

PUBLIC FINANCES GENERAL DIRECTORATE  
TAX POLICY DIRECTORATE

# **THE FRENCH TAX SYSTEM**

**Situation as at 31 August 2009**

This document gives a brief overview of the French tax system.  
It does not in any way constitute a statement of official doctrine.



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# INTRODUCTION

This handbook, intended primarily for foreigners, describes the broad outlines of the French tax system. First, let us consider two questions: the place of taxation within the system of all mandatory levies, and the place of taxation in French law.

## **I – Taxation in relation to other mandatory levies**

Mandatory levies include taxes, fees for services rendered, customs duties and social security contributions.

- Taxes are payments imposed on individuals and legal entities according to their ability to pay without any specific consideration in return in order to cover public spending and achieve the economic and social objectives set by the government.

Quasi-taxes, which used to account for a very small proportion of mandatory levies, were introduced for an economic, professional or social purpose in favour of public- or private-law entities other than the state, local authorities and their public administrations, i.e. mostly professional organisations. The Constitutional Bylaw on Budget Acts (LOLF) of 1 August 2001 abolished quasi-taxes, replacing them according to the sector with earmarked taxes, voluntary contributions or budget allocations.

- Fees for services rendered, payable for the use of certain public services or for the right to use them, are also mandatory levies but are not strictly speaking taxes since they entitle the payer to a consideration in return.
- Customs duties are distinguished from taxes by their purely economic purpose, namely to protect the domestic market.
- Social security contributions, though mandatory, are not taxes since they are levied for a specific purpose, namely social protection, and benefits are paid in return.

## **II – Taxation in French law**

The need for taxation is asserted in Article 13 of the 1789 Declaration of the Rights of Man and of the Citizen: "For the maintenance of the public force, and for administrative expenses, a general tax is indispensable [...]", adding that "it must be equally distributed among all citizens, in proportion to their ability to pay". Article 14 of the Declaration states that "All citizens have the right to ascertain, by themselves or through their representatives, the need for a public tax, to consent to it freely, to watch over its use, and to determine its proportion, basis, collection and duration."

Unlike other mandatory levies, taxes may be assessed and collected only by virtue of an act of the legislature, i.e. Parliament.

This principle is enshrined in Article 34 of the French Constitution, according to which rules concerning the basis, rates and methods of collection of taxes of all types are set by statute. The executive is therefore involved only in implementing the tax rules defined by Parliament, stipulating the terms and conditions of their application under the control of the tax courts.

Consequently, the tax administration interprets and comments on provisions of law in circulars that may neither add to nor subtract from the law. Otherwise the circular is unlawful and may be nullified by the Council of State (*Conseil d'Etat*) on an appeal from taxpayers. If that is the case, the unlawful circular is not binding on taxpayers. Conversely, the administration may not argue that a circular was unlawful against a taxpayer who has applied it. This guarantee also applies where the administration has issued a formal ruling on the assessment of a de facto situation with regard to a tax rule. Thus, tax law provides that where a taxpayer has applied a tax rule according to the interpretation given by the administration through published instructions or circulars and not retracted at the date of the relevant operations, the administration may not order additional payments on the grounds of some other interpretation.

In addition, under Article 53 of the Constitution, treaties that commit State finances or modify provisions which are matters for statute may be ratified or approved only by virtue of an Act of Parliament. Article 55 of the Constitution states that duly ratified or approved treaties or agreements prevail, upon publication, over Acts of Parliament, provided that the other party has applied the treaty or agreement concerned. This means that domestic tax law is subordinate to provisions of international treaties or agreements. Under Article 54 of the Constitution, if the Constitutional Council has declared that an international commitment contains a clause contrary to the Constitution, authorisation to ratify or approve it may be given only after the Constitution has been amended.

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This handbook describes the main taxes levied in France, distinguishing four categories:

- taxes on income;
- taxes on expenditure;
- taxes on assets;
- local taxes.

In order to rectify certain adverse effects of our tax system and make France more competitive, the 2006 Budget Act introduced a right to the restitution of tax according to income. The direct taxes paid by a taxpayer may now no longer exceed 50% of his or her income.

The taxes taken into consideration in order to determine the right to restitution are:

- personal income tax, including withholding tax and capital gains tax on real property payable by individuals;
- wealth tax;
- property and residence taxes relating to the taxpayer's main home;
- social security contributions.

This scheme is chiefly intended to apply to taxpayers:

- who own assets that do not generate income;
- whose assets have increased in value due to the rapid rise in property prices;
- who, though not wealthy, have to pay a lot of property tax on their dwelling.

This handbook merely describes the rules laid down in domestic French law. More detailed information may be found on the portal of the Ministry for the Budget, Public Accounts and the Civil Service (<http://www.budget.gouv.fr> or [www.impots.gouv.fr](http://www.impots.gouv.fr)), which has been designed to allow non-residents to obtain information that concerns them.

Administrative doctrine laid down in official tax bulletins (*bulletins officiels des impôts*, BOI) may be obtained from SDNC, 82, rue du Maréchal Lyautey – BP 3045 – 78103 Saint-Germain-en-Laye Cedex. Tax bulletins are also available on the Ministry website (<http://www.impots.gouv.fr> > documentation > documentation fiscale).

Bilateral tax treaties for the avoidance of double taxation between France and other countries may depart from these rules, which apply only subject to the provisions of such treaties. A list of tax treaties is appended. The text of the treaties may be obtained from the Direction des Journaux Officiels, 26, rue Desaix, 75727 Paris Cedex 15 or consulted on the Ministry website (<http://www.impots.gouv.fr> > documentation > conventions).



# **PART I**

## **TAXES ON INCOME**

There are four categories of income tax in France:

- corporation tax;
- personal income tax;
- social levies;
- payroll taxes.



# CHAPTER 1

## CORPORATION TAX

Corporation tax is a tax, in principle payable annually, on all profits generated in France by companies and other legal entities. It concerns about a third of French companies. Legal entities may be liable to corporation tax:

- either at the standard rate of 33 $\frac{1}{3}$ % for all their activities;
- or at the following reduced rates:
  - 15% for the first €38,120 of taxable profit of companies with turnover excluding VAT of less than €7,630,000 in the tax year or tax period, reduced where relevant to twelve months. The company's capital must be fully paid-up and at least 75% must be held continuously by individuals or by a company meeting the same conditions. For the parent company of a group as stipulated in Article 223 A of the French Tax Code (*Code Général des Impôts*, CGI), turnover is the sum of the turnover of each company in the group;
  - 0% for long-term capital gains resulting from the disposal of participating interests (see p. 15 below);
  - 0% or 15% for long-term capital gains resulting from the disposal of units in venture-capital investment funds and shares in venture-capital companies (see p. 15 below);
  - 15% for income from granting licences to use patents, patentable inventions or certain industrial manufacturing processes and capital gains from the disposal of such elements (see p. 15 below);
  - 19% for long-term capital gains resulting from the sale of securities of listed predominantly property companies (*sociétés à prépondérance immobilière*, SPI) (see p. 15 below);
  - 19% for net capital gains booked on:
    - the contribution or transfer before 1 January 2012 of properties, certain similar rights and securities of SPIs, under certain conditions, to listed property investment companies, variable-capital SPIs or their affiliates;
    - the transfer before 1 January 2010 of developed or non-developed properties and securities of SPIs to organisations responsible for low-rental housing;
    - the transfer before 1 January 2011 of developed properties by organisations responsible for low-rental housing;
  - 24% or 10% for the income from assets of non-profit organisations.

In addition, corporation tax payers are liable to a social contribution equal to 3.3% of the tax calculated on their taxable profits at the standard rate (33 $\frac{1}{3}$ %) and at the reduced rates, minus relief that may not exceed €763,000 per twelve-month period.

Companies with annual turnover of less than €7,630,000, at least 75% of whose fully paid-up capital is held continuously by individuals or by a company meeting the same conditions are exempt from this contribution (see p. 41 below).

Legal entities liable to corporation tax are subject to an annual flat-rate tax, determined on a progressive scale according to turnover plus financial income. The tax is being phased out over three years from 1 January 2009.

- From 1 January 2009, the amount of turnover as of which legal entities liable to corporation tax are subject to the annual flat-rate tax is raised from €400,000 to €1,500,000.
- From 1 January 2010, the threshold for liability to the tax is raised to €15,000,000.
- The tax is abolished as of 1 January 2011.

Corporation tax yielded €51.03 billion in 2007 and is expected to yield an estimated €52.01 billion in 2009.

## **I – SCOPE OF CORPORATION TAX**

### **A. TAXABLE ENTITIES**

#### **1 – Corporation tax at the standard rate** (Article 206-1 CGI)

Certain legal entities are liable to corporation tax on account of their legal form. They include, whatever their corporate purpose, joint-stock and simplified joint-stock corporations (SA and SAS), limited liability companies (SARL), partnerships limited by shares and, in certain cases, cooperative companies.

Other legal entities are liable to corporation tax according to their type of business, such as civil-law or non-trading companies that carry on industrial or commercial activities and more generally corporate bodies that operate a business or carry out operations for profit.

Partnerships, whose partners normally include their share of profits in their personal income, may in certain cases opt for liability to corporation tax.

#### **2 – Corporation tax at reduced rates** (Article 206-5 CGI)

Public bodies like public establishments and corporations under local authority control and private bodies like associations and foundations are not liable to standard-rate corporation tax provided that they do not conduct business for profit.

Such bodies are liable to corporation tax under special rules on certain income they derive from their assets (income from real property, agricultural profits, certain investment income). The applicable rate is 24%, or 10% for certain investment income, such as income from bonds.

Public establishments, financially independent state bodies, local government bodies at *département* and *commune* level and all other legal entities that operate a business or carry out operations for profit are liable to corporation tax.

A body that does not carry on an activity for profit but receives income from its assets is liable to corporation tax at the reduced rates provided for at Article 206-5 CGI unless otherwise provided (for example, scientific or educational public establishments, public establishments providing assistance, public interest foundations and endowment funds whose bylaws do not provide for the possibility of consuming their endowment in capital are not liable).

In addition, under Article 207-1-6 CGI, regions and entities formed between regions, *départements* and entities formed between *départements*, *communes*, public establishments for intercommunal cooperation with powers of taxation, syndicates of *communes* and joint syndicates made up exclusively of local authorities or local authority groupings and their public service agencies where the latter's purpose is to operate or provide a service essential to the collective needs of the local authority's inhabitants are entirely exempt from corporation tax.

Companies established in certain economically and socially disadvantaged parts of the country, such as Corsica, small business investment support zones (zones PME), regional assistance zones (ZAFR), rural revitalisation zones (ZRR), priority urban development zones (ZUS), urban renewal zones (ZRU), urban free zones (ZFU), employment revitalisation zones (BER), defence restructuring zones (ZRD), and in clusters are granted temporary exemptions under certain conditions.

### **3 – Tax consolidation** (Article 223 A to 223 Q CGI)

Under an optional tax consolidation regime, a French parent company can include the results of French affiliates of which it controls at least 95% of the capital in its tax results. In that case the parent company pays the corporation tax for all the companies in the group. This arrangement is also available, under certain conditions, to some mutual insurance companies.

## **B. TERRITORIALITY**

All EU countries except France tax worldwide profits. In France, however, only profits made by enterprises operated in France are liable to corporation tax, whatever their nationality. This means that profits made by a French company in enterprises operated in countries other than France are not liable to French corporation tax; likewise, a foreign company is liable to French corporation tax only on the profit made from enterprises it operates in France.

Consequently, companies liable to tax in France may not deduct losses made by enterprises they operate in other countries from their taxable profit.

The term "enterprise operated in France" means an enterprise which carries on a regular business in France, whether in an autonomous establishment or, if there is no establishment, through representatives without independent professional status, or as part of operations forming a complete commercial cycle.

By way of an exception to the territorial rule, the Minister for the Economy may authorise some French companies to apply the consolidated profits regime. For corporation tax purposes such companies must include, in addition to their own profits or those of the tax group they have formed, the profits of all their directly operated enterprises abroad and

their share of the profits of their French affiliates (or the tax group they have formed) and foreign affiliates of which they hold at least 50% of the voting rights.

## **II – DETERMINING TAXABLE INCOME**

### **A. GENERAL RULES FOR DETERMINING PROFITS**

In the same way as enterprises liable to income tax in the category of business profits (*bénéfices industriels et commerciaux*), and in principle unlike non-commercial enterprises liable to income tax in the category of professional profits (*bénéfices non commerciaux*), companies liable to corporation tax must include all existing receivables and liabilities at the end of a period in the calculation of their taxable profit.

Profit liable to corporation tax is determined according to the same general rules as for the taxation of enterprises liable to income tax in the category of business profits, except for the territorial profit taxation rule, which applies only to enterprises liable to corporation tax.

Profit liable to corporation tax is determined according to the results of operations of all types carried out by the enterprise, including disposals of assets. The tax base therefore broadly corresponds to the difference between net balance sheet assets at the start and end of the period, minus contributions, plus withdrawals made by members or shareholders during the period.

In principle the taxable profit corresponds to the book profit, but the latter is adjusted to take account of tax rules that depart from accounting rules.

### **B. CALCULATING THE TAXABLE PROFIT**

The taxable profit is equal to the difference between the gross operating profit and incidental income, on the one hand, and deductible costs and expenses, on the other hand.

Under accounting rules, the gross operating profit is the difference between:

- sales and services during the period plus the inventory at the end of the period, and
- the cost of sales and services plus the inventory at the start of the period.

In addition to the gross operating profit, all incidental income or profit generated by an enterprise is in principle taxable. These items include income from the letting of property, interest on receivables, deposits and guarantees and investment income.

Exceptionally, French parent companies may exclude dividends distributed by their French or foreign affiliates of which they hold at least 5% of the share capital from their taxable profit, with the exception of a portion of costs and expenses equal to 5% of the total amount of income from participating interests, foreign tax credits included.

Costs and expenses may be deducted under the following conditions:

- they must be incurred in the direct interest of the business or be connected with the normal management of the enterprise;

- they must correspond to an actual expense and be sufficiently substantiated;
- they must be included in the expenses of the period during which they were incurred and reflect a decrease in the enterprise's net assets;
- their deductibility must not be called into question by a particular provision of law. Certain expenses are not deductible where they do not correspond to the enterprise's purpose, such as expenses related to hunting or fishing and expenses incurred in providing yachts or leisure craft (expenses classed as luxuries).

At the same time, long-term capital gains are taxed separately at the reduced rates of 0%, 15% or 19%, in some cases increased by the contribution referred to on page 12.

Thus, for periods starting in 2009:

- Long-term capital gains taxable at 0% are, under certain conditions, those arising from the disposal of participating interests held for at least two years or, within certain limits, units or shares in certain venture-capital investment funds or venture-capital companies held for at least five years. Long-term capital gains on the disposal of participating interests are exempt after deduction of a 5% portion of costs and expenses.
- Long-term capital gains taxed at 15% are the net profits from granting licences to use patents, patentable inventions or certain industrial manufacturing processes and capital gains from the disposal of such elements.
- Long-term capital gains taxed at 19% are those resulting from the disposal of the securities of listed SPIs.
- Other capital gains are taxed as ordinary profit at the standard rate (see p. 11), subject to the exemption under certain conditions of capital gains from the disposal of an entire branch of activity (see p. 26) and the taxation at 19% of net capital gains realised on the sale of properties, certain similar rights and securities of SPIs, under certain conditions, to organisations responsible for low-rental housing, listed property investment companies, variable-capital SPIs or their affiliates, and certain capital gains realised by organisations responsible for low-rental housing (see p. 11).

For the regime applicable to enterprises liable to corporation tax, see p. 27 et seq.

The result of these adjustments may show:

- either a profit, on which corporation tax is calculated;
- or a loss, which may be set off for an unlimited time against the profit of periods following the period in which the loss was booked or, optionally and under certain conditions, carried back against the profit of the preceding three periods, in which case it will generate a credit chargeable against tax in the following five years and refundable at the end of the five-year period.

### III – ASSESSMENT AND PAYMENT OF THE TAX

Companies calculate and pay tax spontaneously in instalments, an adjustment being made when the final results of the period have been established.

Any tax credits relating to foreign investment income included in the tax base are deducted from the gross tax. These tax credits correspond to the withholding tax on such income.

*✎ By way of an exception to the rules described above, a "tax consolidation" regime exists whereby the parent company of a French tax group may, under certain conditions, pay all the corporation tax owed by the entire group formed by the parent and its affiliates (see p. 13).*

## **CHAPTER 2**

### **PERSONAL INCOME TAX**

Personal income tax is in principle a comprehensive tax levied on an individual's total income in a given year. Unless otherwise provided, all income, regardless of origin, is aggregated to give an overall net income to which a single tax scale is applied.

