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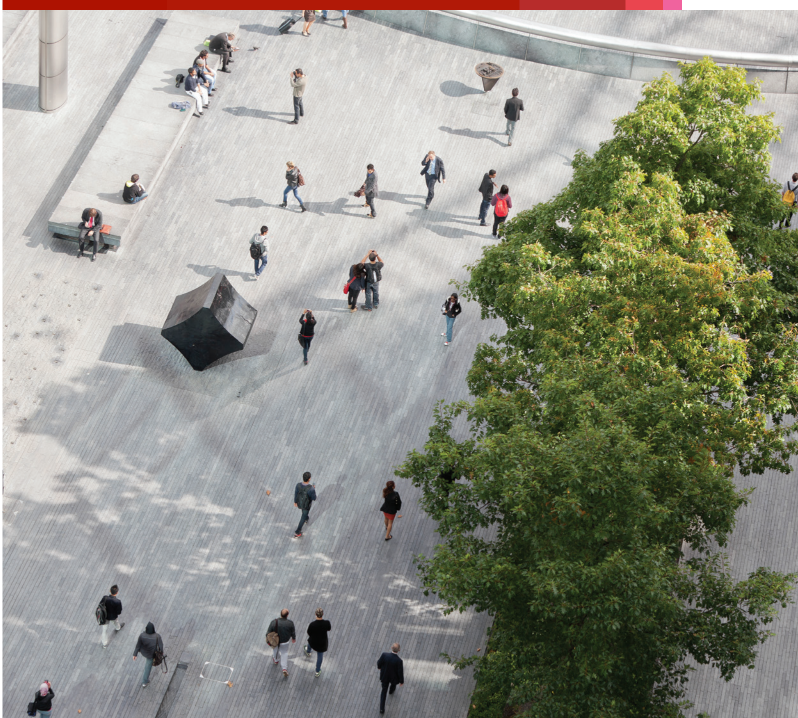

All information in this book, unless otherwise stated, is up to date as of 1 June 2014.

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France

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Significant developments

New restriction of interest deduction (new anti-hybrid-financing measures)

The Finance Bill for 2014 adds a new test to the existing rules governing interest deductions for financing by a party that is directly or indirectly related to a French borrower.

Under the new rule, interest deductions will be allowed only if the French borrower demonstrates that the lender is, for the current financial year, subject to a corporate tax on the interest that equals 25% or more of the corporate tax that would be due under French tax rules. When the lender is domiciled or established outside of France, the corporate tax determined under French law equals the tax liability that the lender would have owed on the interest had it been resident or domiciled in France.

Taxpayers must provide documentation to support the corporate tax calculation if requested by the French tax authorities.

It is still unclear whether the interest disallowed under this provision will be considered as a deemed distribution and therefore subject to French internal withholding tax (WHT) and 3% distribution tax.

The measure applies retroactively to interest booked during fiscal years ending on or after 25 September 2013.

New tax on high remunerations owed by French entities

Finance Bill for 2014 has created an exceptional 50% surtax on the gross remuneration in excess of 1 million euros (EUR). This tax is equal to 50% of the gross amount of remuneration exceeding EUR 1 million paid per year per individual. However, the tax is capped at 5% of the company's turnover.

The new provision provides for a wide scope of remuneration. *See the Other taxes section for more information*.

Tighter temporary corporate income tax (CIT) surcharge - increase of the rate applicable

The 5% CIT surcharge assessed on the CIT amount due by companies whose turnover exceeds EUR 250 million is increased to 10.7%. This new rate is applicable for fiscal years ending between 31 December 2013 and 30 December 2015.

Transfer pricing regulations

Light but annual transfer pricing documentation is to be provided within six months from CIT filing, reporting all intra-group flows in excess of EUR 100,000 and any change in the transfer pricing policy compared to the previous period. This obligation applies for financial years closed as of 31 December 2013.

As of 1 January 2014, upon tax audit, companies whose gross assets exceed EUR 400 million, have a turnover that exceeds a specific threshold (EUR 152.4 million or EUR 76.2 million, depending on the activity of the company), or that are part of a group that meet those criteria, and assuming they have management accounts or consolidated accounts, will have to provide the French tax administration analytical and consolidated accounts.

Identically, as of 1 January 2014, rulings granted by foreign tax authorities have to be part of the transfer pricing documentation.

Finally, it will no longer be possible, as of 1 January 2014, to defer the collection of corporate tax reassessed when a mutual agreement procedure is launched.

Increased penalties in case of tax evasion
The French Tax Code (FTC) incorporates new sets of provisions in relation with tax evasion, increasing penalties and enhancing situations where penal sanctions apply.

Value-added tax (VAT) rates
The VAT rate increased as of 1 January 2014 (Third Amended Finance Act for 2012) from 19.6% to 20% for the common rate and from 7% to 10% for the second reduced rate.

Taxes on corporate income

France levies CIT at a rate of 33.33%.

A resident company is subject to CIT in France on its French-source income. In that respect, income attributable to foreign business activity (if there is no treaty in force between France and the relevant foreign country) or to a foreign permanent establishment (PE) (if a tax treaty applies) is excluded from French tax basis.

A non-resident company is subject to CIT in France on income attributable to French business activity or to a French PE, as well as on income from real estate located in France.

Social contribution tax
Concerning large size companies, a social contribution tax amounting to 3.3% is assessed on the CIT amount from which a EUR 763,000 allowance is withdrawn.

Temporary CIT surcharge
A CIT surcharge of 10.7% assessed on the CIT amount is due by companies whose turnover exceeds EUR 250 million.

This temporary surcharge is applicable to fiscal years ending on or after 31 December 2013 until 30 December 2016. For fiscal years ending on or after 31 December 2011 until 30 December 2013, the surcharge was 5%.

3% additional contribution on dividend distributions
Dividend distributions (or deemed distributions for tax purposes) made as of 17 August 2012 by French companies are subject to a genuine 3% additional tax, which comes on top of underlying CIT. The 3% tax is not due (i) by French companies meeting the European Union (EU) small and medium enterprise (SME) criteria, (ii) by foreign partners in a tax transparent French partnership, and (iii) by French branches of EU companies.

Tax credits are not creditable, with the possible exception of foreign tax credits eligible under a double tax treaty (DTT).

Distortion of taxation resulting from the form of establishment in France (branch vs. subsidiary) will generate new litigations based on EU principles. Foreign investors may revisit the most appropriate structure (branch vs. subsidiary) for investment in France.

Patent box regime
Under certain conditions, income derived from the sale or license of patents or patentable inventions is taxed at a reduced corporate tax levied at the rate of 15%.

Capital gains
A reduced tax rate of 15% applies to certain capital gains. *See Capital gains in the Income determination section for more information*.

Local income taxes
No tax is levied on income at the regional or local level.

Corporate residence

France is defined as metropolitan France (excluding the overseas territories [TOM], but including the continental shelf), Corsica, and the overseas departments (DOM, i.e. French Guyana, Guadeloupe, Martinique, Reunion).

As a general rule, a resident company is a company that is incorporated under French commercial laws.

Permanent establishment (PE)
The notion of PE is not defined by the FTC and has been specified by a case law of the French Administrative Supreme Court (i.e. '*Conseil d'Etat*'). The notion of PE refers to an enterprise exploited in France that can be materialised in one of the three following situations:

- Business activity conducted through an establishment (i.e. a fixed business installation operating with some degree of autonomy [e.g. a branch, sales office]).
- Business conducted in France by a dependent agent.
- Existence of a complete commercial cycle in France.

Other taxes

Turnover taxes
Turnover taxes are assessed on goods sold and services rendered in France, and operate much like a VAT. As of 1 January 2014, the normal rate is 20% (previously 19.6%). Sales of certain kinds of medicines and transports of persons are taxable at a 10% (previously 7%) reduced rate. Food products, subscription to gas and electricity (under certain circumstances), sales of books, and products and services provided to disabled persons are taxable at a 5% (previously 5.5%) rates. Other specific sales and services are taxable at a 2.1% reduced rate. Exports and certain specific services invoiced to non-French residents are zero-rated.

Business-to-business (B2B) suppliers of services are generally taxable at the location of the customer and not at the location of the supplier. For business-to-consumer (B2C) suppliers of services, the place of taxation is generally where the supplier is established.

Turnover taxation applies only to taxable persons, partly taxable persons, and non-taxable legal persons that are registered for turnover taxes.

Specific turnover taxation rules apply to leases of transportation equipment; cultural, arts and sports services; electronic and telecommunication services; and transportations of goods.

