

1979

France

Touche Ross International

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Touche Ross International



Preface

This study is one of a series of Business Studies designed for the use of Touche Ross professional staff in all countries and for interested clients. Users of the study should ascertain whether the information given here has been superseded by later developments. Specific business questions or problems may have legal and tax ramifications that are beyond the scope of this Business Study, and the assistance of professional advisers is recommended. Suggestions for revisions should be sent to the Touche Ross International Executive Office.

The amounts quoted in this Business Study are in French francs (F). At the time of writing, the approximate French franc exchange rates with other countries were:

F1 =	US \$	0.23
	£ Sterling	0.11
	Deutsche Marks	0.43
	Swiss Francs	0.39
	Japanese Yen	50.75

Readers should check in the financial press for subsequent variations in these rates.

May 1979



Introduction

For many people throughout the world, 'Europe' means 'France,' so much have French culture and ideas permeated European civilization. Long a leading country of Western Europe, France has always exerted an enormous influence on its neighbours.

During the first half of this century, a curious lethargy affected France, but since the end of World War II the country has been revitalized. From being a mainly agricultural nation, it has become one of the world's leading industrial powers. The country's economy, despite short-term setbacks, has shown a determined and successful growth, and its industries, formerly inward-looking and protectionist, have made France one of the world's principal trading nations. Business managers, once concerned mainly with small family businesses, have proved among the most able in Europe in developing innovative ideas and introducing new technologies, whether of people-management or industrial change.

Traditional ways persist, of course, and individuals vary in their social and political outlook as much as in any other country, but most French people now accept the need for change and realize that in it lies the future of France. 'In France,' said the seventeenth-century Duke de la Rochefoucauld, 'everything can happen,' and businessmen of the twentieth century are busy proving that he was right.

This Business Study was written by G. K. Dykes and E. Tomsett of the Touche Ross London office, with the active cooperation of the staff of the Touche Ross office in Paris.

Linda S. Avelar
Director of International Publications
May 1979



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THE COUNTRY

Location and Area

Situated between the Atlantic Ocean and the Mediterranean Sea, France provides a climatic and cultural transition between northern and southern Europe. Its land frontiers are shared with Belgium and Luxembourg to the north, Germany, Switzerland, and Italy to the east, and Spain to the south. To the north also, beyond the English Channel, is Great Britain. Some people think of France's shape as a hexagon, others as a coffee-pot. Corsica, an island in the Mediterranean, lies about 176 kilometres (110 miles) southeast of the French mainland.

Metropolitan France, which consists of the mainland and Corsica, has an area of 551,000 square kilometres (213,000 square miles). It is thus the biggest country in Europe after Russia. France is more than twice the size of West Germany, the United Kingdom, or the state of Colorado, USA, and about one and a half times that of Japan.

The French Republic consists of metropolitan France together with four overseas territories—Réunion in the Indian Ocean, Martinique and Guadeloupe in the Caribbean, and Guiana on the north coast of South America. These overseas territories are not described in this Business Study. The French Community consists of the French Republic and some small dependencies, together with several former French colonies, mostly in Africa. Several other former colonies continue to maintain close economic and cultural ties with France, although they have chosen not to join the French Community.

Monaco, a tiny state on France's Mediterranean coast, is near the frontier with Italy. Andorra, an independent state between France and Spain, at present of little importance to international investors, is mentioned briefly in the Touche Ross Business Study on Spain. Both Monaco and Andorra have special relationships with France.

Natural Features

Four lowland river basins (the Seine, Loire, Garonne, and Rhône) alternate with higher ground. Lowlands cover more than half the country, and less than one-quarter of France is higher than 500 metres (1,640

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feet)—although this quarter includes some of the spectacular peaks of the Pyrenees and Alps, including Mont Blanc, which at 4,807 metres (15,781 feet) is Europe's highest mountain.

The plains of Picardy in the north contrast sharply with the mountain ranges of the Alps and Pyrenees in the east and south and the upland plateau of the interior called the 'Massif Central.' This great variety of physical features enables France to claim to be a 'Europe in miniature' and has made transport and communication easy throughout the country.

Paris is situated in the middle of the northern plains, and its position there has led to its strong centralizing influence.

Climate

The climate is generally equable and mild, but differs between the maritime northwest and the Mediterranean southeast. Provence and Languedoc in the south have much more annual sunshine than elsewhere. Winters there are mild and summers are hot, although a feature of the Rhône valley is the Mistral, an icy wind that blows from the mountains in March and October. The mountains and Massif Central have more rain and snow than elsewhere, and the driest areas are the Mediterranean coast and the Paris Basin.

In Paris, the hottest month is usually July, when average temperatures reach 25°C (77°F), and the coldest is January, when the average falls to 1°C (34°F). The wettest month is August (average rainfall 64 millimetres or 2½ inches), and the driest, March (35 millimetres or nearly 1½ inches).

Natural Resources

France is one of Europe's largest producers of iron ore, bauxite, and potash. The country also has substantial supplies of coal, some natural gas, and smaller deposits of antimony, lead, zinc, barium, magnesium, tungsten, and uranium. Despite these resources, however, the bulk of the country's mineral requirements are imported.

Much of the land is very fertile, and France is the largest agricultural producer in the European Economic Community despite the small average size of its farms. France vies with Italy as the world's largest wine-producer, and its extensive forests provide substantial quantities of timber. Most energy supplies are imported, but hydroelectricity is an important domestic source. Nuclear power provides a small but growing proportion of the energy supply.

The country's attractive scenery and climate draw many foreign visitors, especially to Paris, the Mediterranean coast, and the southwest.

Regions and Major Cities

The 22 political regions of France are shown in the map on the inside front cover of this study. They may be grouped into seven natural regions as follows:

Paris. With a population of nearly 10 million—about 2.3 million in the city itself—Paris and its surroundings are the economic and social heart of France. Much of the country's industrial and commercial activity is concentrated there, particularly in the automobile and associated industries. Despite some decentralization in the last fifteen years, Paris remains by far the most important single city in France. It is the centre of fashion and art, banking, insurance, transport, and foreign trade in a way unparalleled in any other European country.

The North. This is the region of older industries, including coal, engineering, and textiles. Although one of the most economically developed parts of the country, its industry has had to be diversified. Its activities now include chemicals, glass and brick manufacture, food processing, and brewing. The region includes the conurbation of Lille-Roubaix-Tourcoing (1,430,000), the cities of Rouen (400,000) and Lens (320,000), and the ports of Le Havre (220,000), Dunkirk, Calais, Dieppe, and (further west) Cherbourg. Outside these industrial centres, the whole of the north, including much of the Seine and Loire basins, is France's main agricultural area. The region is also an important transit zone for foreign trade.

Alsace-Lorraine. This is the second of France's regions of traditional heavy industry. The old iron, coal, steel, and chemical industries continue, but other manufactures have been introduced such as porcelain and glass, textiles, paper, watches and clocks, plastics, and electrical equipment. The region has good connections with Luxembourg, Germany, and Switzerland and is served by Europe's major waterway, the Rhine. The chief cities are Nancy-Metz (470,000) and Strasbourg (340,000).

Rhône-Alpes. This region is one of the most economically important outside Paris. The industrial city of Lyon (1,200,000), with its textile, chemical, and heavy engineering firms, is its centre. St. Etienne (340,000), located on a former coal field and now a major metalworking centre, is nearby, and Grenoble (400,000), known for its research facilities and heavy engineering industries, is a little further east. Between

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Paris and Rhône-Alpes lie the famous wine-growing districts of Champagne and Burgundy.

The Mediterranean Coast. Marseille (1,020,000) is France's leading port and a major manufacturing centre. The nearby development zone of Fos has extensive oil refining, chemical, steel, and aircraft industries. Other major cities in this region include Nice (470,000) and Toulon (390,000), while several smaller towns inland such as Arles and Montpellier have new industrial developments. The increased use of irrigation is reviving agriculture, and the climate and scenery of this part of France make tourism an important industry. Corsica and the area west of the Rhône delta are growing vacation areas in addition to the more traditional centres of the Côte d'Azur and the Riviera.

The Southwest. This huge area combines the attractions of scenery, climate, cultural associations, and growing industrial opportunities. Toulouse (510,000) has aircraft, electronics, and chemical industries, with their associated research and development facilities. Bordeaux (700,000), particularly noted for its wine exports, is a major port with oil refining and petrochemical industries. Strictly in the Massif Central rather than the southwest is Clermont-Ferrand, important for its rubber and automobile manufactures.

The Northwest. This is the least developed part of France, although several industries have now been established there, including electronics, automobile manufacture, and food processing. Tourism and agriculture remain important, especially in Brittany. The principal towns are Nantes (270,000), St. Nazaire, Rennes, and Brest.

THE PEOPLE

Population

Nearly 54 million people live in France. The population has recently grown about 1% per year, one of the highest growth rates in the EEC and in marked contrast with the years before World War II, when the population actually fell. France now has a relatively high proportion of younger people, about a third of the population being aged 20 or less. Immigrants—from Spain and Portugal, Italy, and North Africa—make up about 8% of the population. Average population density is 96 per square kilometre (248 per square mile) compared with 250 per square kilometre in West Germany, 229 in the United Kingdom, 297 in Japan, and 23 in the United States. Over two-thirds of the people live in cities and towns, but

apart from about 20 cities with more than 200,000 inhabitants each, towns tend to be small. Paris and the industrial north are densely populated, but elsewhere the spread is fairly even with rather more people in the east than in the west. The population of the southwest is now growing at a rapid pace.

The French of today are descended from a number of races, predominantly indigenous Celtic Gauls whom the Romans subdued and unified. On the breakup of the Roman Empire, the Teutonic Franks, and later the Viking Northmen or Normans, settled in the area and absorbed the Latin language and culture that they found.

Labour Force and Occupations

Although France is a highly industrialized nation, it continues to have a large involvement in agriculture, as indicated by the distribution of its labour force. In a recent year this was as follows:

	%
Agriculture	10.4
Industry	30.5
Building and civil engineering	8.9
Transport	4.0
Services	18.1
Trade	12.3
Finance and administration	<u>15.8</u>
	<u>100.0</u>

The working population is about 22 million. This is a little over 40% of the total population, about the average for Western Europe. The trend since World War II away from the land and towards Paris has led to the introduction of incentive schemes to encourage industry in provincial centres; these are described in Chapter 2.

Language

French is spoken throughout the country, although small minorities speak Flemish, Breton, Basque, or Catalan. Provençal is a distinctive French dialect spoken in the southeast. Near the German frontier, and especially in Alsace, a dialect of German is widely spoken, and an Italian dialect is used in Corsica.

French is one of the Romance languages derived from the Latin spoken by Roman legionaries and merchants. French is spoken by educated foreigners in many parts of the world, and it was for long the major language of international diplomacy. Versions of French are spoken by

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significant groups in neighbouring Belgium and Switzerland, in Quebec, and in many parts of North and West Africa.

In recent years there has been a reaction against the use of foreign words and phrases, which is indicative of the pride that the French take in their language. Although many technicians and business executives can speak foreign languages (especially English and German), most French people and business firms expect to conduct conversations, and correspondence, in French.

Interpreters and translation services are available in Paris and the other main cities, although they tend to be expensive. If an interpreter has to be used at a meeting, the technical points to be discussed should be outlined to him beforehand.

Education

Education is compulsory for children aged 6 to 16 and is virtually free in almost all schools run by the highly centralized state educational system. About one-sixth of all schools are independent and charge fees. These are mostly run by the Church and are often the choice of more conservative parents. The French are proud of their high educational standards, although criticisms of the rather rigid system have recently led to some changes in methods and organization.

Optional nursery schooling often precedes compulsory primary education, which lasts from age 6 to age 11. Children from 11 to 14 attend various types of 'first-cycle' secondary schools such as *lycées* that provide a traditional classical education or *collèges d'enseignement général* that teach more technical subjects. The second cycle of secondary education lasts from one to three years in *lycées* or *lycées techniques* (leading to the *Baccalauréat* examination that is the entry qualification for university training) or in technical training colleges providing mainly vocational training.

There are about seventy universities and similar establishments, most of which award a basic degree called a *licence*. Parallel with the universities, and independent of state control, are the famous '*grandes écoles*' such as the *Ecole Polytechnique* founded in 1794; these cater for France's elite, and competition for places in them is intense. Senior positions in private industry and commerce as well as in the civil service and the state-owned enterprises are invariably filled by the '*Grands Corps*'—graduates of the *grandes écoles*.

Industrial and commercial apprenticeships are supervised by the state. Every industrial organization must provide training facilities or contribute a percentage of its wage bill towards state technical education. State-run schemes provide training for redundant workers and for adult workers wishing to extend their skills.

Religion

Most Frenchmen are at least nominally Roman Catholic. The Catholic Church in France contains both left-wing worker-priests and ultraconservative traditionalists. There are less than one million Protestants, about 500,000 Jews, and some Moslems from North Africa.

History

France was first united by Julius Caesar, who brought the country under Roman rule. In the centuries that followed the fall of the Roman Empire, the Franks (who gave the country its name) emerged as the most powerful of the barbarian invaders that swept successively over the area from Eastern Europe and beyond. In 732 AD Moslem invaders were defeated at Poitiers, thus ensuring that Europe remained Christian, and in 800 AD a new Roman Empire was founded by the Frankish king Charlemagne. France emerged as a separate kingdom under Charlemagne's grandson in 843.

The power of the kings of France, centred in Paris, was constantly challenged by various independent nobles, including the dukes of Normandy who became also kings of England. Gradually these nobles were brought under royal control, and by about 1600 a unified France was one of the leading nation-states of Europe. The zenith of French prestige and power was reached in the reign of Louis XIV, the 'Sun King,' who reigned from 1643 to 1715.

In the eighteenth century, the teachings of philosophers such as Voltaire and Rousseau produced the Declaration of the Rights of Man and led to the cataclysmic French Revolution, which changed the course of European history. In the aftermath of the Revolution, French armies under Napoleon Bonaparte swept through Europe and established a new order. Napoleon's administrative reforms survived his military achievements, and today the legal systems of much of Continental Europe, and of many other countries that have adopted European ideas, are based on the 'Code Napoléon.'

Further but less drastic upheavals occurred during the nineteenth century, a time when France was building a vast empire overseas and

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becoming a modern industrial nation. In the first half of the twentieth century, the country stagnated, partly because of its enormous losses in World War I. France's resurgence in recent years can be ascribed to many factors, among them the galvanizing effect of the disaster of World War II, the leadership provided by Charles de Gaulle, the National Economic Plans instituted by Jean Monnet, and the stimulus of competition from other members of the European Economic Community (EEC).

Life in France

The contrast between Paris and the provinces, as described in the novels of Balzac, still persists, although less sharply than in the past. Most Frenchmen, wherever they live, combine an intense national patriotism with a strong local pride, because of the wide differences in attitude and character of people in the different regions. Generalizations are always dangerous, but perhaps it can safely be said that the French are a people of contrasts and contradictions, chauvinistic but tolerant, cynical but humane.

The country has a rich cultural heritage, impressively reflected in its architecture and town planning, and in the number of its art galleries and museums. A variety of entertainments is available and there are many opportunities for leisure activities. Good food and wine are an essential part of French life. Most families have an automobile—many have two—and sport is popular, including shooting, fishing, camping, sailing, and swimming, for which the extensive coastline of the country offers excellent facilities. Living standards tend to be high, but so are costs, and Paris is one of the most expensive cities in the world.

Flats (apartments) are more plentiful than houses, but rents are high for both. In Paris, the monthly rent of a two-bedroom unfurnished flat in a good area suitable for an executive is currently about F3,000, although in a provincial city such as Toulouse an equivalent flat would rent for roughly half that figure. Tenancy contracts are usually made through agents who charge 8½% to 10% of the annual rent for their introductory services. Also, the tenant is normally required to make a guarantee deposit of two- to three-months' rent, so that his initial outlay may be effectively equivalent to three- to four-months' rent in addition to the usual one-month's rent in advance.

Near Paris, a three-bedroom house could cost at least F600,000, but elsewhere the price would be much lower. The agent's commission for the purchase of a house is based on the value of the property and is included in the price paid by the purchaser. Loans are available for

house purchase through real estate mortgage banks, but interest rates tend to be high.

The number and variety of household appliances used in French homes has greatly increased in recent years. Automobiles and home appliances are normally bought on instalment credit. Down payments vary but are usually 20% to 25%, the balance being payable in instalments over a period of six months to two years. Subject to some exceptions, a foreigner entering France to work is allowed to import his own personal belongings, household goods, and automobile free of customs duty and other taxes. This concession does not usually extend to goods purchased less than six months earlier, however, and the incoming foreigner must certify to customs officials that all items are for his personal use.

Consistent with the high standard of education in France, a number of schools throughout the country cater especially to foreigners' children.

French hospitals are good, and there are several international hospitals for foreigners who prefer them.

GOVERNMENT AND THE ECONOMY

Executive and Legislative Powers

France's present constitution dates from 1958, when the Fifth Republic came into being.

The constitution provides for separate executive, legislative, and judicial functions. The effective executive head is the President, who appoints the Prime Minister and the members of the cabinet. The President is elected for a seven-year term by all men and women aged 18 and over. A second ballot may be held if no one candidate achieves an absolute majority in the first round. The President has very extensive authority and besides appointing the government can dissolve Parliament and call for elections. The Prime Minister and his cabinet form 'the government.' Not only do they administer the laws adopted by Parliament, but they may also be authorized to issue ordinances on matters that are normally the Parliament's own prerogative.

Parliament consists of two chambers: the National Assembly, whose 487 deputies are directly elected for five-year terms, and the Senate, whose 247 members are appointed for nine-year terms by an electoral college composed of elected local government officials. One-third of the mem-

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bers of the Senate retire at the end of every three years, although they may be re-elected.

The Prime Minister and his cabinet are not permitted to be members of the National Assembly, and if they are, they must resign their seats on accepting cabinet office. The National Assembly must approve presidential appointments en bloc, and a censure vote that may topple an administration occurs only when the Prime Minister stakes his cabinet's survival on the approval of general policy. Laws must be passed by both chambers but are often confined to general principles, so that the government is in many respects less subject to Parliamentary control than in some other countries.

Two important independent bodies are the Constitutional Council, which must be consulted on constitutional matters such as a proposal by the President to assume emergency powers, and the Economic and Social Council, which advises on proposed economic or social laws.

The government department responsible for industrial and commercial development is the Ministry for the Infrastructure (*Ministère de l'Équipement et du Logement*). Prospective investors can obtain information about business conditions in France from its agency known as DATAR, at 1 Avenue Charles-Floquet, 75007 Paris (tel.: (1) 783.61.20). DATAR maintains offices in several foreign countries.

Legal Structure and the Judiciary

The courts are independent of both the executive and administrative sections of the government, although the Ministry of Justice controls the activities of the public prosecutor.

The lowest civil courts are the *Tribunaux d'Instance*, which deal with minor cases, and the *Tribunaux de Grande Instance*, which handle more important matters. Appeals from these courts may be made to the appeal courts (*Cours d'Appel*), of which there are 32, and from there (on matters of law only) to the Supreme Court (*Cour de Cassation*). Procedures in criminal courts follow a similar pattern.

Specialist courts include the Tribunals of Commerce (*Tribunaux de Commerce*), which deal with commercial law disputes; Social Security Commissions (*Commissions de 1^{er} Instance de Sécurité Sociale*), which are concerned with social insurance disputes; and Arbitration Boards (*Conseils des Prud'hommes*) which hear employment disputes. A separate system of administrative courts (*Tribunaux Administratifs*), with

appeal rights to the Council of State (*Conseil d'Etat*), deals with disputes between the government and individuals, including most taxation appeals.

French law is classified into a series of codes—for example, the Civil Code, the Commercial Code, and the Labour Code—and does not rely on the concepts of common law and judicial precedent as is usual in English-speaking countries. A few special regulations apply in Alsace-Lorraine, where German law has influenced legal principles.

A law (*loi*) is a measure that has been passed by both chambers of Parliament. An ordinance (*ordonnance*) is a measure adopted by the government under authority from Parliament. Other matters of an administrative or regulatory nature are dealt with by government decrees (*décrets*) or ministerial or local government pronouncements (*arrêtés*).

Provincial and Local Government

France is divided into 95 local government areas called departments (*départements*), which are subdivided into districts (*arrondissements* and *cantons*). These are further subdivided into about 38,000 *communes*. Nearly 24,000 of these communes are small rural districts with less than 500 inhabitants, whereas others are large towns or parts of cities. In some cities the communes have combined to form urban districts. The four overseas territories mentioned on page 1 are also called departments.

Each department is controlled by a prefect (*préfet*) responsible to the Ministry of the Interior, who has authority over matters of finance and public order, assisted by an elected council (*Conseil Général*). Each commune is administered by an elected mayor (*maire*) and council, although these have only limited powers. The administrative offices of a department are called a *préfecture* and those of a commune a *mairie*. Some minor administrative matters, not usually of interest to foreigners, are dealt with at *arrondissement* level.

Because the departments are not big enough to handle modern large-scale planning requirements, they were grouped in 1975 into 22 regions, corresponding in many cases with the old pre-Revolution provinces. Each has a regional prefect and a council composed of elected Parliamentary and municipal representatives. These regions have a limited amount of autonomy and can even raise local taxes. The smaller local government units, however, have little power, and most questions are referred to the authorities in Paris rather than being decided on the spot.

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Regional and departmental prefects' offices are often helpful sources of advice to intending investors on local conditions.

Political Parties

The numerous political parties are grouped into two main blocs:

1. The Socialists (PS), Communists (PC), and other parties of the left.
2. The Gaullists (RPR) and the Union pour Démocratie Française (UDF), comprising Independent Republicans (PR) and other centre parties that include both conservatives and reformers.

The French Communist party, which for many years has had a substantial following, has always been concerned with French rather than international affairs. It has always affirmed its independence of any other Communist regime.

Economic Patterns

In recent years, France's per capita gross national product has been among the highest in Europe. Moreover, the growth rates of both gross national product and volume of production have been among the highest in the world. The principal reasons for this rapid growth are the rise in population following the prewar stagnation, the influence of the national economic plans, and above all, the effects of competition on a traditionally protectionist economy.

Unemployment has been a growing problem since the worldwide oil crisis of 1973, and this, together with rising inflation and the emergence of a balance-of-payments deficit, has led to a programme of stabilization and retrenchment since 1976.

Agriculture, viticulture, and forestry remain industries of major importance, despite a continuing trend of workers away from the land. Another employment trend, apparent in many developed countries, is the movement of workers from basic industry into secondary industry and services. In France's case these have always been important, and the production of fashion and luxury goods have been, like agriculture and tourism, large contributors to export earnings. Financial, banking, and insurance services, most of which are centred in Paris, are also important.

Major manufacturing industries are automobiles, electrical equipment, metal products, aircraft, watches and jewellery, chemicals, ceramics and glass, textiles, and carpets. Woodworking, papermaking, food processing, brewing, and building materials production are also significant.

A feature of the French economy is the large number of small-scale establishments. Not only do many farms consist of a few hectares each (the national average is only 24 hectares, or about 60 acres), but much industrial production is carried on by small family businesses. Mergers and reorganizations designed to increase productivity are, however, officially encouraged and have had considerable effect in some industries such as electrical engineering, food processing, and textile manufacturing. Investment aid to small and medium-sized enterprises (referred to as 'PME') is an important part of the current national economic plan.

At the other end of the scale, there are few really big firms in France compared with neighbouring countries. Of the top ten French companies, three are state-owned and two are subsidiaries of international oil groups. These large firms are among the most efficient in Europe.

Traditionally, French managements faced with profit squeezes merely increased prices. Now, as a result of EEC competition, they have become much more inclined to solve their problems by more efficient production and marketing techniques. These new ideas are beginning to influence the small businesses that until recently have tended to retard the economic growth of the country as a whole.

Significant statistics are as follows:

	1973	1974	1975	1976	1977
Gross national product:					
Current prices (F billion)	1,114	1,272	1,437	1,669	1,870
Constant (1975) prices (F billion)	1,402	1,439	1,437	1,517	1,554
Real increase %	5.3	2.6	—	5.6	2.4
Exports (fob) (F billion)	162	222	227	273	319
Imports (cif) (F billion)	167	254	231	308	346
Industrial production (1970 = 100)	120	123	114	124	126
Wages (hourly) (1970 = 100)	142	170	204	238	271
Consumer price index (1970 = 100)	120	137	152	167	183
Central bank discount rate % (at December 31)	11.0	13.0	8.0	10.5	9.5
Unemployment as a % of labour supply	1.8	2.3	3.9	4.2	4.9

Government Participation in the Economy

The French economy is at present firmly based on private enterprise, despite state ownership of many significant enterprises and centralized

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state direction of the economy to a greater extent than in most other Western European countries.

From the foreign investor's point of view, the most important aspect of government intervention in France's economy is the existence of the national economic plans. These plans, inaugurated shortly after World War II, define the government's long-term aims and objectives and establish priorities. Although they guide rather than direct the economy, they are widely considered to have been successful and to have contributed materially to the country's economic growth. They are prepared after consultations between the government, private industry, and the labour unions. For the Seventh Plan (1976-1980), action programmes have been commenced in the fields of foreign trade, infrastructure development, research, employment, quality of life, and reduction of inequalities. Because of the continuing world recession, the Plan's targets are unlikely to be reached by 1980.

The government directs the economy in the shorter term through taxation policies and through controls over money supply, foreign exchange transactions, and sometimes over prices also. It also encourages new investment, rationalization by mergers, and the decentralization of industry. It has introduced detailed regulations applicable to particular industries such as banking and insurance. As a major employer, its own labour policies have a considerable effect on employment matters generally.

State ownership at present extends to most public utilities (gas, electricity, water, atomic energy, and telecommunications), rail transport, coal mining, tobacco, and radio and television. In other fields, state-owned enterprises compete with private enterprises—leading examples are automobile and aircraft manufacture, air transport, banking, insurance, and petroleum refining and distribution.

Foreign Trade and Investment

Self-sufficient in a number of products, France was traditionally less dependent on foreign trade than some of its neighbours. The country's membership in the EEC since 1958 and the rise in oil prices since 1973, however, have made foreign trade much more important to the French economy, and France is now one of the world's leading exporters.

France's chief trade partner is West Germany, in terms of both imports and exports. Italy, Belgium and Luxembourg, the UK, the USA, the Netherlands, and Switzerland are also important suppliers and customers. Saudi Arabia is a prominent supplier of energy. In general, trade

with France's former empire has been declining for some years and that with its EEC partners has been growing.

Main imports are energy products (mostly oil), manufactured food products and beverages, machinery, raw materials and semifinished products, chemicals, motor vehicles, and textiles. In recent years, energy has constituted over 20% of total imports, foodstuffs around 15%, raw materials and semifinished goods 25%, capital goods 20%, and consumer goods 17%. Main exports are not dissimilar, apart from energy products: nonelectrical and electrical machinery, agricultural and viticultural products, motor vehicles, iron and steel, chemicals, and textiles. Agricultural products, including wine, account for about 15% of all exports, raw materials and semifinished products 30%, capital goods 30%, and consumer goods 20%. About 300 of the largest enterprises are responsible for 75% of all France's exports. Tourism is an important source of foreign currency earnings, although 'invisibles' (nonproduct businesses such as tourism, banking, and insurance) as a whole are usually in deficit mainly because of foreign workers' remittances home.

Foreign investment is welcomed as long as it accords with the national economic plans. The USA is probably the biggest single source of foreign investment, but other countries with substantial interests in France are the UK, West Germany, Switzerland, Italy, the Scandinavian countries, and Japan. Favoured sectors for foreign investors in recent years have been agricultural machinery, petroleum products, chemicals, electrical and electronic equipment, and precision machinery.



- INVESTMENT INCENTIVES
- FORMALITIES AND PROCEDURES
- SOURCES OF FINANCE
- CURRENCY AND EXCHANGE CONTROLS

INVESTMENT INCENTIVES

The Investment Climate

Foreign investment in France is generally welcomed, except when the acquisition of large or important enterprises may be considered against the national interest. The authorities favour investments that introduce new technology, contribute to exports, and fit into the national economic plans, particularly if they create employment in priority regions.

Among the advantages of locating an industrial or service activity in France are the country's size and geographical position favourable for trade with the EEC and Mediterranean areas, its good transportation services, high quality work force and labour costs that compare favourably with neighbouring countries, and its attractive living conditions and cultural environment. In addition, significant tangible investment incentives are offered by the central government and other bodies.

The government's Territorial Planning and Regional Development Agency (*DATAR*), referred to on page 10, has particular responsibility for promoting and coordinating economic development throughout the country, as well as for aiding intending foreign investors and screening their applications. *DATAR* works with the appropriate ministries in Paris and also with local officials. Its programme designed to reduce the excessive concentration of industry in the Paris region has been successful, and in recent years many new enterprises have been set up in provincial centres.

France is a signatory to the 1965 Convention on the Settlement of Investment Disputes, under which an international centre for arbitration and conciliation was set up as a department of the World Bank. This centre is available to help resolve differences concerning investment projects where one party is a government agency and the other a foreign national. France is also a signatory to the 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which is concerned with the settlement of commercial disputes between individuals or companies.

Investment Factors

Tangible Investment Incentives

A wide variety of incentives designed to spread industry more evenly throughout the country is available to investors, whether French or foreign. These incentives must be applied for before the proposed investment is made.

The incentives offered include direct cash grants, special indemnities and subsidies for decentralization from the Paris and Lyon areas, subsidies for job training, and tax concessions. Under the incentive programme, France is divided into four zones, with different rules for each.

The Four Zones. These can be summarized as follows:

Zone A (full range of incentives)	Most of western, central, and southwestern France, together with Corsica, where there is insufficient industry. Also the frontier areas of the northeast, where the diversification of industry away from the traditional coal, steel, and textile activities is required.
Zone B (fewer incentives)	Mainly in the southeast and northeast and in districts bordering Zone A. Less in need of assistance than Zone A, but still insufficiently industrialized or overdependent on traditional industries.
Zone C (incentives mainly for re-location out of Paris and Lyon only)	Other areas outside the Paris Basin (defined below) and Lyon that do not generally need government assistance.
Zone D (relocation incentives only, plus disincentive tax)	The Paris Basin and Lyon. 'The Paris Basin' is a term applied to an area extending about 150 kilometres (100 miles) around the city and which comprises the political unit called the Paris Region and parts of the surrounding departments.

This description of the various zones is necessarily very general, and to ascertain the exact incentives available in any particular location an intending investor should consult DATAR or other specialized body or the appropriate ministry. Most of the incentives are to continue until at least 1980, and similar schemes are likely to be introduced thereafter. The incentives themselves are described in more detail in the following paragraphs.

Regional Development Grants. A cash grant (*prime de développement régionale*) of up to 25% of the amount invested may be obtained by any industrial enterprise that creates a new activity or expands an existing one in any part of Zone A and in parts of Zones B and C where special problems of unemployment exist. 'Creation' includes the revival of a declining business, and 'expansion' includes an internal reorganization. Construction companies count as industrial enterprises for this purpose, and so do leasing companies that provide machinery and equipment for industrial enterprises.

