

# A PROGRAM OF PRO-BUSINESS REFORMS

TO STIMULATE GROWTH AND EMPLOYMENT IN FRANCE

The French government has embarked on a **vast program of pro-business reforms**, aimed at generating more solid, inclusive and sustainable growth. This national strategy is based around four themes:

- ❖ **Encouraging investment and employment through a reduction in taxation**
- ❖ **Promoting professional mobility and valuing work**
- ❖ **Supporting corporate growth and innovation**
- ❖ **Transforming the State through administrative simplification and reform of the civil service**

According to the OECD, the measures adopted since the start of the five-year period of office to improve the functioning of the labor market, strengthen competition, limit government expenditure and contain tax rates would make it possible **to increase GDP per capita by 3.2%** over 10 years.<sup>1</sup>

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<sup>1</sup> OECD Economic Studies (France), April 2019.

## A NEW TAX ENVIRONMENT

TO ENCOURAGE INVESTMENT AND EMPLOYMENT, AND INCREASE PURCHASING POWER

### ❖ LIGHTENING CORPORATE TAXATION

A progressive lowering of the rate of corporate tax (IS) from 33.33% to 25% by 2022, in line with the European average. In all, this will amount to tax savings of €11 billion.



TAX RATE OF CORPORATE TAX (IS)		
Year	Businesses with revenues <€250 million	Businesses with revenues ≥ €250 million
2020	28%	28% up to €500,000 of profits Then 31% above

Transformation in 2019 of the competitiveness and employment tax credit (CICE) into a **permanent reduction of health insurance contributions by 6%** for salaries of up to €3,848 per month (*2.5 times the statutory national minimum wage (SMIC) equates to €3,848.55/month according to the latest revaluation in January 2020*).

Since January 1, 2019, SMEs can also benefit from **a supplementary depreciation measure, making it possible to deduct up to 40% of the original value of goods** acquired between January 1, 2019 and December 31, 2020, where these goods are machines, sensors, software or equipment for **robotization and the digitalization of industrial activity** (an exhaustive list of equipment is incorporated into the law).

The **research tax credit**, a flagship system that makes it possible to deduct R&D expenditure of 30% up to €100 million in expenditure, and 5% above this threshold, **places France first among OECD countries for financing R&D** (OECD, 2019). **It has been made permanent** for this period of government at an annual cost of more than €5 billion.

#### ❖ FORTHCOMING...

The Minister for the Economy and Finance is planning a “productive pact” to be presented in the first half of 2020 (see below), which will involve a “**massive, regular and definitive fall in taxation of production**” to attract or draw back industrial production sites in France.

### ❖ ENVIRONMENTAL TAXATION ADAPTED TO THE ECOLOGICAL TRANSITION

The Economic, Social and Environmental Council (CESE) is currently planning new ecological transition measures. **An initial proposition on transport came into force with the French Government Budget Act of 2020, entailing the eco-contribution on air transport.** The government wishes to respond to public expectations of a fair contribution of all modes of transport, particularly those which emit large proportions of greenhouse gases. Receipts, estimated to be **€180 million, will be entirely dedicated to financing clean daily transport.**

The eco-contribution will apply to flights leaving France, except for connecting flights, domestic departing flights and those going to Corsica and overseas territories, and regional development links. A progressive charging system is planned: from €1.50 per ticket on a domestic or intra-European flight in economy class to €18 per ticket on a flight outside the EU in business class.

## ❖ PERSONAL TAXATION: RAISING PURCHASING POWER AND ENSURING THAT WORK PAYS MORE



For households, the French Government Budget Act for 2020 provides amongst other things for a **historic fall of €5 billion in income tax, which will benefit the lower and middle class who work.**

The complete abolition of housing tax by 2023 is also planned for, providing **a further €18 billion in purchasing power to the French people.**

**Other exceptional measures to raise purchasing power rapidly for the lowest salaries were adopted in 2019** (an Emergency Economic and Social Measures Act was promulgated on December 24, 2018):

- **Tax exemption on overtime for employees**, who have not needed to pay tax or social security contributions since 2019.
- **The employment bonus** (monthly income supplement for workers with modest resources) was **revalued** in 2019, **without increasing labor costs for businesses.**
- **The incentive** in late 2018 **for businesses to pay a one-off end-of-year bonus exempt from income tax and any social security contribution**, a measure which was renewed in 2020, with the same tax-free system, up to €1,000 per beneficiary, with the additional condition in 2020 that businesses must have set up a profit-sharing agreement.

**A single capital gains tax rate of 30%** has applied since 2018. This flat-rate tax is referred to as the ***prélèvement forfaitaire unique (PFU)***.