Customs duties
Depending on their country of origin, goods may be subject to customs duties. The rules are aligned with the EU customs regulations.

Under certain circumstances, the payment of the duties can be deferred depending on the terms and conditions of the warehousing arrangements.

Excise taxes
Some specific goods are subject to excise duties, notably:

- Alcohol and alcoholic drinks (e.g. wine, beer, ethylic alcohol).
- Processed tobaccos (e.g. cigars, cigarettes, tobacco).
- Oil and gas products.

Real estate tax
All properties located in France are subject to a 3% real estate tax. The tax is assessed annually on the fair market value of the real estate, in proportion to the direct or indirect interest held. All entities in the chain of ownership are jointly liable for the payment of the tax.

Automatic exemptions apply in three situations. First, to entities whose French real estate assets represent less than 50% of their total French assets. Second, to entities listed on a regulated market whose shares, units, or rights are significantly traded on a regular basis. Third, to entities having their registered office in France, in an EU member state, or in a country that has concluded a DTT with France providing for an administrative assistance or a non-discrimination clause, where:

- their direct or indirect interest in the French real estate is less than either EUR 100,000 or 5% of the fair market value of the French real estate
- they are pension funds or public charities recognised as fulfilling a national interest whose activities justify the need to own French real estate, or
- they are non-listed French real estate funds (*société de placement à prépondérance immobilière à capital variable* [SPPICAV] or *fonds de placement immobilier* [FPI]) or foreign funds subject to equivalent regulations.

Where an automatic exemption does not apply, a claim may be submitted for conditional exemption.

Territorial economic contribution
The territorial economic contribution (*Contribution Economique Territoriale* or CET) is comprised of two different taxes: the companies' land contribution (*Cotisation Foncière des Entreprises* or CFE) and the companies' added value contribution (*Cotisation sur la valeur ajoutée des entreprises* or CVAE). Although they have a similar scope, the taxes are subject to very different rules.

The CFE tax is based on the rental value of assets that are subject to the real estate tax, excluding movable goods and equipment. For industrial plants, the taxable base is reduced by 30%. There is a specific rental value for each town and an upgrading ratio is set forth at the national level each year.

The CVAE is based on a company's added value. Only taxpayers that are not exempt from the CFE and whose turnover is greater than EUR 152,500 are subject to CVAE. However, tax relief equal to the amount of the tax is provided for companies whose turnover is below EUR 500,000. The tax rate for companies whose turnover ranges from EUR 500,000 to EUR 50 million is assessed according to a progressive scale, which ranges from 0% to 1.5%.

There is an upper ceiling on the added value that applies to the CET. As a consequence, tax relief applies and is equal to the excess of the sum of CFE and CVAE over 3% of the added value of the company.

Registration duties

Registrations duties mentioned hereafter are imposed on the purchaser. However, the seller may be liable for these duties in case of non-settlement by the purchaser.

Transfer of goodwill

The transfer of goodwill is subject to a registration duty at a rate of 3% on the part of the transfer price amounting from EUR 23,000 to EUR 200,000 and at a rate of 5% on the part exceeding EUR 200,000.

Transfers of shares

The transfer of shares is subject to registration duty at a rate of 3% with no cap.

The transfer of listed shares recorded by a deed will be subject to registration duty at a rate of 0.1%.

Several exemptions are added to the list of the transactions that are not subject to transfer duties:

- Transactions subject to the financial transaction tax (FTT).
- Repurchase by companies of their own shares intended to be sold to the subscribers of a company employee saving plan, with some exceptions.
- Transactions between companies in the same group within the meaning of Article L233-3 of the French Commercial Code.
- Transfer of ownership resulting from a merger, a contribution, or a spin-off made under the provisions of Article 210 A and 210 B of the FTC and acquisition shares of a company by its employees.

Transfer of interest or quotas in legal entities whose capital is not divided into shares

The transfer of interests or quotas in legal entities whose capital is not divided into shares (e.g. *Société à responsabilité limitée* [SARLs] or *Société en nom collectif* [SNCs], which are a form of private limited liability corporate entity) is subject to a registration duty of 3%.

Transfer of shares in non-quoted real estate companies

The transfer of shares in non-quoted companies whose assets consist principally of immovable property is subject to a registration duty of 5%. In case of disposal of shares held in real estate companies, the taxable basis for transfer tax purposes is equal to the fair market value of the real estate assets or rights reduced by the debt contracted for the acquisition of such assets or rights. Other kinds of debts are not taken into account to compute the taxable basis of the transfer tax.

Transfer of real estate

The sale of land and buildings is subject to registration duty at a rate of 5.09% on the transfer price, including expenses.

Exit tax rules in case of transfer of French head office or establishment
Under prior law, in the case of a transfer of assets outside France as part of a transfer of a head office or an establishment, unrealised gains were immediately taxable. In the future, in the case of a transfer to an EU member state or, under certain conditions, to a European Economic Area (EEA) member state, taxpayers will be able to either pay the full amount of tax immediately or pay it over five years in five equal instalments.

Systemic risk tax
A bank tax known as a systemic risk tax has been implemented to prevent excessive risk behaviour by banks. This tax is payable by certain financial institutions (including credit institutions).

It should be noted that 'fund' entities (e.g. hedge funds or securitisation vehicles) are outside the scope of the tax.

French banks are subject to the bank tax on their worldwide business activities. The equity requirements that are used as the taxable basis for the calculation of the bank tax are calculated on a consolidated basis. Therefore, institutions that fall within the scope of the tax and that belong to a consolidated group are not subject to the tax on an individual basis. Where they are not part of such a group, institutions pay a contribution calculated on their individual position. The taxable basis is made up of the minimum equity required of the institution, as set out by the Prudential Control Authority to meet reserve ratio requirements in accordance with Basel II standards and specified during the previous calendar year.

The rate of the bank tax amounts to 0.25% of the taxable basis, and any amounts paid in that respect will be deductible for CIT purposes.

A tax return must be filed by 30 June every year, and the tax due must be settled at the same time.

Subject to the principle of reciprocity, it should be noted that taxpayers, for which the registered office or the group parent company is located in a country that has enforced a similar tax on systemic risk, can benefit from a tax credit. This tax credit can be used to settle the tax due or can be reimbursed.

Payroll tax
Companies that are not liable for VAT on at least 90% of their annual turnover are subject to payroll tax (*taxe sur les salaries*) regarding salaries paid during the following calendar year. Companies below the 90% trigger are liable for the payroll tax on the complement of their VAT recovery ratio, called the counter VAT recovery ratio.

Payroll tax is assessed on gross salaries. The rate varies from 4.25% to 13.6%. A new 20% rate has been created for annual gross salaries above EUR 150,000. The taxable base has also been extended to compulsory or voluntary profit sharing.

Financial transaction tax (FTT)
FTT applies to acquisitions for consideration of equity securities or similar securities in the meaning of the French Monetary and Financial Code issued by certain French-listed companies (i.e. financial instruments giving access to capital or to voting rights in the company and securities issued under foreign law representing French-eligible securities). FTT applies regardless of whether the transaction is executed inside or outside of France.

The tax is due by the investment service provider (ISP) that has executed the purchase order or, when there is no ISP, by the custodian, irrespective of its place of establishment.

In most cases, the central securities depositary will be in charge of centralising the collection of the tax, the reporting to the French tax authorities, and the payment of the tax to the French Treasury.

The tax rate is 0.2% computed based on the acquisition price of the shares.

New tax on high remunerations owed by French entities
Finance Bill for 2014 has created an exceptional 50% surtax on the gross remuneration in excess of EUR 1 million euros. This tax is equal to 50% of the gross amount of remuneration exceeding EUR 1 million paid per year per individual. However, the tax is capped at 5% of the company's turnover.

The new provision provides for a wide scope of remuneration. Indeed, gross remuneration owed for a given year will include the following:

- Wages, salaries, and similar items, as well as cash, in-kind, and fringe benefits.
- Director's attendance fees and similar items.
- Pensions and supplemental retirement allocations.
- Indemnifications, allocations, and other benefits granted upon retirement.
- Amounts granted as part of compulsory or voluntary profit-sharing plans.
- Grants of stock options, free award of shares, and similar items.
- Equity warrants for entrepreneurs.
- Reimbursements to other entities for any of the above categories.

The remuneration items listed above are included in the taxable basis regardless of their payment date. As a general rule, remuneration is included in the tax base when it is accounted for as an expense. Stock options, free awards shares, and equity warrants for entrepreneurs are included in the tax base of the year in which they are granted.