Depending on the size of the town where the investment is made, minimum limits have been set for the amount of the investment and the number of permanent jobs to be created in order to qualify for the grants. For example, in towns with more than 15,000 inhabitants, the investment must usually be at least F800,000 and result in the creation of at least 30 jobs in a new activity or at least 120 jobs in an expansion of an existing activity. In the latter case, alternative qualifications are available. Modified rules apply for very large investments, for projects by small craftsmen, and in some rural and mountain areas. In all cases, the investment must be completed within three years.

The grant varies according to the number of jobs created and cannot exceed a limit calculated as a percentage of the investment. For purposes of computing the grant, Zone A has been divided into three subzones. Zone A1 provides the highest cash grant—for each new job created, F25,000 (new activity) or F22,000 (expansion), subject to a 25% limit. In Zone A2 the figures are, respectively, F20,000, F17,000, and 17%; and in Zone A3, F15,000, F12,000, and 12%. The Zone A3 figures apply to approved investments in Zones B and C also.

Grants are usually paid in instalments spread over two or three years. A down payment not exceeding one-third of the total grant may be requested once the grant has been approved. Final payment is subject to proof that the recipient has completed the investment programme and has complied with any conditions imposed by the government.

Investment cost (net of value added tax for grant purposes) covers the following:

- Preliminary studies

- Purchase of land and construction or purchase of buildings

- Purchase and installation of plant, machinery, and equipment other than licensed vehicles.

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Inventories and working capital are excluded, and so is secondhand (used) equipment unless the investment consists of the acquisition of existing facilities. Part of the investment may be carried out under instalment credit or leasing arrangements.

An investor is advised to discuss his plans at an early stage with the appropriate communal council, so that the local authorities are well informed about, and well disposed towards, the proposed project. Thereafter, application forms, giving details about the investor and the proposed project, must be submitted to the prefect of the department concerned. If sufficient information is provided on application, a grant may be approved within two months, but if the authorities have to ask for further details, six months may be required. In particular, the investor must be able to show that he is able to finance the project. Grants are taxable, the liability being spread over depreciable life in the case of depreciable assets, and ten years in the case of other assets.

Grants for Nonindustrial Activities. *Management, Engineering, or Data Processing Activities.* A grant (*prime de localisation de certaines activités tertiaires*) may be obtained anywhere in France, except the Paris Basin and in some instances the Lyon area, for creating or upgrading administration data processing or similar facilities. The grant is available to enterprises that create new activities, expand existing ones, or move out of the Paris Region. No minimum investment is required, but ordinarily at least thirty permanent jobs must be created. Activities may be carried on in rented buildings. The grant is based on the number of jobs created, and amounts to F20,000 per job in areas where the Regional Development Grant is available (broadly, Zone A) or F10,000 per job in all other areas except the Paris Basin (broadly, Zones B and C). Additional benefits are available for the establishment or relocation of corporate headquarters operations.

Research and Development Activities. A grant can be obtained anywhere in France except the Paris Basin for creating or expanding a scientific, technical research, or development department. For new activities, at least ten permanent jobs must be created. For the expansion of existing facilities, the labour force must increase by at least 30% or, in some cases, by fifty people. The grant is usually 15% of the investment cost, with a maximum of F25,000 per job created. In a number of cities where new activities are particularly encouraged, the grant may be increased to 20%.

Applications for both types of grant must be submitted in advance to DATAR's *Centre Interministériel d'Information*. As in the case of the

regional development grants, the project concerned must normally be completed within three years, and the grant is subject to tax.

Relocation Subsidies. *Transfer of Industrial Plant.* Industrial enterprises situated in the Paris Region that transfer all or part of their production facilities outside the Paris Basin may at present receive a subsidy of up to 60% towards their relocation expenses. Such expenses include the cost of dismantling, transporting, and reassembling industrial equipment. The subsidy is available if at least 500 square metres of industrial premises have been vacated. In some cases, conversion of industrial premises into sales or administrative offices qualifies for subsidy also.

Employees' Expenses. Employees who move their residences to follow a relocated enterprise may apply for the reimbursement of expenses incurred by them and their dependents. They may also apply for relocation indemnities, based on a multiple of the national minimum wage, to help them with other expenses arising from setting up residence in a new area. These benefits are not available to removals within the Paris Region.

Applications for these subsidies must be submitted in advance to DATAR. Employees' applications are usually submitted in bulk by their employers.

Training Subsidies. These are available to enterprises creating facilities outside the Paris Basin area or Lyon, or decentralizing from there, and to enterprises in areas of declining industry converting to activities requiring new skills. The subsidies cover, in full or in part, the costs of instructors and equipment as well as wages and social insurance of trainees. They vary with local employment conditions and are determined by agreements made with the labour director of the department or region concerned.

The enterprise must disclose information about its recruitment and training plans and give preference to applicants referred by the local employment agency (*ANPE*).

Tax Concessions. These are described in Chapter 8, but are summarized here for convenience:

- Tax holidays for small businesses that retain all their earnings and for businesses established in the four overseas departments.
- Exemption from all or part of the local business tax for a maximum of five years.
- Reduction of transfer taxes to 2%, where these apply instead of value added tax.

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- Reduction of the tax on capital gains from the sale of land to 12½%.
- Favourable treatment for mergers and reorganizations.

Other Aids. Communes and other local authorities may provide factory sites in industrial estates or elsewhere at discounts of up to 25% of cost or provide deferred payment terms for lease or purchase. Assistance is most liberal in Zone A, but some benefits are available in Zone B as well. Local tax rates are lower in some areas than others, and this is another factor to be considered when choosing a location.

Various regional organizations have been set up, in addition to DATAR, to advise intending investors on plant sites, labour costs, availability of raw materials, and similar matters. DATAR may be able to arrange housing schemes and priorities in obtaining telephone and telex lines.

Finance may be available on favourable terms from various state-owned agencies described later in this chapter, and further aid may be available from EEC sources, for example, in retraining redundant miners. In areas particularly affected by economic crises, the government may provide short-term aid in specific cases. At present, grants and unsecured loans at low interest rates are available to promote projects that will create new jobs in areas particularly affected by major redundancies.

Restrictions on Investment

General Rules. Certain activities, such as banking, investment management, insurance, and petroleum production and distribution, require special authorization. Other activities (described in Chapter 1) where the government has a monopoly are prohibited to private investors. In addition, foreigners may not operate life assurance companies, act as stockbrokers dealing in French securities, or engage in armament production. Some professional activities are limited to French nationals or to nationals of countries that grant reciprocal practice rights; examples are the law, architecture, journalism, public accountancy, and pharmacy, although EEC requirements have modified some of these rules as far as other Common Market member countries are concerned.

Most direct investments that give control of French enterprises to foreigners, or extend such control, must receive government approval as explained in the section on 'Exchange Controls' later in this chapter. Applications are normally approved without difficulty for investments intended to create new productive capacity or to expand existing enterprises. Mere takeovers of French firms by foreigners are less welcome, unless some specific gain to the French economy will result. In such a

case, if a technically advanced or particularly vulnerable company is to be acquired, the foreign investor may be required either to accept a lower percentage holding than he had intended or to allow the French management to retain its autonomy. The application for approval may even be rejected. Furthermore, all acquisitions by foreigners must now be for cash, payable without delay. Share exchange deals are not permitted.

Regulations Concerning Paris. Restrictions of greater interest to most investors concern the Paris region. Specific approval is required from the Ministry for the Environment (*Ministère de l'Environnement et du Cadre de Vie*) for the construction of any industrial building with floor space of more than 1,500 square metres (about 16,500 square feet), or any office building with more than 1,000 square metres (about 11,000 square feet). Moreover, a tax is levied on the construction of buildings in the Paris region. This tax varies from place to place, but ranges from F25 to F150 per square metre for industrial space and from F200 to F400 per square metre for office space.

These disincentives are designed primarily to encourage enterprises to move their activities out of the capital, but because of the emerging need to halt the growth of unemployment in Paris, it is possible that they may be rescinded in future. Despite the restrictions, much office, exhibition, and residential development has taken place in Paris in recent years, designed to attract the European or world headquarters operations of international organizations.

FORMALITIES AND PROCEDURES

Rules Applicable to New Businesses

All new businesses must comply with registration rules and meet environmental and other requirements. Businesses owned or controlled by foreigners must also comply with the exchange control procedures described in the last section of this chapter.

Commercial Register. Every new entity must be registered in the Commercial and Companies Register (*Registre du Commerce et des Sociétés* or *RCS*), kept by the secretariat of the commercial court (*Le Greffe du Tribunal de Commerce*) of the department in which its registered address is located. This rule also applies to the appointment of trade agents who are authorized to conclude agreements on behalf of foreign principals and to representation or other nontrading offices of foreign entities. Information in the Commercial and Companies Register may be inspected by creditors or other interested persons. On receipt of docu-

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ments for filing, the registrar applies to the National Institute of Statistics and Economic Studies (*INSEE*) in Paris for a registration number for the new entity. This number indicates among other things its constitution and industrial classification.

The information to be filed in the register varies with the type of entity concerned—corporation, partnership, branch, or other—but broadly includes:

1. Copies (in French) of its constitution documents, showing its name, purpose, and registered address or legal seat
2. Details of its officers.

The lease of the principal office in France of the new entity and in appropriate circumstances the commercial card (or residence permit for an EEC citizen) of the general manager or other senior official (see Chapter 4) must be submitted in support of the application for registration. All changes in the information filed must be reported to the court and entered in the register.

Other Permits and Formalities. A zoning certificate, indicating the type of activity that is permitted in the location sought by the new investor, must be obtained from the director of the Ministry of the Environment of the department concerned. Before any new building may be constructed, a building permit must be obtained from the mayor of the commune. The application for such a permit must give full details of the type of construction planned and the uses to which the building will be put. Local building controls are complex, and the numerous antipollution measures in force have been tightened considerably in recent years. The restrictions on construction in the Paris Region have already been described.

Every new business must register with its local tax and social security offices and must have its accounting records registered and stamped.

Status of Foreign-Owned Businesses

A foreign-owned enterprise in France has the same legal status as a French-owned one.

The French government requires that direct investment in France by foreign companies must be substantially financed from foreign sources, but does not insist on French participation either in capital or management. There are no restrictions on foreign companies operating in particular places or industries (except in the nationalized industries already referred to) or on owning real estate. The employment of skilled foreign

managers, engineers, and other staff is permitted, as long as the entry conditions referred to in Chapter 4 are observed.

SOURCES OF FINANCE

The government influences the sources of finance available to individual enterprises, not only through the investment incentives already described, but also through monetary policies and as owner or part-owner of France's main financial institutions. Between them, these institutions handle a very high proportion of all savings deposited and tend to direct savings into investments that accord with the objectives of the current national economic plan. This government influence appears to be continuing despite changes in the pattern of finance.

The trend in recent years has been away from short-term borrowings and towards long-term loans from the stock exchange or the banks, and to some extent also towards increased equity capital. Retained earnings have always been important in France, although they have for some years declined as a proportion of total finance provided. Loan capital issues in excess of F15 million must be notified in advance to the Treasury Directorate described on page 34.

The Banking System

Paris has developed in recent years into a major world financial centre. In general, the banks predominate as suppliers of capital in France.

Two regulatory bodies concerned with banks and other financial institutions were established in the 1940s: the National Credit Council (*Conseil Nationale du Crédit*) and the Banking Association (*Association Française des Banques*). At that time deposit banks were differentiated from investment banks, but in 1966/67 the strict distinction between the two types was abolished, and since then strong interbank competition has further reduced the differences between them. Shortly after World War II the central bank and the largest deposit banks were nationalized.

The Central Bank. The Central Bank is the *Banque de France*, which is the banker to the government and the sole issuer of bank notes in France. It acts as ultimate banker to the other banks, sets the official discount rate, regulates the other banks' liquidity ratios, and administers the government's credit controls.

The Banque rediscounts short- and medium-term bills representing loans made by the commercial banks and also participates directly in the money market.

Investment Factors

Commercial Banks. These are either registered banks or cooperatives.

Registered Banks. These include:

1. Deposit Banks (*Banques de Dépôts*). These banks offer a complete banking service. They grant short-, medium-, and long-term credit to businesses and housing and other loans to individuals. Among the largest deposit banks are the state-owned Banque Nationale de Paris (one of the first-ranking banks in the Common Market), Crédit Lyonnais, and Société Générale. Crédit Industriel et Commercial and Crédit Commercial de France are also mainly deposit banks. Of the 300 or so registered banks, about half are deposit banks. Many registered banks are small local organizations, but the larger ones have nationwide branch networks.
2. Investment or Merchant Banks (*Banques d'Affaires*). These also provide credit facilities, but are mainly concerned with the acquisition and management of industrial and commercial investments. They may finance such investment holdings only with funds deposited for two years or more. Merchant banks are often subsidiaries of deposit banks, which are thus enabled to invest indirectly in equities.

Among the best-known *banques d'affaires* are Banque de Paris et des Pays Bas, Banque de l'Indochine et de Suez, Banque Worms, Banque Lazard, and Compagnie Bancaire.

3. Medium- and Long-Term Credit Banks (*Banques de Crédit à Long et Moyen Terme*). These accept deposits, usually for two years or longer only, and make loans for similar periods. Many specialize in particular sectors of industry or commerce.
4. Foreign Banks. Many foreign banks are represented in France, often through branches and representative offices rather than through French subsidiary companies. Foreign banks, like French banks and credit institutions, must comply with the requirements of the National Credit Council.

Cooperative Banks. Alongside the registered banks are several large cooperative banks. In the agricultural sector, the Crédit Agricole (the largest bank in Europe) makes short-, medium-, and long-term loans to farmers for equipment, buildings, and working capital, and similar services to other small businesses are provided by Crédit Mutuel and a number of regional *Banques Populaires*.

Specialist Financial Institutions. Several specialist institutions have been established to meet particular needs. Many of them are wholly or partly state-owned.

The Caisse des Dépôts et Consignations (*CDC*) collects funds from savings banks (*Caisse d'Epargne*), postal savings banks, insurance companies, pension funds, and social security organizations. Its central position in the banking structure and its huge holdings confer on it considerable power. *CDC*'s funds are used to purchase the securities of state-owned and private corporations and to finance low-cost housing construction and local authority infrastructure projects.

Crédit National is a state-controlled company whose main function is the financing of private business enterprises, particularly producers of industrial capital goods. Finance is provided through both direct long-term loans and rediscounted medium-term bank credit. Crédit National also specializes in supplying medium- and long-term export credit.

Crédit Foncier de France and its subsidiary Comptoir des Entrepreneurs are also state-owned companies. Their principal activity is the long-term financing of real estate development. They also rediscount medium-term credits for agriculture and transportation and, to a lesser extent, for industry and commerce.

The Caisse Centrale de Crédit Hôtelier, Commercial et Industriel was initially created as a source of income for the hotel industry, but it now provides credit for any small or medium-sized business and for professional firms.

The Banque Française du Commerce Extérieur (*BFCE*) is owned jointly by the *CDC*, Crédit National, and the three state-owned banks. *BFCE* guarantees exporters' notes and bills receivable so that they may be rediscounted with the Banque de France. It always works in conjunction with the state export credit insurance organization, *COFACE*.

The Caisse Centrale de Coopération Economique provides finance for investments in former French overseas territories.

Government agencies that provide funds either indirectly or in the form of the investment or relocation grants already described include the Fonds de Développement Economique et Social (*FDES*). Other partly or wholly state-owned institutions that are only occasionally of interest to foreign investors include the Caisse Nationale des Marchés de l'Etat (mainly concerned with financing government contracts) and the Institute de Développement Industriel (mainly concerned with advice and promotion of industrial growth).

Banking Customs and Payment Procedures. The larger banks have branches throughout the country and offer their customers a full range

Investment Factors

of banking services. Many banks have strong international connections. They provide safe-custody and dividend coupon collection services for their clients, but not usually shareholder-representation services.

Bank statements are usually provided monthly, but customers may request them more frequently if they wish, up to three per month being provided free of charge. Statements show dates and cheque numbers, but not usually payees' names.

Banks do not return paid cheques to their customers but make them available for inspection if proof of payment is required. Besides cheques, another popular form of payment in industry and commerce is the 90-day note. The use of uncrossed cheques (that is, cheques that need not be paid into a bank account but can be cashed over the counter) is officially discouraged.

The commercial banks do not give interest on customers' current (checking) account credit balances. Frequently, however, a personal customer opens two bank accounts, the second being a savings account (*compte sur livret*) on which some interest is allowed.

Cheque cards are becoming widely used. These cards act as guarantees of cheques drawn—currently up to F500—not only within France but also throughout Western Europe through the 'Eurocheque' system. The banks in fact guarantee all cheques up to F100; in return, they have the right to demand the surrender of the cheque book of any customer whose account becomes overdrawn and who then draws two further cheques.

Types of Finance Available

Short-Term. Short-term finance is mainly raised by discounting customers' bills, as this is usually cheaper than arranging an overdraft. When the customer has accepted a bill, it may be discounted with the seller's bank. When endorsed by that bank, it may be rediscounted with, for instance, the Banque de France, provided that the signatures of customer, seller, and banker are acceptable and the bill is due within three months.

Despite the prevalence of bill discounting, banks also make short-term loans or grant overdrafts. Overdrafts are normally used to provide working capital only and are at least in theory repayable at call. The borrower pays both interest and initial commission. Security is usually required; this may take the form of a personal guarantee by the proprietor or

manager, or a mortgage (*hypothèque*) on the borrower's real estate. Interest rates charged and required ratios of borrowings to equity capital or current liabilities to current assets vary from borrower to borrower, and there are no fixed rules.

Factoring and invoice discounting are other important types of short-term finance. Banks also block-discount retail extended credit agreements. Borrowing against promissory notes (*billets à ordre*) is forbidden.

Medium-Term. Advances for periods of two to seven years are often made by the deposit banks against finance bills (commercial paper). The lending bank will usually rediscount such bills with Crédit National, Crédit Foncier de France, Caisse Centrale de Crédit Hôtelier, or occasionally CDC. Small companies sometimes join trade groups or mutual guarantee societies. These bodies guarantee loans granted to their members, although even with such a guarantee the bills concerned must be endorsed by the Caisse Nationale des Marchés de l'Etat before they can be rediscounted.

Direct loans without the use of bills may also be made by the deposit banks if they consider the circumstances justify such a course. The cooperative banks (*Banques Populaires*) also provide medium-term finance.

Leasing (*crédit-bail*) has become popular in recent years as a source of finance for both moveable assets (*mobiliers*) and buildings and fixed plant (*immobiliers*). Most of the leasing companies are owned by banks. Hire-purchase (*vente à tempérament*) is another method of financing asset purchases. This differs from leasing in that the title to the asset passes to the purchaser on payment of a final—often nominal—instalment. These forms of credit are additional to conventional sources, but they tend to be expensive. For consumer-credit purposes, however, the government fixes maximum interest rates from time to time. At present, such interest rates, inclusive of commission and initial charges, must not exceed 19.05%

Long-Term. Loans for seven to twenty years are usually financed by the specialist institutions already mentioned, security required usually being first mortgages on real estate or hypothecation of securities, inventories or other business assets, or similar collateral. The Crédit National and the Caisse Centrale de Crédit Hôtelier are the main sources of such long-term loans, although loans for up to twelve years are sometimes available from the deposit banks themselves. It is usual for an intending

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borrower to discuss his requirement initially with his deposit bank, which will then approach the specialist institutions on his behalf.

A recently introduced form of finance is known as a 'participatory loan.' Such a loan may be obtained from the government, the specialist credit institutions, or the banks. It is subordinated to the claims of other creditors if the borrower becomes insolvent, but it carries priority participation rights to profits in excess of its agreed fixed interest rate. Government loans are made through FDES, and borrowers are usually required to accept various conditions concerning their activities.

An enterprise planning an investment of particular interest to its region may be able to obtain finance through one of the government agencies called *Sociétés de Développement Régional (SDRs)* by participating in one of their regional joint bond issues. In such a case, the SDR is the principal borrower, but each participating firm is a guarantor in proportion to its share of the borrowing.

SDRs are permitted to subscribe for share capital in some cases, but must retain their holdings long term. Share capital may also be taken up by the investment banks within certain limits, but in general French banks do not hold as much equity capital as their equivalents in neighbouring countries, particularly Germany. Private individuals are the main source of share capital, usually for their own family businesses.

Larger entities whose constitutions so permit may raise funds by offering bonds or shares to the public through the stock exchange. Very well-established enterprises may be able to borrow in foreign currency from the Eurocurrency markets, where interest rates depend on supply and demand and are not directly affected by credit conditions in any one country.

The Stock Exchange

The Paris stock exchange is by far the largest in France, although there are several others, and it is one of the world's leading exchanges. A large proportion of Paris stock exchange deals, however, are usually in the shares of a very few corporations, as shareholdings in listed corporations by individuals in France are less significant than in some other countries. Traditionally, the French have invested only a small part of their savings through the stock exchange, although the proportion has increased in recent years as a result of the rapid growth in unit trusts (mutual funds) or *SICAVs (société d'investissement capitale variable)*, and the introduction of the national employees' profit-sharing plans. To en-

courage further private investment in industry, the government has recently permitted corporations to issue 'preferred' shares, subject to various conditions. Such shares do not usually carry votes. Other inducements to private investment in shares are proposed from time to time. Until recently, new bond issues exceeded new share issues, and bonds have always formed a substantial part of total market capitalization.

Organization of the Stock Exchange. Two bodies are responsible for the operation of the stock exchanges. The first is the Stockbrokers' Association (*Syndicat des Agents de Change*), with which all brokers must be registered. The number of stockbrokers in France is strictly limited, and entrance to the profession is closely regulated. Requirements for the admission of an individual as a member of the Association include a trial period of indeterminate length depending on the candidate's performance. The Association participates in drafting and enforcing the rules of the profession and advises on related matters. All stock exchange transactions must be carried out through its members.

The second body is the Stock Exchange Operations Commission (*Commission des Opérations de Bourse or COB*). This was created in 1967 as an agency of the Ministry of the Economy and is similar in concept to the Securities and Exchange Commission in the United States. COB is the body with ultimate responsibility for the listing or removal of securities and for the issuing of regulations on the organization of the stock exchange and the stockbrokerage profession. It is also charged with preserving shareholders' rights and preventing unfair market practices, for example, by ensuring that inside information is not misused. All notices for publication to shareholders and the market must be approved in draft by the COB.

In addition to the official stock exchange, there is a less regulated over-the-counter (*hors cote*) market.

Listing Requirements. In accordance with the COB's requirements, a corporation wishing to be listed must file an application for quotation with both the Stockbrokers' Association and the COB. It must then submit a prospectus document and supporting statements, including an information summary (*note d'information*) that is given wide publicity. Particulars to be given include:

1. Details of the corporation's capital.
2. Details of the activities of the corporation, its investment plans, and future prospects.

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3. Comparative balance sheets for the last three years, with explanations for variations in principal figures. An independent accountants' report on these balance sheets is required.
4. A statement of all dividend distributions during the past five years.
5. Details of directors and other officers, including the number of shares owned by each.
6. A list of subsidiary and associated companies, showing the percentages of capital owned in each and summaries of their activities.
7. Consolidated financial statements, statutory auditors' reports, and general meeting minutes for the last ten years.

After receiving advice from the Stockbroker's Association, the COB authorizes or rejects the application for listing. A listed corporation's accounts must be audited each year by professional auditors approved by the COB, to whom audit reports must be submitted. The corporation must undertake to publish each quarter certain essential information on its activities, including its sales figures.

Usually a stock exchange listing requires the sponsorship of a bank, which will arrange to underwrite any new issue. There are no clearly defined requirements for listing, and acceptance depends mainly on the potential market interest in the issue. However, the following factors are considered, among others:

1. Size of the corporation's capital (the usual minimum is F10,000,000, of which at least 20% must be made available to the public)
2. Profits during the last four to five years
3. Sufficiency of dividend distributions
4. Free negotiability of shares (for example, the bylaws may not contain a provision requiring the board of directors to approve the transferee on any disposal of shares).

The cost of making a new share issue on the stock exchange can be high—around 10% of the capital raised. The cost of a bond issue, however, is considerably less, and less information has to be provided to the stock exchange authorities on application for listing.

Bonds and debentures may be publicly offered by individual corporations or in association with others in a trade group (*groupement professionnel*), the main difference being the rules governing guarantees. Minimum participation per corporation in such a trade group is F500,000.

A foreign corporation wishing to introduce its securities to the French stock market must obtain prior authorization from the Ministry of the Economy. It must already be listed on an official exchange in its country of origin and must supply information concerning that listing, such as its recent price range. Before issuing or selling securities on the French market, a foreign corporation that has no existing establishment in France must file with the Commercial and Companies Registry documents, translated into French, similar to those required on the formation of a French corporation raising capital publicly, as described in Chapter 6. It must then follow the same procedure as a French corporation to obtain its listing on the stock exchange.

CURRENCY AND EXCHANGE CONTROLS

Currency

The monetary unit is the franc (F or sometimes FF), which is divided into 100 centimes. Denominations in current circulation are:

Notes—10, 50, 100, and 500 francs

Coins—1, 2, 5, 10, 20 and 50 centimes and 1, 5, and 10 francs

In 1960, the 'new' franc was introduced as the equivalent of 100 'old' francs. Even today, people sometimes still quote old franc prices in conversation, a practice that foreigners find very confusing.

Exchange Markets and Practices

France's former two-tier exchange rate system was abandoned in 1975. Since then, the franc has remained relatively stable and has always been easily convertible into other currencies. In March 1979, the EEC countries set up a new monetary system linking their currencies together. (At that time the United Kingdom was the only EEC country not planning to link its currency with the others.) Under the new system, France, along with Ireland and Italy, will establish a fixed exchange rate for its currency against those of West Germany, Belgium, the Netherlands, and Denmark, which are already linked. Fluctuations between the rates will be contained at 2¼%, with the exception of Italy which will be allowed to fluctuate up to 6%.

Generally speaking, payments of any kind between France and abroad, or between residents and nonresidents, must be made through banks (*intermédiaires agréés*) authorized and supervised by the Banque de France. Although such banks may deal with transactions within the

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limits of their authority, they often refer requests for large transfers to the Banque de France. Daily rates for spot (cash) and forward transactions in foreign currencies are published in the exchange markets.

Exchange Controls

French foreign exchange controls are among the most complex in Europe. They may be enforced strictly or flexibly according to the political and economic conditions of the time. They are subject to revision by the government at short notice without reference to Parliament and thus enable the authorities to deal with any new situation in the defence of national interests. Up-to-date information can be obtained from most banks or from the exchange control authority, the Treasury Directorate (*Direction de Trésor*) of the Ministry of the Economy (42 rue de Clichy, 75009 Paris—tel.: 280.68.44).

The basic rules are contained in Law 66-1008 of December 1966 and the regulations made thereunder (principally those of January 27, 1967, and February 27, 1971, both as amended). These are supplemented by circulars issued by the Banque de France from time to time, of which the most important are two dated June 28, 1977, dealing respectively with direct investments and guarantees.

Exchange Control Definitions. *France* means metropolitan France, the four overseas departments, the small French dependencies, and the Principality of Monaco. The *Franc Area* means France as defined above together with those states (mainly former French colonies in Africa) whose central banks are linked to the French Treasury. *Abroad* means all other countries.

Resident covers all individuals whose usual residence is in France and the operations of corporate bodies, French or foreign, that are situated in France. Individuals of foreign nationality, other than foreign officials posted to France, become resident once they have been living in France for two years.

Nonresident applies to individuals whose usual residence is abroad and to the operations of corporate bodies, French or foreign, that are situated abroad. Individuals of French nationality, with the exception of French officials posted abroad, become nonresidents once they have been living abroad for two years.

Direct Investment means the purchase or establishment of any business entity, branch, or undertaking of a personal nature, or the extension of any such entity, branch, or undertaking. It also means any action that

enables one or more persons to take control of, or to increase the extent of their existing control of, any enterprise carrying out activities in industry, agriculture, commerce, finance, or real estate, or to provide for the growth of such an enterprise already under their control. The establishment of a representative office and purchase of commercial real estate are other instances of a direct investment.

In considering what actions affect control, the authorities consider all steps taken by the investor, concurrently or successively. The making of loans and the giving of guarantees are considered forms of direct investment as well as the purchase of shares. Direct investment also includes the funding of current debts and the discharge of reciprocal accounts; these are considered as movements of capital. As a result of this rule, which is carefully monitored, group companies often find themselves in conflict with the exchange control authorities where one company is resident and the other is not. Capitalization of reserves or undistributed profits, on the other hand, is not subject to any exchange control formalities.

Bank Accounts. A resident may not hold a foreign bank account or a nonresident bank account in France without specific approval of the Treasury Directorate, nor may he generally make any advance to a nonresident without prior approval. Foreign currency received by a resident as a result of any direct foreign investment in France must be surrendered for francs on the foreign exchange market within a stated time limit, currently fixed at eight days.

A nonresident, on the other hand, may freely operate a foreign franc account either in France or abroad. Such accounts may be credited with payments made by residents (for example, salaries) provided these are authorized by the foreign exchange law. The tax authorities may require evidence that credits to bank accounts from abroad are not hidden remuneration for services rendered in France that should be subject to French tax.

In many cases, residents and nonresidents alike must deposit with authorized banks all securities acquired by or assigned to them in France, while residents must also deposit those acquired abroad.

Controls over Inward Direct Investment. A nonresident wishing to make a direct investment in France must first apply to the Treasury Directorate of the Ministry of the Economy for approval by submitting a 'prior declaration.' A theoretical exception is made for nonresidents from

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other EEC member states where direct investments do not involve movements of capital into France, but in practice they have to follow the same procedure as other nonresident investors.

There are numerous exceptions to this procedure. For instance:

1. Increases not exceeding F3 million in existing authorized investments by nonresidents in any one year do not require a declaration if entirely financed in foreign currency and the proportion of total capital held by nonresidents remains unchanged.
2. Increases in branch capitals already authorized, if financed from foreign sources, do not require such declaration.
3. In many cases loans and/or guarantees not exceeding F3 million do not need declarations.
4. Nonresidents may form or acquire certain handicraft, retail, or hotel establishments without making declarations, provided the investment concerned does not exceed F1 million and is financed in foreign currency.
5. The purchase of a minority holding of 20% or less in a French company listed on a French stock exchange is not usually considered as a direct investment.
6. Finally, declarations are not required for investments from other Franc Area countries.

Each declaration is considered carefully and is accepted or rejected on its merits. It is therefore important that the fullest information should be submitted concerning the applicant himself and his proposed investment. Besides a full description of the activities to be carried on, the legal form of the investment, and the manner in which the necessary finance is to be provided, the applicant should indicate such matters as:

- Expected labour requirements
- Expected level of exports
- Proposed introduction of new technology
- Planned research activities
- Other expected benefits to the regional economy.

