PUBLIC FINANCES DIRECTORATE GENERAL
TAX POLICY DIRECTORATE - Bureau A - Section 4

OVERVIEW OF THE FRENCH TAX SYSTEM
– Legislation in force as of 31 July 2015 –

This document summarises the French tax system.

It does not in any way constitute a statement of the official doctrine of the department that drafted it.

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RÉPUBLIQUE FRANÇAISE

CONTENTS

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.

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 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 Declaration of the Rights of Man and of the Citizen of 26 August 1789: “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 Constitution of the Fifth Republic of 4 October 1958, according to which rules concerning the base, 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 French Supreme Administrative Court (Conseil d'État) 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 given 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 aforementioned Constitution, treaties that commit government finances or modify provisions which are the preserve of statute law may be ratified or approved only by 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 (Conseil constitutionnel) 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
- direct local taxes

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 Finance and Public Accounts (http://www.impots.gouv.fr), which has been designed to allow non-residents to obtain information that concerns them.

The Public Finances Directorate General provides the general public with all documents containing an administrative interpretation of tax rules in a single and free official tax bulletin (BOFIP-Impôts, available on the portal of the Ministry for Finance and Public Accounts).

These documents are also available on the Ministry's website (http://www.impots.gouv.fr/portal/dgi/public/documentation.impot?espId=1&pageId=docu_textes&sfid=420).

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's website (http://www.impots.gouv.fr/portal/dgi/public/documentation.impot?espId=1&pageId=docu_international&sfid=440).

PART I: TAXES ON INCOME

There are four categories of taxes on income in France:

- corporation tax (*impôt sur les sociétés*, IS)
- 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 33⅓% 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 (turnover, paying-up and holding capital). For the parent company of a group as stipulated in Article 223 A of the French General Tax Code (*Code Général des Impôts*, CGI), turnover is the sum of the turnover of each company in the group.
  - 0%[1] for long-term capital gains resulting from the disposal of participating interests
  - 0%[2] or 15% for asset allocations or redemptions of securities carried out, under certain conditions, by "tax" venture-capital investment funds and venture-capital companies, and for long-term capital gains resulting from the disposal of units in these venture-capital investment funds and shares in these venture-capital companies, when the seller company has held these units or shares for at least five years
  - 15% for income from granting licences to use patents, patentable inventions or developments thereto, or for certain industrial manufacturing processes and capital gains from the disposal of such items, and, under certain conditions, for income from granting sub-licences to use said items
  - 19% for long-term capital gains resulting from the sale of securities of listed companies investing predominantly in property (*sociétés à prépondérance immobilière*, SPI)
  - 19% for net capital gains booked for the sale of premises used as offices or for commercial purposes, which are scheduled to be reconverted into housing units within three years (arrangements applying to sale transactions for valuable consideration carried out between 1 January 2012 and 31 December 2014)
  - 24%, 15% or 10% for the income from assets received by non-profit organisations

A one-off and temporary levy based on corporation tax was introduced by the fourth 2011 Supplementary Budget Act and extended by the first 2014 Supplementary Budget Act[3]. It is owed by major companies that record turnover excluding VAT of more than €250 million for the financial years ending between 31 December 2011 and 30 December 2016. It therefore applies to corporation tax with respect to the financial years ending during this period.

1 Subject to adding back a proportion of expenses and costs.
2 Subject to adding back aproportion of expenses and costs.
3 Article 15 of the 2014 Supplementary Budget Act no. 2014-891 of 8 August 2014.

A 3% corporate surtax is owed on amounts distributed by French and foreign companies and organisations liable to corporation tax in France. The surtax applies to amounts distributed as from 17 August 2012.

In addition, corporation tax payers are liable to a social contribution equal to 3.3% of the tax assessed on their taxable profits at the standard rate (33⅓%) and at the reduced rates, minus relief that may not exceed €763,000 per twelve-month period.

Corporation tax yielded €47.2 billion in 2013. For 2014 and 2015, the forecasted corporation tax yield is €35.4 billion and €33.1 billion respectively.

I – SCOPE OF CORPORATION TAX

A. TAXABLE PERSONS

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, public limited companies (*sociétés anonymes*, SA) and simplified limited companies (*sociétés par actions simplifiées*, SAS), private limited companies (*sociétés à responsabilité limitée*, SARL), partnerships limited by shares (*sociétés en commandite par actions*, SCA) and, in certain cases, cooperatives and their unions. In some cases, certain corporations (*sociétés de capitaux*) may elect to be subject to the regime for partnerships (family-owned SARL and small SA, SARL or SAS, formed less than five years ago).

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 legal entities that operate a business or carry out operations for profit.

In addition, partnerships and similar groups, whose partners normally include their share of profits of the corporation or group in their personal taxable income, may in certain cases opt for liability to corporation tax.

Lastly, limited liability sole proprietorships (*entreprises individuelles à responsabilité limitée*, EIRL) may elect to be assimilated to a private limited company with a single shareholder (*entreprise unipersonnelle à responsabilité limitée*, EURL) or to a private limited farming company (*exploitation agricole à responsabilité limitée*, EARL). Such a decision constitutes opting for corporation tax.

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

Public bodies like government-funded institutions and private bodies like non-profit organisations and foundations are not liable to standard-rate ordinary law corporation tax provided that they do not conduct business for profit.

Under special rules, such bodies are liable to corporation tax on certain income they derive from their assets (income from property, agricultural profits, certain investment income), which is not related to business for profit. The applicable rate is 24%, 15% or 10% for certain investment income, such as income from bonds.

Government-funded institutions, 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 under ordinary law conditions.

However, a body that does not carry on business for profit but receives income from its assets is liable to corporation tax at the reduced rates stipulated by Article 206-5 CGI unless otherwise provided (for example, scientific or educational government-funded institutions, government-funded institutions providing assistance, public interest foundations and endowment funds whose articles of association 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*, government-funded institutions for intercommunal cooperation (EPCI) 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.

A number of exemption schemes for companies based in certain parts of the country, which were due to end on 31 December 2013, were extended[4] until 31 December 2014. Exemption schemes in employment revitalisation zones, urban free zones and defence restructuring zones were also extended.

3 - Tax consolidation (Articles 223 A to 223 Q CGI)

Under an optional tax consolidation regime, a French parent company can include the income of French affiliates of which it controls at least 95% of the capital in its taxable income. In that case the parent company pays the corporation tax for all the companies in the group. These arrangements are also available to groups in which the parent company owns at least 95% of a French affiliate through one or more companies based in the European Union or in another State which is party to the agreement on the European Economic Area, having concluded a treaty with France including an administrative assistance clause to combat tax evasion and avoidance (currently Norway, Iceland and Liechtenstein).

Finally, this tax consolidation regime is also available, under certain conditions, to some mutual insurance companies and mutual banking groups.

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 business cycle.

Profits from property located in France and similar rights, and profits, the taxation of which is allocated to France by an international tax treaty, are also taxable in France.

In addition, some profits are taxable in France even if the company is not domiciled in France for tax purposes.

4 Article 29 of the 2013 Supplementary Budget Act no. 2013-1279 of 29 December 2013.

Therefore, capital gains on property recorded by non-residents are taxed at a proportional 33⅓% rate (or 75% when the capital gains are realised by a legal entity based in a noncooperative country or territory). The tax is calculated on the basis of corporation tax base and rate rules when the capital gains are realised by legal entities domiciled in one of the EU Member States or in another State which is party to the agreement on the European Economic Area (EEA) and which has concluded an administrative treaty with France to combat tax evasion and avoidance. Where applicable, the levy is set off against the amount of corporation tax owed in respect of the same capital gains and the surplus may, in some cases, be refunded.

Other profits on property[5] made by legal entities based outside France are also taxed at a proportional 33⅓% rate. This rate is increased to 75% when the profits are realised by taxpayers based or incorporated in a non-cooperative country or territory. Where applicable, the levy is set off against the amount of corporation tax owed in respect of the same profits and the surplus may, in some cases, be refunded.

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*, BIC), and in principle unlike non-commercial enterprises liable to income tax in the category of non-commercial profits (*bénéfices non commerciaux*, BNC), 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.

As a departure from 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

5 These are profits made by property dealers; profits made by individuals on the sale of properties they have built or had built and of related property rights; profits made by individuals who sell land divided into plots intended for development (Article 244 bis CGI).

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)
  - if they are not deemed as being for commercial purposes, subsidies of any nature granted to another company are also excluded from deductible costs. As a departure from the foregoing, such subsidies remain deductible, within certain limits, when they are granted to companies subject to insolvency proceedings or a conciliation process
  - the tax deduction on loan interest is regulated and is subject to anti-abuse initiatives:
  - 75% maximum limit for the deductibility of net financial expenses for financial years as from 1 January 2014, with a threshold set at €3 million
  - arrangements for limiting the deduction of financial expenses between associated companies

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 3.3% social contribution.

- Long-term capital gains taxable at 0% are, under certain conditions, those arising from the disposal of participating interests (not including securities of SPIs) 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 subject to adding back a proportion of expenses and costs equal to 12% of the gross amount of the exempted capital gains on disposal
- Long-term capital gains taxed at 15% are those realised from certain assignments of patents and also include net income from granting licences and certain sub-licences to use patents, patentable inventions or developments thereto, or from certain industrial manufacturing processes and capital gains from the disposal of such items, and asset allocations or redemptions of securities carried out by venture-capital investment funds and venture-capital companies
- 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 corporation tax rate, subject to the exemption, under certain conditions, of capital gains from the disposal of an entire branch of activity
- For financial years starting as from 1 January 2011, the long-term capital gains and losses regime no longer applies to the capital gains or losses resulting from the disposal of the securities of companies based in a non-cooperative country or territory
- Capital losses from the transfer of participating interests to an associated company are still covered by the long-term regime, even if they have been held for less than two years; capital gains on the disposal of participating interests to an associated company, which have been held for less than two years, remain governed by the provisions of ordinary law (in principle, at the standard rate of corporation tax)
- Capital gains from sales of securities carried out by a mutual fund (FCP)[6] are taxed at their ordinary law rate as soon as they are paid out to unit holders without tax deferral, for amounts distributed by this fund

6 Article 20 of the 2013 Supplementary Budget Act no. 2012-1510 of 29 December 2012.

In the event of the transfer of a registered office, including the transfer of fixed asset items to another Member State of the European Union or the European Economic Area[7], the latent capital gains on these asset items are taxed at the standard corporation tax rate, either immediately or staggered over five years.

The result of these adjustments may show:

- either a profit, on which corporation tax is assessed
- or a loss: the deficit may:
  - either be set off against any profits for subsequent financial years, up to a limit of €1 million, plus 50% of the amount of profit over and above this limit
  - or, optionally and under certain conditions, represent an expense for the previous financial year up to a limit of €1 million (carry-back)

III - ASSESSMENT AND PAYMENT OF THE TAX

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

Filing and payment deadlines for companies liable to corporation tax have been harmonised[8]. Businesses with 31 December year-ends have until the following 15 May to settle their corporation tax for the previous financial year.

Large companies whose turnover is more than €250 million must anticipate the amount of tax owed for the year when they pay their final corporation tax instalment.

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 allows the parent company of a French tax group, under certain conditions, to be liable to the corporation tax owed on all the earnings of the group formed by the parent and the companies in which it directly or indirectly holds at least 95% of the capital.

7 Excluding Liechtenstein.
8 Article 20 of the 2013 Supplementary Budget Act no. 2013-1279 of 29 December 2013.

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 circumstances.

The 2013 Budget Act amended the tax regime for investment income (dividends and similar income, revenue from fixed-income securities) which is now subject to the progressive income tax scale. Nevertheless, by way of exception, some income is still subject to proportional levies.

As an example, capital gains on disposals of property are subject to income tax at a proportional 19% rate plus social levies at a global rate of 15.5%.

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 is expected to yield €68.9 billion in 2014 and €69.5 billion in 2015.

I – TAXABLE INCOME

The following seven categories[9] of income are liable to personal income tax:

- business profits
- non-commercial profits
- agricultural profits
- income from property
- wages, salaries, pensions and annuities
- investment income
- capital gains

9 There is an eighth category, comprising the remuneration of certain company heads (especially majority managers of private limited 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.

For income tax purposes, France covers mainland France, the coastal islands and Corsica; and overseas *départements* (Guadeloupe, French Guiana, Martinique, Réunion and Mayotte[10]).

1 – Domicile for tax purposes – Tax household rule

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

Government 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 in France for tax purposes.

Personal income tax is assessed on the basis of the "tax household", i.e. the family entity consisting of a single person, two partners in a civil union 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 in France for tax purposes are taxable on their worldwide income.

3 – Tax treatment of persons not domiciled in France

Subject to the provisions of tax treaties for the avoidance of double taxation, 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 property situated in France or from rights relating to such property
- income from French transferable securities and all other securities invested in France

10 Mayotte has been an overseas *département* since 31 March 2011. Article 1 of Order no. 2013-837 of 19 September 2013 on the adaptation of the Customs Code, the CGI, the Book of Tax Procedures and other legislative and customs provisions enforced in Mayotte makes income tax applicable in Mayotte as from taxation of income received in 2013 and declared in 2014.

- 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 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[11]. 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 for the avoidance of 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.

B. EXEMPT PERSONS

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.

11 To make the comparison, this income includes income subject to a withholding or levy.

III - TAXATION OF INCOME RECEIVED BY INDIVIDUALS

As from 31 December 2015, the means of determining taxation regime thresholds will be standardised. The limits and reference years concerning business profits (BIC) and non-commercial profits (BNC) for the very small business regime will be aligned with those applying to the dispensation from VAT, and the simplified regime for business profits will be aligned with that chosen for VAT. Lastly, a new method for the three-yearly updating of tax thresholds will be rolled out as from 1 January 2017.

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 adjustments under tax law. However, small businesses may opt for a simplified regime that reduces their accounting obligations, and very small businesses[12] are generally taxed, unless they opt for actual assessment, on a notional profit equal to a percentage of their turnover (29% of sales of goods and housing provision, not including furnished rentals, 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 in discharge of tax 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 15.1%[13] rate to sales of goods or a 26.3% rate to sales of services[14] in the previous period.

In addition, the taxable profits[15] of businesses subject to actual assessment in this category, which do not belong to an approved small business management centre or do not use a chartered accountant, are increased by 25%.

2 – Non-commercial profits

Non-commercial 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 €32,900 excluding VAT), must fulfil certain accounting obligations.

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12 Enterprises whose annual turnover for does not exceed €82,200 excluding VAT for sales of goods or housing provision, not including furnished rentals, or €32,900 excluding VAT for sales of services.

13 14.1% for social security contributions and 1% for income tax.

