This report provides helpful information on the current business environment in France. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on France

Contents

RBC Royal Bank®

Important to Know

Official language

- French

Currency

- Euro (EUR)

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Source: www.goodbusinessday.com.

Types of Business Structure

Under French law, there are several business structures available, of which limited liability companies are the most common. Financial liability is limited to owners' contributions. Some require that half of the share capital must be paid up at the time the business is established and must remain so for five years.

Joint stock company (public limited liability company)

SA (*Societé anonyme*). This is a company whose shares are not registered to their owners and are tradable on a public stock market if the minimum share capital is at least EUR 225,000. Otherwise, the minimum share capital required is EUR 37,000. Fifty percent of the share capital must be paid up at the time of incorporation and must be fully paid up within five years. An SA must have at least seven shareholders and a board. It is the most common structure used by large companies.

Private limited liability company

SARL (*Société à Responsabilité Limitée*). An SARL is a limited liability company with characteristics of a partnership. Shares are not freely transferable without the consent of all or part of the shareholders, and thus its shares are not publicly tradable. It may, however, issue bearer bonds. There is no minimum capital requirement, but at least 20% of contributions (as defined in the articles of incorporation) must be paid up capital at the time the business is established. An SARL can have two to 100 shareholders and only needs one director. An SARL with only one shareholder is known as an EURL (*entreprise unipersonnelle à responsabilité limitée*). This form is popular with smaller companies.

Simplified joint stock company

SAS (*Société par actions simplifiée*). The SAS is a business structure introduced by the French Government in 1994 that allows a company greater flexibility and freedom to draft its articles of incorporation, and is similar to a limited liability company under US law. Its shares are not tradable on a public stock market. It only requires a minimum share capital of EUR 1 (i.e., no minimum share capital requirement). Fifty percent of the capital must be paid up at the time of incorporation and must remain so for five years. An SAS can be set up by a single shareholder and there is no limit to the number of shareholders. It may or may not have a board. The SAS has become popular with holding companies and with foreign companies who wish to set up a French limited liability company for one of their subsidiaries, while implementing the same corporate governance structures that exist across the group.

General partnership

SNC (*Société en nom collectif*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

SCS (*Société en commandite simple*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Partnership limited by shares

SCA (*Société en commandite par actions*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable.

Cooperatives

SCOP (*Société coopérative*). In France, an SCOP may be a commercial enterprise, an SA or an SARL, and is subject to the rules governing French companies. In addition, they are also subject to specific rules regarding cooperatives. The shareholders must mainly be employees of the SCOP and the manager must be an employee. At the general meeting, one person is entitled to one vote (not one share, one vote). Capital is open to non-employees of the SCOP, but they may hold no more than 49% of the share capital and no more than 35% of the vote.

Other organizational types

French companies are entitled to form European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. An EEIG is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-French companies are entitled to establish a branch or a representative office in France. A branch's activities are subject to French company law, although it is considered part of the company's head office and thus not a separate legal entity. The parent company bears unlimited liability for their debts. To open a branch, a company must file a number of documents, including copies of the articles of association and the statutes of the head office. Documents must be filed with the Enterprise Formalities Centre within 15 days of the branch's opening. While branches are permitted to make sales, representative offices may not sell directly in France. Intermediaries such as travelling sales representatives (VRP – *voyageur de commerce, représentant ou placier*) or sales agents can act on behalf of foreign companies.

Opening and Operating Bank Accounts

Residency

There is no legal definition in France to distinguish between resident and non-resident companies. To be considered resident, a company usually must have its centre of management or perform real economic activity in France.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (EUR) accounts outside France and foreign currency accounts both within and outside France.

Non-residents are permitted to hold local currency and foreign currency accounts in France.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification. Legal entities must be verified by extracts from an official commercial register.
- Where the transaction is performed on behalf of a third party, their identity must be ascertained unless the third party is a financial institution.
- All banks and credit and financial institutions have to identify "occasional" clients for transactions exceeding EUR 8,000

or rental of a safe deposit box; they must also monitor clients for transactions over EUR 150,000 which have unusually complex conditions and no apparent economic justification.

