.

3.2. International agreements and EU regulations provide for exemptions from French social security contributions

Nationals of countries that have signed bilateral agreements with France may remain registered with the social security system of their country of origin during their secondment in France.

The length of the secondment is limited by a specific clause in the bilateral agreement, although

it can be renewed. At the end of this period, the seconded national must register with the social security system of the host country (in this case, France). They can however continue to contribute to the social security system in their country of origin; this is called making dual contributions.

In practical terms, the employee must supply proof of their registration in their country of origin to be able to benefit from the application of social security bilateral agreements.

Citizens of the European Union, European Economic Area and Switzerland may also be seconded to other Member States through EU Regulation nos. 883/2004 of April 29, 2004 and 987/2009 of September 16, 2009 (in force since May 1, 2010).

The length of the secondment has been extended from 12 to 24 months with an option to extend the social security contribution exemption in the host country for up to 12 months.

These new regulations also provide an option to hire and second an employee as long as they are covered just before they commence their post by social security legislation in their employer's Member State. However, Member States can override this and extend this period (up to six years for France).

At the end of this initial or extended period, the seconded employee must register with the social security system of the country where the paid employment is carried out (in this case, France).

IV. Tax regulations for employees in France

In principle, French employees and foreign employees are subject to the same tax regulations. However, under certain circumstances, employees who come to work in France benefit from a very generous tax system.

4.1. Determining tax residency

It should be noted that the employee's status (seconded employee or expatriate employee) has no bearing on their residence for tax purposes.

Tax residence is not a matter of choice for the employer or the employee; it depends on legal or reciprocal agreements and treaties.

A person is considered to be resident in France for tax purposes if one of the following criteria is met:

- France is the person's permanent place of residence (household), in other words the habitual place of residence of the person or their family (spouse and children).
- In the event that the person has dual permanent residence: if France is the center of their financial and personal interests.
- In the event that the center of interests cannot be determined: if their primary place of residence is in France (they reside in France for more than 183 days in the same year).
- In the absence of any other deciding criteria (primary place of residence or no place of residence in either country): if the person holds French nationality.
- In the event that the person has dual nationality or neither of the two nationalities, the matter is decided by mutual agreement of the tax authorities in the two countries.

Tax residents in France are taxed on the entirety of their income earned from French sources or from other sources, but are also subject to international tax treaties and certain special tax systems such as those for expatriates (cf. §4.3). If foreign sources of income are also taxed in the country of origin, double taxation is avoided through tax treaties; France has signed bilateral tax treaties with many other countries.

4.2 Income tax system for tax residents

4.2.1 General

Salaries (tax category "wages and salaries") are taxable once social security contributions and all other mandatory contributions and business expenses have been deducted. For business expenses, there is a choice between a flat deduction of 10% or an option to deduct their actual amount.

A French resident's income is taxed at progressively higher rates:

2011 TAX TABLE	
2010 income bracket (by allowance unit)	2011 tax rate
Income up to €5,963:	0%
From €5,963 to €11,896:	5.5%
From €11,896 to €26,420:	14%
From €26,420 to €70,830:	30%
Over €70,830:	41%

Income tax is calculated on the basis of total household income (taking into account the resident and any spouse's income, as well as the number of dependent children). The effective tax rate is determined by the allowance method based on the size of the household whereby the total household income is divided by the number of household units, which is based on the number of people associated with the household (one unit for each adult; half for each of the first two children, then one for each child thereafter). Assuming income remains unchanged, larger families entitle households to a higher the number of allowance units, and thus lower tax rates.

Other expenses may be tax-deductible or eligible for tax credits; these include childcare expenses or school fees, expenses for domestic help, and some household equipment costs.

As of October 2007, overtime hours worked in addition to the statutory 35-hour week are exempt from income tax, social security and employer contributions.

4.2.2 A special exemption scheme for expatriate personnel

First introduced in 2004, the tax system for expatriate personnel working in France was greatly improved by the Economic Modernization Act of August 4, 2008, affecting all income received since 2008. It is now one of the most generous systems in Europe for foreign employees.

This system is open to any person, regardless of their nationality, coming to work in France and who has not been a tax resident in France during the five calendar years prior to the date they commenced their post. The person must have been called to work for a company in France (regardless of the host company's nationality). The system is also open to non-salaried employees subject to certain conditions and official approval. To immediately benefit from this exemption, the taxpayer must determine their tax residence in France by December 31 of the year following the year during which they commenced their post (i.e. by December 2012 at the latest for a post in France beginning during the course of 2011).

Beneficiaries of the system receive exemption from income tax on any additional remuneration ("expatriation bonuses") that they receive from their activity in France (various compensating premiums, repayment of expenses, etc.). The expatriation bonus is fully exempt, provided that the salary of the employee or the company director that is taxable in France is at least equal to that earned working in a similar position for the same company or, if not, for a similar company established in France.

Furthermore, the system provides for an income tax exemption on income received for work undertaken abroad. The exemption cannot exceed 20% of taxable income.

In order for the system to be more favorable for employees whose remuneration for work undertaken abroad is high, there is provision in the new system for being able to opt instead for an overall exemption ceiling (expatriate bonus and income received for work undertaken abroad) amounting to 50% of their total pay.

Provision is also made in the new system for exemption on 50% of so-called "passive" receipts (income from securities, copyright royalties, capital gains from transfers of shares and ownership interests) from a foreign source.

The expatriate exemption scheme applies for up to six years as soon as they begin their residence in France.

→ **Example:** A management-level employee employed by an American company is seconded by his company to a French company to conduct their activity in France under a work contract with a net annual income of €180,000, including an expatriation bonus of €40,000.

The additional income received for expatriation (expatriation bonus: €40,000) is exempt:

- either in its entirety, provided that the employee proves that the "standard pay" in France is equal to or less than the net pay, exclusive of bonuses, of the expatriated employee (€140,000);
- or up to €30,000, if the comparable net income in France is €150,000.

As regards the "wealth tax" (*impôt de solidarité sur la fortune* – ISF), expatriates are only taxed on their accumulated assets located in France for the first 6 years they reside in France. Thereafter, ISF is only payable on net taxable assets are over €800,000 (threshold as of January 1, 2011).

Social security contributions paid by an employee to a social security scheme in the home country are deducted from taxable income in France, where a social security agreement exists between the two countries permitting an expatriate employee in France to continue to pay into the scheme in their home country. This system also allows the contributions paid by expatriates and their foreign company into a supplementary social protection scheme and a supplementary retirement scheme to be deducted from taxable income.

4.2.3 A tax information center for non-residents and expatriates (SANR)

Non-residents who plan to move or return to France can contact a helpdesk for non-residents and expatriates (*service d'accueil pour les non-résidents et expatriés*, or SANR) for any tax information or an assessment of their tax liability upon taking up residence in France. Non-residents who decide to relocate to France can protect their legal status by requesting a "new resident" advance tax ruling.

4.3 Taxation for non-tax residents

Employees who are not tax residents are only taxed on income from French sources. Remuneration paid in return for work carried out on French soil is taxable in France.

As such, salaries are subject to a 20% deduction at source for the portion of income over €41,327 (threshold for 2011 income) and employers based in France who pay salaries to non-resident employees must comply with this.

Non-resident salaried employees are still required to file an income tax return with the French tax authorities at the “*Centre des impôts des non-résidents*” (non-resident tax

service) at Noisy-le-Grand, and, if necessary, pay any difference between the amount deducted at source and the tax due. In order to avoid double taxation, tax deducted at source in France usually gives rise to an equivalent tax credit in the country of residence (depending on the tax treaty between France and the country of residence). Furthermore, most international taxation treaties make provision for temporary secondments, whereby income earned through salaried work in a country is not judged to be taxable in that country if the beneficiary resides there for less than 183 days per year and if their remuneration is paid by or on behalf of an employer who is not resident in that country.

IN DETAIL

A working example of the tax system with reference to the income of an expatriate foreign employee in France

A management-level employee, employed by a company based in the US, and who has not been resident in France for tax purposes since January 1, 2005, is seconded by their employer to a company based in France as of January 1, 2010. They regularly travel abroad for professional reasons.

→ Their net annual salary for 2010 amounts to €200,000, including an “expatriation bonus” of €60,000;

→ Their “net comparative salary” in France amounts to €150,000;

→ Their pay corresponding to work undertaken abroad amounts to €33,000.

The following are exempt from income tax for the year 2010:

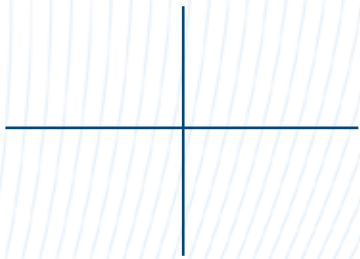
→ an “expatriation bonus” of up to €50,000, the remainder (€10,000) being taxable in the event that the expatriate employee’s taxable income (€140,000), is lower than the “net comparative salary” (€150,000);

→ the employee’s pay corresponding to work undertaken abroad, up to

a limit of €30,000 [(200,000 – 60,000 + 10,000) x 20%], if the taxpayer has opted chosen this exemption option.

Total exemption: €80,000, i.e.: €50,000 + €30,000.

If, however, the employee chooses the overall ceiling of 50%, they will benefit from a higher exemption equal to €83,000 (i.e. €50,000 + €33,000), which falls below the ceiling of €100,000 (€200,000 x 50%).



Business taxes in France

Chapter IV Doing Business in France

BUSINESS TAXES IN FRANCE

A large part of France's corporate tax system is designed to promote business investment, regional development and international expansion. France's efforts to develop a fair tax system are also evident in its policies designed for corporate groups. France has signed bilateral tax treaties with most of the countries it is likely to maintain trade relations with (more than 100 countries) and thus provides foreign investors with outstanding protection against double taxation.

I. Corporate tax in line with EU standards

I.1. Taxation based on realized earnings

Any foreign entity doing business for profit in France is liable to pay French tax on its earnings in France (principle of territoriality). This rule applies regardless of the types of entities:

- subsidiaries;
- branches;
- or permanent establishments.

If a branch or a permanent establishment is not a separate legal entity, its earnings from activities in France are reconstituted using the financial statements of the foreign company. Each individual tax treaty defines the notion of a permanent establishment as a fixed place of business or a dependent agent (as defined in Article 5 of the OECD Model Tax Convention). One of the most common examples of this in practice is when a foreign company sends one of its employees to France to prospect the French market, it runs no risk of being considered a permanent establishment in France. But once the employee signs contracts in France on behalf of the foreign company, the company is deemed to have a permanent establishment in France, and is liable to pay tax on the profit earned by this business in France. Since January 1, 2005, an "advanced ruling" procedure ("rescrit") enables any company already set up in France, or planning to do so, to ask the tax authorities to rule whether or not it has a permanent establishment in France; the authorities will then reply within three months.

I.2. Calculating taxable earnings – keeping tax to a minimum

Taxable business income is calculated by deducting eligible expenses from income.

Income comprises all of the proceeds from the sale of goods and the provision of services.

Deductible expenses are those related to the company's business. They include:

- Depreciation and amortization (excluding goodwill and land)
- Provisions
- Rent for buildings and equipment
- Salaries
- Social security contributions
- Goods purchased
- Energy consumption
- Advertising
- Financial expenses, etc.

I.2.1. Limits on deductions

In an effort to prevent abuse, there are limits on some deductions. This especially applies to so-called "sumptuary" expenses and private passenger vehicles for which the deductible depreciation allowance and lease payments are capped, depending on the situation, at €18,300 or €9,900 for the least environmentally friendly cars purchased as of January 1, 2006. The thresholds include all taxes (including VAT).

1.2.2. Monies transferred from a parent company to its French subsidiary are deductible

Management expenses, interest charges and royalties paid to associated companies are deductible if they correspond to actual services rendered and the amounts invoiced are in line with market prices. This particularly applies when taking out a patent, a patentable invention or a licensed or sub-licensed manufacturing process whereby as of January 1, 2011 any royalties paid qualify for an unrestricted deduction, provided the license is actually being used.

1.3. Generous depreciation rules

Fixed assets are depreciated on a straight-line basis over their expected useful life. In the case of certain production assets bought new with a minimum three-year depreciation period, acceleration multiples ranging from 1.25 to 2.25 may be applied to the straight-line depreciation rates, depending on the normal useful life of the assets concerned (declining balance scheme).

Equipment and tools used for scientific and technical research and purchased or produced after January 1, 2004 can be depreciated on an accelerated declining balance basis. The acceleration multiples in this case range from 1.5 to 2.5.

SMEs that construct or hire a firm to construct an industrial or commercial building for the purposes of operating their business in a rural regeneration area (ZRR) or urban regeneration area (ZRU) prior to January 1, 2014 are eligible for a one-time depreciation equal to 25% of the total cost once construction is completed. The residual value of construction is depreciated over the normal useful life (the first annuity is added to this one-time depreciation).