14 24.6% for social security contributions and 1.7% for income tax.

15 The purpose of the increase is to offset the 20% allowance in the progressive income tax scale. The allowance formerly applied to income in the wages and salaries category and to income in the business profits, non-commercial profits and agricultural profits categories of members of an approved management centre or association taxed on an actual basis.

They are required to keep a ledger itemising their business revenue and expenditure and a record of fixed assets and depreciation.

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

Persons taxed on their non-commercial profits under the notional assessment system, called "micro-BNC" (i.e. with annual revenue less than or equal to €32,900 excluding VAT) are required only to keep an accounting record of their revenue. Under this regime, the taxable profit is equal to 66% of revenue. Such taxpayers may opt, under certain conditions, to make a monthly or quarterly social security and tax payment in discharge of tax on a notional basis. In that case, taxpayers in the social security scheme for the self-employed (*régime social des indépendants*, RSI) apply a 26.8%[16] rate to the amount of their revenue in the preceding period, while taxpayers in the CIPAV (C*aisse interprofessionnelle de prévoyance et d'assurance vieillesse*) pension fund scheme apply a 25.5%[17] rate.

Under an actual assessment regime, taxable profits are increased by 25% unless the taxpayer is a member of an approved small business management centre or uses a chartered accountant.

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 breeding, 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 actual profit regime.

4 – Income from property

Income from 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 property whose gross annual revenue does not exceed €15,000 and who do not let properties covered by certain special regimes, automatically benefit from a simplified tax regime called "*micro-foncier*". In this case, the taxable income from property is determined after deducting a notional 30% allowance representing all expenses on the property from the revenue received for the year of taxation.

Recipients of income from property whose annual revenue exceeds €15,000 are covered by an actual regime. In this case, the taxable income from property is the difference between the amount of revenue received for the year of taxation and the total amount of expenses on the property paid during the same year.

However, persons entitled to automatically benefit from the "*micro-foncier*" regime may opt for the actual regime.

16 24.6% for social security contributions and 2.2% for income tax.
17 23.3% for social security contributions and 2.2% for income tax.

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

Alternatively, the tax incentive for buy-to-let investments may take the form of an income tax cut.

Under the Pinel Act, acquisitions of new housing units made between 1 September 2014 and 31 December 2016 provide entitlement to a reduction in income tax to promote buy-to-let investment in the middle-income sector.

The tax reduction rate is 12% for an initial six-year rental commitment and 18% for an initial nine-year commitment. Following these six or nine year periods, taxpayers are entitled to an additional tax reduction of 6% or 3%, accordingly, for each three-year extension of the rental commitment. The tax reduction could ultimately reach a maximum of 21% for a twelve-year rental commitment.

Taxpayers may rent the eligible housing units to their ascendants and descendants on the basis of the conditions relating to rent and income required to benefit from these arrangements.

The Pinel Act applies to acquisitions of new or similar housing units.

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 public limited companies (chairman of the board, managing directors, deputy managing directors and members of the management board) and managers of private limited 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[18]
- 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. Professional expenses are normally taken into consideration on a notional basis (a 10% deduction, capped and reviewed each year)[19]. 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 allowance, though the amount for all members of the household may not exceed an amount increased each year in the same proportion as the upper limit of the first band of income tax.

Purchased life annuities (RVTO) are eligible for a notional allowance 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.

Under certain conditions and at the beneficiary’s express and irrevocable request, pension benefits paid in the form of capital may be subject to a 7.5% flat-rate withholding tax which discharges the income to which it applies from income tax.

18 If the option is not exercised, a withholding in discharge of income tax is automatically applied to elected officials’ allowances on payment.

19 €12,157 for the taxation of income earned in 2014.

Since 28 September 2012, all income from the exercise of stock options or the acquisition of bonus shares has been taxed on the basis of the ordinary law rules for wages and salaries[20].

6 – Investment income

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 or for an equivalent tax (or opting for this tax). It may fluctuate depending on the performance of the issuer.

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. The rate of return is usually fixed during the investment period but this is not always so[21].

INCOME FROM VARIABLE-YIELD SECURITIES (DIVIDENDS AND SIMILAR INCOME)

Income distributed by French or foreign companies liable to corporation tax or an equivalent tax and received by individuals who are resident of France for tax purposes is liable to personal income tax at a progressive rate, after deducting, if the companies have their registered office in France, a European Union Member State or in a State or territory having concluded a tax treaty with an administrative assistance clause to combat tax evasion and avoidance with France, a 40% allowance[22].

Prior to being subject to the progressive income tax scale, all income distributed, whether eligible or not for the 40% allowance, received by individuals who are resident of France for tax purposes, is subject to a 21% non-discharging mandatory deduction at source (instalment). This withholding tax is paid during the first fifteen days of the month following the month in which the income is paid and is set off against the income tax due for the year in which it was applied (income tax paid the following year). If it is more than the tax owed, the surplus is refunded.

However, individuals who are resident of France for tax purposes, and whose household reference taxable income does not exceed €50,000 for single taxpayers and €75,000 for taxpayers taxed jointly, are not subject to this withholding tax.

Since 1 January 2013, income distributed by companies based in France has been liable to a 75% mandatory flat-rate withholding tax which discharges income tax when it is paid outside France in a non-cooperative country or territory, regardless of the tax domicile of the recipient of this income.

INCOME FROM FIXED-INCOME SECURITIES (INTEREST AND SIMILAR INCOME)

In principle, this income is subject to the progressive income tax scale.

Since 1 January 2013, prior to being subject to the progressive income tax scale, income from fixed-income securities received by individuals who are resident of France for tax purposes is subject to a 24% non-discharging mandatory withholding tax (instalment). This income can be in the form of interest, arrears, revenue of any nature from government stock, bonds and other negotiable debt securities (such as equity securities and treasury bills issued by the public or private organisations referred to in Article 118 CGI).

This withholding tax is paid during the first fifteen days of the month following the month in which the income is paid and is set off against the income tax due for the year in which it was applied (income tax paid the following year). If it is more than the tax owed, the surplus is refunded.

20 Article 11 of the 2013 Budget Act no. 2012-1509 of 29 December 2012.

21 Floating or adjustable rate bonds and equity securities for example.

22 The fixed annual allowance of €1,525 for a single person and €3,050 for a couple taxed jointly was repealed by Article 9 of the 2013 Budget Act (Act no. 2012-1509 of 29 December 2012) for distributed income paid out as from 1 January 2012.

However, individuals who are resident of France for tax purposes, and whose household reference taxable income does not exceed €25,000 for single taxpayers and €50,000 for taxpayers taxed jointly, are not subject to this withholding tax.

In addition, some income is subject to a withholding tax discharging income tax liability:

① Optional:

- income from fixed-income securities received for a year by a tax household when the amount is less than €2,000 and for which the taxpayer has opted to pay income tax at the fixed rate of 24%. The option is exercised when filing the tax return for all income.
- income relating to life insurance policies and capitalisation bonds and contracts for which the beneficiary, an individual who is resident of France for tax purposes, elects for payment of the flat-rate withholding tax discharging income tax. The rate of the withholding tax is 35% if the term of the policy/contract is less than four years, 15% if the term is between four and eight years and 7.5% when the term is eight years or longer.

② Mandatory:

- income from fixed-income securities where the debtor is based in France and which is paid outside France in a non-cooperative country or territory - barring exceptions -. The rate of this mandatory withholding tax is set at 75%.
- income from fixed-income securities that is relinquished, pursuant to so-called “sharing” solidarity-based savings, in favour of public interest bodies which are compulsorily subject to a 5% flat-rate withholding tax discharging income tax liability
- income from bonds subject to tax anonymity arrangements (bearer bonds) which are subject to a 42% withholding tax when the bonds or securities were issued between 21 January 1980 and 31 December 1997 and to a rate of 60% when issued subsequent to 1 January 1998

Certain regulated savings income is expressly exempt from income tax: interest on *Livret A, Livret d'Épargne Populaire* (LEP), *Livret Jeune* and *Livret de Développement Durable* (LDD) savings accounts. Interest on home-ownership savings accounts (*comptes d’épargne-logement*, CEL) is also exempt from income tax.

Interest on home-ownership savings plans (*plans d’épargne-logement*, PEL) is subject to the progressive income tax scale (or, optionally, a flat rate of 24%) for the portion of accrued interest as from the plan’s twelfth anniversary.

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 property and capital gains on the transfer of securities or shares for valuable consideration.

Capital gains on disposals without valuable consideration are not taxed as such, but are included in the assessment base for duty on transfers without valuable consideration (see Taxes on assets).

Capital gains on property

Capital gains realised by individuals in the course of managing their private assets, during the sale for valuable consideration of property or property rights, are subject to income tax at a rate of 19%[23].

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

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

However, some capital gains are expressly exempt from tax. This applies in the event of:

- the sale of the seller's main residence
- the sale of property for less than €15,000
- the first sale of a housing unit other than the seller's main residence provided all or part of the sale price is used to acquire or build a housing unit for use as the main home

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 exhaustively specified expenses and charges.

The calculated gross capital gain is reduced by an allowance based on length of ownership, the rates and timeframe of which are aligned regardless of the nature of the sold property for sales carried out since 1 September 2014, to wit:

- for the tax base, an allowance based on length of ownership of 6% after the fifth year, followed by an allowance of 4% at the end of the twenty-second year of ownership, therefore leading to total exemption of capital gains on property from income tax at the end of the twenty-second year of ownership
- for the social contribution base, an allowance of 1.65% for each year of ownership after the fifth year, then 1.60% for the twenty-second year of ownership and, lastly, 9% for each year of ownership subsequent to the twenty-second year, therefore leading to total exemption of capital gains on property from social levies after thirty years of ownership

In addition, an extraordinary 25% allowance, calculated on the net taxable capital gain, was introduced for a year for the sale of property other than building plots between 1 September 2013 and 31 August 2014. Subject to certain conditions, in particular the start of a transaction by an agreement to sell (*promesse de vente*) having acquired its legal date prior to 31 December 2014, this allowance has been extended for sales of constructed property between 1 September 2014 and 31 December 2016 that are earmarked for demolition by the buyer with an eye to rebuilding housing units in areas of France suffering from a lack of accommodation.

Similarly, an extraordinary 30% allowance for the purposes of calculating the net taxable base, both for income tax and social levies, of capital gains from the sale of building plots has been introduced.

This extraordinary allowance applies on the dual condition that the sale was preceded by an agreement to sell having acquired its legal date between 1 September 2014 and 31 December 2015 and that the sale is concluded by 31 December of the second year following the year in which the agreement to sell acquired its legal date at the latest.

23 Plus 15.5% of social levies.

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 exhaustively specified cases, such as where the sold property was acquired by successive fractions.

The notary is responsible for drawing up the return, filing it and paying the corresponding tax on the seller's behalf to the land registry in the location of the property. Payment is made when the sale deed is presented for registration.

No return needs to be filed if the capital gain is not taxable because it is expressly exempt or because it is eligible for the allowance based on length 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.

Moreover, capital gains on property representing a taxable amount of more than €50,000 are subject to a surtax.

This surtax does not concern capital gains from the sale of building plots or related rights.

The rate is between 2% and 6% based on a progressive scale depending on the amount of the taxable capital gain. It is owed by the seller and payable under the same conditions as income tax.

Capital gains on the disposal of securities and shares

Article 10 of the 2013 Budget Act[24] and Article 17 of the 2014 Budget Act[25] overhauled the arrangements for the taxation of net gains on the disposal of securities and shares realised by persons domiciled in France for tax purposes.

Capital gains on the disposal of securities and shares made as from 1 January 2013 have therefore, without exception, been taxed at the progressive rate of income tax instead of at a proportional rate.

Capital gains on sales are subject to the progressive income tax scale after applying an ordinary law allowance which increases on the basis of the length of ownership of the securities or shares sold: 50% from two years up to eight years and then 65% thereafter.

Investments in startups, small and medium-sized enterprises (SMEs less than ten years old when the sold shares were subscribed for or acquired) and transfers of undertakings are fostered by the introduction of an increased allowance at the progressive rate depending on the length of ownership of the securities or shares sold: 50% from one to four years, 65% from four to eight years and 85% as from eight years.

Before application of this proportional allowance, capital gains made by SME managers when they retire are subject to a special fixed allowance of €500,000.

At the same time, a number of derogations, which have been revised in this increased allowance regime, have been repealed (inter-family transfers, sale of innovative startups, assignments by SME managers exercising their pension entitlements).

In addition, transactions for the contribution of shares to companies controlled by the contributor are compulsorily subject to the tax deferral provided for in Article 150-0 B ter CGI (instead of the stay of collection of taxes set forth in Article 150-0 B of said Code).

24 Act no. 2012-1509 of 29 December 2012

25 Act no. 2013-1278 of 29 December 2013

Lastly, so as to limit tax avoidance, exit tax arrangements provide that taxpayers who were resident of France for tax purposes for at least six of the ten years prior to the transfer of their tax domicile outside France are taxed during this transfer for unrealised capital gains on securities, stocks and shares held directly or indirectly by members of their tax household on the transfer date.

Transfers of tax domicile outside France, that have taken place since 1 January 2014[26], cause taxation of income tax and social levies:

- on unrealised capital gains relating to a stake of at least 50% in the profits of a company, compared to 1% previously, held by the taxpayer and members of his tax household
- on capital gains when assets in securities and shares exceed a total of €800,000, compared to €1.3 million previously

Capital gains and receivables are subject to the progressive income tax scale after taking account of the allowances available for length of ownership for capital gains tax on securities pursuant to the general regime and the incentive regime.

An automatic stay of payment, without the furnishing of guarantees, is granted if the taxpayer transfers his domicile for tax purposes to an EU Member State or to an EEA Member State, excluding Liechtenstein. If the domicile for tax purposes is transferred to a country other than those mentioned above, the stay may be granted, at the taxpayer's request, and in consideration of the guarantees that the taxpayer has to furnish before his departure. However, when the departure is justified on professional grounds, no guarantee is required for the stay of payment to be effective provided the new country of residence has signed an administrative assistance treaty with France to combat tax evasion and avoidance as well as a mutual recovery assistance treaty.

Capital gains on the sale of movable property

Sales of movable property are covered by ordinary law arrangements for capital gains on movable property belonging to individuals, subject to the special provisions concerning the flat-rate tax on valuable objects (*taxe forfaitaire sur les objets précieux*, TFOP) that is presented hereinafter.

The taxable capital gains, calculated according to the difference between the sale price and the purchase price of the goods, are reduced by a 5% allowance[27] for each year of ownership after the second year, meaning that there is total exemption after twenty-two years of ownership.