The declaration will be examined by an interministerial committee (*CIIE*) on which all interested bodies, including DATAR, are represented. Declarations by investors in other EEC member states are usually approved automatically.

If no objection is made by the Treasury Directorate within two months, the declaration can be taken as having been approved. If, however, any questions are raised, the two-month period runs from the date the relevant answers are submitted. As already indicated, new or expanded activities are invariably approved, but purchases of existing businesses are not generally favoured unless clear benefits to the French economy will result and there is no danger that a substantial part of any industry will become controlled from abroad.

Whether or not a prior declaration is required, all direct investments must be notified in writing to the Treasury Directorate within twenty days of their being made. If transactions concern real estate or real estate companies, declarations are dealt with by the Banque de France and not by the Treasury Directorate.

Borrowings—Additional Rules. Borrowing by nonresident-controlled entities in excess of F3 million usually constitutes direct investment in such entities as already explained and thus requires prior declaration. Further rules concerning borrowings from abroad by French resident companies are as follows:

French Resident Company Controlled by Nonresidents. If the borrowing is from the company's nonresident shareholders or from a foreign bank guaranteed by such shareholders, not only is the transaction considered a direct investment requiring prior declaration, but also interest must be charged at the market rate, and the loan must not be repaid within at least one year. If, however, the borrowing is from a foreign bank without a guarantee by the nonresident shareholders, the amount that can be borrowed without exchange control restrictions is F10 million, although the provisions concerning interest rates and repayment terms must be complied with.

Frequently, nonresident-owned companies are expected to provide 50% of working capital needs from outside France. This percentage may be reduced if nonresident control involves the ownership of less than 100% of share capital or if the company is located in a development area or exports a high proportion of its output.

French Resident Company Controlled by Residents. Borrowing up to F10 million is permitted on the same terms as are described above.

In general, borrowing from sources in other EEC countries is approved without difficulty. Borrowing abroad to finance French foreign trade, or for projects to be carried out by French companies abroad, does not

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require prior authorization. The authorized bank handling the borrowing will normally require a copy of the loan agreement setting out the repayment terms, interest rate, security, and other details.

Repatriation Provisions. *Prior declarations are required for the repatriation of invested capital on sale or liquidation, together with any profit arising, or for the repayment after one year of borrowings, whether in part or in full. Moreover, the transaction must be reported in writing to the Ministry of the Economy within twenty days after it has been effected, unless any purchaser of the business concerned must himself obtain approval by filing a prior declaration.*

Dividends, interest at reasonable rates, branch profits, licence fees and royalties may generally be repatriated freely as far as exchange controls are concerned, provided they do not exceed F3 million per year, apart from occasional limitations.

The financial statements of a branch applying to repatriate its profits and the general meeting minutes authorizing dividends to be paid by a company to its nonresident shareholders must be submitted to the authorized bank making the transfer of funds.

Any new licensing agreement or renewal of an existing licensing agreement must be approved in advance by the Ministry of Industry and the agreement submitted as evidence to the authorized bank making the fee or royalty payment.

Imports, Exports, and Other Commercial Transactions. Payments for imports may be made by authorized banks only on production of copy invoices stamped by the French customs authorities; this rule is strictly followed. Advance payments of up to 10% (30% for capital goods) may be made without prior approval, and the maximum credit allowed by suppliers may be taken. Administration and management expenses may generally be remitted without restriction. Intercompany current accounts should be settled regularly to avoid suspicion that long-outstanding items are in fact direct capital investments that should have been subject to prior approval.

French residents must repatriate proceeds of exports or other debts arising abroad not later than 180 days after the due date—normally the date of delivery of the goods concerned—or one month after receipt of the proceeds. This ‘one month’ rule also applies to the proceeds of sales or liquidations of direct French investments abroad. Currency receivables must not be offset against currency payables without specific

permission from the Banque de France, although in practice this rule is sometimes waived.

Travel expenses may be paid for from France through authorized banks or by means of credit cards without limitation. Credit cards may be used to draw cash abroad up to the equivalent of F1,000 per week, and residents may take up to F5,000, or the equivalent in foreign currency, plus F500 per day if the trip is a business one, on each journey abroad.

Insurance premiums may not normally be remitted abroad. Residents are expected to insure risks with French insurance companies, although there are exceptions to this rule, particularly concerning reinsurance.

Portfolio investment is in general not restricted nor is the purchase of real estate in France by a nonresident private individual for his personal use, provided the purchase price is paid in full from a nonresident source. Imports and exports of gold require permission from the Ministry of the Economy.

Foreigners working in France may freely transfer their earnings and savings abroad.

Controls over Outward Direct Investment. Direct investments abroad by French residents exceeding F3 million in any one calendar year must be declared, although approval is usually granted freely for any investment in another EEC member state. Smaller amounts must be declared if they relate to real estate or security investment or holding companies. Procedures are generally the same as for inward direct investments, liquidations as well as new investments being subject to prior declarations. Individuals may purchase real estate abroad without restriction up to F150,000 per family. Loans made by residents to nonresidents require specific approval.

Exchange Controls of Foreign Investors' Own Countries. A foreign investor must consider the exchange controls of his own country as well as those of France. Although the French rules may allow a particular currency transfer, the authorities in his own country may take a different view.



- FOREIGN TRADE
- MARKETING PRACTICES
- PATENTS, TRADEMARKS, AND COPYRIGHTS
- GENERAL REGULATION OF BUSINESS

FOREIGN TRADE

Living standards in France have risen greatly since World War II, and *per capita* incomes are now among the highest in the EEC. One contributory factor has been the large increase in France's foreign trade, especially since competition from other EEC states began to force a departure from traditional protectionist attitudes. In both imports and exports France is now one of the world's leading trading nations. But although the French market can be rich and rewarding, it also demands high standards, and a determined and professional marketing approach is essential for any foreigner seeking to do business there.

The preceding chapter has mostly assumed that a manufacturing or warehouse operation is to be set up in France. This chapter deals with the import and distribution of goods into the country and the associated subjects of marketing, protection of industrial property, and other business regulations. Labour questions, including the position of foreign salesmen working in France, are described in Chapter 4, and the mechanics of operating a subsidiary or branch, in Chapter 6.

Licences and Controls

Quota restrictions rarely apply to imports into France, although they are sometimes introduced in particular cases, usually as a result of EEC policies. Special rules apply to such items as gold bullion, armaments, and narcotics, and the import of a few products is prohibited altogether. Licences are occasionally required for imports other than from EEC or Franc Area countries. These may be applied for only by firms or individuals resident in France. Licences are issued by the Director-General of Customs, Commercial Authorizations Division (Importations), 8 rue de la Tour des Dames, 75009 Paris. They are usually valid for six months only and may not be renewed or extended. Exporters in other countries should ensure that their French counterparts hold all the necessary licences before goods are shipped or the production of special lines for the French market is commenced.

More important to most foreign suppliers are the numerous and complex French technical and safety regulations that must be observed.

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These regulations apply to French and foreign manufacturers alike. Progress towards harmonization of national requirements throughout the EEC is slowly aligning the regulations of France and the other EEC member states, but exporters from other countries must always remember the French requirements. Technical visas, sanitary certificates, or prior authorizations are frequently needed.

Information can be obtained from the Director-General of Customs or, for pharmaceuticals, dietary, and biological products, from the Ministry of Social Affairs, 9 Avenue Lowendal, 75007 Paris. Agricultural products and some foodstuffs are also subject to special arrangements, details of which can be obtained from the appropriate Intervention Board for Agricultural Produce (principally *FORMA*, 2 Rue Saint-Charles, 75740 Paris).

Foodstuffs and drinks, and some textiles, must be labeled in French with their country of origin. Numerous requirements apply to processed or frozen foods. Other goods, if labeled in such a way that buyers might imagine that they are of French origin, must clearly bear some indelible corrective mark such as '*Fabriqué en —,*' or they may be refused entry by the customs authorities. Packing materials must be sterile. Shippers to France should consult their agents or customers to ensure that all these rules are complied with.

Exports are almost entirely free from restrictions, and licences are required only for such items as gold bullion and armaments. Agricultural products exported outside the EEC require special licences from the appropriate Intervention Board for Agricultural Produce.

Customs Duties

As a member of the EEC, France is part of a customs union of nine countries. All protective duties have been abolished in trade between these nine countries, and a common customs tariff (CCT) has been established for goods imported from outside the EEC. In addition, harmonized rules exist throughout the EEC on many customs duty matters such as preferences, documentation, valuation, and origin.

The Customs Cooperation Council Nomenclature (formerly known as the Brussels Nomenclature) is used to classify merchandise, and almost all duties are ad valorem. Most raw materials enter duty-free or at a rate seldom in excess of 3% (sometimes higher for metals). Rates for semi-finished goods range from 2% to 15% and for finished products from 4% to 24%. Examples of specific rates are: commercial vehicles, generally 22%; organic chemicals, up to 19%; plastics, 8 to 18.4%; and diesel en-

gines, up to 12%. Many rates have been reduced as a result of tariff negotiations under the General Agreement on Tariffs and Trade (GATT).

Ad valorem import duties are levied on the basis of a normal price; that is, the price which the imported goods would fetch for home use on an arm's length sale in the open market at the time of entry for customs purposes. It is a prerequisite of such a normal price that the seller bears all costs incidental to the sale and delivery to the buyer at the place of introduction into the EEC's customs territory, excluding any duties or taxes chargeable within the EEC such as value added taxes.

Where the importer and supplier are associated in business with one another, the price paid or payable may not be acceptable for duty purposes. In such cases, duty may be based on the importer's selling price to independent customers, as that price may provide the most readily available evidence of the open market value of the goods. Depending on the circumstances, however, a deduction from the importer's selling price may be allowable for duty purposes to take account of the postimportation expenses to be borne by him and the profit margin he would expect if he were completely independent of his supplier. The French customs authorities will carefully examine the invoice for the goods being imported. Since agents' commission may not be deducted in arriving at a 'normal price,' it is important that any allowances or discounts shown on the invoice should be adequately described so that they are not mistaken for commission and added back for duty calculation purposes.

The customs authorities may grant relief from import duties for goods that are to be re-exported out of the EEC area after processing or repair. Processing can range from simple handling or repacking to complex manufacturing activities. The regulations distinguish between temporary admission, industrial warehousing, and process warehousing. Duties may be suspended, the importer giving a bond as security, or deposited on importation, the deposit being refunded on submission of proof of exportation.

Catalogues and noncommercial samples may usually be imported without duty. Samples with commercial value or goods for exhibition may be imported on provision of guarantees to an approved body (e.g., a chamber of commerce) in the exporting country by use of an international customs clearance document known as an ATA Carnet. Simplified customs procedures at EEC national frontiers apply to goods moving under the Community Transit procedures described later. Goods may be moved into and out of the EEC in vehicles accompanied by a TIR Carnet under

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the International Road Transport Convention. Heavy vehicles usually require special permits to enter France; these are issued on a quota basis.

The standard CCT applies only to comparatively few countries, as the EEC's trade agreements with many countries provide duty-free entry or entry at reduced duties for most products imported into the Community. Such agreements are in force with the EFTA countries (Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland), most Mediterranean states, and, under the 'Lomé Agreement,' fifty developing African, Caribbean, and Pacific territories, including many of France's former colonies. In addition, a wide range of goods may also be imported free of duty or at reduced rates from the developing countries under the EEC's Generalized Tariff Preference Scheme. Many imports enter France, therefore, on preferential terms.

Moreover, exports from France can reach a large duty-free market. This consists not only of France's Common Market partners with a combined population of over 250 million but also, by virtue of EEC industrial free trade agreements, the EFTA countries (population, 50 million). Furthermore, preferential terms are given to exports from the EEC (including France) by Greece, Portugal, Spain, Turkey, Malta, Cyprus, and Israel as well. Greece, Portugal, and Spain have applied for full EEC membership. Exports to many other countries are accorded 'most favoured nation treatment.' No duties are levied by France on exports of industrial products.

These customs duty concessions are important factors in any decision to set up a manufacturing unit in France. As customs regulations are complex, professional advice should be obtained or French customs officials contacted at an early stage, especially by enterprises outside the EEC.

Other Duties and Taxes

Value added tax (VAT) is charged on most imports into France, at the same rates as apply to French products, based usually on invoice price plus any relevant customs duties. Imports from other EEC members are liable to VAT as well as those from elsewhere, as the EEC has not yet been able to standardize VAT rules and procedures throughout its nine member states. Broadly, VAT is applied to each delivery of goods to, and performance of services (including transport) in, France. VAT paid on exported goods may be recovered. Further details of this significant tax are given in Chapter 8.

Excise duties are also important in France. These are revenue producing duties levied on the production of alcoholic drinks, beverages, gold, platinum, silver, sugar, glucose, petroleum products, and various other items.

Documentation

It is very important that invoices should be meticulously accurate, because a mistake may be regarded by the customs authorities as a false declaration, entailing a fine. Duty overpaid as a result of a mistake cannot be recovered. Invoices should give details of packaging as well as of the goods themselves. Only French resident individuals or firms are allowed to clear imports through French customs, so that foreigners must either employ French agents or establish their own branches or subsidiaries in France.

Commercial invoices should preferably be in French; two copies are required by the French customs authorities. Consular invoices are not required, nor in most cases do commercial invoices have to be certified by a French Consulate. Certificates of origin are required for a number of products such as household appliances, toys, mineral waters, wines, and some textile products. They may usually be issued by chambers of commerce in the exporters' home countries. Certificates of health or condition are required for animals and many horticultural products, and certificates of age for some spirits.

Payments for imports of F50,000 or more are subject to an elaborate documentation procedure known as 'domiciliation,' whereby bills of lading and invoices stamped by customs officials must be deposited with authorized banks. If payment is by documentary credit, currency may not be obtained earlier than one month before shipment. On open account, currency may not be obtained earlier than one month before payment date, and against sight drafts, not before presentation of the draft—in both these latter cases after customs clearance. Less restrictive procedures apply to imports between F50,000 and F1,500, while for small parcels of F1,500 or less it is only necessary to show the bank the supplier's invoice. Forward purchases of foreign currency for imports are often restricted, and forward contracts may not be renewed.

Goods move duty-free in trade between the nine EEC countries if they originate or are manufactured in any one of them or have had import duties levied in accordance with the CCT on first entry into EEC territory. Such goods must be accompanied by Community Transit (CT) documents: a T form, to be used if goods are to travel across more than one internal frontier in the EEC, or a Movement Certificate in other

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cases. CT documents, prepared by the exporter, must normally be certified by customs officials on departure from the exporting country. CT documents may also be used for transit of goods through Switzerland and Austria, but do not confer any entitlement to preferential treatment in those countries.

Distribution Facilities

France has no free ports and only two minor free trade zones, but there are many bonded warehouses and customs storage depots. These may be established at any suitable location, not necessarily at a port or airport, and goods can be stored in them without liability for customs duties or other taxes. Administrative procedures and costs of customs supervision vary depending on the types of storage and transportation methods used, but the bonded warehouse system is generally regarded as useful for international trade—for example, to provide backing for selling agents in France. Goods can be stored for varying periods according to the type of warehouse, usually up to one year but sometimes up to three.

Customs offices are located at many inland centres besides those at ports, airports, and frontier posts.

MARKETING PRACTICES

Advertising and Promotion

In the past, the French have spent relatively less money on advertising than have most of their neighbours, but the gap is rapidly narrowing and advertising practices are now well developed. The many advertising agencies include several with international connections. They often provide market research and public relations services as well as advice on product advertising campaigns.

The main media are newspapers and magazines, outdoor advertising, radio, and, to a lesser extent, television. Although the press is collectively the most popular medium, there are few daily papers covering the whole country, and even these have comparatively small circulations. Individual daily or evening papers, whether based in Paris or in one of the provincial cities, rarely sell more than 700,000 copies, although some regional newspaper groupings can now enable advertisers to reach a much larger readership. Several weekly magazines have a wider circulation than the daily newspapers and are much used for advertisements, as are also the trade and professional press. Advertising

on television is controlled by an independent body (*Régie Française de Publicité*) and tends to be costly. It is not extensive and is limited to two of the three channels. France does not permit radio advertising, but is ringed by commercial stations in adjoining countries that have large French audiences. Outdoor advertising was traditionally used more than in any other European country; even today, roadside billboards, electric signs, and posters in public vehicles and metro stations are all widespread. Other publicity methods include direct mailing and store promotions and, to a small extent, cinema. In general, advertising in France tends to be expensive.

Several international trade fairs, both general and specialized, are held each year in Paris. Foreign manufacturers usually consider it important to be present at these. In addition, there are numerous smaller fairs of interest to the general public, the best known being at Lyon and Nice (March), Lille (April-May), Paris (May, September-November), Bordeaux (June), Strasbourg (September), and Marseille and Metz (September-October).

Selling and Distribution Methods

Although by tradition largely self-sufficient and considered by foreigners a difficult market, in recent years France has become much more receptive to goods from other countries. Nevertheless the French are demanding customers, and suppliers must pay particular attention to delivery dates and quality and technical specifications.

Distribution methods vary, large technical products usually being sold directly but other products normally passing through French intermediaries—agents or branches or subsidiaries of foreign suppliers. A traveling salesman is known as a VRP (*Voyageur, Représentant ou Placier*). There is no law forbidding an individual foreigner from taking goods to France and selling them personally, but for selling directly to the public a special permit is required, and even for selling to trade customers there are disadvantages in this method because of the requirements that only a French resident may deal with customs and taxation matters.

Although some large stores and retail chains now deal directly with foreign suppliers, the great majority of buyers prefer to deal with suppliers or agents located in France. Until recent years France had more retail outlets per capita than any other Western European country except Italy, but despite the resistance of the small shopkeepers, their share of the market is declining while that of the supermarkets and larger operations is growing. The smaller traders are specializing in-

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creasingly or are buying through cooperatives or wholesalers, so that there are now fewer but larger buyers for foreign suppliers to deal with.

Central and local government authorities are large importers of capital and consumer goods and of services. They are required by EEC rules to open all large public sector contracts to any supplier within the Common Market area, but they are normally unwilling to deal with suppliers not located or represented in France. The EEC rules apply to construction contracts estimated to cost not less than 1,000,000 European Units of Account (at present about F5,750,000) and to supply contracts of not less than 200,000 units of account (at present about F1,150,000).

Other methods of trading with, as opposed to in, France include licensing and reciprocal trading agreements. Export buying agents in the supplier's own country are occasionally used, although traditionally this method has not been popular in Europe.

Franchising is a technique widely used in the services and consumer goods distribution sectors. It must be distinguished from pyramid selling, which is generally illegal. Mail order selling is also well established.

Paris remains the pre-eminent centre for wholesale distribution, finance, and transportation in France, although as a result of the government's decentralization policies, provincial cities are becoming increasingly important centres. Many imported goods now bypass Paris altogether and are delivered direct to provincial centres. Moreover, specialized markets are often based in provincial cities—for example, rubber, coffee, and United States cotton at Le Havre. Chambers of commerce and trade associations can provide information on such markets.

The establishment of selling points in France may lead to business in other countries in the Franc Area, for example, in West and Central Africa. These are difficult territories for foreign suppliers to enter except by way of France.

Agencies. Independent agents are of two main types. Agents handling engineering or speciality products usually purchase for resale as principals (*concessionnaires*), while those handling consumer goods and major items of capital equipment are usually true agents acting on commission (*agents commerciaux* or *commissionnaires*). In the latter case the customer often pays the exporter in full; the exporter then pays the agent his commission at intervals. Commercial agents act in the names of their principals, while concessionnaires act in their own names. The larger agents, especially those handling capital goods, frequently

seek exclusive agencies from their principals; on the other hand, agents are not normally barred from handling other suppliers' products unless they have specifically agreed not to do so.

A Paris agent is usually essential, although because he may not be able to cover the entire country, it is often advisable to appoint further agents in the larger provincial cities or appropriate trade centres. Moreover, many consumer goods agents tend to restrict themselves to the top end of the market and may not be able to cover other sectors adequately. In all cases, suppliers should keep in close touch with their agents, visiting them regularly, supplying them with literature and selling aids in French, providing them with any necessary training, and backing them with adequate publicity. Agents may need assistance in maintaining stocks of spare parts and providing full after-sales service and should be readily supported with goods on consignment or on trial, subject to adequate financial safeguards. A supplier will usually get the best results by stationing a technical representative in France to work with his agent.

Legal advice should always be sought on the drafting of an agency agreement. An agent will usually require the agreement to be governed by French law, which stipulates that commercial or commission agents, and also VRPs with two years' employment, are normally entitled to compensation (*indemnité*) if the principal terminates the contract before its expiration date or fails to renew an expired agreement for any reason other than serious misconduct on the agent's part. This compensation could be as much as two years' average commission, especially if the principal's action is considered to be 'abusive,' that is, taken with the intention of damaging the agent. This rule as to compensation does not extend to distributors who buy and sell as principals, unless the supplier's action is deemed 'abusive.' For the tax aspects of agency relationships, see Chapter 8.

VRPs do not usually deal with customs or import formalities, and many of them represent more than one principal.

Care must be taken not to contravene EEC law dealing with agreements likely to prevent, restrict, or distort competition within the Common Market, as described later in this chapter.

Banks, embassies, and chambers of commerce often maintain lists of possible agents and customers.

Literature and Invoices. Correspondence should whenever possible be in French, while trade literature, especially that designed for the general

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public, must always be so. It is advisable that translations be checked and corrected in France or by a native-born Frenchman. Metric weights and measures should always be used, as should Continental clothing sizes. Prices should be quoted in francs CIF a French port, and it is always useful to state the Customs Nomenclature class of the goods on the invoice.

A manufacturing company quoting for government contracts must be prepared to provide considerable information about itself when it tenders. Details, in French, are usually required of its organization and activities, capital, and number of employees.

Trade Credit Conditions

While 90-day bills are very commonly used, 30-day and 60-day bills are also frequently met. Foreign exporters do not now normally insist on using documentary credits, except perhaps for initial orders.

Information about the credit-worthiness of prospective customers can usually be obtained through the banks or from credit investigation agencies. A number of reputable debt-collecting agencies operate in France but act only for their subscribers, and a solicitor qualified to practice in France is usually employed to collect unpaid debts.

Credit insurance for sales within France is well established, a leading insurer being *SFAC*. Export sales may be covered by a government-sponsored scheme described later.

Only a few companies give cash discounts for prompt settlement.

PATENTS, TRADEMARKS, AND COPYRIGHTS

Patents

Patents in France are of two kinds: patents (*brevets d'invention*) and certificates of utility (*certificats d'utilité*). The former are valid for twenty years from the date of application, and the latter for six. Special rules apply to drugs and medicines. Applications are normally made to the National Institute of Industrial Property at the Ministry of Industry (26 bis, rue de Léningrad, 75008 Paris) in French through a patent agent in France. They may also be made from abroad through an agent or directly by the applicant, but in these cases the applicant may be required to appoint an authorized agent resident in France. A patent of addition, on which no renewal fees are payable, may be granted for the

unexpired period of a basic patent. A patent register (*Régistre National des Brevets*) is maintained at the National Institute.

The patent application is examined to ensure that it is in order, and also for novelty (though for any patent obtained to be valid, the invention must also have inventive merit). Certificates of utility are not subject to examination, though as with patents, both novelty and inventive merit are required for the protection to be valid. The fee payable on application for a patent or a certificate of utility is F250, with a further fee of F50 if priority under the Paris Union Convention (see below) is claimed. Supplementary fees are payable in cases of greater than average complexity. In the case of a patent application, an examination fee of F2,250 is also payable.

Renewal fees payable annually range from F85 for the second year to F1,450 for the twentieth year, renewal beyond the sixth year being available for patents only. If a renewal fee is not paid, the patent rights will lapse, though reinstatement is possible in certain circumstances.

The rights of an employee to inventions made in the course of his employment are now laid down by statute, disputes being referable to a special commission.

The patentee may be obliged to grant licences if his invention is not worked within three years from the grant of his patent or four years from the filing of his application, whichever is later. Compulsory licensing may also follow the failure to work the invention for three consecutive years at any time during the patent's life.

France is a signatory to the Paris Union Convention for the Protection of Industrial Property. Consequently, a patent application submitted in any Convention country (most of the industrialized countries of the world and many developing countries also) allows the applicant to apply in any other Convention country within a year of his first application and claim a priority date for it. The application in the other Convention country is not invalidated by the publication or use of the invention or after the priority date or by the grant of another patent for the same invention with a later priority date.

A European Patent Convention came into force in 1978, giving patent protection by means of a single application covering any of the 16 European member countries that the applicant chooses to designate. As the European Patent will in general be subject to national laws, it may

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have different effects in different countries. The European Patent Office will be in Munich, with a searching branch in The Hague. A further convention, the Community Patents Convention, providing for a Community Patent subject to a common system of law and thus having uniform effect throughout the EEC, is likely to come into force in about 1982. National patent facilities will still be available and will probably be a more economic proposition for businesses requiring protection in only one or two European countries.

Trademarks

The first applicant for a trademark (*marque de fabrication*) acquires registration rights and exclusive ownership for ten years. The registration is renewable every ten years, but may be canceled if the mark is not used for a continuous period of five years. France registers marks that identify services as well as those identifying products, but a business name as such is not a trademark. The regulating authority, as for patents, is the National Institute of Industrial Property. Like patents, trademarks may be licensed, the licence being registered with the National Institute.

Current fees are F250 for each application, with a further fee of F50 if priority is claimed and F250 for each renewal.

France is a signatory to the Madrid Convention for Trademark Protection under which registered marks have protection in 22 countries, mainly European. Therefore, to obtain general recognition for a trademark, an individual or business may register it with the International Bureau for the Protection of Industrial Property in Geneva on the basis of a national registration in France, and under the Paris Union Convention a priority period of six months is available. A system whereby trademarks would be valid throughout the EEC has been proposed.

Copyrights and Designs

Copyrights give protection for the life of the originator plus fifty years in accordance with the Berne and Universal Copyright Conventions. Thus a work originating in France is automatically protected in all principal countries of the world except China and some South American states. Notice that copyright is claimed may be given by the display of the international '©' symbol followed by the author's name and the year of first publication. Registration is not required.

Industrial designs and models, including fashion designs, may be protected by filing a registered design application for a maximum period, with renewal, of fifty years from the date of the application. Fashion

designs also come under artistic copyright, but registered design protection is more satisfactory. Current fees for a registered design application are F120 initially and F120 for renewal for twenty-five years beyond the initial twenty-five-year period.

Licensing Agreements

Every licence for the use of a French patent or trademark should be registered at the National Institute, whether the licensee is French or foreign.

French individuals or companies may freely enter into licence agreements for the use of foreign patents, trademarks, or know-how. Such agreements may be regarded in some circumstances as direct investments to be declared in advance to the Ministry of the Economy, as described in Chapter 2. Whether this is so or not, every agreement must be notified to the National Institute of Industrial Property within one month after it is made, and a return must be made to the Ministry by March 31 of each year of all fees or royalties paid in accordance with it, or the estimated money value of any benefits supplied such as exchange of technical information. The Ministry must also be notified of all changes affecting the agreement such as cancellation, suspension, or reactivation.

The Ministry of Industry informs the exchange control and tax authorities of all agreements notified to it. Fees or royalties do not now require approval by the Ministry before an authorized bank will agree to remit them abroad, but they may be challenged by the tax authorities if the payer and recipient are not independent parties.

Article 36 of the Treaty of Rome that established the EEC provides that industrial and commercial property rights may not be exercised to restrict trade. For example, except in very restricted circumstances a patent or trademark licence must not enable the licensee to prevent imports from another EEC member state or to use different pricing policies in different member states.

GENERAL REGULATION OF BUSINESS

Monopolies and Restrictive Practices

Monopolies. French law is not concerned primarily with preventing monopolies or concentrations of power as such, but with the effect on prices that such monopolies may have. Thus the basic regulation on this subject, Ordinance 1483 of 1945, prohibits concerted actions, agree-

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ments, or combinations that may prevent, restrict, or distort competition by encouraging artificial price-fixing, impeding reductions in prices, blocking technical progress, or limiting activities. Direct price-fixing of goods or services is not the only technique prohibited; others include the establishment of production quotas, the geographic division of the market, or the refusal to sell. Any agreement relating to any of these prohibited practices is void, except where specifically allowed by law—for example, if the parties to the agreement can prove that the agreement will increase productivity or otherwise produce economic advancement. Enterprises occupying dominant positions in the market are subject to a similar regulation. A controlling organization set up to police these rules can impose substantial fines or even prison sentences if the offending practices are not modified. In 1977 a new Competition Commission (*Commission de la Concurrence*) was set up to examine complaints and advise whether particular concentrations should be subjected to government supervision.

Mergers. Traditionally, France has been a country of small businesses. While mergers are not encouraged merely to achieve size, the government has in recent years welcomed mergers that will make the participants more competitive in international markets or will facilitate the introduction of advanced technology requiring considerable financial resources. International mergers are welcomed if they bring economic benefits to France, especially if the proposed partners for French companies come from neighbouring EEC states.

Many formalities must be completed before a merger can take place. Details must be published in official gazettes and filed in the Commercial and Companies Registry, statutory auditors must report on the terms of the agreement and on the valuations placed on the respective companies, and shareholders and bondholders must approve the proposals at a series of general meetings. Creditors may request the courts to protect their positions.

Mergers are categorized by the size of the companies concerned: where the assets of one company are 30% or more of the other the process is called a *fusion*, and where they are less, it is called an *absorption*. Mergers of companies listed on the stock exchange are supervised by the COB.

Takeovers. While true mergers are often encouraged, takeovers are not, especially where the bidder is a financial conglomerate. As a result, takeover bids are not common. The term is restricted to listed companies, and draft proposals must be approved by the Stockbrokers'

Association before they are published. The bidder must make his offer to all shareholders of the offeree and must seek to acquire at least 15% of the shares of the offeree company. There are strict rules about time schedules and revised bids. An offer in exchange for cash is referred to as an *OPA* and an offer in exchange for shares or bonds of the bidder is referred to as an *OPE*. Any intending purchaser seeking to gain control of a listed company must follow the takeover bid procedures.

Unfair Competition Rules. A trade name is protected if the use of the same or a similar name would confuse customers, thereby constituting unfair competition. A seller must produce his price list for any trade buyer who requests it and may not make any gifts to the buyer to obtain his custom. Unjustified discriminatory pricing policies or selling terms may not be adopted, and the fixing of minimum prices is in general prohibited.

Trading stamp schemes are illegal in France. Sales incentives may include gifts of merchandise, but not of cash.

It is in general illegal for any seller to refuse to supply an enquirer or in any other way to abuse a dominant position. It is also illegal for any groups of sellers to agree on any action that may prevent, restrict, or distort competition.