The tax base generally corresponds to the amount recorded on the employer's books. Pensions and similar items will be computed differently if paid in annuity versus granted in capital. For stock options and equity warrants for entrepreneurs, the enterprise can generally choose between the fair market value of the shares attached to the options or warrants determined in the consolidated accounts (such as International Financial Reporting Standards [IFRS]) and 25% of the fair market value of the shares attached to the options or warrants at the decision date to grant the options or warrants. For free award shares, the enterprise can choose between the fair market value of the shares determined in the consolidated accounts (such as IFRS) or the value of the shares as of the date of the decision to grant the shares. The election must be made before the tax payment.

For remuneration due in 2013, the tax must be declared and paid before 30 April 2014.

Branch income

Tax rates on branch profits are the same as on corporate profits. As a principle, branch profits are deemed to be distributed to the head office. WHT is levied on French branches of non-resident non-EU corporations at the rate of 30%, or a reduced tax treaty rate (e.g. for the United States [US], 5%), on net profits. Refund (limited or full) of tax may be claimed to the extent that the taxable amount exceeds the dividend(s) actually distributed by the foreign corporation during the 12 months following the close of the fiscal year concerned, or to the extent the dividends are distributed to residents of France.

Profits realised in France by non-resident corporations whose head offices are located in an EU country are not subject to branch WHT, provided that certain conditions are met (e.g. effective head office in an EU country or non-resident corporation subject to corporate taxation).

Income determination

Inventory valuation
Inventories must be valued at the lower of cost or market. Cost must be determined in accordance with the first in first out (FIFO) or the average-cost method. The last in first out (LIFO) method is prohibited.

Capital gains
Capital gains generally are taxable as ordinary income and subject to CIT at the standard rate of 33.33%, regardless of the duration of ownership of the assets sold.

However, a reduced rate of 15%, increased by the social contribution tax, is applied to capital gains on the disposal of patents or patentable inventions, as well as on income from the licensing of patents or patentable inventions.

Gains on the sale of shares in subsidiaries held for at least two years benefit from significant relief (88% of such capital gains are excluded from CIT, with the remaining 12% portion being taxed at the standard 33.33% rate).

Capital gains and losses on shares sold to a related company
Capital gains derived from the disposal of shares held in subsidiaries for less than two years are immediately taxable at the common rate of CIT.

Capital losses derived from such disposal are not immediately deductible. In such a case, the loss will be deducted if, before a period of two years (as from the date of acquisition by the purchaser):

- the vendor stops being subject to CIT
- the shares are, after a restructuring of the transferee company, held by a company that is not related to the vendor, or
- the shares stop being held by the related company (notably further to a new sale).

If no event mentioned above arises within a period of two years starting from the acquisition by the vendor, the capital loss that has not been immediately deducted is treated in accordance with the long-term regime (i.e. the capital loss is therefore not deductible).

Otherwise, the vendor has to join to its corporate tax return a specific form mentioning capital losses that are not immediately deducted.

Capital gains of non-residents
As a general rule, non-resident companies are not taxable in France regarding capital gains derived from the disposal of French assets unless these are part of a PE.

There are two main exceptions to this principle:

- Capital gains derived from the disposal of real estate assets located in France or derived from the disposal of French real estate non-listed companies are subject in France to WHT at a 33.33% rate.
- Capital gains derived from the disposal of shares held in a French company subject to CIT are subject in France to WHT at a 19% rate in the specific case where the seller has owned, at any point in time during the five years preceding the sale, at least 25% of the rights in the profits of the French company.

Note that in the specific case where the non-resident company is located in a non-cooperative state or territory (NCST), all capital gains derived from the disposal of French assets are subject to WHT in France at a specific rate of 75%.

Dividend income

Dividends generally are taxable as ordinary income and subject to CIT at the standard rate of 33.33%.

For information on the taxation of inter-company dividends, see Participation exemption regime in the Group taxation section.

Interest income

Interest income generally is taxable as ordinary income and subject to CIT at the standard rate of 33.33%.

Foreign income

Resident corporations are not taxed on foreign-source income derived from activities carried out abroad through foreign branches and foreign PEs. Other foreign income is not taxable until actually repatriated to French resident corporations. As a result, undistributed income of foreign subsidiaries is not taxable. The only exception to the territoriality principle is provided by Article 209 B of the Tax Code, known as the Controlled Foreign Company (CFC) rules (*see the Group taxation section for more information*).

Deductions

Depreciation

The depreciation of fixed assets has to be carried out component by component. The components of a fixed asset have to be depreciated separately according to their own lifetime.

Declining-balance depreciation is allowed for certain new and renovated assets whose useful life is in excess of three years.

For assets bought or manufactured between 4 December 2008 and 31 December 2009, the rate is computed by multiplying the rate of straight-line depreciation by:

- 1.75, if the useful life of the asset is three or four years
- 2.25, if the useful life of the asset is five or six years, or
- 2.75, if the useful life of the asset is more than six years.

For assets bought or manufactured after 31 December 2009, the rate is computed by multiplying the rate of straight-line depreciation by:

- 1.25, if the useful life of the asset is three or four years
- 1.75, if the useful life of the asset is five or six years, or
- 2.25, if the useful life of the asset is more than six years.

Goodwill

Under current French tax rules, goodwill (e.g. *clientele*, trademarks) cannot be amortised.

Start-up expenses

No specific rules apply regarding deduction of start-up expenses.

Research and development (R&D) and software expenses
Concerning R&D and software expenses, a business may elect to immediately deduct costs incurred in R&D of software or to amortise their cost straight-line over a maximum period of five years.

The cost of acquiring software may be written off straight-line over 12 months.

The cost of patents acquired can be amortised over a five-year period.

Interest expenses
In principle, interest expenses are tax deductible.

New restriction of interest deduction
The Finance Bill for 2014 adds a new test to the existing rules governing interest deductions for financing by a party that is directly or indirectly related to a French borrower.

Under the new rule, interest deductions will be allowed only if the French borrower demonstrates that the lender is, for the current financial year, subject to a corporate tax on the interest that equals 25% or more of the corporate tax that would be due under French tax rules. When the lender is domiciled or established outside of France, the corporate tax determined under French law equals the tax liability that the lender would have owed on the interest had it been resident or domiciled in France.

Taxpayers must provide documentation to support the corporate tax calculation if requested by the French tax authorities.

The measure applies retroactively to interest booked during fiscal years ending on or after 25 September 2013.

Carrez Amendment
In accordance with Article 40 of the fourth amended Finance Act for 2011 (i.e. '*Carrez Amendment*'), interest expenses incurred by a French company for the acquisition of participation or shareholding acquisitions will not be deductible for CIT purposes unless the French acquiring company is in a position to demonstrate that it actually:

- makes decisions relating to the acquired participation and
- exercises an actual control or influence over the participations.

The purpose of the legislation is to prevent the interest deduction for the participation acquisition by a French entity when the acquired participation is effectively managed outside of France.

This rule does not apply where:

- the total fair market value of the participations owned by the French acquiring company does not exceed EUR 1 million
- the participation acquisition has not been financed by debt at the level of the French acquiring company or at the level of a company of the same group, or
- the debt-to-equity ratio of the group is equal to or higher than the acquiring company's debt-to-equity ratio.

Additional limit on interest deductions
As of 1 January 2014, 25% (previously 15%) of the net finance expenses of a company subject to French CIT are not deductible. This limit applies in addition to existing limits. In a tax group, this limit applies to the consolidated tax result of the group. This is a permanent disallowance, as there is no mechanism to carry the disallowed interest

forward to subsequent fiscal years. 'Net finance expense' is defined as the total amount of finance expense incurred as consideration for financing granted to the company, reduced by the finance income received by the company in consideration for financing granted.

Rents incurred as part of a rental agreement between related parties or a leasing agreement also are included in finance expenses after the deduction for depreciation of the lessor. However, rents paid in relation to real estate rental agreements between related parties should be excluded. This limit applies to both related and third party financing, regardless of the purpose of the financing.

This limit does not apply if a company's net finance expense is lower than EUR 3 million. In a tax group, this applies if the net finance expense of the group is lower than EUR 3 million. Groups need to consider the impact of this provision on how tax is shared among the members of the tax group in the tax sharing agreement.

In addition, in a tax consolidated group, this limit does not apply to the portion of net finance expense resulting from financing transactions between members of a French tax unity.

Thin capitalisation

Please see comments regarding thin capitalisation in the Group taxation section.