Nevertheless, sales of precious metals, jewellery, works of art, collectibles and antiques are covered by the TFOP. The tax applies to the good’s sale price. The rate is 10% for sales of precious metals and 6% for sales of jewellery, works of art, collectibles and antiques[28]. The social security debt repayment contribution (CRDS) at a rate of 0.5% is also applicable to the sale price.

The TFOP is owed by the seller. However, if an intermediary is involved in the transaction, or otherwise, if the buyer is liable to VAT and based in France, he is responsible for settling the tax.

Optionally, sales of goods automatically liable to the TFOP may be subject to the ordinary law tax arrangements for capital gains on the sale of movable property, provided the seller is able to provide proof of the purchase date and price of the sold good or, otherwise, that he has owned it for more than twenty-two years.

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26 Article 42 of the 2013 Supplementary Budget Act no. 2013-1279 of 29 December 2013.

27 Article 18 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.

28 Article 19 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.

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 subject to the progressive income tax scale, while long-term capital gains are taxed at a reduced rate equal to 31.5% (income tax for 16% and social levies for 15.5%).

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 within the limit of the amount of depreciation applied, regardless of how 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 applied 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[29] 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 15.5% 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 business activity has been pursued for at least five years and turnover does not exceed certain thresholds.

ARRANGEMENTS APPLYING TO THE FIRST SALE FOR VALUABLE CONSIDERATION OF A TEMPORARY USUFRUCT MADE BY A TAXPAYER LIABLE TO INCOME TAX

Revenue from the first sale for valuable consideration of a same temporary usufruct is, as a departure from the provisions for taxation of capital gains, liable to[30] income tax in the category to which the profit or income, received or likely to be received from the good or right to which the sold temporary usufruct relates, belongs on the sale date.

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.

However, specific arrangements exist.

29 This exemption also applies to enterprises liable to corporation tax under certain conditions, relating in particular to the ownership of their capital by individuals.

30 In accordance with the provisions of Article 13(5) CGI, in its wording originating from Article 15 of the third Supplementary Budget Act for 2012 (No. 2012-1510 of 29 December 2012).

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 partly or in full, meaning that progressive rates of tax are not applied to the income in question.

The rate of levies and withholding taxes on income paid or certain capital gains made in a non-cooperative country or territory or paid by persons (individuals or legal entities) whose residence for tax purposes or registered office is located in such a country, are increased by 75% (50% prior to 2013).

Some types of income are expressly exempted when received by non-residents.

1 – Income subject to withholding tax

WITHHOLDING TAX RELATING TO CERTAIN NON-COMMERCIAL AND SIMILAR INCOME

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 33⅓% is levied on non-commercial or similar income paid by a debtor carrying on a business activity in France to individuals (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, the rate is 15% for amounts, including salaries, paid for sporting performances provided or used in France.

The rate of the withholding tax is increased to 75% when the amounts, other than salaries, are paid to individuals domiciled or based in a non-cooperative country or territory.

The amount of the withholding is set off against the income tax (or corporation tax) payable by the individual (or company) on income from French sources. The withholding is not refundable.

WITHHOLDING TAX RELATING TO INCOME FROM ARTISTIC PERFORMANCES

Amounts paid for artistic performances given or used in France by a debtor carrying on a business activity in France to persons that do not have a permanent business establishment there are subject to withholding tax at 15%.

This rate is increased to 75% when the amounts paid for artistic performances, other than salaries, are for the benefit of individuals domiciled or based in a non-cooperative country or territory.

For compensation paid in 2015, this withholding discharges income tax for the portion up to €41,867.

WITHHOLDING TAX RELATING TO WAGES, SALARIES, PENSIONS AND ANNUITIES

Wages, salaries, pensions and annuities paid to individuals not domiciled in France are liable to withholding tax calculated on a three band scale, the limits of which vary in the same proportion as the closest limit of the tax scale:

- no withholding tax is levied if the annual amount is less than €14,431
- withholding tax is payable at 12% on income between €14,431 and €41,867
- the rate is 20% for income in excess of €41,867

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%, which does not exceed €41,867 for 2015. 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 (dividends and similar income)

A 30% withholding tax in discharge of income tax liability is levied on dividends and similar income distributed by French companies to individuals not domiciled in France for tax purposes or to legal entities that do not have their registered office in France, other than certain undertakings for collective investment.

The rate of this withholding tax is reduced to 21% for dividends and distributions similar in nature to those eligible for the 40% allowance for individuals having their tax domicile outside France in an EU Member State or in another State which is party to the agreement on the European Economic Area and which has signed an administrative assistance treaty with France to combat tax evasion and avoidance.

The rate is increased to 75% for income and revenue paid outside France in a non-cooperative country or territory, regardless of the tax domicile of the individual receiving this income and revenue.

The rate is reduced, or the tax even waived 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 (also based in Iceland, Norway and Liechtenstein) may pay the withholding tax due on income distributed by listed French companies to their non-resident shareholders to the French government 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 file returns and make payments.

Income from fixed-income securities (dividends and similar income)

The flat-rate withholding tax applies, at an increased rate of 75%, to revenue from fixed-income securities paid by a debtor domiciled or based in France outside France in a non-cooperative country or territory, regardless of the tax domicile of the beneficiaries.

CAPITAL GAINS ON PROPERTY

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

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

However, they are taxed at 19% when they are realised by non-resident individuals.

Moreover, non-residents may be entitled to certain exemptions from capital gains tax on property and, in particular, to a special exemption for sales of housing units located in France.

The exemption is limited to one residence per taxpayer and to €150,000 of net taxable capital gains, under the dual condition that:

- the seller has been resident of France for tax purposes for a continuous period of at least two years at any time prior to the sale
- the sale is concluded by 31 December of the fifth year following the year when the seller transfers his tax domicile outside France at the latest or, without conditions as to time limits, when the seller has had free enjoyment of the property at least since 1 January of the year preceding the year of the sale

PROFITS FROM PROPERTY

Certain profits made by individuals domiciled outside France from property are subject to a withholding tax in discharge of income tax of 33⅓% which is increased to 75% when the profits are made by taxpayers domiciled in a non-cooperative country or territory.

This applies to:

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

CAPITAL GAINS ON THE DISPOSAL OF SHARES DERIVING FROM SUBSTANTIAL INTERESTS

Unless otherwise provided for by an international tax treaty, gains resulting from the disposal by individuals or legal entities that do not have their tax domicile or registered office in France of shares in French companies are taxed at a flat-rate of 45%[31], 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. This levy discharges the income tax owed within the limit of the amounts having been subject to this tax.

However, individuals residing for tax purposes outside of France may apply for repayment of the surplus of the 45% levy on the proportion of income tax that would have resulted from this gain being subject to the progressive income tax scale.

Capital gains on the sale of shares in French companies are taxed at a flat rate of 75%, regardless of the proportion of rights to the profits of the relevant company, when they are realised by individuals or organisations domiciled, based or incorporated outside France in a non-cooperative country or territory.

CAPITAL GAINS DISTRIBUTED BY VENTURE CAPITAL COMPANIES

Amounts distributed by venture capital companies (VCCs) to non-resident individuals taken from the net capital gains on the disposal of shares by the company are subject to a 45% withholding tax[32]. As from 1 January 2014, the rate of the withholding tax was reduced to 30%.

However, individuals who are non-residents may apply for repayment of the surplus of the 45% levy on the proportion of income tax that would have resulted from this distribution being subject to the progressive income tax scale.

Such distributions are subject to a 75% withholding tax when they are paid in a non-cooperative country or territory.

31 Rate applicable since 1 January 2013. Prior to this date, the rate was 19% for gains realised.
32 Rate applicable since 1 January 2013. Prior to this date, the rate was 19% for gains realised.

GAINS FROM EMPLOYEE SHAREHOLDING AND SIMILAR SCHEMES

Pursuant to the provisions of Article 182 A ter CGI, gains from French sources deriving from employee shareholding schemes and other employee benefits providing salaried employees and senior managers with shares under preferential conditions are subject to a specific withholding tax when the sale of the corresponding shares is carried out by a person who is not domiciled in France.

This withholding tax applies to employee gains and benefits from the granting of stock options, bonus shares, founding share subscription warrants (*bons de souscription de parts de créateur d'entreprise*, BSPCE) and, more broadly, from any granting of securities to salaried employees and senior managers under preferential conditions as consideration for their work in France when said persons are not domiciled in France for tax purposes.

The withholding tax is calculated by applying the base and rate rules provided for by the specific tax arrangements for these benefits when such apply or on the basis of the withholding tax rules laid down for salaries.

3 - Exemption of certain categories of income or profits from French sources received by persons not domiciled in France for tax purposes

Gains from the transfer of transferable securities for valuable consideration that are made directly or through an intermediary by persons not domiciled in France for tax purposes and do not derive from substantial interests are exempt from income tax (except for organisations and individuals domiciled, based or incorporated outside France in a non-cooperative country or territory). 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 for by non-residents are also exempt (see section §.2 above).

Finally, salaried employees and senior managers treated in the same way for tax purposes (and certain non-salaried employees) who are called upon by a company based abroad to work for a limited period for a company based in France, and salaried employees and senior managers who are directly recruited in a foreign country by a company based in France, are entitled to exemptions in respect of their earned income. These arrangements apply to persons who were not domiciled in France for tax purposes during the previous five years and who set their tax domicile when taking up their position in France.

Such "impatriates" are exempt until 31 December of the fifth year following the year in which they take up their position for the years when they are domiciled in France. The income tax exemption also applies to 50% of certain investment income 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.

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.

Property losses cannot be set off against total income except for the fraction resulting from expenditure 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 property in the following ten years[33].

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

Under the same conditions as taxpayers domiciled in France, those not domiciled in France may set off losses of the same origin against profits or income from French sources, provided that these 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.

<u>TAXABLE INCOME IS AN ANNUAL DISPOSABLE INCOME</u>

The tax household is, in principle, taxed on its actual disposable 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 familial*), which alleviates the impact of progressive taxation.

<u>TAXABLE INCOME IS A NET INCOME</u>

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

Court-ordered or statutory maintenance payments may be deducted from total income, in principle for the actual amount. Other exhaustively specified expenses may also be deducted, although the amount is generally capped.

V - CALCULATING THE TAX

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

In addition, those receiving income from professional activities (business profits, non-commercial profits, agricultural profits), investment income, income from property and capital gains on 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 circumstances, inter alia, by means of an income splitting system and by allowing taxpayers tax reductions or credits for certain personal expenses.

33 However, 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.

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 or partners of a PACS (civil union), 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.

Starting in 2012, a new 45% tax bracket was introduced to tax income. The 2015 Budget Act removed the 5.5% tax bracket and lowered the threshold for application of the 14% tax bracket as from taxation of income for 2014.

The scale, corresponding to one part, is as follows (2014 income):

Portion of taxable income (one part)	Rate
For the portion under €9,690	0%
For the portion over €9,690 and less than or equal to €26,764	14%
For the portion over €26,764 and less than or equal to €71,754	30%
For the portion over €71,754 and less than or equal to €151,956	41%
For the portion over €151,956	45%

This tax per part is 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, at €1,508 per half-part after the first two (as in the case of a married couple with one or more dependent children).

Lastly, taxpayers with low incomes are eligible for relief on the taxes from the tax scale and after capping the effects of income splitting (gross tax), which alleviates the impact of entering the progressive income tax scale.

For 2014 income tax, the relief applies when the tax is less than €1,135 for single, divorced or widowed taxpayers and €1,870 for couples taxed jointly.

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 breaks (see below).

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

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

Deductible tax credits are granted, for example, for childcare such as the cost of hiring a child minder, for sustainable development-related equipment and for home help.

The total benefit resulting from certain tax breaks exhaustively listed (deductions from total income, tax reductions and credits) has been capped. Thus, total tax breaks on the basis of expenditure or investments made in 2014 cannot represent a tax reduction of more than €10,000.

However, total tax breaks subject to the ordinary law cap, limited to €10,000, plus tax breaks due to investment overseas and/or subscriptions for the capital of "Sofica" financing companies for the cinema and audio-visual industries, are limited to an income tax reduction of €18,000.

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 not-for-profit initiatives in the public interest (preservation of historic monuments, donations to the voluntary sector, sponsorship, etc.).

NB:

Taxpayers who are not domiciled in France and who are only liable to tax on their income from French sources are not entitled to deductions of expenses from total income. With certain exceptions, they are not entitled to the tax reductions or credits for taxpayers domiciled in France.

However, non-residents who receive the majority of their income from French sources (socalled "Schumacker non-residents") are treated in the same way as persons residing in France for tax purposes under domestic legislation, whilst having a limited tax obligation within the meaning of international tax treaties. For the calculation of their income tax, they can invoke expenses allowed as deductions from their overall income, tax reductions and credits.

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.

Amounts received under the inclusion benefit scheme (*revenu de solidarité active*, RSA) by members of a tax household during a calendar year are deducted from the amount of earned income tax credit granted to the tax household for the year.

The second Supplementary Budget Act for 2014 provided for the phasing out of the PPE for 2015 income (tax paid in 2016).

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 followed by the balance, though taxpayers may opt for monthly instalments. In the latter case, payment is made by monthly 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.

=> Users may file their income tax returns and/or pay online at http://www.impots.gouv.fr

TEMPORARY LEVY ON TOP EARNERS

The wealthiest taxpayers have to pay a temporary levy, in addition to income tax, which is based on their reference taxable income (RFR).

Subject to the application of international treaties for the avoidance of double taxation, the following persons are liable for the temporary levy:

– taxpayers who are resident of France for tax purposes, who are liable to income tax and who have income from French or foreign sources that is part of their RFR

– taxpayers who are not residents of France for tax purposes, who are liable to income tax in France and who have income from French sources that is part of their RFR

The RFR covers the net amount of income and capital gains taken into account to calculate the income tax liability, plus certain expenses deductible from the taxable income, certain income and profits exempt from income tax or subject to a deferral or stay of taxation, certain allowances applied to determine the income category and income and profits subject to levies or payments discharging tax liability.

To calculate the RFR used as the basis for the levy, the entire amount of income eligible for the income tax income splitting system is taken into account, i.e. before income splitting.

The temporary levy on top earners is calculated by applying a rate of either 3% or 4% according to the following scale:

Portion of reference taxable income	**Applicable rate**	
	Single, widowed, separated or divorced taxpayer	**Married taxpayer or taxpayer in a civil union, taxed jointly**
Less or equal to €250,000	0%	0%
Between €250,001 and €500,000	3%	
Between €500,001 and €1,000,000	4%	3%
More than €1,000,000		4%

The levy has special income splitting arrangements to mitigate the taxation of taxpayers having income considered extraordinary owing to its amount.