The scale has progressive income bands. However, there are many provisions in the method for calculating income tax that allow taxation to be adjusted to personal circumstance. Proportional levies are also applied to some types of income and capital gains.

Personal income tax is assessed annually on a tax household's taxable income in a given calendar year, declared the following year.

Personal income tax yielded €49.11 billion in 2007 and is expected to yield an estimated €52.80 billion in 2009.

#### **I – TAXABLE INCOME**

The following seven categories of income are liable to personal income tax:<sup>1</sup>

- business profits;
- professional profits;
- agricultural profits;
- income from real property;
- wages, salaries, pensions and annuities;
- income from capital assets;
- capital gains.

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<sup>1</sup> There is an eighth category, comprising the remuneration of certain company heads (especially majority managers of limited liability companies), the tax rules for which are similar to those for wages and salaries. For the purposes of this handbook, it is therefore included in the category covering wages, salaries, pensions and annuities.

## **II – SCOPE OF PERSONAL INCOME TAX**

### **A. TAXABLE PERSONS**

Under Article 4 A CGI, individuals domiciled in France are taxable on all their income of French or foreign origin. Persons not domiciled in France are taxable only on their income from French sources.

#### **1 – Domicile for tax purposes – Tax household rule**

Under Article 4 B CGI, persons are deemed to be domiciled for tax purposes in France if:

- their home is in France;
- their main place of abode is in France;
- they carry on a professional activity in France, salaried or not, unless they can prove that it is a secondary activity;
- they have the centre of their economic interests in France.

State employees who perform their duties or are on assignment in a foreign country and are not liable to personal tax on their overall income in that country are also deemed to be domiciled for tax purposes in France.

Personal income tax is assessed on the basis of the "tax household", i.e. the family entity consisting of a single person, two partners who have concluded a civil solidarity pact or spouses, whatever their marital property regime, and their children or other dependents. The tax base therefore generally comprises the total income of the various members of the tax household.

#### **2 – Tax treatment of persons domiciled in France**

Regardless of their nationality, persons domiciled for tax purposes in France are taxable on their worldwide income.

#### **3 – Tax treatment of persons not domiciled in France**

Regardless of their nationality, persons not domiciled in France are taxable in France on their income from French sources only. Under Article 164 B CGI, only the following are deemed income from French sources:

- income from real property situated in France or from rights relating to such property;
- income from French transferable securities and all other capital assets invested in France;
- income from business concerns situated in France;
- income from professional activities, salaried or not, or from for-profit operations carried on in France;

- capital gains on the transfer for valuable consideration of real property or rights of all kinds and profits derived from transactions carried out in particular by property dealers, where they relate to businesses operated in France and to properties situated in France, property rights relating to them or shares in unlisted companies whose assets mainly consist of such property and rights;
- capital gains on the transfer of shares in companies having their registered office in France;
- amounts, including salaries, in consideration of artistic or sporting performances given or used in France.

Under Article 164 B CGI aforesaid, the following are also deemed income from French sources where the payer of the income has his tax domicile or is established in France:

- pensions and annuities;
- income received by inventors or in respect of copyright and all income derived from industrial or commercial property and similar rights;
- amounts paid in consideration of services of any kind rendered or used in France.

Under Article 164 C CGI, the income tax payable by persons not domiciled in France is assessed on a notional income equal to three times the real rental value of their dwelling(s) in France where they have no income from French sources or where such income is less than the notional assessment base.<sup>2</sup> However, the notional assessment does not apply, for the year in which the tax domicile is transferred outside France and the following two years, to taxpayers of French nationality who can prove that the transfer is made for imperative professional reasons and that their tax domicile was continuously situated in France for the four years before the transfer.

The notional assessment also does not apply:

- to persons of French or foreign nationality domiciled in a State or territory that has concluded a treaty with France intended to avoid double taxation, even if the treaty does not contain any provision in that respect;
- to persons of French nationality, where they can prove that they are liable, in the country or territory where they have their tax domicile, to personal taxation on their total income at least equal to two-thirds the tax they would have to pay in France on the same tax base;
- to nationals of countries that have concluded a reciprocal agreement with France who meet the condition stated in the preceding paragraph.

Taxpayers domiciled outside France who receive income from French sources or have one or more dwellings in France must in principle file a tax return.

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<sup>2</sup> To make the comparison, this income includes income subject to a withholding.

## **B. EXEMPT PERSONS**

Exemptions are granted for social reasons. Taxpayers whose income net of professional expenses does not exceed €8,270 are exempt from personal income tax. For those aged over 65, this limit is €9,040 (these amounts concern income in 2008).<sup>3</sup>

Under the 1961 and 1963 Vienna Conventions on Diplomatic and Consular Relations, diplomatic and consular staff of foreign nationality are exempt from personal income tax on their official remuneration and their income from foreign sources.

## **III – TAXATION OF INCOME RECEIVED BY INDIVIDUALS**

### **A. PERSONS DOMICILED IN FRANCE**

#### **1 – Business profits**

Business profits include profits from industrial, commercial and craft activities, from certain activities taxed in that category by law (such as profits made by property dealers) and, under certain conditions, from secondary activities.

The rules for determining the tax base are in principle identical to those that apply to corporation tax. However, the territorial rule for corporation tax does not apply to profits of enterprises liable to personal income tax.

Determined from the book profit, the taxable profit therefore corresponds to the result of all operations of any kind performed by the enterprise, subject to other treatments under tax law. However, small businesses may opt for a simplified regime that reduces their accounting obligations, and very small businesses<sup>4</sup> are generally taxed, unless they opt for actual assessment, on a notional profit equal to 29% of sales of goods and housing provision and 50% of sales of services.

Taxpayers with a very small business may also opt, under certain conditions, to make a social security and tax payment on a notional basis. If they do so, they pay social security contributions and income tax on the activity on a monthly or quarterly basis by applying a 13% rate<sup>5</sup> to sales of goods or a 23% rate<sup>6</sup> to sales of services in the previous period.

If businesses subject to actual assessment in that category do not belong to an approved small business management centre, their taxable profits are increased by 25%.<sup>7</sup>

#### **2 – Professional profits**

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<sup>3</sup> These amounts are increased each year in the same proportion as the upper limit of the first income tax band (Article 5-2 bis CGI).

<sup>4</sup> Enterprises whose annual sales do not exceed €80,000 excl. VAT for sales of goods or housing provision or €32,000 for sales of services (these thresholds will be updated each year as of 1 January 2010).

<sup>5</sup> 12% for social security contributions and 1% for income tax.

<sup>6</sup> 21.3% for social security contributions and 1.7% for income tax.

<sup>7</sup> The purpose of the increase is to offset the 20% relief in the progressive income tax scale. The relief formerly applied to income in the wages and salaries category and to income in the business profits, professional profits and agricultural profits categories of members of an approved management centre or association taxed on a real basis.

Professional profits include the profits of the professions and of offices and practices whose holder does not have trader status, and the profits of all occupations, for-profit concerns and sources of profit not falling within any other category of profits or income (regular stock market trading, copyright, income received by inventors, etc.).

Taxpayers taxed on an actual assessment basis, called the "controlled return" (*déclaration contrôlée*) regime (i.e. having annual revenue in excess of €32,000 excl. VAT), must fulfil certain accounting obligations. They are required to keep a ledger itemising their professional revenues and expenditures and a record of fixed assets and depreciation.

Unlike business profits and profits liable to corporation tax, taxable professional profits are equal, in principle, to the difference between revenues actually received and expenditures (including depreciation) necessary for the practice of the profession that have been paid and are justified.

Persons taxed on their professional profits under the notional assessment system, called "micro-BNC" (i.e. with annual revenue less than or equal to €32,000 excl. VAT) are required only to keep an accounting record of their revenues. Under this regime, the taxable profit is equal to 66% of revenues. Such taxpayers may opt, under certain conditions, to make a monthly or quarterly social security and tax payment on a notional basis. In that case, taxpayers in the social security scheme for the self-employed (*régime social des indépendants*, RSI) apply a 23.5% rate<sup>8</sup> to the amount of their revenue in the preceding period, while taxpayers in the CIPAV pension fund scheme apply a 20.5% rate.<sup>9</sup>

Under an actual assessment regime, taxable profits are increased by 25% unless the taxpayer belongs to an approved small business management centre.

### **3 – Agricultural profits**

Agricultural profits include in principle all income that farmers, tenant farmers or working owners derive from the operation of rural property. Generally speaking, agricultural profits include income derived from crop farming, livestock farming, forestry and the sale of biomass or energy mostly derived from farming.

There are three regimes – notional, simplified actual profit and normal actual profit – depending on the amount of revenue. The profits of smallholdings are taxed on a notional basis, while those of the largest farms are taxed under the normal actual profit regime.

### **4 – Income from real property**

Income from real property includes income from urban or rural developed or non-developed property in France or in other countries.

However, where such income is linked to the pursuit of an industrial, commercial, craft, agricultural or non-commercial activity, it is included in the profits of the activity according to the relevant rules.

Recipients of income from real property whose annual revenues do not exceed €15,000 and who do not let properties covered by certain special regimes benefit from a simplified tax regime called "*micro-foncier*". Taxable income from real property is determined after deducting a notional 30% allowance representing all expenses on the property.

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<sup>8</sup> 21.3% for social security contributions and 2.2% for income tax.

<sup>9</sup> 18.3% for social security contributions and 2.2% for income tax.

Recipients of income from real property whose annual revenues exceed €15,000 are covered by an actual regime. In this case, taxable income from real property is equal to the difference between the amount of revenue and the total real amount of expenses on the property.

Persons entitled to benefit from the "*micro-foncier*" regime may opt for the actual regime.

The taxable amount of income from real property may be reduced, under certain strictly defined conditions, by an amortisation of the acquisition cost of new rental housing, to which may be added certain specific deductions (incentives to invest in properties to let).

## **5 – Wages, salaries, pensions and annuities**

This category includes:

- wages, salaries, compensation and emoluments received in consideration of an employment, including the remuneration of senior managers of joint-stock corporations (chairman of the board, chief executive officer, deputy CEOs and members of the management board) and managers of limited liability companies, allowances paid to members of the French and European Parliaments and, at the beneficiary's discretion, allowances paid to the holders of local elected offices;<sup>10</sup>
- pensions and annuities.

The net amount of taxable income in this category is determined by deducting, inter alia, mandatory social security contributions and, when the person is in active employment, expenses inherent in the function or job from the gross amount paid.

Unless otherwise provided, gross earned income includes all amounts and benefits in kind available to the taxpayer. Expenses incurred in the acquisition of earned income are normally taken into consideration on a notional basis (a 10% deduction, capped and reviewed each year<sup>11</sup>). However, taxpayers may opt to deduct the actual amount of their professional expenses, subject to the production of vouchers. Pensions and annuities without consideration are eligible for 10% special relief, though the amount for all members of the household may not exceed an amount revalued each year in the same proportion as the upper limit of the first band of income tax.<sup>12</sup>

Purchased life annuities are eligible for notional relief at a rate which varies from 30% to 70% according to the recipient's age (from under 50 to 70 or over) when the annuity becomes payable.

NB: Under Article 1 of Act 2007-1223 of 21 August 2007 for work, employment and purchasing power, payment received for overtime (for full-time workers) or additional hours (for part-time workers) worked since 1 October 2007 is exempt from tax and gives entitlement to reduced employee social security contributions.

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<sup>10</sup> If the option is not exercised, a withholding in discharge of income tax is automatically applied to elected officials' allowances on payment.

<sup>11</sup> €13,893 for the taxation of income earned in 2008.

<sup>12</sup> €3,592 for the taxation of income earned in 2008.

## **6 – Income from capital assets**

This category covers income from variable-yield and fixed-income securities.

Income from variable-yield securities includes income from shares and similar income distributed by legal entities liable for corporation tax.

Income from fixed-income securities includes income from bonds and other negotiable debt securities and income from receivables, deposits, guarantees, shareholder advances, Treasury bills and short-term notes issued by public- or private-law legal entities.

### **➤ Income from variable-yield securities (dividends and similar income)**

In principle, income distributed by French or foreign companies liable to corporation tax or an equivalent tax and received by individuals is liable to personal income tax at a progressive rate, after deducting a 40% allowance and an annual fixed allowance.<sup>13</sup> This income also gives entitlement to a tax credit equal to 50% of the amount of dividends received, capped according to the taxpayer's family situation.<sup>14</sup>

Since 1 January 2008, taxpayers have been able to opt for an 18% flat-rate withholding tax (excluding social levies) and thus avoid progressive taxation. The flat-rate withholding option is irrevocable and must be exercised:

- by the taxpayer at the latest on receipt of the income, where the payer is established in France, the payer paying the withholding at the latest in the first fifteen days of the month following the month in which the income is paid;
- where the payer is established outside France, by filing the declaration and paying the withholding in the first fifteen days of the month following the month in which the income is paid. These formalities are fulfilled by the taxpayer or the payer of the income, where it is established in a State party to the agreement on the European Economic Area (except Liechtenstein) and has been authorised by the taxpayer to that effect.

Taxpayers who opt for the withholding cannot apply the above-mentioned allowances and tax credit, including on other distributed income received during the same year which, if the withholding option has not been exercised, is liable to progressive rates of income tax.

### **➤ Income from fixed-income securities (interest and similar income)**

In principle, this income is included in the income tax base and therefore taxed at progressive rates.

However, where the income derives from French or European fixed-income securities and the payer is established in France or in a State party to the agreement on the European Economic Area (except Liechtenstein), the taxpayer may opt for a withholding, the rate of which varies according to the type of income (as a rule it is 18% excluding social levies).

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<sup>13</sup> The allowance is €1,525 for a single person and €3,050 for a couple taxed jointly.

<sup>14</sup> The tax credit is capped at €115 or €230.

The flat-rate withholding option is irrevocable and must be exercised:

- by the taxpayer at the latest on receipt of the income, where the payer is established in France, the payer paying the withholding at the latest in the first fifteen days of the month following the month in which the income is paid;
- where the payer is established outside France and in the EEA (except Liechtenstein), by filing the declaration and paying the withholding in the first fifteen days of the month following the month in which the income is paid. These formalities are fulfilled by the taxpayer or the payer of the income, where it has been authorised by the taxpayer to that effect.

Certain income is expressly exempted from income tax, especially for social reasons, such as interest on Livret A passbook accounts, popular savings accounts, youth savings accounts and sustainable development savings accounts.

The portion of accrued interest on housing savings accounts (PEL) booked to the account as of the date of the twelfth anniversary of the plan is taxed at progressive rates or, optionally, subject to the flat-rate withholding.

## **7 – Capital gains**

Capital gains may be realised by individuals in the course of managing their private assets or in the pursuit of a business activity.

### **➤ Capital gains realised by private individuals**

The taxation of capital gains realised by private individuals applies to capital gains on real property and capital gains on the sale of transferable securities or shares.

Capital gains on a disposal free of charge are not taxed as such, but are included in the assessment base for capital transfer duty (see Taxes on personal assets, p. 61).

### **Capital gains on real property**

Capital gains realised on the sale of real property or property rights by individuals in the course of managing their private assets are liable to income tax at 16%.

Capital gains realised on the disposal of securities of companies not liable to corporation tax whose assets mainly comprise real property or property rights ("predominantly property companies") are subject to the same rules.

The notary is responsible for making the return and paying the corresponding tax on the seller's behalf when the transfer is made.

The taxable event is the sale of the property or the rights relating to it. The capital gain is therefore established for the year in which the sale takes place, whatever the terms on which the price is paid.

Certain capital gains are expressly exempted, such as those that arise, under certain conditions, from the sale of the taxpayer's main residence or sales of properties for which the price does not exceed €15,000.

The taxable base is equal to the difference between the sale price and the purchase price paid by the seller (or the market value if the property was acquired free of charge), plus, where relevant, certain limitatively listed expenses and charges. Relief equal to 10% of the gross capital gain is deducted for each year of ownership of the property after the fifth year. In practice, this relief means that capital gains on the sale of a property owned for more than fifteen years are exempt.

In principle, capital losses on property sales cannot be set off against either capital gains of the same kind or overall income. Exceptionally, capital losses and gains may be set off in certain limitatively listed cases, such as where the sold property was acquired by successive fractions.

A fixed allowance of €1,000 is deducted from the capital gain.

The tax on the capital gain must be declared and paid to the mortgage registry of the place where the property is situated before the land registration formality.