Bad debt

Bad debts that are definitively non-recoverable are treated, from a tax point of view, as losses.

Under certain conditions, a tax-deductible reserve can be established for debts whose collection is uncertain.

Charitable donations

Charitable donations made by companies to certain foundations or societies are deductible at up to 60% of their amount (limited to EUR 5,000 of the turnover before taxes).

Taxes

Most taxes, including unrecoverable turnover taxes, registration duties, and CET, are deductible. The major exceptions are CIT and tax penalties.

Corporate tax losses

Carryforward of tax losses

Tax losses carried forward are available to offset the first EUR 1 million of taxable profits and 50% of taxable profits in excess of this.

The carryforward is conditional to certain limitations, namely that the entity continues the same business activities. The FTC provides criteria for measuring such a change of activity that jeopardises the right to carry forward net operating losses. Under certain circumstances, a ruling can be obtained from the French tax authorities to keep the net operating losses despite a business reorganisation.

Carryback of tax losses

Tax losses are available for carryback to the fiscal year immediately preceding that in which the losses arise and up to a maximum of EUR 1 million. Any unused surplus will be carried forward and used as set out above. In addition, the election to carry back tax losses must be filed prior to the deadline for submission of the tax return for the loss-making period.

Tax groups
The overall tax losses of a French tax group, as well as pre-election tax losses of the individual members of the group, will be attributed, whether carried forward or carried back, in the same manner and within the same limits as those set out above.

Payments to foreign related parties
Payments to foreign affiliates are allowed, as long as they meet the arm's-length test. If they do not, Article 57 of the FTC provides that income directly or indirectly transferred to the foreign related parties, through either the increase or the reduction of the purchase or sales price of goods and services, or through any other means, must be added back to taxable income. For the purpose of this provision, foreign related parties are defined as parent subsidiaries or sister companies.

Where the payments are made to companies located in a country with a privilege tax regime, the French taxpayer must prove that the transaction is *bona fide* and that the amount due is not exaggerated (*see the Group taxation section for more information on countries with a privilege tax regime*).

Royalties
Article 11 of the Finance Act for 2012 restricts the conditions for deducting licensing royalties where the licensor and the licensee are related parties. A full deduction for the royalty expense may only be allowed if the licensee can demonstrate, and properly document, that:

- the use of the licence results in added value for the licensee over the entire licensing period and
- such use is real (i.e. does not consist of an artificial scheme).

Group taxation

Tax consolidation regime
French corporations and their 95% owned domestic subsidiaries may elect to file one single tax return, thus allowing the offset of losses of one group corporation against the profits of a related corporation. CIT is then levied on the aggregate income after certain adjustments for intra-group provisions (e.g. debt waivers, dividend distributions) have been made.

When shares in a company that will be integrated into the group are acquired by a group company from individuals or legal entities that control this group, either directly or indirectly, a portion of the group's overall financial expense incurred by the members of the group is progressively added back to the group's taxable income on a straight-line basis over a nine-year period.

A French subsidiary can be included in a tax consolidated group even if its parent company is not located in France. However, at least 95% of the share capital of the foreign company must be held, directly or indirectly, by the French company that is head of the tax consolidated group. In addition, the foreign company must be subject to CIT, be located in the European Union or in a member state of the European Economic Area whose tax treaty with France includes a mutual administrative assistance clause to fight tax fraud and tax evasion, and hold 95% of the lower-tier subsidiary's shares.

A PE of a foreign company subject to French CIT can be a member of a French tax consolidated group if the shares of the foreign company are held by other French companies, which are members of the consolidated group.

Provisions on the tax neutrality of intra-group transaction flows (e.g. dividends, amortisation, waivers of debts, interest, and capital gains/losses on the sales of shares) have been modified to treat tax consolidated groups with an intermediate foreign company the same as other tax consolidated groups.

Allocation of the tax charge within a tax consolidated group
In an important decision dated 12 March 2010 ('Wolseley Centers France'), the French Supreme Court disagreed with the French tax authorities by ruling that the tax charge of the group can be freely allocated between members of the consolidated tax group.

Following this decision, group companies are free to enter into a tax consolidation agreement stating the conditions for the allocation of the group tax charge or, where applicable, the tax savings arising from the group arrangement.

The Supreme Court concludes that since the terms of an agreement to allow a re-allocation taking into account the specific results of each of the group companies, the terms of this re-allocation cannot be regarded as an indirect subsidy. However, this allocation should not undermine the corporate benefit of each group member nor the minority shareholders rights; otherwise, this will result in an abnormal act of management.

Underpriced sale of asset between two entities of a same tax consolidated group
In a decision dated 10 November 2010 ('*Société Corbfi*'), the French Supreme Court has specified that an underpriced sale of an asset between two members of the same tax group must be neutralised at the group level only after the computation of the entities results on a standalone basis.

First, on a standalone basis, the seller has to add back the advantage given to the buyer (i.e. the difference between the fair market value and the amount paid) and the buyer adds back this advantage as if it was a dividend. Second, when reprocessing the different entities results, the advantage added back by the buyer has to be neutralised at the group level.

Participation exemption regime
French parent companies (i.e. companies incorporated in France and holding qualifying shares that represent at least 5% of the issued capital of subsidiaries, French or foreign) have the option of excluding 95% of the subsidiaries' net dividends from CIT (5% of charges and expenses must be added back to the parent company's taxable results). The French parent-subsidiary regime extends to certain shares without voting rights. There is no formal commitment to have held the shares for at least two years, and companies can benefit from this regime from the acquisition date of the shares. However, the obligation remains to hold the shares over this two-year period. Certain shares of listed real estate companies are not eligible to the French parent-subsidiary regime.

The taxation of dividends received by a parent company from its subsidiary cannot be capped at the amount of the expenses actually incurred by the parent company. Thus, the tax liability will be equal to 5% of the dividends received, tax credits included.

The French parent-subsidiary regime is not applicable to dividends paid from entities located in an NCST.

Distribution followed by absorption or sale of subsidiary
The rules abolish the possibility for a company to accumulate the exemption of dividends received from its subsidiaries (under the participation exemption regime or the tax consolidation regime) and the deduction of a loss in value resulting from the dividends'

distribution due to previous distributions at the time of the securities exchange or sale of shares.

In principle, the subsidiary's shares must be kept by the parent company for at least two years in order to benefit from the participation exemption regime. However, some operations lead to a break of the two-year holding period. In that case, the exchanged shares are deemed withheld until the sale of the securities received in exchange.

The exchanged shares will be deemed kept for the application of the participation exemption regime only if the gain or loss is not taken into account in the result of that exchange. If the gain or loss is included in the result, the dividends received may not benefit from the participation exemption regime and will be taxed.

Transfer pricing

New regulations
Light but annual transfer pricing documentation is to be provided within six months from CIT filing, reporting all intra-group flows in excess of EUR 100,000 and any change in the transfer pricing policy compared to the previous period. This obligation applies for financial years closed as of 31 December 2013.

As of 1 January 2014, upon tax audit, companies whose gross assets exceed EUR 400 million, have a turnover that exceeds a specific threshold (EUR 152.4 million or EUR 76.2 million, depending on the activity of the company), or that are part of a group that meet those criteria, and assuming they have management accounts or consolidated accounts, will have to provide the French tax administration analytical and consolidated accounts.

Identically, as of 1 January 2014, rulings granted by foreign tax authorities have to be part of the transfer pricing documentation.

Finally, it will no longer be possible, as of 1 January 2014, to defer the collection of corporate tax reassessed when a mutual agreement procedure is launched.

Transfer pricing documentation
Large corporations located in France (i.e. with annual turnover or amount of gross assets in excess of EUR 400 million) are required to provide documentation containing general information regarding the relevant group of companies, including main activities, operational and legal structures of the related companies, functions performed and risks borne, main intangible assets, and group transfer pricing policy, amongst others.

Advanced pricing agreements (APAs)
APAs are available for taxpayers only on the basis of international agreements entered into in accordance with Article 25 of the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention. Currently, taxpayers are also allowed to enter into APAs with the French tax authorities on a unilateral basis. In practice, taxpayers are entitled to submit their transfer pricing policy to the French tax authorities. Agreement of the tax authorities to the APA precludes a later challenge as long as facts and circumstances described in the APA and actual ones are identical.