The temporary levy on top earners is collected in the same manner as income tax. It is scheduled to remain in force until taxation of income for the year during which the general government deficit is reduced to zero.

In addition to income tax and the temporary levy on top earners, income received by persons domiciled in France is subject to additional 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 distinguishes France from some of its European partners, which 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, supplementary levies of a tax nature were introduced to extend the range of resources.

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), and the 0.3% additional welfare contribution for elderly people living alone levied on retirement pensions (*contribution additionnelle de solidarité pour l'autonomie, CASA*).

In addition, they include a social levy of 4.5%[34] on income from personal assets and investment products, an additional contribution of 0.3% and a 2% solidarity levy (raising total social levies on income of this type to 15.5%).

Only individuals resident in France for tax purposes are liable to pay social security levies on investment income.

Nevertheless, individuals resident outside France for tax purposes are liable to pay social security levies on investment income earned on property owned in France.

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

I - GENERAL SOCIAL SECURITY CONTRIBUTION

The general social security contribution (CSG) 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, the national solidarity fund for autonomy, the social security debt repayment fund and compulsory health insurance schemes.

The contribution is levied on individuals who are domiciled in France for tax purposes 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, whether they are taxed on the

34 The social levy was raised from 2.2% to 3.4% by Article 10 of the second 2011 Supplementary Budget Act, no. 2011-1117 of 19 September 2011, and from 3.4% to 5.4% by Article 2 of the first 2012 Supplementary Budget Act, no. 2012-354 of 14 March 2012, before being cut from 5.4% to 4.5% by Article 3 of the 2013 Social Security Financing Act no. 2012-1404 of 17 December 2012. The 4.5% rate is levied on income from personal assets received as of 1 January 2012 and on the income from securities products stipulated in section I, Article L. 136-7 of the Social Security Code paid and recorded as of 1 January 2013 and those stipulated in section II, Article L. 136-7 of the Social Security Code for the share of income acquired and, where applicable, recorded as of the same date.

basis of personal income tax brackets, subject to the final withholding tax or exempt from personal income tax altogether.

CSG ON EARNED AND SUBSTITUTION INCOME

- **Income from salaried employment and similar 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. 1.75% is deducted from this base for professional expenses, limited to four times the annual social security ceiling [35].

CSG is deducted by the employer at source at a rate of 7.5%, including 5.1% deductible from the income tax base.

The employer pays the amount deducted at source to URSSAF, the body that collects social security contributions. Exceptionally, the CSG payable on employee shareholder income and on income from foreign sources is collected by the Public Finances Directorate General.

- **Non-wage earned income**

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

- **Substitution income**

For substitution income, the rate is set at:

– 7.5% for early retirement benefits received by employees who have taken early retirement since 11 October 2007, 5.1% of which is deductible from the income tax base;

– 6.6% for pensions and disability benefits, 4.2% of which is deductible from the income tax base. This may be reduced to 3.8% (fully deductible from the income tax base) when the income is received by recipients whose taxable income does not exceed a certain threshold[36]; this is also the exemption limit for the welfare contribution for elderly people living alone levied on retirement pensions. Pensions and disability benefits are exempt from the CSG when the recipient's taxable income is below the exemption limit; exemption from the CSG also means exemption from the CRDS;

– 6.2% for other substitution income (unemployment benefits, etc.), 3.8% of which is deductible from the income tax base. Recipients of unemployment benefit can benefit from this lower rate or be fully exempt from the CSG under the same conditions applicable to pensions and disability benefits. Daily social security allowances for sickness, maternity, work-related accidents and occupational illness are still subject to a rate of 6.2% regardless of how much the recipient earns.

The CSG on substitution income is generally levied at source by the organisation responsible for making these income payments.

CSG ON INCOME FROM PERSONAL ASSETS

The CSG is levied on income from personal assets at 8.2%. The following are liable to the CSG:

- income from property
- purchased life annuities
- investment income other than income on which the CSG has been deducted at source (see "CSG on investment income" below)
- capital gains and profits liable to income tax, including long-term business capital gains and capital gains on transferable securities and shares

35 More information available at the following address: http://www.ameli.fr/employeurs/vos-demarches/chiffres-utiles/plafond-de-la-securite-sociale.php.

36 Article 7 of the 2015 Social Security Budget Act No. 2014-1554 of 22 December 2014.

- profits liable to income tax from industrial and commercial activities, agricultural activities and non-commercial profits not liable to pay CSG on earned and substitution income
- income of indeterminate origin subject to estimated assessment and other amounts subject to estimated assessment for non-production or late production of the tax return
- any other sources of income taxable in France on the basis of an international treaty which have not been subject to CSG on earned and substitution income

The CSG is levied on the net amount used to determine the income tax liability.

Nevertheless, CSG is levied on the gross amount of investment income, i.e. prior to the deduction of expenses incurred for acquiring or keeping the income and the 40% allowance. Income from capitalisation bonds or life insurance policies of eight years or more are taxed before application of the lump-sum allowance of €4,600 or €9,200.

Similarly, capital gains on transferable securities and shares are taxed before any length-of-ownership deduction.

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

5.1% of the CSG on income from personal assets, except for capital gains liable to income tax at a proportional rate[37], is deductible from taxable income in the year it is paid.

An upper limit is placed on the CSG deductible in relation to net gains on disposals of transferable securities and shares that benefit from a lump-sum allowance in favour of retiring managing directors in keeping with the taxable amount of each gain.

<u>CSG ON INVESTMENT INCOME</u>

Income from fixed-income investments, together with dividends and similar income (with the exception of those received within the framework of a PEA equity savings plan) are liable to the CSG on investment income at 8.2%:

- where they are liable to income tax at progressive rates and the payer of the income or revenue is established in France
- where they are exempt from income tax (with the exception of certain regulated tax-free savings products, namely *Livret A, Livret d'Épargne Populaire, Livret de Développement Durable, Livret Jeune* and *Livret d'Épargne Entreprise* savings accounts, reimbursement bonuses and premiums)
- where they are liable to withholding tax in full discharge of tax liability as per the 2013 Budget Act (see Chapter 2, Section 1)

The 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.

The CSG is deducted at source, generally, in the case of fixed-interest investment income and distributed income, by the payer. In the case of tax-exempt products, the deduction is made in principle on payment of the income to the debtor or to the intermediary who pays the income in question and is then responsible for paying the amounts to the State.

37 As a result of the reform introduced in the 2013 Budget Act, capital gains on the disposal of transferable securities are taxed at progressive rates, apart from some exemptions.

The CSG on capital gains on property and certain movables is collected at the same time as the withholding tax in discharge of income tax on the capital gain.

The social security contributions base for capital gains on disposals of property other than building plots and related construction rights, liable to CSG and other social levies[38], is determined through the application of a different length-of-ownership deduction to that applied to determine the tax base. 1.65% is deducted for each year of ownership after the fifth year up to the 21st; it falls to 1.60% for the 22nd year and is then raised to 9% for each year after the 22nd. In total, the exemption from social levies is acquired over a 30-year period (rather than 22 for income tax).

For capital gains on disposals of building plots, the social security contributions base is equal to the tax base. After 30 years, the applicable length-of-ownership deduction renders these gains exempt from both income tax and social security contributions.

5.1% 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.

The rate of CSG deductible from investment income gains is therefore in line with the rate of CSG deductible from earned income to bring the taxation of investment income into line with that of earned income[39].

The CSG yielded €91.76 billion in 2013 and is expected to yield €92.14 billion in 2014.

II – SOCIAL SECURITY DEBT REPAYMENT CONTRIBUTION

The CRDS is intended to clear the deficits of the social security system. It is also paid into the Social Security Debt Redemption Fund (C*aisse d'amortissement de la dette sociale*, Cades).

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 certain categories of income exempt from the CSG, such as family allowances and housing benefits, are liable to the CRDS.

The CRDS is collected in the same way as the CSG, with the exception of the contribution on earned and substitution income from foreign sources collected by individual assessment. The CRDS is not deductible from the income tax base.

It yielded €6.61 billion in 2013 and is expected to yield €6.69 billion in 2014.

III - 4.5% SOCIAL LEVY AND OTHER ADDITIONAL LEVIES

Levied on income from personal assets and investment income, the 4.5%[40] social levy is allocated to the old-age solidarity fund, the Social Security Debt Redemption Fund (Cades), the National Pension Fund for Salaried Workers and the National Family Allowance Fund.

An additional 0.3% levy on income from personal assets and investment income is allocated to the national solidarity fund for autonomy (Caisse nationale de solidarité pour l'autonomie, CNSA).

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38 0.5% CRDS; 4.5% social levy, 0.3% additional contribution and 2% solidarity levy.

39 Since 2013 Budget Act No. 2012-1509 of 29 December 2012.

40 The social levy was raised from 3.4% to 5.4% by the first 2012 Supplementary Budget Act then cut to 4.5% by Article 3 of the 2013 Social Security Financing Act, i.e. a 0.9 point reduction.

The base and collection methods for both are identical to those of the CSG due on income from personal assets and investment income.

The 4.5% social levy and additional contribution of 0.3% are not deductible from total income liable to income tax.

IV. – SOLIDARITY LEVY OF 2%

A solidarity levy of 2%[41] is levied on income from personal assets and investment income.

The base and collection methods are identical to those of the CSG due on income from personal assets and investment income.

The solidarity levy is not deductible from total income liable to income tax.

Total social levies on investment income and income from personal assets (income from property, capital gains on disposals of securities, purchase life annuities, etc.) stand at 15.5%.

V. – EMPLOYEE CONTRIBUTION ON GAINS FROM EXERCISING STOCK OPTIONS AND ACQUIRING BONUS SHARES

Gains from exercising stock options and acquiring bonus shares allocated since 16 October 2007 are liable to an employee contribution when the beneficiary is affiliated to a compulsory health insurance scheme.

The employee contribution is set at 10% for gains from exercising stock options or acquiring shares as of 18 August 2012. It is payable in relation to the year the disposals were made.

This contribution is not deductible from the income tax base.

The employee contribution is verified, collected and payable under the same conditions, and is subject to the same penalties as those for the CSG on income from personal assets (see Section I above).

VI. EMPLOYEE CONTRIBUTION APPLICABLE TO CERTAIN PAYMENTS AND GAINS ON CARRIED INTEREST UNITS OR SHARES

A specific employee contribution of 30% is levied on payments or gains on carried interest units or shares in venture capital mutual investment funds, venture capital companies and European private equity funds when these payments or gains are liable to income tax in accordance with the rules applying to wages and salaries.

This contribution discharges the beneficiary from paying any other contribution or social levy.

The base and collection methods are identical to those of the CSG due on income from personal assets.

41 In return for the abolition of the additional social levy of 1.1%.

VII. – CONTRIBUTION FROM BENEFICIARIES OF CLOTH CAP PENSION SCHEMES (*RETRAITES CHAPEAUX*)

Annuities paid to beneficiaries of supplementary defined benefit pension plans[42] (cloth cap pension schemes) are liable to a specific social contribution (Social Security Code, Art. L. 137-11-1).

This contribution, whose calculation method and rate[43] vary on the basis of the annuities received and the liquidation date, is deductible from the income tax base up to the portion paid on the first €1,000 of monthly annuity (General Tax Code, Art. 83 2°- 0 quater).

VIII. – SOCIAL CONTRIBUTION ON CORPORATE INCOME TAX

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 ($33^{1/3}$%) or at reduced rates. The contribution 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 voluntarily at the latest on the date on which the outstanding balance of corporation tax is paid. Four instalments are owed, at the same dates as corporation tax instalments, before payment of the final balance.

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

It yielded €1.2 billion in 2013 and is expected to yield €1.1 billion in 2014 and 2015.

IX. - CORPORATE SOCIAL SOLIDARITY CONTRIBUTION

Legal entities engaged in an economic activity in the competitive sector that generate turnover excluding VAT of at least €760,000 are required to pay a social solidarity contribution (*contribution sociale de solidarité des sociétés*, C3S) intended to finance the social protection of self-employed workers.

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 any deductions.

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

The C3S yielded €4.54 billion in 2013 and the additional contribution €1.04 billion. The C3S is expected to yield €4.44 billion in 2014 and the additional contribution €1.02 billion.

=> NB: the C3S is due to be withdrawn by 2017; it will be replaced by the general Social Security fund. Related provisions are due to be set out in the 2016 draft social security budget.

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42 Plans constituting rights to pension entitlements when the beneficiary's career in the company is complete; the employer's contribution cannot be split on an individual employee basis.

43 Exemption of €400 or €500 then progressive rate with two brackets (7% and 14%).

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 turnover for the calendar year prior to that when the wages were paid.

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

In order to cut red tape for "micro-enterprises", the wages paid by employers whose annual turnover does not exceed the thresholds for dispensation from VAT, are exempt from the wage tax.

Turnover is determined in light of all receipts and other revenue, including those not liable to VAT (particularly dividends and subsidies).

The wage tax base is in line with that of the CSG applied to salaries and similar sources of income in accordance with the rules outlined in Article L.136-2 of the Social Security Code. The wage tax is levied on amounts paid as remuneration and expenses, miscellaneous benefits and bonuses including benefits in kind or cash benefits paid to employees in return for their work and effectively allocated during the calendar year. The wage tax base therefore includes profit sharing and employee incentive plans, employers' contributions to company savings plans and towards funding supplementary pension schemes and complementary health insurance plans. The exemptions from CSG specifically provided for in section III, Article L.136-2 of the Social Security Code apply to the wage tax. The lump-sum deduction of 1.75% for business expenses applicable as part of the CSG is not applicable to determine the wage tax base.

In contrast, remuneration corresponding to social security payments paid by employers, which are assessed in accordance with the rules outlined in Article L. 136-2 of the Social Security Code, is not included in the wage tax base.

The benefits mentioned (stock options and free share allocations) are not subject to the tax.

The tax base is calculated by multiplying the total taxable wages (within the meaning of social security regulations) by the ratio between the turnover not liable to VAT and total turnover for the year prior to their payment.

This tax liability ratio is calculated as follows:

- by numerator, the turnover which was not liable to VAT and which covers all receipts (particularly, subsidies not liable to VAT, except infrastructure subsidies and "extraordinary subsidies") and other revenue which did not provide entitlement to VAT deductions, thus including that relating to transactions not liable to VAT

- by denominator, the total turnover, which covers all receipts and other revenue collected by the employer, regardless of the origin and classification and which also includes receipts and revenue relating to transactions not liable to VAT

The wage tax is assessed annually by applying a progressive scale by bands to the amount of gross wages paid to each employee. The bands are as follows:

Annual individual wages	Rate applicable
Less than €7,705	4.25%
Between €7,705 and €15,385	8.50%
Between €15,386 and €151,365	13.60%
Over €151,365	20%

For wages paid as of 1 January 2014, the tax exemptions on wages and the ceiling that triggers tax relief have been raised from €840 to €1,200 for exemptions and from €1,680 to €2,040 for the tax relief ceiling.