1.4. Allowable provisions for depreciation

These are allowed if they can be justified and if they relate to clearly identified claims, inventories, securities or tangible and intangible assets. Allowable provisions include provisions for contingencies, work in progress, price increases, annual leave, etc.

1.5. Tax rates on companies

Corporate tax (*impôt sur les sociétés* – IS) rates are as follows:

- For large companies: standard rate of 33.33% plus, for companies with taxable profits at the standard rate of over €2,289,000, an additional “social contribution” of 1.1%⁽¹⁾, i.e. an effective rate of 34.43%.
- For small and medium-sized businesses (SMEs): reduced corporate tax rate of 15% up to €38,120 of profits and standard 33.33% rate on the remainder. SMEs are exempt from paying an additional “social contribution”⁽²⁾.
- Reduced rate of 15% on total proceeds of intellectual property (royalties and capital gains on the transfer of patents, if they have been held for at least two years⁽³⁾). This affects patents, inventions that can be patented and manufacturing processes as well as improvements made to patents and patentable inventions as of 2011.

Furthermore, the reduced rate benefit extends to sub-licensed operations, provided that the licensor has not already received the reduced rate on the licensing fees it collects and that the sub-licensing company can produce proof of this sub-licensing arrangement and its profitability.

- This situation primarily affects patents that are licensed by public bodies not subject to corporate tax or by foreign companies not subject to taxation in France. Licensees with a business located in France may sub-license the patent (or the patentable invention, whether perfected or not, or the manufacturing process) and also receive the reduced rate.
- Capital gains on the sale of shareholdings are totally exempt except for the 5% representing expenses.

⁽¹⁾Contribution at rates of 3.3% calculated on the standard corporate tax amount (i.e. $3.3\% \times 33.33 = 1.1\%$), minus a €763,000 rebate.

⁽²⁾Intended for SMEs with at least 75% of their shares owned, directly or indirectly, by individuals, or for companies satisfying the same conditions with an annual turnover of less than €7,630,000, subject to having fully paid up share capital.

⁽³⁾If no arm's-length relationship exists (companies in the same group), transfers are not eligible for a reduced rate.

1.6. Carrying losses forward

Losses can be carried forward indefinitely (“carry-forward”). It is also possible to deduct the current year’s losses from income in previous years (“carry-back”).

1.7. Groups of companies: the French tax system provides flexible rules for tax consolidation

French tax rules offer the advantages of a comprehensive system that enables groups of companies to offset income and losses from their consolidated French businesses and eliminate intercompany transactions. Tax credits that apply to one company in the group, for example the research tax credit, can be transferred to the consolidating company that is subject to corporate tax, and thus be deducted from tax to be paid by the group.

The tax consolidation option may apply once the French subsidiaries in the consolidated group are at least 95% owned, directly or indirectly, by a French parent company. The financial years of

the parent company and its subsidiaries must also coincide. Groups may choose this option for a five-year period. It automatically ceases to apply if ownership conditions are no longer met.

From the financial year beginning January 1, 2009, SMEs can deduct from their income the deficits of their branches or subsidiaries in which they have a direct stake of at least 95%, if the latter are established in a European Union Member State (or in a State which has signed a tax treaty with France containing an administrative assistance clause) and are subject to a tax equivalent to corporate tax. This benefit is still bound by the European Union ‘*de minimis*’ policy cap.

For financial years ending after December 31, 2009, French subsidiaries owned through a European company (located within the European Union, Norway or Iceland) not subject to corporate tax in France can now be considered part of a consolidated group.

As of January 1, 2012 companies in corporate groups can choose to apply the optional VAT payment consolidation scheme. Only the consolidating company will have to pay the VAT balance on behalf of the group’s companies.

IN DETAIL

The “carry-back” regime

Carry-back rules allow the current year’s loss to be offset against taxable income in the three previous years, starting with the first year (N-3, then N-2 and then N-1). This results in a non-taxable claim against the French Treasury for previously paid taxes. The Treasury reimburses the claim after five years if the company fails to deduct it from their forthcoming corporate tax bills. This claim can also be discounted by credit institutions (Daily Act).

Example:

2008: taxable income = + €50,000

2009: taxable income = + €10,000

2010: taxable income = + €30,000

2011: loss = - €70,000

€50,000 of the 2011 loss is deducted from 2008 income, €10,000 is deducted from 2009 income, and the remaining €10,000 is deducted from 2010 income.

The claim against the French Treasury is calculated as follows:

€70,000 x 33.33% = €23,333

Use of the claim:

If the company reports income of €100,000 in 2012, it will owe €33,333 in tax. It could deduct the claim from its 2012 tax bill.

If it continues to show losses in 2012, 2013, 2014, 2015 and 2016, it can apply for a refund of €23,333 as of January 1, 2017.

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TAX CERTAINTY, A KEY FACTOR IN FRANCE'S ATTRACTIVENESS TO INVESTMENT

Tax certainty and predictability are major concerns for the French government. In this respect, the French Tax Authorities (FTA) have introduced various instruments to improve visibility and legal certainty regarding the tax treatment not only of investments in the future, but also retrospectively, during a tax audit of such investments or any litigation proceedings.

Most French tax rules are commented upon by the FTA in detailed administrative guidelines which enable the main possible scenarios deriving from an investment to be anticipated. Furthermore, in order to improve relations with taxpayers, the drafts of major administrative guidelines are now made available on the website of the FTA or sent beforehand to professionals in the private sector, in order to obtain feedback and make any possible adjustments prior to final publication.

Taxpayers may also consult the FTA to obtain a formal position concerning the application of a tax rule to their affairs. Moreover, a wide range of advanced tax ruling procedures (“*rescrits*”) now exists, allowing taxpayers to obtain confirmation from the FTA on the applicability of certain tax regimes. For instance, the “exceptional depreciations” ruling allows taxpayers to ascertain in advance the application of certain accelerated tax depreciation schemes. Similarly, the “new businesses” ruling ascertains whether a company is entitled to a tax reduction applicable to certain new companies, while the “research tax credit” ruling ascertains whether expenses related to research and development are eligible under the terms of France’s research tax credit.

In their cross-border transactions, companies based in France also benefit from a secure tax environment as France has one of the broadest tax treaty networks in the world and has introduced several procedures to help companies ascertain their tax status. As such, foreign companies can request a ruling as to whether their activities constitute a permanent establishment in France.

Bilateral and, under certain circumstances, unilateral advance pricing agreements (APAs) pertaining to transfer pricing methods can also be concluded with the FTA. Multinational groups wishing to establish headquarters or logistic centers can also enter into agreements with the FTA in order to determine beforehand the margin to be allocated to such entities over a given period.

Finally, while mandatory transfer pricing documentation requirements for French entities whose gross revenue or assets exceed €400 million may prove burdensome, fulfilling the requirements can actually be a great help in ascertaining transfer prices with related entities.

Many safeguards are also available to French companies when subject to tax audits, which are strictly regulated by law to protect taxpayers. As such, in principle, there is a three-year statute of limitations following the financial year in question for the FTA to audit an income tax return while it is in principle impossible to undertake a repeated audit of the same financial year for the same tax. Furthermore, as a general rule, audit procedures must follow oral and adversary principles. Also, in principle, the FTA bears the burden of proof of the tax reassessment. This dialogue with the FTA is also reflected by the existence of multiple administrative appeals during or after the audit and the possibility of negotiating settlements. Additionally, there is a specific “audit on demand” procedure which allows companies to ensure the correct application of the tax rules governing the research tax credit. Finally, taxpayers are free, during the audit process, to make corrections to their tax return in order to benefit from reduced late-payment interest.

In conclusion, tax regulation today undoubtedly reflects a desire by the FTA to improve the French tax system by instilling greater predictability and legal certainty. This tax certainty principle is clearly a major tax competitiveness factor that also helps France to maintain its attractiveness as an investment location, particularly when compared with other countries proposing lower effective tax rates.

This balance will be calculated as the difference between taxes owed and any tax credits due on the tax returns filed by the group's members. The parent company must directly or indirectly hold a stake of at least 50% in the subsidiaries' capital or voting rights. As such, the scope of the VAT payment consolidation will not in theory match the scope of tax consolidation in the corporate tax system. This option will be available as of January 1, 2013.

II. Ways to repatriate earnings

Earnings may be repatriated in three ways:

- Transfer or distribution of net profit from branches and subsidiaries;
- Interest on loans and advances granted by the foreign parent company;
- Royalties or management fees.

II.1. No tax obstacles to the invoicing of interest, royalties or management fees

The amounts invoiced must be justified and in line with the prices for arm's-length transactions between independent companies. The French authorities may demand evidence that transfer prices are in line with actual market prices.

II.2. Reduced rates of withholding tax and exemptions

II.2.1 Dividends paid out to a resident of the European Union (EU)

Dividends distributed to a European parent company are exempted from the withholding tax if its headquarters are located in the European Union and it holds a stake of at least 10% in its French distributing subsidiary.

As of January 1, 2011 the withholding tax rate is 19% on dividends collected by an individual residing in an EU country, Iceland or Norway.

II.2.2 Dividends paid out to a resident outside the EU

Most of the tax treaties France has signed

with major industrial nations provide for the application of a withholding tax on dividends with a standard rate of 5% for companies (subject to a minimum stake in the subsidiary created in France) or 15% for individuals. The new tax treaties signed by France (with Japan and the United States) even provide for no withholding tax to be applied when dividends are paid (subject to specific conditions of stake ownership). If no tax treaty exists, the withholding tax is 25%.

II.2.3 Earnings from securities and royalties

For interest and royalties paid to foreign countries, tax treaties set out rates that vary from 0 to 15%.

II.2.4 Higher rates for "tax havens"

Since March 1, 2010, a 50% withholding tax has applied to the distribution of investment income (primarily dividends and interest) from a French source received through financial institutions located in tax havens officially referred to as "Non-Cooperative States or Territories" (NCSTs)⁽⁴⁾, regardless of the beneficiary's actual income tax residence.

⁽⁴⁾ List of NCSTs set out in the Ministerial Order of February 12, 2010 and may be revised annually: for 2010, there are 7 NCSTs in the Caribbean, 4 in Central America (including Costa Rica and Guatemala), 4 in the Oceania, 2 in Asia (Brunei and the Philippines) and 1 in Africa (Liberia).

II.3. Significant advantages for dividends transferred through holding companies

Permanent establishments located in France that hold equity interests in French and foreign companies are only taxed at a rate of 5% of these companies' redistributed dividends. Companies are eligible for this reduced tax rate if they own a stake of at least 5% in each company and have owned the securities for at least two years.

These rules are especially compelling for holding companies located in France. Once their business essentially consists in holding an investment security portfolio that meets the terms described above, their maximum effective tax rate is 1.67% (5% x 33.33%) on dividends distributed by their subsidiaries.

Furthermore, when securities that have been held for at least two years are transferred, tax is only levied on 5% of the net appreciation, or a maximum effective tax rate of 1.67%.

However, as of January 1, 2011 this exemption no longer applies to transferred securities for companies located in a non-cooperative state, while companies holding a majority of real estate assets are also ineligible for this reduced tax rate.

Holding companies are not taxed when they distribute dividends to a parent company located in an EU Member State, provided the parent company owns a stake of at least 10% in the holding company. If the parent company is located outside the EU, it is subject to withholding tax in accordance with the tax treaty in force.

III. Value added tax and customs duty

III.1. VAT: a neutral tax for companies

Value added tax (VAT) is a tax that consumers pay on the consumption of goods and services.

When companies are formed, the French tax authorities assign them an EU VAT number.

Companies merely collect the VAT on their own sales and deduct the amount of VAT that they have paid on purchases of goods and services. This is reported in a monthly, quarterly or annual statement based on sales and the 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 business tax office (*Direction des grandes entreprises – DGE*) before the deadline set by the French tax authorities.

If companies have paid more VAT than they have collected, the VAT credit will be refunded to them on request. Exports of goods outside the European Union are fully exempt from VAT.

France's standard VAT rate on sales of goods and services is 19.6%, but reduced rates also exist. The rate on food and certain agricultural products is 5.5% while the rate on medications is either 5.5% or 2.1%. The 5.5% rate also applies to books, hotels, public transport, newspapers and magazines and certain leisure activities.

IN DETAIL

Measures to simplify customs procedures

In an effort to simplify administrative and tax procedures, and in order to improve the competitiveness of businesses based in France, the following measures have been adopted:

→ A simplified goods collection procedure that allows the operator to continue their customs formalities.

→ Paperless incentive measures have led to a fully digitized customs system, electronic payment and automatic reconciliation. These efforts are a vehicle for the authorities to simplify and facilitate customs formalities and make them more secure.

→ The ICS (Import Control System) and ECS (Export Control System) have been developed to improve security for goods flows through the transmission of logistics and trade data.

→ A national 'one-stop shop' has been set up that liaises with the other government authorities.

→ Companies can make a single monthly VAT payment for imports, to be paid on the 25th of the month following the date of import.

→ The 1/1000 payment required when using deferred payment facilities was phased out as of July 1, 2007.