No declaration needs to be made if the capital gain is not taxable because it is expressly exempt or because it is eligible for relief for time of ownership or if the sale generates no capital gain or a capital loss.

Under most international tax treaties concluded by France, capital gains on the sale of property are taxable, by virtue of an exclusive right or not, in the country where the property is situated. Where no such treaty exists, capital gains realised by a resident of France on the sale of property in another country are taxable in France.

#### Capital gains on the disposal of transferable securities and shares

Capital gains on the disposal of transferable securities and shares realised by persons domiciled for tax purposes in France are taxed at a proportional 18% rate<sup>15</sup> where the annual amount of disposals by the tax household exceeds a certain limit. This threshold, updated each year, is €25,730 for the taxation of income in 2009.

Beyond this threshold, capital losses during the year can be set off against capital gains of the same nature in the same year or in the following ten years.

For the purposes of calculating income tax, relief equal to one-third of capital gains or losses on the sale of shares in European companies that are liable to corporation tax or an equivalent tax or for which the taxpayer has opted for liability to corporation tax realised as of 1 January 2006 is deducted for each year in which the shares are held as of the end of the sixth year. In other words, capital gains on the sale of shares held for more than eight years at the date of sale are exempt from income tax.

For the purposes of such relief, ownership of the shares is reckoned from 1 January of the year in which they were acquired (or as of 1 January 2006 for shares acquired before that date), which means that the allowance will effectively apply to disposals as of 2012.

For senior managers of small and medium-sized enterprises who sell their shares in their business on taking retirement, the allowance applies in advance, i.e. as of 1 January 2006.

**NB:** The length-of-ownership relief applies only to income tax. Social levies remain payable on the entire amount of the capital gain realised by the seller.

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<sup>15</sup> Plus 12.1% of social levies.

## ➤ **Business capital gains**

Business capital gains are profits of an exceptional nature made on the sale of fixed assets by industrial, commercial, craft, agricultural or non-commercial enterprises.

A distinction is drawn between long-term and short-term capital gains (or losses). Short-term capital gains (or losses) are generally included in the base of the taxable profit liable to progressive rates of income tax, while long-term capital gains are taxed at a reduced rate equal to 28.1% (income tax for 16% and social levies for 12.1%).

The distinction between the long-term and short-term regimes is made according to the following rules:

- for non-depreciable assets, capital gains (or losses) are deemed to be short-term where the assets are disposed of within two years of being booked. In other cases, capital gains are long-term;
- for depreciable assets, capital gains (or losses) on disposal are deemed short-term in principle, however long the assets have been held. However, if the asset has been held for longer than two years, the portion of the capital gain greater than the amount of the depreciation expense is deemed to be long-term.
- Business capital gains realised by a taxpayer exercising an agricultural, commercial, industrial, craft or liberal profession may be totally or partially exempt under certain conditions:
  - on the sale of an individual enterprise or complete branch of activity<sup>16</sup> where the activity has been pursued for at least five years and the value of the sold assets does not exceed certain thresholds;
  - on the retirement of an individual where the activity has been pursued for at least five years: this exemption applies only to income tax at the 16% rate and does not apply to social levies (at the 12.1% rate), which remain payable.
  - An allowance of 10% per year of ownership after the fifth year may be deducted from long-term capital gains on the sale of property allocated by the enterprise to its own operation, meaning that they are entirely exempt after fifteen years.

Capital gains realised by very small businesses are totally or partially exempt where the professional activity has been pursued for at least five years and turnover does not exceed certain thresholds.

## **B. PERSONS NOT DOMICILED IN FRANCE**

In principle, persons not domiciled in France must file an annual return reporting all their income if they have income from French sources or one or more homes in France. The rules for income received by persons domiciled in France are the same in principle for income received by persons not domiciled in France.

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<sup>16</sup> This exemption also applies to enterprises liable to corporation tax under certain conditions, relating in particular to the ownership of their capital by natural persons.

However, specific arrangements exist.

Withholding tax is applied to some income from French sources received by persons not domiciled in France. In some cases the withholding may discharge the income tax liability, meaning that progressive rates of tax are not applied to the income in question.

Some income is expressly exempted when received by non-residents.

### **1 – Income subject to withholding tax**

#### **➤ Professional profits**

Profits from non-commercial activities carried on in France by persons not domiciled there are taxable under the same rules as for profits of the same kind received by persons domiciled in France.

However, withholding tax at 33 $\frac{1}{3}$ % is levied on non-commercial or similar income paid to persons (or companies) that do not have a permanent business establishment in France.

Withholding tax at the same rate is also generally levied on remuneration paid for services of any kind actually provided or used in France.

However, a 15% rate applies to sums, including salaries, paid for artistic or sporting performances in France.

The amount of the withholding relating to certain non-salaried income is credited against the income tax payable by the individual (or company) on income from French sources. The withholding is not refundable.

#### **➤ Wages, salaries, pensions and annuities**

Wages, salaries, pensions and annuities paid to persons not domiciled in France are liable to withholding tax in three bands, the limits of which are updated annually:

- no withholding tax is levied if the annual amount is less than €13,977.
- withholding tax is payable at 12% on income between €13,977 and €40,553;
- the rate is 20% for income in excess of €40,553.

The withholding can normally be set off against the final amount of tax payable.

That being said, the withholding on wages, salaries, pensions and annuities discharges income tax for the taxable portion, taxed at 12%, that does not exceed €40,553 for 2009. This arrangement is reserved for French nationals who do not have their tax domicile in France and for nationals of countries that have concluded a treaty with France containing a non-discrimination clause. The portion is not included in the income tax calculation and the corresponding withholding cannot be set off against it.

In contrast, the taxable portion of the income in question which exceeds the above-mentioned limit is included in the income tax calculation and the corresponding part of the withholding can be set off against the amount of tax.

However, these provisions do not mean that taxpayers must declare only the excess portion. They must report all wages, salaries, pensions and annuities from French sources available to them during the year of taxation together with the total amount of withholding tax levied on such income on their annual tax return.

## **2 – Other income from French sources subject to deduction at source in discharge of tax liability or to withholding tax**

### **➤ Financial income**

#### ***Income from variable-yield securities***

A 25% withholding tax in discharge of income tax liability is levied on dividends and similar income distributed by French companies to persons not domiciled in France. The rate is 18% for dividend and similar income paid since 1 January 2008 to individuals having their tax domicile in an EU Member State, in Iceland or in Norway. The rate is also reduced, or the tax even suppressed altogether, under most international tax treaties.

The withholding tax is levied by the entity legally responsible for paying it, namely the last payer in France. However, European financial intermediaries may pay the withholding tax due on income distributed by listed French companies to their non-resident shareholders to the French State provided that they have concluded an agreement with the French tax administration and have been authorised by the entity legally responsible for paying the tax to make the appropriate returns and payments.

#### ***Income from fixed-income securities***

Subject to the provisions of international tax treaties, income from fixed-income securities received by non-residents is subject to a mandatory withholding tax. The rate is generally 18%, though it may vary according to the issue date of the securities, the date on which the income is paid, how long the securities have been held and whether the subscription is anonymous or not.

The withholding tax does not apply to:

- income from loans contracted outside France by French legal entities or French mutual funds;
- income from debt securities traded on a regulated market and interest on bonds of French origin.

### **➤ Capital gains on real property**

Under most international tax treaties concluded by France, capital gains on the sale of real property are taxable in the country where the property is situated. Capital gains on the sale of a property in France by a taxpayer domiciled outside France are taxable in France.

Capital gains realised by non-residents are taxed in principle at a proportional 33⅓% rate.

However, they are taxed at 16% where the tax is payable by individuals domiciled in an EU Member State, in Iceland or in Norway.

### ➤ **Profits from real property**

Certain property profits made by individuals domiciled outside France are subject to a withholding tax of 50%.

They are:

- profits made by property dealers;
- profits made by persons on the sale of properties they have built or had built and of related property rights;
- profits made by persons who sell land divided into plots intended for development.

### ➤ **Capital gains on the disposal of shares deriving from substantial interests**

Gains resulting from the disposal by individuals or legal entities that do not have their domicile or registered office in France of shares in French companies are taxed in the same way as for individuals who have their tax domicile in France (see p. 26), where the seller, his or her spouse and their descendants and ascendants hold, or have held at some point during the previous five years, directly or indirectly, shares representing more than 25% of the corporate profits of the company whose shares have been sold.

Where they are taxable in France, capital gains realised by non-residents are taxed at the 18% rate if the threshold for sales is crossed and the applicable withholding discharges income tax.<sup>17</sup>

### **3 – Exemption of certain categories of income from French sources received by persons not domiciled in France**

Gains from the sale of transferable securities that are made directly or through an intermediary by persons not domiciled for tax purposes in France and do not derive from substantial interests (see point 2 above) are exempt from income tax. This also applies to legal entities whose registered office is situated outside France.

Interest on deposits made by non-residents with credit institutions established in France and interest on most bonds subscribed by non-residents are also exempt (see point 2 above).

Salaried employees and senior managers treated in the same way for tax purposes (and certain non-salaried employees) not domiciled for tax purposes in France during the previous five years who fix their tax domicile in France as of the time they take up their position there benefit from exemptions relating to their occupational income.

Such "impatriates" are exempt until 31 December of the fifth year following the year in which they take up their position. The income tax exemption also applies to 50% of certain income from capital assets and income from intellectual or industrial property rights received in other countries ("passive income") and certain capital gains on the disposal of transferable securities and shares held in other countries.

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<sup>17</sup> The threshold, updated annually, is €25,730 for sales in 2009.

## IV – DETERMINATION OF TOTAL INCOME

In principle, taxable income is determined by adding up the net income in each category available to a tax household during the year of taxation.

### ➤ Taxable income is a total income

This means that it includes all the net income of the members of a tax household in one or more categories of income.

At the same time, losses in certain categories of income are set off, in principle, against other kinds of income and any overall loss can be carried over to the total income of the subsequent six years. However, there are certain exceptions.

For example, agricultural losses cannot be set off where other income exceeds €104,239 for the taxation of income in 2008. In this case, they can be set off only against agricultural profits in the following six years.

Real property losses cannot be set off against total income except for the fraction resulting from expenditures other than loan interest, up to a limit of €10,700. The fraction that exceeds €10,700 or results from loan interest can be set off against income from real property in the following ten years.<sup>18</sup>

Likewise, losses from the exercise in a non-professional capacity of activities treated as business or professional profits for tax purposes may not be set off against total net income but only against profits from such activities made in the same year or in the following six years.

Under the same conditions as taxpayers domiciled in France, taxpayers not domiciled in France may set off losses of the same origin against profits or income from French sources, provided that the losses are from French sources. This possibility is not available to taxpayers domiciled outside France whose taxable income is notionally based on three times the real rental value of their home(s) in France.

### ➤ Taxable income is an annual available income

The tax household is, in principle, taxed on actual available income during the year (or tax period, if it derives from a non-salaried professional activity).

However, exceptional or deferred income may, under certain conditions, be taxed under the income splitting system (*quotient*), which alleviates the impact of progressive taxation.

### ➤ Taxable income is a net income

For economic or social reasons, certain personal expenditures of the tax household are treated for tax purposes either as expenses deductible from total income or as tax reductions or credits that represent a capped percentage of the expenditure.

Court-ordered or statutory maintenance payments may be deducted from total income, in principle for the actual amount. Other specific expenses may also be deducted, though the

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<sup>18</sup> However, real property losses arising from major repairs made by certain bare owners may be set off against total income up to a limit of €25,000 per year and there is no limit on the amount of losses in respect of historic buildings that can be set off.

amount is generally capped. For example, a tax incentive to constitute retirement savings in addition to pay-as-you-go pension schemes has been introduced in the form of a capped deduction from total net income.

Under the 2009 Budget Act, the total benefit resulting from certain tax breaks (deductions from total income, tax reductions and credits) was limited to €25,000 plus 10% of the tax household's taxable total net income.

In principle, the cap applies only to tax breaks granted in return for an investment or a service provided to the taxpayer. It does not apply to tax breaks linked to the taxpayer's personal situation (deduction of maintenance payments, tax breaks linked to dependency or disability) or to a public interest benefit without consideration (preservation of historic monuments, donations to charity, sponsorship, etc.).

Taxpayers not domiciled in France taxed only on their income from French sources may not deduct expenses from their total income, nor are they entitled to tax reductions or credits that may be granted to taxpayers domiciled in France.

## **V – CALCULATING THE TAX**

The authorities calculate personal income tax on the basis of the amounts declared by taxpayers, who are required to submit a single return per tax household reporting all income received in the previous year.

In addition, those receiving income from professional activities (business profits, professional profits, agricultural profits), investment income, income from real property and capital gains on real property are required to attach special declarations to the overall return. The calculation of income tax takes the taxpayer's personal situation into account.

The income tax calculation is adjusted to personal circumstance, inter alia, by means of an income splitting system (*quotient familial*) and by allowing taxpayers tax reductions or credits for certain personal expenses.

### **➤ The income splitting system**

Income splitting is a way of taking dependents into account and, accordingly, to cushion the effects of progressive taxation by applying the progressive rate to a partial income, namely taxable income per part.

The method involves dividing the tax household's taxable income into a certain number of parts (e.g. one part for a single person, two parts for a married couple, an additional half-part for each of the first two dependent children and an additional part for each dependent child thereafter).

The progressive tax scale is then applied to the taxable income per part. The scale, corresponding to one part, is as follows (2008 income):

Portion of taxable income (one part)	Rate (%)
Up to €5,852	0
From €5,852 to €11,673	5.5
From €11,673 to €25,926	14
From €25,926 to €69,505	30
Over €69,505	40

This partial tax is then multiplied by the number of parts to determine the gross amount of tax payable.

For an equal number of dependents, however, the tax benefit from the income splitting system increases with the amount of taxable income. The benefit is therefore capped, for income received in 2008, at €2,292 per half-part after the first two (as in the case of a married couple with one or more dependent children).

#### ➤ **Calculating the net tax**

The next step after determining the gross tax is to deduct any tax reductions and tax credits for which the taxpayer may be eligible, subject to the overall cap on tax relief (see above).

Certain personal expenditures by the taxpayer that parliament wishes to encourage, in particular for social or economic reasons, give entitlement to a tax reduction or tax credit. The amount of the benefit corresponds to a given percentage of the actual expenditure, up to a ceiling. It is therefore independent of the amount of the taxpayer's income. In addition, any surplus, on the tax calculated after deducting tax reductions, of the benefit arising from tax credits may be refunded. Taxpayers not liable to tax therefore benefit from this measure.

Tax reductions currently listed in the French Tax Code concern, for example, donations to charities and public interest bodies, the schooling costs of dependent children and subscription to the capital of small businesses.

Deductible tax credits are granted, for example, for childcare for young children, mortgage interest for the purchase of the main home, sustainable development-related equipment and personal care.

To encourage the return to work or continued employment, an earned income tax credit (*prime pour l'emploi*, PPE) is granted under certain conditions to taxpayers domiciled in France for tax purposes on their earned income. The tax credit is allowed against the amount of tax calculated after the deductions described above. Any surplus is refunded to the taxpayer in the form of a cheque drawn on the Treasury.

To reduce the time-lag between payment of the tax credit and receipt of the income on which it is calculated, it is possible to ask for lump-sum advances. Taxpayers who received a 2008 tax credit on 2007 income in the form of a Treasury refund may on

request receive monthly payments from January to June 2009 equal to one-twelfth of the refund. The balance will be settled on payment of the tax on income received in 2008.

Taxpayers are informed of their net income tax liability several months after filing their income tax return by means of a notice of assessment sent to their domicile, which also states the payment date.

Tax is generally paid in two advance instalments and the balance, though taxpayers may opt for monthly instalments. Payment is made by direct debit of one-tenth of the previous year's tax bill between January and October, the balance being paid in the last two months.

In addition to income tax, income received by persons domiciled in France is subject to levies introduced in recent years to supplement the funding of the social security system.



## CHAPTER 3

### SOCIAL LEVIES

Since its inception in 1945, the social security system has been financed mostly from contributions levied on earned income.

This arrangement has long distinguished France from some of its European partners, who finance most social spending from tax.

However, in order to tackle social security funding problems and ensure that all income helps to finance social protection, the range of resources was extended by the introduction of supplementary levies of a tax nature. They are the general social security contribution (*contribution sociale généralisée*, CSG), the social security debt repayment contribution (*contribution pour le remboursement de la dette sociale*, CRDS), the 2% social levy and the 0.3% additional contribution.