The tax relief limit for non-profit organisations is set at €20,262.

Taxpayers pay the tax voluntarily on a monthly, quarterly or annual[44] basis. An annual summary return must be filed in January of the following year so that the amount of tax due[45] can be adjusted. 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.

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

=> For individual wages paid in 2013 and 2014, a one-off tax on executive pay has been introduced. It applies to sole proprietors, legal entities and unincorporated companies, associations or organisations that run a business in France. This tax on executive pay is levied on the portion of individual wages (wages, salaries, allocated stock options or shares, profit sharing, company savings plan, etc.) that exceeds €1 million.

The tax rate is 50% and it is capped at 5% of corporate sales[46].

44 Decree 2121-1464 of 26 December 2012 adjusted the declaration threshold for companies subject to the wage tax from €1,000 to €4,000 for the annual declaration and from €4,000 to €10,000 for the quarterly declaration.

45 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.

46 Article 15 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.

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, circulation 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, although one of them, the domestic tax on petroleum 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. - CHARACTERISTICS OF VAT

A. 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. VAT is temporarily not applicable in the *départements* of French Guiana and Mayotte.

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 customer is liable to the tax, acts as such and has the registered office of his business or a permanent establishment to which the service is provided or, failing that, his domicile or usual home in France. Moreover, the place where a service is provided to persons not liable to the tax is in France when the service 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 in France.

However, where services are not taxed following the application of these principles in the place where they are actually used, there are derogations to ensure such taxation. For example, some services are taxed in the location of the building to which they relate (accommodation, works on property, etc.), some in the location where they are physically provided (catering, cultural and sporting services, etc.), and some in other more specific locations such as the place where the means of transport is provided to the customer in the case of short-term vehicle rentals.

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

B. 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 legal entities governed by public law 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.

C. 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 burden corresponds to the tax calculated on the final sale price to the consumer.

D. 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.

II. – 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 customer 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 EU 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:

- €82,200 excluding VAT for supplies of goods, sales of food and drink to be consumed on the premises or accommodation services (€90,300 where turnover in the year before that did not exceed €82,200)
- €32,900 excluding VAT for other services (€34,900 where turnover in the year before that did not exceed €32,900)

Special rules apply for activities falling into the two categories mentioned above. There is also a €42,600 (excluding VAT) exemption threshold for authors, artists, performers and solicitors responsible for court-of-appeal proceedings (*avoués*).

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

III. – CALCULATING THE AMOUNT OF VAT

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

A. CALCULATING GROSS VAT

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

The four rates are:

① The standard rate, which has been 20% since 1 January 2014. The standard rate applies to all transactions not expressly subject to another rate;

② The reduced rate of 10% which came into effect on 1 January 2014 applies to the majority of goods and services which were previously subject to the 7% rate. It covers mainly passenger transport, certain shows, games and entertainment, medicinal products not reimbursed by the social security, accommodation in hotels, furnished apartments or classified campsites, sales of food and drink for consumption on the premises, including canteens (except school canteens), unprocessed agricultural, fishery and poultry products not destined for human consumption, products for use in organic agriculture, and new middle-income social housing.

The 10% rate is 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.

③ The reduced rate of 5.5% applies mainly to basic necessities and certain cultural products and services, in particular:

- water and non-alcoholic drinks and products for human consumption with the exception of takeaway sales of products for immediate consumption which are taxed at 10%
- special apparatus and equipment for disabled persons, lifts and similar equipment designed for disabled persons that comply with specific characteristics
- contracts for the delivery of low voltage electricity, heating and fuel gas distributed via grids, and heating supplies when at least 50% is generated from renewable energy sources
- accommodation and food in retirement homes and residences for disabled persons
- books via any type of medium, including downloaded, and live shows (with the exception of shows given in establishments where consumption during the show is commonplace)
- cinema tickets and tickets for films shown during screenings of a non-commercial nature or at cinema festivals
- deliveries of works of art by the artist or successor(s)[47], imports and certain intra-community acquisitions of works of art, collectable items or antiques
- energy renovations of residential premises completed more than two years ago and related work
- delivery or construction of social housing and certain social housing renovations and related work
- entry fees received by organisers of sporting events[48]

④ A specific 2.1% rate charged in particular on press publications and medical drugs reimbursed by social security.

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

B. OFFSETTING 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.

Taxpayers determine the total amount of VAT to be paid themselves.

47 As of 1 January 2015 (Article 22, 2015 Budget Act No. 2014-1654 of 29 December 2014).
48 As of 1 January 2015 (Article 21, 2015 Budget Act No. 2014-1654 of 29 December 2014).

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

Liable persons based 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 Directive 2008/9/EC of 12 February 2008 (taxable persons established in an EU Member State) or the Thirteenth Council Directive 86/560/EEC of 17 November 1986 (taxable persons not established in an EU Member State).

IV. - 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-Community transactions, that of the buyer or customer
- filing monthly or quarterly turnover returns, depending on the annual amount of tax payable
- filing European Sales Lists for goods and services for certain intra-Community transactions for statistical and tax purposes
- voluntarily paying the tax to the Business tax service (*service des impôts des entreprises*, SIE) on submitting the turnover return or in instalments paid in advance

These obligations are reduced for liable persons exempt from VAT.

As of 1 January 2015, businesses authorised to use a clearance procedure with single domicile (PDU) can opt to carry over the amount of tax due on import transactions to their turnover return filed with the tax authorities instead of declaring and paying this tax to Customs, thus streamlining the payment of VAT on imports.

V. – SPECIAL RULES

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.

In 2013, VAT yielded €136.3 billion. In 2014 and 2015, it is estimated to yield €137.8 billion and €142.6 billion respectively.

CHAPTER 2: EXCISE DUTIES

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

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

<u>THERE ARE FOUR INDIRECT TAXES ON ALCOHOL AND ALCOHOLIC BEVERAGES, CONCERNING:</u>

- 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 €2.24 billion in 2014 and is expected to yield €2.21 billion in 2015; For public health reasons, alcoholic beverages with more than 18% ABV are liable to a special levy which yielded €705 million in 2013 and which is expected to yield €702 million in 2015
- 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 €76 million in 2013 and is expected to yield €72 million in 2015
- 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 €120 million in 2013 and €122 million in 2014
- beer: beer is liable to a specific duty, assessed on alcoholic strength and volume

Duties are raised on an annual basis. As of 19 December 2012, the duty on beer with ABV of less than 2.8% is €3.60 and €7.20 on all other beers.

This specific duty, which also applies to non-alcoholic beverages, raised €670 million on beer and €74 million on non-alcoholic beverages in 2013; in 2014, it raised €864 million on beers and €75 million on non-alcoholic beverages. In 2015, it is expected to yield €843 million.

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.

These duties have been entirely allocated to the welfare scheme for non-salaried farmers.

The rates of the duties on alcohol and alcoholic beverages are increased annually on 1 January by a maximum of 1.75% proportionally to the increase in the consumer price index, not including tobacco products, for the year before last.

II. TAXES ON SUGARY AND ARTIFICIALLY SWEETENED DRINKS

Certain beverages containing added sugar or artificial sweeteners are subject to a specific tax.

The following are exempt from the tax on drinks containing added sugar: infant formula and follow-on milk, milk to promote growth and enteral nutrition products for the sick. The following are exempt from the tax on artificially sweetened drinks: foodstuffs for specific medical purposes and high-protein foods reserved for the undernourished.

The entire yield from both taxes is paid to social security funds.

In 2015, both taxes were set at €7.50 per hectolitre.

In 2015, they are jointly expected to yield €377 million; they raised €366.5 million in 2013 and €365.4 million in 2014.

III - DOMESTIC CONSUMPTION TAX ON ENERGY PRODUCTS

Energy products (petroleum products, natural gas, coal) are liable to the following indirect taxes: the domestic consumption tax on energy products (*taxe intérieure sur les produits énergétiques*, TIC), 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 (*taxe intérieure de consummation sur le gaz naturel*, TICGN) and the domestic consumption tax on coal (*taxe intérieure de consummation sur les charbons*, 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 petroleum products.

The tax rate for each product is established by legislation and takes into account the impact on greenhouse gas emissions of each one by factoring in the value of the carbon dioxide contained at a rate of €7 per ton of carbon in 2014, €14.5 in 2015 and €22 in 2016[49].

TIPP applies only in metropolitan France (continental France and Corsica) and does not apply in the overseas[50] *départements* and territorial units.

It represents a transfer of central government expenditure to the regions with a guaranteed minimum income level.

49 Article 32 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.
50 A special consumption tax is levied on petrol and diesel in the overseas *départements*.

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

Regional councils have also been entitled to increase the domestic consumption tax on fuel sold to end consumers if the receipts are entirely allocated to funding a sustainable transport infrastructure as set forth in Articles 11 and 12 of the Grenelle 1 Act.

Domestic consumption taxes are collected by General Directorate of Customs and Excise (DGDDI) when the products are made available for consumption on the domestic market.

They yielded €24.4 billion in 2014 (including €13.24 billion allocated to the government). In 2015, they are expected to yield €26.5 billion (including €13.7 billion for the government based on known transfers at 1 February 2015).

IV. – DUTY ON TOBACCO PRODUCTS

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 €11.22 billion in 2014 and is expected to yield €11.14 billion in 2015.

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 €70.46 million in 2013 and is expected to yield €94 million in 2015.

VI – GENERAL TAX ON POLLUTING ACTIVITIES

Introduced by the Budget Act for 1999, the general tax on polluting activities (*taxe générale sur les activités polluantes*, 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.

The TGAP applies to the storage and disposal of household and special industrial waste, atmospheric emissions of pollutants, the operation of classified facilities presenting specific environmental risks, the release for consumption of certain lubricants, detergents and mined or quarried materials, fossil fuels, and the marketing and use of plastic bags[51]. For enterprises that engage in such activities, these also constitute the taxable events. A specific tax base and rate applies to each category.

51 Failed to come into force due to the absence of an implementing decree.

Persons liable to the TGAP are required to voluntarily[52] declare the amount of tax payable and make advance payments[53], the balance being determined when the declaration is filed. The tax is collected and controlled by the General Directorate of Customs and Excise, except for the TGAP relating to classified facilities, which is collected by the authorities responsible for inspecting such facilities.

This tax yielded €772 million in 2014 (it is collected by the General Directorate of Customs and Excise less €448.7 million earmarked for the French environmental and energy control agency (ADEME)). In 2015, it is expected to yield €449 million.

52 Except for the TGAP on the distribution of unsolicited printed material, which is intended as a penalty.
53 Except for the TGAP on fossil fuels which is paid once a year.

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 (taxes on income) of this handbook.

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[54].

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 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 owed 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.

In 2013, registration duties yielded €18.26 billion for the government, and are expected to generate €20.38 billion for 2015.

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:

54 Article 17 of Supplementary Budget Act 2013-1279 of 29 December 2013 extended this combined registration to donations of property without consideration that take place after 1 July 2014.

- land registration tax, which accrues to the *département* and is calculated in principle at a single 3.8% rate. *Départements* may adjust the rate, though it may not be less than 1.20% or more than 3.8%

=> Note: a *département* may temporarily[55] adjust the rate on duty accruing to it for civil and judicial documents for transferring ownership or usufruct of real property for consideration that take place between 1 March 2014 and 29 February 2016.

The General Council are allowed to raise land registration taxes and registration duties, up to a limit of 4.5%.

They may do so for any transfers taking place after 1 March 2016[56].

- An additional 1.2% tax that accrues to *communes* or departmental equalisation funds[57]
- A 2.37% levy on the amount of the duty that accrues to the *département*, charged by the State for "assessment and collection costs"

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[58]:

Fraction of the taxable value	Government	*Département*	*Commune*	Aggregate
Up to €23,000	0%	0%	0%	0%
Between €23,000 and €107,000	2%	0.6%	0.4%	3%
Between €107,000 and €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.

55 Article 77 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.
56 Article 116 of the 2015 Budget Act no. 2014-1654 of 29 December 2014.
57 The fund divides the tax receipts among *communes* with fewer than 5.000 inhabitants.
58 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 €225,000 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 €225,000 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 liable for registration duties in proportion to the value of the shares.

① For shares and related securities:

As of 1 August 2012, a proportional duty of 0.1% is levied, with the following exceptions:

- Purchase of shares by a company as part of the acquisition of its own shares by a listed firm, which will be transferred to members of an employee savings scheme or as part of a capital increase
- Acquisitions of shares (and associated rights) of companies under a safeguard procedure or in receivership
- Share purchases between companies that are members of the same group
- Acquisitions in connection with mergers, demergers and partial contribution of an entire branch of activity
- Transactions liable for the financial transaction tax
- Acquisitions of shares under earlier incentive schemes to support employees taking over a firm

For listed companies, transfer duty is payable only if the transfer is recorded by deed.

② For shares classified as *parts sociales*, the rate is set at 3%, and relief equal to €23.000 divided by the total number of shares is applied to the value of each share.

③ For transfers of participating interests in companies investing predominantly in real property[59], 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:

59 A company investing predominantly in real property 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 other unlisted legal entities investing predomina,tly in real property. Rent-controlled housing bodies and semi-public companies that build or manage low-rental housing are not deemed companies investing predominantly in real property.

- Where the donor or deceased is or was domiciled in France for tax purposes, duty on transfers without valuable consideration is payable on all movables and real property situated in or outside France
- Where the donor or deceased is not or was not domiciled in France for tax purposes:

– 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, duty on transfers without valuable consideration 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 donor 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 duty on transfers without valuable consideration is assessed.

Moreover, 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[60] following death according to the degree of kinship between the beneficiary and the policyholder, up to the fraction of premiums in excess of €30.500 paid to the beneficiary after the age of 70[61].

Where such amounts, annuities or values and associated products are not liable to transfer duty following death, they are subject, after deduction of a set allowance of €152,000 per beneficiary, to a specific levy:

- of 25% of the portion reverting to each beneficiary between €152,500 and €700,000[62]
- and 31.25% for the fraction of the net portion reverting to each beneficiary over €700,000[63]

These amounts, annuities or values correspond 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.

For the so-called "*vie-génération*"[64] life-insurance policies (in which at least one-third is invested in low- and middle-income social housing, the social and solidarity-based economy, venture capital or mid-tier companies), an proportional allowance of 20%[65] is added to the general allowance of €152,500.

For inheritances since 22 August 2007, transfer duty following death and the aforementioned levies do not apply to the surviving spouse, partners of a PACS (Civil Solidarity Pact) and, under certain conditions, brothers and sisters living under the same roof[66].