The law on competition and prices has been amended frequently since it was introduced in 1945. It is administered by the *Direction-Générale de la Concurrence et de la Consommation* on behalf of the Ministry of the Economy. In many cases, officials of the *Direction-Générale* have powers of search and entry in carrying out their work.

Government Price Controls

After thirty years of price controls, the government announced a major change in economic policy in 1978. Industrial price controls have been abolished, and factory gate prices are now free except for some petroleum products, pharmaceuticals, newsprint, and household gas and electricity. Manufacturers have, however, been urged not to abuse their new price freedom, but initial experience of the lifting of industrial price controls has encouraged the government to propose the lifting of controls on wholesale and retail distributors' margins and on services also during 1979.

Whether the removal of price controls will provide the stimulus to industry that the government intends or whether it will merely encourage inflation was not clear at the time this Business Study was being written.

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Summary of agreements, decisions, and concerted practices not invalidated by Article 85 of the Treaty of Rome affecting all the countries of the EEC

Agreements that need not be reported	Agreements outside the scope of Article 85	Exempt agreements
<p>These are described in Regulation 17 of 1962 amended by Regulation 2822 of 1971.</p> <ol style="list-style-type: none"> 1. Those wherein the parties are all from one member state of the EEC and the terms do not relate to trade with other member states. 2. Those wherein only two parties are involved and the agreements are limited to: <ol style="list-style-type: none"> a. the fixing of selling prices to third parties. b. restrictions on the rights of users of patents, know-how, and the like to the application of industrial processes. 3. Those that have as their sole object: <ol style="list-style-type: none"> a. the development of standards b. joint research and development c. specialization in manufacture, where not more than 15% of the trade in the relevant product in a substantial part of the Common Market is concerned and where the combined annual turnover of the parties does not exceed 200 million UA.* 	<p>These are agreements not restricting competition or that, if restrictive, are immaterial.</p> <ol style="list-style-type: none"> 1. Official Journal of December 24, 1962. Those agreements that, even if exclusive, are between a principal and a commercial agent whereby the agent merely negotiates on behalf of a particular supplier (in his own name or otherwise) without assuming financial responsibility for the goods concerned. 2. Official Journal of June 2, 1970, amended by Notice of December 19, 1977. Those agreements not affecting more than 5% of trade in the relevant products in the Common Market area concerned, and where the parties have combined annual external turnover of not more than 50 million UA.* 3. Official Journal of July 29, 1968. Cooperation agreements whose sole object is, for example: <ol style="list-style-type: none"> a. exchange of technical or market information b. joint activities such as advertising, debt collecting, or accounting. c. shared production, storage, or transport facilities d. shared execution of orders, or shared after-sales service, where the parties are not themselves in competition. 4. Official Journal of January 1, 1979 (proposal only). Agreements between a manufacturer and his subcontractor for the use of the former's equipment or technology only in fulfilling the subcontract. 	<p>These include individual exemptions under Article 85(3) and those covered by block exemptions already granted as follows:</p> <ol style="list-style-type: none"> 1. Regulation 2779 of 1972, amended by Regulation 2903 of 1977. Those agreements for specialization of production where not more than 15% of trade in the relevant products in any member state is concerned and where the combined annual external turnover of the parties does not exceed 300 million UA.* 2. Regulation 67 of 1967 amended by Regulation 2591 of 1972. Those agreements between not more than two parties in which: <ol style="list-style-type: none"> a. one undertakes to supply the other exclusively with certain products for resale in certain areas, or b. one undertakes to buy only from the other for the purpose of resale c. both purchase and sale arrangements as above are dealt with. <p>(Note: a supplier cannot forbid a distributor to sell to a customer in another area who comes to him with an order.) This block exemption expires at the end of 1982.</p> 3. The Commission has been authorized to grant block exemptions for patent, licence, and related agreements, but has not yet issued regulations.
<p>Note: 'UA' or 'Units of Account' are at present equivalent to F5.75.</p>		

EEC Legislation on Fair Competition

EEC merger, monopoly, and fair trading laws must also be taken into account by all enterprises trading with France.

One object of the EEC is to establish a single market within which all organizations can offer their goods or services to all consumers without restrictions of any kind. In principle, any acts adversely affecting this object are prohibited, unless the effect is insignificant or is advantageous from an economic or competitive point of view. Examples of prohibited practices are price-fixing, market-sharing, production restrictions, or discriminatory terms of supply. The rules apply not only to agreements between enterprises inside the Community but also to agreements by enterprises in EEC countries with those elsewhere if they affect trade within the EEC. There are heavy penalties for noncompliance.

Articles 85 and 86 of the Treaty of Rome concern restrictions on competition and are of considerable importance to manufacturing and trading organizations. Other articles concern discriminatory government incentives and restrictive state monopolies or public undertakings.

Article 85. Paragraph 1 prohibits 'all agreements between undertakings, decisions, and concerted practices that may affect trade between member states and that have as their object or effect the prevention, restriction, or distortion of competition within the Common Market.' 'Agreements' are not defined in the Treaty and may be formal or informal, written or verbal. Paragraph 2 states that 'any agreements or decisions prohibited by this article shall be automatically void.' Paragraph 3 provides that once an agreement has been reported to the Competition Commission, it may be granted exemption if it meets the stringent conditions set out therein. It is essential that enterprises themselves should apply for either negative clearance or exemption.

Negative clearance will be granted if the Commission is satisfied that there are no grounds under Article 85 (1) for them to take action. Alternatively, if the facts suggest that Article 85 (1) is applicable, the Commission will consider the possibility of granting an exemption under 85 (3). Questions of law may be taken to the European Court of Justice in Luxembourg.

Matters taken into account when deciding whether an agreement limits competition include:

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1. The position of the parties in the total market and the nature of the product
2. Whether the agreement is isolated or one of a series
3. The severity of the conditions and whether absolute territorial protection is given or, conversely, whether parallel trading or re-export is allowed
4. The benefits to be obtained from cooperation among enterprises, such as improved production or distribution, or technical or economic progress.

An agreement between a parent company and its subsidiary would not normally be prohibited as the subsidiary is not considered an independent enterprise unless in practice it habitually acts independently of its parent.

There are numerous exceptions to the provisions of Article 85; these are indicated in the table on page 56. This table is only a summary; it is important to obtain legal advice when agreements are being drawn up.

Article 86. This article prohibits abuses by any enterprise in a dominant position within the EEC that may affect trade among member states. For the article to apply, the enterprise must be able to prevent effective competition within an important part of the relevant market, for example, by the creation of a cross-frontier monopoly.

Chambers of Commerce and Industry

These associations of businessmen promote commercial and industrial activities of all kinds and represent their members in dealings with national and local government bodies. They are governed by board members elected from the whole business community, who may be advised by associate board members appointed from employers' organizations.

Chambers of commerce have an important function in communicating opinions and policies between the government and the business community, but they are not quasigovernment bodies as they are in some neighbouring countries. There are regional chambers in addition to at least one chamber in each department.

Insurance Practices

Practically all risks normally insured in other countries can be insured in France. Besides basic fire hazards, these include such risks as employee

fidelity, private accident, product liability and professional indemnity, employer's liability, and sickness and medical expenses for managers or other employees.

Fire policies can be extended to cover storm and water damage and burglary, and rating depends on the risks involved. Consequential loss policy premiums are based on the appropriate fire insurance rate, but such policies can be extended to cover plant breakdown risks. Inflation-linked policies are available for buildings, both commercial and residential, and their contents.

Third-party motor insurance is compulsory for unlimited liability, which makes premiums expensive. Importers on FOB terms may insure their goods while in transit only with French registered insurance offices. As indicated in Chapter 2, French residents are generally expected to insure risks with insurance companies licensed to operate in France.

The insurance of debts within France is not as common a practice as export credit insurance. This is highly developed; a state-run service known as *COFACE* provides insurance against commercial, exchange control, and political risks, and, to some extent, inflation risks also. To be eligible for *COFACE* cover, the goods being exported must have been substantially manufactured in France. *COFACE* also insures against the risks of abortive export expenses, including costs of market research and establishment of unsuccessful distribution systems.

Insurance business is usually handled through agents and brokers, not directly with the insurance companies. Insurers who provide life cover are not allowed also to provide general insurance. A draft EEC Directive was provisionally adopted in December 1978 allowing life companies established in one EEC member state to operate in any of the others.

Environmental and Health Laws

The most important law on environmental and health matters is Law 663 of 1976, which concerns hazards caused or threatened by industrial or commercial activities. Under this law, all establishments are classified into three categories, according to the degree of pollution they cause. Establishments in the first two categories must obtain authorization from the local prefect before commencing activities. This is given only after detailed inquiry and is subject to specific conditions as to remedial measures to be taken, which are then enforced through periodical official inspections. Establishments in the third category must notify the prefect but need not obtain prior authorization.

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The Code of Public Health sets out general rules that must be followed in the manufacture or import of a wide range of products. Other specific laws deal with air, water, and marine pollution and the protection of the countryside. Permits or authorizations may be required under any of these laws. Safety and technical regulations have been mentioned earlier in connection with imported products. Amendments to the Code of Public Health are made from time to time in accordance with EEC directives aimed at harmonizing laws and practices throughout the Common Market, recent examples of which have dealt with cosmetics, foods, drugs, and veterinary products.

Information Required on Business Documents

All letters, invoices, and price lists issued by a corporate body must state its name, registered address, legal form, subscribed and paid-up capital, and registered number in the Commercial and Companies Registry.

Sufficient information must be shown on invoices to enable value added tax to be properly computed and accounted for. A corporation that has adopted the two-tier board system (described in Chapter 6) must indicate that fact on its letterhead and other business documents. It is usual for the bank account number and the name of the bank concerned to be shown by the enterprise on its invoices and statements to facilitate payment by its customers.

Business documents, including labels and advertising matter, instructions for use, and guarantees, must all be in the French language. Multilanguage leaflets are, however, permissible, and foreign terms may be used if there are no appropriate French equivalents or if the general public traditionally recognize them, although even then the foreign terms must be accompanied by an explanation in French.

Real Estate

Industrial and commercial sites are available throughout France, particularly in the zones in which development is encouraged, where land may be bought or rented at moderate cost. Essential services are usually readily available, and most sites have easy access by road and rail. To land and building costs must be added about 20% for professional fees and taxes. Most of this is represented by value added tax (17.6% on construction costs), which is usually recoverable by business entities or by transfer tax (16.6% on purchase costs) which is not recoverable.

As in most European countries, building permits must be obtained, often from both central and local government authorities, for all new construction. Outside the development zones, such permits may be made

conditional or may even be refused. To avoid permit and construction problems, many investors adopt the alternative procedure of buying an existing building, despite the tax disadvantage, or renting one.

It is particularly difficult to obtain permits for construction in the Paris area; the restrictions applying there are described in Chapter 2.

All transactions in real estate must be negotiated through a notary who draws up a deed of purchase and sale, which becomes the evidence of title to the property. Partial sales are endorsed on the deed of purchase and sale of the entire original area. All transactions in real estate must be registered at the local real estate office (*Bureau de Conservation des Hypothèques*) and all mortgages entered into or cancelled at the related mortgage office (*Bureau de Conservation des Hypothèques du Lieu de Situation de l'Immeuble*). These offices are located in every department.

Real estate can be leased, and this practice has become popular in recent years with the growth of industrial estates, office blocks, and shopping centres. In France, a lease (*droit au bail*) for more than two years is not only a rental contract but in many cases provides for automatic renewal at the end of each term. If the landlord refuses to renew the lease, he may have to compensate his tenants for all losses incurred by them as a result. Commercial leases are usually granted for nine-year terms, with provisions for rent reviews every three years. Rental increases are often tied to the official construction cost index published by the National Statistical Institute (*INSEE*). Substantial premiums may be payable for new leases or the assignment of existing leases. When paid to outgoing tenants, these premiums are usually subject to 16.6% transfer tax on the higher of the actual acquisition price or the price estimated by the revenue authorities; when paid to landlords as consideration for assignments of leases, they are usually subject to tax at only 2.5%.

Annual office rents in central Paris range from F800 to F1,500 per square metre, depending on the area. In provincial cities, costs are much lower: in Nice, for example, F400 to F450, or in Lyon or Strasbourg, about F250 to F450. Warehouse space in Paris costs from F200 upwards, while elsewhere the figures would be from about F120 to F230, the latter for good locations anywhere in the country, especially near a highway connecting major markets.

International Trade Organization Membership

The idea of the European Economic Community originated in the 1950s with two French statesmen, Jean Monnet and Robert Schuman, and the

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benefits that France has obtained from membership have already been indicated. The EEC is more than merely a customs union. The founding Treaty of Rome calls for the free movement of goods, peoples, services, and capital; for common agricultural and transport policies; for the harmonization of the relevant laws of member states; for the establishment of regional aid and social funds; and for measures to coordinate commercial and economic policies. The six original members—Belgium, France, Germany, Italy, Luxembourg, and the Netherlands—were joined in 1973 by Denmark, Ireland, and the United Kingdom. The EEC constitutes one of the world's most important markets for raw materials, industrial equipment, and consumer goods. Its associated bodies are the European Coal and Steel Community and Euratom.

France is also a member of all the major international trade promotion organizations, including the General Agreement on Tariffs and Trade, the Organization for Economic Cooperation and Development, and the International Monetary Fund.



- THE LABOUR FORCE
- POSITION OF FOREIGN NATIONALS
- TERMS AND CONDITIONS OF EMPLOYMENT
- FRINGE BENEFITS AND SOCIAL SECURITY
- LABOUR-MANAGEMENT RELATIONS

THE LABOUR FORCE

Availability

France has a labour force of about 22 million, but this figure is expected to increase to 23 million by 1985 because of high birthrates since World War II. Other contributing factors in the growth of the working population are the increasing number of women taking full-time or part-time jobs and, until the world trade recession of the mid-1970s, the influx of workers from Italy, Spain, Portugal, and North Africa. Moreover, the continuing drift away from the land has provided a substantial labour reserve available for industry and commerce.

At the end of 1978, about 1,300,000 people were unemployed in France. Fewer women were coming onto the labour market, and immigration had virtually ceased. Government measures to tackle the unemployment problem without unleashing inflation included offering tax incentives to employ the under-25s, lowering the retirement age to 60, and providing financial assistance to unemployed immigrants to return home.

There is thus at present no shortage of labour, and the high standards of French education ensure that a fresh supply of skilled technical and professional workers becomes available each year.

Recruitment

The principal source from which most classes of employees are recruited is the National Employment Office (*Agence Nationale pour l'Emploi* or *ANPE*). ANPE has offices throughout the country and provides its services free to employers and employees. Private employment agencies are prohibited, but a number of selection agencies perform much the same function. In practice, professional, managerial, clerical, and technical staff are frequently recruited through newspaper advertisements or contacts made at selection agencies or through trade or professional associations. ANPE has a division that specializes in the placing of professional and technical staff, and the employers' associations mentioned later provide a similar service.

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If any employer in industry or commerce has reduced his labour force for economic reasons and then wishes to engage new employees, he must apply for prior authorization to the local labour office (*Direction Départementale du Travail*). This rule is designed to allow suitable local people to be employed. If the employer has received no notice to the contrary within seven days of his application, ANPE is deemed to have approved the proposed engagements. Employers not in industry or commerce are not required to obtain such prior authorization. All employers, however, must provide statements of engagements and dismissals to ANPE within eight days after the end of each month.

Disabled workers have priority rights to employment, up to 3% of the work force of every establishment with more than ten employees. Other categories of workers also entitled to priority include widows with two or more children to support. Employers must notify ANPE annually of the number of its priority employees, and ANPE has power to impose fines for noncompliance with the rules and to nominate candidates to make up quotas. Other regulations apply to the engagement of apprentices, salesmen, temporary staff, and foreigners.

POSITION OF FOREIGN NATIONALS

Restrictions on Employment

The number of foreigners that may be employed by any enterprise is limited. The permitted quotas vary from industry to industry, but are usually 10% of the total labour force of the enterprise concerned. Apart from senior managerial staff of foreign-owned businesses, most foreign employees are unskilled or semiskilled workers in construction, mining, metalworking, agriculture, public health, and commerce. Entry by foreigners into some professions is restricted.

Because of the large number of people unemployed, immigration of foreign workers to France has at present virtually ceased. Citizens of other EEC member states, foreign seasonal workers habitually hired, highly qualified individuals, senior supervisory staff, some construction workers, and a few others can, however, still be employed in France. Special rules apply to students.

Permit Procedures

In general, every foreigner working in France requires a work permit (*carte de travail*) and a residence permit (*carte de séjour*). In appropriate cases, a commercial card (*carte d'identité de commerçant ou industriel*)

étranger) is needed instead of a work permit. Small fees are charged for these documents.

Work Permits. The recommended procedure for obtaining a work permit is as follows: The prospective employer must first inform ANPE that a vacancy exists. If after five weeks no suitable French resident has been found, ANPE will authenticate the prospective employer's application to the Ministry of Labour (*Ministère du Travail, de l'Emploi et de la Population*). This application must be made on a special form that incorporates an employment contract. If approved, the employment contract is forwarded to the French Consul in the foreign worker's own country, where it will be released to him as a duly completed work permit provided that he has passed an official medical examination. Thus a work permit is normally valid only for a particular job in the area and for the period set out in it. This rule applies to seasonal permits, which are valid for six or eight months for use by temporary or seasonal workers, to temporary permits (called *carte A*), which are valid for one year, and to ordinary permits (called *carte B*), which are valid for three years. Ten-year permits for salaried or professional people, renewable without conditions and with no job or area restrictions, are issued by right to certain groups, including spouses of French nationals and refugees who have lived in France for three years. They may also be issued to holders of B permits after three years or to the spouses of foreigners who have lived in France with permission for at least four years.

A foreigner who has already entered France may in some cases obtain a work permit by finding a suitable job and obtaining an authenticated contract, although this course is officially discouraged. The foreigner must himself then apply for the permit from the local *mairie* or, in Paris, the *Service des Etrangers* at the *Préfecture de Police*.

Applications for the employment of foreign executives and technicians are best submitted to a special Ministry of Labour office in Paris (*13ème Bureau de la Direction Générale de la Main-d'Oeuvre*), or through the French Consulate in the foreign parent company's home country.

Nationals of other EEC member states do not need to obtain work permits.

Residence Permits. Every foreigner intending to stay in France for more than three months must obtain a visa and apply as soon as possible after arrival for a residence permit. This permit is issued by the local *mairie* or the *Préfecture de Police* in Paris on submission of the foreigner's work permit. A national of another EEC country need only present his pass-

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port or identity card and a declaration provided by his prospective employer, but like other foreigners, he may be subject to a medical examination. If a work permit has been obtained through a French Consulate, the applicant may apply for a residence permit by mail before his arrival in France. Up to six months must be allowed for the issue of a permit, but the applicant is allowed to remain in France during that time. A foreigner who has arrived in France as a tourist may be granted a temporary residence permit by presenting a declaration from his prospective employer to the *mairie* or prefecture.

Temporary permits, valid for one year, are issued to students and seasonal workers. Ordinary permits are valid for three years and are generally renewable, while 'privilege permits,' which may be issued after three years' residence, are valid for ten years and are always renewable. Formerly, holders of residence permits could freely bring their families to live with them, but since 1977, immigrants' families must wait for three years before being allowed into France.

Commercial Cards. Certain foreigners must obtain commercial cards instead of work permits. They are:

Self-employed individuals and unlimited partners

Chief executives, general managers, or directors of any corporate body or GIE (see Chapter 6)

Managers of branches or agencies

Traveling salesmen.

This requirement also extends to the nonresident chief executive of a foreign corporation with any place of business or agency in France (other than a bank or insurance company), even though the manager of the French activity is a French national or is a foreigner who himself holds a commercial card. Nationals of other EEC member states do not need to obtain commercial cards.

If he is already resident in France, the foreigner may apply for a commercial card to his local prefecture; if nonresident, he may apply to his nearest French Consulate. It usually takes a minimum of six months, and sometimes up to a year, for a commercial card to be issued, especially in the Paris area, making early application essential. A temporary card can sometimes be obtained, however, particularly if the enterprise to be managed by the foreigner has already received exchange control approval. It is strictly illegal for any foreigner to engage in commerce,

industry, or handicrafts without first having obtained some form of commercial card.

Labour Laws and Social Security

Foreign nationals holding the appropriate permits have the same rights and responsibilities in matters of employment as French nationals. The Labour Code described later applies fully to foreigners working in France, and they are required also to make contributions to the French social security authorities in the same way as French nationals. Job advertisements and employment contracts must be drawn up in French, except that a foreign employee may request a translation of his contract into his own language, this translation being admissible in a court of law. Moreover, the rule about job advertisements does not apply to advertisements in foreign publications or those directed specifically at foreigners.

The only exception to the social security rule is that a national of another EEC member state who comes to work in France for a year or less for an employer in his home country is not liable for French social security contributions. This concession may be continued beyond one year if the French social security authorities agree. In all other cases, EEC nationals normally pay French social security contributions from the commencement of employment in France. The position is exactly opposite for French nationals working in other EEC countries.

France has reciprocal arrangements with a number of countries, including Spain, Switzerland, Monaco, Norway, Greece, Israel, several countries of the former French Empire in Africa, and some others. These arrangements vary widely, however, from country to country. In addition, France is a party to some multinational agreements and to the International Labour Office Convention on such matters as accidents at work. Nationals of all remaining countries (excluding those on short business trips) are liable to French social security contributions as of their arrival in France. French nationals working in such countries will become subject to those countries' social security rules, if any, but in addition may apply to remain as contributors to the French system for at least a year and sometimes longer. There are special arrangements for frontier workers.

Generally, foreigners working in France who contribute to the French system or are covered by reciprocal arrangements are eligible for the same benefits as French nationals. Foreigners and their employers will wish to ensure not only that long-term benefits in their home countries such as pensions, unemployment, and disability pay are preserved, but

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also that risks of hospitalization and medical treatment in France are adequately covered.

TERMS AND CONDITIONS OF EMPLOYMENT

Wages and Salaries

In France, the expression 'salaried' means 'employed' in the sense of taking instructions from others, as opposed to 'self-employed.' It does not imply that a salaried employee has some difference in status from a wage earner, as it sometimes does elsewhere. Instead, labour and social security laws refer to workers (*ouvriers*), clerical employees (*employés*), foremen or similar grades (*agents de maîtrise*), and managerial and senior technical staff (*cadres*). All these groups are here called 'employees' unless the context requires otherwise.

Rates. Wage and salary rates have risen with general inflation in recent years, and prospective investors will need to obtain up-to-date information from the Ministry of Labour. Government sources indicate that despite this rise, the comparatively high productivity of French workers makes French labour costs among the lowest in Europe. Against this must be set the high cost of social security and fringe benefits, described later.

Average gross hourly earnings in industry in mid-1978 were around F17; actual rates varied according to the industry, area, and degree of skill and experience required. Rates are generally fixed in collective bargaining agreements. Where these do not apply, the recommended wage scales published by various employers' associations are often followed. The government may intervene in industrial wage disputes to ensure that wage increases finally agreed upon are related to increased productivity. There is a legal minimum wage, the *salaire minimum interprofessionnel de croissance* or *SMIC* which increases automatically with each 2% movement in the cost-of-living index; it is also adjusted periodically by the government to take account of various economic factors. The SMIC does not apply to farm workers and a few others and is reduced for juveniles and disabled employees. Collective bargaining agreements may not tie negotiated pay rates to increases in the SMIC, although individual employment contracts may do so. In late 1978 the SMIC was F11.31 per hour.

Discrimination between men and women doing equal work is illegal. Despite this, women predominate in the lower-paid sectors, and the average wage for women is only about two-thirds of that for men,

although the gap is slowly closing. Two-thirds of all 'Smicards' (those receiving the SMIC) are women, and there are comparatively few women in the *cadre* category.

Representative monthly salaries for Paris office staff in late 1978 were:

	F
Private secretary (bilingual)	4,000
Bookkeeper	3,000
Copy-typist	2,700

In the provinces, pay rates are generally 15% to 20% lower than in Paris.

Bonuses. Although bonuses are sometimes paid for specially efficient or productive work, the usual bonus practice is to pay salary or wages for a 'thirteenth month' at the end of each year. In theory such a payment is made at the employer's discretion, although it becomes mandatory if provided for in any labour agreement or is granted regularly; in practice it is almost universal.

National Profit-Sharing Scheme. Since 1967, a compulsory profit-sharing scheme (*participation des salariés aux fruits de l'expansion de l'entreprises*) has been in operation for all business established for three or more years and habitually employing more than 100 people. Smaller firms may voluntarily apply the scheme. Other schemes may be adopted instead, provided that they are at least as advantageous to the employees concerned as the state scheme.

The formula used to determine employees' shares of profit is complex.

1. From profits for taxation purposes for the preceding year, less tax thereon (after adding back any transfer to the special investment reserve described below), is deducted firstly income tax thereon and secondly 5% of net worth to represent a reasonable return to the proprietors on their capital. Because the calculation starts with taxable profits, any tax losses brought forward from previous years are automatically set off against current profits.
2. The resulting figure is then multiplied by a fraction that represents the employees' contribution to the operation of the business:

$$\frac{\text{Total payroll}}{\text{Added value (payroll, depreciation, financing charges, taxes—other than taxes on profit and VAT— and the operating profit)}}$$

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3. Of the resulting figure, 50% is allocated to a 'participation provision.'
4. Every employee who has worked for at least three months is entitled to be allocated a share of this provision, in the proportion that his pay relates to total payroll for the year, subject to a maximum. This maximum is the executive pension ceiling shown on page 79 (at present F192,000), except that the maximum amount that can be paid to any individual executive is 50% of this figure.

Other formulas may sometimes be used with official approval.

With minor exceptions, no employee may take his allotment for five years. In the meantime, the funds represented by the provision are administered as agreed upon between the business and its employees. They may be converted into shares or bonds in the business (if it is a public corporation), left on deposit in blocked accounts with the business, or invested elsewhere. Allotments of profit do not count as remuneration for labour law or social security purposes, and employees are not taxed on them.

On the other hand, significant tax reliefs are available to the business itself, as explained in Chapter 8. Briefly, the amount allocated to the participation provision is itself a tax-deductible expense. Moreover, 50% of this amount may be transferred to an investment provision, and this is also tax deductible if invested in capital equipment within a year, such capital equipment being itself fully depreciable for tax purposes. As a result, 75% of the employees' share of profit is paid for by the government in the form of tax reliefs.

Overtime. The first eight hours of overtime per week are paid at a minimum of 125% of normal hourly rates, and any permitted excess at 150%. Night work, hard physical labour, and the like are also paid at premium rates as laid down in the related collective agreements.

A worker employed in an establishment normally employing ten or more people is also entitled to partly paid leave as further compensation for any overtime worked in excess of two hours per week. This leave is paid at 20% of the overtime pay for such excess, which increases the effective cost of the overtime to the employer considerably. Employees in the *cadre* category are not usually entitled to overtime pay.

Paid Leave. Vacations must be paid at the rate of at least two days for each full month worked (Saturday counting as a working day for this purpose), although many collective agreements provide for more than this legal minimum. No more than 24 working days' leave may be taken

at any one time without the employer's approval. The vacation year runs from June 1 to May 31, and vacations are usually taken between May 1 and October 31. Vacation pay must not be less than the employee would normally have earned had he been working and is often based on the average pay for the preceding vacation year.

France has ten national public holidays (see Chapter 5). Only one of these (May 1) is a paid holiday by law, but many collective or individual agreements provide for others, and frequently seven such days are paid. Employers may in theory require their employees, other than women and juveniles, to make up the lost time resulting from these extra days. If May 1 falls on a Sunday, another day off is not given in its place. On the other hand, many agreements allow public holidays that fall on a Thursday or Tuesday to be joined to the weekend. This practice is called 'making a bridge (*pont*).'

Three days' paid leave is granted to a father on the birth of his child. Other paid leave, such as for weddings and funerals, may be provided for in collective agreements. Unpaid leave must be granted for various training or trade union activities, and a woman is entitled to unpaid leave of six weeks before the birth of her child and of eight weeks thereafter.

Payment Methods. By law, all classes of employees are entitled to be paid at least once a month. The only exception is for *ouvriers* (usually manual workers whose pay is calculated by the hour) who are not yet subject to the monthly payment arrangements. Wages of less than F2,500 per month may be paid in cash, but all higher remuneration must be paid by cheque. A payslip (*bulletin de salaire*) must be given to each employee showing how his pay is computed. Subsidized housing or other benefits in kind may form part of total remuneration.

Working Hours and Conditions

Labour Code. The rights and duties of employers and employees are set out in a detailed statutory Labour Code (*Code du Travail*). This is the chief source of labour law and gives individual employees considerable protection. It sets out minimum employment conditions, although collective agreements frequently improve on these. Labour inspectors (*inspecteurs du travail*), based in all major cities, not only ensure that the Code and the appropriate collective agreements are enforced, but act as advisers to employees and employers alike. They often help to settle labour disputes.

Working Hours. The basic working week is 40 hours, spread over five or occasionally six days, with a maximum of 8 hours a day. Overtime

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is permitted for up to 12 hours in a week, subject to a limit of an average of 8 hours a week over 12 consecutive weeks. Some industries are subject to special rules. Overtime must be authorized by a labour inspector, who consults the employees' representatives (described later in this chapter) before giving his decision. In practice, working hours throughout industry and commerce currently average around 41 weekly. With a few necessary exceptions, employees cannot be required by law to work on Sundays.

The working week may legally be extended to recover lost hours resulting from complete shutdowns caused by accident, weather, seasonal working, holidays other than May 1, strikes in public services or utilities, and other examples of *force majeure*. Hours lost through a strike or lockout at the employer's own premises may be recovered only with official permission, and then the extra hours count as overtime. In other cases, the extra hours (usually one per day) do not count as overtime.

Contracts and House Rules. No special form of employment contract is prescribed, since most matters are covered by the Labour Code. Contracts for less than one year need not be in writing. If required by a collective agreement, specific terms must be set out in individual contracts, but in many cases collective agreements themselves take the place of individual contracts. Employers and employees are free to agree upon whatever conditions they wish, except that no provision may be less favourable to the employee than that in the Labour Code or any applicable collective agreement. Contracts are usually entered into for indefinite periods. Among other things, they indicate the employee's status, whether, for instance, he is an *agent de maîtrise* or a *cadre*. Employees are often engaged for trial periods during which, usually, either side may terminate the agreement without notice. Contracts survive mergers or sales, and the new employer is bound by them. Contracts may be suspended, for example, during jury service, sickness, or legally called strikes, and an employee cannot then be dismissed because of the event causing the suspension.

All industrial or commercial enterprises with twenty or more employees must prepare and publish house rules (*règlements intérieurs*) covering such matters as safety, discipline, working times, responsibility for tools and equipment, order of dismissal for a plant shutdown, and system of fines for breaking employment regulations. These rules must have been approved by employees' representatives and the local labour inspector before they are put into force. A copy must then be filed with the local labour board (*Conseil de Prud'hommes*).