Most recently an additional 0.1% contribution to the 2% social levy, earmarked to fund the earned-income supplement (*revenu de solidarité active*, RSA), has been introduced as of 2008 or 2009 according to the nature of the investment income concerned.

The biggest payers of corporation tax are liable to a 3.3% social contribution.

#### I – GENERAL SOCIAL SECURITY CONTRIBUTION (CSG)

The general social security contribution, which came into force on 1 February 1991, is a levy with a social purpose. Unlike social security contributions, which entitle those who pay them to benefits, the CSG is levied like any other tax without any direct benefit in return.

The CSG is allocated to the social security budget, and specifically to the national family allowance fund, the old-age solidarity fund and compulsory health insurance schemes.

The contribution is levied on individuals who are domiciled for tax purposes in France and, where earned or substitution income is concerned, members of a French compulsory health insurance scheme.

The CSG tax base is very wide, since it is levied in principle on earned income, substitution income, income from personal assets and income from investments in fixed-income securities subject to withholding tax or exempt from income tax.

##### ➤ CSG on earned and substitution income

For income from salaried employment and similar income, the tax base comprises the gross amount of salaries and benefits in cash or in kind. A 3% deduction is allowed for professional expenses. CSG is deducted by the employer at source at a 7.5% rate and paid to URSSAF, the body that collects social security contributions.

CSG is also levied at the 7.5% rate on non-wage earned income and paid in advance in quarterly instalments.

For substitution income, early retirement benefits received by employees who have taken early retirement since 11 October 2007 are taxed at the 7.5% rate, other early retirement, retirement and invalidity benefits are taxed at 6.6% and other substitution income benefits (unemployment, sickness, maternity, work-related accident, occupational illness) are taxed at 6.2%.

However, recipients of substitution income benefits<sup>19</sup> are exempt from CSG if their income does not exceed certain amounts, at which levels they are also exempt from local taxes. Those who do not meet the condition but whose annual amount of income tax does not exceed the collection threshold, set at €61, are liable to CSG at a reduced 3.8% rate, wholly deductible from the income tax base.

CSG on earned and substitution income is deductible from income tax except for a 2.4% fraction.

➤ CSG on income from personal assets

CSG is levied on income from personal assets at 8.2%.

The following are liable to CSG:

- income from real property;
- purchased life annuities;
- income from capital assets other than income liable to withholding tax and income on which CSG has been deducted at source (see "CSG on investment income" below);
- capital gains and profits liable to income tax at a proportional rate, including long-term business capital gains and capital gains on transferable securities before any length-of-ownership deduction, for capital gains on transferable securities realised by private individuals;
- business, professional or agricultural income not liable to CSG in respect of earned income;
- income of indeterminate origin taxed by administrative assessment and amounts taxed by administrative assessment for non-production or late production of the tax return;
- any other income, the taxation of which is attributed to France by an international treaty.

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<sup>19</sup> Excluding daily social security allowances, which are still liable to the CSG at 6.2%.

CSG is levied on the net amount used to determine the income tax liability. However, it is assessed on the gross amount of income from capital assets received since 1 January 2008.

CSG is individually assessed and controlled in the same way as income tax.

5.8% of the CSG on income from personal assets, except for capital gains liable to income tax at a proportional rate, is deductible from income tax in the year it is paid.

➤ CSG on investment income

Income from fixed-interest investments, together with dividends and similar income received since 1 January 2008 (with the exception of those received within the framework of a PEA equity savings plan) are liable to CSG at 8.2% where they are liable to withholding tax in discharge of income tax, where they are liable to income tax at progressive rates and the payer of the income is established in France, and where they are exempt from income tax (with the exception of certain tax-free products, namely youth savings accounts, Livret A passbook accounts, popular savings accounts and sustainable development savings accounts).

CSG on investment income is also payable on capital gains on real property and on certain movables liable to income tax at a proportional rate upon disposal.

CSG is deducted at source, generally, in the case of fixed-interest investment income, by the payer. Where products are exempt, the deduction is made in principle on payment of the income by the debtor or the intermediary, who pays the income in question and is then responsible for paying the amounts to the State. CSG on capital gains on real property and certain movables is collected at the same time as the flat-rate income tax charge on the capital gain.

5.8% of the CSG paid on income from fixed-income investments and distributed income liable to income tax at progressive rates can be deducted from taxable income in the year in which it is paid.

CSG yielded €79.68 billion in 2007 and is expected to yield €84.67 billion in 2009.

## **II – SOCIAL SECURITY DEBT REPAYMENT CONTRIBUTION (CRDS)**

The CRDS, which came into force on 1 February 1996, is intended to clear the deficits of the social security system. Like the CSG, it is payable by individuals who are domiciled in France for tax purposes and, where earned or substitution income is concerned, who contribute in any capacity whatsoever to a French compulsory health insurance scheme.

The rate is 0.5%.

The tax base is slightly wider than that of the CSG since some income exempt from CSG, like family allowance and housing benefit, is liable to CRDS.

CRDS is collected in the same way as CSG, with the exception of the contribution on earned and substitution income from foreign sources collected by individual assessment.

CRDS is not deductible from the income tax base.

It yielded €5.72 billion in 2007 and is expected to yield €6.13 billion in 2009.

### **III - 2% SOCIAL LEVY AND OTHER ADDITIONAL LEVIES**

Individuals domiciled in France for tax purposes are liable to a 2% social levy, introduced in 1998, on income from personal assets and investment income. The proceeds are allocated to the old-age solidarity fund, the national retirement pension fund and the pension reserve fund.

An additional 0.3% levy on income from personal assets and investment income, allocated to the national solidarity fund for autonomy (CNSA), was introduced in 2004.

Act 2008-1249 of 1 December 2008 generalising the earned-income supplement and reforming integration policies introduced a new 1.1% additional contribution to the 2% social levy on income from personal assets and investment income, intended to fund the earned-income supplement (*revenu de solidarité active*, RSA). The 1.1% additional contribution on income from personal assets applies to the taxation of income received in 2008 and subsequent years and the 1.1% additional contribution on investment income applies as of 1 January 2009.

The base of and collection methods for the 2% levy and the 0.3% and 1.1% additional contributions are similar to those for the CSG relating to the same income (see Section I above).

The 2% levy and the 0.3% and 1.1% additional contributions are not deductible from the income tax base.

### **IV – EMPLOYEE CONTRIBUTIONS ON AWARDS OF STOCK OPTIONS AND FREE SHARES**

Individuals domiciled for tax purposes in France are liable to an employee contribution, introduced in 2007, on their gains from exercising stock options and acquiring free shares.

The contribution is assessed on gains from exercising stock options and acquiring free shares awarded as of 16 October 2007.

The rate is 2.5%.

It is collected in the same way as CSG on income from personal assets (see Section I above).

Employee contributions are not deductible from the income tax base.

### **V – SOCIAL CONTRIBUTION ON CORPORATE PROFITS (CSB)**

For periods ending on or after 1 January 2000, corporation tax payers are liable to a social contribution equal to 3.3% of the corporation tax calculated on their taxable earnings at the standard rate (33.33%) or at the reduced rates (16.5% or 15%). It is based on the

amount of corporation tax for the year minus relief that may not exceed €763,000 per twelve-month period.

Corporation tax payers with turnover of less than €7,630,000, at least 75% of whose fully paid-up capital has been held continuously by individuals or a company meeting the same conditions are exempt from the contribution.

The social contribution is collected in the same way as corporation tax and with the same guarantees and sanctions. It must be paid spontaneously at the latest on the date on which the outstanding balance of corporation tax is paid. Four instalments are paid, at the same dates as corporation tax instalments, before payment of the final balance.

The social contribution on corporate profits is not a deductible expense for the purposes of calculating the assessment base for corporation tax.

It is expected to yield €1.15 billion in 2009.

## **VI – CORPORATE SOCIAL SOLIDARITY CONTRIBUTION (C3S)**

Legal entities engaged in an economic activity in the competitive sector that generate turnover excl. VAT of at least €760,000 are required to pay a social solidarity contribution intended to finance the social protection of self-employed workers. An additional contribution to the social solidarity contribution was introduced as of 1 January 2005.

The rate of contributions is 0.16% (0.13% for the corporate social solidarity contribution and 0.03% for the additional contribution) of sales, minus deductions.

C3S and the additional contribution must be reported and paid to the national fund of the social security scheme for the self-employed (RSI).

C3S yielded €3.98 billion in 2007 and the additional contribution €917 million. C3S is expected to yield €4.39 billion in 2009 and the additional contribution €1.01 billion.



## CHAPTER 4

### PAYROLL TAXES

The main payroll taxes are the wage tax, the apprenticeship tax and employers' contributions to the development of continuous vocational training and to construction.

Only the wage tax is considered within the limited scope of this handbook.

The wage tax is payable by employers established in France who are not liable to VAT or were not liable to VAT on at least 90% of their previous year's turnover.

The taxpayers are mainly banks and insurance companies, the medical and paramedical sector, associations and other non-profit bodies.

However, in order to cut red tape for "micro-enterprises" taxpayers whose annual turnover or revenue does not exceed the thresholds for dispensation from VAT, namely €80,000 for sales of goods and €32,000 for the provision of services, are also exempt (see p. 51).

The wage tax is levied on the total amount of gross wages paid plus the amount of benefits in kind as used to calculate social security contributions.

For employers partially liable to VAT, however, the taxable base is reduced by a percentage corresponding to the portion of turnover liable to VAT.

The wage tax is an annual tax determined by applying a progressive scale to the amount of wages paid to each employee. The bands applicable to wages paid in 2009 are as follows:

- 4.25% for the portion of annual individual wages not exceeding €7,461;
- 8.5% for the portion of annual individual wages between €7,461 and €14,901;
- 13.6% for the portion of annual individual wages exceeding €14,901.

The tax is not payable if the annual amount does not exceed €840. Where the annual amount of the tax is more than €840 but less than €1,680, marginal relief equal to three-quarters of the difference between €1,680 and that amount is applied.

Non-profit associations are eligible for annual tax relief of €5,890 on the tax payable on wages paid in 2009.

Taxpayers pay the tax spontaneously on a monthly, quarterly or annual basis. An annual summary return must be filed in January of the following year so that the amount of tax due can be adjusted.<sup>20</sup> Taxpayers whose annual wage tax bill does not exceed €840 or the amount of relief available to associations are not required to file a return.

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<sup>20</sup> Where employers liable to the wage tax make an annual payment, the return (which is the only reporting obligation) is accompanied by the total amount of tax due.

The wage tax is deductible from the base of the tax on profits (personal income tax or corporation tax).

The wage tax yielded €10.49 billion in 2007 and is expected to yield €11.43 billion in 2009.

## **CHAPTER 5**

### **THE CAPPING OF DIRECT TAXES**

Under Article 1 of the French Tax Code, taxpayers may not pay more than half of their income in direct taxes.

Article 1649-0 A of the Code states how the right to restitution of the portion of tax that exceeds the 50% limit is determined.

The right to restitution becomes effective on 1 January of the second year following the year in which the income concerned was received (reference period).

The 2009 Budget Act introduced a self-assessment arrangement for the tax cap. Taxpayers may now:

- either opt to ask for the portion of tax already paid that exceeds half of their income to be returned;
- or set off the claim on the State arising from their right to restitution against the payment of wealth tax, property tax and residence tax relating to the main home, and contributions and levies on income from personal assets.

#### **I – INCOME TAKEN INTO ACCOUNT**

The income taken into account to determine the right to restitution is the income received by the taxpayer during the reference period. It comprises:

- net income liable to personal income tax;
- barring exceptions, income exempt from income tax in France, whether generated in France or not.

There is a limitative list of types of exempt income not taken into account to determine the right to restitution. They include statutory social or family benefits exempt from income tax.

The Economic Modernisation Act of 4 August 2008 made two changes to this arrangement:

- where a taxpayer previously domiciled in another country transfers his domicile to France, income generated outside France and exempt from income tax is taken into account to determine the right to restitution only as of the transfer date;
- taxes equivalent to income tax and social contributions and levies (CSG, CRDS, etc.) paid in other countries are deducted from the income taken into account to determine the right to restitution effective since 1 January 2008.

## **II – TAXES TAKEN INTO ACCOUNT**

Only the amount of tax paid in France is taken into account to determine the right to restitution.

The taxes concerned are:

- personal income tax (at progressive rates or on a notional basis);
- wealth tax;
- residence tax and property tax on developed and undeveloped land relating to the main home and certain additional taxes;
- social contributions and levies (CSG, CRDS, 2% social levy and 0.3% and 1.1% additional contributions).

## **PART II**

### **TAXES ON EXPENDITURE**

Taxes on expenditure are levied on household and business consumption and investment.

Taxes on expenditure traditionally took the form of indirect consumption duties and customs duties.

The introduction of VAT and its widespread application have considerably reduced the scope of such indirect taxes and hence the revenue they raise, though one of them, the domestic tax on mineral oil products, still yields significant amounts.



# CHAPTER 1

## VALUE ADDED TAX

In order to create a single market between EU Member States, a number of VAT directives have been issued since 1967 which Member States have had to transpose into their domestic law. Rules on the scope, tax base, liability for the tax, territoriality of the supply of goods and service provision and reporting requirements have been partially harmonised. Member States may apply transitional provisions relating to rates, exemptions and deduction entitlements, the rules for which are being harmonised.

### I – STANDARD REGIME

#### A. CHARACTERISTICS OF VAT

##### 1 – VAT is a territorial tax

VAT is a general consumption tax levied on all goods supplied and services provided in France.

The territory in which VAT applies includes continental France, Corsica, the Principality of Monaco, territorial waters, the continental shelf and the *départements* of Guadeloupe, Martinique and La Réunion. However, the three overseas *départements* are deemed export territories with regard to metropolitan France, in the same way as third countries. Provisionally, VAT does not apply in French Guiana.

Supplies of tangible movable goods are deemed to be made in France where the good is situated in France:

- at the time of shipment or transport by the seller or the buyer or by another party on their behalf to the buyer;
- on assembly or installation by the seller or on the seller's behalf;
- when it is made available to the buyer, if it is not shipped or transported;
- at the time of departure of a transport, the place of arrival of which is on the territory of another Member State of the European Community, in cases where delivery, during such transport, is made on board a boat, an aircraft or a train.

The place where a service is provided is deemed to be in France where the provider has the registered office of his business or a permanent establishment from which the service is provided or, failing that, his domicile or usual home. However, there are exceptions which take into consideration the nature of the service provided, the place where it is provided or used, the place where the provider or user is established and whether the latter is liable to VAT or not.

Foreign trade transactions (exports of tangible goods and similar supplies, provision of services relating to international trade in goods or transactions relating to ships and aircraft, intra-EC supplies and similar transactions) are generally exempt from VAT

under certain conditions. However, taxpayers who carry out such transactions are entitled to deduct the VAT they have paid on the purchase of goods and services used in such transactions.

Intra-EC imports and acquisitions and similar transactions are in principle liable to VAT in France if that is where the transaction takes place.

## **2 – VAT is a real tax**

Liability to VAT is determined by the type of the transactions or products concerned, regardless of the personal situation of the liable person or customer.

Accordingly, VAT is levied on goods supplied and services provided:

- in the context of an economic activity (whatever the type);
- for valuable consideration;
- by a liable person, i.e. a person independently performing transactions that fall within the scope of VAT.

Activities carried on by statutory bodies (*personnes morales de droit public*) in their capacity as public authorities fall outside the scope of VAT except where non-liability leads to a distortion of competition.

Various exemptions exist, including:

- teaching;
- medical and paramedical activities and hospital care costs;
- public interest organisations;
- insurance and reinsurance and the provision of related services;
- some banking operations (the granting and negotiation of credit, the grantor's management of credit, the negotiation and assumption of commitments, guarantees and other forms of security interest, the management of credit guarantees by the grantor of the credit, etc.).

Voluntary taxation is available as an option for some exempted activities, such as the letting of undeveloped real property for business use, the letting of rural property, banking and financial transactions normally exempt from VAT, etc.

## **3 – VAT is an indirect tax paid in fractions**

VAT is finally borne by the end-user since it is included in the sale price of products or services. Each intermediary (manufacturer, retailer, etc.) collects the tax provided for by law from the customer and pays it on to his local tax office, minus the VAT on inputs paid to his own supplier. VAT is a tax on value added, i.e. the value added to the product or service at each stage of production or marketing, such that at the end of the economic chain through which the good or service reaches the buyer, whatever its length, the overall tax charge corresponds to the tax calculated on the final sale price to the consumer.