60 For policies taken out after 20 November 1991.
61 Amount applicable to all beneficiaries of a single policyholder.
62 For deaths that occurred prior to 1 July 2014, the 25% rate was 20%, and the upper limit was €902,838 (Article 9 of the 2013 Supplementary Budget Act no. 2013-1279).
63 For deaths that occurred prior to 1 July 2014, the 31.25% rate was 25%, and the upper limit was €902,838 (Article 9 of the 2013 Supplementary Budget Act no. 2013-1279).
64 Policies defined by Decree no. 2014-1011 of 5 September 2014 concerning the policies and investments set out in Article 990 I of the General Tax Code that are eligible for a proportional allowance.
65 This special allowance is applied prior to the general allowance of €152,500.
66 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.

Duty on transfers without valuable consideration is calculated by applying a progressive or proportional scale to the amount of the net share received by each beneficiary, where relevant minus relief, the amount of which varies according to the degree of kinship between the parties to the transfer.

For the payment of duty on transfers without valuable consideration, when it comes to inheritances and gifts, the relief applied to the net portion of each taxpayer is:

- €100,000 (applicable as from 17 August 2012) for ascendants, surviving children and those represented should they predecease or renounce their inheritance or gift[67]
- €15,932 for brothers and sisters who do not fulfil the conditions for exemption from transfer duty without consideration (amount applicable as of 1 January 2011)
- €7,967 for nephews and nieces (amount applicable as of 1 January 2011)

In the case of a gift, the relief is set at:

- €80,724 for donations between spouses and between partners of a PACS (amount applicable as of 1 January 2011)
- €31,865 for gifts by grandparents to their grandchildren (amount applicable as of 1 January 2011)
- €5,310 for gifts from great-grandparents to great-grandchildren (amount applicable as of 1 January 2011)

There are several different scales.

SCALE APPLICABLE IN 2014 TO TRANSFERS (INHERITANCE OR GIFT) BETWEEN PARENTS AND CHILDREN

Fraction of net taxable part	Rate (%)
Up to €8,072	5%
Between €8,072 and €12,109	10%
Between €12,109 and €15,932	15%
Between €15,932 and €552,324	20%
Between €552,324 and €902,838	30%
Between €902,838 and €1,805,677	40%
Over €1,805,677	45%

SCALE APPLICABLE IN 2014 TO GIFTS[68] BETWEEN SPOUSES AND PARTNERS OF A PACS

Fraction of net taxable part	Rate (%)
Up to €8,072	5%
Between €8,072 and €15,932	10%
Between €15,932 and €31,865	15%
Between €31,865 and €552,324	20%
Between €552,324 and €902,838	30%
Between €902,838 and €1,805,677	40%
Over €1,805,677	45%

67 The relief for those with physical or mental disabilities is €159,325 as from 1 January 2011.
68 Inheritances between spouses or partners of a PACS that have occurred since 22 August 2007 are exempt from duty on transfers without valuable consideration.

SCALE APPLICABLE IN 2014 TO TRANSFERS (INHERITANCE OR GIFT) BETWEEN BROTHERS AND SISTERS

Fraction of net taxable part	Rate (%)
Up to €24,430	35%
Over €24,430	45%

SCALE APPLICABLE IN 2014 TO TRANSFERS BETWEEN RELATIVES:

Fraction of net taxable part	Rate (%)
Transfers between relatives up to the fourth degree inclusive	55%
Transfers between relatives beyond the fourth degree and non-relatives	60%

Reductions for dependent family members are applied to inheritance duty.

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 duty on transfers without valuable consideration for up to 75% of their value under certain conditions (the "Dutreil" schemes). In particular, the deceased or donor, 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.

Partial and temporary exonerations are also addressed (buildings located in Corsica with respect to transfer duty following death, building lots and new residential buildings with respect to gift allowances).

Finally, family gifts of cash up to €31,865, every fifteen years, are exempt from duty on transfers without valuable consideration.

The tax assessment period beyond which previous gifts are exempt from assessment is set at fifteen years for inheritances and gifts made since 17 August 2012.

CHAPTER 2: STAMP DUTIES AND SIMILAR DUTIES

Stamp duties (*droits de timbre*) 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

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[69]

A tax (*taxe sur les certificats d'immatriculation des véhicules*) 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 may be fixed or proportional.

Each year, 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 a tax in addition to the tax on registration certificates issued when they are first registered in France.

The surtax (*écopastille* or *malus*) applies to private cars with EC type-approva[70]l that emit more than 135 grams of carbon dioxide per kilometre travelled (130 gr CO_2/km)[71].

The amount of the surtax ranges from €150 to €8,000 depending on the vehicle's pollution level.

69 Known as the "*carte grise*".
70 EC type-approval certifies that a type of vehicle, system or equipment meets the technical specifications contained in the relevant EC directives.
71 Vehicles that emit less than 110 grams of CO_2 per kilometre in are eligible for a "bonus".

For vehicles that do not have EC type-approval, the tax depends on the fiscal horsepower (CV). Ranging from €500 to €8,000, it is payable on vehicles with a fiscal horsepower rating of more than 6 (8 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 CO2 emission levels in the surtax scale are reduced by 20 grams for each dependent child as of the third.

A 40% reduction in the CO2 emission levels in the surtax scale is applied to vehicles specially equipped to run on E85 ethanol (flex-fuel vehicles) whose CO2 emissions do not exceed 250 grams per kilometre.

C. TAX IN ADDITION TO THE REGISTRATION CERTIFICATE TAX

The most polluting private vehicles brought into service on or after 1 June 2004 are liable to a tax in addition to the registration certificate tax.

The so-called "CO2 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 grams of CO2 per kilometre 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 grams of CO2 emitted per kilometre by the rate per gram 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 40% for vehicles specially equipped to run on E85 ethanol[72]. Moreover, the 2014 Budget Act limits the scope of this relief: it does not apply to vehicles that emit more than 250 grams of carbon dioxide per kilometre.[73]

D. ANNUAL SURTAX

An annual flat-rate tax (*taxe forfaitaire annuelle*, also known as *malus annuel*) is payable on 1 January of the taxation year[74] for by the owners of polluting private cars. They are:

- Cars with EC type-approval that emit more than 130 gr CO2/km
- For cars without EC-type approval, the tax threshold has been set at 6 CV

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.

72 The 50% rate was lowered to 40% by the Article 31 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.
73 Article 31 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.
74 The rate varies based on the emission of CO2 (in grams per kilometre) and on the vehicle's fiscal horsepower (in CV).

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.

Private cars are vehicles registered as passenger cars and multi-purpose passenger cars which, whilst being registered as commercial vehicles, are used to transport passengers and their luggage or property.

The company car tax has been supplemented by a new element having to do with emissions of atmospheric pollutants[75]. From now on, the tax shall be equal to the sum of two elements:

- One component based on the rate of either the emission of CO2 or of the fiscal horsepower, depending on the date the vehicle was put into service
- A second component relative to the emission of atmospheric pollutants, based on fuel type (petrol and similar, or diesel and similar)

The first component is different depending on whether the vehicles were owned or used prior to or after 1 January 2006.

For cars owned or used by the company since 1 January 2006, the tax is assessed according to the number of grams of CO2 emitted per kilometre.

The annual tax is determined according to an eight-band scale. For each vehicle liable to the tax, the annual amount of tax corresponds to the rate per gram of the band to which the vehicle belongs multiplied by the number of grams of CO2 emitted per kilometre.

CO2 emissions (in grams per kilometre)	Rate applicable per gram of CO2
Up to 50	€0
Between 50 and 100	€2
Between 100 and 120	€4
Between 12 and 140	€5.5
Between 140 and 160	€11.5
Between 160 and 200	€18
Between 200 and 250	€21.5
Over 250	€27

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

Hybrid cars that combine electric energy and a petrol- or diesel-burning engine and that emit less than 110 grams of CO2 per kilometre are exempt from this initial component that is based on the rate of either the emission of CO2 or of the fiscal horsepower, depending on the date the vehicle was put into service. This exemption shall apply for a period of eight quarters starting from the first day of the first quarter during which the car was put into service.

75 Article 30 of the 2014 Budget Act no. 2013-1278 of 29 December 2013.

The second component is determined based on the level of atmospheric pollutants emitted per fuel type.

Year car was first put into service	Petrol and assimilated	Diesel and assimilated
Up to 31 Decembre 1996	€70	€600
From 1997 to 2000	€45	€400
From 2001 to 2005	€45	€300
From 2006 to 2010	€45	€100
As from 2011	€20	€40

The category "Diesel and assimilated" includes cars that operate solely on diesel as well as hybrids that combine electrical power and a diesel-burning engine and that emit more than 110 grams of CO2 per kilometre.

The category "Petrol and assimilated" includes cars that do not fall under the "Diesel and assimilated" category, with the exception of electric cars. The second component concerning atmospheric pollutants does not apply to cars that operate solely on electrical power.

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.

The wealth tax yielded €4.39 billion in 2013. It is expected to yield €5.09 billion in 2015.

I – LIABLE PERSONS

Individuals liable for the wealth tax are those whose net taxable wealth exceeds €1.3 million as of 1 January 2014.

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, with the exception of their financial investments.

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 in France for tax purposes 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.).

Under certain conditions, some debts may be deducted from this tax base, or be subject to a specific charge.

Debts incurred by a taxpayer in order to acquire or in the interest of assets not taken into account for the assessment of the wealth tax owed by the taxpayer in question, or assets which are exempt, shall be exclusively allocated to the value of these assets and are thus not deductible from the taxable base. Where necessary, these debts shall be allocated up to the fraction of the value of these non-exempt assets, i.e. in the same proportion as that in which the assets in question are liable for weath tax.

Moreover, 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 (the so-called pactes Dutreil"), 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 or her main home.

III. – TAX SCALE

The wealth tax is calculated based on progressive income bands. The taxable threshold is set at €1.3 million, but once this threshold has been achieved, the assets are taxed as of €800,000.

The tax is calculated by applying the appropriate band to the net taxable value of the assets of the taxpayers in question. The wealth tax thus obtained is thus, where appropriate, reduced by tax deductions granted by reason of providing equity to SMEs or assimilated, or by reason of donations to public interest bodies. Where appropriate, the cap is subsequently applied (see below).

The applicable tax rate is as follows:

Net taxable value of the assets	Rate (%)
Up to €800,000	0
Between €800,000 and €1.3 million	0.50
Between €1.3 million and €2.57 million	0.70
Between €2.57 million and €5 million	1
Between €5 million and €10 million	1.25
Over €10 million	1.50

A “smoothing” mechanism has been introduced for assets worth between €1,300,000 and €1,400,000 and those worth between €3,000,000 and €3,200,000 to mitigate the impact of changing bands.

The amount of tax calculated based on the rates given in the table above shall be reduced by an amount equal to €17,500 - P (in which P is the net taxable value of the assets).

Taxpayers having assets whose net taxable value is greater than or equal to €2.75 million are obliged to file a specific wealth tax statement and to pay the tax spontaneously. For most taxpayers (i.e. those domiciled in France for tax purposes), wealth tax returns and payments must be filed with the relevant tax office by no later than 15 June each year[76].

Other taxpayers, i.e. those whose assets have a taxable net value of less than €2.57 million, may include the amount of their assets directly on their income tax form (no. 2042). They must also list the gross value of their assets. The streamlining of filing obligations includes a dispensation from presenting supporting documents.

76 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 - CAPPING OF WEALTH TAX

The wealth tax scale has a capping mechanism.

Thus, the wealth tax for a taxpayer residing for tax purposes in France is reduced by the difference between:

- on one hand, the total of this tax and taxes owed in France and abroad on income and products for the previous year, calculated prior to allocation of the tax credit thresholds for taxes paid outside France and non-discharging deductions
- on the other hand, 75% of the total global income, net of professional expenses, for the previous year, after deduction of the category-specific thresholds authorised under Article 156 of the General Tax Code, together with income exempt from tax and the products subject to a withholding tax in discharge during the same year in France or abroad

This wealth tax cap limits the amount of this tax and taxes on income for the previous year to 75% of that income. If the percentage is exceeded, the surplus shall be deducted from the wealth tax. It may not be attributed to other taxes or refunded.

CHAPTER 4: TAX ON THE MARKET VALUE OF REAL PROPERTIES OWNED IN FRANCE BY LEGAL ENTITIES (3% TAX)

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 companies investing predominantly in real property
- 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 fraud 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 real-estate (real-estate collective investment schemes, known as OPCI 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 succeeded 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.

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 (taxe foncière sur les propriétés bâties, TFPB), property tax on undeveloped land (*taxe foncière sur les propriétés non bâties*, TFPNB) residence tax (*taxe d'habitation*, TH) and the local economic contribution (*contribution économique territoriale*, CET) comprising a business premises contribution (*cotisation foncière des entreprises*, CFE) and a contribution on business value added (*cotisation sur la valeur ajoutée des entreprises*, CVAE). To this is added the flat-rate tax on network businesses (*l'imposition forfaitaire sur les entreprises de réseaux*, IFER) as well as some additional or similar taxes.

The key feature of local taxes is that they are mainly assessed on a property's notional rental value (*valeur locative cadastrale*), except for the contribution on business value added and the flat-rate tax on network businesses. The notional rental value does not represent the rent under normal market conditions but a property's theoretical yield as determined by the authorities.

Local tax rates are set by local government assemblies (*département* 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 (property tax on developed land, property tax on undeveloped land, residence tax and the business premises contribution), not including the contribution on business value added and the flat-rate tax on network businesses, yielded €54.27 billion in 2013.

CHAPTER 1: PROPERTY TAX ON DEVELOPED LAND

Property tax on developed land (*taxe foncière sur les propriétés bâties*, TFPB) 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 spatial planning policy). The tax accrues to *départements*, communes and their public establishments for intercommunal cooperation.

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 notional rental 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.

A cap of 50% of income for the property tax on developed land contribution relating to main homes is planned to help less well-off households owning their own home.

Property tax on developed land yielded €28.72 billion in 2013.

CHAPTER 2: PROPERTY TAX ON UNDEVELOPED LAND

Property tax on undeveloped land (*taxe foncière sur les propriétés non bâties*, TFPNB) is levied annually on owners of any undeveloped land of any nature situated in France except where there is entitlement to permanent exemption (public property) or temporary exemption (incentives for organic farming, reforestation and the conservation of environmental interest zones).

The tax accrues to *communes* and their public establishments for intercommunal cooperation.

As with the property tax on developed land, the tax is payable by the owner of the land at 1 January of the year of taxation.