→ The VAT deposit on bonded imports when using deferred payment facilities has also been phased out.

These measures have led to the elimination of financial costs arising from VAT payments on imports.

The government has improved the economic attractiveness of French ports and airports through these reductions in taxes and charges on the transfer of goods and caught up with other EU countries like the Netherlands and Belgium in this area.

III.2. Uniform customs regulations throughout the EU

Goods move freely within the European Union:

A customs duty is only charged once on imports from outside the EU, even if they are subsequently shipped from one Member State to another. Goods entering France for re-export to another EU Member State are not subject to any VAT (as VAT is paid in the country where the goods are delivered to end users).

VAT payments are suspended until a later stage for transactions involving goods subject to EU custom transit procedures or placed in a bonded warehouse. This purpose of this measure is to defer VAT payments to a later time.

Companies are not required to complete any administrative formalities for the movement of most types of goods between EU countries. They are only required to file a “declaration of trade in goods” (DEB) form for statistical purposes. Companies importing or exporting goods worth more than €460,000 a year to or from another Member State must file a DEB form each month. The form provides information about product categories, countries of origin and destination, values and weights.

Computerized customs clearance accelerates formalities and release of goods. Companies may opt for electronic transmission of DEB forms to the customs’ data center (CISD) and online filing. As of July 1, 2010 (DEB form being filed in July for transactions in June), the DEB must be filed electronically when the shipments or intakes conducted during the previous calendar year exceed €2,300,000, excluding taxes.

Clearance is through the relevant customs department.

Companies providing services to businesses located in other EU Member States must file an EU VAT return with the French customs authorities if the company in the other Member State has already paid the VAT. This form must be filed online when sales exceed €32,600.

Clearance of non-European Union goods:

Imports and exports of goods between EU Member States and other countries require a customs declaration, which must be filed using the Single Administrative Document (SAD). The main items on the SAD are the name of the company, the type of declaration (according to the source of the merchandise), and the type, origin and value of the goods, net of tax.

Invoices and any documents required to claim preferential tariff treatment or for inspection of certain imports (agricultural products, etc.) must also be provided. The SAD information is used to calculate the duties and taxes due, and for physical and statistical identification of the goods.

IV. Local taxes paid by companies

IV.1. Local economic contribution (*contribution économique territoriale – CET*)

In 2010, the local business tax (*taxe professionnelle – TP*) was abolished and replaced with a lighter tax called the “*contribution économique territoriale*” (CET), which comprises the corporate property contribution (*cotisation foncière des entreprises – CFE*) and the contribution for value added by businesses (*cotisation sur la valeur ajoutée des entreprises – CVAE*).

This reform means that tax is no longer levied on investments classified as productive, which include machines, tools, movable property and equipment. The CET is capped at 3% of the company’s value added.

At the same time, a network flat tax (*imposition forfaitaire de réseau – IFR*) was introduced that only pertains to certain utilities companies (facilities that generate electricity with wind turbines, hydro turbines or from photovoltaic or hydraulic sources; electrical generators; radio transmitters; rail rolling stock; and mainframes for the copper access network). The IFR is payable in addition to the CET and is calculated on the basis of a scale specific to each sector.

legal advice

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THE NEW LOCAL ECONOMIC CONTRIBUTION (CET)

As of January 2010, the former local business tax (*taxe professionnelle* – TP) in France was replaced by the local economic contribution (*contribution économique territoriale* – CET).

The local economic contribution (CET) comprises a contribution calculated on basis of the value of company premises (*cotisation foncière des entreprises* – CFE) and also a contribution based on corporate value added (*cotisation sur la valeur ajoutée des entreprises* – CVAE)

1 – The CFE is based solely on the rental values of all premises used for business purposes. The rate is determined by the municipalities or an intermunicipal body (EPCI – *Etablissement public de coopération intercommunale*) and the tax base is reduced by 30% for industrial companies.

All permanent and temporary exemptions applicable to the former local business tax (TP) continue to apply for the CFE. Furthermore, if the company is exempted from paying the CFE, it will also be exempted from paying the CVAE too.

2 - The CVAE is determined by turnover and based on the value added produced by the company during the tax year, with rates determined on a sliding scale.

The CVAE applies only to CFE taxpayers with a turnover exceeding €152,500.

However, companies with a turnover of less than €500,000 receive a full rebate. As such, the rate is effectively 0% on annual turnover lower than €500,000 before rising to 0.5% on annual turnover of up to €3 million then 1.4% above €10 million, up to a maximum rate of 1.5% over €50 million.

The value added on which the CVAE is based is defined as pre-tax operating surplus on the consumption of goods and services from third parties.

To calculate the CVAE, value added may not exceed 80% of turnover for SMEs (turnover less than €7.6 million) and 85% for large and mid-size companies with a turnover exceeding €7.6 million.

Finally, as was the case for the former local business tax, the local economic contribution (CFE + CVAE) is capped at 3% of value added, compared with 3.5% previously. The rebate normally applies upon request made to the tax office when the final amount of the CVAE is known. However, companies can reduce the amount of payments they make to reflect the rebate.

The declarations and payment obligations for the CFE are largely similar to those for the local business tax. However, the CVAE has specific terms:

- CFE taxpayers are required to complete an annual declaration of the tax bases in the month of May prior to the tax year. The CFE is then established by the French tax authorities and a 50% deposit must be paid on June 15 if the contribution in the previous year was over €3,000. The balance is paid in December.
- As for the CVAE, taxable companies must complete an annual declaration in May of the year after the year in question, during which they make internet payments. Companies whose contribution the previous year is greater than €3,000 must pay an initial deposit amounting to 50% of the CVAE by June 15 of the tax year, and a second deposit of 50% by September 15. The balance of the CVAE is paid the following tax year at the same time as the annual declaration.

Ultimately, companies which invest the most, and which are often among the most exposed to international competition, are the main beneficiaries of this new tax.

Moreover, all major business sectors stand to gain from the reform, not only industry but also services, transport, trade and construction. The percentage of gains compared with the former local business tax range from 16% to 45% on average, depending on business sector. Only the financial and energy sectors remain stable.

As for the impact on different sizes of firms, for companies whose turnover is less than €3 million the gains may exceed 60%.

IV.1.1. The corporate property contribution (CFE) is assessed annually by the municipalities that set the tax rate for businesses located in their area.

The tax base comprises the rental value of fixed assets subject to the corporate property contribution (buildings and land used for business purposes) that the company occupied at the end of the closing of the financial year N-2, with N being the tax year.

The rental value of commercial premises and offices is set by the tax authorities according to the so-called “comparison” assessment method whereby their rental value is either assessed based on the amount paid in rent (when rented at “standard” pricing as of January 1, 1970) or by comparing the rental value of similar facilities (when buildings are rented subsequent to January 1, 1970 or rented at “non-standard” pricing at that time).

The land registry rental value for industrial businesses is equivalent to 8% of the cost of land, buildings and equipment.

The rental value for industrial businesses receives a 30% deduction when calculating the CFE.

Rental values for facilities intended to reduce

water and air pollution as well as equipment designed for energy conservation or noise-abatement are eligible for a 50% deduction, which can go as high as 100% at the discretion of municipalities.

Facilities intended for photovoltaic-based electricity production (solar panels) are likewise exempt from the CFE.

When a company is created in Year N, the rental value of all the premises, equipment and land the company owns as of December 31 of Year N is eligible for a 50% deduction on taxes paid in Year N+1.

IV.1.2. The contribution for value added by businesses (CVAE) is assessed on the value added (VA) companies realize during the previous calendar year (January 1 to December 31) or the last 12-month financial year if this does not coincide with the calendar year.

Only companies with annual pre-tax turnover of over €500,000 must pay the CVAE.

The CVAE rate is 1.5% for companies with an annual pre-tax turnover of over €50 million. Below this amount, companies are subject to

IN DETAIL

Sample CET calculation

A company makes the following capital investments:

→ Land and buildings (fixed assets subject to the property tax): €30 million

→ Production equipment and tools (fixed assets not subject to the property tax): €70 million

→ Estimated annual value added (after cap is applied): €50 million

A local tax rate of 27.26% determined by the local authorities.

Calculating the CFE:

→ Rental value (RV) of fixed assets subject to the property tax:

Fixed assets subject to the property contribution are land and buildings (€30 million). The RV is 8% of these fixed assets, or €2.4 million (30 x 8%). If this were an industrial investment, the RV would be eligible for a 30% deduction, or an RV of €1.68 million (full exemption for production equipment and tools).

→ CFE of €458,000 (rounded up): €1.68 million x 27.26%.

Calculating the CVAE:

→ CVAE: €50 million x 1.5% = €750,000 (no exemption since the annual turnover is presumed to exceed €50 million).

Calculating the CET:

→ The CET equals the total of the CFE and the CVAE: €1,208,000

→ CET is not due in the first year and is reduced to 50% on the tax base for the second year.

a reduced CVAE rate (variable depending on turnover).

The CVAE is calculated based on VA that is capped at either 80% or 85% of turnover depending on whether the company's turnover is under or over €7,600,000.

IV.1.3. Exemptions for the CET: Almost all of the many former business tax (TP) exemptions continue to apply under the CET.

As such, the following are exempt from the CET after a discretionary ruling by the local authorities:

- Subject to European Union caps on state aid, new companies operating in specific regional zones as well as companies formed to take over distressed businesses (for a period of two to five years only);
- Innovative new companies (*jeunes entreprises innovantes* – JEI) for seven years after their startup date and for up to €200,000 over three years;
- New and expanded industrial businesses or businesses dedicated to scientific and technical research activities located in certain areas for two to five years, subject to EU caps and

approval. Companies do not require approval if they create a minimum number of permanent jobs and meet minimum investment levels;

- Businesses based in an innovation cluster for a period of five years.

Also worth noting is that the blanket CET exemption in the startup year and reduced taxation on 50% of the CFE tax base in the second year have both been continued.

IV.2. Property tax

Companies are subject to property tax on the rental value of land (property tax on unconstructed land) and buildings (property tax on constructed land). The tax base is equal to the land registry rental value (or registered income) minus a standard 50% rebate for buildings or 20% for land.

The same methods used to determine the CFE (see above) are applied to assess the land registry rental value for buildings.

The amount of the tax to be paid can be calculated by multiplying the tax base by the rates decided upon by the local authorities (*régions, départements* and *communes*).

IN DETAIL

Example property tax calculation

An industrial company made and completed the following investments during 2009:

- Land: €100,000
- Buildings: €600,000
- Equipment: €1,500,000

The tax base is calculated using the rental value of land and buildings only:

- Land: $100,000 \times 8\% = €8,000$

- Buildings: $600,000 \times 8\% = €48,000$

- Hence, the gross rental value = €56,000

Net rental value after standard 50% rebate: €28,000

Or tax rate decided by local authorities of 27.41% (hypothetical rate):

- *commune*: 15%
- *département*: 9.76%

- *région*: 2.65%

In 2010 and 2011, for new buildings:

- Exemption from property tax on portions for the *région* and *département*;

- The tax is only owed on the portion for the *commune*: $€28,000 \times 15\% = €4,200$.

As of 2012, the property tax owed will be: $€28,000 \times 27.41\%$ (if rates remain unchanged) = €7,675.

Property tax is payable by the owner on January 1 each year.

There are a great number of property tax exemptions, which include:

- New buildings that are exempt from property tax on constructed land for the first two years (exemption on the portions of the tax due to *régions* and *départements*, but not the portion due to the *commune*);
- Tools and other equipment and operational material resources for industrial units (excluding property facilities);
- Facilities intended for the production of photovoltaic-based electricity (solar panels). These facilities are also exempt from the CFE (see above);
- Companies operating in specific regional zones that are creating a new business, expanding operations or taking over distressed businesses may benefit from temporary exemptions (between two and five years) at the discretion of the local authorities;
- Buildings owned by companies eligible for the innovative new companies (JEI) tax status, which may be exempt at the discretion of the local authorities for a period of seven years;
- For individuals, new housing units completed as of January 1, 2009 with an overall energy performance level higher than the level required by the legislation in force (minimum exemption period of five years).

V. A wide range of tax incentives for investors

V. I. Tax credits

V.I.I. France's research tax credit is one of the most generous in the world

Manufacturing, trading and agricultural companies that spend money on research are eligible to receive a tax credit which can then be offset against their corporate tax liability. If they do not owe any tax due to a lack of profits, they will receive the research tax credit (*crédit d'impôt*

recherche – CIR) in the form of a cash rebate after a three-year period. SMEs, innovative new companies (JEI), startups and distressed companies qualify for an immediate research tax rebate.

For research expenditure incurred in 2010 (eligible for 2011 research tax credit), companies may opt to cash their research tax credit payment at a banking facility (Daily Act on discount payment instruments).

To be eligible for the research tax credit, expenditure must be on basic research, applied research (test model of a product, operation or method) or experimental development (use of prototypes or pilot equipment).