#### **4 – VAT is a proportional tax**

VAT is calculated by applying a proportional rate to the base amount of the transaction (free of VAT), whatever that amount may be.

#### **B. TAX BASE**

For the supply of goods, the provision of services and acquisitions within the EU, the tax base consists of all the sums, valuables, goods or services received or to be received by the supplier or service provider in return for them from the buyer, the taker or a third party, including subsidies directly linked to the price of such transactions.

Accordingly, in addition to the agreed price, the tax base includes all taxes, duties and levies of any kind except VAT itself and all incidental expenses. Such expenses include transport, insurance, packaging, etc. Conversely, the taxable price does not include price reductions (cash discounts, rebates, etc. granted directly to the customer) or amounts refunded to intermediaries who incur expenses on their principals' behalf, insofar as the intermediaries are accountable to their principals, enter such expenses in suspense accounts in their books and justify the nature or exact amount of such outlays to the tax authorities.

The tax base for imports is the value defined by customs law in accordance with the prevailing EC rules. As with domestic goods and services, however, the tax base must include duties, taxes and levies, excluding discounts, rebates and other reductions, plus incidental expenses (commission, packaging, transport and insurance) to the destination point and expenses arising from transport to another destination point within the EU, if known when the taxable event occurs.

Taxable persons are dispensed from paying VAT if their turnover during the preceding calendar year did not exceed:

- €80,000 excl. VAT for supplies of goods, sales of food and drink to be consumed on the premises or accommodation services (€88,000 where turnover in the year before that did not exceed €80,000);
- €32,000 excl. VAT for other services (€34,000 where turnover in the year before that did not exceed €32,000).

Special rules apply for activities falling into the two categories mentioned above.

There is also a €41,500 (excl. VAT) exemption threshold for authors, artistes, performers and lawyers.<sup>21</sup>

Persons eligible for dispensation may elect to waive their right and opt to pay VAT.

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<sup>21</sup> The turnover thresholds for dispensation from VAT will be updated annually from 1 January 2010.

## **C. CALCULATING THE AMOUNT OF VAT**

In order to determine how much they should pay, liable persons<sup>22</sup> deduct VAT paid on the purchase of goods and services used to perform the transactions liable to VAT from their taxable turnover.

### **1 – Calculating gross VAT**

The amount of gross VAT is calculated by multiplying the net amount of the sale or service provided (i.e. the amount excluding VAT) by the rate applicable to the transaction concerned.

The rates are:

- the standard rate, which has been 19.6% since 1 April 2000. The standard rate applies to all transactions not expressly subject to another rate;
- a 5.5% reduced rate for most food and agricultural products, certain types of animal food, medical drugs not reimbursed by social security, books and certain services under certain conditions (mainly the provision of accommodation, the provision of meals to company canteens and hospitals, passenger transport and certain entertainments). Since 15 September 1999, the 5.5% rate has also applied to improvements, conversions and maintenance work on residential premises more than two years old, except for the portion corresponding to the supply of certain large items of equipment. As of 1 July 2009, the 5.5% rate also applies in the restaurant sector to sales of food and drink for consumption on the premises, with the exception of alcoholic drinks;
- a special 2.1% rate charged in particular on press publications and medical drugs reimbursed by social security.

Special rates apply in the overseas *départements* (Guadeloupe, Martinique, La Réunion) and in Corsica.

### **2 – Setting off the tax on inputs**

Except where expressly provided otherwise (e.g. expenditure on accommodation, passenger transport, etc.), VAT invoiced to liable persons by their suppliers on acquired goods and services (purchases, overheads, capital expenditure) used to perform transactions liable to VAT or exempt from VAT but giving entitlement to a deduction (foreign trade transactions) is deducted from gross VAT.

Liable persons themselves determine the total amount of VAT to be paid.

If the difference between gross tax and deductible tax is negative, liable persons will generally set off the surplus against their future tax liability, though they may ask for a refund under certain conditions.

Liable persons established in other countries may under certain conditions obtain a refund of VAT charged on goods purchased or imported and services provided in France under the procedure provided for in the Eighth VAT Directive of 6 December 1979 (liable

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<sup>22</sup> See definition in the glossary.

persons established in the European Community) or the Thirteenth VAT Directive of 17 November 1986 (liable persons not established in the European Community).

#### **D. OBLIGATIONS ON LIABLE PERSONS**

Liability to VAT entails the following obligations:

- reporting the existence, identification or discontinuation of an activity;
- keeping itemised accounts supported by vouchers or a special ledger;
- issuing invoices showing the price excluding VAT, the rate, the amount of VAT and the VAT identification number of the seller or service provider and, for certain intra-EU transactions, that of the buyer or taker;
- filing monthly or quarterly turnover returns, depending on the annual amount of tax payable;
- filing movement of goods declarations for certain intra-EU transactions for statistical and tax purposes;
- spontaneously paying the tax to the tax office on submitting the turnover return or in instalments paid in advance.

These obligations are reduced for liable persons dispensed from VAT.

VAT yielded €131.51 billion net in 2007 and is expected to yield €138.33 billion net in 2009.

## **II – SPECIAL RULES FOR REAL PROPERTY TRANSACTIONS**

There are also numerous sets of special rules that take into account the particular conditions for the exercise of certain activities, such as banking and financial services, investment gold transactions and travel agencies. As an example, let us consider transactions involved in the production and delivery of immovable property.

### **A. SCOPE**

Transactions contributing to the production or delivery of immovable property, i.e. the sale or contribution of land for development or similar property, the self-supply of buildings, sales of buildings and transfers of interests or shares, possession of which gives de jure or de facto title to or enjoyment of a building or part of a building, are liable to VAT. They are liable to VAT even if they are of a non-commercial nature and regardless of the person who carries them out and his situation with respect to direct taxes.

The term "immovable property" refers to buildings constructed above or below ground, groundworks and movables that cannot be detached without being damaged or causing damage to the building itself.

Immovable property is liable to VAT if the building is situated on territory where metropolitan VAT laws apply. Foreign companies engaging in construction work in France are liable to VAT on immovable property under the same conditions as their French counterparts.

Where the transactions referred to above are liable to VAT, they are also liable to registration tax at the 0.6% reduced rate.

The following are exempt from VAT:

- certain transfers: contributions and sales of land for development by local authorities to rent-controlled housing bodies, land consolidation transactions, building leases, etc.
- certain self-supplies: constructions built by the State or local authorities, except if they are intended for commercial use or to be let as low-rental housing, car parks built on public land, etc.

VAT must be charged on the first transfer for valuable consideration within five years following the completion date; subsequent transfers within the same period are liable in principle to registration duty. Exceptionally, where the subsequent transfer occurs within five years of completion and has been preceded by a first transfer to a person with property dealer status, the transfer remains liable to VAT. Subsequent transfers are not liable to VAT if the acquirer is not a property dealer. Transfers for valuable consideration that occur after the five-year period expires are in all events not liable to VAT on immovable property.

Since 22 October 1998, purchases by individuals of land for the construction of buildings to be used for housing have been liable only to transfer duties.

## **B. TAX BASE AND RATES**

The tax base for transfers of developed or undeveloped real property consists either of the sale price, the amount of the indemnity or the value of shares in remuneration of the contribution plus additional costs, excluding VAT itself, or of the real market value of the property if it is higher than the value stated in the deed of sale or contribution. It is for the authorities to prove that the prices and valuations given in the deeds or declarations are insufficient and that the differences result from tax avoidance or evasion.

In the case of transfers of shares giving entitlement to immovable property, VAT is payable on the capital gain realised by the transferor.

The tax base for self-supplies of buildings consists of the total cost price of the building excluding VAT. The price includes all the elements that constitute the cost of the building, including the cost of the land, the cost of studies and plans, architects' and surveyors' fees, the purchase price of materials, contractors' bills and financial costs incurred in construction.

In principle, transactions contributing to the production or delivery of immovable property are taxed at the 19.6% standard rate, though certain transactions are taxed at the 5.5% reduced rate.

These are sales and contributions of land for development and similar property to certain persons (rent-controlled housing bodies, for example), self-supplies of low-rental housing to let, sales of new low-rental housing to let, first contributions of low-rental housing to let and self-supplies, sales and contributions of housing to be occupied by holders of rent-to-buy contracts or beneficiaries of home ownership incentive schemes.

The reduced rate may also apply to first home ownership schemes for low-income households in certain disadvantaged neighbourhoods and their immediate surrounds.

### **C. DEDUCTIONS**

As far as deductions are concerned, persons performing transactions liable to VAT on immovable property are generally subject to the same rules as ordinary liable persons. They may therefore deduct the VAT charged on various elements of the price of operations liable to VAT. Barring exceptions, the VAT charged on a building can thus be deducted only if a new transaction liable to VAT is carried out on the building or if it is used by an enterprise for the purposes of transactions giving entitlement to deduction.

### **D. OBLIGATIONS OF PERSONS LIABLE TO VAT ON IMMOVABLE PROPERTY**

When a transfer takes place, the person liable for VAT is the seller, the contributor or the beneficiary of the indemnity. However, where the transfer or contribution concerns an immovable property that did not fall within the scope of VAT before the transfer or contribution (land for development or similar property), the tax is payable by the purchaser, the beneficiary of the contribution or the payer of the indemnity. The seller or contributor may nevertheless opt for liability in order to benefit from the deduction entitlement.

For self-supplies, the tax is payable by the builder, i.e. in almost all cases the owner of the building.

### **E. OPERATIONS CARRIED OUT BY PROPERTY DEALERS AND DEVELOPERS**

Property dealers are defined as persons who regularly buy buildings, businesses or shares in property companies on their own behalf with a view to reselling them or who regularly subscribe shares issued by such companies with a view to reselling them, whether or not such transactions constitute the exercise of a genuine profession.

Transactions performed by property dealers or developers are liable to VAT where they contribute to the production or delivery of immovable properties.

Where sales do not fall within the scope of VAT on immovable property, the VAT payable by property dealers and developers is charged on the gross profit. The profit is equal to the difference between the sale price plus costs or the market value of the property sold, whichever is higher, and the purchase price comprising either all amounts of whatever kind paid by the seller in order to acquire the property or the nominal value of shares received in consideration of contributions in kind.

Property dealers and developers must comply with the general requirements incumbent on persons liable to VAT and with certain special requirements. Thus, they must file a declaration of existence within one month with the local business centre of their place of residence or with that of each of their branches or agencies, if any, and keep a dated and numbered register of all mandates, undertakings to sell, transfer deeds and in general all deeds relating to the business, whether official or private.

Acquisitions made by property dealers and developers may, under certain conditions, be exempted from transfer duties, where they state their intention of reselling the acquired property within four years. They pay the VAT they owe on the gross profit when the property is sold. If the property is not sold within four years, and except in the event of force majeure, the purchaser must pay the amount of deferred tax plus interest for late payment.



## **CHAPTER 2**

### **EXCISE DUTY**

Directive 2008/118/EC of 16 December 2008, directives 92/83/EC and 92/84/EC (alcohol), directives 92/79/EC, 92/80/EC and 95/59/EC (tobacco) and Directive 2003/96/EC (energy products) have partly harmonised indirect taxes (excise duties) at Community level. The harmonisation relates to energy products, alcoholic products and tobacco products. The new system was transposed into French law as of 1 January 1993.

Other products remain subject to national rules.

#### **I – TAXATION OF ALCOHOL AND ALCOHOLIC BEVERAGES**

Alcoholic beverages for tax purposes are drinks with alcohol by volume (ABV) of 1.2% or more (0.5% for beer).

- There are four indirect taxes on alcohol and alcoholic beverages, concerning:
  - alcohol (with more than 1.2% ABV) and alcoholic beverages (with more than 22% ABV) not included in another category (wine, beer, intermediate products). This definition includes brandies, liqueurs and spirits liable to the consumption duty on alcohol. Duty is assessed on the volume of pure alcohol contained in the products, expressed in hectolitres of pure alcohol (HPA). The duty yielded €1.99 billion in 2007 and is expected to yield €2.04 billion in 2009. For public health reasons, alcoholic beverages with more than 25% ABV are liable to a special levy which is expected to yield €433 million in 2009;
  - alcoholic beverages known as "intermediate products", with not more than 22% ABV. Including fortified wines, liqueur wines and wine-based aperitifs, they are liable to consumption duty on intermediate products. Duty is assessed on the volume of finished product expressed in hectolitres (HL). The duty yielded €1.13 billion in 2007 and is expected to yield €1.07 billion in 2009;
  - wine and fermented beverages other than wine and beer. This category includes still and sparkling wines with between 1.2% and 18% ABV, provided that the alcohol content results entirely from fermentation. It also includes all fermented beverages other than beer with between 1.2% and 15% ABV, such as cider, perry and mead. These products are liable to circulation duty. The circulation duty on these products is assessed on the volume of finished product expressed in hectolitres (HL). The duty yielded €1.17 billion in 2007 and is expected to yield €1.2 billion in 2009;
  - beers with over 0.5% ABV. Beer is liable to a specific duty, assessed on alcoholic strength and volume. The duty, which also applies to non-alcoholic beverages, yielded €3.82 billion in 2007 and is expected to yield €3.86 billion in 2009.

Consumption and circulation duty are calculated when the products are made available for consumption. Any person trading in spirits, alcohol-based products and alcoholic beverages must also comply with specific economic regulations.

In 2005, these duties were entirely allocated to the State budget. Since the 2006 Budget Act, the entire amount of these levies has been allocated to financing general reductions in employers' contributions, except for the contribution on alcoholic beverages which, allocated to the national health insurance fund until 2004, was transferred in 2005 to the fund to finance supplementary universal health insurance.

## **II – DOMESTIC CONSUMPTION TAX ON ENERGY PRODUCTS**

Energy products (oil products, natural gas, coal) are liable to the following indirect taxes: the domestic tax on mineral oil products (TIPP), calculated on volumes or bulk quantities (euros per hectolitre, for example for fuels like diesel and unleaded petrol), the domestic consumption tax on natural gas (TICGN) and the domestic consumption tax on coal (TICC). All these products are also liable to VAT. Domestic consumption taxes are included in the tax base for products liable to VAT.

TIPP is determined according to the physical characteristics of the taxed mineral oil products and calculated according to customs tariffs.

TIPP applies only in metropolitan France (continental France and Corsica) and does not apply in the overseas *départements* and territorial units.<sup>23</sup>

A portion of the TIPP tariff on diesel and unleaded petrol is allocated to the regions to finance policies for which regional authorities are responsible.

Each region can increase or reduce the regional fraction of TIPP allocated to it within certain limits. Regions may not increase or reduce the regional tariff on petrol by more than €1.77 per hectolitre or on diesel by more than €1.15 per hectolitre.

Domestic consumption taxes are collected by customs and excise (DGDDI) when the products are made available for consumption on the domestic market.

The taxes yielded €17.28 billion in 2007 and are expected to yield €15.59 billion in 2009.

## **III – TAX TREATMENT OF TOBACCO**

Duty on tobacco products is payable when they are made available for consumption. The duty, the revenue from which is paid to various social security organisations, yielded €9.42 billion in 2007 and is expected to yield €9.62 billion in 2009.

## **IV – ENTERTAINMENT TAX**

Entertainment tax is levied on receipts from admissions to sporting events, except for certain sports, and the amounts that gambling clubs and houses levy on bets. The revenue accrues to municipalities.

The tax yielded €31 million in 2007 and is expected to yield €25 million in 2009.

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<sup>23</sup> A special consumption tax is levied on petrol and diesel in the overseas *départements*.

## **V – DUTY ON PRECIOUS METALS**

The State guarantees the fineness of gold, silver and platinum materials by hallmarking them in return for the payment of duty. The rate varies according to the nature and content of the precious metal used. The taxable event is the release of the products concerned onto the market.

The duty yielded €38 million in 2007 and is expected to yield €40 million in 2009.

## **VI – GENERAL TAX ON POLLUTING ACTIVITIES**

Introduced by the 1999 Budget Act, the general tax on polluting activities (TGAP) was created by pooling existing taxes and mandatory levies allocated to the environment and energy management agency, ADEME.

It was created as an incentive to environmental protection on the basis of the "polluter pays" principle, whereby harm caused to the environment is liable to a specific tax intended as a disincentive to polluting activities by making them more expensive.

TGAP applies to the storage and disposal of household and special industrial waste, atmospheric emissions of pollutants, the operation of classified installations presenting specific environmental risks, the distribution of non-solicited printed material, the release for consumption of certain lubricants, detergents and mined or quarried materials, and fossil fuels. For enterprises that engage in such activities, these also constitute the taxable events. A specific tax base and rate applies to each category.