Thin capitalisation
Under current rules, the tax deduction of interest paid by a French company to its foreign controlling shareholders is subject to the following three restrictions:

Interest rate limitation
Under the amended Article 212 of the FTC, tax deduction of interest paid to related parties is limited to the higher of (i) the average annual interest rate applied by credit

institutions to companies for medium-term variable rate loans or (ii) the interest that the borrowing company could have obtained from independent banks under similar circumstances. This rate is 2.79% for financial years ending on 31 December 2013. Having passed this interest rate test, French indebted companies have to pass a second test: the debt ratio.

Debt ratio

That part of interest paid to related parties that is deductible under the rate limitation test is disqualified if it exceeds all of the three following limitations during the same financial year:

- Interest relating to financing of any kind granted by related parties, within the limit of 1.5 times the net equity of the borrower.
- 25% of adjusted net income before tax (‘*résultat courant avant impôt*’, defined as the operating income, increased by certain items).
- Interest income received from related parties (i.e. there is no limitation on thin capitalisation grounds when the borrowing company is in a net lending position vis-a-vis related entities).

The portion of the interest that exceeds the three above limits is not deductible, except if it is lower than EUR 150,000.

Carryforward of excess interest

That part of the interest that is not deductible immediately by the borrowing company can be carried forward, without time limit, for relief in subsequent years, provided there is an excess capacity during such years. The amount in excess is, however, reduced by 5% each year, from the second financial year following the financial year in which the interest expense has been incurred.

Exceptions

The thin capitalisation rules do not apply to interest payable by banks and credit institutions, and also to certain specific situations such as interest in connection with intra-group cash pools or with certain leasing operations.

The thin capitalisation rules do not apply if the French indebted company can demonstrate that the debt-to-equity ratio of the worldwide group to whom it belongs exceeds its own debt-to-equity ratio.

Deductibility is also facilitated within a French tax consolidated group. The thin capitalisation rules apply to each company member of the group taken on a stand-alone basis. Any excess interest incurred by such company is, however, not carried forward by it. Instead, it is appropriated at the group level.

Extension of the thin capitalisation mechanism to loans granted by related parties

In the specific case where the repayment of a loan granted by a third party (including banks) is guaranteed by a related party or by a third party whose commitment is itself secured by a related one, then the proportion of interest that is payable on that part of the loan that is secured in this way is potentially subject to thin capitalisation rules.

The provisions will not apply where the loan:

- takes the form of a bond issued by way of a public offering or under equivalent foreign regulations, although this excludes private placements
- is guaranteed by a related party solely by way of a pledge of shares in the debtor, security over the debtor’s receivables, or shares in a company directly or indirectly owning the debtor so long as the holder of such shares and the debtor are members of

the same tax group; as a result, this exception will not apply where a foreign company grants a pledge of shares in its French subsidiary to guarantee the bank loan granted to it
- is obtained in the context of a refinancing to allow the debtor to complete the mandatory repayment of a pre-existing debt, which is required as a result of a direct or indirect takeover of the debtor (allowed up to the amount of the loan principal repaid and accrued interest to that date), or
- has been obtained prior to 1 January 2011 in connection with an acquisition of securities or the refinancing of such acquisition debt.

Controlled foreign companies (CFCs)

The CFC rules provide that:

- French corporations are required to include in their taxable income profits made by their more than 50% owned foreign subsidiaries and branches. The 50% holding is determined by direct and indirect control of shares and voting rights.
- The minimum holding threshold has to be reduced to 5% if over 50% of the share capital of the foreign entity is indirectly held through French or foreign companies controlled by the French parent company. However, if the shares in the foreign entity are listed on a regulated market, the French tax authorities will have to demonstrate that the French parent company, together with other entities holding shares in such foreign entity, is acting in concert.
- The CFC rules are only applicable if the foreign legal entity or PE in which the French company owns the requisite percentage of shares is in a country with a privileged tax regime. A privileged tax regime is defined by the FTC as a tax regime in which a foreign jurisdiction subjects taxable income of a foreign entity to at least 50% or lower of the income tax liability that would have been incurred in France, had the activity of the foreign entity been performed in France.
- Profits of the foreign entity that fall under the CFC rules are no longer taxed separately. They are now aggregated with the other taxable profits of the French parent company. Consequently, any tax losses incurred by the French parent company may be offset against the foreign entity's profits.
- The French parent company can avoid the application of the CFC rules if it demonstrates that the foreign entity carries an effective trading or manufacturing activity, conducted from its country of establishment or registered office. Furthermore, the CFC rules, in principle, are not applicable with respect of foreign branches or subsidiaries located in another EU country. However, this exception is not applicable if the French tax authorities can demonstrate that the foreign entity located in another EU country constitutes an artificial arrangement, set up to circumvent French tax legislation. This concept is similar to the 'abuse of law' concept, although it does not have all the same characteristics.

Tax credits and incentives

Foreign tax credit

Under DTTs signed by France, several methods have been established to avoid double taxation. The main one is the traditional deduction of a tax credit from tax effectively paid. However, some treaties establish a tax exemption or the exclusive right to tax. Also, a tax-sparing clause is included in some treaties, which allows for the deduction of not only the tax actually paid but a higher amount of tax.

Tax credit to boost competitiveness and employment

To improve the competitiveness of the French economy and reduce employment costs, France has a tax credit that is available to French and foreign enterprises subject to CIT in France.

Partnerships will pass their tax credit through to their partners, provided the partners are subject to French tax.

There are no requirements regarding the nature of the activity carried out in France.

The regime is effective from 1 January 2013, and the tax credit is calculated as a percentage of the wages paid during the calendar year to employees receiving less than 2.5 times the French regulated minimum wage (SMIC).

The current gross monthly SMIC is EUR 1,430. The rate applicable for this tax credit is 6% for calendar year 2014 (previously 4%) and subsequent years. The tax credit can be offset against the CIT liability payable by the taxpayer with respect to the calendar year during which the wages are paid. Any excess credit can be carried forward and offset against the tax liability of the taxpayer during the next three years.

Credits unused after three years will be refunded to the taxpayer. The 'receivable' (unused credits) can be transferred or sold only to credit institutions. Finally, special provisions apply in the case of mergers and assimilated restructuring operations.

R&D tax credit

The R&D tax credit is determined on the basis of the eligible R&D expenses incurred during the calendar year.

Currently, the R&D credit equals 30% of the R&D eligible expenses incurred during the year, up to EUR 100 million in eligible R&D expenses, and 5% beyond this amount. In addition, eligible R&D expenses incurred by the company can be included in the basis for computation of the tax credit at up to 100% of that amount.

Moreover, the 30% 'standard' rate is increased to 40% and 35% for the first and the second year, respectively, during which the company incurs eligible R&D expenses, or after the expiration of a period of five consecutive years during which the company did not benefit from the tax credit, provided, in both cases, that the concerned company is not affiliated with another company that benefited from the R&D tax credit within the same time period.

The tax code classifies eligible technical and scientific research operations in three areas: fundamental research, applied research, and experimental development.

The eligible expenditures include the following:

- Tax deductible depreciation expenses relating to fixed assets, created or acquired newly, assigned to eligible R&D works/projects, including patents acquired.
- Costs relating to staff qualifying as scientists and/or engineers (staff costs relating to 'young graduate doctors' are retained at up to 200% during the 24 months following their hiring by the company).
- Expenses resulting from outsourced R&D works/projects.
- Expenses incurred for patent registration and/or in connection with the defence of patents.
- Expenses relating to the monitoring of technical developments.
- Premiums paid in connection with insurance contracts relating to the legal defence of patents.

Operating costs are now taken into account by retaining 50% of the R&D staff costs plus 75% of the depreciation on the assets allocated to the research. Also, spending on outsourcing to private research organisations now is included in the limit of three times the total amount of other research expenses qualifying for the tax credit.

The use of patented or patentable technologies in manufacturing

Companies that are involved in the manufacturing of products in France containing patented or patentable technologies, or companies that incorporate such technologies into goods that are manufactured in France, benefit from a reduced effective rate of tax.

In the case of a licensing arrangement between connected French companies, the licensor will benefit from a reduced 15% tax rate on royalty income, whereas the licensee company will benefit from a tax deduction at 33.33%.

In order for a licensee company to benefit from full deductibility for royalties paid, the rules require that the licensee company 'effectively exploits' the rights available to it.

Inbound investment incentives

No particular incentives are available to foreign investors in France. However, the government offers a comprehensive programme of tax incentives and development subsidies to encourage investment in underdeveloped areas.

Capital investment is encouraged through the declining-balance method of depreciation as well as through exceptional depreciation for certain capital expenditures.