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

To encourage owners to put their land up for sale in order to increase the volume of buildable lots, an increase in the notional rental value (*valeur locative cadastrale*) of buildable lots is applied in zones where real estate pressures are the strongest. Agricultural lands, including those left fallow, are exempt from any increase.

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 €926 million in 2013.

CHAPTER 3: RESIDENCE TAX

Sufficiently furnished residential premises and their dependencies (gardens, garages, private parking spaces) are liable to residence tax (*taxe d'habitation*, TH). 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).

Residence tax is assessed on the notional rental 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 notional rental value.

The amount of tax is calculated by multiplying the income from the tax base by the rates voted by each beneficiary *commune* or public establishment for intercommunal cooperation 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.

Starting on 1 January 2015, in zones where the annual tax on vacant residential premises is applicable, communes may increase by 20% the portion of the residence tax accruing to them from furnished accommodations not used as a primary residence.

Tax relief is planned for former principal residences of individuals in retirement homes or long-term care, as well as in the case of double residence for professional reasons or for a reason that is outside the will of the taxpayer.

Moreover, provided that the annual tax on vacant residential premises does not apply on their territory, communes and public establishments for intercommunal cooperation with powers of taxation may, provided they meet certain conditions, levy residence tax on residential premises vacant for two years or more on 1 January of the year of taxation. The tax is payable by the owner of the land at 1 January of the year of taxation.

The annual tax on vacant residential premises (*taxe annuelle sur les logements vacants*, TLV) is applicable in zones in which real estate pressures are the highest. It is payable by the owner of the property at 1 January of the year of taxation for each property that has been vacant for at least one year at 1 January of the year of taxation. The rates are set at 12.5% for the first year of taxation and 25% starting from the second year of taxation.

These taxes on vacant residential premises are not due in cases where the premises was occupied for more than ninety consecutive days during the previous year of taxation, or in cases where the vacancy was for reasons beyond the taxpayer's control.

Residence tax yielded €20.47 billion in 2013.

CHAPTER 4: LOCAL ECONOMIC CONTRIBUTION

The local business tax was abolished on 1 January 2010 and was replaced by a local economic contribution (*contribution économique territoriale*, CET) comprised of a business premises contribution based on the rental value of property and a contribution on business value added calculated on the basis of the value added generated by a business.

I. – BUSINESS PREMISES CONTRIBUTION

Individuals or legal entities, unincorporated companies or trustees, in respect of their activity governed by a trust agreement, carrying on a regular non-salaried business activity in France are liable to the business premises contribution (*cotisation foncière des entreprises*, CFE) every year.

All the local business tax exemptions were kept for the business premises contribution, except optional exemptions applying to infrastructure and movable property and those which have lapsed Moreover, starting in 2013, mututal insurance companies, their unions and benefits institutions are no longer exempt from the Business Premises Contribution (CFE). The tax will be introduced gradually: the business premises contribution tax base was reduced by 60% in 2013 and by 40% in 2014.

Exemptions may be:

- automatic and permanent (essentially cultural, educational, health-related, social, sports-related or touristic activities carried on by the State, local authorities and public establishments, major seaports, low-rental housing organisations, agricultural activities and organisations, private schools, some craft or press activities, etc.)
- automatic and temporary (young lawyers, freelance entrepreneurs)
- optional (as they are granted by local authority decision or in the absence of a decision to the contrary) and permanent (furnished accommodation landlords, Municipal Credit Banks, live performances, cinemas, bookshops with the *librairies indépendantes de référence* label, etc.)
- optional and temporary (exemptions in respect of spatial planning, urban policy or as incentives for new businesses, created to take over a failing industrial company, which are innovative or part of a cluster. Subject to certain conditions, an allowance is applied to the business premises contribution tax base of businesses based in overseas *départements*

The business premises contribution tax base is comprised of the rental value (less 30% for industrial plants) uniquely of property liable to property tax in France, excluding property exempt from property tax on developed land, pursuant to 11) and 12) of Article 1382 of the General Tax Code (machinery and other installations and equipment used to operate industrial plants and the fixed assets used for photovoltaic electricity generation), which the taxpayer used, for business purposes, during the reference period. This does not include assets destroyed or disposed of during the same period. The reference period is usually the penultimate calendar year prior to the taxation year or the last twelve-month financial year closed during said year when this financial year does not correspond to the calendar year.

Tax base reductions and allowances which applied to the local business tax were kept to calculate the business premises contribution, except those relating to infrastructure and movable property or that provided for nuclear power plants and the 16% general allowance on the base which is now included in the rates.[77]

The business premises contribution 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

77 The one-third reduction of the rental value for nuclear power plants under the first paragraph of Article 1518 A CGI is eliminated when calculating the business premises contribution and property tax base.

January on the basis of the tax components existing on the last day of the reference period, subject to a certain number of exceptions. For business creations, it is not owed for the first year and the tax bases are halved for the year after creation.

The business premises contribution is calculated by multiplying the tax base less reductions and allowances by the rates decided upon by the *communes* or their public establishments for intercommunal cooperation with powers of taxation.[78]

The calculated amount may not be less that the minimum contribution determined from a base. The amount of this base is set by the municipal council or the public establishment for intercommunal cooperation, replacing the former. For the business premises contribution owed for 2014, it must be:

- between €210 and €500[79] for taxpayers with net turnover or net income of less than €10,000 for the reference period
- between €210 and €1,000[80] for taxpayers whose net turnover or net income is greater than €10,000 but less than or equal to €32,600 for the reference period
- between €210 and €2,100[81] for taxpayers whose net turnover or net income is greater than 32,600 but less than or equal to €100,000 for the reference period
- between €210 and €3,500[82] for taxpayers whose net turnover or net income is greater than €100,000 but less than or equal to €250,000 for the reference period
- between €210 and €5,000[83] for taxpayers whose net turnover or net income is greater than €250,000 but less than or equal to €500,000 for the reference period
- between €210 and €6,500[84] for taxpayers whose net turnover or net income is greater than €500,000

The business premises contribution yielded €7.17 billion in 2013.

II. – CONTRIBUTION ON BUSINESS VALUE ADDED

Individuals or legal entities, unincorporated companies and trustees, in respect of their activity governed by a trust agreement, carrying on an activity within the scope of application of the business premises contribution and whose turnover exceeds €152.500 are liable to the contribution on business value added (*cotisation sur la valeur ajoutée des enterprises*, CVAE). However, businesses which are automatically and entirely exempt from the business premises contribution are also entirely exempt from the contribution on business value added.[85]

In concrete terms, only persons carrying on a regular non-salaried business activity and whose turnover is more than €500.000, excluding VAT, are liable to the contribution on business value added.

All businesses with turnover of more than €152.500 must file returns.

Like the business premises contribution, the contribution on business value added is owed by persons carrying on a business activity in France.

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78 Only the "communal bodies" receive the business premises contribution, unlike the local business tax which was paid to all local authorities: "communal bodies", *départements* and regions.
79 Amounts indexed each year to households' consumer price index, not including tobacco products.
80 Amounts indexed each year to households' consumer price index, not including tobacco products.
81 Amounts indexed each year to households' consumer price index, not including tobacco products.
82 Amounts indexed each year to households' consumer price index, not including tobacco products.
83 Amounts indexed each year to households' consumer price index, not including tobacco products.
84 Amounts indexed each year to households' consumer price index, not including tobacco products.
85 Companies with turnover of less than €500.000 have total relief from this contribution (see below).

At the company's request, all exemptions and optional allowances under the business premises contribution apply to the contribution on business value added, subject to rules on decision-making by local authorities and public establishments for intercommunal cooperation.[86]

Exemptions and allowances under the contribution on business value added are related to those for the business premises contribution and the former are therefore lost when the conditions for exemptions or allowances under the business premises contribution are no longer met.

The amount of the contribution on business value added represents a fraction of the value added generated by the business during the reference period.

In theory, the rate of the contribution on business value added is 1.5% of the value added but companies with turnover of less than €50 million may be granted relief, the amount of which varies according to the turnover. For practical reasons, the progressive and variable scale is applied directly according to the turnover recorded by the business when the instalments and balance are paid.

Therefore, in all cases, companies pay a contribution on business value added calculated on the basis of the effective tax rate.

Using the following scale, the percentage of value added actually taxed varies according to the amount of turnover:

If turnover excluding VAT is:	The effective tax rate is:
< €500,000	0%
500.000 ≤ Turnover ≤ €3,000,000	0.5% x (Turnover - €500.000) / €2,500,000
3,000,000 < Turnover ≤ €10,000,000	0.5% + 0.9% x (Turnover - €3,000,000) / €7,000,000
10,000,000 < Turnover ≤ €50,000,000	1.4% + 0.1% x (Turnover - €10,000,000) / €40,000,000
> €50,000,000	1.5%

The amount of relief is increased by €1,000 for businesses with turnover of less than €2,000,000.

The contribution on business value added is calculated on the turnover recorded and value added generated during the reference period (the year for which the taxation applies).

The contribution on business value added is calculated on the turnover recorded and value added generated during the reference period (the year for which the taxation applies).

Turnover and value added used in respect of the contribution on business value added are defined differently according to the company's business regime: ordinary law companies (those receiving non-commercial profits (BNC) and which use cash-based accounting and those receiving income from property), credit institutions and accredited investment companies, financial instrument management companies, companies formed to carry out a single financing transaction, insurance and reinsurance companies, mutual insurance companies and provident institutions.

Value added includes turnover plus or less items expressly provided for by Article 1586 sexies CGI.[87]

For each regime, the nature of the revenue and expenses used to calculate turnover and value added factors in legal, economic and accounting considerations which are specific to each of the five business sectors concerned by these regimes.

86 In respect of the allowance applicable in overseas *départements*, in order to calculate the contribution on business value added, the value added of establishments entitled to an allowance on their net tax base for the business premises contribution under Article 1466 F CGI is subject, if they so request, to an allowance at the same rate, up to €2,000,000 of value added.
87 Note that for financial years as from 4 July 2009, waiving of non-commercial debts are no longer taken into account when calculating the business value-added for the contribution.

For ordinary law companies, taxable value added may not be more than:

- 80% of turnover corresponding to taxable business activity for taxpayers having turnover of €7,600,000 or less
- 85% of turnover corresponding to taxable business activity for taxpayers having turnover of more than €7,600,000

Taxpayers carrying on their business activity on 1 January of the tax year owe the contribution on business value added. In respect of restructuring operations carried out as from 22 October 2009, and under certain conditions, the turnover of each liable company involved in the operation corresponds to the total turnover of the liable and non-liable companies involved in the restructuring operation.

For companies belonging to a group as stipulated in Article 223 A CGI, starting with taxation for 2011, the threshold and scale of the contribution on business value added for each company is evaluated using the turnover of all the group's member companies. This consolidation does not apply when the total turnover of the members of the tax group is less than €7,630,000.

For industrial plants, the elements used to allocate the tax base and, from this, the revenue from the contribution on business value-added (CVAE) (staffing levels and rental value of each establishment) are assigned a weighting factor of 5, starting from the CVAE owed for 2014, in order give greater appeal to those of France's regions that agree to welcome this type of establishment[88].

The contribution on business value-added paid to local authorities in 2013 came to €16.32 billion.

III. – RELIEF ON THE LOCAL ECONOMIC CONTRIBUTION

The local economic contribution is subject to several reduction measures, such as relief for curtailment of activity, relief relating to the ceiling based on the value added (*plafonnement en fonction de la valeur ajoutée*, PVA) generated by the company and temporary relief from the local economic contribution and ancillary taxes.

For the main relief, the PVA, the ceiling is set at 3% of value added regardless of the company's turnover and business sector. The amount of relief is equal to the difference between the amount of the local economic contribution owed for the tax year and 3% of the value added generated by the company. The value added used is that generated during the reference period for the contribution on business value added.

In addition, taxpayers whose taxes increased significantly in 2010 due to the reform of the local business tax are entitled to request sliding relief on the local economic contribution for 2010 to 2013.

This transitional relief applies when the total of the contributions owed for 2010 for the local economic contribution, taxes for chambers of commerce and industry costs (*taxes pour frais de chambre de commerce et d'industrie*, TCCI) and taxes for chambers of trade and crafts costs (*taxes pour frais de chambres de métiers et de l'artisanat*, TCMA) and the flat-rate tax on network businesses is €500 and 10% more than the total local business tax and ancillary taxes which would have been owed for 2010under legislation in force on 31 December 2009.

This relief represents the difference between the local economic contribution, the TCCI, the TCMA and the flat-rate tax on network businesses for 2010 on the one hand and the local business tax, TCCI and TCMA, plus 10% which would have been owed for 2010 had there been no reform on the other hand, multiplied by 100% for 2010, 75% for 2011, 50% for 2012 and 25% for 2013.

88 Article 79 of the 2014 Budget Act no. 2013-1278 of 29 December 2013 raised the weighting coefficient from 2 to 5.

CHAPTER 5: flat-rate tax on network businesses

A flat-rate tax on network businesses (*imposition forfaitaire sur les entreprises de réseaux*, IFER) was introduced in 2010 for the benefit of regional authorities[89] or their public establishments for intercommunal cooperation and the "*Société du Grand Paris*" public establishment.

Nine categories of assets are subject to the flat-rate tax on network businesses:

- wind and marine turbines
- nuclear or fossil fuel-fired power plants
- photovoltaic or hydraulic power generation facilities
- electric transformers in public electricity transmission and distribution grids
- radio stations
- rolling stock used by the national rail network to transport passengers
- rolling stock used by public transport lines in Ile-de-France. Revenue from this portion of the IFER is allocated to the "Société du Grand Paris" public establishment
- the main distribution frames of the copper local loop and certain telephone switching equipment
- certain gas facilities and pipelines for natural gas and other fossil fuels, pipelines for transporting chemical products

All assets located in France are subject to the flat-rate tax on network businesses, regardless of the location of the taxpayer's registered office.

Specific tax base and calculation rules and coding in the CGI apply to each asset category.

As an example, for nuclear or fossil fuel-fired power plants, the tax is set at €3.003 per megawatt of installed power[90], whereas the rolling stock used by the national rail network to transport passengers is taxed on a scale which changes according to its nature (i.e. a high-speed driving unit is taxed at €36.076 whilst a carriage for high-speed passenger transport is taxed at €10.307[91]).

The amounts and rates for each component of the IFER[92] is adjusted each year, such as the provisional rate of change, associated with the Budget Bill, for changes in the consumer price index, not including tobacco products.

In 2013, the IFER yielded €1.41 billion.

The revenue from the various parts of the IFER is allocated to local authorities, with the exception of the portion concerning rolling stock used by public transport lines in Ile-de-France, €60 million of which is allocated to the "Société du Grand Paris" public establishment, with any surplus going to the State general budget.