The wealth tax on total assets (*impôt de solidarité sur la fortune – ISF*) was replaced in 2018 by the **property wealth tax (impôt sur la fortune immobilière – IFI)**, which restricts the tax base to the value of real estate assets, **in order to encourage investment in the real economy.**

**OVER THE COURSE OF THE FIVE-YEAR PRESIDENTIAL TERM, TAX CUT COMMITMENTS WILL DIMINISH TAX RATES BY 1.3 PERCENTAGE POINTS:**

- **€27 BILLION** IN TAX CUTS FOR HOUSEHOLDS
- **€13 BILLION** IN TAX CUTS FOR BUSINESSES

## OVERHAULING FRANCE'S SOCIAL MODEL

TO PROVIDE GREATER FLEXIBILITY FOR BUSINESSES AND TO FACILITATE EMPLOYEE CAREER PATHS

### ❖ REFORM OF LABOR LAW



The “work decrees” of September 22, 2017, in force since January 2018, committed labor reform to be carried out in three major areas:

- **Introduce greater labor market flexibility to boost employment**, including the possibility of adjusting pay and working time, within the framework of a collective performance agreement, to respond to a decline in activity.
- **Simplify dismissals on economic grounds and make employment contract terminations less risky by giving greater transparency to duration and cost:** Facilitating voluntary redundancy plans, assessing the financial difficulties of international groups at national rather than global level when they seek to carry out redundancies in France, capping damages for unfair dismissal, and limiting the time to appeal a dismissal to one year.
- **Facilitate social dialogue** to ensure negotiations are aligned as closely as possible with the needs of both employees and employers, including the creation of a single employee information and consultation body, (Social and Economic Committee), merging three existing bodies (Personnel Delegates, Works Council and Health, Safety and Working Conditions Committee (CHSCT)).

**The first review of the “work decrees” confirmed that businesses were positively taking up these new tools:**

- Regarding **collective negotiation**: As of August 1, 2019, **209 collective performance agreements** had been signed.
- Regarding **collective dismissals**: As of October 31, 2019, **190 businesses had embarked on a collective termination agreement.**
- Regarding **litigation arising from individual dismissals**: **A fall in the number of appeals to industrial tribunals** (120,000 applications filed with industrial tribunals in 2017, versus 240,000 in 1998) and **a rise in the number of employees hired on permanent contracts** (+14% since the start of the five-year presidential term).

### ❖ REFORMS TO THE APPRENTICESHIP AND PROFESSIONAL DEVELOPMENT SYSTEM

Reforms to the apprenticeship and professional development system (Freedom to choose professional development Act of September 5, 2018) have aimed to **adapt employees’ skills** to the globalization of markets, the development of digital technology, robotics and new production methods. Having come into force in January 2019, they have made it possible to:

- Invest massively in training and the skill sets of tomorrow through the creation of **a skills investment plan, backed with €15 billion by 2022, aimed at jobseekers and young people.** In all, some two million people will be trained over the next five years.
- **Give everyone the freedom to choose their professional future** and the ability to build their career path, thanks to:
  - The free provision of **career transition counseling (CEP) by an approved organization**, open to all working people and jobseekers.
  - The **renewed Professional Training Account**, backed by an innovative application “**My Training Account**”, which was launched in November 2019, enabling employees and jobseekers to consult their rights to training in real time and to choose one of the 40,000 professional training programs offered.

- **Simplify the formalities for businesses** by **adjusting the rules for financing professional training** (single contribution to professional training and an alternation merging the contribution to professional training and the apprenticeship tax), **simpler procedures for apprenticeships**, and **pooling funds between SMEs and mid-caps and large businesses**.

## ❖ **TRANSFORMING UNEMPLOYMENT INSURANCE AND SUPPORTING JOBSEEKERS**



Presented on June 18, 2019, the reform of unemployment insurance has three pillars:

- **Encourage people to return to work and enhance its value:** introducing a **new framework of conditions for unemployment benefit**, increasing the minimum work span required to obtain unemployment benefit from six months to 24, benefit procedures now dependent on the level of income of employees and decline for high earners.
- **Encourage businesses with financial support to offer more permanent contracts and to extend the duration of fixed-term contracts, rather than resorting to very short-term mandates or contracts:** the introduction of a **bonus/penalty system for contributions from business (between 3% and 5.05%)** for businesses with more than 11 employees which have too systematic recourse to very short-term contracts, in seven business sectors particularly affected with average separation rates higher than 150%.
- **Strengthen support for jobseekers:** drawing up **customized training sessions** following stable job offers requiring skills to be updated, **and supporting businesses** thanks to **new services by the National Employment Agency** to provide quicker response times, meeting the recruitment needs of businesses more effectively.

This reform is due to be implemented between November 2019 and January 2021.

A total of €3.4 billion in savings is expected by 2022, as well as a reduction in the number of jobseekers by 150,000 to 250,000 people during the same period.