Withholding taxes

Payments to resident corporations and individuals are not subject to WHT.

Payments to non-resident corporations and individuals are subject to WHT, as shown below.

	Dividend WHT (%)		
Column 1	**Column 2**	**Column 3**	**Column 4**
Country of residence	**Individuals and non-parent companies**	**Parent companies**	**Shareholding required to be a parent**
Non-treaty:	21/30 (38)	30	-
Treaty:			
Algeria	15	5	10
Argentina	15	15	-
Armenia	15	5	10
Australia	15	0	10
Austria	15	0	10
Bahrain	0	0	-
Bangladesh	15	10	10
Belgium	15	0 (1)	10
Benin	30	30	-
Bolivia	15	15	-
Botswana	12	5	25
Brazil	15	15 (2)	-
Bulgaria	15	0/5 (1)	10/15
Burkina Faso	15 (19)	30 (2)	-
Cameroon	15	15	-
Canada	15	5	10
Central African Republic	15	5	10
China	10	10	-
Comoro Islands (Mayotte)	15/25	15/25	-
Congo, Republic of	20	15	10

	Dividend WHT (%)		
Column 1	Column 2	Column 3	Column 4
Country of residence	Individuals and non-parent companies	Parent companies	Shareholding required to be a parent
Croatia	15	0	10
Cyprus	15	0/10 (1)	10
Czech Republic	10	0 (1)	10
Ecuador	15	15	-
Egypt	0	0	-
Estonia	15	0/5 (1)	10
Finland	0/15	0/5 (1)	10
Gabon	15	15	-
Georgia	10	0/5/10	10/50
Germany	15	0 (3)	10
Ghana	15	5	10
Greece	21/30 (38)	0/30 (1)	10
Hungary	15	0/5 (1)	10
Iceland	15	5	10
India	10	10	-
Indonesia	15	10	25
Iran	20	15	25
Ireland, Republic of	15	0/10 (1)	10/50
Israel	15	5	10
Italy	15	0/5/15 (1)	10
Ivory Coast	15	15	-
Jamaica	15	15	10
Japan	10	5	10
Jordan	15	5	10
Kazakhstan	15	5	10
Kenya	10	10	-
Korea, Republic of	15	10	10
Kuwait	0	0	-
Latvia	15	0/5 (1)	10
Lebanon	0	0	-
Lithuania	15	0/5 (1)	10
Luxembourg	15	0/5 (1)	10/25
Holding company (4)	30	30	-
Macedonia	15	0	10
Madagascar	25	15	25
Malawi	30	30	-
Malaysia	15	5	10
Mali	15/30	30 (2)	-
Malta	15	0 (1)	10
Mauritania	30	30	-
Mauritius	15	5	10
Mayotte	30	25 (2, 5)	-
Mexico	15	0/5	5/10
Monaco	25	25	10
Mongolia	15	5	10
Morocco	0/15	0/15 (6)	-
Namibia	15	5	10

	Dividend WHT (%)		
Column 1	**Column 2**	**Column 3**	**Column 4**
Country of residence	**Individuals and non-parent companies**	**Parent companies**	**Shareholding required to be a parent**
Netherlands	15	0/5 (1)	10/25
New Caledonia	15	5 (36)	-
New Zealand	15	15	-
Niger	25	-	-
Nigeria	15	12.5 (36)	10
Norway	15	0	10
Oman	0	0	-
Pakistan	15	10	10
Philippines	15	10 (36)	10 (37)
Poland	15	5	10
Polynesia, French	30	30	25
Portugal	15	0/5 (1)	10
Qatar	0	0	-
Romania	10	0 (1)	10
Russia	15	5/10/15 (7)	-
Russian Federation	15	5	10
St. Pierre & Miquelon	15	5	-
Saudi Arabia	0	0	-
Senegal	15	15	-
Singapore	15	10	10
Slovakia	10	0/10 (1)	20
South Africa	15	5	10
Spain	15	0	10
Sri Lanka	30	30	-
Sweden	15	0/15 (1)	10
Switzerland (8)			
A (9)	15	0 (8)	10 (8)
B (10)	15 (8)	0/15 (8)	10 (8)
C (11)	30	30	-
Thailand	20	15	25
Togo	15/30	25 (2)	-
Trinidad and Tobago	15	10	10
Tunisia	30	30	-
Turkey	20	15	-
Ukraine (12)	15	0/5	10/50
United Arab Emirates	0	0	-
United Kingdom	15	0/5 (1)	10
United States	15	0/5	10/80
Uzbekistan	10	5	10
Venezuela	15	0/5	10
Vietnam	15	5	10
Zambia	30	30	50
Zimbabwe	15	10	25

	WHT (%)		
	Interest	**Royalties**	**Distributions**
Column 1	**Column 5**	**Column 6**	**Column 7**
Country of residence	For instruments other than borrowings		Automatically levied on after-tax profits of PEs
Non-treaty: (13, 14, 15)	0 (16)	33.33	25
Treaty:			
Algeria	0	5/10 (34)	0
Argentina	0	18	5
Armenia	0	5/10 (34)	5
Australia	0	5	15
Austria	0	0	0
Bahrain	0	0	25
Bangladesh	0	10	15
Belgium	0	0	0/10 (22)
Benin	0	0	25 (17)
Bolivia	0	15	0
Botswana	0	10	5
Brazil	0	10/15/25 (18)	15
Bulgaria	0	0/5 (39)	0/5 (22)
Burkina Faso	0	0	25 (17)
Cameroon	0	15 (19)	15
Canada	0	10 (19)	5
Quebec	0	10	5
Central African Republic	0	0	25 (17)
China	0	6/10 (20)	0
Comoro Islands (Mayotte)	0	33.33	25 (17)
Congo, Republic of	0	15	15
Croatia	0	0	0
Cyprus	0	0 (21, 39)	0/10 (22)
Czech Republic	0	0/5/10 (23, 35, 39)	0 (22)
Ecuador	0	15	15
Egypt	0	15	0
Estonia	0	0/5/10 (35, 39)	0
Finland	0	0	0/15 (22)
Gabon	0	10	0
Georgia	0	0	0
Germany	0	0	0
Ghana	0	10	0
Greece	0	0/5 (39)	0/25 (22)
Hungary	0	0	0/5 (22)
Iceland	0	0	5
India	0	0	0
Indonesia	0	10	10
Iran	0	10	15
Ireland, Republic of	0	0	0/25 (22)
Israel	0	0/10 (19, 21)	5/10
Italy	0	0/5 (23, 39)	0
Ivory Coast	0	0/10 (25)	0
Jamaica	0	10	10
Japan	0	0	0

	WHT (%)		
	Interest	Royalties	Distributions
Column 1	Column 5	Column 6	Column 7
Jordan	0	5/15/25 (18)	5
Kazakhstan	0	10	5
Kenya	12	10	25
Korea, Republic of	0	10	5
Kuwait	0	0	25
Latvia	0	0/5/10 (35, 39)	0
Lebanon	0	33.33	25
Lithuania	0	0/5/10 (35, 39)	0
Luxembourg	0	0	0/5 (22)
Holding company (4)	10 to 15	33.33	25
Macedonia	0	0	0
Madagascar	0	10/15 (26, 27)	25
Malawi	0	0/33.33 (19)	10
Malaysia	0	10 (27)	15
Mali	0	0	25 (17)
Malta	0	0/10 (23, 39)	0/10 (22)
Mauritania	0	0	25 (17)
Mauritius	0	0/15 (23)	15
Mayotte	0	0	25 (17)
Mexico	0	10 (20, 23)	0
Monaco	0	33.33	25
Mongolia	0	5 (23)	0
Morocco	0	5/10 (28)	0
Namibia	0	10 (23)	0
Netherlands	0	0	0
New Caledonia	0	10 (23)	10
New Zealand	0	10	15
Niger	0	0	25 (17)
Nigeria	0	12.5	25
Norway	0	0	0
Oman	0	7	25
Pakistan	0	10	0
Philippines	0/15/50	15	10
Poland	0	0/10 (23)	25
Polynesia, French	0	33.33	25 (17)
Portugal	0	0/5 (39)	0/15 (22)
Qatar	0	0	25
Romania	0	0/10 (39)	0/10 (22)
Russia	0	0	0
Russian Federation	0	0	25
St. Pierre & Miquelon	0	10 (23)	10
Saudi Arabia	0	0	25
Senegal	0	0	0
Singapore	0	0/33.33 (29)	15
Slovakia	0	0/5 (23)	10
South Africa	0	0	0
Spain	0	0/5 (30, 39)	0
Sri Lanka	0	0/10 (31)	25

	WHT (%)		
	Interest	Royalties	Distributions
Column 1	Column 5	Column 6	Column 7
Sweden	0	0	0 (22, 23)
Switzerland (8)			
A (9)	0	0/5 (8, 32)	0 (8)
B (10)	0	0/5 (8, 32)	0 (8)
C (11)	0	33.33	0 (8)
Thailand	0	5/15 (29)	25
Togo	0	0	25 (17)
Trinidad and Tobago	0	0/10 (20)	10
Tunisia	0	5/15/20 (33)	25 (17)
Turkey	0	10	7.5
Ukraine	0	0/10	25
United Arab Emirates	0	0	0
United Kingdom	0	0	0 (22)
United States	0	0	5
Uzbekistan	0	0	0
Venezuela	0	5	0
Vietnam	0	10	0
Zambia	0	0/33.33 (19)	10
Zimbabwe	0	10	0

Explanation of columns

Column 2: Individuals and companies not qualifying as parents are subject to the WHT rates for dividends as indicated in this column.