For expenditure incurred after January 1, 2011, the research tax credit amounts to 30% of total yearly expenditure on research activities up to €100 million, and 5% of yearly expenditure above this level. The 30% rate rises to 40% and 35% in the first and second years, respectively, for first-time research tax credit applicants, or companies that have not received the research tax credit in the previous five years. Similarly, these higher rates are only for companies that are not at least 25% owned by a partner who in the previous five years had held a 25% stake in a company no longer doing business which received the research tax credit within that same period.

Eligible research expenditure includes:

- Personnel costs (gross salaries and social security contributions) for researchers and research technicians working directly and exclusively on research.
- 200% of the salaries paid to junior final-year doctoral and post-doctoral research personnel in their first two years of employment.
- Expenses incurred for the filing, maintenance and protection of patents and plant variety rights (*certificats d'obtention végétale* – COV).
- Depreciation of infrastructure and equipment used directly for research operations.
- Operating expenses set at:
 - 50% of eligible personnel costs;
 - 75% of the depreciations for buildings and equipment allocated to R&D;

legal advice

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THE RESEARCH TAX CREDIT, A KEY INCENTIVE TO CARRY OUT R&D IN FRANCE

France's research tax credit is a government policy to stimulate corporate R&D activities that is granted via a tax rebate, or offset against a company's tax liabilities. As such, it contributes to France's attractiveness as an investment location by offering companies a significant tax reduction. According to an OECD study, France's research tax credit is the one of the most attractive tax incentives in the world (*"An Update of Research Tax Treatment in OECD Countries and Selected Emerging Economies"*, 2009).

Eligibility based on innovation

Any type of company is eligible, regardless of its legal form or business sector, including companies exempted from corporate tax under the terms of special tax relief (new companies, young innovative companies).

The fundamental basis of eligibility for the research tax credit is innovation, defined under tax provisions in France as either the disappearance of scientific or technological uncertainty or the existence of an element of novelty compared with the existing state of the art.

As such, the main purpose of France's research tax credit is to boost the competitiveness of companies through R&D, public-private partnerships and through collaborative networking (subcontracting).

A large base of eligible expenses

The research tax credit is calculated based on the expenditure incurred by companies in various areas of R&D.

The tax credit base includes costs related to human and material resources used by a company for R&D, subcontracted research as well as technology watch or patent filing and protection costs.

Staff expenses relating to junior final-year doctoral and post-doctoral research personnel are double-counted for a period of 24 months following their recruitment.

Research expenditure incurred abroad is also eligible

Expenditure incurred by French companies abroad, specifically in EU or EEA member states, or alternatively in France by a foreign company through its permanent establishment, may be taken into account in the research tax credit base. Moreover, expenses for patent protection and technology watch are also

eligible for the research tax credit wherever they are incurred, including outside the EU or the EEA.

High tax credit rates yielding significant corporate tax reductions

The research tax credit amounts to 30% of the R&D expenses up to €100 million and 5% above this threshold.

However, first-time research tax credit applicants enjoy rates of 40% and 35% respectively for expenses incurred in the first and second year. France's Budget Act for 2011 capped overhead expenses at 50% of eligible personnel costs and 75% of the depreciation allowances of fixed assets used for R&D. R&D expenses subcontracted to private research organizations are capped at three times the total amount of other R&D expenses.

Cash flow benefits for companies

The research tax credit may be offset against a company's corporate tax liabilities (income tax or corporate tax) in the year during which the expenses are incurred. If a company does not owe any tax, it will receive the research tax credit in the form of a cash rebate after three years.

A company wishing to receive its research tax credit before the end of this three-year period can cash the tax credit with a bank.

SMEs, new companies, young innovative companies and distressed companies can receive immediate payment of their research tax credit for the expenses they incur.

Ascertaining project eligibility

Companies can ascertain the eligibility of their project for the research tax credit through a request for an advanced ruling or audit by the tax authorities, the Ministry for Research, the French Innovation Agency OSEO or the French National Research Agency (ANR).

Relatively straightforward administrative formalities

Companies must complete a special tax return (form no. 2069 A) to be filed at the latest with their corporate tax return. In certain cases, a description of the expenses incurred must be enclosed with the return.

- 200% of salaries paid to junior final-year doctoral and post-doctoral research personnel in their first two years of employment.
- Bonuses and payments relating to patent insurance contracts (up to €60,000 per year).
- Depreciation of patents acquired for research purposes.
- 50% of standardization costs.
- Spending on technology watch (up to €60,000 per year).
- Spending on research contracted out to public-sector research agencies, higher education institutions offering Masters programs, technical centers, accredited public interest foundations in the research sector, scientific partnership foundations and public-sector scientific partnership institutions (double-counting of expenses incurred)*.
- Spending on research contracted out to accredited private-sector research agencies, or certified experts, up to triple the total amount of other research expenses eligible for the research tax credit.

Consultancy fees incurred regarding the research tax credit application process that either exceed €15,000, excluding tax, or 5% of the research tax credit tax base less any government support received for R&D operations, are deducted from the research tax credit tax base. These expenses are fully deducted from the research tax credit

tax base when they are calculated proportionately to the credit obtained.

** If there is an arm's-length relationship between the company placing the order and the subcontracting company, the subcontracting expenses are capped at €10 million. However, if no arm's-length relationship exists (i.e. a group of companies), the subcontracting spending cap is set at €2 million. This €10 million cap is raised by €2 million when these expenses are contracted out to providers other than accredited private-sector research agencies or certified experts.*

V.1.2. Family tax credit initiative helping employees with children to achieve a better work-family balance

Companies can obtain a tax credit equal to 50% of the cost of child care for children under three years old paid for by the company's employees or 25% of the cost of issuing universal employment service vouchers (*chèques emplois universels*) to make access to personal services easier (child care at home, domestic help, etc.).

The tax credit is capped at €500,000 per company per year. It can be offset against the company's corporate tax liability for the year in which the spending was incurred. If the tax credit is greater than the tax due for the year in question, the difference is granted as a rebate.

V.1.3. Cinema or audiovisual tax credit to encourage creativity

Cinema and audiovisual production companies which act as associate producers and pay corporate tax can obtain a tax credit (cinema or audiovisual,

IN DETAIL

Tax Rebate for International Productions (TRIP)

In order to improve France's attractiveness as a location for foreign film and audiovisual productions, this tax credit has been extended to cinematographic or audiovisual productions produced by companies based outside France. This new measure

("TRIP") applies to expenditure incurred between January 1, 2009 and December 31, 2012. The tax credit amounts to 20% of expenditure in France, capped at 80% of the film's total production budget. The tax credit is capped at €4 million per film (and not per

company). To qualify, films must be approved by the National Center for Cinema and Animation (*Centre national du cinéma et de l'image animée* – CNC), which ensures that films contain elements of French culture, national heritage or landscape.

as applicable) for certain production expenditures specified by law. The tax credit is available for projects carried out in France to produce approved feature-length films.

The tax credit rate (cinema or audiovisual, as applicable) is calculated for each financial year and amounts to 20% of eligible technical expenses. Eligible expenditure items include: salaries and social security contributions for technicians and manual labor, spending on technical materials, rents for film sets and film-editing expenses. The related productions must be produced primarily in French.

→ The cinema tax credit is capped at €1 million, regardless of the type of production.

→ The audiovisual tax credit (documentaries, fiction, animations) is capped at €1,150 or €1,200 per minute produced and delivered, depending on the type of production.

The tax credit (cinema or audiovisual, as applicable) can be offset against the company's corporate tax liability for the year in which the spending was incurred. If the tax credit is greater than the tax due for the year in question, the difference is granted as a rebate.

V.1.4. Tax credit for video games

Video game development companies subject to corporate tax are entitled to a tax credit for video game development expenses which meet specific criteria and are approved by the National Center for Cinema and Animation (*Centre national du cinéma et de l'image animée* – CNC). To be eligible for the tax credit, games must incur development costs higher than or equal to €150,000, and also contribute to French or European cultural creativity in the video-gaming field, as well as variety and quality.

The tax credit equals 20% of total eligible expenditure, which essentially includes: depreciation of new assets and expenditure for salaried staff directly assigned to create games, copyrights, other costs, overheads and subcontracting up to €1 million. The tax credit is capped for all companies at €3 million per financial year.

V.2. Temporary exemption from the *contribution économique territoriale* (CET) available in ailing regions

In certain designated areas in France (regional aid areas (ZAFR), urban enterprise areas (ZFU), employment priority areas (BER), military restructuring areas (ZRD), etc.), local authorities (*communes, départements, régions* and intermunicipal authorities) have the right to grant full or partial temporary exemptions from the *contribution économique territoriale* (CET) to companies that set up or expand their operations or take over distressed businesses. The maximum exemption period is five years.

V.3. Temporary exemption from corporate tax (*impôt sur les sociétés* or IS) for new companies

V.3.1. Companies created before December 31, 2013 located in some areas may qualify, subject to certain conditions, for a temporary exemption from corporate tax, diminishing over time.

The exemption is 100% for the first 24 months, after which tax is levied on earnings at a rate of 25% in the third year, 50% in the fourth year and 75% in the fifth year.

These exemptions are restricted to companies engaging in new business and which are not more than 50% owned by other companies.

Companies benefiting from these measures may also be exempted at the discretion of the local authorities from paying the CET and/or property tax for a maximum period of two to five years. Furthermore, companies subject to corporate tax (IS) set up before December 31, 2013 in order to take over a distressed industrial business may also, subject to certain conditions, receive exemption from corporate tax (IS) for the 24 months following the takeover as well as an exemption, at the discretion of the local authorities, from the CET and/or the property tax for a maximum period of two to five years.

A seven-year tax exemption is planned for businesses located in regions classified as military restructuring areas (ZRD) as part of the “defense modernization plan,” which foresees the closure of 83 sites or units between 2009 and 2016. Companies that relocate to employment priority areas (BER) in the Champagne-Ardenne and Midi-Pyrénées regions are also fully exempt from corporate tax for seven years.

V.3.2. Innovative new companies (jeunes entreprises innovantes – JEI)

are entitled to generous tax advantages

Specific measures exist to help new companies whose research and development spending accounts for at least 15% of their tax-deductible costs.

The “innovative new companies” tax status grants beneficiaries the following exemptions:

- Exemption from corporate tax (IS) over a five-year period (100% in first three years, then 50% rebate in years four and five).
- Exemption, at the discretion of the local authorities, solely for innovative new companies created before December 31, 2013, from the CET and/or the property tax for a period of seven years.

Total tax breaks are capped at €200,000 in any three-year period.

Furthermore, the salaries paid to these companies’ research personnel are fully exempt from employer social security contributions for four years and then on a diminishing basis for the following four years. These tax exemptions are capped at a monthly gross salary of €6,142 per employee per month in 2011. The total exemption for employer social security contributions during that same year is limited to €106,056 per company per year.

These measures are for SMEs created in the last eight years with under 250 employees, turnover of less than €50 million or total assets of less than €43 million that are majority owned (over 50%) by individuals or by companies that meet the same criteria.

Sales of shares in these companies are exempt from capital gains tax if the seller has held the shares for three or more years.

These tax and social security measures have been extended to new university companies (*jeunes entreprises universitaires – JEU*). New university companies are SMEs that are less than eight years old, at least 10% owned, individually or jointly, by current students, Master’s degree postgraduates or postdoctoral students who received their degree within the last five years, or by people working in teaching and research fields and who fund at least 15% of research expenditure.

VI. Special tax system for certain headquarters

These centers must be set up solely for the provision of specialized services. Headquarters may provide only management, administration, coordination and auditing services, while logistics centers handle only packaging, labeling and distribution.

To be eligible, services must only be provided to companies in the same group and the majority of these must be located abroad. The tax rules are based on a fixed cost-plus formula that is arrived at in agreement with the tax authorities. This agreement eliminates the risk of a change in the cost-plus rate applied by the company during a subsequent tax audit. Tax is assessed at the standard rate on earnings that is derived by applying the agreed cost-plus formula to expenditure incurred by headquarters, logistics centers or R&D coordination centers. The cost-plus rate applied is usually between 6% and 10%; agreements are usually reached for periods of three to five years.

As part of the tax regulations seeking to eliminate expatriation costs, headquarters and logistics centers may pay supplementary remuneration that is fully or partially exempt from personal income tax to their expatriate employees. Companies must apply to the tax authorities to benefit from these measures, which may not be combined with the new scheme for expatriate employees: potential beneficiaries must opt for one or the other.

Jacques Messeca, Partner, Eversheds LLP

TAX EXEMPTIONS GRANTED TO TAKEOVERS OF DISTRESSED COMPANIES IN FRANCE

Various series of applicable tax incentives exist to encourage takeovers of distressed companies in France. These tax incentives mainly apply to the industrial sector and exclude any other activities (financial, sales, etc.).

I. HOW TO BENEFIT FROM THESE TAX EXEMPTION MEASURES

These tax exemption measures are granted subject to the following conditions being met:

(I) The purchaser taking over a distressed company must be liable to pay corporate tax and must be established in France specifically for the purposes of taking over the latter company.

