

# BUSINESS TAXATION IN FRANCE

2021



# QUESTIONS

**Q1** WHAT TAX MEASURES APPLY TO MY INVESTMENTS IN FRANCE?

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**Q2** WILL CORPORATE TAX CONTINUE TO BE REDUCED?

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**Q1**

**WHAT TAX MEASURES APPLY TO MY INVESTMENTS IN FRANCE?**

# Q1 WHAT TAX MEASURES APPLY TO MY INVESTMENTS IN FRANCE?



## You simply wish to test the French market

### A liaison office

- A **liaison office** is purely a representative entity which cannot have a commercial activity and cannot contract.
- In principle, a **liaison office is not subject to corporate tax in France.**



## You have decided to invest in France

### Subsidiary

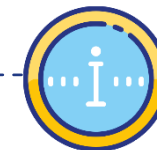
- Considered as a legal entity, even if it is wholly owned by a single shareholder.
- In principle, a subsidiary is subject to tax in France.

### Branch

- Not considered as a legal entity, but as a tax entity.
- Classed as an independent tax-paying entity.

### Acquisition of a stake in a company

- When you make an equity investment in a French company: You pay no tax as an investor.
- When you buy shares in a French company: You pay registration duty of between 0.1% and 5%, depending on the type of shares acquired.



The structure of your investments in France must be analyzed at an early stage. Contact Mazars and Business France!

### France's specificity

Unlike most other countries, France only taxes companies that operate within its borders.

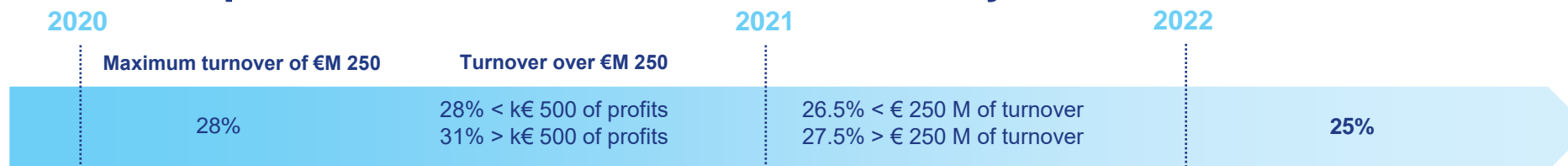
**Q2**

**WILL CORPORATE TAX CONTINUE  
TO BE REDUCED?**

# Q2 WILL CORPORATE TAX CONTINUE TO BE REDUCED?



## The corporate tax rate is set to fall to 25% by 2022



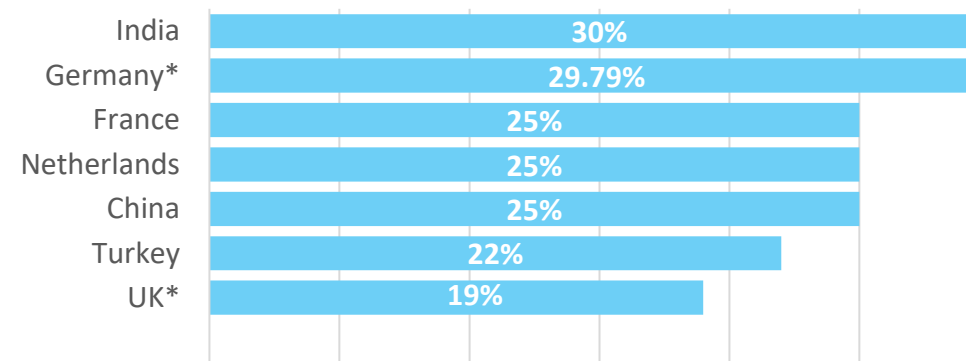
Corporate tax rate of 25% → €11 billion in savings for businesses