## ❖ **REFORM TO THE RETIREMENT SYSTEM**

The bill to reform the retirement system will be presented in January 2020. The reform, the contours of which were outlined by the Prime Minister in December 2019, will pursue several objectives:

- **Implement a simpler, fairer, more readable universal retirement system**, after a merger of the 42 existing regimes, in which one euro of contributions will have the same value for everyone.
- **Ensure the long-term finance of the French retirement system.**
- **Facilitate the lengthening of the duration of contributions** by introducing an incentive system.

While Parliament is set to examine the draft bill in February, the French government, along with employee and employer representative organizations, will hold a conference to study ways of financing the pension system, with a view to returning to financial equilibrium by 2027. Conclusions are expected by the end of April 2020, so that the measures proposed can be considered before the bill's second reading.

## NEW ECONOMIC POLICIES

### IN SUPPORT OF THE GROWTH OF BUSINESSES, INNOVATION AND EMPLOYMENT

#### ❖ ACTION PLAN FOR BUSINESS GROWTH AND TRANSFORMATION (PACTE ACT)



The Action Plan for Business Growth and Transformation, or **PACTE Act**, was adopted on April 11, 2019, **giving businesses, especially SMEs, the means to innovate, transform, grow and create jobs.**

**The aim is to encourage the emergence of a large network of mid-sized companies in France.**

The PACTE Act simplifies the business environment in several respects and encourages innovation:

- **The removal of social thresholds of 10, 25, 100, 150 and 200 employees. These are now grouped in three levels: 11, 50 and 250 employees.** Crossing through an employee threshold to the upside is taken into account when this threshold has been reached or exceeded for five consecutive calendar years.
- **An online platform, which will be the sole interface for corporate formalities,** whatever the activity and legal form. It will replace the seven networks of Enterprise Formalities Centers (CFE). The creator will thus be able to easily identify the right contact and their administrative burden will be reduced thanks to the **complete dematerialization of formalities.** In addition, a **single digital register** will be set up to centralize information relating to businesses, replacing existing company directories and registers.
- **The system for attracting foreign talent is strengthened and simplified by exempting employees relocated to France from pension contributions for a period of three years, renewable once.** This measure only applies to employees not affiliated to a social security scheme in France over the previous five years. This provision supplements the expatriate scheme, which allows persons domiciled outside France for tax purposes during the five calendar years preceding the one in which they took up their position in the business established in France, to benefit from tax exemptions on some income (exemption period of eight years).
- **The Act simplifies initial public offerings (IPOs) and reduces their cost,** facilitates de-listing, **clarifies the codification of the law on listed companies,** encourages the installation of financial services providers in France and aims to give greater flexibility to market infrastructures.
- **The creation of a fund for disruptive innovation worth €10 billion.**
- **The implementation of a legislative and legal framework for initial coin offerings (ICOs)** or crypto-asset fundraising, which are booming in the financing of innovative projects, especially those based on blockchain technology. Token issuers can now request an optional visa demand with the French Financial Markets Authority. This visa provides recognition of reliability and protects investors as well as issuers.
- **Bringing public research closer to the business:** The PACTE Act simplifies the path of public-sector researchers wishing to create or participate in a business's life.

## ❖ PRODUCTIVE PACT FOR FULL EMPLOYMENT



Announced by President Macron on April 25, 2019 following the Great National Debate, the **productive pact represents the second stage of France's economic transformation**. The target is to obtain **full employment by 2025, thanks to the rising share of industry and agriculture in gross domestic product**, from 13.5% today to **15% by 2025 then several points more by 2030**.

In October 2019, the five major strategies to build this pact were announced by the Minister for the Economy and Finance:

- **Meeting a zero carbon economy by 2050.**
- **Anticipating the need for skills and training by 2025.**
- **Make France an economy of technological breakthroughs by working on finance, research policy and technological value chains.**
- **Make the French market competitive for production.**
- **Commit to a new decentralization act for economic development.**

At the end ongoing consultations, the strategy will be presented in early 2020. **A second PACTE Act and the forthcoming French Government Budget Act for 2021 will ratify these new measures.**

## ❖ MULTI-ANNUAL PROGRAMS

To offer investors maximum predictability, the government has also announced the implementation of multi-year frameworks with:

- **A law on multi-annual research programming** presented to Parliament in early 2020:

Three priority themes: **strengthening capacities to finance projects**, programs and research laboratories in France; **adapting human resources policies** to strengthen the attractiveness of jobs and scientific careers; **developing public-private research partnerships**.

- **The multi-year energy planning and the national low-carbon strategy** (currently being examined).

France's aim is **to achieve carbon neutrality by 2050**, and set a course for all the energy sectors to constitute, in a complementary fashion, the French energy mix of the future.