Collective Agreements. There are three main types of collective agreements between employers and employees. National agreements on points of principle made between representatives of all employers and all unions are called *accords interprofessionnels*. National or regional agreements concerning work in a particular industry, made between the appropriate employers' association and the most representative labour union federation, are called *conventions collectives*. Agreements between a single employer and the unions in that employer's places of work are called *accords d'entreprises*. A much-quoted example of the third type is the agreement first concluded by the state-owned Renault Company in 1955. The benefits obtained by Renault workers have for many years been the basis for negotiations elsewhere.

A collective agreement must be in writing and must be filed with the labour courts of the areas to which it applies. The minimum contents of a collective agreement are prescribed by the Labour Code. Following a merger, the collective agreement that applies is the one in force with the absorbing company, subject to the preservation of any special rights in the agreement with the absorbed company. Such agreements may be made mandatory throughout the industries concerned by decrees of the Ministry of Labour.

Severance Rules. An employee may be dismissed without notice or indemnity for a serious breach of contract (*faute grave ou lourde*) such as dishonesty or indiscipline. In all other cases employees must be given notice of dismissal, or a payment in lieu of notice. Notice periods, whether governed by the Code or by collective agreements, vary with the length of service of the employees concerned: for *ouvriers* and *employés*, the usual minimum is one month; for *agents du maîtrise*, usually two months; and for *cadres*, usually three months. Minimum periods required by law are generally:

For less than six months' service	— One week
For six months' to two years' service	— One month
For more than two years' service	— Two months

Special rules apply to some disabled employees and other categories.

In addition, the employee is entitled to his accrued holiday pay and, if he has worked for his employer for two years or more, to severance pay (*indemnité de licenciement*) of 10% of his average pay for the last three months for each year of service. Some collective agreements provide for higher rates. Severance pay is not given to employees on fixed-term

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contracts. Special rules apply to salesmen (VRPs), both as to length of notice and severance pay, which takes the form of an indemnity for loss of commission. During the notice period, the employee is entitled to paid leave to seek another job.

An employee who gives notice to his employer must also have regard to any appropriate collective agreement; notice periods vary from one week for *ouvriers* to three months or more for *cadres*. An employee who resigns without good reason after receiving training may have to compensate his employer.

The employer must strictly follow required dismissal procedures, whether set out in the Code or in a collective agreement. If he fails to do so, he may have to indemnify the dismissed employee by paying him up to one month's pay, provided he has been employed for at least two years. If the dismissal is found to be unfair (*abusive*) the indemnity will be six months' pay or more. The employer may also have to reimburse the social security authorities with any unemployment allowances they may have paid to the employee. A dismissal is unfair if it has no genuine and serious cause, for example, if it is arbitrary or malicious. In any enterprise with more than ten employees, any employee with at least one year's service must be given prior warning by registered mail of his pending dismissal and allowed to discuss the matter with his employer. This rule does not apply to mass dismissals caused by plant shutdowns or similar economic factors. In these cases, the employer must instead consult with the employees' representatives in advance, and the proposal must be approved by the labour inspectors. Further formalities apply to dismissals of the employees' representatives themselves; the works committee must approve dismissals, although the employer has the right to appeal to the labour inspectorate. The Code contains detailed rules on all these matters, any of which may be extended by a collective agreement.

Every employee is entitled on leaving to a certificate noting the length of his employment and the positions he has held. Noncompetition clauses in employment contracts are valid only if they do not unreasonably prevent the employee from using his skills and training. They are therefore usually limited in time and scope. Such clauses often provide that an employer will pay the employee a proportion of his pay while the clause applies.

Other Employment Matters. The Labour Code sets minimum standards for cleanliness, ventilation, heating, provision of meals or meal vouchers, and the like. Stairways, lifts, cranes, dangerous machines, open vats, and other hazardous equipment are subject to special safety rules, and

all but the smallest enterprises are required to organize health and safety committees and provide medical services.

Neither women nor juveniles under 18 years of age may be employed in dangerous or unhealthy jobs or underground. Juveniles and women with young children are entitled to more vacations and holidays than adult men and must be given less nighttime and outdoor work. Women are prohibited from working for the two-week period before and the six-week period following childbirth, and may not be dismissed because of their pregnancy or for the twelve weeks following childbirth. They have reemployment priority rights for an additional year if they decide to stay at home for the first year of their child's life. Their rights to other unpaid leave have already been noted.

Employees are entitled to training, and if necessary retraining, throughout their working lives. Special training contracts are entered into with apprentices and other young workers up to age 25.

Every employer must maintain various registers recording such matters as engagements and dismissals, paid vacations, safety inspections, and employment of juveniles and foreigners. These registers must be kept up-to-date and are open to examination by labour inspectors.

FRINGE BENEFITS AND SOCIAL SECURITY

Fringe benefits and social security contributions can easily add 65% or more to an employer's payroll totals for manual workers. Employees tend to regard noncash benefits as of great importance.

Fringe Benefits

This term includes not only voluntary benefits that vary from employer to employer, but the nonwage labour costs provided throughout industry and commerce by law, custom, or collective agreement. Examples of these are bonuses, paid leave, meal vouchers, and training and housing contributions, some of which have already been mentioned. Another mandatory benefit, not included in the percentage quoted above, is the profit-sharing scheme also described earlier.

Every employer in industry and commerce (not agriculture) who normally has ten or more employees must help to provide low-cost housing. A tax is levied on payroll for this purpose (see Chapter 8), but this may be avoided if the employer himself constructs housing, provides housing loans, or makes payments to specialized housing institutions. The

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cost of training and trainees' pay is also usually financed out of payroll taxes payable by employers in commerce and industry normally having ten or more employees. These taxes are described in Chapter 8. Expenses directly incurred by an employer for training and trainees' subsistence are deductible from his liability to these taxes.

Miscellaneous personnel costs include medical expense insurance to supplement the social security scheme, contributions to works committees' staff welfare funds, contributions to public transport costs, and, in the Paris area, monthly transport allowances. Company cars are often provided to salesmen and senior managerial staff, but not usually to other employees.

Employees of a corporation or its subsidiaries may be given options to subscribe to its shares, subject to certain upper limits and to restrictions on benefits available to employees who already own 5% or more of share capital or who are directors. The options must be exercised within five years at most, and the shares taken up must then be held for five years (subject to death, retirement, or dismissal). Employees may also join in collective savings plans arranged by their employers. The government hopes that these savings plans will channel private savings into industry, and various tax concessions are available to employees who participate.

Social Security

In one form or another, social security (*assurance sociale*) in France is comprehensive. Not only is sickness, disability, and maternity pay provided, but retirement pensions, compensation for job-related accidents or sickness, and family allowances are paid as well. Substantial allowances are also made towards medical expenses, including hospitalization, drugs, medicines, and surgical appliances. There are three main systems: a basic system operated by a series of state agencies and two supplementary systems operated by various private institutions providing additional medical and pension benefits. Unemployment insurance (*assurance chômage*) is not included in the general social security arrangements, and unemployment pay is mainly provided by the communes, with supplements from various insurance schemes.

Mandatory schemes cover all employees and most self-employed individuals, and voluntary cover is available to all others. Farm workers are in general not as well protected as workers in industry and commerce. Executive officers of corporate bodies are regarded for social security purposes as employees. The only exception to this rule is that the managers of a limited liability company (see Chapter 6) who between them own more than 50% of its shares are liable to pay the whole

contributions costs themselves. Nonexecutive and supervisory directors of corporations (see Chapter 6) are not 'employees' for social security purposes. The position of foreigners working in France is described earlier in this chapter.

Contributions must be made for various qualifying periods before social security benefits are available, except for medical expenses. Cover extends to the insured person's dependants and to some extent to French residents required to work abroad.

All contributors must be registered with the social security authorities. Contributions are mostly related to incomes up to specified limits, but some are based on total incomes. Bonuses, vacation pay, indemnities in lieu of notice, and other personal benefits are all included in 'incomes' for this purpose, but employers' payroll contributions, severance pay, and damages on dismissal are not. Contributions must be withheld from pay and remitted with the employer's share to the collecting agencies monthly, although firms with less than ten employees may remit quarterly. Penalties of 10% are payable if this is not done.

Benefits. Medical expenses of all kinds are reimbursed up to 70% to 90% of standard charges (100% for work-related accidents and illnesses). Supplementary schemes may increase the usual percentages.

Pay during periods of sickness is usually at the rate of one half of normal salary with higher rates for work-related sickness. This pay is converted into long-term disability pay based on percentages of past average salary in appropriate cases, partial disability being differentiated from total disability. Death benefits are paid, based on former salaries, but are not large. Retired people receive basic pensions of 25% to 50% of their average salary for the ten years preceding retirement up to certain limits and additional pensions in respect of salaries over those limits, with half these rates or slightly more for surviving spouses. Pension rates are increased periodically to take account of inflation. There are different schemes for *cadres* and others.

Family allowances include monthly grants to families with at least two dependent children, further grants to lower-paid single-income families and working mothers, prenatal and maternity allowances, and contributions towards housing and moving expenses.

Unemployed persons are entitled to allowances of 50% of previous pay for three months and 35% thereafter (with certain maximum and minimum levels), for one year for those aged under 50 and for up to two

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years for those above 50. Recipients must cooperate with ANPE in finding new work. Additional benefits are available to employees dismissed because of plant closures or similar economic reasons, and these may increase their allowances to 90% of previous pay for up to one year.

Other allowances are available to compensate for working enforced short-time hours to bring actual pay up to the SMIC minimum, for up to 400 hours in any one year.

Employers and unions were discussing possible improvements in unemployment insurance arrangements when this Business Study was being written.

Costs. Contributions by employers and employees to the various schemes are shown in the table on the facing page. Upper contribution limits (ceilings) are revised periodically. Employees' contributions are withheld from their pay, and employers must file returns and remit combined contributions regularly. Enterprises with 400 or more employees must remit contributions within five days after the end of each month.

Industry is encouraged to employ young workers, and various schemes designed to reduce the cost to employers of social security contributions in respect of such workers have been introduced from time to time.

The basic social security benefits are managed through various national agencies that are funded from social security contributions collected by the *Union pour le Recouvrement des Cotisations de Sécurité Sociale et d'Allocations Familiales* or *URSSAF*. Supplementary pensions are organized by institutions within the *Association des Régimes de Retraite Complémentaire (ARRCO)* and the further scheme designed for executives by the *Association Générale des Institutions de Retraite des Cadres (AGIRC)*. Unemployment benefits are organized by a series of institutions called *Associations pour l'Emploi dans l'Industrie et le Commerce (ASSEDIC)*.

Special arrangements apply in Alsace-Lorraine.

LABOUR-MANAGEMENT RELATIONS

France has a good reputation for the quality of its work force and the standard of its industrial relations. Absenteeism is low and the strike record is good, despite the militance of the unions and the existence of a large Communist Party. Employers and workers are able to influence

STANDARD SOCIAL SECURITY CONTRIBUTIONS IN FRANCE FOR 1979⁽¹⁾

Type of Insurance	To Whom Paid	Contributions Calculated on Pay up to Social Security Ceiling of F53,640 Per Year		Contributions Calculated on Slice of Pay Between Social Security Ceiling and Executive Pension Ceiling (F192,000 Per Year)		Contributions Calculated on Balance of Total Pay	
		Employer %	Employee %	Employer %	Employee %	Employer %	Employee %
Sickness, disability, and death allowances	URSSAF	13.45	4.50	4.50	3.50	4.50	3.50
Medical expenses							
Retirement pensions	URSSAF	8.20	4.70 ⁽²⁾	—	—	—	—
Family benefits	URSSAF	9.00	—	—	—	—	—
Housing aid	URSSAF	0.10	—	—	—	—	—
Work-related accidents or sickness	URSSAF	5.00 ⁽³⁾	—	—	—	—	—
Unemployment	ASSEDIC	1.92	0.48	1.92	0.48	—	—
Employee insurance against employer bankruptcy	ASSEDIC	0.25	—	0.25	—	—	—
Complementary pensions	ARRCO	3.00 ⁽⁴⁾	2.00 ⁽⁴⁾	3.00 ⁽⁴⁾	2.00 ⁽⁴⁾	—	—
NONEXECUTIVES' TOTAL		40.92		9.67	5.98	4.50	3.50
Executives' (cadres) schemes:							
Obligatory							
Pensions	AGIRC	—	—	6.00	2.00	—	—
Death benefits	AGIRC	1.50	—	—	—	—	—
Optional	AGIRC	—	—	4.00 ⁽⁵⁾	4.00 ⁽⁵⁾	—	—
EXECUTIVES' (CADRES) TOTAL		42.42	11.68	19.67	11.98	4.50	3.50

Notes: (1) This table does not deal with payroll costs outside the social security system such as the training, transportation, and housing levies described in the text. There are numerous variations from the standard percentages shown.

(2) Not payable by employees aged over 65.

(3) Varies from industry to industry.

(4) Varies from scheme to scheme—in some schemes contributions are payable only up to the first ceiling and in others up to the second, although for non-executives the maximum is three times the amount of the first ceiling.

(5) Usual rates.

Labour Conditions

government policies through the National Economic and Social Council. France is among the pioneers in requiring employers to publish information on employment matters and working conditions.

Unions

In France, the 'union' (*syndicat*) is the local unit, not a national body. The local unit is usually affiliated with a national federation of unions, which in turn is linked to one of five national confederations. Unions are almost entirely organized on industry rather than craft lines. Despite this, there may be several different unions in each place of work, because each of the confederations has a different ideological outlook even though none is formally linked with individual political parties.

Employees have the right to join or not to join a union, and there are no 'closed shops.' In total, less than 20% of the labour force are union members. They are grouped as follows:

<i>Confédération Générale du Travail (CGT)</i> Communist mainly in heavy industry	2,000,000
<i>Force Ouvrière (FO)</i> Socialist, mainly in service industries and government	700,000
<i>Confédération Française Démocratique du Travail (CFDT)</i> Left-wing Socialist	700,000
<i>Confédération Française des Travailleurs Chrétiens (CFTC)</i> Catholic, mainly in mining and metalworking	100,000
<i>Confédération Générale des Cadres (CGC)</i> Managerial and supervisory staff	<u>200,000</u>
	<u>3,700,000</u>

These five groups have the status of 'representative bodies' and thus have the right to form unions in any place of work with fifty or more employees. There are in addition some small independent bodies. The various confederations often undertake joint action, although this is by no means automatic, and are frequently supported by workers who are not union members. Thus the power of the unions is greater than their numerical strength might suggest, and they are a factor that no French government can afford to ignore. The unions are mainly concerned with collective bargaining, for although they have legal rights in individual places of work, they share responsibility for representing workers with the employee delegates and works councils described later.

Employers' Organizations

There are associations of employers in each sector of industry and commerce or in local interindustry groupings throughout the country.

These associations combine in a national organization, the *Conseil National du Patronat Français (CNPF)*, often called 'the Patronat,' 31 rue Pierre 1 de Serbie, Paris 75016. The Patronat represents about a million enterprises and is often able to assist prospective investors, French or foreign, by providing information and contacts. A few specialized bodies exist that are not members of the Patronat.

Dispute Procedures

Individual disputes, arising, for example, from contracts of employment, are dealt with initially by local labour boards consisting of equal numbers of employers' and employees' representatives. These boards have both conciliatory and judicial functions; they act quickly and are inexpensive. Appeals from their decisions may be made to the courts. Disputes concerning *cadres*, however, go directly to the courts.

As to collective disputes, the law recognizes both strike and lockout rights in appropriate circumstances. The law does not require prior notice of a strike to be given to employers, except in the essential public service sectors, although nearly all collective agreements provide for such notice. The law does, however, lay down mandatory conciliation procedures, including the use of Labour Ministry conciliation boards and the appointment of mediators or arbitrators. Apart from the memorable strike wave of May 1968, which had political implications, most strikes in France are short, local affairs. Exceptions are strikes by rail, electricity, or other public service workers which sometimes cause nationwide stoppages.

Employee Representation

Every enterprise with 50 or more employees must arrange for the election of a works committee of at least three members (*membres du comité d'entreprise*). The number of members increases with the size of the enterprise, to a maximum of 11 where there are over 10,000 employees. The chief executive of the enterprise or his representative acts as chairman of this committee, and each union represented may appoint one of its members from among the employees to be a nonvoting representative. The law requires that the work committee must meet monthly to consider such matters as the house rules; hours, rates, and job classifications; training, health, and welfare; production, orders, and employment; and the administration of welfare funds and profit-sharing schemes.

The works committee must also be consulted about proposed mergers or collective dismissals, although it has no veto powers. If the enterprise

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is a corporation, representatives of the works committee are entitled to attend board meetings as nonvoting consultants and to receive copies of all financial statements and other documents prepared for the shareholders. They are even entitled to obtain expert accounting advice at the corporation's expense to help them in examining such statements and documents. The works committee must approve the dismissal of any employee delegate, union delegate, or works committee member, although the employer may appeal against its decision to the local labour inspector and, if necessary, to the courts. Most French employers consider works committees to be important factors in labour-management relations.

In addition, every enterprise with more than 10 employees must arrange for the election of at least one employee delegate (*délégué du personnel*) and a deputy delegate. As in the case of works committees, the number of delegates increases with the size of the enterprise; for example there must be 10 delegates in an enterprise with 1,500 employees. The delegates, who must meet with the employer at least once a month, represent employees whose complaints about job classifications, wage rates, or labour law have not been satisfied. They have the right to refer any complaint to the local labour inspector and to be consulted on vacation dates. If no works committee exists, they may also consider such matters as the modification of house rules and must be consulted about proposed collective dismissals. The employee delegates must not be confused with union delegates (*délégués syndicaux*), who are officials appointed by each union to deal with the enterprise concerned.

The works committee is intended to allow employees to be informed and consulted about management matters, whereas the employee delegates represent the employees before management in the event of a dispute.

Employee Shareholdings

A proposal was made by the government in 1978 for the free distribution of shares to their employees by corporations listed on the stock exchange and their subsidiaries. Other corporations could participate in the scheme if they so choose.

Employees would be allocated 3% of share capital, with a maximum value of F5,000 per employee. Some employees (for instance, *cadres*) could receive more than others. Shares would have full dividend and voting rights, but could not be sold for five years from receipt. The cost of this distribution would be borne by the government by way of interest-bearing tax credits granted over a ten- to twenty-year period.

About 850 corporations and 2½ million workers would be affected, so the proposal does not amount to the introduction of 'worker capitalism' as suggested by some commentators. The labour unions are unenthusiastic about the proposal, seeing it as no substitute for increased employee participation in management. Among most individual employees, shareholdings are not popular, as evidenced by the progress of the 1967 national profit-sharing scheme, where only a negligible percentage of beneficiaries have chosen to invest their profit allocations in shares of their employer-corporations.

If the proposal is adopted, it will come into force in 1980.

Social Reports

A study group on company reform produced a report (the 'Sudreau Report') in 1975. This wide-ranging document dealt not only with financial and organizational matters but also with employee relationships and working conditions.

The report's recommendations on 'social accounting' were embodied in a law of July 12, 1977, which requires the production of a social report, to be given to employees each year with the annual statutory financial statements. This report will deal with such matters as employment levels (including absenteeism and labour disputes), remuneration and fringe benefits, health and safety measures and information on accidents and industrial sicknesses, working hours and conditions, employee relations, and welfare expenditure.

Enterprises with 750 or more employees must produce their first social reports in 1979, and those with 300 or more in 1982. Heavy penalties are prescribed for employers who do not comply with this new requirement.



CHAPTER V

Business Practices and Information

- GENERAL INFORMATION
- BUSINESS HOURS AND HOLIDAYS
- BUSINESS PRACTICES

GENERAL INFORMATION

Best Travel Months

From the point of view of climate alone, France may be visited at any time of the year. July and August, however, are traditional vacation months in which little business is conducted, and business visitors are less welcome during that time. Many firms completely close down for the month of August, despite a trend toward vacations being taken at other times of the year. The week between Christmas and the New Year should also be avoided for business appointments.

Summers on the Mediterranean coast and in the Massif Central are warm, and visitors need lightweight clothing.

Entry Requirements and Currency Restrictions

Formal requirements for long-term stays or for conducting business within France are described in Chapter 4, but for a fact-finding trip or holiday visit, only a valid passport with, in a few cases, a visa is required. For nationals of most of the other EEC member states an identity card alone is sufficient.

Vaccination or health certificates are not normally required by visitors from countries with temperate climates.

Visitors may take into France any amount of French or foreign currency, but may not take out more than F5,000 (whether French or foreign), unless the excess was declared on entry or acquired in some approved way while in France. Currency and traveller's cheques can be exchanged at ports, airports, main railway stations, and at most hotels. Traveller's cheques are often accepted in restaurants and shops. Visitors do not have to obtain tax clearance before leaving the country.

Travel, health, and currency regulations may change at short notice, and prospective visitors should check with a reputable travel agent or French embassy or consulate well before departure.

Business Practices and Information

Communications and Transport

There are two international airports at Paris and others at Bordeaux, Lyon, Marseille, Nice, Strasbourg, and Toulouse. These are supplemented by about fifty domestic airports. The national airline, Air France (70% state-owned), operates one of the largest international networks in the world, and all major foreign airlines serve Paris. Internally, Air Inter and several other lines cover the whole country. Considerable use is made of air taxis and privately owned aircraft for business purposes.

The state-owned French rail system is one of the most modern and extensive in Europe and provides fast intercity passenger service as well as extensive freight facilities equipped to handle container and general traffic. Seats on long distance trains, including several Trans-Europe Expresses (TEEs), may be reserved in advance, although supplementary charges are often made. Sleeping cars and seats on some expresses are first class only, but couchettes and seats on others are usually first and second class. A series of executives' trains (*trains d'affaires*) to a number of important provincial cities reach their destinations at convenient times for business purposes. On the Paris *Métro*, fares in the central area are at fixed rates whatever distance is travelled, and a packet of ten tickets (*carnet*) can be bought at a large discount.

France's roads are among the best in Europe, and the network of free-ways or highways (*autoroutes*) and other main roads is being expanded continually.

Paris is the centre of the national *autoroute* system, but as it is now encircled by its own highway, the *Boulevard Périphérique*, through traffic does not have to cross the city centre. Toll fees are payable for the use of most of the *autoroutes*. Main roads link with the highways of neighbouring Italy, Switzerland, Germany, Belgium, and Spain and with ferries to Great Britain.

A visitor may take a car into France for six months free of duty and taxes, unless it is to be used for direct sales purposes or the enterprise that owns it has a branch, subsidiary, or exclusive agent in France. The driver should take with him the car's national registration certificate, his national or international driving licence, and, unless he is from one of the other EEC countries, an international certificate of third-party insurance (green card). For night driving, the car should be fitted with yellow headlights or filters. Alternatively, a car may be hired locally without difficulty. Acute parking problems can be avoided by using taxis, which are available in all the big cities. They are metered and are usually called from taxi ranks (stands) or by telephone to a central office. Their fares

are higher both at night (23.00 to 6.30) and for trips out of the centre of the city.

France's major seaports are situated on three of Europe's busiest waters. They are Marseilles-Fos, the second largest port in Europe, on the Mediterranean Sea, Le Havre and Dunkirk on the English Channel, and Nantes-St. Nazaire and Bordeaux-Le Verdon on the Atlantic Ocean. These ports are capable of handling supertankers and container traffic as well as general cargo ships. Other ports of note are Calais, Cherbourg, Dieppe, and Rouen. Passenger services are now largely restricted to ferries across the Channel and to Corsica, but freight traffic is growing. The extensive system of inland waterways is being upgraded, and there are plans to link the Rhine with the Rhône and, across south-west France, the Atlantic with the Mediterranean. Oil and gas pipelines are of increasing importance also.

The postal service is adequate. Stamps can be bought at tobacconists as well as at post offices. Letters should show the postal code of their destination. This is a five-figure code of which the first two figures indicate the department, and it should be placed before the name of the town or city concerned. Thus for an address in the Eighth District of Paris, the code is 75008 Paris.

Telex services are highly efficient, and there are public telex facilities in Paris and several other cities. The telephone service, on the other hand, was until recently inadequate for modern business needs, and there were long waiting lists for equipment. Strenuous efforts are being made to improve and extend the telephone service, and automatic dialling within the country is now possible almost everywhere. It is also possible to dial directly from France to every other country in Western Europe and to North America and other countries, including South Africa, Venezuela, and Yugoslavia. Slot meters in public call boxes mostly accept coins, but some older ones only take discs (*jetons*) that must be purchased at nearby counters.

Credit facilities allowing telephone or telex calls and telegrams to be charged to the caller's office in his home country can often be arranged.

Hotels and Restaurants

A good selection of hotels is available to business visitors. Hotels are graded by the government's *Commissariat de Tourisme*, four stars meaning 'de luxe' and one star, 'reasonably comfortable.' Lists are published in a number of guidebooks, and most towns have tourist offices (*Syndicats d'Initiatives*) that can provide detailed information. Paris is one of

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the most expensive cities in the world for a visitor, and a single room with bath in a businessman's hotel could cost from F300 to F500 per night. Prices are generally lower elsewhere. Rooms are difficult to find in cities where major trade fairs are taking place or in vacation areas in the summer months, and it is advisable to have reservations confirmed well in advance.

The range of restaurants in France is perhaps unequalled anywhere in the world. The most celebrated restaurants are naturally very expensive, but modest family-run establishments provide good food at reasonable prices. Dinner in a good restaurant could cost around F150 per person. Most restaurants close one day a week, and reservations should be made in advance.

Some Paris clubs have reciprocal arrangements with their counterparts in other countries for the use of facilities by visitors.

Tippling

Service charges are often included in hotel and restaurant prices (*service compris*), although small change is usually left in addition. In other cases, 10% to 15% should be given as tip, plus a franc or so to hall porters and similar staff. Prices are displayed at rail stations showing what porters may charge. At airports the usual rate is F2 per bag. Taxi drivers expect tips of 10% to 15% of the fare, and F1 is usually given to usherettes at the theatre or cinema.

BUSINESS HOURS AND HOLIDAYS

The Working Day

The French working day tends to be long because the midday break has traditionally been for two hours. The trend is now towards shortening this break, but even so, many factories still begin work at 08.00 and do not close until 18.00. Commercial offices usually operate from 08.30 to 12.30 and 13.30 to 17.30. Saturday working is unusual.

Banks are open from 09.00 to 16.00, Monday through Friday, but close early or completely on the day before each public holiday. Outside city centres, banks often close for an hour at lunchtime. Some banks at airports are open 24 hours daily for the benefit of travellers.

Government offices are open from 08.30 to 17.30 or from 09.00 to 18.00, with a two-hour lunch break, Monday through Friday. Customs offices are usually open from 08.00 to 12.00 and from 14.00 to 18.00, Monday through Saturday, but with restricted facilities on Friday afternoon and Saturday.

Shop hours are usually from 08.30 to 12.00 and from 14.00 to 19.30, Tuesday through Saturday. Department and other stores in fashionable centres open later and close earlier, although some open on Monday, at least in the afternoon. Museums and monuments close on one day a week, not always Sunday; in Paris the usual closing day is Tuesday.

Time Factors

France uses Central European Time, which is one hour ahead of Greenwich Mean Time. Time is now advanced one hour from the beginning of April to the end of September. A standard hour-changing system throughout the EEC area has been proposed but has not yet been adopted.

The 24-hour clock system is widely used, not only for business purposes, but also in general conversation.

Public Holidays

Businesses are normally closed on the following ten official public holidays:

January 1	New Year's Day
March/April (variable)	Easter Monday
May 1	Labour Day
May (variable)	Ascension Day
May (variable)	Whit Monday
July 14	Bastille Day (National Day)
August 15	Assumption Day
November 1	All Saints' Day
November 11	Armistice Day
December 25	Christmas Day

There are other local holidays in various parts of the country; for instance, in Alsace and Lorraine December 26 is also a public holiday.

New Year's Eve and Mardi Gras (in February) are notable festivals, but neither is a public holiday; nor is Good Friday (March/April), although many people take that day off.

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BUSINESS PRACTICES

Weights and Measures

The metric system is used for all weights and measures. Temperatures are stated in centigrade (Celsius).

The domestic electricity supply is generally 220 volts AC, and the industrial supply, 220 or 380 volts. Small electrical appliances have two round pin plugs, but larger ones often have three. Light bulbs are either bayonet or screw-in types. Standardization is in progress, but will take some years yet to complete, and in the meantime the government prohibits the sale of electrical equipment that cannot operate, or be easily converted to operate, on single-phase 220v. or three-phase 220/380v. current. The general trend is to 220v. for lighting and domestic purposes and 380v. for industrial equipment.

Dates

The sequence in France, as in Europe generally, is day-month-year, so 4/10/79 means to a French reader October 4, 1979, and not April 10, 1979, as in the USA. In 1971, France, like most other advanced trading nations, voted in favour of a new international standard for use when dates are expressed in figures only. Under this standard, which in practice is widely ignored, the sequence is year-month-day.

Writing Conventions

In France, figures are often separated by a small space, not by commas, but commas precede decimals. For example, what is 1,000.99 in English-speaking countries is written as 1 000,99 in France.

The figure seven usually has a line drawn across the stem (i.e., 7) when written by hand, to distinguish it from figures one and four.

Business Customs

In their business correspondence, the French tend to be formal. Business letters should be addressed to firms and not to individuals, as personally addressed letters will not be opened if the addressee is away from his office. Instead, it is acceptable if letters are marked 'for the attention of Monsieur ____.' Furthermore, the words 'Monsieur,' 'Madame,' and 'Mademoiselle' should be written in full and not abbreviated.

Business cards are often exchanged when strangers meet in business for the first time. Such cards should be of the highest quality. The French expect appointments to be made in advance and to be kept

punctually. They are polite and formal in manner, and good dress is important to them. The use of first names indicates a friendship or acquaintance of some standing, and a visitor should leave it to his French host to begin this practice. Handshaking on meeting and parting is so usual that if a foreigner does not follow this custom he may give offence.

French businessmen tend to keep business and home apart, so that most entertaining is done at restaurants. Entertaining at home is becoming more usual, however, and on such occasions it is customary for the guest to take some flowers for his host's wife. The practice of exchanging business presents is widespread.

International credit cards are usually accepted at hotels, restaurants, and large shops, although they are disliked by many small restaurants and shopkeepers.

Commercial directories are published showing the names and addresses, listed alphabetically and by trade classification, of all but the smallest commercial and industrial firms in France. These directories are widely available and are frequently useful to visiting businessmen.

The single most important piece of advice that can be given to anyone about to do business in France is to learn to speak the language well.



Forms of Business Entities

- PRINCIPAL BUSINESS ENTITIES
- SA CORPORATIONS
- Sàrl COMPANIES

- BRANCHES
- PARTNERSHIPS
- AND OTHER ENTITIES

PRINCIPAL BUSINESS ENTITIES

Any entity having its registered address or legal seat in France must be formed under French law. The principal statute governing the formation and operation of business enterprises is the Law on Commercial Companies (*Loi sur les Sociétés Commerciales*) of July 24, 1966. This Law, which has been amended periodically, is supplemented by various decrees and regulations, notably the decree of March 23, 1967.