## A reduced corporate tax rate

- 1) **Reduced corporate tax rate**: a 15% reduced rate is applicable for small companies until € 38 k of taxable result. From 1<sup>st</sup> January 2021, the scope of the reduced rate is extended to companies with a maximum turnover of €10 million.
- 2) **Participation-exemption regime on capital gains**: capital gains can be 88% exempted. Therefore, they are subject to a maximum effective tax rate of 3.36% to 3.72% (FY20) / 3.18% to 3.3% (FY21) / 3% (FY22).
- 3) **Participation-exemption regime on dividends**: following the case, the dividends can be 99% or 95% exempted. Therefore, they are subject to an effective tax rate of 0.28% to 1.4% (FY20) if the company is subject to the rate of 28% and more in case of application of the rate of 31% / 0.26% to 1.32% (FY21) if the company is subject to the rate of 26.5% and more in case of application of rate of 27.5% / 0.25% to 1.25% (FY22).
- 4) **Intellectual and Industrial Property**: a reduced rate of 10% is optionally applicable to net income from patents and industrial property rights (royalties and capital gains).

## A few points of comparison



\* UK: as of FY23 the CIT rate will be of 19% to 25% depending on the profit of the company.

\* Germany: The CIT rate of 29.79% corresponds to the CIT taken as a whole (i.e., local and federal).

### An attractive tax base

- In principle, any expenditure incurred for the purposes of the business is deductible
- Depreciation of fixed assets (straight line, accelerated)
- Provisions are deductible (depreciation, risks, charges, price rises, etc.)

### Losses carried forward or back

- Losses can be carried forward with no time limit, while the amount is limited to €1 million + 50% of earnings > €1 million.
- Losses can be carried back only to the previous year's profit and up to a maximum of €1 million.

### Tax consolidation regime

- CIT levied on a global income including the taxable profits and losses of all French companies within the scope of the tax consolidated group.
- One single CIT payment by the parent company



**Q3**

**WILL I BE TAXED BOTH IN FRANCE AND IN MY  
COUNTRY OF ORIGIN?**

# Q3 WILL I BE TAXED BOTH IN FRANCE AND IN MY COUNTRY OF ORIGIN?



## Mechanisms to prevent double taxation

- France has signed more than 120 tax treaties to prevent double taxation
- Double taxation can be avoided by using either the exclusive taxation method, or the offset method
- The « Multilateral Convention to implement tax treaty related measures to prevent BEPS » (« Multilateral instrument » or « MLI ») is entered into force in France as from January 1st, 2019.
- the tax treaty signed between France and Luxembourg on 20 March 2018 take effect as of 1 January 2020.

## France has an excellent array of treaties

### List of states/territories that have signed a tax treaty with France:

Albania	Croatia	Ivory Coast	Mongolia	Slovakia
Algeria	Cyprus	Jamaica	Montenegro	Slovenia
Andorra	Czech Republic	Japan	Morocco	South Africa
Argentina	Denmark	Jordan	Namibia	South Korea
Armenia	Ecuador	Kazakhstan	Netherlands	Spain
Australia	Egypt	Kenya	New Caledonia	Sri Lanka
Austria	Estonia	Kosovo	New Zealand	Sweden
Azerbaijan	Ethiopia	Kuwait	Niger	Switzerland
Bahrein	Finland	Kyrgyzstan	Nigeria	Syria
Bangladesh	French Polynesia	Lebanon	Norway	Taiwan
Belgium	Gabon	Latvia	Oman	Tajikistan
Benin	Georgia	Libya	Pakistan	Thailand
Belarus	Germany	Lithuania	Panama	Togo
Bolivia	Ghana	Luxembourg	Philippines	Trinidad and Tobago
Bosnia-Herzegovina	Greece	Macedonia	Poland	Tunisia
Botswana	Guinea	Madagascar	Portugal	Turkey
Brazil	Hong-Kong	Malawi	Qatar	Turkmenistan
Bulgaria	Hungary	Malaysia	Quebec	Ukraine
Burkina Faso	Iceland	Mali	Romania	United Arab Emirates
Cameroon	India	Malta	Russia	United Kingdom
Canada	Indonesia	Mauritania	Saint Martin	United States
Central African Republic	Iran	Mauritius	Saint-Pierre-et-Miquelon	Uzbekistan
Chile	Ireland	Mayotte	Saudi Arabia	Venezuela
China	Israel	Mexico	Senegal	Vietnam
Colombia	Italy	Monaco	Serbia	Zambia
Congo			Singapore	Zimbabwe