- There is no legal requirement for financial institutions to include originator information in either payment or message forms accompanying wire transfers. However, the rules of the Centrale des Règlements Interbancaires and conduct standards issued by the Association Française des Banques require banks to include certain originator data (such as name, address and identifying code of the originator where the originator is a business entity).

Supplied by BCL Burton Copeland (www.bcl.com). Data as at July 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under French law, banking, financial and insurance transactions are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with a number of enterprises using third-party payroll agencies. They are also the most common method of payment for business-to-business transactions. There are several types of credit transfers available: VR (*virement référencé*), which has an extra reference for reconciliation purposes; VOE (*virement d'origine exterieure*), an inward credit transfer; VEDI (*virement échange de données informatiques*), a credit transfer using EDIFACT format; VCOM (*virement commercial*), a credit transfer for supplier payments; and TEP (*titre électronique de paiement*), an electronic retail payment order for remote payment of goods and services via data links or telephone. Card payments are the most common cashless payment instrument in France and frequently used for consumer transactions, with debit cards much more popular than credit cards. Pre-authorized direct debits are used widely by utility and insurance companies to collect domestic payments. TIP (*titre interbancaire de paiement*), a paper-based payment slip issued by creditors alongside an invoice, can also be used for regular utility payments. Cheque use has been declining in recent years, but is still an important form of payment in France for consumers and smaller companies. Drafts, i.e., LCRs (*lettres de change relevés)*, BORs (*billets à ordre*) and LCs (*lettres de change*), are also still frequently used for business-to-business transactions.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (EUR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	3,650.41	3,487.44	– 4.5	2,174.30	2,069.31	– 4.8
Credit transfers	2,614.12	2,697.30	3.2	18,380.05	19,446.19	5.8
Direct debits	2,909.78	3,023.63	3.9	1,020.70	1,054.18	3.3
Card payments	6,144.66	6,542.50	6.5	310.61	331.81	6.8
Card-based e-money	26.44	32.17	21.7	0.05	0.07	40.0
Other payment instruments*	114.27	110.42	– 3.4	478.56	472.46	– 1.3
Total	**15,459.67**	**15,893.46**	**2.8**	**22,364.26**	**23,374.01**	**4.5**

* These payments include bank drafts and promissory notes.

Source: ECB Payment Statistics, September 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

VOE (*virement d'origine exterieure*) is a cross-border credit transfer originating from outside France to a beneficiary in France via a French intermediary bank (point-of-entry bank).

Payment Processing Times

Transactions processed (EUR-denominated)	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic and intra-EEA transfers	Settlement in real time with immediate finality	17:00 CET
Non-urgent, low-value domestic consumer payments	Most payments are settled on a same day basis. Cheques are settled on a next-day basis and direct debits are settled on a five-day cycle.	There are rolling cut-off times for different types of transactions: Credit transfers = 13:30 CET Card payments and ATM withdrawals = 13:30 Truncated cheques = 18:30 CET Electronic bills of exchange (LCRs) = 18:30 CET Direct debits = 19:30 CET
Non-urgent intra-EEA credit transfers with a maximum value of EUR 50,000*	Settlement either same-day or next-day	13:00 CET for same-day settlement or 01:00 CET for overnight or next-day settlement

* SEPA credit transfers are not subject to a maximum value threshold.

Central Bank Reporting

The Banque de France collates balance of payments statistics based on mandatory reporting requirements.

The Banque de France currently requires all payments to be reported within ten days of the end of the reporting period, which are between residents and non-residents of other EEA countries exceeding EUR 50,000, as well as transactions between residents and non-residents from outside the EEA that exceed EUR 12,500.

Additionally, around 530 full direct reporting companies (DDGs), whose cross-border transactions exceed EUR 30 million per year, report all their transactions with non-residents directly to the Banque de France on a monthly basis within 30 days of the end of the month.

Resident companies which have claims or liabilities involving non-resident counterparties of more than EUR 10 million per year report these positions to the Banque de France annually within 75 days of the end of the year.

Exchange Arrangements and Controls

France does not apply currency exchange controls.

