

# France Country Profile

EU Tax Centre

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

**EU Member State** Yes

**Double Tax Treaties** With the following countries, territories and jurisdictions:

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

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

<b>Legal entity capital requirements</b>	No capital requirements for establishing a SAS. However, capital requirements apply to a SA (EUR 37,000).
<b>Residence and tax system</b>	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.
<b>Compliance requirements for CIT purposes</b>	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.
<b>Corporate Income Tax rate</b>	<p>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 should be as follows:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- 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. However, a rectificative finance bill for 2019 could postpone the reduction of the CIT rates as from 2019, maintaining the applicable rate at 33.33 percent in 2019.</li> <li>- 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.</li> <li>- For financial years commencing as of January 1, 2021, the standard rate of corporate income tax will be reduced to 26.5 percent.</li> <li>- For financial years commencing as of January 1, 2022, the standard rate of corporate income tax will be reduced to 25 percent.</li> </ul> <p>A reduced rate of 15 percent on profits up to EUR 38,120 may apply to SMEs under certain conditions.</p> <p>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.</p> <p>As from January 1, 2019, a 10 percent tax rate applies to the net income derived from the licensing and sub-licensing of qualifying patents and to the net gains derived from the transfer, to non-related entities, of qualifying patents, provided that they have not been acquired less than two years before. The net income and the net gains are determined after the deduction of R&amp;D costs and after the application of a “nexus” ratio comparing the qualifying expenses to the total expenses. The qualifying expenses are the R&amp;D expenses incurred for the creation and the development of the intangible asset by the taxpayer himself or by non-related entities. The total expenses are the qualifying expenses and the</p>

expenses incurred by related entities incurred for the creation and the development of the intangible asset. This regime is applicable upon election.

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. 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.

#### **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 should develop as follows:

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

However, a rectificative finance bill for 2019 could postpone the reduction of the CIT rates as from 2019, maintaining the applicable rate at 33.33 percent in 2019.

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 should develop as follows:

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

However, a rectificative finance bill for 2019 could postpone the reduction of the CIT rates as from 2019, maintaining the applicable rate at 33.33 percent in 2019.

A rate of 75 percent is applicable for fees for technical services 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.

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

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

A rate of 75 percent is applicable if the non-resident company is located in a non-cooperative jurisdiction.

## 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;

### **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 percent 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 with, under certain conditions, possible exemptions for transfers between related companies). 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/Interest Limitation rules**

Yes.

Minimum taxation of interest at the level of the lender (Article 212, I-b of the French Tax Code);

As from January 1, 2019, new rules limiting the deductibility of net financial expenses have been introduced.

A general limitation on the tax deductibility of net financial expenses (tax deductibility of net financial expenses may be limited to the highest between EUR 3 million and 30 percent of the company's adjusted EBITDA (earnings before interest, tax, depreciation and amortization) ); furthermore, an additional deduction of 75 percent of the non-deductible net financial charges under the above-mentioned rules is available when the equity / assets ratio determined at the level of the company is equal to or higher than the same ratio computed at the level of the consolidated group (as determined under accounting consolidation rules).

If the intragroup debt/equity ratio of the company exceeds 1.5, the amount of the deductible financial charges would be calculated as follows:

- The general limitation of the greater of EUR 3 million or 30 percent of the company's adjusted EBITDA would be applied to the financial charges corresponding to the external debt plus the portion of the intragroup debt up to 1.5 of the equity.
- A reduced limitation of EUR 1 million or 10 percent of the adjusted EBITDA, whichever is greater, would be applied to the remaining part of the financial charges.

The above thin capitalization restriction will not apply if the company is able to demonstrate that its debt/equity ratio is at least equal to (or lower by less than 2 percentage points than) the same ratio computed at the level of the consolidated group (as determined under accounting consolidation rules).

All of these measures would be applicable at the level of the company subject to corporate tax on a stand-alone basis, or directly at the tax group level when the

	company is part of a group. Deduction of financial cost relating to the acquisition of a company becoming a member of a tax consolidated group ( <i>Charasse</i> amendment).
<b>General Anti-Avoidance rules (GAAR)</b>	<p>Yes. The French tax authorities are entitled to make tax reassessments based on abuse of legal provisions (fictitious or exclusively tax-driven transactions).</p> <p>GAAR according to the Anti-Tax Avoidance Directive (ATAD) have been introduced by the finance bill for 2019.</p> <p>As from January 1, 2019, non-genuine schemes put in place with the main objective, or with one of its main objectives, being to obtain a tax advantage that goes against the object or purpose of the applicable tax law can be ignored by the tax authorities. An arrangement is defined as non-genuine if it is not put in place for valid commercial reasons that reflect the underlying economic reality.</p>
<b>Specific Anti-Avoidance rules/Anti-Treaty Shopping Provisions/Anti-Hybrid rules</b>	<p>Yes. Abnormal act of management theory (transaction depriving the enterprise from revenues it should have normally received).</p> <p>Specific rules apply to payments/transactions with non-cooperative jurisdictions. 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.</p> <p>SAARs according to the amended Parent-Subsidiary Directive have been introduced.</p>
<b>Advance Ruling system</b>	Yes
<b>IP / R&amp;D incentives</b>	<p>Enterprises conducting fundamental or technical research in France or abroad may qualify for a very favorable R&amp;D tax credit under certain conditions.</p> <p>The licensing and transfer of patents are favorably treated (upon election: reduced 10 percent rate on the net proceeds determined after deduction of R&amp;D costs and the application of the “nexus” ratio).</p>
<b>Other incentives</b>	Yes
<b>VAT</b>	The standard rate is 20 percent, and the reduced rates are 10, 5.5 and 2.1 percent (specific rules apply within the Overseas territories - DOM, and Corsica).
<b>Other relevant points of attention</b>	No

Source: French tax law and local tax administration guidelines, updated 2019.

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