89 For 2010, it was allocated to the State budget.
90 Rate for 2014.
91 Rate for 2014.
92 With the exception, starting in 2014, of the main distribution frames of the copper local loop and certain telephone switching equipment.

CHAPTER 6: OTHER LOCAL TAXES

I – ADDITIONAL TAXES

Communes that collect household waste may introduce a household waste collection tax (*taxe d'enlèvement des ordures ménagères*). 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.

The communes and their intermunicipal cooperation establishments may introduce an incentivising share of the household waste collection tax (*taxe d'enlèvement des ordures ménagères*), based on the quantity of waste produced locally, which would be added to the existing fixed share.

Household waste collection tax yielded €6 billion in 2012, and is expected to raise €6.6 billion in 2014.

There are also taxes for the costs of chambers of agriculture, commerce and industry and trade and crafts which accrue to them.

Starting in 2015, a special supplementary annual tax was introduced to benefit the Ile-de-France region, with an eye to financing investments in public transport. It is paid by all taxpayers liable for the property tax on developed land or for the business premises contribution in the communes in the Ile-de-France region. The yield of this additional tax is established each year by the Regional Council of the Ile-de-France region, up to a cap of €80 million for 2015.

II – SPECIAL INFRASTRUCTURE TAXES

Special infrastructure taxes (*taxes spéciales d'équipement*) accrue to a 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.

In 2011, a special infrastructure tax was introduced in favour of the "*Société du Grand Paris*" public establishment. The tax yielded €117 million in 2013.

GLOSSARY

Allowance	Lump sum deducted from the tax base.
Assessment	Calculation of tax by applying a rate or scale to the tax base.
Assessment roll	List of taxpayers indicating the amount of tax they have to pay.
Assets	All the property belonging to an individual or legal entity.
Base (Tax base)	– Set of rules or operations designed to determine the elements (profit, turnover, etc.) liable to tax. – Element to which a rate is applied in order to calculate a tax.
Bond	Interest-bearing transferable debt security issued by a company or public authority in return for a loan.
Budget	– Set of laws providing for and authorising the State's annual revenue and expenditure. – Set of accounts recording all the State's revenues and expenditures in a calendar year. – Set of accounts recording a ministry's appropriations in a calendar year.
Collection	The process by which a tax debt becomes certain on a given date.
Deduction	Amount deducted from gross profit or income.
Dispensation	Technique whereby tax is not collected when the theoretical amount of tax payable or turnover does not reach a minimum figure.
Exemption	Release from a tax obligation under certain conditions determined by law.
Furniture	Items used to decorate and furnish a dwelling.
Income splitting	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.
Legal entity	Entity with a distinct existence and standing in law.
Liability	Right that the Treasury may assert from a certain date in order to obtain payment of tax due from the debtor.
Liable person	Person liable to a tax
Main home	Place where the taxpayer usually lives.
Non-taxation or non-collection notice	Administrative document sent to the taxpayer stating that there is no tax to pay.
Notice of assessment	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.
Private deed	Written document drawn up by a private individual bearing the handwritten signature of the parties.

Reduction	Method for reducing the theoretical amount of tax payable. Tax relief
Rental value	Rent that real property would generate if it were let. A distinction is made between notional rental value, set by the authorities when premises are completed or on regular updates, and actual rental value, which corresponds to the market price.
Scope	All assets, activities, situations and operations covered by a tax measure and the limits of the measure in space and time.
Share (*action*)	Transferable security issued by a joint-stock corporation representing a portion of its capital.
Tax credit	Claim that may be set off against a tax.
Tax domicile	A person is deemed to be domiciled in France for tax purposes when they are in at least one of the following four situations: • their home is in France; • their main place of abode is in France; • they carry on a business activity in France that is not incidental; • the centre of their economic interests is in France. 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.
Tax household	The place where a taxpayer usually lives, i.e. the usual home, provided that the home (in France) is permanent. The tax household is also the basic family entity for income tax purposes.
Taxable	Term that describes a person who by his activity or a transaction which by its nature falls within the scope of a tax.
Taxable event	Event whereby the legal conditions for liability to tax or duty are fulfilled.
Taxable person	Person responsible for paying a tax
Taxpayer	Person directly liable for the payment of taxes and duties, the collection of which is authorised by law.
Time bar	Time limit beyond which legal action may no longer be taken.

APPENDICES

List of tax treaties concluded by France and in effect on 31 December 2014

Abbreviations:

R : Rider ;
AA : administrative arrangement
SA : special agreement ;
T : treaty ;
G : gifts
RD : registration duty ;
EL : exchange of letters
WT : wealth tax
IT : income tax
IN : inheritance tax

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	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 20 June 2006	IT
Austria	T 26 March 1993 R 23 May 2011[93] T 26 March 1993	IT-WT Exchange of information IN-G
Azerbaijan	T 20 December 2001	IT-WT
Bahrain	T 10 May 1993 R 7 May 2009[94]	IT-WT-IN Exchange of information
Bangladesh	T 9 March 1987	IT
Belgium	T 12 August 1843 (confirmed by Article 14 of the tax treaty of 20 January 1959) T 10 March 1964 R 15 February 1971 R 8 February 1999 T 20 January 1959 R 12 December 2008	Exchange of information IT IN-RD Frontier workers
Benin	T 27 February 1975	IT-IN-RD
Bolivia	T 15 December 1994	IT-WT
Bosnia-Herzegovina[95]	EL 3 and 4 December 2003	IT

93 This rider took effect on 1 May 2012.
94 This rider took effect on 1 February 2011.
95 The agreement with Bosnia-Herzegovina provides that the tax treaty between France and the former Socialist Federal Republic of Yugoslavia of 28 March 1974 continues to govern their bilateral relations.

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	Taxes concerned
Botswana	T 15 April 1999	IT
Brazil	T 10 September 1971 AA 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 R 2 February 2010	IT-WT-G-IN
Central African Republic	T 13 December 1969 and EL 13 and 16 December 1969	IT-IN-RD
Chile	T 7 June 2004	IT-WT
China	T 30 May 1984	IT
Congo	T 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 28 April 2003	IT-WT
Denmark	EL of 28 February 1930 on navigation[96]	IT
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 June 2006	IT
Ex-USSR	T 4 October 1985 EL 14 March 1967	IT Tax treatment of Soviet patents in France and French patents in ex-USSR.
Ex-Yugoslavia	T 28 March 1974	IT
Finland	T 11 September 1970 T 25 August 1958	IT-WT IN
Gabon	T and EL 21 April 1966 R 23 January 1973 R 2 October 1986 and EL 18 April et 23 June 1989 T 20 September 1995	IT-IN-RD IT-IN-RD-WT
Georgia	T 7 March 2007	IT-WT

96 As the tax treaty of 8 February 1957 was terminated by the Danish government and as it has not been effective since 1 January 2009, the EL of 28 February 1930 took effect once again as from that date.

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	Taxes concerned
Germany	T and EL 21 July 1959 R 9 June 1969 R 28 September 1989 R 20 December 2001 AA 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
Hong Kong	T 21 October 2010[97]	IT-WT
Hungary	T 28 April 1980	IT-WT
Iceland	T 29 August 1990	IT
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 EL 7 and 28 July 1998 EL 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
Kenya	T 4 December 2007	IT
Kosovo [98]	/	IT
Kuwait	T 7 February 1982 EL 17 August and 18 October 1988 R 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-WT
Lithuania	T 7 July 1997	IT-WT
Luxembourg	T 1 April 1958 R and EL 8 September 1970 R 24 November 2006 R 3 June 2009	IT-WT IT Exchange of information
Macedonia	T 10 February 1999	IT-WT
Madagascar	T and EL 22 July 1983	IT

97 This agreement took effect on 1 December 2011.
98 The tax treaty between France and the former Socialist Federal Republic of Yugoslavia remains in effect within the framework of bilateral relations between France and Kosovo.

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	Taxes concerned
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
Malaysia	T 24 April 1975 R 31 January 1991 R 12 November 2009	IT Exchange of information
Mali	T and EL 22 September 1972	IT-IN-RD
Malta	T 25 July 1977 R 8 July 1994 R 29 August 2008	IT-WT
Mauritius	T 11 December 1980 R 23 June 2011[99]	IT-WT Exchange of information
Mauritania	T and EL 15 November 1967 AA 8 March 1994	IT-IN-RD
Mexico	T 7 November 1991	IT
Monaco	T and EL 18 May 1963 EL 9 December 1966 R 25 June 1969 EL 6 August 1971 R 26 May 2003 T 1 April 1950	Particular type of tax treaty not chiefly designed to avoid double taxation. S
Mongolia	T 18 April 1996	IT-WT
Montenegro[100]	R 26 March 2003	IT
Morocco	T and EL 29 May 1970 AA 5 and 14 December 1983 R 18 August 1989	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 R 8 April 2012	IT-IN IT-IN-WT
Pakistan	T 15 June 1994	IT
Panama	T 30 June 2011[101]	IT

99 This rider took effect on 1 May 2012.
100 The treaty with Serbia and Montenegro, which took effect on 26 March 2003 and which provides that the tax treaty between France and the former Socialist Federal Republic of Yugoslavia of 28 March 1974 continues to govern their bilateral relations, continues to apply vis-à-vis Montenegro.

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	Taxes concerned
Philippines	T 9 January 1976 R 26 June 1995 R 25 November 2011	IT IT-WT
Poland	T 20 June 1975	IT-WT
Portugal	T 14 January 1971 SA and EL 3 June 1994	IT-IN-G
Province of Quebec	Tax agreement of 1 September 1987 R 3 September 2002	IT-WT
Qatar	T 4 December 1990 and EL 12 January 1993 R 14 January 2008	IT-WT-IN
Romania	T 27 September 1974	IT-WT
Russia (Federation of)	T 26 November 1996	IT-WT
Saudi Arabia	T 18 February 1982 R 18 February 2011 EL 20 December 1988 and 22 February 1989 R 2 October 1991 EL 16 June 1993 and 31 October 1993 and 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 27 November and 30 December 2008 R 18 February 2011[102]	IT-WT-IN Exchange of information
Senegal	T and EL 29 March 1974 EL 29 March 1974 R 16 July 1984 R 10 January 1991	IT-IN-RD
Serbia[103]	R 26 March 2003	IT
Singapore	T 9 September 1974 R 13 November 2009[104]	IT Exchange of information
Slovakia	T 1 June 1973	IT-WT
Slovenia	T 7 April 2004	IT-WT
South Africa	T 8 November 1993	IT-WT
South Korea	T 19 June 1979 R 9 April 1991	IT
Spain	T 10 October 1995 EL 19 February 1998 EL 26 November 2002 EL 1 March and 22 April 2005 EL 22 December 2003 et 1 March 2005 T 8 January 1963	IT-WT IN
Sri Lanka	T 17 September 1981	IT

101 This treaty took effect on 1 February 2012. The provisions of the Exchange of Letters of 6 April and 17 July ceased to have effect as of this date.
102 This rider took effect on 1 June 2012.
103 The treaty with Serbia and Montenegro, which took effect on 26 March 2003 applies to Serbia.
104 This rider took effect on 1 January 2011.

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	Taxes concerned
Sweden	T 27 November 1990 and EL 14 and 18 March 1991 T 24 December 1936 R 1 July 1963 T 8 June 1994	IT-WT IN IN-G
Switzerland	T 9 September 1966 R 3 December 1969 R 22 July 1997 EL 14 February and 2 June 2006 EL 5 and 13 December 2006 R 27 August 2009 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 T 31 December 1953[105] R 22 July 1997 SA 30 October 1979	IT-WT IT (frontier workers) IN IN-G
Syria	T 17 July 1998 and EL 16 December 2004	IT
Territory of Taiwan	AA 20 December 2010[106]	IT
Thailand	T 27 December 1974 EL 20 August 1999 and 6 March 2000	IT
Togo	T 24 November 1971 and EL 25 and 26 November 1971	IT-IN-RD
Trinidad and Tobago	T 5 August 1987	IT
Tunisia	T 28 May 1973 AA 29 May and 24 June 1985	IT-IN-RD
Turkey	T 18 February 1987	IT
Ukraine	T 31 January 1997	IT-WT
United Arab Emirates	T and EL 19 July 1989 R 6 December 1993	IT-WT-IN
United Kingdom	T 21 June 1963 T 19 June 2008	S IT
United States	T 31 August 1994 and EL 19 and 20 December 1994 T 24 November 1978 R 8 December 2004 R 8 December 2004 R 13 January 2009	IT-WT IN-G IT IN-G IT-WT
Uzbekistan	T 22 April 1996	IT-WT
Venezuela	T 7 May 1992	IT
Vietnam	T 10 February 1993	IT-WT

105 As regards article 2 of this treaty, see BOCD 1955-II, no. 5.
106 Enacted into French domestic law by Article 77 of Act no. 2010-1658 (Supplementary Budget Act for 2010). This Act took effect on 1 January 2011.

Country or territory	Date of the treaty (T), special agreement (SA), rider (R) or exchange of letters (EL)	Taxes concerned
Zambia	The Franco-British treaty of 14 December 1950 continues to be effective in relations between France and Zambia. EL 5 November 1963 EL 31 December 1963	IT
Zimbabwe	T 15 December 1993	IT-WT

New Caledonia and overseas territorial units with which the French Republic has concluded a tax treaty

COUNTRY	Treaty date	Taxes concerned
French Polynesia	T 28 March and 28 May 1957 R 29 December 2009[107]	Taxes on investment income Exchange of information
Mayotte	T 27 March and 8 June 1970 (treaty signed with the former territory of the Comoro Islands)	IT-IN-RD
New Caledonia	T 31 March and 5 May 1983	IT-IN-RD-G
Saint Martin	T 21 December 2010[108]	IT
Saint-Pierre-et-Miquelon	T 30 May 1988	IT-IN-RD-G

107 This treaty took effect on 20 April 2011.
108 This treaty took effect on 1 May 2011.

The tax structure

Estimated State revenues in 2014[109]

TAX REVENUES

/	€ million
Value added tax	137,801
Income tax	68,881
Corporation tax	35,430
Domestic tax on petroleum products	13,396
Other taxes	17,719
Total net tax revenues	273,227

NON-TAX REVENUES

Total	14,069

TAX REVENUES AND NON-TAX REVENUES BEFORE DEDUCTIONS

Total	287,296

DEDUCTIONS FROM STATE REVENUES

For local government	54,193
For the European Communities	20,224
Total deductions from State revenues	74,417

TOTAL NET STATE REVENUES[110]	**212,879**

109 Figures taken from ways and means assessment, Volume 1: assessments of revenue
110 Excluding specific budgets and special accounts.