In France, 'companies' may be either *sociétés de capitaux*, where the dominant feature is the raising of capital, or *sociétés de personnes*, where the dominant feature is the partnership of persons, whether individual or corporate. Foreign investors may adopt any form of business entity recognized in France.

Summary of Forms

The main forms of commercial enterprise are:

1. Corporation (*Société Anonyme* or SA). This is the usual corporate form for larger enterprises. An SA may be public or private, 'public' here meaning listed on a stock exchange or otherwise offered or advertised to the public at large.
2. Limited liability company (*Société à responsabilité limitée* or Sàrl). This form is frequently used by smaller investors not needing to obtain funds from the public. It has several of the attributes of a corporation and is in general the equivalent of a closely held company in other countries.
3. General partnership (*Société en nom collectif* or SNC). All general partners have joint and separate unlimited liability for all partnership debts.
4. Limited partnership (*Société en commandite simple*). This is a mixed partnership made up of at least one general partner together with at least one limited partner whose capital and liabilities are restricted and who cannot take part in management. It is in theory possible for the general partner to be a corporation or limited liability company, the members of which are the limited partners themselves. If limited partners' interests are represented by transferable shares, the limited

Forms of Business Entities

partnership is known as a *Société en commandite par actions*. These forms are rarely found in practice.

5. Joint venture. There are two main forms: the silent partnership (*Société en participation*), which is not a separate legal entity, and the economic cooperation grouping (*Groupeement d'intérêt économique* or *GIE*). The GIE has features of both a partnership and a corporate body, allowing various activities of its members to be pooled in a separate legal entity. Participants in both forms have unlimited liability for the joint venture's debts.
6. Branch (*Succursale*). This form does not have separate legal existence, as its parent body is responsible for all its liabilities.
7. Civil law companies (*Sociétés civiles*). As these are rarely used by foreign investors, they are mentioned only briefly at the end of this chapter. The sole proprietorship form is frequently used for small domestic businesses, and other forms include unit trusts or mutual funds (*SICAVs*) and cooperatives (*Sociétés à capital variable*). These entities are of little interest to foreigners and, for this reason, are not elaborated upon.

In practice, foreign investors usually set up a corporation or a limited liability company. This chapter therefore deals mainly with these forms, first describing the corporation form in some detail and then setting out the ways in which the limited liability company form differs.

Some real estate companies have special status for tax purposes, examples being the various '*Sociétés Immobilières*' described in Chapter 8. These are organized as corporations or limited liability companies and are not a separate form of legal entity.

SA CORPORATIONS

The *Société Anonyme* or SA, called in this chapter 'corporation,' is the principal example of a '*société de capital*.' It is the most common form of business entity in France for large-scale activities.

The general characteristics of an SA are similar to those of a corporation or public company in most other countries. It has its own legal identity, and its capital is divided into negotiable shares that may be transferred without affecting its own existence. Provided that its shares are fully paid up, its creditors have no claim against its shareholders. It has the status of a commercial company, whatever its objects may be, and is

thus subject to the 1966 law. A special French feature is that every corporation must be formed for a stated period not exceeding ninety-nine years, although its life may be renewed.

Formation

It is simpler and more common to form a privately financed corporation than one that is to be publicly financed. In either case, the procedures are complex, and a foreign investor would invariably engage a local lawyer to assist him.

When forming a corporation that is to raise its capital privately, the lawyer first drafts the constitution documents or articles of incorporation (*statuts*). Among the matters dealt with in the articles are the initial capital and the manner of its subscription, whether in cash (*numéraire*) or in other assets (*apports en nature*). There must be at least seven founders, who may be French or foreign, individuals or corporations. The founders must subscribe for all the shares, as the separate concepts of 'authorized' and 'issued' capital do not exist in France. If the subscription is to be in cash, only 25% of the nominal value of each share need be paid up initially, although the balance must be paid up, in one or more instalments, within five years of incorporation. Subscriptions in the form of other assets must be for the full nominal value of the shares, and the value of such assets must be certified by a valuation auditor (*commissaire aux apports*) nominated by the court. Shares issued for consideration other than cash cannot be transferred during the two years following allotment. The contribution of skills or services is prohibited as a form of founders' subscription.

Within eight days after the receipt of subscriptions from the founders, the cash or evidence of other assets must be deposited with a public notary or a bank. One or more of the founders must then appear before the notary to affirm that this has been done, presenting evidence of deposit if the funds are not held by the notary himself. The draft articles, to which must be attached the report of the valuation auditor, if any, are then put in final form, and on a day appointed for the purpose they are signed by the founders. The founders may sign either personally or by their duly authorized representatives, and it is thus not usually necessary for foreign founders to travel to France merely for this purpose.

The members of the governing board named in the articles must appoint the senior officials of the new corporation, such as the president and the general manager. They must also make a declaration that the new corporation has complied with all legal requirements concerning its formation.

Forms of Business Entities

Finally, the corporation must be registered and its formation publicized, as follows:

- An announcement must be made in an official journal—such as the *Bulletin d'Annonces Légales Obligatoires* or *BALO*—published in the area where the company is to establish its registered address.
- The constitution documents (such as the articles, notarized declaration of capital subscription, declaration of compliance, and minutes of the founders' meeting) must be filed in duplicate with the local office of the commercial court.
- The corporation must be registered with the Commercial and Companies Registry, after which it will be assigned a registration number. The corporation then begins its official existence.
- The commercial court will arrange for the insertion of an announcement of the creation of the corporation in the Business Bulletin (*BODAC*).

Following registration, the funds deposited with the notary or bank can be withdrawn.

The formation of a corporation that is to raise its capital from the public involves further procedures, such as the issue of a prospectus and the holding of a constitution meeting of subscribers.

The process of formation can easily take three months or more. If all formalities are not completed within six months after capital has been subscribed, the subscribers are entitled to have their contributions refunded.

Before all formalities are completed, the founders may trade as a '*société en formation*.' However, they are then personally liable towards any third party for their actions on behalf of the proposed corporation. After it has been properly formed, the corporation may take over any obligations the founders have incurred in its name.

Government approvals and general registration requirements concerning all new entities are described in Chapter 2.

Articles of Incorporation. The articles of incorporation, which must be in French, combine the incorporation deed and internal regulations or bylaws. They usually specify at least the following:

1. Form of the business entity as an SA corporation and its statutory life.

2. Corporation's name (*dénomination sociale*), registered address (*siège social*) or legal seat, and objectives. Any name that cannot be confused with an existing name may be adopted. It must be followed by the words '*société anonyme*' or the letters 'SA.' The registered address must be in France.
3. The amount of the corporation's capital, number of shares, their par value, whether bearer or registered, and any restrictions on transfers of shares. The minimum capital for a privately financed corporation is at present F100,000, although this is to be increased in the near future to F250,000 in accordance with the EEC's Second Directive on company law. The minimum capital for a publicly financed corporation is F500,000. (In certain regulated industries, other minimum capital limits are required: examples are leasing and finance companies, F2,500,000, and banks, from F2,500,000 to F40,000,000, depending on the number of branches and activities undertaken.)
4. The identity of the shareholders contributing assets other than cash, the value attributed to such assets, and the number of shares issued in exchange for them.
5. The identity of shareholders benefiting from any special advantages and a description of those advantages.
6. The composition, functions, and powers of governing boards and committees and the type of board structure to be adopted.
7. The names of the first board members and statutory auditors.
8. The restrictions, if any, on the powers of board members or managers.
9. The rules relating to the convening of governing boards.
10. The number of shares attributed to each member of the governing boards.

Cost of Incorporation

This includes:

1. Registration duty on subscriptions of cash and other assets to the corporation. Duty is mostly at 1%, although the rate can rise to 11.4% on assets such as goodwill or real estate (see Chapter 8).
2. Notary's fees, which are related to the corporation's capital, with a minimum at present of F788.
3. Legal, publication, and other expenses—F1,500 to F2,000.

Forms of Business Entities

4. Fees for the services of professional advisers in drafting documents such as contracts and articles of incorporation.
5. Charges for printing the articles of incorporation, share certificates, and other documents.

Thus, at the above rates, the cost of forming a corporation with a share capital of F500,000, provided that all the shares are issued for cash, would be estimated as follows:

	F
Professional advisers' fees and associated costs	9,200
Registration duty	5,000
Notary's fee	2,250
Legal, publication, and other expenses	<u>2,000</u>
	<u>18,450</u>

The cost would be much higher if a significant proportion of the shares were to be issued for goodwill or real estate or if much translation work were required.

It is not usually practicable for an investor to purchase the shares of a dormant corporation to avoid the expense and delay of forming a new one.

Ownership—Shares and Shareholders

There are no restrictions as to the nationality or residence of shareholders. Shareholders may be individuals or corporate bodies, although at least one shareholder, and sometimes more, must be an individual as explained in the section on 'Management.'

Although on formation a corporation must have at least seven shareholders, this minimum number is not strictly enforced thereafter. Any interested third party has, however, the right to require the corporation's dissolution if the minimum number is not restored within one year. Control of a subsidiary company can be maintained by including key employees, or other group companies, in the group of seven required shareholders. Voting trusts and nominee shareholdings are illegal in France, and according to the law even the signature by shareholders of blank transfer declarations is prohibited.

Various categories of shares (*actions*) may be issued with differing rights, the usual classes being ordinary (*ordinaire*) or preference (*de priorité*), 'Founders' shares' (*Parts de fondateurs*) are still occasionally seen although their issue is now prohibited. They confer rights to a share of profit or surplus on dissolution but do not represent contribu-

tions of capital, and their owners do not become shareholders. To encourage direct investment in industry and commerce by private individuals, a law was passed in 1978 allowing corporations to issue preferred nonvoting shares, subject to various conditions.

All shares must usually have a par or nominal value (minimum F100 each), and no share may be issued at less than par. Corporations that existed before the 1966 law are allowed to keep any shares issued before that law with lower nominal values than F100, and lower values are also permitted for shares listed on the stock exchange (to encourage small investors) and shares issued to employees.

Share certificates may not be issued before the corporation is registered with the Commercial and Companies Registry. Certificates of a corporation that is either listed on the stock exchange or traded 'over-the-counter' may be either registered (*nominatif*) or bearer (*au porteur*), unless the articles provide otherwise. Shares not fully paid must be in registered form. Shares in private corporations, or in public corporations neither listed nor traded over-the-counter, must either be registered or, if bearer, deposited with a bank or stockbroker. Directors' qualifying shares (*actions de garantie*) are usually registered although the 1966 law permits the deposit of bearer shares.

Subject to the articles, there are no limitations on the transferability of shares, and even the articles may not prohibit transfers to a spouse or close relative or between companies in the same group. The law, however, restricts the transfer of shares subscribed for assets in kind (which may not be transferred for at least two years) and shares issued in connection with an employees' profit-sharing scheme (which may not be transferred for at least five years, subject to the employee's earlier termination of employment, death, or other change in personal circumstances). All such shares must be in registered form.

Transfer of a registered share is effected simply by a declaration (*bordereau de transfert*) signed by the transferor and notified to the corporation's registered address. No transfer deed is required. Bearer shares are transferred by delivery. Transfers to nonresidents may need exchange control approval as described in Chapter 2.

Employees' stock option and stock purchase plans are authorized but are not widely used.

A corporation may purchase its own shares only in closely regulated circumstances such as a scheme for reduction of share capital or pur-

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chase in connection with an employees' profit-sharing scheme. Repurchased shares do not usually carry voting rights and may not be counted in a quorum. The legal minimum share capital for a corporation must always be held by independent shareholders.

Management

Until 1966, every corporation was managed by a chief executive (president), who was also chairman of the administrative board. The 1966 law introduced an alternative two-tier form of board structure whereby an executive committee, with management responsibility, is subject to review by an independent supervisory board. This two-tier form is popular with foreigners who are familiar with it in their own countries, although most corporations have retained the traditional form. Very broadly, the functions of the chief executive in the traditional form correspond with those of the executive committee in the two-tier form, and those of the administrative board in the traditional form with those of the supervisory board in the two-tier form.

An SA may be set up with one form of management and may change to the other at any time thereafter by decision of the shareholders. Because the traditional form is still the more widely used, it is described first in some detail, followed by a description of the two-tier form.

Hereafter, only the members of the administrative and supervisory boards are referred to by the English word 'directors,' unless another meaning is indicated in the context. This word, readers should note, does not correspond to the French word '*directeurs*,' which generally means 'managers' or 'senior executives.'

Administrative Board and President

Appointment, Removal, and Remuneration. The administrative board (*conseil d'administration*) consists of from three to twelve directors (*administrateurs*) who are elected by the shareholders. To facilitate mergers, larger boards are permitted in limited circumstances. The first directors of a private corporation may be named in the articles, in which case each serves for a maximum of three years. In all other cases, a director is elected for a maximum of six years. Directors must each hold at least the number of shares specified in the articles (minimum, one) or must obtain them within three months of appointment. Employees of at least two years' standing may be appointed as directors, although not more than one-third of the directors at any one time may have employment contracts with the corporation. Except for the president, a cor-

porate body may be a director. No person may be a director of more than eight corporations at one time, but this restriction is relaxed for up to five subsidiary or associated companies. Directors may be foreigners except in a few restricted cases. The board may replace any of its members who dies or resigns, but the appointment must subsequently be ratified by the shareholders in general meeting. If, however, one member of a three-member board dies or resigns so that the board does not have the legal minimum number of members, the remaining members cannot appoint a new member but must immediately call a shareholders' meeting to do so. For this reason, in practice at least, four members are usually appointed to an administrative board.

The shareholders may dismiss a director at any general meeting. The law fixes the usual age limit for directors at 70, but the articles may substitute any other age.

Directors are usually paid attendance fees (*jetons de présence*). These are fixed each year by the shareholders in general meeting for the whole board, and are divided among the directors as the board may decide. Directors who also have employment contracts or undertake special responsibilities may be paid appropriately at rates fixed by the president and approved by the shareholders.

Furthermore, directors with employment contracts are entitled to participate in the national profit-sharing scheme described in Chapter 4, up to the fixed salary limits described in that chapter, and have the same rights on dismissal as other employees.

Powers and Duties. The administrative board has general power to act for the corporation. Specific powers and duties of the directors include the election and removal of the president and general managers and the fixing of their remuneration; the making of major decisions affecting the management of the corporation; the creation of mortgages, charges, or guarantees by the corporation; the preparation of the annual financial statements and report; and the calling of shareholders' meetings.

If the president is incapacitated, the board must elect another director to take his place temporarily. A director appointed in advance to deputize for the president is called an *administrateur délégué*.

Any action of the board, president, or general manager that exceeds any limitation on the powers granted to them is binding on the corporation, unless the third party concerned had received specific notice of the limitation. The corporation itself can, of course, take action against any

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officer who has exceeded the powers granted to him. Board members are personally liable for any mismanagement of the corporation.

Meetings and Procedures. There is no law on the frequency of administrative board meetings. They may be held either at regular intervals or at the president's discretion. Nevertheless, if the board has not met for more than two months, directors representing at least one-third of the board can convene a meeting. Meetings of the board are usually held at the corporation's registered office, although they can be held elsewhere in France or even abroad.

Each director present for a meeting must sign an attendance register. A quorum requires the physical presence of at least half the members of the board, and any director present may act as proxy for one other director only. An appointment as proxy may be notified by letter or telex. Decisions are taken by a simple majority of those present in person or by proxy unless the articles specify otherwise. Other procedural rules are usually contained in the articles. Minutes of directors' meetings must be recorded on prenumbered pages of a special register which has been stamped and initialled by local officials. Any change in the composition of the board must be published by filing details within fifteen days in the Commercial and Companies Registry.

Directors must notify to the board their personal interests in any contracts intended to be made by the corporation, and the board must approve the contracts concerned. Contracts between corporations that have one or more directors in common must also be approved by the boards of each. The board must decide if such contracts are for day-to-day transactions at arm's-length or not. If they are not, they must be notified to the statutory auditors, who must report them to the shareholders, by whom they must be approved.

Loans to directors or their close relatives are prohibited, except in the case of banks or other financial institutions. The same applies to guarantees given on a director's behalf.

President and General Manager. The members of the administrative board elect one of their number as president (*président-directeur-général* or *PDG*) of the corporation. The president acts both as chairman of the board and chief executive of the corporation. He must be an individual, and as a director, he must be a shareholder. His term of office, which corresponds to his tenure as a director, is renewable, but he may be replaced as president at any time by the board. The articles usually fix his retirement age (frequently 65). He may not be president

of, nor hold other executive office in, more than two French corporations at the same time, except for other members of the same group. The president usually receives a salary, fixed by the board, in addition to his attendance fees.

The board may also appoint a general manager (*directeur-général*), or two general managers if capital exceeds F500,000, to assist the president. A general manager must be an individual, but need not be a director or a shareholder. His term of office is usually renewable at the same time as the president's. A foreigner who expects to be appointed as president or general manager of a French company must first obtain a residence permit and, unless an EEC citizen, a commercial card (see Chapter 4). The president and the general managers can legally represent the corporation in dealings with third parties. Like other board members, the president is personally liable for any mismanagement of the corporation, under both civil and criminal law.

Alternative Two-Tier Board

The alternative two-tier board structure, in which a supervisory board (*conseil de surveillance*) oversees an executive committee (*directoire*), was introduced by the 1966 law with the intention of separating the functions of control and management.

Supervisory Board. The supervisory board consists of from three to twelve members (*membres du conseil de surveillance*) whose terms of appointment, tenure, procedures, and remuneration are broadly similar to those of *administrateurs*. The board is responsible to the shareholders. All its members must be shareholders, and none may be employees. Its members, unlike those of an administrative board, are not personally liable for any mismanagement of the corporation. The supervisory board elects a president and a vice president, who must be individuals, but these officials have no executive power, their principal function being to convene meetings of the board.

The board's major responsibility is to review the executive committee's stewardship. In this capacity it must make whatever checks and enquiries it considers necessary throughout the year. It must also prepare an annual report to the shareholders. The articles often provide that certain matters must always be approved in advance by the supervisory board, common examples being the creation of mortgages on the corporation's property or the signature of contracts over a stated figure.

Executive Committee. The supervisory board appoints the members of the executive committee (*membres du directoire*) for terms of four

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years. Committee members are eligible for reelection. A member who reaches the age limit fixed by the articles (often 65) is deemed to have resigned, whereupon the supervisory board may appoint a replacement for the remainder of the four-year term. A manager with the title *directeur* (for example, *directeur des ventes* or sales manager) need not necessarily be a *membre du directoire*.

An executive committee consists of from two to five members, although a corporation with a share capital of less than F250,000 need have only one member who is referred to as '*directeur-général unique*.' No one may be simultaneously a member of both the supervisory board and the executive committee of the same corporation. Furthermore, an executive committee member may serve only on one other executive committee, although he is permitted in addition to be a member of up to eight administrative boards and even the president of two of those. Moreover, this rule is relaxed for groups, where a member may be appointed to the administrative boards of a further five group companies and be a president of three of them. Thus a member of an executive committee can hold office in more corporations than a member of an administrative board.

Members of the executive committee are not restricted from being salaried employees of the corporation, and they do not have to be shareholders. They must, however, be individuals, and they may be foreigners. They may delegate their powers to other employees, but remain responsible for any resulting acts. Their remuneration as members of the *directoire* is determined by the supervisory board and may be fixed or may vary with profits. They are employees for social security and national profit-sharing plan purposes. They may be removed from office only by the shareholders in general meeting on the advice of the supervisory board.

The executive committee consists of a president and one or more *directeurs-généraux* who, from the point of view of third parties, represent the corporation equally. It is responsible for the management of the corporation and is given the widest powers of representation. Any limitation on its powers does not prevent the corporation being bound in any contract with a third party, unless that party had received specific notice of such limitation. Even this exception does not apply in the case of a guarantee given by the executive committee on behalf of the corporation, which will always be bound by such action whatever knowledge the third party concerned might have had.

The president acts as chairman of the executive committee, but has neither personal managerial functions nor personal responsibilities as

does the president of an administrative board, since managerial decisions are taken by the entire committee. The articles usually prescribe the rules for committee meetings, the law itself being largely silent on these matters. For example, there is no requirement in the law for minutes to be recorded as there is for minutes of meetings of administrative and supervisory boards. Among other things, the executive committee must submit a quarterly report on the corporation's activities to the supervisory board and is responsible for producing year-end financial statements and a commentary thereon within three months after each year-end.

All changes in the composition of the executive committee must be published.

The president of an executive committee or the sole general manager must, where appropriate, hold a commercial card and a residence permit.

Works Committees

Although employees do not participate directly in management, works committees have certain rights.

Any corporation that has more than fifty employees must establish such a committee. This body may send two representatives to attend meetings of the administrative or supervisory boards—but not to meetings of the executive committee. These representatives have no voting rights at such meetings; they are present only to be informed and consulted. The corporation is required to furnish the works committee with the annual financial statements, statutory auditor's report, and other documents prepared for the annual shareholders' meeting, in advance of that meeting. Committee members have the right to consult with the statutory auditor and even to appoint their own outside accountant at the corporation's expense. This accountant has a consulting role and has no investigatory or audit powers. Any written comments made by the works committee must be submitted to the shareholders at their annual meeting.

Shareholders' Meetings and Rights

Annual Meetings. Within six months after the end of each financial year, or later if permitted by the local commercial court, a meeting of shareholders (*assemblée générale ordinaire*) must be held. The statutory auditors must be invited to attend. At this meeting:

- Reports by the management on the activities of the corporation during the year are received.

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- Contracts made between the corporation and any of its directors, and between corporations with common directors, are approved.
- The annual audited financial statements are adopted.
- Profits are allocated and dividends declared.
- Directors are appointed and their attendance fees or exceptional remuneration are fixed, as appropriate.
- Statutory auditors are appointed.
- Any other relevant business is conducted.

Meetings are called by the administrative board or executive committee at least 15 days beforehand. The supervisory board, statutory auditors, the court on request by shareholders representing at least 20% of capital, or even a liquidator are also entitled to call shareholders' meetings. Individual notice (*convocation*) specifying the business to be conducted must be given to registered shareholders, but bearer shareholders have to rely on newspaper announcements. Notice of the date and place of the meeting must also be published in the official bulletin (*BALO*). In addition, the wording of proposed resolutions must be sent to any shareholder who requests it or must be made available for inspection by him at the corporation's registered address. Shareholders representing at least 5% of the capital—sometimes less—may propose any resolution to be included on the agenda except for the appointment of a director.

The annual meeting, as first called, is deemed to be legally constituted if a quorum representing 25% of the capital is present in person or by proxy. If it is not, a second meeting, requiring no quorum, may be called and held. In this case, only six days' notice is required. Resolutions are carried by a simple majority of shareholders present or represented. Those present at the annual meeting must sign an attendance sheet.

Shareholders' meetings must be held in France unless the articles provide otherwise, although this possibility is restricted by law. Rules for the conduct of a meeting, such as the appointment of a chairman and the method of voting, are normally contained in the articles. A shareholder's spouse or another shareholder are the only persons eligible to act as proxy. A blank proxy form is considered to be a vote in favour of the resolution concerned. Shareholders may not vote in writing.

Each share must carry at least one vote. On the other hand, at meetings to confer special rights on formation of a public corporation or on the issue of shares by the introduction of assets other than cash, each shareholder is limited to at most ten votes. If, in accordance with the

articles, multiple votes are allowed, the number of votes given to each shareholder must be in proportion to the nominal value of the shares held. Shareholders may not commit themselves by any sort of agreement or trust to vote in any particular way. A shareholder must own a minimum number of shares (as specified in the articles, but by law not exceeding ten) before he may attend an annual general meeting, but his right to attend an extraordinary or special meeting cannot be restricted. Shares on which instalments due are unpaid lose their right to votes and also to dividends and other benefits. Proposals were made in 1978 for the introduction of nonvoting preferred shares as a way of encouraging private investment in French industry.

Minutes of annual meetings must be maintained in a register which has been stamped and signed by local officials.

Other Meetings. An extraordinary meeting must be called to consider any matters requiring amendment of the corporation's articles of incorporation, such as increasing or reducing the capital, granting options to subscribe for shares, or merging with another enterprise. A resolution to increase shareholders' liability in some way requires the approval of all shareholders. A special meeting of holders of a class of shares (including preferred nonvoting shares) must be held to approve any modification of the rights of that class. At these two types of meeting, a quorum is usually members representing 50% of the capital, present in person or by proxy. If a second meeting is necessary, a quorum is 25%. If a quorum is still not present, the meeting may be adjourned for up to two months, when the quorum must again be 25%. To pass a resolution, a majority of $66\frac{2}{3}\%$ of the capital represented is required. Minutes must be maintained, as for ordinary meetings.

Shareholders' Rights. Besides the conventional rights to profits and to the ultimate control of their corporation, shareholders in France have the right to receive information as described later under 'Registration and Publication Requirements.'

Shareholders representing at least 10% of the share capital may request the court to investigate specific actions of the corporation's management or to replace a statutory auditor by another selected by the court.

Statutory Auditors

Every private corporation with a share capital of not more than F5 million must appoint at least one independent auditor, sometimes called a 'statutory auditor' (*commissaire aux comptes*), from an approved list, and every other corporation, private or public, must appoint at least two.

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These auditors are required to report not only on the corporation's annual financial statements, but also on the existence of contracts entered into by the corporation with its directors or executives or with other corporations having one or more directors in common.

If they become aware of any illegal act involving the corporation, the auditors have a duty to report it to the court (*Procureur de la République*). In all other respects they must maintain professional secrecy.

Further details are given in Chapter 7.

Capital, Reserves, and Dividends

Sources of share and loan capital and the approvals necessary for the issue or transfer of capital to nonresidents are described in Chapter 2.

Share Capital. Minimum share capitals are indicated earlier, in the paragraph describing the articles of incorporation.

Any increase or reduction in capital must be authorized by an extraordinary meeting of shareholders, and numerous other formalities must be observed. An increase need not take place immediately thereafter, but must become effective within five years. Increases can arise from the issue of new shares or the increase in nominal value of existing shares.

Existing fully paid shareholders have preemptive rights to subscribe for new shares. The whole of the increase must be subscribed if the increase is to be valid. If shares are issued for assets other than cash, a valuation auditor must be appointed to evaluate the assets, as on incorporation. The shareholders are not obliged to accept his evaluation, but it usually prevails. Cash issues are subject to the same payment rules as on formation.

The capitalization of reserves, including share premiums (paid-in surpluses), may be authorized at an extraordinary meeting where quorum and majority rules are as for annual meetings.

Shares may be repaid (*amortissement du capital*) in some cases, provided that equivalent reserves are capitalized, although this practice is most unusual. The owners of such shares continue to be shareholders but with modified rights. Reductions in capital may be made because substantial losses have been incurred, as described later, or on the purchase by the corporation of its own shares. No reduction may be made for any other reason if convertible debentures have been issued or if creditors or bondholders have requested the court to prohibit such a scheme.

Loan Capital. Loan capital is a major source of finance for French corporations whether in the form of negotiable bonds (*obligations*) or privately raised loans (*emprunts*). Loan capital is usually, but not necessarily, secured on real estate or other specific assets since it is not possible in France to create a floating charge over all assets. Loan capital may be issued at a discount (*prime d'émission*) or redeemed at a premium (*prime de remboursement*), or both. It may be repayable at a fixed date or over a period and may bear fixed interest or carry participating rights. Finally, loan capital may carry rights to be converted on stated terms into shares at the discretion of the holders. Corporations eligible to issue loan capital are those that have been in existence for at least two years and have had two balance sheets approved by shareholders, provided their nominal share capitals are fully paid up.

Bondholders are entitled to the same information as shareholders, and their representatives may attend shareholders' meetings. Bonds may be in registered or bearer form, the latter being more usual.

'Participatory loans,' usually subordinated to the claims of all other creditors but often providing for participation in profits, may be raised from government or other sources. No particular ratio of loan capital to share capital is prescribed, although there are effective limits for taxation purposes as described in Chapter 8. All issues and redemptions must be recorded in the Commercial and Companies Register.

Reserves. The first 5% of each year's profits must be transferred to a legal reserve until such time as that reserve equals 10% of the share capital. If capital is then increased, the 5% transfers to legal reserve must recommence. The reserve may be used only to meet losses and when so used must be rebuilt out of profits. It may be capitalized, but may not be distributed to shareholders except on dissolution.

Thereafter, profit is allocated as specified by the articles of incorporation, in transfers to other named reserves or payment of dividends. In practice, numerous reserve accounts are maintained.

Dividends. Distributable profits comprise the net profit for the year less the required allocation to legal reserve. Any losses brought forward must however be deducted from distributable profits before dividends may be recommended, although any free reserves (including even share premiums) may be added.

Frequently, the articles state that a basic dividend of 5% shall be payable out of distributable profits. The directors then usually propose transfers

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to reserves and the payment of a supplementary dividend, with these appropriations often absorbing most of the balance. Holders of preferred nonvoting shares have first claim on any year's distributable profit. Their claim is cumulative, so that if profits are insufficient in any year to pay their dividend, the balance is payable in later years when adequate profits become available. After three years without full dividends holders of such preferred shares acquire voting rights.

Dividends must normally be paid within nine months after the year-end. At the directors' discretion, interim dividends may be paid (minimum F5 per share for a public company) before the year's financial statements are prepared, provided that distributable reserves or known profits are available to cover them. In practice, however, interim dividends are rarely paid. Dividends in forms other than cash are permitted, although shareholders are always entitled to demand payment in cash.

Losses. If accumulated losses exceed 75% of the capital, an extraordinary meeting of shareholders must be called within four months after the annual meeting to decide whether the corporation should be dissolved. The decision must be published, and filed in the Commercial and Companies Registry. If the corporation decides to continue trading, the situation must be corrected by the end of the second financial year following the extraordinary meeting. This may be done either by earning profits or by issuing fresh capital. If at the end of that period the accumulated losses still exceed 75% of capital, the corporation must either reduce its capital proportionately or be dissolved. If after such reduction the corporation's capital is below the legal minimum, it must raise fresh capital or convert itself into another legal form. In accordance with the second EEC directive on company law, the 75% level will have to be reduced shortly to 50%.

Registration and Publication Requirements

The documents to be filed or published on incorporation are described in the section headed 'Formation' earlier in this chapter. Other information is to be made available to shareholders or the public as follows:

- Open for inspection by the public through the secretary of the Commercial Court—Names and addresses of directors and executive committee members and any changes thereof; all changes in the articles of association; merger proposals; the latest financial statements.
- Sent to shareholders with proxy forms—The agenda for the annual meeting and the text of proposed resolutions; a summary of the directors' report; significant figures for the past five years; details of dividends and tax credits for the past three years. A form to request

further documents as in the following paragraph must be sent to the shareholders at the same time.