Cash and Liquidity Management

A structure designed to assist in international treasury operations in France is the “central treasury unit” (*centrale de trésorerie*). Under this structure, participants can deduct, in full, interest expenses that are due on intra-group financing. In addition, non-resident sister or parent companies do not have to pay withholding taxes on interest payments paid on current account balances held with the central treasury.

Physical Cash Concentration

Physical cash concentration is available from all large French and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structures. However, several criteria must be fulfilled in order to create a cash concentration structure: namely one of the participants must be shown to control the other participating companies and all have the same ownership; all participants must plainly benefit from the structure; and the structure must function at arm's length and have its terms and conditions listed in a "*convention de trésorerie*". The structure must gain specific authorization from the board (*conseil d'administration*) and preferably from the auditors as well.

Companies can participate in cross-border physical cash concentration. The country in which the master account is located may apply a withholding tax.

Notional Cash Pooling

Notional cash pooling is available from some large French and international banks. However, notional cash pools can be costly to manage. This is because it is difficult to obtain the appropriate cross-guarantees (due to legal uncertainty in France) that are necessary for a bank providing the service to have legal right of set-off should bankruptcy occur. Without the cross-guarantees, the bank, for regulatory purposes, is also not allowed to offset credit and debit balances. Because of these complications, resident and non-resident companies rarely can participate in the same domestic notional cash pooling structure.

Some leading banks offer cash concentration structures with mirrored accounts as an alternative to notional pooling.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. The rules prohibiting banks from paying interest on deposits in domestic currency with a maturity of less than one month held by residents were abolished in 2005. Banks offer time deposits in a range of currencies for terms from overnight to over a year. Banks can also issue fixed-rate or variable-rate certificates of deposit (CDs), usually for terms ranging from three to six months.

Non-bank instruments

Some French companies and public authorities issue commercial paper, called BTs (*billets de trésorerie*), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods.

The French sovereign debt agency (Agence France Trésor) issues Treasury bonds (*bons du Trésor*). BTFs (*bons du Trésor à taux fixe*) are those issued at a discount with maturities ranging from two weeks to 12 months.

French companies have access to European-based money market funds, but due to the former restrictions on interest-bearing current accounts, France has a mature domestic mutual fund industry for resident companies. SICAVS (*sociétés d'investissement à capital variable*) and FCPs (*fonds communs de placement*) are two types of OPCVMs (*organismes de placement collectif en valeurs mobilières* — mutual investment funds) popular with French investors.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in France to both resident and non-resident companies. Banks will usually charge a margin over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

France has the largest domestic commercial paper market in Europe. Larger and medium-sized companies can issue commercial paper (*billets de trésorerie*) into the domestic market, although the issuers are usually financial institutions and mutual funds. The minimum amount required for an issue is EUR 150,000 in maturities from one day to one year. Issues into the ECP market require a rating. ECP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Trade bills can be discounted, but the practice is not widely used. Factoring (disclosed and undisclosed) is widely available.

Taxation

Corporate Taxation

- France imposes corporate income taxation (CIT) at a standard rate of 33.3%, together with a social contribution tax of 3.3% on the amount of CIT in excess of EUR 763,000. This surcharge increases the effective level of corporate income tax to approximately 34.43%. Under certain conditions, companies with a gross income of less than EUR 7.63 million (provided that 75% of their equity is held by individuals or companies also qualifying for the benefit of the reduced rate) may benefit from a reduced rate of 15% for profits up to EUR 38,120 and be exempted from the social contribution.
- Companies are taxed only on profits arising through a business entity operating in France and are subject to additional levies, including a local business tax and payroll taxes.
- Resident companies are taxed on any domestic or foreign "passive investment income" not derived from a foreign permanent establishment. Such foreign passive investment income includes royalties, interest and dividends (unless the dividends are received under a participation exemption, in which case only 5% of the dividends are taxable).

Advance Tax Ruling Availability

- Advance tax rulings are compulsory for the transfer of tax losses carried forward in certain circumstances.
- Advance tax rulings are compulsory for the benefit of the deferral of corporate income taxation in the case of certain reorganizations.
- It is possible for a company resident in a country that has concluded a tax treaty with France to request a ruling from the French tax authorities on whether it is carrying on its activities through a permanent establishment in France.
- Advance procedure agreements are also available in respect of transfer pricing matters.