**Q4**

**WHAT OTHER TAXES ARE FRENCH COMPANIES  
SUBJECT TO?**

## Q4 WHAT OTHER TAXES ARE FRENCH COMPANIES SUBJECT TO?



### VAT



France's VAT rate is one of the lowest in Europe

- **A tax that is neutral for most companies**
- **VAT rates:** a standard rate of 20% and reduced rates of 5% or 10% and a particular rate of 2.1%.
- **Exemptions apply to certain transactions:** banking, insurance, education, etc.
- **A harmonized VAT system in the European Union**



### Customs duty

- No customs duty within the EU (free circulation)
- Customs duty is charged when goods enter France from a non-EU country



### Other taxes

- **The Local Economic Contribution (CET):** capped at 2% of the value added generated by the company since finance act for FY21.
- **The Corporate Social Solidarity Contribution (C3S):** at a rate of 0,16% if the company's turnover > €19 million
- **Property tax**
- Certain preferential systems **exempt companies from local taxes**, in particular the CVAE value-added contribution.



These taxes are deductible from the corporate tax basis

**Q5**

**WHAT TAX INCENTIVES DOES FRANCE OFFER  
FOR INVESTMENT?**

# Q5 WHAT TAX INCENTIVES DOES FRANCE OFFER FOR INVESTMENT?



## Innovators, Welcome!

### R&D tax credit (CIR)

- Equal to 30% of the eligible R&D expenses until 100 m€ (and 5 % over)
- It can be immediately refunded in some cases (e.g., for new companies during the 5 years from their incorporation and for companies with fewer than 250 employees and the SMEs)

### Innovation tax credit (CII)

- Equal to 20% of the SME's expenses until 400 k€ linked to conception, to construction of a prototype, or to testing of new products
- It can be immediately refunded
- It can be combined with the R&D tax credit



## Business starters, Welcome

### Innovative new companies (JEI)

- Companies incorporated before 31/12/2022 and which invest in R&D up to 15% of deductible expenses are qualified as young innovative companies.
- Exemption from corporate tax (full exemption for 1 year and 50% the following year) and certain local taxes (for 7 years)

### New companies

- Several measures of exemption from Corporate Income Tax for 5 to 8 years and from locales taxes for 2 to 5 years (e.g., free-trade zone, rural revitalization zone, employment areas to be revitalized)



## Entertainment industries, Welcome!

### Cinema tax credit

- A tax credit which ranges from 20% to 30% of all expenses linked to the production of a film up to a maximum of € 30 million

### Tax credit for the creation of video games

- A tax credits which amounts to 30% of all expenses linked to the creation of a video game up to a maximum of € 6 million



## Numerous other investment

### Taking over a struggling company

- Companies incorporated for the acquisition of a company in financial distress can be exempted from Corporate tax (for 24 months)
- Exemption from various local taxes (for 2 to 5 years)

### Establishing in certain areas

- Depending of where they settle, French companies can enjoy various tax reductions or even exemptions



### CICE

- Since January 1st, 2019: CICE has been transformed into a direct reduction of employer contributions.

**Q6**

**HOW CAN I REPATRIATE MY EARNINGS?**

## Q6 HOW CAN I REPATRIATE MY EARNINGS?



### Attractive terms for the repatriation of earnings

#### Dividends

- No withholding tax if dividends are paid to a parent company in the EU which owns more than 5% of the subsidiary.
- Limited withholding (ranging from 0% to 30%) if the parent company is based outside the EU except in case of distribution paid to a NCST (75% rate).

#### Interest

- In principle, no withholding tax is applied in France on interest paid to a foreign company except in case of distribution paid to a NCST (75% rate).

#### Royalties

- A limited withholding tax (between 0% and 31%) is applied to royalties paid to a foreign company except in case of distribution paid to a NCST (75% rate).