Columns 3 and 4: Column 3 indicates the WHT rate for dividends paid to a foreign ‘parent’ company. To be considered as a parent company, the foreign company must hold a specified percentage of the French company’s share capital or voting rights. These minimum percentages range from 0% to 50%, as indicated in Column 4, and certain other conditions must be met (see each treaty). If no percentage is indicated, either no minimum shareholding is required or the tax treaty does not reduce the WHT rate of 30%.

No WHT is levied on dividends paid to an EU parent company by a French company that is subject to CIT, provided all the following conditions are met:

- The EU parent company has held a minimum percentage of the share capital of the distributing company, directly and continuously, for at least two years. As of 1 January 2009, the participation required is 10%.
- The EU parent company is the effective beneficiary of the dividends.
- The EU parent company has its effective seat of management in an EU state and is not deemed to be domiciled outside the European Union under an applicable tax treaty.
- The EU parent company is one of the legal forms enumerated by the relevant Directive.
- The EU parent company is subject to CIT in the member state where it has its effective seat of management.
- There is an anti-avoidance rule.

Column 5: The tax mechanism has been changed so as to exempt the interest from WHT in France except where the interest is paid to a financial institution established in a non-cooperative state or territory (WHT at a rate of 75% applicable). The payer can, however, be exempt if one proves that the main purpose and effect of such a payment is not to take advantage of locating the income in such a jurisdiction.

These provisions apply to income paid as of 1 March 2010. A special provision applies to loans entered into outside of France by French companies and some investments funds prior to this date. Interest paid on these loans and on related loans after 1 March 2010 will continue to be exempt.

Column 6: There is no requirement to withhold income tax on royalties paid to EU companies if all the following conditions are met:

- The taxpayer is a French resident company or a French PE of a company resident in another EU member state.

- The recipient of the income is an EU resident company.
- The taxpayer and the recipient are at least 25% associates, which means that either one directly holds 25% or more of the share capital or voting rights in the other, or a third party directly holds 25% or more of the capital or voting rights in them both.

Column 7: WHT is automatically imposed on after-tax profits of a PE unless certain conditions are met. The rate is 25% or the reduced tax treaty rate.

Notes

1. *See explanation of Columns 3 and 4*.
2. Exceptions where the dividends are excluded from the taxable income of the company that has received the dividends.
3. A rate of 15% is applicable for dividends distributed by certain companies.
4. The 1929-type Luxembourg holding companies are not entitled to any of the benefits of the France-Luxembourg tax treaty.
5. A 25% rate applies if dividends are not included in the income taxed to either corporate or income tax.
6. No WHT applies if dividends are taxable in Morocco.
7. The 5% rate applies to dividends when three conditions are fulfilled, as follows: (1) the effective recipient of the dividends must have invested at least EUR 76,224.51 in the company that pays these dividends; (2) the recipient must be a company liable for corporate tax; and (3) the latter company must be exempt from corporate tax. The rate is 10% when only condition (1) or conditions (2 and 3) are fulfilled. In all other cases, the rate is 15%.
8. An addendum signed on 22 July 1997 modifies the provisions of the French-Swiss tax treaty relating to dividends, interest, and royalties, and provides for the removal of the 5% WHT on profits realised by French PE of Swiss resident companies.
9. The rate indicated applies to Swiss resident companies controlled by Swiss residents.
10. The rate indicated applies to Swiss resident companies that are controlled by non-Swiss residents (non-UE) (Article 11.2.b ii) and meet the conditions of Article 14 of the tax treaty. In the case of column 3, the 15% rate applies to these companies, provided both the recipient and the distributing company are not quoted on a stock exchange. If these conditions are not met, the tax exemption applies.
11. The rate indicated applies to Swiss resident companies controlled by non-Swiss residents but not complying with Article 14 of the tax treaty.
12. The 5% rate applies to gross dividends if the effective recipient is a Ukrainian company that holds, directly or indirectly, at least 10% of the French company's capital. The rate is 0% if the participation exceeds 50% and EUR 762,245. It is 15% in all other cases.
13. Non-treaty recipients of royalties and management fees are subject to a 33.33% withholding rate. Where a treaty exists, management fees are exempt from WHT unless they are included in the definition of royalties subject to WHT.
14. In France, the WHT is levied on a provisional basis at 25% of the net profit. This amount is reduced to the extent it exceeds the dividends actually paid by the company during the previous 12 months, and the amount of dividends paid to residents of France. Consequently, if the foreign head office undertakes not to distribute dividends in a given year, the after-tax profits of its French branch are not subject to WHT, even when they are transferred abroad.
15. WHT on interest on loans with a contract is 0%, while withholding on other interest is in a range from 15% to 50%. For treaty rates, consult the individual entry in the table.
16. The WHT rate can be 60% for certain securities if the investor's identity is not disclosed.
17. The WHT is levied on the following amount: French net profit divided by the total foreign company net profit, multiplied by the amount of the distribution.
18. The rate of 10% is applicable on royalties for the use of literary, artistic, or scientific works, including films; 25% on royalties for the use of trademarks; and 15% otherwise.
19. No WHT is applicable on a royalty arising from the use of or the right to use literary, artistic, or scientific works (excluding film).
20. WHT is reduced to 6% for royalties paid for the lease of industrial, commercial, or scientific equipment.
21. A rate of 5% (Cyprus) and 10% (Israel) is applicable on royalties paid for the use or the right of the use of films.
22. Profits realised in France by foreign corporations whose head offices are located in a European country are not subject to WHT if certain conditions concerning the foreign corporation are met (effective head office in a European country; foreign corporation subject to corporate taxation).
23. No WHT is applicable on a royalty arising from the use or the right to use literary, artistic, or scientific works.
24. The rate of 25% is applicable on royalties paid for the use of trademarks.
25. No WHT is levied on certain royalties paid in the field of audio visual techniques.
26. The rate of 15% is applicable on royalties paid for the use of industrial property and trademarks.
27. A rate of 33.33% is applicable on royalties paid for the use of or the right to use films.
28. The rate of 5% is applicable on royalties paid for the use of literary, artistic, or scientific works, excluding films.
29. The rate of 33.33% is applicable on royalties paid for the use of literary and artistic works, including films, and for information concerning commercial experience.
30. No WHT is levied on royalties paid for the use of or the right to use literary or artistic works, excluding films and recordings.
31. No WHT is levied on royalties paid for the use of or the right to use copyrights or films.

32. No WHT is levied on royalties paid for the use of or the right to use industrial, commercial, or scientific equipment.
33. The rate of 20% is applicable on royalties paid for the use of trademarks, 15% for the use of industrial property, and 5% for the use of literary, artistic, or scientific works.
34. The rate of 5% is applicable on royalties for the use of literary, artistic, or scientific works, not including films.
35. The rate of 5% is applicable on royalties for the use or the right to use industrial, commercial, or scientific equipment.
36. The reduced rate is applicable if the beneficial owner is a company (other than a partnership).
37. Voting shares solely.
38. French domestic law decreases the WHT rate from 30% to 21% concerning individuals who are resident in another EU member state, in Iceland, and in Norway.
39. *See explanation of Column 6*.

Anti-avoidance rules applicable to Non-Cooperative States or Territories (NCSTs)

The French parent-subsidiary regime is not applicable to dividends paid from entities located in an NCST.

WHT on passive income is 75% for transactions with an NCST person or entity.