Withholding Tax (subject to tax treaties and other exemptions)

- Withholding tax applies to interest, dividends, royalties and payments to non-resident companies for services rendered in France.
- Prima facie, interest paid by a French entity on foreign loans will be subject to withholding tax, typically at a rate of 18% (although in theory this can vary up to a rate of 60%). The rate can be reduced, in some cases to zero, under an appropriate double tax treaty. There is also an exemption from withholding tax for interest on loans entered into outside France by a French legal entity, subject to satisfying certain conditions. This exemption also applies to French branches of foreign companies where the head office of the branch is established in an EU member state or a state party to a French tax treaty with a non-discrimination clause regarding permanent establishments. Moreover, interest paid to a company located in another EU member state is exempt from withholding tax provided that, among other conditions, both companies are within the categories listed in the Annex to the Directive and one company holds directly at least 25% of the other company's shares or both are 25% directly held by the same shareholder.
- Dividends paid to non-residents are subject to a withholding tax at a rate of 25% (18% for individuals resident in the EU, Iceland and Norway) unless a reduced treaty rate applies or the recipient is a company located in another EU member state. In the latter case, no withholding tax is due provided that, among other conditions, both companies are within the categories listed in the Annex to the Directive and the recipient holds at least 10% of the distributing company's shares for at least two years. This requirement is reduced to 5% if the European corporate shareholder cannot use the French withholding tax as a tax credit.
- A withholding tax of 33.33% is levied on royalty payments to non-residents unless a reduced treaty rate applies. There is an exemption from withholding tax for royalties paid to a company located in another EU member state under the same conditions as the exemption for interest paid to an EU company.

Capital Gains Tax

- Taxable gains are calculated by deducting the net book value of an asset from the sale proceeds and are included in operating profits and taxed at the normal corporate tax rate.
- A reduced rate of 15% (plus surcharge) applies where income is derived from patents.

- In addition, up to 95% of the amount of capital gains on controlling interests, classified as such for accounting purposes, will be exempt from corporate income tax. The 5% portion would be subject to the standard CIT rate. The exemption of 95% of capital gains does not apply to companies that predominantly deal in real estate.

Stamp Duty

- No stamp duty is levied on loan agreements.

Thin Capitalization

- Thin capitalization rules apply to interest paid to related parties (controlled directly or indirectly through common shareholders) if it simultaneously exceeds all of the three following thresholds:
  - a related party debt-to-equity ratio of 1.5:1 (replacing the previous debt-to-share capital ratio);
  - 25% of adjusted current profits (i.e., pre-tax operating and financial profits, increased by items such as intra-group interest and depreciation) for the year; and
  - interest income received from related parties (if the company uses the funds to finance other affiliated companies).
- Excess interest will not be treated as a deemed dividend.
- A maximum interest rate applies to direct shareholders who do not fall within the scope of the thin capitalization rules (6.78% from January 1, 2009). The rate is computed on the basis of an average of the bank rates applied during the financial year.

Transfer Pricing

- France has anti-avoidance legislation that can adjust profits if inter-company transactions are not carried out at an arm's length price. The French transfer pricing rules operate by reference to arm's length principles and follow the Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines.
- Interest rates charged by related parties are deemed at arm's length if they do not exceed the average rate charged by banks to French businesses on two-year or longer-term loans. Appropriate documentation (e.g., a bank quotation) should be made available to support higher rates.

Sales Taxes / VAT

- The general rate of VAT is 19.6%. Reduced rates of 5.5% (on essential goods and certain publications) and 2.1% (on certain medicines, newspapers and theatrical events) also exist.

Payroll and Social Security Taxes

- Employers must pay social security tax and a number of other premiums and levies. These contributions are deductible for corporate income tax purposes. The rates vary depending on the contribution involved, the level of the employee's wages and the type of industry in which the company is involved. On average, total social contributions amount to around 35–45% of the employee's gross salary (i.e., salary before deduction of the employee's social security contributions).

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009.

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