KPMG

France Country Profile

EU Tax Centre

June 2018

Key tax factors for efficient cross-border business and investment involving France

EU Member State Yes

Double Tax Treaties With:

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

Note: (a) Treaty signed but not yet entered into force.

Most important forms of doing business

Société Anonyme (SA), i.e., a corporation.

Société par Actions Simplifiée (SAS), i.e., a simplified joint-stock company.

Legal entity capital requirements	No capital requirements for establishing a SAS. However, capital requirements apply to a SA (EUR 37,000 when unlisted; EUR 225,000 when listed company).
Residence and tax system	Test of residence of a company: official registered head office and/or effective place of business and management. French resident companies are taxed on French source income only (territorial system). Specific rules for partnerships.
Compliance requirements for CIT purposes	Fiscal year is the civil year, but companies are free to have a different financial year. Companies subject to CIT must file a tax return within three months of fiscal year-end or by the second business day following May 1 if the company's fiscal year ends on December 31.
Corporate Income Tax rate	The French corporate income tax rate will be progressively reduced from 33.33 percent to 25 percent. The schedule for the phased-in application of the progressive reduction will be as follows: - In 2018, a 28 percent tax rate applies for taxable profit up to EUR 500,000. Profits exceeding EUR 500,000 remain subject to a corporate income tax rate of 33.33 percent. - For financial years commencing as of January 1, 2019, a 28 percent tax rate applies for taxable profit up to EUR 500,000. Profits exceeding EUR 500,000 will be taxed at a rate of 31 percent. - For financial years commencing as of January 1, 2020, the 28 percent rate of corporate income tax will become the new standard rate for all profits. - For financial years commencing as of January 1, 2021, the standard rate of corporate income tax will be reduced to 26.5 percent. - For financial years commencing as of January 1, 2022, the standard rate of corporate income tax will be reduced to 25 percent. A reduced rate of 15 percent on profits up to EUR 38,120 may apply to SMEs under certain conditions. Social surcharges apply to large companies whose CIT exceeds EUR 763,000. The surcharge of 3.3 percent is levied on the part of the corporate income tax that exceeds EUR 763,000. In FYs ending between December 31, 2017 and December 30, 2018, exceptional contributions of 15 percent levied on the gross amount of CIT (i.e. before the offset of available tax credits, tax reductions or any other tax receivable) apply to entities whose revenues exceed EUR 1 billion. The applicable CIT rate for these entities effectively amounts to 39.43 percent. In FYs ending between December 31, 2017 and December 30, 2018, additional contributions of 15 percent levied on the gross amount of CIT (i.e. before the offset of available tax credits, tax reductions or any other tax receivable) apply to entities whose revenues exceed EUR 3 billion. The applicable CIT rate for these entities effectively amounts to 44.43 percent.

Withholding tax rates

On dividends paid to non-resident companies

30 percent unless a lower rate under application of a DTT applies. A rate of 0 percent may apply to dividends paid to qualifying EU/EEA parent companies as well as to qualifying collective investment vehicles. A reduced rate of 15 percent applies to non-profit organizations.

A 75 percent rate applies for dividends paid to non-cooperative jurisdictions (unless justification is provided).

The applicable rate in 2019 will remain 30 percent. As from 2020, the domestic WHT rates on dividends will develop as follows:

- 2020: 28 percent;
- 2021: 26.5 percent;
- 2022: 25 percent.

On interest paid to non-resident companies

0 percent. 75 percent for interest paid to non-cooperative jurisdictions (unless justification is provided).

On patent royalties and certain copyright royalties paid to non-resident companies

33.33 percent. As from 2019 the applicable rate will develop as follows:

- 2019: 31 percent;
- 2020: 28 percent;
- 2021: 26.5 percent;
- 2022: 25 percent.

A rate of 75 percent is applicable for royalties paid to non-cooperative jurisdictions (unless justification is provided).

On fees for technical services

33.33 percent. As from 2019 the applicable rate will develop as follows:

- 2019: 31 percent;
- 2020: 28 percent;
- 2021: 26.5 percent;
- 2022: 25 percent.

A rate of 75 percent is applicable for royalties paid to non-cooperative jurisdictions (unless justification is provided).

On other payments

15 percent on artistic income. WHT on wages under certain conditions (various rates apply).

Branch withholding taxes

30 percent except within the EU and can be reimbursed or partially reimbursed subject to conditions.

Holding rules

Dividend received from resident/non-resident subsidiaries

Exemption method (95 percent or 99 percent):

- participation requirement: 5 percent of the share capital for shares with both voting and financial rights;
- minimum holding period: two years;
- taxation requirement : subject-to-tax requirement;

+ New limitation (implementation of PSD).

Dividends received from companies located in non-cooperative countries cannot benefit from the participation exemption (unless justification is provided).

Capital gains obtained from resident/non-resident subsidiaries

Generally subject to standard tax rate. Reduced rates apply to specific gains:

- an 88 percent exemption applies to gains on the sale of substantial shareholdings held for more than 2 years (except if based in non-cooperative jurisdictions - unless justification is provided);
- a 19 percent tax rate applies, subject to conditions, on capital gains on the disposal of shares in listed real estate companies;
- a 15 percent tax rate applies on royalties from licensing (and sublicensing if the financial year began on or after January 1, 2011) and capital gains realized on the transfer of patents, patentable inventions and manufacturing processes. The reduced rate is not applicable for capital gains realized by the disposal of patents or similar IP rights between related companies.

Tax losses

Losses may be carried forward indefinitely. However, the amount is limited to the first EUR 1,000,000 of profits and 50 percent of the profits in excess of EUR 1,000,000.