For French tax purposes, a state or territory is considered non-cooperative if it meets all of the following criteria:

- It is not a member of the European Community.
- It has been reviewed and monitored by the OECD Global Forum on Transparency and Exchange of Information.
- It has not concluded at least 12 administrative assistance agreements/treaties that allow a complete exchange of information for tax purposes.
- It has not concluded an administrative assistance agreement/treaty with France.

Payments (e.g. interests, royalties, payments for services) made to an NCST person or entity are, as a general rule, not tax deductible. In addition, it is not possible to offset WHT in France with any foreign WHT borne by the entity located in an NCST.

Moreover, concerning shareholders (individuals and companies) located in an NCST, a tax amounting to 75% is levied on capital gains derived from the disposal of shares in French companies, whatever the level of shareholding.

Tax administration

Taxable period

The ordinary taxable period is equal to 12 months. Conformity with the calendar year is not requested. In particular cases, the duration of the taxable period can be different from 12 months (e.g. newly established companies are allowed to have taxable periods longer than 12 months; companies that are involved in extraordinary transactions [merger, de-mergers, etc.], as well as companies that are liquidated, may have taxable periods shorter than 12 months).

Tax returns

Regarding fiscal years that end on 31 December, CIT returns are due by the end of April of the following year.

Accounting records to be provided in ‘computerised format’ in case of tax audit

Companies are required to keep their accounting records in computerised form and to provide them to the tax authorities in the same format. Printed records are no longer accepted for audits initiated as of 1 January 2014, meaning that such electronic files must be provided for fiscal year 2011 and following years when audited in fiscal year 2014.

Payment of tax
Payment of tax is made during the fiscal year by way of four instalments totalling 33.33% of the taxable income of the preceding year (i.e. by 15 March, 15 June, 15 September, and 15 December for fiscal years that end on 31 December). Regarding fiscal years that end on 31 December, final CIT payment is due on 15 April of the following year.

Currently, for companies that have gross income in excess of EUR 500 million, the last down-payment is now assessed on the basis of the estimated taxable income of the present year (in case of significant increase of the taxable profits in comparison with the previous fiscal year). This modification leads to an anticipated payment of CIT.

Interest and penalties
Regarding CIT, VAT, registration duties, and business tax:

- late payment is subject to late interest computed at a rate of 0.4% per month (4.80% per year) and to a 5% penalty, and
- late filing is subject to late interest computed at a rate of 0.4% per month (4.80% per year) and to a 10% penalty.

Moreover, a penalty of 40% applies in case of bad faith and is increased to 80% in case of fraud.

Tax audit process
The French tax authorities are responsible for verifying that taxpayers' obligations are correctly complied with and, if necessary, for making adjustments by issuing tax assessments.

Once an assessment is notified by the tax inspector and if the taxpayer disagrees with such an assessment, the taxpayer has 30 days to answer (with a possible 30 days extension upon request) and to provide comments to the French tax authorities.

Following an exchange of written correspondences between the tax inspector and the taxpayer, either party may submit any disagreement on a factual issue to the departmental or national tax commission. The decision of this commission is not binding on the taxpayer or on the French tax authorities.

In cases where the disagreement between the French tax authorities and the taxpayer still remains, the taxpayer can file a claim with the French civil courts or with the French administrative courts, depending on the type of tax that has been subject to assessment by the tax inspector.

Statute of limitation
Regarding CIT, the general statute of limitation expires at the end of the third year following the one that has triggered the tax liability.

Under certain circumstances, the statute of limitation can be extended (e.g. fraud, undisclosed/hidden activity); statute of limitation can also be interrupted (e.g. notification of a notice of reassessment).

Topics of focus for tax authorities
Transfer pricing, business reorganisation, financing arrangements, and VAT are standard elements reviewed during tax audit.

The ruling system

To secure the tax status of a situation, foreign companies and individuals can request a private ruling from the French tax authorities as to whether their activities constitute a PE or fixed base.

The French tax authorities have to provide an answer within three months after the receipt of the request. In the absence of response from the French tax authorities within this period of time, the foreign company or individual will be deemed not to have a PE in France.

APAs are also provided by the French tax authorities for transfer pricing purposes (*see the Group taxation section for more information*).

Other issues

France and the United States sign bilateral agreement on the implementation of the Foreign Account Tax Compliance Act (FATCA)

On 14 November 2013, France and the United States signed a bilateral Intergovernmental Agreement (IGA) intended to implement FATCA. FATCA was enacted by the United States in 2010 to combat offshore tax evasion by US persons. France, with the United Kingdom, Germany, Spain, and Italy, was an original member of the 'G5' countries that agreed with the United States to advance the principles of FATCA under the concept of bilateral IGAs in order to address many of the legal barriers faced by financial institutions in complying with FATCA.

The French government has committed to drafting local laws and regulations to implement FATCA among all financial institutions resident in France (including French branches of foreign companies). Broadly speaking, the banking, life insurance, and asset management industries will be most affected, but certain estate (patrimonial) vehicles, holding companies, as well as hedging, finance, and treasury centres of non-financial groups could also be impacted, depending on the nature of their activities.

As expected, the US-France IGA is based on the Model 1A version with an Annex II negotiated to include provisions specific to the local French market and that contains categories of French financial institutions qualifying for exempt beneficial owner or deemed-complaint status.

Compliance with FATCA's due diligence, reporting, and, in some cases, withholding requirements is necessary for foreign financial institutions (FFIs) to avoid suffering 30% withholding on certain US-source income and payments. The French IGA is intended to simplify the FATCA requirements for French financial institutions, but, in most cases, still requires significant efforts to maintain compliance.

The following are key points specific to the US-France IGA to consider:

- Inclusion of the 'most favoured nation' clause allowing adoption of certain provisions from other IGAs that may be more favourable to French financial institutions.
- Consistent with Notice 2013-43, the timetable for implementation of FATCA has been synchronised with the intended amendments to the US Treasury Regulations, starting with the entry into force of key provisions effective 1 July 2014.
- Annex II of the French IGA describes various classes of exempt beneficial owners and deemed-compliant financial institutions.
  - The deemed-compliant financial institutions described in Annex II are treated as Non-Reporting French Financial Institutions under the French IGA. In turn, these Non-Reporting French Financial Institutions are considered certified deemed-

    - compliant FFIs under the US regulations and do not have to register to obtain a global intermediary identification number (GIIN).
    - Collective investment vehicles, including investment entities established in France that are regulated as collective investment vehicles, *sociétés de crédit foncier* and *sociétés de financement de l'habitat*, are Non-Reporting French Financial Institutions treated as deemed-compliant FFIs.
- The asset management industry should benefit from an exemption related to employee savings plans and a special status that is intended to reduce the FATCA obligations of investment vehicles and management companies that can ensure the absence of US investors and non-participating financial institution customers.
- The agreement also provides specific provisions for certain French institutions and financial products, including:
    - Exemption for certain local banks with an almost exclusively local client base. This could be beneficial to French institutions following the mutual banking model.
    - Most regulated savings products (savings books and savings plans), which are excluded from the definition of a financial account and will not be treated as US Reportable Accounts, whereas the share savings plan (PEA) remains within the scope of FATCA.
    - Products dedicated to retirement planning (Article 39, Article 82 , Article 83, Madelin, Madelin agricole, Perp, Pere, and Prefon), which are excluded from the definition of financial accounts and will not be treated as US Reportable Accounts.
    - Pension funds will also benefit from a specific exemption.

The next step is for the French government to implement local laws adopting the provisions of the IGA. Given the rapidly approaching 1 July 2014 effective date, French financial institutions, as well as non-financial organisations with financial institutions within their groups, should be taking steps based on the IGA (and in some cases US Treasury Regulations) to ensure they are prepared to comply.

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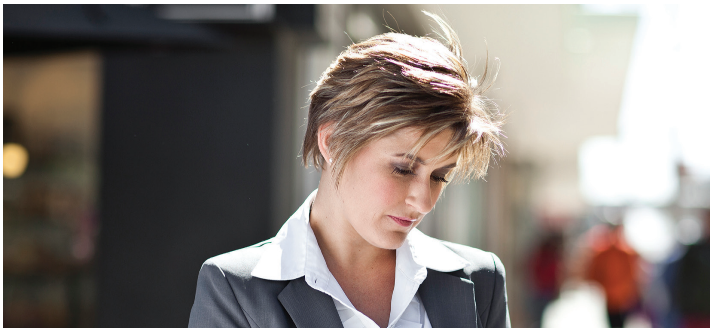

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