Persons liable to TGAP are required to spontaneously declare<sup>24</sup> the amount of tax payable and make advance payments, the balance being determined when the declaration is filed. The tax is collected and controlled by customs and excise, except for TGAP relating to classified installations, which is collected by the authorities responsible for inspecting such installations.

The tax yielded €699 million in 2007<sup>25</sup> and is expected to yield €675 million in 2009.

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<sup>24</sup> Except for TGAP on the distribution of unsolicited printed material, which is intended as a penalty.

<sup>25</sup> Including €432 million in 2009 for the ADEME.



## **PART III**

### **TAXES ON ASSETS**

Assets may be taxed when transferred for valuable consideration (sale) or without valuable consideration (gift, inheritance). In these cases, the tax generally takes the form of registration duty.

Assets may also be taxed by the fact of their ownership. In that case they are liable to an annual tax on their total value, in the form of wealth tax and property tax, the latter being assessed on real property only. As a local tax, property tax is considered in Part IV.

Assets may also be liable to capital gains tax on disposal. As capital gains constitute income, their tax treatment is considered in Part I.



# CHAPTER 1 REGISTRATION DUTIES

## I – REGISTRATION FORMALITY

Traditionally, the registration formality involves a civil servant analysing a deed and assessing and collecting the duties provided for by law. Taxation is therefore a primary purpose, but registration also has civil consequences since it gives the deed a legal date and, in certain cases, is a condition of its validity.

Civil registration may be combined with the property registration formality whereby transfers of real property are made a matter of public record. The combined registration formality most commonly applies to deeds relating to the sale of real property or real property rights.

In principle, tax is assessed on the market value of the assets at the date of the deed or transfer, as expressed in the deed or in the estimated value declaration filled out by the parties and controlled by the authorities. The market value of an asset corresponds to the price at which it could be sold or bought under market conditions.

Registration duties may be fixed, proportional or progressive depending on the type of deed or legal transaction subject to the formality.

Fixed duties are constant for all deeds in a given category or not liable to proportional or progressive duties. They apply to judicial documents (criminal orders, court judgments), extrajudicial documents (drawn up by legal officers, auctioneers and valuers, gendarmes) and certain deeds liable to fixed duty, the amount of which varies according to the nature of the taxable transaction (innominate deeds, notarised deeds, divorces).

Proportional duties represent a constant percentage of the value of the assets that are the subject of certain legal deeds or transactions. They apply mainly to sales of real property, certain corporate transactions and insurance policies.

Progressive duties are those whose rate increases with the value of the assets concerned. They apply in particular to transfers without valuable consideration.

In principle, duty is paid when deeds are presented for registration. In some cases, however, payment may be made by instalments or deferred. Duty on transfers without valuable consideration (duty payable when deeds of gift or declarations of estate are filed) may in some cases be paid in the form of art works handed over to the State, subject to ministerial approval.

The tax normally accrues to the State, but *départements* and *communes* receive some of the revenue from duty on sales of real property.

Registration duties yielded €14.58 billion in 2007 and are expected to yield €11.90 billion in 2009.

## II – MAIN REGISTRATION DUTIES

### A. SALE OF REAL PROPERTY

A proportional duty is levied on sales of real property, in principle subject to the combined formality, comprising the following elements:

- land registration tax, which accrues to the *département* and is calculated in principle at a single 3.6% rate. *Départements* may adjust the rate, though it may not be less than 1% or more than 3.6%;
- an additional 1.2% tax that accrues to *communes* or departmental equalisation funds;<sup>26</sup>
- a 2.5% levy on the amount of the duty that accrues to the *département*, charged by the State for "assessment and collection costs";
- a 0.2% tax that accrues to the State.

Acquisitions made by the State or by its scientific, educational, assistance or charitable establishments or by local authorities are exempt from all transfer duty.

### B. TRANSFERS OF BUSINESSES AND SIMILAR TRANSFERS

Transfer duties comprise a duty accruing to the State plus a tax for the *département* and a tax for the *commune*.

The following table gives a breakdown:<sup>27</sup>

Fraction of the taxable value	State	<i>Département</i>	<i>Commune</i>	Aggregate
Up to €23,000	0%	0%	0%	0%
€23,000 – €107,000	2%	0.6 %	0.4 %	3%
€107,000 – €200,000	0.6%	1.4%	1%	3%
Over €200,000	2.6%	1.4%	1%	5%

Special rates apply to transfers of businesses in certain priority areas for regional development.

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<sup>26</sup> The fund divides the tax among *communes* with fewer than 5,000 inhabitants.

<sup>27</sup> Scale applicable to transfers of businesses completed since 6 August 2008.

## **C. REGISTRATION DUTIES APPLICABLE TO COMPANIES**

Companies are liable to registration duties on incorporation, on the occurrence of certain events during their lifetime and on dissolution, and when shareholders sell their shares.

### **➤ Incorporation**

The creation of a company implies the contribution to the company of assets distinct from those of the shareholders.

Contributions made in exchange for shares fully exposed to the risks of the undertaking are in principle exempt from registration duty.

However, a contribution made by a person not liable to corporation tax to a legal entity liable to corporation tax is treated in the same way as a transfer for valuable consideration. In this case:

- where the contribution concerns real property or real property rights, a special transfer duty is levied at an overall 5% rate;
- where the contribution concerns a business, goodwill, a right to a lease or a promise of a lease on real property, a special transfer duty is levied, calculated by applying the scale used to assess the duty payable on transfers of businesses.

However, an exemption applies if the contributor keeps the shares remitted in return for the contribution for three years.

Contributions for valuable consideration, which may be analysed as a sale by the contributor to the company in return for unconditional compensation such as the payment of a sum of money or the assumption of a liability incurred by the contributor, are treated as transfers for valuable consideration according to the nature of the assets concerned (real property, business as a going concern, etc.).

Contributions may be a mixture of the two (i.e. remunerated both by shares and by unconditional compensation), in which case the relevant treatment is applied to each category.

### **➤ Lifetime**

Changes may take place during a company's lifetime that affect its share capital or certain aspects of its status.

Capital increases in cash or by incorporation of earnings, reserves or provisions are liable to fixed duty of €375 if the company's capital is less than €255,000 or €500 if it is €255,000 or more. Capital increases by way of new contributions in kind are treated in the same way as contributions on incorporation.

Capital reductions, whether shareholders are reimbursed or not, are also liable to fixed duty of €375, or €500 for companies with capital of €255,000 or more.

The €375 duty is payable on mergers, demergers and partial business transfers between companies liable for corporation tax where the company's capital is less than €255,000 (€500 where the capital is €255,000 or more). Contributions for valuable consideration resulting from a merger are liable to the transfer duty indicated above; however, where

the company making the takeover assumes the liabilities that encumber the contributions, they are then exempt from any transfer or land registration duty.

➤ **Dissolution**

Deeds dissolving companies are liable to the €375 fixed duty (€500 for companies with capital of €255,000 or more) where they do not record any transfer of assets between the shareholders or other persons.

Dissolution of a company is generally followed by a period during which its assets are liquidated. The transfer of corporate assets to third parties is liable to sales duty according to the nature of the asset. Duty may be payable on transfer to and division between shareholders according to the tax treatment of the company, the nature of the transferred assets and the transferees.

➤ **Transfers of shares for valuable consideration**

Transfers of shares are normally taxed at a fixed 3% rate<sup>28</sup> assessed on the value of the transferred shares.

However:

- for shares classified as *actions*, the amount of duty payable is capped at €5,000.<sup>29</sup> For listed companies, transfer duty is payable only if the transfer is recorded by deed;
- for shares classified as *parts sociales*, relief equal to €23,000 divided by the total number of shares is applied to the value of each share;
- for transfers of participating interests in predominantly property companies,<sup>30</sup> the rate is increased to 5% without any cap or relief.

Because of the many different types of company and share there are many special registration regimes that are not considered in the limited scope of this handbook.

Irrespective of registration duty, capital gains on transfers of shares are likely to be liable to income tax (see the corresponding section in Part I, Income tax).

## **D. INHERITANCE AND GIFT DUTIES**

Transfers without valuable consideration include transfers following death (inheritance) and transfers without consideration inter vivos (gifts).

For duty on transfers without valuable consideration, the following distinction has to be made in order to determine the basis of assessment:

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<sup>28</sup> For transfers of shares completed as of 6 August 2008.

<sup>29</sup> Idem.

<sup>30</sup> A predominantly property company is an unlisted legal entity whose assets mainly consist or consisted during the year before the transfer of the interests concerned of real property or real property rights situated in France or participating interests in unlisted legal entities that predominantly hold property assets. Rent-controlled housing bodies and semi-public companies that build or manage low-rental housing are not deemed predominantly property companies.

- where the giver or deceased is or was domiciled for tax purposes in France, transfer duty is payable on all movables and real property situated in or outside France;
- where the giver or deceased is not or was not domiciled for tax purposes in France:
  - where the beneficiary is domiciled in France at the transfer date or has been domiciled there for at least six of the previous ten years, transfer duty is payable on movables and real property situated in or outside France;
  - where the beneficiary is domiciled outside France, transfer duty is payable only on the French assets he or she receives.

For certain assets, the rules for determining the basis of assessment differ according to whether the transfer is an inheritance or a gift. In the case of an inheritance, the deceased's debts at the date of death are generally deducted from the assets of the estate.

In the case of a gift, debts incurred by the giver in order to acquire or in the interest of the transferred assets that are passed on to the recipient in the deed of gift are deductible from the basis on which transfer duty is assessed.

In the case of an inheritance, amounts, annuities or values payable directly or indirectly by one or more insurance companies or similar undertakings ("life insurance", as a rule) on the policyholder's death are liable to transfer duty according to the degree of kinship between the beneficiary and the policyholder, up to the fraction of premiums in excess of €30,500 paid after the age of 70.

Where such amounts, annuities or values are not liable to transfer duty, a 20% levy is applied to the portion reverting to each beneficiary that corresponds to the redeemable fraction of policies and premiums paid in respect of the non-redeemable fraction of policies, other than survivor annuity policies and certain retirement savings policies taken out in the context of a professional activity, minus relief of €152,000.

For inheritances since 22 August 2007, transfer duty and the 20% levy do not apply to the surviving spouse, partners of a PACS and, under certain conditions, brothers and sisters living under the same roof.<sup>31</sup>

Transfer duty is calculated by applying a progressive or proportional scale to the amount of the net share received by each beneficiary, where relevant minus relief,<sup>32</sup> the amount of which varies according to the degree of kinship between the parties to the transfer.

For inheritances and gifts made in 2009, the relief applied to the net portion of each taxpayer is:

- €156,359 for ascendants, children and people with disabilities;

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<sup>31</sup> The brother or sister must be single, widowed, separated or divorced at the time of death, be over 50 years of age upon inheritance or suffer from an infirmity that prevents them from meeting their own needs and have been constantly domiciled with the deceased during the five years before death.

<sup>32</sup> Updated on 1 January each year in the same proportion as the upper limit of the first band of the income tax scale.

- €79,222 for donations between spouses and between partners of a PACS;
- €15,636 for brothers and sisters who do not fulfil the conditions for exemption from transfer duty;
- €7,818 for nephews and nieces.

Other relief is also available for gifts to grandchildren (€31,272) and great-grandchildren (€5,212).

The progressive or proportional rate varies according to the value of the assets transferred and the degree of kinship between the deceased or giver and the heir or beneficiary. There are several different scales.

➤ **Scale applicable in 2009 to transfers (inheritance or gift) between parents and children**

Fraction of net taxable part	Rate
Up to €7,922	5%
€7,922 – €11,883	10%
€11,883 – €15,636	15%
€15,636 – €542,043	20%
€542,043 – €886,032	30%
€886,032 – €1,772,064	35%
Over €1,772,064	40%

➤ **Scale applicable in 2009 to donations<sup>33</sup> between spouses and partners of a PACS**

Fraction of net taxable part	Rate
Up to €7,922	5%
€7,922 – €15,636	10%
€15,636 – €31,272	15%
€31,272 – €542,043	20%
€542,043 – €886,032	30%
€886,032 – €1,772,064	35%
Over €1,772,064	40%

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<sup>33</sup> Inheritances between spouses or partners of a PACS that have occurred since 22 August 2007 are exempt from transfer duty.

- **Scale applicable in 2009 to transfers (inheritance or gift) between brothers and sisters**  
35% for the portion up to €23,975, 45% thereafter.
- **Rate applicable to transfers between relatives up to the fourth degree inclusive**  
55%.
- **Rate applicable in other cases (between relatives beyond the fourth degree and non-relatives)**  
60%.

Reductions for dependent family members are applied to inheritance duty. An additional reduction related to the giver's age is applied to gift duty.<sup>34</sup>

Various rules exist for special exemptions according to the status of the deceased or heir, as in the case of gifts or legacies to the State or to scientific, educational, assistance or charitable public establishments.

Exemptions may also apply according to the nature or situation of the assets transferred. For example, shares in companies and sole proprietorships having an industrial, commercial, craft, agricultural or professional activity are exempt from transfer duty for up to 75% of their value under certain conditions. In particular, the deceased or giver, with other shareholders, must have given a collective undertaking to keep the transferred shares. The rule is designed to favour transfers of undertakings. Similar concessions also apply to transfers of woods and forests.

Family gifts of cash up to €31,272 (for gifts in 2009) are exempt from gift duty provided that the giver is under 65 and the beneficiary is an adult.

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<sup>34</sup> A reduction of 50% or 35% respectively is applied to duty on gifts in full ownership or usufruct or on gifts in bare ownership where the giver is less than 70 years of age, and of 30% and 10% respectively where the giver is aged over 70 but under 80. No reduction is applied after the age of 80.



## CHAPTER 2

### STAMP DUTIES AND SIMILAR DUTIES

Stamp duties are collected on the performance of certain administrative formalities or the drafting of certain documents; they are also a way of paying for the delivery of certain documents.

They are generally paid by affixing a sticking stamp to a written document.

#### **I – STAMP DUTIES**

The size-related stamp duty payable until 1 January 2006 for each page of deeds liable to registration duty (especially notarised deeds and loan agreements of credit institutions) has been scrapped.

Stamp duty is still payable on receipts relating to certain games of chance (lottery, pool betting, instant lotteries).

Stamp duty has to be paid in order to obtain many administrative documents, such as residence permits and passports, hunting permits and licences to drive motor pleasure boats.

#### **II – VEHICLE STAMP DUTY**

The level of polluting vehicle emissions has become a criterion for setting the amount of duty payable on documents relating to motor vehicles.

##### **A. TAX ON VEHICLE REGISTRATION CERTIFICATES**<sup>35</sup>

A tax accruing to regional authorities is payable on automobile and other motor vehicle registration certificates, except where specifically provided otherwise by law.

The regional tax on registration certificates (*carte grise*) may be fixed or proportional.

The regional council sets the rate per unit of horsepower of the proportional tax payable on registration certificates issued within the region.

The regional council may take a decision to exempt non-polluting vehicles or vehicles running on E85 ethanol from all or half of the tax.

##### **B. SURTAX ON THE MOST POLLUTING PRIVATE VEHICLES**

Vehicles that emit more than a certain level of carbon dioxide registered for the first time in France or elsewhere on or after 1 January 2008 may be liable to an additional tax to the tax on registration certificates issued when they are first registered in France.

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<sup>35</sup> Generally called the "*carte grise*".

The surtax (*malus*) applies to private cars with EC type-approval<sup>36</sup> that emit more than 160 grammes of carbon dioxide per kilometre travelled (160 gr CO<sub>2</sub>/km).<sup>37</sup>

The amount of the surtax ranges from €200 to €2,600 depending on the vehicle's pollution level. The CO<sub>2</sub> emission levels according to which liability to the tax is determined are reduced every other year.

For vehicles that do not have EC type-approval, the tax depends on the fiscal horsepower (CV). Ranging from €750 to €2,600, it is payable on vehicles with a fiscal horsepower rating of more than 7 (7 CV).

Vehicles registered as "specialised motor vehicles" or disabled vehicles and vehicles registered by holders of an invalidity card are exempt from the tax.

The CO<sub>2</sub> emission levels in the surtax scale are reduced by 20 gr for each dependent child as of the third.

A 40% reduction in the CO<sub>2</sub> emission levels in the surtax scale is applied to vehicles specially equipped to run on E85 ethanol (flex-fuel vehicles) whose CO<sub>2</sub> emissions do not exceed 250 grammes per kilometre.