## AN AMBITIOUS, PRO-ACTIVE PUBLIC-SECTOR TRANSFORMATION

ENSHRINE THE RIGHT TO AMEND ERRORS, SIMPLIFY ADMINISTRATIVE PROCESSES, GO PAPERLESS, CONTROL GOVERNMENT SPENDING AND REFORM OF THE PUBLIC SECTOR

### ❖ ACTION PUBLIQUE 2022



The Prime Minister launched the “Action Publique 2022” program in October 2017 to fast-track public service transformation. The aim is to build a new model for running public policy that takes into account the digital revolution and its new usages.

Public agents and users of public services, businesses and citizens, will all stand to benefit, as well as taxpayers, since a target reduction of public spending equivalent to three percentage points of GDP has been set by 2022.

In parallel to plans to transform each ministry, initiatives brought forward by authorities, or by public agents, judged to be innovative and ambitious, are financed by a €700 million fund to transform public action. Seventeen projects have already received support from an initial call for projects in 2018.

#### Two laws have already been adopted in the framework of implementing AP2022:

➤ **The ESSOC Act** (The State Serving a Society of Confidence Act), promulgated on August 10, 2018, rests on two pillars looking to establish a relationship of trust between users – individuals and businesses – and the authorities they deal with:

- **“Extending trust”, by enshrining the right to amend errors:** The principle of the right to make an error is based on assuming innocence and provides the opportunity for every user, individual or business, to make a mistake in their declarations to the authorities without them risking punishment from the first failure.

**Each user can now rectify – either spontaneously, or at the request of the authorities – their mistake when it is made in good faith and for the first time.** The right to make a mistake is part of a wider initiative aiming to bestow a relationship of confidence between the public sector and users, powered by principles of caring, pro-activeness, transparency and accessibility. For example:

**Regarding tax, penalty interest on late returns** will be reduced by 30% if an error made in good faith is detected during an audit, or by 50% if users rectify mistakes of their own accord. Businesses can also exercise the **“right to an audit”**, i.e. to request that an audit be performed by the authorities, so that the latter can check the firm’s compliance with official procedures and issue binding conclusions, all without running the risk of heavier penalties.

**The Labor Inspectorate no longer systematically penalizes** audited businesses for certain infringements, and instead only issues a warning, provided there is no intent to defraud.



The update of the portal [oups.gouv.fr](https://oups.gouv.fr) embodies the approach of this new stance adopted by the authorities by giving access to all the principal errors by category, practical advice from the authorities to gain insight into your obligations, and links that can be followed to deepen understanding of every topic.

- **“Keep things simple”** by introducing measures to **reduce the complexity of administrative processes, streamline regulations and speed up the drive for administrative procedures to go paperless, including:**
  - **Making all administrative procedures paperless (excluding the initial provision of identity documents) by 2022.**
  - **The extension to businesses of the “tell us once only” principle**, or the right to not be required to provide information to a government body if it is already in the possession of another government body, notably via the platform **France Connect**.
  - Tackling the inflation of regulatory standards by obliging ministries to suggest the abolition of two standards when a new one is introduced (the **“one in, two out”** rule).
  - **Ending the practice of over-implementing EU directives** into French law (or “gold-plating”).
  - **Setting up information certificates** containing the rules applicable to a particular economic or social activity, which any user may request from the relevant authorities.

➤ **The Public Sector Transformation Act of August 6, 2019 modifies the framework and practice of social dialogue in the public sector and expands the use of contractual agents.** The law also addresses the mobility and professional transition of agents, strengthening the exemplarity of authorities in ethics and professional equality, and reviewing the management of human resources.



Certain measures became law immediately, such as the harmonization of working time between the public and private sectors. **The ambition is to build a 21st century public sector, more agile, open and attractive, with more efficient public services and closer to regions.**

A transformation of the senior civil service is also being studied to promote a more diversified, meritocratic recruitment of the “main” State civil service (including the State Council, Court of Auditors, General Inspectorate of Finance), particularly through reform of the *École Nationale d’Administration*. A report by a government mission on the subject will be handed over to President Macron by early 2020.

➤ **Another part of the “Action Publique 2022” program, and in an effort to bring public services closer to citizens, a “France Services” network has been steadily opened up. It provides an adaptable welcome to different state services and their operators in a single location.** These “houses” contain six operators (La Poste, the National Employment Office, Health Insurance, Retirement Pension, Family Allowances, Agricultural Mutual Assistance Association) and three authorities (Ministry of the Interior, Tax Authority and the Ministry of Justice). Each “France Services” space offers users personalized support to prepare dossiers, simulate rights, and support with standard procedures. The objective is to create a body in every canton, with a total of 300 “France Services” structures due to be up and running by January 2020.