- Available to shareholders on request—Details of present and proposed directors; the agenda for the general meeting and the text of proposed resolutions; the financial statements with the reports of directors and auditors thereon; significant figures for the past five years; tables of information concerning subsidiary and associated companies and other investments. The apparent duplication of requirements in this paragraph and the preceding one is to enable bearer shareholders to obtain information.
- Available to shareholders at the corporation's registered address—Documents listed in the previous paragraph; a list of all known shareholders (that is, all registered shareholders and any bearer shareholders who may have deposited their shares at the corporation's registered office); a statement of the total remuneration of the five highest paid employees (ten highest paid, if there are 200 employees or more), certified by the statutory auditors; the minutes and attendance registers of all general meetings; by public corporations, a list of investments at the year-end.
- Published in the official journal for legal announcements (BALO)—The annual financial statements and supporting information including details of group companies; quarterly summaries of results; half-yearly balance sheets. This rule applies to corporations listed on the stock exchange (with exceptions for very small corporations) and their major subsidiaries and provides a further means of conveying information to the bearer shareholders of such corporations.
- Disclosed to the tax authorities—Besides the financial statements, considerable supporting documents must be provided to the tax authorities as described in the section on 'Returns and Assessments' in Chapter 8. The disclosure of financial information is described further in Chapter 7.

Reorganization and Dissolution

Merger and Split-Up. The 1966 Law on Commercial Companies defines various types of corporate reorganization and states the conditions under which companies may merge. The proposals for a merger must be prepared by the directors of the corporations concerned and submitted to extraordinary general meetings for approval by the prescribed majorities of shareholders. Shareholders in the acquired corporation do not have to decide whether or not to accept the offer by the acquiring company in respect of their individual holdings.

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In a merger (*fusion*) the acquired corporation completely loses its identity and ceases to exist, its shareholders becoming shareholders of the acquiring corporation and its assets being assumed directly into that corporation. The acquired corporation follows the procedures for a dissolution and the acquiring corporation those for a capital increase for consideration other than cash. A reorganization of a different sort involves the split-off of certain assets into a newly formed corporation, and this is called a *scission*. A split-up combined with a merger is called a *fusion-scission*. If the assets of the corporation ceasing to exist are less than 30% of those of the continuing corporation, the merger process is referred to as an *absorption*, not a *fusion*. Both are distinguished from a takeover, whether for cash, shares, or bonds. Any of these operations may involve Sàrl companies as well as corporations. Further details are given in Chapter 3.

Conversion. A corporation that has existed for at least two years and has had at least two years' annual financial statements approved by its shareholders may, by resolution of an extraordinary general meeting and on completion of various formalities, convert itself into an Sàrl company without entailing dissolution or reincorporation. Conversely, an Sàrl company may, subject to similar conditions, become a corporation. Also, a private corporation may become a public one, and vice versa.

Group Structures. Although groups of companies have no legal standing as such and there are few provisions in the law concerning parent-subsidary relationships, the courts have been known to hold a parent liable for the debts of its subsidiary where the activities of the latter were substantially linked with those of the former. A subsidiary (*filiale*) is an enterprise more than 50% owned by another, while an associate (*participation*) is one that is between 10% and 50% owned by another. A subsidiary or associate may not hold more than 10% of the capital of its own parent, although this rule does not extend to subsubsidiaries or subassociates. As an extension of this rule, any shareholding of 10% or more between two French corporations, or between a corporation and an Sàrl company, must be reported by the holder to its own shareholders and to the entity whose shares are held.

Liquidation and Dissolution. A corporation may be dissolved at the end of its fixed life, or if it has achieved its objects, or by resolution of its shareholders in extraordinary meeting. It must be dissolved if its share capital or the number of its shareholders fall below the legal minimum and no action is taken to correct the position, or if the court so orders on the petition of a shareholder, creditor, or works committee.

The decision to dissolve must be filed at the Commercial and Companies Registry and published in the *BALO*. Liquidations of assets and distributions to creditors and shareholders usually follow procedures laid down in the articles of incorporation. If for some reason these are not appropriate, a procedure is specified in the 1966 law. The directors frequently act as liquidators.

If a corporation becomes insolvent and is liquidated and dissolved as a result, its executive officers (president, administrative board members, general manager, or executive committee) may be held personally liable for its debts if they are found to have mismanaged its affairs.

Sàrl COMPANIES

Distinguishing Features

The limited company or Sàrl form (called hereafter 'company') is often selected by foreign investors because of the less demanding requirements under which it is organized. Although a company is in many respects similar to a corporation and is subject to the same Law on Commercial Companies of 1966, it is considered to be a different type of business entity because it combines the features of a *société de capital* and a *société de personnes*. As in other countries in Continental Europe, it arose from the concept of a group of associates with personal relationships seeking to trade with limited liability rather than that of a large number of independent investors combining to finance some large-scale project. Accordingly, many of the terms used in describing the affairs of a company are also those used when referring to partnerships. For example, its members are called not shareholders but partners (*associés*), and their holdings, not shares but interests (*parts sociales*).

The most important features that distinguish a company from a corporation are:

1. A company need have only two members, but may not have more than fifty.
2. A company may not issue negotiable bonds or in any way raise capital from the public.
3. The transfer of members' interests must be restricted. Transfers within an inner circle consisting of other members or close relatives may usually be made freely, but any other transfer must be approved by a numerical majority of members, representing 75% of the cap-

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ital. In the case of transfers within the 'inner circle,' the articles cannot be more restrictive than the law.

4. Annual financial statements need not at present be filed with the Commercial and Companies Registry or otherwise made available to the general public.
5. A company is managed by one or more managers and not by directors.
6. A company's minimum capital is F20,000, all of which must be fully subscribed and paid up on incorporation. This capital must be divided into equal *parts sociales*, each with par value of at least F100.
7. There is more latitude in the rules regarding members' votes.
8. Members' interests are evidenced by entries in a members' register, and certificates of ownership are not issued.
9. An auditor is required only if capital exceeds F300,000 or if at least 20% of the members request the court to nominate one.
10. Amendments to the articles of incorporation require approval by holders of 75% of the capital.
11. A company cannot engage in certain activities including banking, insurance, financial operations of any other kind, or air transportation.
12. Contracts between a company and its members or managers must be approved by all members, and the company may not make loans to, or give guarantees on behalf of, any of its members or managers or their close relatives.

Unless otherwise noted in this section, the provisions of the 1966 law apply to companies as well as to corporations.

Formation

The rules for establishing a company are the same as those for a private corporation, except that the services of a notary are required only when the consideration for interests subscribed includes contributions of real estate. Costs are, with this exception, the same as for a corporation. The name of a company must always be followed by the words 'Société à Responsabilité Limitée' or the initials 'Sàrl.'

Since the formation of a company is often quicker than that of a corporation, and since there are no tax disadvantages in making a change from one form to the other, many investors setting up in France initially form a

company, and convert it into a corporation later. Possible disadvantages of the company form are:

1. Transfers are effected by deed registered at the Commercial and Companies Registry, thus making ownership public knowledge. An unregistered agreement, while binding on those who sign it, would not bind third parties.
2. Transfers are subject to transfer tax at 4.8% on the value of the interests transferred.
3. Members remain jointly liable for five years to third parties for the value of any assets subscribed other than in cash.

Management

A company is run by one or more managers (*gérants*) who must be individuals, but need not be members of the company. A foreigner may be a manager, but unless from another EEC country must hold a commercial card. The powers and duties, responsibilities, and methods of remuneration of managers are broadly in line with those applicable to a president-general manager or members of an executive committee of a corporation, except that:

1. A manager's term of office is not limited by law, nor is he subject to any legal age limit.
2. A manager may be removed from office by holders of more than 50% of the capital or, in appropriate circumstances, by the court.
3. A manager may manage an unlimited number of companies, whether group members or not.
4. If there is more than one manager, each has full power to represent and bind the company. Any limitation provided in the articles is ineffective as regards a third party, unless that third party had received specific notice of such limitation.
5. Formal meetings of managers are not required.
6. A manager is treated as an employee for social security and personal taxation purposes if he and his fellow managers (if any) between them own less than 50% of the company's capital. If between them they own more than 50%, they are all treated as self-employed for social security purposes and are not entitled to the expenses deductions and employment reliefs described in Chapter 8 for personal tax purposes.
7. There is no limit to the share of profits that may be allocated to a manager.

Forms of Business Entities

Other Matters

Meetings of members are called by the managers or, failing that, by any members representing either 50% of the capital or 25% of the capital and number of members. The auditor, if any, may also by law call a meeting, and so may the court. Notice must be given by mail to all members at least 15 days beforehand, and copies of the annual financial statements and auditor's report, if any, supplied. The law does not state any particular quorum requirements. At annual meetings, resolutions are passed by holders of a majority of the capital of the company, whether this represents a numerical majority of members or not. Minutes of members' meetings must be kept. Each member has the number of votes equal to the number of interests that he owns.

If the articles allow, a member may appoint a third party to be his proxy at a members' meeting or may vote in writing except on the resolution for the approval of the annual financial statements and reports.

A proposed transfer of interests to a nonmember must be notified to the company. If the transfer is not approved, the interests concerned must be taken up by the other members or, failing that, the company itself must repurchase them. Provided that the intending transferor has held his interests for two years or more, he can proceed with his proposed transfer if he does not hear from the company to the contrary within three months.

A member of the company who is an employee but not a manager is treated as an employee for social security and personal tax purposes, whether he has a controlling interest in the company or not.

A company may be converted into a corporation with the approval of members representing 75% of the capital. Prior to such conversion, certain conditions must be met: The company must have at least seven members, its minimum capital must be at least F100,000, and it must have had at least two years' annual financial statements approved by members at annual meetings.

An important change will take place when the proposed Fourth EEC Directive on company law is incorporated into French law. Thereafter, Sàrl companies, like SA corporations, will have to file their annual financial statements with the Commercial and Companies Registry, where they will be available for public inspection. Medium-sized and small companies (see Chapter 7) may be allowed to produce abridged statements, but the actual requirements of French law within the limits

prescribed by the EEC were not known at the time this Business Study was being written.

BRANCHES

Branches (*succursales*) are often used by foreign companies for non-trading activities (for example, headquarters operations) in France, although less frequently for industrial or commercial activities. A branch is not a separate legal entity, and the parent office is liable in full for all its debts.

Advantages and Disadvantages

The advantages and disadvantages of setting up a branch must be reviewed in each case. Since a branch is considered a permanent establishment, it is treated for French tax purposes in almost the same way as other entities. The decision whether or not to operate as a branch should therefore take into account such factors as relationship with government agencies, local financing requirements, administrative requirements, and tax considerations in the home country.

As a generalization, it is more difficult to arrive at a figure of taxable profit for a branch than for a subsidiary. Moreover, regional and other incentives are not available to branches, as these are granted only to enterprises formed under French law.

Formation

The creation of a branch ranks as a 'direct investment' in France, and the exchange control and other formalities outlined in Chapter 2 must be complied with. To form a branch, the legal existence of the foreign parent body must be proved by producing an official translation and certified copy of its constitution documents and bylaws, the board resolution establishing the branch, and other documents. These must be accompanied by a legal document called a *certificat de coutume*, which states that the foreign parent has complied with all relevant laws in its home country. All these documents must be deposited at the Commercial and Companies Registry for the area in which the branch is to be situated.

Administration

A branch is managed by a manager (*directeur*) on instructions received from the parent body. This manager, who must be an individual, is held fully responsible for the legal and tax obligations of the branch.

The manager, if a foreigner, must obtain a commercial card. If, on the

Forms of Business Entities

other hand, he is a French national, the chief executive of the foreign parent office must hold such a card. Exceptions to this rule are made if the foreigner concerned is a national of another EEC country.

The name of the branch must be the same as that of the parent body and must be recorded in the Commercial and Companies Register. The existence of the branch must be declared to the tax authorities. Copies of all resolutions by the parent body modifying the documents deposited on formation must also be filed in the Commercial and Companies Registry.

Financial statements of the branch (and also of the parent of which it is a part) must be disclosed to the tax authorities each year, but do not have to be filed in the Commercial and Companies Registry or otherwise made public.

PARTNERSHIPS AND OTHER ENTITIES

Partnerships

The various forms of partnership are, with one minor exception, examples of '*sociétés de personnes*.' Partners may be individuals or corporate entities. Except for some joint ventures, partnerships are little used in France, although one or two notable examples still exist.

In a general partnership (*société en nom collectif*), all partners are personally liable for the firm's debts and obligations without limitation. For social security purposes they are regarded as self-employed. Articles of partnership are drawn up that, among other things, define the powers and duties of those partners or others who are to manage the partnership and state what decisions require the agreement of all partners. The articles must be filed at the Commercial and Companies Registry of the area in which the partnership is to be located. Interests in a general partnership can be transferred only with the consent of the other partners, and the death or retirement of a partner results in the dissolution of the partnership unless the articles provide otherwise. Every modification in the articles of partnership, including changes in partners or managers, must be filed in the Commercial and Companies Registry. A general partnership is managed by one or more managers (*gérants*) who need not themselves be partners. On the other hand, unless the articles provide otherwise, all the partners are deemed to be managers. The managers represent the partnership, and any limitation on their powers is not binding on third parties unless specifically notified to such third parties.

In a limited partnership (*société en commandite simple*), there must be at least one general partner (*commandité*) who is liable without limitation and one or more limited partners (*commanditaires*) who are liable only to the amount of capital they have contributed. The limited partners may not take part in management, although they have the right to examine the books, nor may their names appear in the firm's name. This form is very rarely used, as is the variation whereby the limited partners' interests are represented by transferable shares (*société en commandite par actions*). The latter is regarded as a *société de capital* and is subject to many of the rules relating to corporations.

Joint Ventures

GIEs. The *groupement d'intérêt économique* or *GIE* is a type of joint venture that has features of both a partnership and a corporate entity. On its inception by an ordinance of September 1967, it became quite popular, and there are now several thousand examples. It is used by enterprises, however they themselves are legally organized, that wish to set up some joint activity on a trial basis or to cooperate, but not to merge and so lose their individual independence.

A GIE is incorporated as a separate legal entity simply by registering the contract between the enterprises concerned at the Commercial and Companies Registry and paying a small fee and the usual registration taxes. There are few statutory regulations, and the contract itself sets out the rules to be followed. The GIE's business must be an extension in some form of the activities of its members, and any profits it makes are not retained by it, but belong directly to the members. It need not have its own capital, its members usually having unlimited liability, jointly and separately, for all its debts and obligations. It is managed by directors (*administrateurs*), whose actions are binding on it, and it must have a supervisory board of one or more members. It may raise loan capital from outsiders, but only if all its members may themselves do so, and it must then appoint its own auditor. Any director who is a non-EEC national must hold a commercial card.

Activities most frequently carried out by GIEs are marketing, research, management and administration, transportation, and product development. Sometimes foreign enterprises become members: a well-known international GIE is Airbus-Industrie, which was formed to manage an aircraft production programme involving several European countries. The EEC Commission has proposed the introduction of a cross-frontier entity to be known as a 'European Cooperation Grouping' that is based on the idea of the French GIE.

Forms of Business Entities

Silent Partnerships. A joint venture may also take the form of a silent partnership (*société en participation*). This is not a legal entity, and it does not have its own name. It is managed by a *gérant* (who may be one of the partners or an outsider) in his own name on behalf of all the participants. A silent partnership may be organized as to capital contributions and sharing of profits and losses as the participants may decide. It does not have to be registered at the Commercial and Companies Registry. Silent partnerships are sometimes used to carry out large construction contracts, although they are not restricted to this type of activity.

Civil Law Societies

French law allows for another group of entities, organized under the Civil Code instead of under the Law on Commercial Companies of 1966. These entities (*sociétés civiles*) cannot have any commercial objects and are often used to hold or manage real estate or as the vehicle for a professional partnership. If a *société civile* attempted to undertake any commercial activity, it would immediately have to comply with all the requirements of the 1966 Law on Commercial Companies and would be treated as a corporation for tax purposes.

All the rules for the establishment and operation of a *société civile* are in the constitution contract entered into by its members. Although it is thus much simpler to form and manage than any of the *sociétés commerciales* already described, it has some disadvantages: It is usually tax-transparent (tax on the entity's income is levied on the shareholders, not on the entity), and it does not necessarily confer limited liability on its members.

Sociétés civiles may even become 'public,' in which case they must comply with various additional formalities. New *sociétés* must be registered at the Commercial and Companies Registry.

One form frequently met is the *société civile immobilière* or *SCI*, a company used for the purchase of land or residential or commercial buildings for renting to the *SCI*'s members. Commercial concerns often hold real estate through *SCI* subsidiaries. Further details are given in Chapter 8.



Accounting and Auditing

- FORM OF FINANCIAL STATEMENTS
- ACCOUNTING PRINCIPLES AND PRACTICES
- AUDIT REQUIREMENTS AND PRACTICES
- THE ACCOUNTING AND AUDITING PROFESSION
- BOOKS AND RECORDS
- SPECIMEN FINANCIAL STATEMENTS

In 1947, a French government commission published a standardized accounting system known as the Uniform Accounting Plan (*Plan Comptable Général*). The basic Plan, which is described further at the end of this chapter, has been revised from time to time and adapted for use in industries as diverse as insurance and steelmaking. The Plan was soon widely recognized as a valuable management tool, and as variations for particular industries were developed, their adoption was made compulsory. In practice, the use of the basic Plan is virtually compulsory in all other industries, and the Plan has also been adopted in government agencies and nationalized enterprises. Another important reason for its widespread use is that the information it produces can be used to prepare annual tax returns, which in France are very detailed documents.

The object of the Plan is to define account classifications in order to standardize information and facilitate comparison. It influences detailed accounting policies, although it does not prescribe them, and it suggests valuation rules and cost accounting methods. Some further revisions to the Plan may be necessitated on the implementation (by 1980 at the earliest) of the Fourth EEC Directive on company law, which requires the harmonization of national requirements for financial statements throughout the area of the Common Market.

Recommendations on accounting matters are made by the National Accounting Council (the body, consisting of accountants, businessmen, and government officials, that produced the Plan), the Order of Accounting Experts (the official professional accounting organization), and, very importantly, the Stock Exchange Operations Commission. In addition, the pronouncements of the International Accounting Standards Committee are gradually being adopted in France. The 1966 Law on Commercial Companies contains hardly any provisions on accounting matters, these being dealt with mainly in the implementing Decree of March 1967.

Some further guidance on accounting matters is given in the October 1965 decree that defines the contents of tax returns.

Accounting and Auditing

FORM OF FINANCIAL STATEMENTS

Layout and Content

The traditional form of balance sheet is two-sided, with assets on the left and capital and liabilities on the right. On the assets side, deductions such as provisions for depreciation or allowances for inventories carried at below cost are usually shown in a separate column, a practice deriving from the requirements of the tax returns. On the other side, separate columns sometimes show the year-end figures before and after the appropriation of profit for the year recommended by the directors.

The income statement, in two parts, is also often two-sided. The first part, a 'trading' or 'operating account,' discloses opening and closing inventories, purchases, sales, and general expenses; while the second, a 'profit and loss account,' deals with exceptional items, taxes, and transfer to and from provisions for the year. The layout and content of tax returns has largely determined the layout and content of typical financial statements, although the statements published in the Bulletin for Legal Announcements (*BALO*) are not always in exactly the same form as those prepared for shareholders. The 1966 Law makes the broad statement that shareholders must be given 'the documents needed to give them full knowledge of the facts and to enable them to make informed judgements as to the management of the enterprise and the progress of its affairs.'

Many of the captions appearing in French financial statements have no counterparts in other countries. Moreover, explanatory notes are not often given. However, a reader with a reasonable knowledge of tax law (see Chapter 8) can usually follow what they mean, especially if he has access to the Plan wherein explanations will often be found. Comparative figures are rarely given in the financial statements themselves, and consolidated statements are not considered as essential as they are in some countries. These important matters, and other notes that form part of the financial statements in many other countries, are often dealt with in the reports of the directors or auditors.

The adoption of the Fourth and Seventh Directives in France may cause some minor changes in these practices.

Publication Requirements

Although most French companies prepare their financial statements at December 31, they are free to select any accounting date as long as their

normal financial years represent 12-month periods. There are some advantages in choosing the calendar year as the accounting year, including:

- Additional time in which to file the annual tax return.
- Ease in preparation of payroll returns, which coincide with the calendar year.
- Ease in preparation of annual statistics in certain industries, which must be reported for the calendar year.

Publication requirements are complex, and it is necessary to distinguish between information to be provided to shareholders and information to be made available to the general public.

Information for Shareholders. The annual financial statements of a corporation, together with a directors' or management report, must be approved by shareholders in general meeting within six months after the end of the financial year. These documents, together with the auditors' report thereon and supporting information in considerable detail, must be made available to shareholders at least 15 days before the *annual* general meeting. Some of this information must be sent to all shareholders who request it, and some must be available at the registered address for examination by shareholders. This chapter deals with accounting information, other matters having been described in Chapter 6. The most important supporting financial report is a table of significant figures for the last five years, dealing with capital, turnover, profits, dividends, results per share, and numbers and remuneration of employees. The requirements for a 'social report' are mentioned at the end of Chapter 4. Such reports do not have to be issued to shareholders, although many corporations deal with social matters in their directors' reports.

An SA with a works committee must produce a copy of the principal documents for that committee before the date of the annual general meeting. Generally, similar rules apply to the financial statements of an Sàrl company.

Information To Be Made Public. The financial statements of an SA must be filed at the Commercial and Companies Registry within a month after the general meeting. This requirement does not at present apply to an Sàrl, although abridged (and sometimes full) information will have to be filed by larger Sàrls when the Fourth Directive is implemented. This

Accounting and Auditing

Directive allows EEC member-state governments some latitude when preparing their national legislation, and it is likely that in many countries small and medium-sized concerns will be allowed to produce simplified financial statements. To what extent France will take advantage of this latitude, *not only for Sàrls but also for smaller SAs*, was not known at the time this Business Study was prepared.

In addition, every listed SA corporation with balance sheet totals of F10 million or more must publish its annual financial statements in the *BALO*, within 45 days after its annual general meeting. Such corporations must also publish in the *BALO*:

1. A list of all shares held at the year-end (*inventaire des valeurs mobilières détenues en portefeuille*), with minor exceptions.
2. A detailed schedule of holdings in subsidiaries and associates (*Renseignements concernant les filiales et les participations*), showing for each its capital and reserves, percentage held by the reporting parent, turnover, net profit, dividends received by the parent, and guarantees outstanding. This schedule does not deal with subsubsidiaries, and holdings of small value and sometimes foreign holdings are shown in less detail.
3. Details of contingent liabilities and assets and of appropriations of profit for the year.

Other listed corporations must supply these details to any shareholder who may request them.

Any other enterprise (SAs, Sàrls, and even partnerships) must also publish all this information in the *BALO*, if:

1. Its total assets exceed F10 million, or
2. The actual value of its investments exceeds F1 million, and at least 50% of its shares are owned by one or more corporations that are required to publish this information.

Moreover, listed corporations with balance sheet totals of F10 million or more must also publish in the *BALO* quarterly statements of turnover analyzed by division and half-yearly provisional balance sheets.

These requirements to publish in the *BALO* are necessary because of the large number of bearer shares in issue, making it impossible for corporations to send information to individual shareholders except on request.

ACCOUNTING PRINCIPLES AND PRACTICES

General Principles

The influence of the Uniform Accounting Plan on financial statements has generally been beneficial. Tax law has had varying effects, because although in theory tax valuation rules need not be followed for financial statements' purposes, many enterprises take the figures for their financial statements from the detailed information that must be submitted in their tax returns.

These returns are based on the decree of October 1965, which sets out the principles of valuation to be adopted in preparing them.

If provisions such as for depreciation are not debited in the financial statements, they are not deductible for taxation purposes, and conversely, if charges are not tax-deductible they are often omitted from the financial statements. Thus, heavy initial depreciation may be charged against profits whether economically justified or not. On the other hand, employees' accrued pension rights which should be accrued for financial statements' purposes, may be omitted from the financial statements, especially by smaller enterprises, because they are not tax-deductible until paid.

Another influence on French accounting practices is conservatism. As in other countries where loan capital is much more important than equity capital, this conservatism is perhaps understandable. However, the undervaluation of assets that was still a recognized fact at the end of the 1960s is probably less widespread now.

The traditionally conservative approach and the desire to minimize tax liabilities often led in the past to the creation of secret reserves. Furthermore, the broadly described provisions for losses and expenses that were often charged at the end of the profit and loss account may have covered such a wide variety of future expenditure that the applicability of the charge to the results for the year was not always clear. Now, however, as a result of the 1966 Law on Commercial Companies, any change in valuation methods or accounting bases whereby secret reserves are created or used must be disclosed if the results for the year are materially affected thereby, and such change must be approved by the shareholders in general meeting. The change must be made for proper commercial reserves, or it may be challenged by the tax authorities.

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Specific Accounting Practices

Fixed Assets and Depreciation. Fixed assets (*immobilisations*) are usually shown at historical cost although those purchased before 1960 could have been subject to tax-free revaluation from an official price index. Another tax-free revaluation of nondepreciable assets was permitted as at December 31, 1976, and of depreciable assets as at December 31, 1977. The extent of these revaluations will begin to appear in 1979, when financial statements prepared as at December 31, 1978, incorporating the revaluations, are published.

The effect of widespread mergers in French industry must also be remembered. In a merger, assets are frequently restated at their current values although, because the basis on which fixed assets are carried is not described in financial statements, this is not always apparent.

Depreciation (*amortissement*) is usually, but not necessarily, charged by the declining-balance method described in Chapter 8. A change to straight-line rates may be made if deemed appropriate. Thus in the early years of an asset's life, when declining-balance rates are used, there is a tendency to overdepreciate. A change from one basis to the other would need to be disclosed in the year of change, and the auditors would be expected to comment on the matter.

Depreciation must be recorded in the books in order to be tax-deductible, and depreciation not charged in the accounting period to which it relates may not later be claimed for tax purposes.

Legal costs and transfer taxes are not usually capitalized but are held in an organizational expenses account (*frais d'établissement*), where they can be more readily deducted for tax purposes.

French companies engaging in leasing activities do not capitalize their leases. Minimal disclosures only are required by way of note at the foot of the balance sheet.

Intangibles. Intangible assets (*immobilisations incorporelles*) include purchased goodwill and leasehold rights and also patents and trademarks. The former may be written down only if they have lost their value, but the latter are amortized over their theoretical lives. Preliminary or organization expenses, fixed asset acquisition costs such as registration fees, taxes and notaries' fees, and the like are grouped as '*frais d'établissement*' and are usually written off in the year they are incurred or against first available profits.

'Intangibles' also include bond redemption premiums (usually amortized over the life of the bonds concerned), capital increase expenses (amortized over a maximum of five years), and even research and development expenditure (for which no amortization rules are yet specified although leading audit firms recommend a three-year write-off period). Leasehold rights purchased are called *droits au bail*.

Investments. Investments are shown in the balance sheet as long-term or short-term, depending on their nature. Long-term investments (*autres valeurs immobilisées*) include equity holdings (*titres de participation*) usually of 10% or more and including subsidiaries, associates, and trade investments; noncurrent loans (*prêts à plus d'un an*); and deposits (*dépôts et cautionnements*). Loans and deposits may include advances in connection with employee housing obligations and also balances with subsidiaries, despite recommendations to show these separately. Short-term investments (*titres de placement*) are grouped with current assets.

Long-term investments are generally carried at cost regardless of changes in market value, and the equity method of recording holdings in subsidiaries and associates is neither required nor widely used. Losses considered to be permanent, however, are often provided for in the year incurred. Increases to take account of inflation have occasionally been allowed as for fixed assets already described. Furthermore, revaluations may take place as the result of mergers.

Short-term investments must be carried at the lower of cost or market value. 'Market value' for this purpose means the average value for the last month of the financial year. Market values are not often disclosed.

Inventories. Tax regulations require that inventories (*valeurs d'exploitation or stocks*) be valued at cost or net realizable value, whichever is lower, but do not refer to specific valuation methods.

'Cost' is considered to be purchase price plus related expenses, together with actual production costs including manufacturing overheads and a reasonable allocation of general overheads attributable to manufacture. In practice, the definitions of overheads allocated to inventories vary widely. In the determination of cost, the LIFO method is not permitted. The tax authorities usually accept any reasonable method, taking into account the particular type and nature of the inventory, although they prefer the FIFO method. Average cost or latest price methods are frequently used.

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As to long-term contracts, a few enterprises include a proportion of profit in the value of work-in-progress even though valuation above cost is generally unacceptable.

If realizable value is lower than cost, or if allowances are required for obsolescent or deteriorated lines, a provision (*provision pour dépréciation*) to reduce the inventory must be created. This is shown separately as a deduction on the asset side of the balance sheet. Inventory provisions may be created as described in Chapter 8. In particular, a tax-deductible provision for increased cost of inventory may be created if such increase has exceeded 10% over one or two years, although this provision must be reversed to taxable income six years after being created. Provisions of this nature are included with shareholders' funds on the liabilities side of the balance sheet.

Other Current Assets and Liabilities. Trade debtors can be pledged as security for borrowings, although usually no indication that this may have been done appears in the financial statements. Balances with other group companies are not always separately disclosed. Accruals and prepayments of time-expiring expenses such as rents are called *comptes de régularisation*.

Foreign currency balances must be recorded in francs at the prevailing exchange rates at the end of each financial year. The resulting book profit or loss is added to taxable income or allowed as a tax deduction.

Receivables and payables due more than one year after the accounting date may not be included in the 'current' sections of the balance sheet.

Taxation. Taxes on the year's income are largely paid on account during the financial year. Such payments on account are based on the preceding year's profit (Chapter 8), so that the amount due at balance sheet date bears no relation to the charge for the year. Frequently, however, the main component of the tax liability (*impôts et taxes*) in a balance sheet is the last month's value added tax payable.

In computing income taxes payable, no account may be taken of items such as accrued vacation pay, the year's allocation to the employees' profit-sharing scheme or the related investment provision, or provisions for warranty expenses.

These are tax-deductible only when actually paid, although some of them at least may have been charged in arriving at the published profit

figures. Thus the actual tax charge for the year may be quite different from the theoretical amount due based on the profit shown in the profit and loss account.

Moreover, provisions for taxation on such items as 'tax-free' reserves or surpluses arising from asset revaluations on mergers are rarely provided or even disclosed by way of note. Deferred taxation accounting is not required by law and in the past at least has not been practised.

In the income statement, '*impôts et taxes*' comprise value added tax, taxes on payrolls, and minor imposts, while '*impôt sur les sociétés*' is the corporate income tax on the year's profits.

Reserves and Provisions. Every SA corporation and Sàrl company must maintain a legal reserve as described in Chapter 6.