### **C. ADDITIONAL TAX TO THE REGISTRATION CERTIFICATE TAX**

Since 1 July 2006, the most polluting vehicles brought into service on or after 1 June 2004 have been liable to an additional tax to the registration certificate tax.

The so-called "CO<sub>2</sub> tax" applies to vehicles not covered by the surtax described above; in fact, it concerns new vehicles bought up to the date on which the surtax came into force and second-hand vehicles on change of ownership. It does not apply in addition to the surtax.

The tax applies to vehicles with EC type-approval that emit more than 200 gr CO<sub>2</sub>/km and vehicles without EC type-approval that have a fiscal horsepower rating of more than 10 (10 CV).

For the former, the tax is based on a three-band scale. The amount of the tax is determined by multiplying the number of grammes of CO<sub>2</sub> emitted per kilometre by the rate per gramme of the band to which the vehicle belongs.

For the latter, the rate of tax depends on the vehicle's fiscal horsepower rating.

The amount of the tax is reduced by 50% for vehicles specially equipped to run on E85 ethanol.

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<sup>36</sup> EC type-approval certifies that a type of vehicle, system or equipment meets the technical specifications contained in the relevant EC directives.

<sup>37</sup> Vehicles that emit less than 130 gr CO<sub>2</sub>/km in 2008 and 2009 are eligible for a "bonus".

## **D. ANNUAL SURTAX**

The 2008 Amended Budget Act introduced an annual flat-rate tax (*malus annuel*) payable by the owners of private cars that emit more than 250 gr CO<sub>2</sub>/km. It applies:

- to cars with EC type-approval that emit more than 250 gr CO<sub>2</sub>/km in 2009;
- other cars with a fiscal horsepower rating of more than 16 (16 CV).

The tax is payable on 1 January of the year of taxation and amounts to €160 per vehicle owned or leased.

Vehicles registered as "specialised motor vehicles" or disabled vehicles and vehicles registered by holders of an invalidity card (or by a person at least one of whose minor children or dependents in the same tax household holds an invalidity card) are exempt from the tax. Companies liable to the tax on company cars are also exempt.

## **E. TAX ON COMPANY CARS**

This tax is payable on private cars owned or used by companies, wherever they are registered, including, under certain conditions, cars used by employees or senior managers for which the company pays mileage.

For vehicles with EC type-approval first brought into service on or after 1 June 2004 that were not owned or used by the company before 1 January 2006, the tax is assessed according to the number of grammes of CO<sub>2</sub> emitted per kilometre.

The annual tax is determined according to a seven-band scale. For each vehicle liable to the tax, the annual amount of tax corresponds to the rate per gramme of the band to which the vehicle belongs multiplied by the number of grammes of CO<sub>2</sub> emitted per kilometre.

For other vehicles, the rate depends on their fiscal horsepower rating.

Vehicles that use certain alternative energy sources (electricity, natural gas for vehicles, liquefied petroleum gas, E85 ethanol), exclusively or not, are entirely or partly exempt from the tax.



## CHAPTER 3

### WEALTH TAX

Wealth tax (*impôt de solidarité sur la fortune*, ISF) is an annual tax payable by individuals on account of their ownership of personal assets, the net value of which, assessed on 1 January of the year of taxation, exceeds a certain amount. It was introduced in 1989.

Wealth tax yielded €4.41 billion in 2007 and is expected to yield an estimated €3.9 billion in 2009.

#### **I – LIABLE PERSONS**

Individuals owning personal assets with a net value in excess of €790,000 at 1 January 2009 are liable to wealth tax in 2009.

Persons domiciled in France are taxable on their assets in and outside France (taxation on "worldwide assets").

Persons not domiciled in France within the meaning of French domestic law are taxable only on their assets in France.

Persons who transfer their domicile to France are taxable, for the five years following their establishment in France, only on their assets in France, where they have not been domiciled for tax purposes in France during the five years prior to the transfer of their domicile.

The tax is assessed by household, which comprises spouses, cohabiting partners, partners of a PACS and minor children whose assets either of them legally administers.

#### **II – TAX BASE**

The tax base includes all assets, rights and values belonging to the taxable persons on 1 January of the year of taxation (developed and undeveloped land, sole proprietorships, farms, furniture, financial investments, cars, aircraft, pleasure craft, etc.).

However, some assets are fully or partly exempt. The main categories are business assets (sole proprietorships effectively managed by the taxpayer, participating interests of at least 25% in the company in which the taxpayer holds a senior managerial position), shares that the taxpayer has undertaken to keep, shares resulting from subscription of the capital of a small business, shares in certain venture-capital funds, literary and artistic copyrights held by the author, certain rural properties, antiques, artworks and collector's items.

Financial investments of persons not domiciled in France for tax purposes are specifically exempt from wealth tax. However, the following are taxable:

- shares in an unlisted company or legal entity whose assets predominantly consist of real property or real property rights situated on

French territory, in proportion to the value of such assets in relation to the company's total assets;

- participating interests representing at least 10% of a company's capital;
- shares of which more than 50% are held directly or indirectly by legal entities or organisations that own real property or real property rights situated in France.

As a rule, taxable assets are valued according to the rules applicable to inheritance tax (in principle at market value). The value is assessed at 1 January of the year of taxation. 30% relief is applied to the real market value of the property which the taxpayer owns and occupies as his main home.

### III – TAX SCALE

The amount of tax is determined by applying a scale, updated each year, to the tax base.

The scale at 1 January 2009 is as follows:

<b>Fraction of the net taxable value of the assets</b>	<b>Rate</b>
Up to €790,000	0%
€790,000 – €1,280,000	0.55%
€1,280,000 – €2,520,000	0.75%
€2,520,000 – €3,960,000	1.00%
€3,960,000 – €7,570,000	1.30%
€7,570,000 – €16,480,000	1.65%
Over €16,480,000	1.80%

Wealth tax reductions exist for dependent family members and for certain investments or gifts made by taxpayers (see Section IV below).

Wealth tax is collected on the basis of a tax return, accompanied by the corresponding payment which, for most taxpayers (i.e. those domiciled for tax purposes in France), must be filed with the relevant tax office at the latest by 15 June each year.<sup>38</sup>

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<sup>38</sup> By 15 July at the latest for taxpayers domiciled in the Principality of Monaco or other European countries and by 31 August for taxpayers domiciled anywhere else.

#### **IV – WEALTH TAX REDUCTION FOR INVESTMENT IN SMALL BUSINESSES OR GIFTS TO CERTAIN PUBLIC INTEREST ORGANISATIONS**

Wealth tax payers may make the following deductions from the amount of tax payable:

- 75% of the amount of their subscriptions, direct or through certain holding companies, of the capital of certain small businesses;
- 50% of the amount of their subscriptions of units in certain local investment funds (*fonds d'investissement de proximité*, FIP), innovation investment funds (*fonds communs de placement dans l'innovation*, FCPI) and venture-capital investment funds (*fonds communs de placements à risques*, FCPR);
- 75% of the amount of gifts to certain public interest organisations.

There is a €50,000 cap on the total amount of wealth tax reductions and the reduction for subscriptions of units in investment funds may not exceed €20,000.

#### **V – CAPPING OF WEALTH TAX**

For taxpayers domiciled in France, a capping arrangement limits the total amount of wealth tax and income tax in the previous year to 85% of their income. If this percentage is exceeded, the wealth tax is reduced by the corresponding amount. However, this reduction is limited for taxpayers whose personal assets exceed the upper limit of the third wealth tax band, i.e. €2,520,000 in 2009.

Wealth tax is also one of the taxes taken into account in order to determine the right to restitution of direct taxes exceeding 50% of the taxpayer's income (the tax cap described on p. 42 above).



<p style="text-align: center;"><b>CHAPTER 4</b></p> <p style="text-align: center;"><b>PROPERTY TAX PAYABLE</b></p> <p style="text-align: center;"><b>BY LEGAL ENTITIES</b></p>
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French and foreign legal entities (corporate bodies, organisations, trusts and comparable institutions) which directly or indirectly own one or more real properties situated in France or hold real property rights relating to such properties are liable to a 3% annual tax on the market value of such properties or rights.

The tax is payable on real properties and real property rights owned on 1 January of the year of taxation.

However, the following legal entities may be exempted from the tax under certain conditions:

- international organisations, sovereign States and their political and territorial subdivisions;
- legal entities that are not deemed predominantly property companies;
- listed legal entities;
- legal entities established in the European Union or in a country or territory bound to France by an administrative assistance agreement with a view to combating tax avoidance and evasion or in a country bound to France by a treaty under the terms of which they enjoy the same treatment as legal entities having their registered office in France.

These provisions apply to legal entities that make small investments in French property, organisations or other institutions that manage pension schemes, public interest organisations and institutions or organisations and institutions managed without personal gain, legal entities that invest in property (OPCI property investment funds and foreign entities subject to equivalent regulations) and those that inform or undertake to inform the tax authorities of the situation, composition and value of real properties owned at 1 January of each year, the identity and address of each shareholder or member and the number of shares or other rights held by each one and those that annually declare the above-mentioned information. The latter exemption may be comprehensive or granted partially according to the shareholders or members of which the legal entities are aware. Legal entities are nevertheless not required to declare shareholders or members that own less than 1% of their capital.

Legal entities liable to the 3% tax must file a return at the latest by 15 May of each year stating the place, composition and market value of taxable real properties and real property rights owned at 1 January of the year of taxation. The return must be accompanied by payment of the tax.

## **PART IV**

### **LOCAL DIRECT TAXES**

Local direct taxes are the oldest taxes in the French tax system. They succeed the direct taxes that had been created in 1790 and 1791 as State taxes and were transferred to local authorities in the 1914-1917 tax reform.

The key feature of local taxes is that, with the exception of the local business tax, they are mainly assessed on a property's rateable value (*valeur locative cadastrale*). The rateable value does not represent the rental value under normal market conditions but a property's theoretical yield as determined by the authorities.

Local taxes are collected by the State on behalf of local authorities (regions, *départements*, *communes*) and public establishments for intercommunal cooperation.

There are four main local taxes – property tax on developed land, property tax on undeveloped land, residence tax and local business tax – as well as some additional or similar taxes.

Local tax rates are set by local government assemblies (regional, departmental and municipal councils, etc.) when voting their annual budget according to the revenue that the various beneficiary authorities expect from the taxes that accrue to them. However, the rates may not exceed certain limits determined by central government, which are applied to bases also determined centrally.

There are many permanent or temporary exemptions.

The four main local direct taxes yielded €65.05 billion in 2008 and are expected to yield €69.85 billion in 2009.



# **CHAPTER 1**

## **PROPERTY TAX ON DEVELOPED LAND**

Property tax on developed land is levied annually on developed land situated in France except where there is entitlement to permanent exemption (public property, farm buildings, etc.) or temporary exemption (new or innovative enterprises, incentives for development as part of urban or regional development policy).

Taxable property includes permanent constructions perpetually attached to the ground such as premises intended to accommodate people (residential properties) or business assets (workshops, sheds), certain civil engineering structures and transport routes, land immediately necessary for such constructions, etc.

The tax base is the cadastral income, equal to 50% of the rateable value, regularly updated by the authorities.

The amount of tax is calculated by multiplying the tax base by the rates voted by each beneficiary local authority for the year in question.

The tax is payable by the owner of the property at 1 January of the year of taxation.

Exemption or automatic relief is granted to elderly or disabled people of modest means, under certain conditions of resources and cohabitation.

Property tax on developed land yielded €26.03 billion in 2008 and is expected to yield €28.07 billion in 2009.



## **CHAPTER 2**

### **PROPERTY TAX ON UNDEVELOPED LAND**

Tax on undeveloped land is levied annually on owners of any undeveloped land situated in France except where there is entitlement to permanent exemption (public property) or temporary exemption (e.g. incentives for organic farming, reforestation and the conservation of environmental interest zones).

The tax accrues to local authorities and their public establishments for intercommunal cooperation.

As with the property tax on developed land, the taxpayer is in principle the owner of the land on 1 January of the year of taxation.

The basis for assessing the property tax on undeveloped land is 80% of the rateable value of the property resulting from valuations regularly updated by the authorities.

The amount of tax is calculated by multiplying the cadastral income of each property by the rates voted by each beneficiary local authority for the year in question.

Property tax on undeveloped land yielded €1.12 billion in 2008 and is expected to yield €1.17 billion in 2009.



## CHAPTER 3

### RESIDENCE TAX

Sufficiently furnished residential premises and their dependencies (gardens, garages, private parking spaces) are liable to residence tax. The tax is payable by any person who, on 1 January of the year of taxation, has taxable premises at their disposal, whatever their status (owner, tenant, free occupier).

Since 2007, *communes* have also been able to levy residence tax on residential premises vacant for five years or more on 1 January of the year of taxation, provided that the annual tax on vacant residential premises does not apply on their territory.

Residence tax is assessed on the rateable value of residential premises resulting from valuations of developed land updated by the authorities. For residential premises used as the taxpayer's main home, compulsory relief for dependents or optional relief (general relief on the base, special relief on the base, relief for disabled people) is deducted from the rateable value.

The amount of tax is calculated by multiplying the tax base by the rates voted by each beneficiary local authority for the year in question

Certain premises are exempt from residence tax, either by nature or on a decision of the *commune*. Persons of modest means as defined by law may qualify for an exemption or for automatic relief on the amount of residence tax on their main home.

For taxpayers who do not qualify for exemption or automatic relief, the amount of residence tax on their main home is capped according to income under certain conditions.

Residence tax yielded €14.56 billion in 2008 and is expected to yield €15.73 billion in 2009.



## CHAPTER 4

### LOCAL BUSINESS TAX

Local business tax is payable annually by legal entities or individuals carrying on a regular non-salaried business activity in France.

There are various exemptions, which may be permanent (activities carried on by the State, local authorities and public establishments, agricultural activities and organisations, private schools, certain craft activities, press, etc.) or temporary (for reasons of regional development or urban policy, to encourage new businesses, businesses created to take over an industrial enterprise in difficulty, innovative businesses, businesses in clusters, small businesses in Corsica).

In all cases, local business tax is assessed on the rental value of fixed assets liable to property tax (developed and undeveloped) available to the taxpayer for the requirements of his business during a reference period which is generally the last but one calendar year before the year of taxation.

To this base is added the rental value of equipment and movable assets at the taxpayer's disposal during the same period.

However, two categories of taxpayer are not taxed on their equipment and movable assets: sedentary taxpayers whose annual revenue does not exceed €61,000 if they are service providers and €152,500 in other cases, and persons who receive professional profits (*bénéfices non commerciaux*), intermediaries in commerce and business agents who employ fewer than five people and are not liable to corporation tax either automatically or optionally.

For the second category of taxpayers (professional profits and equivalent), the second component of the base consists of 6% of their revenues.

Relief and reductions are then deducted from the tax base.

These reductions may be restricted to certain taxpayers (craft workers, enterprises that carry on part of their business outside France, reduction in the rental value of certain fixed assets, 25% reduction for establishments in Corsica, etc.) or apply to all taxpayers (general relief of 16%) or be decided by local authorities (relief on the tax base for press distributors).

Tax is assessed in each *commune* where the taxpayer has premises or land. In principle, it is payable for the entire year by a taxpayer carrying on a taxable and non-exempt activity on 1 January on the basis of the tax components existing on the last day of the reference period, subject to a certain number of exceptions.

The amount of local business tax is calculated by multiplying the tax base net of reductions and relief by the rates voted by each beneficiary local authority.

Rates vary, within limits set by national law, according to the decisions of local authorities or other local bodies. The amount of local business tax per se is increased by the addition of management costs paid to the State (8% of the amount of the tax), additional taxes (tax for the costs of chambers of commerce and industry or chambers of

trade), special development taxes to finance public land banks and, in some cases, the national equalisation contribution. The national equalisation contribution is payable by taxpayers whose establishments liable to local business tax are situated in *communes* where the overall rate of local business tax in the year of taxation is lower than the national average overall rate in the previous year.

The amount of local business tax may not be lower than a minimum contribution corresponding to the amount of residence tax paid the previous year for a benchmark residential property in the *commune*, the choice of which is approved by the municipal council.

Provision is made for various forms of relief, for example for reduced activity, new investments, permanent relief for equipment and movable assets acquired or created between 23/10/2008 and 31/12/2009 and a cap according to the value added produced by the enterprise during the year for which the local business tax is payable. Relief is borne by the State and, for the value-added cap, partly by local authorities.

The value-added cap is 3.5%, whatever the enterprise's turnover or sector of activity, except for enterprises carrying out agricultural, rural or forest work, where it is 1.5%. The cap is calculated on the basis of the local business tax actually paid. Value added for local business tax purposes is very different from value added for VAT: it is the difference between output and inputs of goods and services from third parties (in accounting terms), with some adjustments relating to subsidies and rents in particular.