Corporate taxpayers also have the option, with certain restrictions, to carry losses back for 1 year to set them off against the previous year's profits up to EUR 1 million, in which case they are entitled to a tax credit. The tax credit may be used during the following 5 years. If it is not used within the 5 years, the tax credit may be refunded in the sixth year.

Tax consolidation rules/Group relief rules	Yes, the income of a group of companies may be consolidated. Under the tax group regime (*intégration fiscale*), the income and losses of resident companies within a 95% group may be aggregated and taxed in the hands of the parent company of the group. Horizontal tax consolidation is possible under certain conditions.
Registration duties	Fixed (from EUR 125) or proportional (max. 5 percent).
Transfer duties	On the transfer of shares The transfer of stocks is subject to the financial transactions tax (0.3 percent) or transfer duties (0.1 percent). The transfer of shares is subject to transfer duties of 3 percent above an exempt amount of EUR 23,000. The transfer of shares in real estate companies is subject to transfer duties at 5 percent. On the transfer of land and buildings 5.09 percent (+ notary fees). Possibility for district councils to increase to 5.80665 percent indefinitely as from March 1, 2016. A 0.6 percent rate applies on sales of offices within the Ile-de-France. Stamp duties Yes, depending on transactions. Real estate taxes Yes.
Controlled Foreign Company rules	Profits made by a controlled foreign entity (i.e. 50 percent held subsidiary or 5 percent if French entities jointly hold more than 50 percent) or a permanent establishment subject to a favorable tax regime in its local jurisdiction are subject to tax in France. A safe harbor clause may apply under specific conditions (notably, within the EU).
Transfer pricing rules	General transfer pricing rules Yes, transfer pricing rules exist and supporting documentation and tax returns are required. Penalties apply if documentation is not available. Services, Interest and royalties paid to a recipient established in a tax shelter are not tax deductible unless the paying entity proves that such payments relate to genuine transactions and that they are charged at arm's length. Documentation requirement Yes: "light" transfer pricing documentation and a country-by-country report must be filed every year, plus possibility for the administration to require information on foreign rulings, consolidated accounts, and cost accounting.

Thin capitalization rules	Yes.
	- Minimum taxation of interest at the level of the lender (Article 212, I-b of the French Tax Code);
	- Thin cap rules apply to all loans and advances between companies belonging to the same group for financial years ending on or after December 31, 2010. French thin cap rules cover all loans which, while taken out from a third party company, are guaranteed by an affiliated company (subject to certain exceptions). However, loans entered into before January 1, 2011, for the purposes of a share purchase transaction, or the refinancing thereof, will not be subject to these rules.
	The standard thin capitalization rule limits the tax deductibility of interest expenses if the following conditions are cumulatively met:
	  - Intragroup loans exceed 1.5 times the net equity (or share capital if higher);
	  - The interest exceeds 25 percent of the EBIDA (roughly);
	  - The intragroup interest paid exceeds intragroup interest received.
	- General limitation on the tax deductibility of net financing expenses (tax deductibility of net financing expenses may be limited to 75 percent of the total amount if the total exceeds EUR 3 million);
	- Deduction of interest expenses relating to the acquisition of certain participations (*Carrez* amendment). According to the latter, the French acquiring company must convincingly demonstrate that those participations are effectively managed in France: (i) by the company holding them; or (ii) by a company established in France and belonging to the same group (subject to conditions). As from 2018, companies having their registered office in an EU Member State or in a country that is part of the EEA and that has in effect a tax treaty with France that includes an administrative assistance clause, will be assimilated to a French company;
	- Deduction of financial cost relating to the acquisition of a company becoming a member of a tax consolidated group (*Charasse* amendment).

General Anti-Avoidance rules (GAAR)	Yes. The French tax authorities are entitled to make tax reassessments based on abuse of legal provisions (fictitious or exclusively tax-driven transactions). GAAR according to the Anti Tax Avoidance Directive (ATAD) will be introduced.
Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid rules	Yes. Abnormal act of management theory (transaction depriving the enterprise from revenues it should have normally received). Specific rules apply to payments/transactions with non-cooperative jurisdictions. In addition, interest expenses which are incurred for the purchase of non-portfolio shareholdings (especially foreign shareholdings) which are not effectively managed from France are disregarded (*Carrez* amendment).

	A SAAR was introduced in the French Tax Code by the Amended Finance Act 2014 (implementing Directive 2014/86/EU) to neutralize the effect of hybrid mismatches. SAARs according to the amended Parent-Subsidiary Directive have been introduced.
Advance Ruling system	Yes
IP / R&D incentives	Software acquired can be fully tax depreciated in the first 12 months. Enterprises conducting fundamental or technical research in France or abroad may qualify for a very favorable R&D tax credit under certain conditions. The licensing and transfer of patents are favorably treated (reduced 15 percent rate on the proceeds and deduction of most of the expenses at the standard rate).
Other incentives	No
VAT	The standard rate is 20 percent, and the reduced rates are 10 and 2.1 percent (specific rules apply within the Overseas territories - DOM, and Corsica).
Other relevant points of attention	No

Source: French tax law and local tax administration guidelines, updated 2018.

Contact us

Séverine Lauratet

FIDAL(*) in France

T +33 1 55 68 16 25

E severine.lauratet@fidal.com

Bruno Bacrot

FIDAL(*) in France

T +33 1 46 24 30 30

E bruno.bacrot@fidal.com

*Fidal is an independent legal entity that is separate from KPMG International and KPMG member firms.

kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.