The purchaser must have an arm's-length relationship with the seller while the shareholders of the distressed company must not own more than 50% of the shares in the purchaser.

The legal form of the company being taken over is irrelevant.

(II) The company being taken over must be in a distressed position resulting from insolvency proceedings (bankruptcy protection, liquidation, safeguard). The sale of all or part of the distressed company shall be decided by the competent court in accordance with the French Commercial Code.

Tax exemption measures may also be granted outside the scope of insolvency proceedings if the purchaser is able to demonstrate the difficulties being faced by the company to be taken over.

(III) The takeover will take the form of either a buyout of the company's assets or a *location-gérance* (leasing-management agreement) of the distressed business, provided in the latter case that the new company undertakes to purchase the business within two years and that the *location-gérance* relates to the whole business line ("*branche complète d'activité*").

II. WHAT TAX EXEMPTIONS EXIST?

(I) Until December 31, 2013, companies taking over a distressed entity or business are exempt from corporate tax on the profits generated over the first 24 months of their activities up to the ceiling set by the European Union, which varies according to the size and situation of the company.

By default, the maximum exemption is set at €200,000 for the two-year exemption period. However, subject to a prior

approval, it may be increased to a percentage of payroll or investment costs varying between 30 and 200% for small and medium-sized businesses (i.e. business with fewer than 250 employees, and generating sales of no more than €50 million or having a total balance sheet of no more than €43 million) and to companies located in certain geographical areas.

In the event that the new company gives up the taken-over business in the first three years of operating it, the corporate tax exemption is overruled and shall become payable retrospectively, with interest for late payment accruing at 0.40% per month (4.80% per year).

(II) The newly set-up companies, exempt from corporate tax, may also, subject to certain formalities, be entitled to a temporary exemption from real estate taxes (*cotisation foncière des entreprises* and/or *taxe foncière*) on built properties and/or chamber of commerce taxes. This temporary exemption shall be decided by the local authorities.

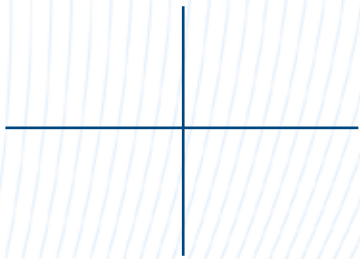
These exemptions may last for two to five years and are capped by the same regulations as those applicable to corporate tax. If the new company resells its business less than five years after the end of the tax exemption period, the company may be ordered to pay back retrospectively the local taxes from which it was initially exempt.

(III) Registration duties shall be payable in relation to the taking-over of the assets of the distressed company. As an example, these duties amount to a maximum of 5% of the sale price in the event of the sale of a business.

The purchaser may claim for a staggered payment of these registration duties over five years, in five equal installments. These payment arrangements are only applicable if the sale is ordered by a court in the context of insolvency proceedings. It applies to takeovers regardless of the type of activities involved and does not require a new company to be set up.

The purchaser wishing to benefit from a staggered payment of the registration duties must make a request to the tax authorities and provide sufficient guarantees, such as a personal guarantee for an amount equal to the total amount of duties payable.

Tax exemptions granted to companies taking over distressed businesses in France can be attractive. However, in practice this depends on the size, the location and the activities of the company being taken over.



Government support for business

Chapter V Doing Business in France

GOVERNMENT SUPPORT FOR BUSINESS

The 27 Member States of the European Union⁽¹⁾ are subject to EU laws which determine how state aid is allocated to businesses. These rules provide an EU-wide framework in support of fair competition within the Single Market. Rules concerning government intervention, eligible expenditure and aggregate aid apply to all EU Members, with no exceptions made. Within this broader framework, Member States remain free to adopt the most appropriate economic development measures in their country.

In this respect, a broad and varied framework of support has been set up in France in response to the needs of investors. This support depends on the type of investment project (productive investment, research and development, innovation, training, etc.), its location (priority development areas or non-priority areas) and the type of company conducting the project (large company, mid-sized company or SME)*. The French authorities support investment projects that entail:

- investment and job creation by large companies in economically disadvantaged regions and regions undergoing industrial redevelopment; these regions are indicated on a map approved by the European Commission (regional aid areas map);
- corporate research and development and innovation processes projects;
- professional training programs for employees;
- job creation for defined populations;

- investment and job creation by SMEs in all parts of the country;
- environmental protection.

**See "In detail": Assessing the size of a company.*

With the exception of support for investment and job creation by large companies which is specifically zoned (except for 'de minimis' support, as defined by the EU), the French authorities can provide support to all companies throughout France for certain types of projects, such as research and development and innovative projects, employee training and hiring programs, as well as investments intended for environmental protection initiatives.

Support may be granted by the national government or local authorities (*régions, départements* and *communes* in France) and government agencies in various forms, such as subsidies, repayable advances, tax exemptions and tax credits. Support can be received from several different sources, up to but

(1) Since January 1, 2007, the European Union has had 27 Member States: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

IN DETAIL

IFA assistance

The Invest in France Agency helps foreign investors to ascertain which forms of government support their projects may be eligible to receive and to prepare their applications. The Agency also puts foreign businesses in touch with the French government bodies (ministries, local authorities, agencies etc.) responsible for assisting these investors.

not exceeding the maximum allowable limit. EU law requires that support is of an incentive nature, and as such applications must be made before the company's project gets underway. Furthermore, state aid granted to a large company's project must lead to investments and/or generate a sizeable increase of this investment.

State aid in France provides effective support for business start-ups, job creation, investment and business development

I. Receiving support for investment and job creation

There are a variety of financial incentives for business investment and job creation. Support is

permitted for either investment outlays (buildings, land and equipment) over three years or the cost of job creation arising from the investment (estimated salaries and social security contributions over two years). Investment projects receiving aid are required to remain in the same region for five years (large companies) or three years (SMEs).

I.1. Investment and job creation incentives for large companies

Investment projects by large companies may be given support in certain parts of the country except in certain sensitive sectors (e.g. steel making and synthetic fibers). The location of a project is a determining factor in assessing the extent of support available.

IN DETAIL

Assessing the size of a company (excluding Agriculture sector)

1) EU definition of Small and Medium-sized Enterprises (SMEs)

→ Medium-sized enterprises satisfy all of the following criteria: fewer than 250 employees, annual turnover under €50 million or a balance sheet total under €43 million and free of any controlling interest (25% of equity or voting rights) by a large company.

→ Small enterprises have fewer than 50 employees and annual turnover or a balance sheet total under €10 million. They are also independent of any large company.

Calculation of employee numbers, turnover and balance sheets must

factor in all the businesses in which the company has a direct or indirect interest exceeding 25%. Employee and finance thresholds must be exceeded in two consecutive financial years for the company to gain or lose SME status.

2) EU definition of a large company

EU regulations on state aid stipulate that a large company is an enterprise that does not meet the aforementioned criteria for SMEs.

3) Definition of a mid-sized company

A mid-sized company (*entreprise de taille intermédiaire* – ETI) is a

legal classification for companies in France that was introduced by the Economic Modernization Act of August 4, 2008.

Mid-sized companies are companies that have:

→ between 250 and 5,000 employees;

→ a total balance sheet under €2 billion;

→ turnover that remains below €1.5 billion.

Under EU regulations on state aid, mid-sized companies are subject to the same rules as large companies, yet they are eligible for the measures designed for them under national law.



For further information: European Commission recommendations dated May 6, 2003, concerning definitions of micro, small and medium-sized enterprises

Chapter V

Outside of these regional development areas, government support allocated to large companies for an investment project is capped at €200,000 per company over three years (*'de minimis'* support within the EU). SMEs are still eligible for investment support throughout the country amounting to 10-20% of the investment (unless *'de minimis'* support is more advantageous).

1.1.1. Investment support for large companies depends on their location in EU-recognized areas for regional funding

In accordance with the zoning for regional aid (*aides à finalité régionale – AFR*) in France approved by the European Commission for the period from 2007 to 2013, the limit on aid ranges from 10 to 15% of the investment for large business and from 20 to 35% for SMEs. The maximum total amount of support for productive investment and job creation is calculated by the geographical

location of projects and the size of the companies receiving support.

If an investment project exceeds €50 million, government intervention must be reduced to comply with EU rules (see “In detail” about large projects).

1.1.2. Government support within regional aid areas

To obtain the maximum amount of support available in a given regional aid area (10 to 15% of the investment for large companies and up to 35% for SMEs) companies can receive various types of support simultaneously. This aid comes in the form of subsidies or repayable advances (from the State or from local authorities), aid for real estate or tax/social security contribution exemptions. Each of these measures comes with its own set of conditions. In most cases, they can only be claimed in regional aid areas.

IN DETAIL

Large projects

A large project is defined as having eligible costs in excess of €50 million. It is implemented over a period of up to three years by a single business or several businesses which constitute an economically indivisible whole.

→ Member States are required to inform the European Commission of

support they provide for productive investment where the investment exceeds €50 million.

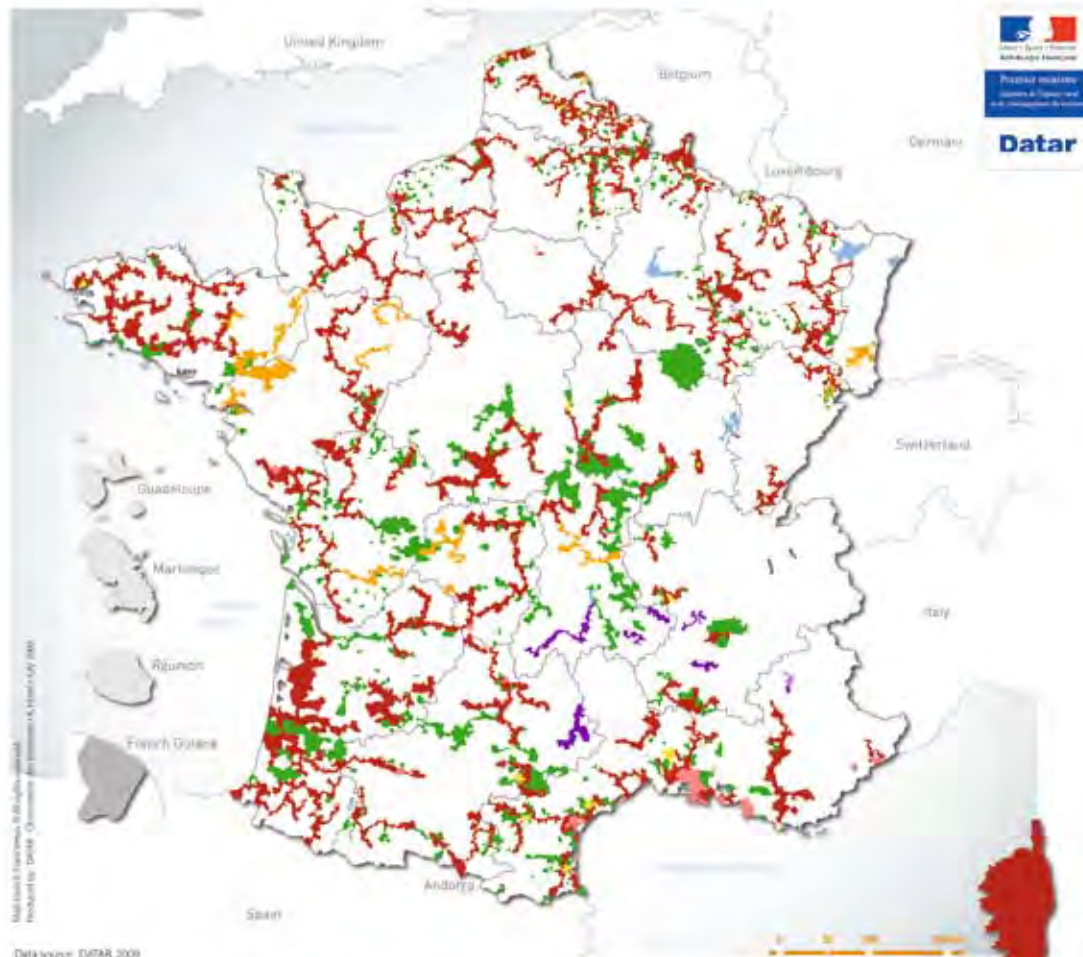
→ Member States are required to notify the European Commission of aid exceeding €11.25 million in areas where the aid ceiling is 15%, and exceeding €7.5 million where the ceiling is 10%. In these

instances, authorization is required from the European Commission prior to receiving any state aid.