The amount of local business tax payable by enterprises with turnover of more than €7,600,000 is at least equal to 1.5% of the value added produced during the year of taxation. Value added is computed in the same way as for the tax cap. The additional tax accrues to the general State budget.

Local business tax yielded €23.34 billion in 2008 and is expected to yield €24.88 billion in 2009.

## **CHAPTER 5**

### **OTHER LOCAL TAXES**

#### **I – ADDITIONAL TAXES**

*Communes* that collect household waste may introduce a household waste collection tax. Where responsibility for waste disposal has been transferred to a public establishment for intercommunal cooperation, it may levy a tax provided that it at least collects the waste. The tax is assessed on the cadastral income used as the base for property tax on developed land.

Household waste collection tax is payable on all properties belonging to individuals or legal entities liable to property tax on developed land or temporarily exempt from it.

Household waste collection tax yielded €4.80 billion in 2007 and is expected to yield €5.34 billion in 2009.

Taxes also exist for the costs of chambers of agriculture, commerce and industry and trade and accrue to them.

#### **II – SPECIAL DEVELOPMENT TAXES**

Special development taxes accrue to a region, public land bank or development agency. They are payable by all taxpayers (individuals or legal entities) liable to local taxes within a given area and are calculated on the same basis.

Special development taxes yielded €219 million in 2007 and are expected to yield €237 million in 2009.



## GLOSSARY

<b>Allowance</b>	Lump sum deducted from the tax base.
<b>Assessment</b>	Calculation of tax by applying a rate or scale to the tax base.
<b>Assessment list</b>	List of taxpayers indicating the amount of tax they have to pay.
<b>Assets</b>	All the property belonging to an individual or legal entity.
<b>Base (Tax base)</b>	<ul style="list-style-type: none"><li>- Set of rules or operations designed to determine the elements (profit, turnover, etc.) to be taxed.</li><li>- Element to which a rate is applied in order to calculate a tax.</li></ul>
<b>Bond</b>	Interest-bearing transferable debt security issued by a company or public authority in return for a loan.
<b>Budget</b>	<ul style="list-style-type: none"><li>- Set of laws providing for and authorising the State's annual revenue and expenditure.</li><li>- Set of accounts recording all the State's revenues and expenditures in a calendar year.</li><li>- Set of accounts recording a ministry's appropriations in a calendar year.</li></ul>
<b>Collection</b>	The process by which a tax debt becomes certain on a given date.
<b>Deduction</b>	Amount deducted from gross profit or income.
<b>Dispensation</b>	Technique whereby tax is not collected when the theoretical amount of tax payable or turnover does not reach a minimum figure.
<b>Exemption</b>	Release from a tax obligation under certain conditions determined by law.

<b>Furniture</b>	Items used to decorate and furnish a dwelling.
<b>Income splitting</b>	System whereby income tax is made proportional to the number of persons forming the tax household. It consists in dividing the tax household's taxable income by the number of "parts", which in turn depends on each taxpayer's situation and the number of persons deemed to be dependent on them for tax purposes.
<b>Legal entity</b>	Entity with a distinct existence and standing in law.
<b>Liable person</b>	Person liable to a tax and responsible for paying it.
<b>Main home</b>	Place where the taxpayer usually lives.
<b>Non-taxation or non-collection notice</b>	Administrative document sent to the taxpayer stating that there is no tax to pay.
<b>Notice of assessment</b>	Administrative document stating the elements used as the base for calculating the tax, the amount of tax to be paid, the terms of payment and the payment date.
<b>Payability</b>	Right that the Treasury may assert from a certain date in order to obtain payment of tax due from the debtor.
<b>Private deed</b>	Written document drawn up by a private individual bearing the handwritten signature of the parties.
<b>Receipt</b>	Payment received in cash and, by extension, payment received by cheque, bank transfer or credit to an account.
<b>Reduction</b>	Method for reducing the theoretical amount of tax payable. Tax relief.
<b>Rental value</b>	Rent that real property would generate if it were let. A distinction is made between rateable value, set by the authorities when premises are completed or on regular updates, and actual rental value, which corresponds to the market price.
<b>Scope</b>	All assets, activities, situations and operations covered by a tax measure and the limits of the measure in space and time.

<b>Share (<i>action</i>)</b>	Transferable security issued by a joint-stock corporation representing a portion of its capital.
<b>Tax credit</b>	Claim that may be set off against a tax.
<b>Tax domicile</b>	<p>A person is deemed to be domiciled in France for tax purposes when they are in at least one of the following four situations:</p> <ul style="list-style-type: none"> <li>. their home is in France;</li> <li>. their main place of abode is in France;</li> <li>. they carry on a business activity in France that is not incidental;</li> <li>. the centre of their economic interest is in France.</li> </ul> <p>Civil servants on duty or on assignment in a foreign country where they are not liable to personal taxation on their total income are also deemed to be domiciled in France for tax purposes.</p>
<b>Taxable event</b>	Event whereby the legal conditions for liability to tax or duty are fulfilled.
<b>Taxpayer</b>	Person directly liable for the payment of taxes and duties, the collection of which is authorised by law.
<b>Tax household</b>	<p>The place where a taxpayer usually lives, i.e. the usual home, provided that the home (in France) is permanent.</p> <p>The tax household is also the basic family entity for income tax purposes.</p>
<b>Taxable</b>	Term that describes a person who by his activity or a transaction which by its nature falls within the scope of a tax.
<b>Time bar</b>	Time limit beyond which legal action may no longer be taken.



## ANNEXES

### List of countries with which France has concluded a treaty intended to avoid double taxation (treaties in effect at 30 June 2009)

Abbreviations:

EL : exchange of letters  
 G : gifts  
 IN : inheritance tax  
 IT : income tax  
 R : rider  
 RD : registration duty  
 SA : special agreement  
 T : treaty  
 WT : wealth tax

Country	Treaty date	Taxes concerned
Albania	T 24 December 2002	IT, WT
Algeria	T 17 October 1999	IT, WT, IN
Argentina	T 4 April 1979 R 15 August 2001	IT, WT
Armenia	T 9 December 1997 R 5 February 2003 and 3 February 2004	IT, WT
Australia	T 13 April 1976 R 19 June 1989 R 20 June 2006	IT
Austria	T 26 March 1993 T 26 March 1993	IT, WT IN, G
Azerbaijan	T 20 December 2001	IT, WT
Bahrain	T 10 May 1993	IT, WT, IN
Bangladesh	T 9 March 1987	IT
Belgium	T 12 August 1843 T 10 March 1964 R 15 February 1971 R 8 February 1999 T 20 January 1959	Exchange of information  IT IN, RD

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
Benin	T 27 February 1975	IT, IN, RD
Bolivia	T 15 December 1994	IT, WT
Bosnia Herzegovina	EL 3 and 4 December 2003	IT
Botswana	T 15 April 1999	IT
Brazil	T 10 September 1971 RR 5 February and 4 March 1974	IT
Bulgaria	T 14 March 1987	IT
Burkina Faso	T and EL 11 August 1965 R 3 June 1971	IT, IN, RD
Cameroon	T 21 October 1976 R 31 March 1994 R 28 October 1999	IT, IN, RD
Canada	T 2 May 1975 R 16 January 1987 R 30 November 1995	IT, WT, IN, G
Province of Quebec	T 1 September 1987 R 3 September 2002	IT
Central African Republic	T 13 December 1969 EL 13 and 16 December 1969	IT, IN, RD
Chile	T 7 June 2004	IT, WT
China	T 30 May 1984	IT
Congo	C 27 November 1987	IT, IN, RD
Côte d'Ivoire	T and EL 6 April 1966 R 25 February 1985 R 19 October 1993 SA 16 May and 14 June 1995	IT, IN, RD IT (public remuneration)
Croatia	T 19 June 2003	IT
Cyprus	T 18 December 1981	IT, WT
Czech Republic	T 1 June 1973 (Czechoslovakia)	IT, WT

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
	T 28 April 2003	
Denmark <sup>39</sup>	EL of 28 February 1930 on navigation	
Ecuador	T 16 March 1989	IT
Egypt	T 19 June 1980 R 1 May 1999	IT, WT
Estonia	T 28 October 1997	IT, WT
Ethiopia	T 15 July 2006	IT
Finland	T 25 August 1958 T 11 September 1970	IN IT, WT
Former Yugoslav republic of Macedonia (FYROM)	T 10 February 1999	IT, WT
Gabon	T and EL 21 April 1966 R 23 January 1973 R 2 October 1986 EL 18 April and 23 June 1989 T 20 September 2008	IT, IN, RD  IT, WT, RD, IN
Germany	T and EL 21 July 1959 R 9 June 1969 R 28 September 1989 R 20 December 2001 RR 16 February 2006  T 12 October 2006	IT, WT    IT Frontier workers and temporary assignments IN, G
Ghana	T 5 April 1993	IT
Greece	T 21 August 1963	IT
Guinea	T 15 February 1999	IT, WT, IN, G
Hungary	T 28 April 1980	IT, WT
Iceland	T 29 August 1990	IT

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<sup>39</sup> The treaty of 8 February 1957 was denounced by the Danish government on 10 June 2008. It has not been effective since 1 January 2009.

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
India	T 29 September 1992	IT, WT
Indonesia	T 14 September 1979	IT, WT
Iran	T 7 November 1973	IT
Ireland	T 21 March 1968	IT
Israel	T 31 July 1995	IT, WT
Italy	T and EL 5 October 1989 and 20 December 2000 T 20 December 1990	IT, WT IN, G
Jamaica	T 9 August 1995	IT
Japan	T 3 March 1995 R 11 January 2007	IT
Jordan	T and EL 28 May 1984	IT
Kazakhstan	T 3 February 1998	IT, WT
Kuwait	T 7 February 1982 EL 17 August and 18 October 1988 T 27 September 1989 R 27 January 1994	IT, WT, IN
Latvia	T 14 April 1997	IT, WT
Lebanon	T 24 July 1962	IT, IN
Libya	T 22 December 2005	IT
Lithuania	T 7 July 1997	IT, WT
Luxembourg	T 1 April 1958 R and EL 8 September 1970 R 24 November 2006	IT, WT IT
Madagascar	T and EL 22 July 1983	IT
Malawi	The Franco-British treaty of 14 December 1950 continues to be effective in relations between France and Malawi. EL 5 November 1963 EL 31 December 1963	IT

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
Malaysia	T 24 April 1975 R 31 January 1991	IT
Mali	T and EL 22 September 1972	IT, IN, RD
Malta	T 25 July 1977 R 8 July 1994	IT, WT
Mauritania	T and EL 15 November 1967 RR 8 mars 1994	IT, IN, RD
Mauritius	T 11 December 1980	IT, WT
Mexico	T 7 November 1991	IT
Monaco	T 1 April 1950 T and EL 18 May 1963 and EL 9 December 1966 R 25 June 1969 EL 6 August 1971 R 26 May 2003	IN Particular type of tax treaty not chiefly designed to avoid double taxation.
Mongolia	T 18 April 1996	IT, WT
Morocco	T and EL 29 May 1970 R 18 August 1989 RR 5 and 14 December 1983	IT, IN, RD
Namibia	T 29 May 1996	IT, WT
Netherlands	T 16 March 1973 R 7 April 2004	IT, WT
New Zealand	T 30 November 1979	IT
Niger	T and EL 1 June 1965 R 16 February 1973	IT, IN, RD
Nigeria	T 27 February 1990	IT
Norway	T 19 December 1980 R 14 November 1984 R 7 April 1995 R 16 September 1999	IT, WT
Oman	T and EL 1 June 1989 R 22 October 1996	IT, IN IT, IN, WT

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
Pakistan	T 15 June 1994	IT
Panama	EL 6 April 1995 and 17 July 1995 (not a treaty)	IT
Philippines	T 9 January 1976 R 26 June 1995	IT IT, WT
Poland	T 20 June 1975	IT, WT
Portugal	T 14 January 1971 SA and EL 3 June 1994	IT IN, G
Qatar	T 4 December 1990 EL 12 January 1993 R 14 January 2009	IT, WT, IN
Romania	T 27 September 1974	IT, WT
Russia	T 26 November 1996	IT, WT
Saudi Arabia	T 18 February 1982 EL 20 December 1988 and 22 February 1989 R 2 October 1991 EL 16 June 1993 and 31 October 1993 EL 3 January 1994 and 3 May 1995 EL 9 September 1998 and 2 January 1999 EL 14 April 2003 and 6 July 2003 EL 17 November and 30 December 2008	IT, WT, IN
Senegal	T and EL 29 March 1974 R 16 July 1984 R 10 January 1991	IT, IN, RD
Serbia and Montenegro	R 26 March 2003	IT
Singapore	T 9 September 1974	IT
Slovakia	T 1 June 1973 (Czechoslovakia)	IT, WT
Slovenia	T 7 April 2004	IT, WT
South Africa	T 8 November 1993	IT, WT
South Korea	T 19 June 1979	IT

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
	R 9 April 1991	
Spain	T 8 January 1963 C 10 October 1995 EL 19 February 1998 EL 26 November 2002 EL 1 March and 22 April 2005 EL 22 December 2003 and 1 March 2005	IN IT, WT
Sri Lanka	T 17 September 1981	IT
Sweden	T 24 December 1936 R 1 July 1963 T 8 June 1994 T 27 November 1990 EL 14 and 18 March 1991	IN IN, G IT, WT
Switzerland	T 31 December 1953 T 9 September 1966 R 3 December 1969 EL 14 February and 2 June 2006 EL 5 and 13 December 2006 SA 11 April 1983 (supplemented by EL 25 April and 8 June 1984 and amended by EL 2 and 5 September 1985) EL 21 and 24 February 2005 EL 5 and 12 July 2007 R 22 July 1997 SA 30 October 1979	IN IT, WT IT (frontier workers) IN, G
Syria	T 17 July 2004 EL 16 December 2004	IT
Thailand	T 27 December 1974 EL 20 August 1999 and 6 March 2000	IT
Togo	T 24 November 1971 EL 25 and 26 November 1971	IT, IN, RD
Trinidad and Tobago	T 5 August 1987	IT
Tunisia	T 28 May 1973	IT, IN, RD
Turkey	T 18 February 1987	IT
Ukraine	T 31 January 1997	IT, WT

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
United Arab Emirates	T and EL 19 July 1989 R 6 December 1993	IT, WT, IN
United Kingdom	T 22 May 1968 R 10 February 1971 R 14 May 1973 R 12 June 1986 R 15 October 1987 T 21 June 1963	IT IN
United States	T 24 November 1978 T 31 August 1994 EL 19 and 20 December 1994 R 8 December 2004	IN, G IT, WT IT IN, G
Ex-USSR (CIS Member States)	T 4 October 1985 EL 14 March 1967	IT Tax treatment of Soviet patents in France and French patents in ex-USSR.
Uzbekistan	T 22 April 1996	IT, WT
Venezuela	T 7 May 1992	IT
Vietnam	T 10 February 1993	IT, WT
Ex-Yugoslavia	T 28 March 1974	IT
Zambia	Cf. Malawi	IT
Zimbabwe	T 15 December 1993	IT, WT

**List of special-status territorial units and French overseas territories  
with which the French Republic has concluded a tax treaty**

<b>Country</b>	<b>Treaty date</b>	<b>Taxes concerned</b>
Mayotte	27 March and 8 June 1970	IT, IN, RD
New Caledonia	31 March and 5 May 1983	IR, IN, G, RD
French Polynesia	28 March and 28 May 1957	Taxes on investment income
Saint-Pierre-et-Miquelon	30 May 1988	IR, IN, G, RD



## The tax structure

### ESTIMATED STATE REVENUES IN 2009

#### Tax revenues

€ million

Value added tax <sup>40</sup>	138,331
Income tax	52,805
Corporation tax	52,009
Domestic tax on mineral oil products	15,594
Other taxes	17,122
<b>Total net tax revenues</b>	<b>275,861</b>

#### Non-tax revenues

Total non-tax revenues	22,669
<b><u>Total net revenues before deductions:</u></b>	<b>298,530</b>

#### Deductions from State revenues

For local government	- 52,393
For the European Communities	- 18,900
Total deductions from State revenues	- 71,293

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<b>TOTAL NET STATE REVENUES<sup>41</sup></b>	<b>227,237</b>
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<sup>40</sup> Net revenue.

<sup>41</sup> Excluding specific budgets and special accounts.