#### Fees

- No withholding tax is applied to service fees and re-invoicing whose source is in France



#### Non-Cooperative States and Territories

- A punitive tax system applies to companies established in a “Non-Cooperative State or Territory” (NCST)
- A list of such states is established each year by the French government
- NCSTs in 2021: **Anguilla, Bahamas, Panama, Seychelles, Vanuatu, British Virgin Islands.**
- **The French list of NCSTs for 2021 includes the territories registered on the European list of NCSTs, i.e: Fidji, Guam, American Virgin Islands, Dominique, Palaos, Samoa, American Samoa and Trinidad and Tobago.**

**Q7**

**HOW CAN I SECURE MY INVESTMENTS?**

## Q7 HOW CAN I SECURE MY INVESTMENTS?



### A single point of contact for foreign investors regarding tax matters

- **The French tax authorities have set up a dedicated service** to guide, help and inform foreign investors regarding the taxation of their investment projects, exchanges are in English.
- **Objective:** To eliminate uncertainty when it comes to taxation and provide written information to help investors interpret tax rules through written answers.
- **Contact:** [tax4business@dgfip.finances.gouv.fr](mailto:tax4business@dgfip.finances.gouv.fr)



### Advance tax rulings to secure your investments

- **General advance tax ruling system:** to request a written statement from the tax authorities on the compliance of an existing situation
- **Specific advance tax rulings:** Certain requests for advance tax rulings are expressly covered by the law
  - Preliminary agreement for Transfer Pricing
  - Rescript for permanent establishments in France
  - Rescript regarding R&D Tax Credit
  - Rescript regarding Young Innovative Companies
  - Etc...
- **The response time** of the tax authorities is usually 3 months



**Q8**

**WHAT ARE THE FUTURE TRENDS?**

## Q8 WHAT TRENDS ARE IMPLEMENTED?

### Further reductions in corporate tax

- The **gradual reduction of the CIT rate to 25% in 2022 is upheld** (25% is the average corporate tax rate applied in the European Union). The standard corporate tax rate for 2021 is 26.5% for companies with a maximum turnover of m€ 250 and 27.5% for companies with a turnover of more than m€ 250.
- **An €11 billion reduction in taxes for businesses by 2022**
- **French-style IP box : 10% rate** applicable on royalties and capital gains realized on disposals of patents and assimilated IP rights

### Halving local taxation

- **Significant and lasting cuts to production taxes, totaling €10 billion /year from 2021.**
- A 50% reduction in corporate value added tax (CVAE) and property taxes on industrial sites (built-up property tax and business property tax (CFE)).
- A reduction in the capping rate from 3% to 2% of the regional economic contribution based on value added.

### Tax credit for companies

- **Research tax credit: in 2020 R&D tax credit represents €6,5 billion tax relief for companies.** Until now, the amount of operating expenditure to be taken into account has been fixed at a flat rate of 50% of staff expenditure, 75% of depreciation charges relating to fixed assets allocated to research activities. 200% of staff expenditure relating to young doctors (during the first 24 months of their recruitment on permanent contracts). For expenditure incurred from 1<sup>st</sup> January 2020, the 50% rate for staff costs is reduced to 43%. Please note that, as of 1<sup>st</sup> January 2022, subcontracting expenses entrusted to public bodies will no longer be retained for the double of their amount. In addition, the 2 million increase on the ceiling for subcontracting expenditure is removed.
- As a reminder, since Finance Act for FY20, the threshold for the documentary obligation has been raised from 2 to 100 million.
- **Corporate patronage:** For donations made on or after the FY ending December 31 2020, the rate of the tax reduction for corporate patronage is reduced from 60% to 40% for donations exceeding € 2 m. In addition, the alternative ceiling of 10k€ is raised to 20 k€.

### Withholding tax

- Since 1<sup>st</sup> January 2020 **loss-making foreign companies can claim the refund of withholding taxes levied on distributed income** for example, and subject to compliance with certain conditions, in particular that the company's registered office is located in the EU. This restitution is accompanied by a tax deferral that ends when the company's fortunes return to normal. In addition, since 1<sup>st</sup> January 2020, **foreign European companies may claim a refund of the withholding tax calculated on the basis of the legal presumption** (Art.115 quinquies of the French tax code) if they can establish that profits from French sources have not been disinvested outside France.
- Until December 31, 2020 UK companies will continue to benefit from the withholding tax exemption on French source dividends. If the shareholding threshold is between 5 or 10%.

# CONTACTS

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