→ Large investment projects in areas eligible for regional aid are subject to automatic reductions in permitted support in accordance with the size of the projects, as shown below:

Size of investment	Adjusted aid ceiling	Ceiling in reduced regional aid areas (Zones AFR réduites)	Ceiling in normal regional aid areas (Zones AFR normales)
Less than €50 million	100% of ceiling	10 %	15 %
€50 to €100 million	50% of ceiling	5 %	7.5 %
over €100 million	34% of ceiling	3.40 %	5.1 %

Map of regional aid areas [Decree of July 27, 2009 modifying decree n°2007-732 of May 7, 2009]



Data source: DATAR 2009

<p>Permanent areas [2007-2013] not limited to SMEs</p> <p>Normal rate Rate of aid for large companies: 15% Rate of aid for medium companies: 25% Rate of aid for small companies: 35%</p> <p>Reduced rate Rate of aid for large companies: 10% Rate of aid for medium companies: 20% Rate of aid for small companies: 30%</p> <p>Area eligibility: Partial Total </p>	<p>Permanent areas [2007-2013] limited to SMEs</p> <p>Normal rate Rate of aid for medium companies: 25% Rate of aid for small companies: 32%</p> <p>Reduced rate Rate of aid for medium companies: 20% Rate of aid for small companies: 28%</p> <p>Area eligibility: Partial Total </p>
<p>Transitional areas [2007-2008]</p> <p>Rate of aid for large companies: 10% Rate of aid for medium companies: 20% Rate of aid for small companies: 30%</p> <p>Area eligibility: Partial Total </p>	<p>Overseas French territories totally eligible [2007-2013] not limited to SMEs</p> <p>Normal rate: Rate of aid for large companies: 50% Rate of aid for medium companies: 60% Rate of aid for small companies: 70%</p> <p>Increased rate: Rate of aid for large companies: 60% Rate of aid for medium companies: 70% Rate of aid for small companies: 80%</p> <p>Area eligibility: Total Total </p>



To find out whether your investment project is located in an area that is eligible for financial support, consult the geographical area questionnaire on the DATAR website (www.territoires.gouv.fr).

However, some measures may be activated outside these areas, although they are then capped at €200,000 per company over three years for large companies (or the ceiling, described above, assigned to SMEs).

→ **Grants for industry and services (*Prime d'aménagement du territoire* or PAT)**

PAT grants are based on the number of jobs created. Grants are made on a case-by-case basis, and take into account the features of each project (number of jobs created and total amount of investment). The ceiling is €15,000 per job created and can only be claimed in a regional aid area (see "In detail" about PAT grants). Applications are reviewed by the Interministerial Commission for Business Location Aid (CIALA).

Interest-free loans for industry: The purpose of the *aide à la réindustrialisation* business development loan scheme is to fund investment projects throughout France. The project must somehow contribute to developing business in or transferring business to France, diversifying or expanding production or upgrading industrial processes and may be associated with the takeover of a company or establishment.

Projects must amount to an **investment of at least €5 million** and ultimately lead to the **net creation of at least 25 permanent jobs** within 36 months. SMEs and mid-sized companies are eligible (company or group of companies with fewer than 5,000 employees). Expenses that are eligible for aid comprise

IN DETAIL

*Grants for industry and services (*Prime d'aménagement du territoire* – PAT)*

PAT grants are distributed by the DATAR (*Délégation Interministérielle à l'Aménagement du Territoire et à l'Attractivité Régionale*) and are available to businesses for company creations, expansions, conversions or takeovers of existing businesses.

Eligibility:

1. In the case of company creations, investments on the site designated for funding must involve either:

- a) the net creation of at least 25 permanent jobs if eligible investment is more than €5 million, or
- b) the net creation of at least 50 permanent jobs if eligible investment is less than €5 million.

2. In the case of expansions or changes to existing operations, investments on the site designated for funding must meet one of the following conditions:

- a) the net creation of at least 25 permanent jobs and an increase of at least 50% in employment on the site, or
- b) the net creation of at least 50 permanent jobs, or
- c) eligible investments of at least €10 million.

3. PAT grants may be available for takeovers of existing businesses subject to all three of the conditions below being met:

- a) A severe deterioration in the local labor market.
- b) The planned takeover will lead to a sustainable, structural improvement in the competitiveness of the business and contribute to the diversification of its customer base.
- c) The takeover involves the preservation of at least 80 jobs and eligible investments of at least €5 million (excluding capital buyback).

The amount granted may not exceed the equity of the recipient company together with any partners' accounts frozen for the duration of the investment program.



For more information: Ministerial decree no. 2007-809 of May 11, 2007 relating to the granting of grants (PAT) for industry and services (list of eligible NAF codes in the Ministerial Order of March 3, 2010). Application dossiers for aid can be downloaded from the DATAR website. They comprise a letter of intention and a form.

the pre-tax cost of buildings, equipment and machines plus internal or external engineering-related project costs. The building-related expenses may not exceed 25% of the total qualifying investment budget.

The aid comes in the form of interest-free **repayable advances**. The advances are deferred for a maximum period of two years as of the program's completion date and then repaid in quarterly installments over five years, unless the French Minister for Industry makes an exception after reviewing the case. The CIALA is responsible for reviewing applications.

For mid-sized companies in regional aid areas, this measure is capped at 40% of eligible investment costs, or 60% for SMEs. Outside of these regional aid areas, aid is capped at €200,000 over three years for mid-sized companies and 30% for SMEs.

→ Local government support

Local authorities may grant various forms of support to business investment projects in regional aid areas. These may include subsidies or supplements to PAT grants and support to finance business premises (land and buildings), such as reduced purchase prices and funding for real estate projects as part of a lease contract, within the restrictions applying to regional aid in the area concerned (15-35% of the investment depending on the size of the company). Rent support is limited to €200,000 per business over three years (*'de minimis'*). Local authorities have the power to use the European aid available in their areas.

→ Main tax and social security contribution exemptions

The advantage of tax and social security contribution exemptions is that they can be triggered automatically by the company as soon as the required conditions are met.

Tax exemptions apply to the local economic contribution (CET) and/or corporate tax as well as property tax.

- Exemptions from the CET and/or corporate tax are generally subject to authorization by the local authorities. Their decision stipulates

the duration (between two and five years) and the extent of the exemption being granted. Some exemptions do not require authorization by the local authorities and apply automatically for a five-year period.

- Corporate tax exemptions are possible in some regional areas, mainly in military restructuring and high-unemployment areas, and last for seven years. Investors taking over a distressed industrial business receive a two-year corporate tax exemption.

- Social security contribution exemptions consist of reduced employer contribution rates which require investment projects to be located in areas particularly affected by economic restructuring programs. In cases where projects are located both in EU-recognized regional aid areas and in these priority development areas, the social security contribution exemptions can be combined with the measures described above in EU-recognized areas. Otherwise, exemptions are limited to €200,000 per company over a three-year period (*'de minimis'*).

→ Public-sector redevelopment companies

Several large public-sector industrial groups have set up industrial redevelopment companies to support economic development in their regions (e.g., SOFIREM, FINORPA, SODIE, SODIV).

These companies provide support to new investors in the form of medium- and long-term loans, sub-market rates, unsecured lending, and equity funding through the acquisition of temporary minority interests.

1.2. Support for investment and job creation outside designated regional aid areas

In the rest of France, support for investment may still be possible for small and medium-sized companies. Aid is capped at 10% of the investment for medium-sized companies and 20% for small companies (or €200,000 over three years if this is more favorable). If a large company is behind the project, aid is capped at €200,000 per company over three years.

- **Support for SMEs:** France's central government and regional authorities may grant subsidies to small and medium-sized companies to help them purchase technology-rich equipment. Such support is available throughout France, and it is particularly focused on designated regional aid areas.
- **Real-estate support for SMEs or large companies** (except for Ile-de-France, excluding deprived urban areas (ZUS) or rural regeneration areas (ZRR))
- **Support can also be provided through the European Regional Development Fund (ERDF)** if the Operational Program, negotiated region by region, has been approved by the European Commission.
- **Loans and guarantees for SMEs and/or mid-sized companies depending on the company's project:** for example, SMEs and companies with fewer than 500 employees (owned by a mid-sized company) are eligible for an unsecured low-interest regional regeneration loan (*prêt pour la revitalisation des territoires* – PRT). PRTs are designed to support investment programs that create or

maintain jobs (to develop business, take over a facility, make extensive modifications to a production process, diversify production or raise working capital) in areas that qualify for this measure upon request from the State Prefect (see zoning for the French regional regeneration fund). Loans range from €100,000 to €1 million over a maximum period of 10 years and must be associated with foreign funding (co-financing rule).

II. Receiving funding for training and recruitment

The French government has developed a variety of instruments to provide financial incentives for businesses to create jobs and train employees.

II.1. Funding for job creation

II.1.1. Government employment funding

Businesses of all sizes can receive support for job creation unrelated to any investment project.

IN DETAIL

Training aid rates

	Large companies	SMEs
Targeted training: Training with direct application to the employee's tasks and developing skills not transferable to other businesses or other types of work.	25%	35%
Targeted training in regional aid areas	30%	40%
General training: Training not limited to applications in the employee's current or planned position, instead developing skills that are in large part useable in other businesses or positions and thus significantly enhancing the recipient's employability.	50%	70%
General training in regional aid areas	55%	75%

The main forms of funding in this area are:

- Exemptions or relief on social security contributions, with a particular focus in certain regional aid areas: urban regeneration areas (ZRU), rural regeneration areas (ZRR), urban enterprise areas (ZFU), military restructuring areas (ZRD) and, since January 1, 2007, employment priority areas (BER).
- Subsidized employment contracts which may be aimed at specific employees and, depending on the contract, qualify for contribution exemptions and/or subsidies (e.g. 'professionalization' contracts or integration contracts).

II.1.2. Employment incentives

Some forms of aid and partial exemptions from social security contributions depend on the category of employee recruited. They are granted automatically and independently from the investment incentives described above. In this respect, reduced employer contributions for low-wage earners mean that companies pay reduced social security contributions for wages under 160% of the minimum wage (SMIC). These reduced employer contributions amount to around 21% on behalf of employees being paid the minimum wage.

II.2. Funding for employee training

Enhancing workforce skills is a key priority in France and this is reflected in a variety of programs to support business training initiatives.

These programs can partly cover costs including payments to training leaders, travel expenses for training leaders and employees being trained, other overheads, depreciation of training equipment, related consultancy fees and the time taken off work by employees being trained.

The level of funding depends of the type of training and the size and location of the business (see "In detail": Training aid rates).

To benefit from maximum allowable levels of support for their training programs, companies of all sizes may take advantage of the various forms of aid described below.

- Aid from local authorities.
- The National Employment Fund (*Fonds national pour l'emploi* – FNE) intended for companies experiencing financial hardship whose employees have urgent training needs. The competent local employment authority (*unité territoriale*) may provide support for a variety of initiatives:
 - Training initiatives providing between 50 and 1,200 hours of theoretical and practical training.
 - Initiatives helping employees adapt to a new position requiring the equivalent of at least 120 hours in lost work time.
- European funding channeled through regions. The European Social Fund and European Regional Development Fund may cover a portion of operating expenses relating to training, salary expenses for employees participating, and ancillary expenses. The initiatives can be co-funded by government support of up to 50%.
- Tax credit for spending on management training in SMEs. This applies to individual entrepreneurs, managers, CEOs and directors of SMEs. The tax credit is limited to 40 hours of training per year. Depending on circumstances, it may be offset against personal income or corporate tax.
- EDEC professional development contracts. Businesses can also call on their professional and inter-professional organizations to receive technical and financial support covering 25% to 80% of training expenses.
- Companies can also receive training support for future employees through the *Pôle emploi* (National Employment Office). The pre-hiring training initiative (*action de formation préalable à l'embauche* – AFPE) and operational hiring program (*programme opérationnel d'embauche* – POE) are training subsidies employers receive once the employee they choose to hire has been fully trained (subject to certain conditions):
 - support of up to €5 net/hour for internal training, up to €2,000 per employee;
 - support of up to €8 net/hour for external training, up to €3,200 per employee.

Chapter V

The AFPE and the POE are granted at the discretion of the local branch of the National Employment Office. The professional development joint collection agency (*organisme paritaire collecteur agréé* – OPCA) to which the company contributes can add to this funding to cover all or part of training costs.

Where the amount of support granted to a company exceeds €2 million, the European Commission must be notified.

III. Receiving support for innovation, research and development

France has adopted an industrial policy with a strong focus on support for research, development and the capacity for innovation of businesses operating within its borders.

Government support for innovation, research and development in the private sector is chiefly provided by the research tax credit. This is calculated at 30% of annual research expenditure on R&D operations carried out in France.

In addition to this general tax environment, the French authorities have created state funding tools for R&D projects within the EU framework. The Ministry for the Economy, Industry and Employment, the Ministry for Higher Education and Research and the Ministry for Ecology, Sustainable Development, Transport and Housing, assisted by public-sector organizations, including the National Research Agency (*Agence Nationale pour la Recherche*), the Industrial Innovation Agency (*Agence pour l'innovation industrielle*) and OSEO, are ready to act. Regional and local authorities can provide additional support in this area.

These support measures help finance corporate R&D projects throughout France.

IN DETAIL

R&D aid rates

		Companies with 250 or more employees	Medium-sized enterprises	Small enterprises - SMEs with max. 50 employees
Funding for R&D projects	Fundamental research	100%	100%	100%
	Industrial research	50%	60%	70%
	Industrial research involving cross-border cooperation between companies with the participation of at least one SME or research body	65%	75%	80%
	Experimental development	25%	35%	45%
	Experimental development involving cross-border cooperation between businesses with the participation of at least one SME or research body	40%	50%	60%
Funding for technical feasibility studies	Preparatory studies for industrial research	65 %	75 %	
	Preparatory studies for experimental development	40 %	50 %	

legal advice

Mr. François Drouin, OSEO Chief Executive

OSEO SUPPORTS BUSINESS GROWTH AND INNOVATION

OSEO French innovation agency OSEO has been charged by the French State with helping companies grow and become more competitive.* OSEO steps in on “risky projects” where the capital market falls short and positions itself to work as a partner with banking and financial institutions.

It was allocated additional funding in 2010 under the French government’s “National Investment Program”.

A range of financial products geared to the needs of companies

OSEO works in three complementary areas: (1) support for innovation, (2) guarantees and (3) joint financing (with commercial banks). This unique combination allows it to offer a range of solutions to help companies at every stage of their development, from starting up to their sale to a new owner.

1. Innovation support

OSEO supports innovation through its direct-financing products: interest-free loans, repayable advances and grants. For the most ambitious projects, which require collaboration between companies, OSEO’s special “Strategic Industrial Innovation” (ISI) program provides per-project support of up to €10 million. This support takes one of two forms:

- Grants of up to 50% of eligible expenses, solely for activities relating to industrial research.
- Repayable advances of up to 40% of eligible expenses (plus a 10% bonus in certain cases) for experimental development.

Since 2010, OSEO has also managed the Interministerial Fund (FUI), which provides financial support for France’s innovation cluster programs.

2. Bank loan guarantees

OSEO’s second focus is providing loan guarantees to banks and venture capitalists in order to make bank loans and venture capital more available for high risk projects. OSEO supports bank lending by shouldering between 40% and 70% of the risk, depending on the type of project.

3. Financing in partnership with commercial banks

OSEO’s financing activity complements that of commercial banks with a range of standard and mezzanine loans for

financing intangible investments. In that connection, it provides uncollateralized, deferred-payment loans for up to €3 million.

Additional funds now available under the “National Investment Program”

OSEO will play a major role in implementing the French government’s “National Investment Program”. A total of €2.44 billion has been allocated under this program to strengthen our response capacity in our three action areas, including €1 billion for Participatory Development Contracts, €300 million for Subsidized Green Loans and €300 million for the Innovation Cluster Pivotal Project (PSPC) program.

- Participatory Development Contracts are for companies with a more than three-year track record and fewer than 5,000 employees. They are intended to strengthen a company’s capital structure in order to improve its investment capacity. With a scope of between €300,000 and €3 million, they are systematically combined with third-party financing (banks or venture capitalists). The Participatory Development Contract is a seven-year, uncollateralized loan with two-year deferral of payment.
- Subsidized Green Loans are financial products designed to support strategic investment projects with an environmental component. They are for companies with a more than three-year track record and fewer than 5,000 employees. With a scope of between €50,000 and €3 million, they are systematically combined with third-party financing. The Subsidized Green Loan is a seven-year, uncollateralized loan with a subsidized interest rate and two-year deferral of payment. OSEO has set up an auxiliary guarantee mechanism to make it easier to arrange supplemental bank financing.
- Under OSEO’s stewardship, the PSPC program uses grants or loans to fund targeted R&D projects that can shape existing manufacturing sectors or lead to the emergence of new ones. Projects selected under a call for proposals will be those that have solid marketing potential. They will involve systematized cooperation among several companies, including at least one SME.

**OSEO supports independent companies with up to 5,000 employees (SMEs and intermediate companies).*

III.1. Aid for R&D available throughout France

Subsidies may cover a portion of R&D expenditure including related payroll expenses, equipment procurement, expenses for contracted research, intellectual property and patent rights, as well as overheads. The level of support depends on the stage of R&D underway, which may concern fundamental research, industrial research or experimental development. Government contributions to large businesses conducting shared experimental R&D projects may cover up to 40% of the total cost.

III.2 Existing government support for R&D projects

To benefit from maximum permitted levels of support for their research and development programs, businesses may take advantage of the various forms of aid described below:

- Regional development grants for research, development and innovation (*Prime d'aménagement du territoire – PAT*) can be as much as €15,000 for each job created or involved in the R&D project (or €25,000 per job in the case of a cooperative project). They are available for R&D projects leading to the net creation of at least 20 permanent jobs or eligible expenditure of at least €7.5 million.
- Grants from the Ministry for the Economy, Finance and Industry (Company competitiveness fund; R&D strategic line for international projects with high value added)

IN DETAIL

Aid for research and development in innovation clusters

Innovation clusters bring together entities from the industrial, scientific and public-sector communities working in the same region. They are a source of innovation as their proximity encourages the spread of information and skills, thereby facilitating the emergence of more innovative projects. They also boost France's investment attractiveness given the international profile generated by such a concentration of stakeholders.

Businesses participating in one of France's innovation clusters and conducting an R&D project

approved by that cluster may be eligible to receive subsidies from public organizations supporting R&D. Limits on subsidies for an experimental development project are raised from 25% to 40% when the project is conducted within an innovation cluster.

Businesses may also benefit from tax exemptions amounting to as much as €200,000 per company over three years, provided they are in an area eligible for R&D support, through:

→ full exemption of capital gains duly declared by the company,

after deduction of losses carried forward for businesses subject to corporate tax (*impôt sur les sociétés* or IS), over 36 months and a 50% exemption over 24 months;

→ full exemption from IFA (*impôt forfaitaire annuel*), an annual tax based on company revenues, for a period of up to five years;

→ with the approval of local authorities, exemptions from the local economic contribution (CET) and property tax on construction projects over a period of five years (exemption not offset by central government).

Subsidized R&D employment contracts

CIFRE (*Conventions Industrielles de Formation par la Recherche*) contracts offer post-graduate students an opportunity to prepare their doctorate in the workplace, which receives an annual fixed grant of €14,000. These contracts are administered by the National Association for Technical Research (*Association nationale de la recherche technique*).

- OSEO support for SMEs and mid-sized companies is in the form of grants, repayable advances or assistance towards the recruitment of R&D personnel.
- National Research Agency (*Agence nationale de la recherche*) assistance supports fundamental and applied research, public-private partnerships and dissemination of public research results to business and industry. It operates on the basis of calls for proposals.
- Local-authority support for R&D projects may be in the form of grants, interest-free loans and advances, or loans and advances at rates below the bond-market average, and interest subsidies setting rates at between zero and the bond-market average.
- Support from the ADEME (French Environment and Energy Management Agency) for R&D projects, in particular for R&D project feasibility studies.
- Support for innovation in service-sector processes and organization may be available from local authorities and the DATAR. Limits are 15% of related spending for large companies, which can only benefit if they are working with an SME, 25% for medium-sized companies and 35% for small companies.
- New innovative companies receive special benefits to encourage their development in France (tax relief, social security contribution exemptions, and exemptions on capital gains from equity transfers).

IV. Support for environmental investments being developed

French authorities may award grants for investments which seek to exceed the legally required minimum environmental standards.

These subsidies may cover up to 50% of expenditure for large companies and 60% for SMEs. In principle, the amount of support is calculated according to the additional investment costs arising from environmental protection. Depending on the

measure being claimed, any profits or operating costs associated with the additional investments may have to be deducted from this base.

Eligible investments are expenditure on property, plants and equipment to reduce pollution, noise, odors, and to protect the environment. Consideration may also be given to expenses relating to technology transfers through operating licenses and the acquisition of expertise, patented or otherwise.

The level of funding depends on the type of investment for environmental protection:

- SMEs may receive funding of up to 15% for a period of three years to support investments to meet EU standards;
- Companies may also receive decision-making aids (pre-diagnostic, diagnostic and project study) for a range of areas, including waste, air pollution, noise control, energy efficiency, renewable energies, polluted sites and grounds, transport.
- Businesses of all sizes may receive support covering up to 30% of investments which exceed applicable EU standards;
- Three types of investments may benefit from higher rates: energy saving investments, combined heat and electricity generation and investment in renewable energy may benefit from investment support of up to 40% of eligible costs.
- Investments in renewable energy sufficient to supply an entire community may benefit from aid covering up to 50% of total spending.
- Government agencies and other public bodies able to provide support for environmental investments include the Agency for the Environment and Energy (*Agence de l'Environnement et de la Maîtrise de l'Energie - ADEME*), the Water Agency (*Agence de l'Eau*), and guarantee funds for investments in energy savings and renewables (FOGIME and FIDEME).

Glossary Doing Business in France

Below is a list of French terms that foreign companies are likely to encounter when locating their business operations in France, followed by a brief explanation in English. Readers should be aware that the technical terms in English serve only as a guideline and do not necessarily correspond entirely to the same concepts as the French terms. For further information, please contact the IFA.

FRENCH TERM	ENGLISH TERM
Activité professionnelle commerciale, artisanale, industrielle	Commercial, entrepreneurial or industrial activity
Activité professionnelle salariée	Salaried employment
Aides à finalité régionale	Regional aid
Autorisation provisoire de travail	Temporary work permit
Bail commercial	Commercial lease
Bail professionnel	Professional lease
Bureau de liaison	Liaison office
Carte de séjour mention «commerçant »	“Business Activity” residence permit
Carte de séjour mention « salarié en mission»	“Expatriate Employee” residence permit
Carte de séjour mention « scientifique»	“Scientific Activity” residence permit
Carte de séjour mention «compétences et talents »	“Skills and Expertise” residence permit
Carte de résident pour « contribution économique exceptionnelle »	“Exceptional Economic Contribution” residence permit
Cadre dirigeant	Senior executive
Cadre de haut niveau	Highly skilled employee
Centre des impôts	Tax office
Centre d'affaires	Business center
Changement de statut	Change of status
Code du Travail	French Labor Code (employment laws)
Comité d'entreprise	Works Council
Commune	City or municipal authorities
Contrat à durée indéterminée (CDI)	Permanent contract
Contrat à durée déterminée (CDD)	Fixed-term contract
Conseil d'administration	Board of directors
Conseil de surveillance	Supervisory board
Contribution économique territoriale (CET)	Local economic contribution (replaced the local business tax in 2010)
Convention collective	Sector-specific collective agreement on labor relations
Convention fiscale	Tax agreement
Convention de sécurité sociale	Social security agreement
Crédit d'impôt recherche	Research tax credit
Déclaration unique d'embauche	Employee hiring form
Décret	Decree
Département	For administrative and political purposes, France is divided into 27 <i>régions</i> and 101 <i>départements</i> (broadly equivalent to a county in English-speaking countries). <i>Départements</i> are further subdivided into <i>communes</i> .
Détachement / salarié détaché	Secondment/seconded employee
Direction régionale des entreprises, de la concurrence, de la consommation, du travail et de l'emploi – DIRRECTE	Regional Directorate for Enterprise, Competition, Consumption and Employment
Dirigeant	Director
Entreprise individuelle	Sole proprietorship
Entreprise de taille intermédiaire (ETI)	Mid-size company
Entreprise Unipersonnelle à Responsabilité Limitée (EURL)	Single-shareholder limited liability company
Expatriation / Expatrié	Expatriation / Expatriate
Extrait K-bis	Company registration certificate
Gérant	Manager
Greffe du tribunal de commerce	Commercial Court Registry

French term	English term
Groupement d'intérêt économique (GIE)	Economic interest grouping (business consortium)
Impatrié	Tax status granted to expatriate employees in France, subject to certain conditions
Impôt sur les sociétés (IS)	Corporate tax
Impôt de solidarité sur la fortune (ISF)	Wealth tax
Inspection du Travail	Labor Inspectorate
Mairie	Municipal offices
Mandataire social	Company director (representing the company)
Office Français de l'Immigration et de l'Intégration (OFII)	French Immigration and Citizenship Office
Personne morale	Corporate entity
Personne physique	Private individual
Plan social	Layoff plan / redundancy plan
Pôle emploi	National Employment Office
Prestation de service	Service provision
Procédure d'introduction	Admission procedure
Préfecture	The office of the Prefect, who is the local representative of national government in each French <i>région/département</i> .
Prime à l'aménagement du territoire (PAT)	Development grant
Prud'hommes	Labor or employment tribunal
Récépissé	Receipt
Région	See entry for " <i>département</i> "
Registre du commerce et des sociétés (RCS)	Company register
Résidence fiscale	Tax residence
Salaire minimum interprofessionnel de croissance (SMIC)	Statutory national minimum wage
Salarié	Employee
Sécurité sociale	Social security
Service des impôts des entreprises (SIE)	Corporate tax office
Société anonyme (SA)	Public Limited Company (PLC)
Société à responsabilité limitée (SARL)	Limited liability company (LLC) / Private limited company (Ltd.)
Société civile	Non-trading partnership (e.g. real estate or medical services)
Société en commandite par actions	Limited partnership
Société en nom collectif	General partnership
Société par actions simplifiée (SAS)	Simplified company
Stagiaire	Intern / Trainee
Taxe d'habitation	Housing tax
Taxe foncière	Property tax
Taxe sur la valeur ajoutée	Value-added tax
Travailleur temporaire	Temporary worker
Visa de circulation	Circulation visa
Visa court séjour	Short-stay visa
Visa de long séjour	Long-stay visa
Visa de long séjour valant titre de séjour	Long-stay visa equivalent to a residence permit
Voyageur de commerce, représentant ou plancier (VRP)	Business traveler, representative or travelling salesperson (special legal status)

Useful contacts Doing Business in France

Name	Links
<p><i>Agence de l'environnement et de la maîtrise de l'énergie (ADEME)</i> French Environment and Energy Management Agency. Government agency responsible for the application of environment, energy and sustainable development policy. The ADEME helps finance projects in five sectors (waste management, land preservation, energy conservation/renewable energy sources, air pollution and noise pollution) and assists efforts towards sustainable development.</p>	www.ademe.fr
<p><i>Association française pour le nommage internet en coopération (AFNIC)</i> French Internet Names and Cooperation Association.</p>	www.afnic.fr/_en
<p><i>Autorité de la concurrence</i> Competition Authority – rules on anti-competitive practices and must be notified of large concentrations between undertakings.</p>	www.autoritedelaconcurrence.fr/
<p><i>Autorité des marchés financiers (AMF)</i> Financial Market Authority – financial regulations</p>	www.amf-france.org/
<p><i>Centre des liaisons européennes et internationales de sécurité sociale (CLEISS)</i> Center of European and International Liaisons for Social Security. Acts as a liaison body between French social security organizations and those in other countries, with regard to international regulations and social security agreements.</p>	www.cleiss.fr
<p><i>Centre de formalités des entreprises (CFE)</i> Business Formalities Center. CFEs provide a one-stop service for companies, enabling them to file a single document to register the establishment, modification or cessation of their business activity. In general, CFEs are either chambers of commerce and industry or commercial court clerk's offices.</p>	www.annuaire-cfe.insee.fr/AnnuaireCFE/jsp/Contrôleur.jsp www.cfenet.cci.fr/ www.infogreffe.fr/infogreffe/index.jsp
<p><i>Centre des impôts des non résidents</i> Non-residents' Tax Office – tax office for individuals and companies residing abroad. Introduction of a non-residents' helpdesk (<i>Service d'accueil des non résidents – SANR</i>) providing precise advice to non-residents and expatriates about their tax liability upon their return to France (advance ruling – <i>rescrit</i> – available on request).</p>	www.impots.gouv.fr Direction Générale des Finances Publiques Service d'accueil des non-résidents Bureau des agréments et rescrits 86-92 allée de Bercy Télédoc 957 01.53.18.19.46 sanr@dgfip.finances.gouv.fr
<p><i>Chambre du commerce et de l'industrie</i> Chamber of Commerce and Industry. Information on setting up a business (examples of articles of incorporation) plus general advice concerning legal and tax issues</p>	www.ccip.fr
<p><i>Commission nationale de l'informatique et des libertés (CNIL)</i> French Data Protection Authority. The CNIL checks that the law is respected through audits of computer data processing. "Sensitive" data processing is referred to the CNIL for authorization. The CNIL audits public use of individuals' national identification numbers and receives declarations regarding the processing of other data.</p>	www.cnil.fr
<p><i>Customs authorities</i></p>	www.douane.gouv.fr
<p><i>Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale (DATAR)</i> Interministerial Delegation for Regional Development and Economic Attractiveness. Department of the Prime Minister's office for the Ministry for Rural and Regional Development. The DATAR is jointly responsible with the Ministry for the Economy, Industry and Employment for France's innovation clusters. The DATAR is also responsible for PAT grants which encourage businesses and job creation.</p>	www.datar.gouv.fr
<p><i>Directions régionales des entreprises, de la concurrence de la consommation, du travail et de l'emploi (DIRRECTES)</i> Regional Directorates for Enterprise, Competition, Consumption and Employment. Local units (<i>unités territoriales</i>) within each DIRRECTE are responsible for issuing work permits (foreign labor department).</p>	www.dirrecte.gouv.fr
<p><i>Direction générale de la compétitivité, de l'industrie et des services (DGCIS)</i> Directorate for Competitiveness, Industry and Services – from a merger between the Directorates for Business (DGE), Tourism (DT), Trade, Services & Liberal professions (DCASPL).</p>	www.industrie.gouv.fr/dgcis/index.php
<p><i>Direction générale de la consommation, concurrence et de la répression des fraudes (DGCCRF)</i> Directorate for Competition Policy, Consumer Affairs and the Prevention of Fraud.</p>	www.dgccrf.bercy.gouv.fr

Useful contacts

Name	Links
<i>Direction général du trésor (DG Trésor)</i> Treasury Directorate (part of Ministry for the Economy, Finance and Industry). Declarations of foreign investment; authorizes investment in sensitive sectors.	www.tresor.bercy.gouv.fr/
<i>Direction générale des finances publiques (DGFiP)</i> Public Finances Directorate, a merger of the Taxation Directorate (DGI) and Public Accounts Directorate (DGCP).	www.impots.gouv.fr
<i>Direction régionale de l'environnement, de l'aménagement et du logement (DREAL)</i> Regional Directorate for the Environment, Development and Housing – regulations concerning listed facilities.	www.developpement-durable.gouv.fr www.installationsclassees.ecologie.gouv.fr
<i>European Union</i>	www.europa.eu.int
<i>French Embassies and Consulates</i>	www.mfe.org/index.php/Annuaire/Ambassades-et-consulats-francais-a-l-etranger/
<i>Greffe du tribunal de commerce de Paris</i> Paris Commercial Court Clerk's Office. Business startups (documents to be submitted with the articles), business takeovers.	www.greffe-tc-paris.fr
<i>Institut national de la propriété intellectuelle (INPI)</i> National Institute of Intellectual Property Rights. Government body, self-financing, reporting to the Ministry of Economy Industry and Employment, that issues patents, trademarks, design rights and provides access to information concerning intellectual property rights and companies.	www.inpi.fr/
<i>Ministère de l'Economie, des Finances et de l'Industrie (MEFI)</i> Ministry for the Economy, Finance and Industry.	www.economie.gouv.fr
<i>Ministère de l'éducation nationale</i> Ministry for Education.	www.education.gouv.fr
<i>Ministère de l'Enseignement supérieur et de la Recherche</i> Ministry for Higher Education and Research.	www.recherche.gouv.fr
<i>Ministère de l'Ecologie, du Développement durable, des Transports et du Logement</i> Ministry for Ecology, Sustainable Development, Transport and Housing. Regulations concerning building, demolition and renovation permits.	www.developpement-durable.gouv.fr/ www.developpement-durable.gouv.fr/Permis-de-construire-et-autres,13286.html
<i>Ministère du Travail, de l'Emploi et de la Santé</i> Ministry for Employment and Health. Procedures for hiring foreign salaried employees, addresses of regional employment offices, practical information on French employment law.	www.travail-emploi-sante.gouv.fr
<i>Office français de l'immigration et de l'intégration (OFII)</i> French Immigration and Citizenship Office – responsible for the reception in France of legal immigrants.	www.ofii.fr
<i>OSEO (Agence française de l'innovation)</i> French Innovation Agency – Government agency responsible for financial aid and support of SMEs and mid-size companies (ETIs), in collaboration with banks and investment organizations, at crucial phases in the company's life cycle.	www.oseo.fr
<i>Pôle emploi</i> National Employment Office – formed from a merger between ANPE/ASSEDIC, the two bodies previously responsible for placing the unemployed into work and administering benefits.	www.pole-emploi.fr/
<i>Préfecture de police de Paris</i> Paris Police Headquarters. Issuing and renewal of residence permits for foreign nationals residing in Paris.	www.prefecture-police-paris.interieur.gouv.fr www.prefecture-police-paris.interieur.gouv.fr
<i>Unions de recouvrement des cotisations de sécurité sociale et d'allocations familiales (URSSAF)</i> Agency responsible for collecting social security contributions.	www.urssaf.fr www.net-entreprises.fr/html/foreign_companies.htm
<i>Tax authorities</i> Tax regulations for companies and individuals, tax agreements.	www.impots.gouv.fr
<i>Textes législatifs et réglementaires en vigueur en France et convention collective</i> French legislation and regulations in force.	www.legifrance.gouv.fr
<i>French government portal</i>	www.service-public.fr

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The Invest in France Agency would like to thank the following corporate partners from the IFA Partners Network for their contribution to *Doing Business in France 2011* and for their ongoing support to help foreign investors develop their business in France.

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The “IFA Partners Network” brings together private-sector organizations and the Invest in France Agency to promote France’s competitive advantages and to provide a complete range of services to foreign investors at every step of the investment process. For further information, please visit our website: www.investinfrance.org.

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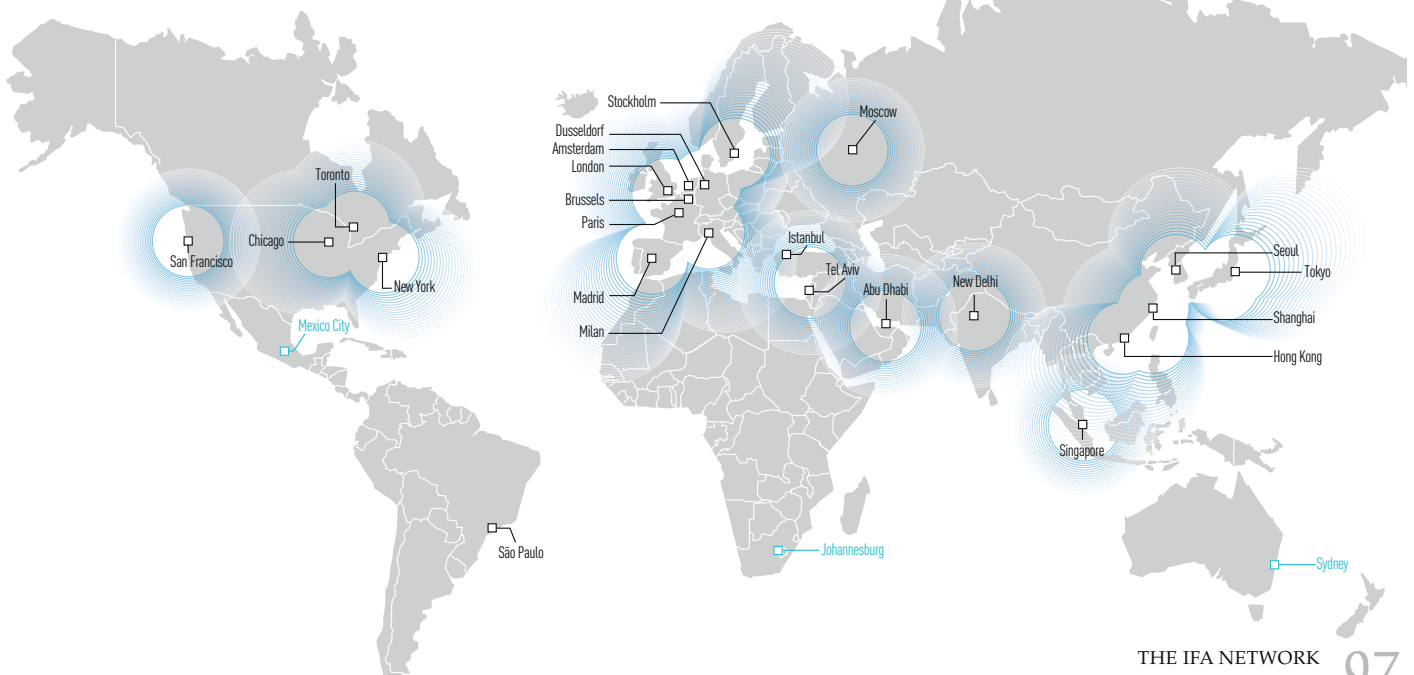
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Disclaimer: This document presents the basic rules that apply to international companies locating their business in France. For practical purposes, this document presents a general overview and basic information about legal, tax and labor issues to facilitate company decision-making. The information herein is not comprehensive and the IFA cannot be held liable for any omissions or errors. Investors are advised to use the services of professional consultants for guidance on individual cases.

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Doing Business in France

The Invest in France Agency (IFA) is the national agency responsible for promoting and facilitating international investment in France. It also coordinates initiatives to promote France's economic attractiveness.

The IFA network operates worldwide, with offices in France as well as in North and South America, Europe, the Middle East and Asia. In France, the IFA works in partnership with regional development agencies to offer international investors outstanding business opportunities and customized services.

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