French financial statements often disclose a wide range of other reserves and provisions. Reserves are appropriations of net profits. They belong to the proprietors, and since they have been created out of taxed profits, they are not subject to further tax if recredited to the profit and loss account. 'Provisions,' on the other hand, are charges against profit to meet some future liability or diminution of assets. They are not part of proprietors' funds and in most cases are subject to tax if restored to income. The only exceptions to this rule are the provisions set up for tax purposes (see Chapter 8), which are grouped with proprietors' funds even though they are charges against taxable profits. In particular, the investment provision that is related to the national profit-sharing scheme is described further in Chapter 8.

Investment incentive grants received (*subventions d'équipement*—see Chapter 2) are usually disclosed separately following 'capital and reserves' and are released to income at the same rate as depreciation is charged. Long-term capital gains are also recorded in the 'reserves' section of the balance sheet, net of tax, usually at 15%. Capital gains are explained in Chapter 8, but, briefly, if such gains are distributed as dividends, they are subject to tax at 50% instead of at the lower rates initially charged.

Sometimes, when expenditure is incurred on a matter for which a provision had earlier been created, the provision is released into the profit and loss statement and the actual expenditure is charged there. Provisions and distributions of profits under the national profit-sharing scheme are examples of this procedure.

Accounting and Auditing

Inflation Accounting and Revaluations. The law has permitted fixed asset revaluations from time to time as already indicated. The latest revaluations have permitted 'value to the enterprise' to be used as one of the factors in determining the new value, but apart from this, no moves have been made to disclose the effect of inflation on conventional accounting statements.

Nonetheless, some revaluations, supported by independent experts, have taken place. They have been made, for instance, to absorb losses that could no longer be carried forward for tax purposes or in connection with a merger.

Mergers. The 'pooling of interests' concept is not recognized, and merger procedures are complex. Briefly, on a merger the absorbed enterprise is liquidated, the value of the new shares issued is calculated, and figures for share premium or paid-in surplus (*prime de fusion*) and goodwill on acquisition (*fonds de commerce*) are given.

Profit and Loss Statements. Sales (*ventes*) are disclosed in the operating statements. Cost-of-sales is not disclosed as such, although opening and closing inventories, purchases, wages and salaries, and other expenses are all usually shown. Turnover (*chiffre d'affaires*) comprises sales, provision of services, and also sales of scrap.

When assets are being constructed for the firm's own use, expenses incurred cannot be debited directly to balance sheet items. The operating statement therefore often includes a credit for the costs incurred in such construction.

Management remuneration does not have to be disclosed separately in the financial statements.

Extraordinary items must be passed through the profit and loss account and cannot be accounted for as movements in reserves.

Directors' Reports. A report by the directors (see Chapter 6) must be prepared with every balance sheet and income statement. This report must comment on the year's results and, in general, on the future prospects of the enterprise, although such comments are usually in the broadest of terms. Commentaries on significant figures in the financial statements are often included in these reports. There is no requirement that important events occurring after the balance sheet date should be disclosed.

Consolidation Practices

The law does not require the preparation of consolidated statements, and it has not been customary to prepare them. Listed corporations, however, are now more frequently producing consolidated statements following pressure by the Stock Exchange Operations Commission. Financial statements of subsidiaries do not have to be included with the parent's annual report, nor is it necessary for a comparison to be given of the parent's investment in a subsidiary and the subsidiary's underlying asset values.

On the other hand, summarized information concerning investments in major subsidiaries and associates must be disclosed in the parent's report. Where consolidated information is given, it may be summarized only, or even relegated to the obligatory section of the management report dealing with the affairs of subsidiaries. The practice of presenting full consolidated financial statements with as much prominence as the parent's statements is, however, growing. Consolidation extends to associates in which the parent has effective management control as well as to subsidiaries more than 50% owned.

Three consolidation methods are often used, and the particular method employed must be noted in the published statements:

1. Full consolidation, where the subsidiary's assets, liabilities, and results are completely consolidated and any proportion relating to outsiders is shown as 'minority interests' (*intérêts hors groupe* or *intérêts minoritaires*), is used for holdings of more than 50% or where control can be exercised.
2. The equity method, whereby the proportion of underlying net assets and income is substituted for the book value of the parent's investment and dividends received, is used for holdings in associates of between 50% and 33 $\frac{1}{3}$ % or often lower.
3. The proportional method, whereby individual asset, liability, and income figures of the affiliate are included in the consolidation pro rata to the parent's interest, is used for holdings in joint venture or consortium companies, even where such holdings are as low as 10%.

The mechanics of a French full consolidation differ from those found in many other countries. No distinction is normally made between pre-acquisition and postacquisition reserves, the differences arising on consolidation being recomputed each year. Goodwill originally arising on acquisition (*survaleur*) is sometimes stated separately and, if so, is sometimes amortized. Intercompany profits are not always eliminated.

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The Seventh EEC Directive may lead to changes in French practice on consolidations, but when this directive is likely to be adopted is not yet known.

AUDIT REQUIREMENTS AND PRACTICES

Legal Requirements for Audit

Every SA corporation and any Sàrl company with capital in excess of F300,000 must appoint at least one auditor, often referred to as the 'statutory auditor' (*commissaire aux comptes*). Smaller Sàrl companies may appoint auditors if their members so wish. Private SAs with capital in excess of F5,000,000 and all public SAs must appoint at least two auditors. Auditors may be individuals or corporate bodies. In some cases, substitute auditors (*suppléants*) are also appointed in case their principals cannot complete their mandate. A GIE that issues bonds must also appoint an auditor, and so must some specialized entities. These requirements, however, may be modified on the implementation of the Fourth Directive.

The auditor must prepare his report on the annual financial statements in time for it to be at the shareholders' disposal at least fifteen days before the annual general meeting. In order to meet this deadline, the auditor must be provided with the appropriate documents as follows:

	Number of Days Before Annual General Meeting
Financial statements in form approved by directors	45
Directors' report on year's operations and financial position	20

An additional two days must be allowed if the above information, including the auditor's report, is to be in the recipient's possession on time. In effect, and subject to requirements for printing, the auditor has thirty days during which to prepare his report on the financial statements approved by the directors and five days to verify the contents of the directors' report.

Among the auditor's other duties are the calling of shareholders' or members' meetings if the directors do not do so and the reporting to the court of any criminal offences committed by the enterprise or its management. He must ensure that all shareholders are treated equally, and he must be invited to all general meetings and to management meetings

at which the financial statements are finalized. He is liable to the enterprise or to third parties for any losses caused by his negligence.

The auditor is also required to comment on any proposed changes in capital and on a proposed transformation of an Sàrl company into an SA corporation. On an application to the Stock Exchange for a listing, the COB will appoint an auditor to report on the financial statements submitted. Such auditor may be the corporation's existing auditor or may be independent. The auditor may never act as the *commissaire aux apports* who is required to comment on the value of assets in kind contributed on any issue of capital. This official is appointed by the Commercial Court.

Audit Standards

In the past, auditors often lacked the professional qualifications or the opportunities, because of limits on fees and the use of assistants, to perform satisfactory audits. Companies were free to engage professionally qualified auditors in addition to their conventional statutory auditors, but very few did so. Thus audits in the past were rarely designed to give the assurance of a true and fair view or fair presentation. In general, audits were not considered by French businessmen as providing any benefits, and auditors had little standing in the business community.

Under the 1966 Law on Commercial Companies, however, all auditors must now be selected from a list of approved persons or firms with certain minimum qualifications. Professionally qualified accountants (*experts comptables*) are automatically eligible for inclusion in the list. The improvement in French auditing standards since 1966 is due mainly to the realization that shareholders are entitled to receive meaningful financial accounts of the enterprises in which they have financial interests.

In the past, auditors were required to examine the books, cash, securities, and receivables; to check the inventory; to ascertain if the balance sheet was properly drawn up; and to see that the financial information furnished by the board of directors was accurate. Although this may appear a comprehensive statement of duties, in practice it frequently meant little. The 1966 Law now defines the duties of the auditor more precisely. He is required to certify the 'regularity and sincerity' of the profit and loss statement and balance sheet and whether these documents have been prepared on a consistent basis. It is expected that this requirement, together with pressure from the Stock Exchange Operations Commission, will eventually lead to the use of generally accepted auditing techniques as understood in countries with long-developed auditing professions.

Accounting and Auditing

The leading auditing firms usually review internal controls, test transactions from statistical samples, attend physical stocktaking, and obtain independent confirmations as part of their standard audit procedures. Smaller firms tend to put more emphasis on ensuring that company and tax laws have been complied with.

Audit Reports

The auditor's report is required to comment on the financial statements and on the financial information given in the directors' report. A standard form of report has been suggested, but it is not always used in practice. The report should, however, always give an opinion on the 'regularity and sincerity' of the financial statements—which means that they conform with the law and are fairly presented. This report is submitted with the financial statements to the shareholders at the annual meeting. In a second report, the auditor is required to describe all contracts and agreements between the corporation and any of its directors or general managers or with any other company with common directorships. Audit reports are usually signed by individuals and not by firms.

The auditor must also certify a statement of the remuneration of the five highest paid employees for the year (ten highest paid if there are 200 or more employees) and must comment on other matters required by the 1966 Law. Finally, he must produce a 'long-form' report to management, outlining the work he has performed and making recommendations on accounting principles and other matters. This report does not have to be published and may even be oral.

The *commissaires aux apports* may also be required to report in specific circumstances, such as on a merger.

Appointments and Changes of Auditors

The auditor is appointed by the shareholders, initially in the articles or at the formation meeting and thereafter at an annual general meeting for a term of six years (three years for an *Sàrl* or a *GIE*). He can be reappointed. An auditor may be chosen only from names on an approved list. During his term of office, he may be dismissed only for a legally sufficient cause, and in this case, a successor would have to be appointed at a general meeting of shareholders or, in exceptional circumstances, by a court. Most changes occur when auditors retire or when controlling interests in the enterprise change, although this does not necessarily lead to a change in auditors. Ethical rules require a proposed new auditor to communicate with his predecessor before accepting appointment.

In practice, an auditor who is also a qualified accountant is often regarded by the enterprise as its business adviser and the recipient of confidential information, as well as the auditor required by law, and as such he is not lightly replaced.

THE ACCOUNTING AND AUDITING PROFESSION

Although all qualified public accountants are eligible to be listed as authorized auditors, not all authorized auditors have the training or experience of qualified public accountants. Accounting and auditing are, moreover, dealt with by different professional organizations.

Professional Organizations

Public Accountants. The status of the public accounting profession in France has risen considerably in recent years. The profession is regulated by the government under legislation first enacted in 1945, which imposed educational and other requirements and protected professional titles. Two categories of accountants are recognized:

1. *Expert comptable*—the equivalent of a certified public accountant or chartered accountant in English-speaking countries. Approximately 4,500 individuals are qualified to operate as *experts comptables*. Professional services rendered by *experts comptables* include general business and tax consulting as well as accounting assistance and auditing. *Experts comptables* are sometimes referred to as 'réviseurs.'
2. *Comptable agréé*—an accountant whose function is mainly that of a public bookkeeper. Recent legislation should result in the gradual phase-out of this category, which at present numbers about 5,500, while at the same time offering its members the opportunity to become *experts comptables* after meeting certain requirements.

Control of the profession, which includes both these categories, is the responsibility of the Order of Accounting Experts (*L'Ordre des Experts Comptables et des Comptables Agréés*) in which membership is compulsory. The government is represented on the Order's managing council, and the government delegate has power to bring decisions of the Order before the courts. Members of the Order must be qualified by education and experience as described later. The largest voluntary organization of accountants is the *Institut Français des Experts Comptables*, which was formed to safeguard its members' interests.

Public accounting services in France may be offered only by members of the Order or by corporate bodies controlled by such members. In theory,

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foreign accountants can practise in France if reciprocity exists with their home countries. At present, only Switzerland has such reciprocity, and restrictions have recently been placed on the operations of international firms not composed of members of the Order practising in France.

Statutory Auditors. The 1966 Law on Commercial Companies created auditing as a new profession in France. Regulation of auditors is vested in the *Compagnie Nationale des Commissaires aux Comptes*. This body has published among other things a mandatory table of minimum audit fees (*barème*), which are computed by applying specified multiples to certain financial statement amounts and totals. Many auditors negotiate higher fees with their clients, because those resulting from the application of the *barème* are often insufficient to enable them to perform a comprehensive audit as understood in countries with fully developed auditing professions.

There are about 6,500 authorized auditors. Individuals must be French citizens or nationals of another EEC country, but all foreigners must be officially approved by the examining council of the *Compagnie Nationale* as adequately qualified in French law and language.

Experts comptables and *comptables agréés* can be included on the list of authorized auditors, which is drawn up by a committee headed by an appeals court judge. Under certain conditions, other qualified individuals and firms, and even members of other professions such as lawyers or engineers, can also be listed.

Training and Qualifications

To become a member of the Order of Accounting Experts, a candidate must have demonstrated his theoretical knowledge by passing several examinations and must have obtained adequate practical experience.

For an *expert comptable*, there are three different stages of examinations:

1. Preliminary. This is intended to determine the candidate's aptitude to proceed with higher technical education.
2. *Diplôme d'Etudes Comptables Supérieures* or *DECS*. For this diploma to be awarded, the candidate must obtain three certificates, which are granted only after examinations in accounting, economics, and law.
3. *Diplôme d'Expertise Comptable*. Having completed the preceding stages and the minimum three-year training period, the candidate has to pass examinations in at least two *Certificats Supérieurs*, one of

which is compulsory and requires knowledge of auditing, financial management, and company and fiscal law as well as expertise in accounting matters. The second *Certificat* must be obtained in one of four subjects including law, data processing, Common Market and international economics, and management organization and control.

Under normal circumstances, the candidate must hold the *DECS* in order to be allowed to undertake his practical training. The training period must be served with an *expert comptable*, an approved foreign accountant in France (for up to one year), or an official of the Ministry of the Economy. Training is generally full-time. The training period can be extended beyond three years provided that its total duration does not exceed six years. When all these conditions have been fulfilled, the candidate must successfully submit an original thesis on a professional subject.

These stringent requirements explain the relatively small number of *experts comptables* in France and the fact that few candidates qualify before the age of thirty.

The qualifications required by a *comptable agréé* are slightly less demanding—the candidate must hold the *DECS* and have had two years' practical experience.

To qualify as an authorized auditor, a candidate must pass examinations on accounting, law, and taxation matters, although these are not of as high a standard as those required of an *expert comptable*. He must also have obtained at least two years' practical experience. These rules were introduced only in 1969, and many *commissaires aux comptes* who were then already on the approved lists were allowed to continue as such even though they had no professional auditing qualification.

Professional Rules and Ethics

Professional rules and ethics were enacted by the 1945 law and later amendments. They are similar to those in other countries with developed accounting professions.

Independence. An *expert comptable* must maintain an independent professional approach to his clients. Thus, in his capacity as professional accountant and business consultant, he may give taxation and other advice, but may not act as an agent, derive a disproportionate amount of his fees from one particular source, be a member of a client's management team, or perform services for a client in which he has

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any material financial interest. In his capacity as statutory auditor, an *expert comptable* will give general advice during the course of his duties, but may not accept specific taxation, management service, or accounting assignments for his client and must not allow his employees to do so either.

The *commissaire aux comptes*, whether an *expert comptable* or not, is required to be independent of his client and, in particular, may not prepare the financial statements on which he is to report. He must not be an employee of, or take part in, his client company's management even as a consultant or be related to its directors or those of its shareholders who may have contributed capital in any form other than cash. Moreover, he may not become a member of his former client's management group for a period of five years after he has ceased to act as statutory auditor. He may, however, be a shareholder himself, unless his holding is material or his shares were contributed in any form other than cash.

Organization of Accounting Firms. The great majority of accounting firms are small. Over half of the members of the Order of Accounting Experts are sole practitioners, and 80% of all firms have less than ten staff each. Partnerships are permitted, however, and so are limited liability companies or even corporations, provided various conditions are met. If the firm name is not that of all its proprietors, it must be a neutral title—for example, one that describes the services the firm offers. For this reason, the large international firms would not be able to continue using their worldwide practice names and still remain eligible for membership in the Order if the present dispensation in their favour is changed.

Individual members of the Order in public practice may each employ a maximum of ten professional assistants. Therefore, the staff of any accounting firm, excluding trainees, is limited to ten times the number of its principals who are members of the Order. Some firms have co-operated through the medium of GIEs in the servicing of large clients.

Moreover, a member of the Order may accept employment only from another member; otherwise he loses his membership. Thus, no *experts comptables* may be employed in industry or commerce or by international firms of accountants not recognized as members of the Order. Most of the large international firms are neither members of the Order nor appear on the lists of approved statutory auditors. Instead, they have mainly formed local firms or affiliations under whose name work is usually carried out.

Other Matters. Advertising in any form by members of the Order is strictly forbidden. This is one of many ethical rules concerning members' relationships with their clients, staff, other members, and the government.

The professional bodies issue recommendations on practical matters. The Order of Accounting Experts has made numerous suggestions on accounting principles and policies, but these tend to be ignored by the commercial community until sponsored, often some years later, by the influential National Accounting Council mentioned at the beginning of this chapter. Both the Order and the *Compagnie Nationale des Commissaires aux Comptes* have issued recommendations on auditing procedures, but although these are in theory accepted as required criteria of professional work, in practice, under the pressure of rapid commercial and professional changes which have occurred, audit standards still vary widely.

BOOKS AND RECORDS

The Commercial Code requires that every commercial enterprise must maintain the following books:

1. General journal (*livre-journal*). This journal either records daily operations or, as is the usual practice, summarizes monthly operating totals (for example, sales, purchases, cash receipts, and disbursements) in journal entry form. Such totals may be compiled from handwritten books or from records produced by machines or computers, but the journal itself is usually handwritten.
2. Inventory book (*livre d'inventaire*). This is a list of all assets and liabilities of the enterprise. In practice, the annual financial statements are inscribed in this book.

The pages of these books must be prenumbered and used in chronological sequence. Pages must not be left blank, and erasures are not allowed. Looseleaf records are not forbidden, but in practice, bound books are invariably used. In all cases, they must be stamped and initialled (*coté et paraphé*) by an official of the commercial court (*greffe du tribunal*) or the local mayor. A payroll register (*livre de paie*), similarly stamped, must be kept as required by the Labour Code.

In practice, a wide variety of supporting records are maintained including a general ledger (*grand-livre*). Most books, vouchers, and correspondence must be kept for ten years, and records must be written in French. If a foreign parent company's computer abroad is used to

Accounting and Auditing

process accounting information, vouchers and adequate printouts must be returned regularly to France to satisfy these rules.

Uniform Accounting Plan

The principal feature of the Plan is its standard chart of accounts. The ten basic code numbers for accounts are:

	Code
Balance Sheet Items	
Capital, reserves, long-term liabilities	1
Fixed assets, including trade investments	2
Inventories	3
Debtors and creditors, short-term	4
Bank and cash balances, bills, loans, marketable securities	5
Income and Expenditure Items	
Expenses by type (not by function)	6
Income	7
Trading, operating, and profit and loss figures	8
Cost Accounts	
Control and reanalysis accounts	9
Memorandum Accounts	
Guarantees and contingent liabilities	0

Each code number can be amplified by the use of decimals to whatever depth is appropriate. Thus, as an example, a small firm might open an account 63 for 'sundry services' or 631 for 'repairs and maintenance expenses,' while a large and complex enterprise might wish to analyze such expenses into, say, 6310 (upkeeping and maintenance) and 6315 (repairs) or even 63151 (repairs of buildings) or 631511 (repairs of buildings in Paris). Cost accounting, if adopted, requires 'quadruple-entry,' whereby in addition to entries in groups 1 to 8, transactions are also entered in group 9 control accounts and in supporting group 9 cost accounts.

From the original Plan, about 75 individual industry plans have been developed by representatives of a particular industry working together with government officials and accountants.

Information for Management

While it is now common for larger enterprises with experienced accounting staff to prepare management accounting information, in smaller firms the practice is not widespread.

The tradition of French business is one of secrecy in business affairs, and although this tradition is now being modified, it has affected the extent to which financial information for management is made available. A factor in the growing use of such information is that everyone who receives any form of training in commercial matters learns about the Uniform Accounting Plan.

The help of professional accountants is not much sought in preparing management information or in advising as to its form and content.

SPECIMEN FINANCIAL STATEMENTS

The following pages illustrate the terms most frequently used in French financial statements, together with their English equivalents. The layout of the statements is broadly that required by the tax authorities and for publication in the *BALO*.

Accounting and Auditing

SPECIMEN FINANCIAL STATEMENTS

BILAN AU 31 DECEMBRE, 19— (BALANCE SHEET AT DECEMBER 31, 19—)

Actif (Assets)		Amortissements ou Provisions pour	
Montant Brut (Gross Amount)	Dépréciations (Depreciation and Provisions for Re- ductions in Value)	Montant Net (Net Amount)	
FRAIS D'ETABLISSEMENT (DEFERRED CHARGES)			
Primes de remboursement des obligations (Bond redemption premium)	—	—	—
Autres frais d'établissement (Other deferred charges)	—	—	—
IMMOBILISATIONS (FIXED ASSETS)			
Terrains (Land)	—	—	—
Constructions (Buildings)	—	—	—
Matériel et outillage (Machinery and tools)	—	—	—
Matériel de transport (Transportation equipment)	—	—	—
Mobilier, aménagements, installations (Furniture and fixtures)	—	—	—
Immobilisations incorporelles (Intangibles)	—	—	—
Autres immobilisations (Others)	—	—	—
Immobilisations en cours (Assets in course of construction)	—	—	—
AUTRES VALEURS IMMOBILISEES (LONG-TERM FINANCIAL ASSETS)			
Prêts à plus d'un an (Loans, etc., due after one year)	—	—	—
Titres de participation (Equity investments)	—	—	—
Dépôts et cautionnements (Deposits)	—	—	—
VALEURS D'EXPLOITATION (INVENTORY)			
Marchandises (Merchandise)	—	—	—
Matières premières et fournitures (Raw materials and supplies)	—	—	—
Produits en cours (Work in progress)	—	—	—
Produits finis (Finished goods)	—	—	—
Emballages commerciaux (Packing materials)	—	—	—

**BILAN AU 31 DECEMBRE, 19—
(BALANCE SHEET AT DECEMBER 31, 19—)**

**Passif
(Liabilities)**

	Avant Répartition (Before Appropriation)	Après Répartition (After Appropriation)
CAPITAL PROPRE ET RESERVES (CAPITAL AND RESERVES)		
Capital social (<i>Capital</i>)	—	—
Primes d'émission d'actions (<i>Premium on shares/paid-in surplus</i>)	—	—
Réserve légale (<i>Legal reserve</i>)	—	—
Réserve pour plus-values à long terme (<i>Long-term capital gains</i>)	—	—
Autres réserves (<i>Other reserves</i>)	—	—
REPORT A NOUVEAU (RETAINED EARNINGS)	—	—
PROVISIONS (Provisions)		
Pour investissement (<i>Investment</i>)	—	—
Pour hausse de prix (<i>Inventory price rise</i>)	—	—
SITUATION NETTE avant résultats de l'exercice (TOTAL RESERVES AND RETAINED EARNINGS before net earnings for the year)	<u>—</u>	<u>—</u>
SUBVENTIONS D'EQUIPEMENT REÇUES (INVESTMENT INCENTIVE GRANTS RECEIVED)	<u>—</u>	<u>—</u>
PROVISIONS POUR PERTES ET CHARGES (PROVISIONS FOR LOSSES AND EXPENSES)		
Provisions pour risques (<i>Provisions for contingencies</i>)	—	—
Provisions pour charges à répartir sur plusieurs exercices (<i>Provisions for expenses to be spread over several years</i>)	—	—
Provision pour participation des salariés au fruits d'expansion de l'entreprise (<i>Profit-sharing provision</i>)	—	—
	<u>—</u>	<u>—</u>
DETTES A LONG ET MOYEN TERMES (LONG-TERM AND MEDIUM-TERM DEBTS)		
Obligations et bons à plus d'un an (<i>Bonds and notes due after one year</i>)	—	—
Autres dettes à plus d'un an (<i>Other long-term debts due after one year</i>)	—	—
	<u>—</u>	<u>—</u>

(Continued)

Accounting and Auditing

(Continued)

BILAN AU 31 DECEMBRE, 19— (BALANCE SHEET AT DECEMBER 31, 19—)

Actif (Assets)

	Montant Brut (Gross Amount)	Amortissements ou Provisions pour Dépréciations (Depreciation and Provisions for Reductions in Value)	Montant Net (Net Amount)
VALEURS REALISABLES A COURT TERME OU DISPONIBLES (CURRENT ASSETS OTHER THAN INVENTORY)			
Fournisseurs-avances et acomptes sur commandes (<i>Advances to suppliers</i>)	—	—	—
Clients (<i>Accounts receivable</i>)	—	—	—
Sociétés apparentées (<i>Due from group companies</i>)	—	—	—
Etat: impôts et taxes (<i>Due from government</i>)	—	—	—
Autres débiteurs y compris capital non-appelé (<i>Other receivables including unpaid capital</i>)	—	—	—
Comptes de régularisation-actif (<i>Prepaid expenses</i>)	—	—	—
Prêts à moins d'un an (<i>Short-term loans receivable</i>)	—	—	—
Effets à recevoir (<i>Notes receivable</i>)	—	—	—
Chèques et effets à encaisser (<i>Cheques and notes to be collected</i>)	—	—	—
Titres de placement (<i>Marketable securities, including bonds</i>)	—	—	—
Banques et chèques postaux (<i>Cash at bank</i>)	—	—	—
Caisses (<i>Cash in hand</i>)	—	—	—
	—	—	—
	—	—	—
RESULTATS (LOSSES)			
Perte de l'exercice (<i>Loss for the year</i>)	—	—	—
Total de l'actif (<i>Total assets</i>)	—	—	—
Montant des engagements reçus (<i>Guarantees received</i>)	—	—	—
Opérations de crédit-bail (<i>Benefits receivable under leasing contracts</i>)			—

**BILAN AU 31 DECEMBRE, 19—
(BALANCE SHEET AT DECEMBER 31, 19—)**

**Passif
(Liabilities)**

	Avant Répartition (Before Appropriation)	Après Répartition (After Appropriation)
DETTES A COURT TERME (CURRENT LIABILITIES)		
FOURNISSEURS (ACCOUNTS PAYABLE)		
Clients-Avances et acomptes reçus (<i>Customers' advances</i>)	—	—
Etat: impôts et taxes (<i>Due to government</i>)	—	—
Sociétés apparentées (<i>Due to group companies</i>)	—	—
Autres créanciers (<i>Other accounts payable—including dividends payable</i>)	—	—
Comptes de régularisation-passif (<i>Accrued expenses and deferred credits</i>)	—	—
Obligations et bons à moins d'un an (<i>Bonds and notes due within one year</i>)	—	—
Autres emprunts à moins d'un an (<i>Other loans due within one year</i>)	—	—
Effets à payer (<i>Notes payable</i>)	—	—
Banques (<i>Bank overdrafts</i>)	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>
RESULTATS (NET EARNINGS)		
Bénéfice de l'exercice (<i>Net earnings for the year</i>)	—	—
Total du passif (<i>Total liabilities</i>)	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>
Montant des engagements donnés (<i>Guarantees and contingent liabilities</i>)		—
Charges d'impôts sur réserves taxables (<i>Liability to tax on provisions shown above the 'Situation Nette' line</i>)		—
Opérations de crédit-bail (<i>Commitments under leasing contracts</i>)		—

Accounting and Auditing

COMPTE DE RESULTATS (INCOME STATEMENT)

Compte d'Exploitation Generale (Trading or Operating Account)

Débit

Stock au début de l'exercice (<i>Opening inventory</i>)	—
Achats de matières et marchandises (<i>Purchases of raw materials and goods</i>)	—
Frais de personnel (<i>Salaries, wages, and social charges</i>)	—
Impôts et taxes (<i>Taxes other than on income</i>)	—
Travaux, fournitures et services extérieurs (<i>Supplies and services</i>)	—
Transports et déplacements (<i>Transport and travel</i>)	—
Frais divers de gestion (<i>Administrative expenses</i>)	—
Frais financiers (<i>Bank charges and interest</i>)	—
Dotation de l'exercice aux amortissements (<i>Depreciation for the year</i>)	—
Dotation de l'exercice aux provisions (<i>Provisions for the year</i>)	—
BENEFICE D'EXPLOITATION (<i>OPERATING PROFIT</i>)	—
	<hr/>
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Compte de Pertes et Profits (Profit and Loss Account)

Débit

Perte d'exploitation de l'exercice (<i>Year's operating loss</i>)	—
Pertes sur exercices antérieurs (<i>Expenses applicable to prior years</i>)	—
Pertes exceptionnelles (<i>Exceptional losses</i>)	
—moins-value résultant de la cession d'éléments de l'actif immobilisé (<i>Loss on disposal of fixed assets</i>)	—
—autres pertes exceptionnelles (<i>Other exceptional losses including exchange losses</i>)	—
Dotation de l'exercice aux comptes de provisions hors exploitation ou exceptionnelles (<i>Year's allocation to reserves and exceptional provisions, e.g., litigation</i>)	—
Provision pour participation de salariés (<i>Employees' profit-sharing scheme provision</i>)	—
Provision pour investissement (<i>Provision for investment—associated with profit-sharing provision above</i>)	—
Impôts sur les bénéfices (<i>Tax on profits</i>)	—
BENEFICE NET (<i>NET EARNINGS FOR THE YEAR</i>)	—
	<hr/>
	—
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**COMPTE DE RESULTATS
(INCOME STATEMENT)**

**Compte d'Exploitation Generale
(Trading or Operating Account)**

Crédit

Stock en fin de l'exercice (<i>Closing inventory</i>)	—
Ventes de marchandises et produits finis (<i>Sales of products and goods</i>)	—
Subventions d'exploitation reçues (<i>Subsidies</i>)	—
Ventes de déchets et d'emballages recuperables (<i>Sales of scrap, etc.</i>)	—
Ristournes, rabais et remises obtenus (<i>Discounts and allowances</i>)	—
Produits financiers (<i>Interest, etc.</i>)	—
Travaux faits par l'entreprise pour elle-même (<i>Self-constructed assets</i>)	—
Travaux et charges non imputables à l'exploitation de l'exercice (<i>Release of provisions set up in previous years, to the extent of the expense debited opposite</i>)	—
PERTE D'EXPLOITATION (<i>OPERATING LOSS</i>)	—
	—
	—

**Compte de Pertes et Profits
(Profit and Loss Account)**

Crédit

Bénéfice d'exploitation de l'exercice (<i>Year's operating profit</i>)	—
Profits sur exercices antérieurs (<i>Income applicable to prior years</i>)	
—reprises sur provisions antérieurs (<i>release of provisions formerly set up—e.g., investment provision set up five years earlier</i>)	—
—charges diverses imputables à l'exploitation des exercices antérieurs (<i>release of provisions no longer required</i>)	—
Profits exceptionnels (<i>Exceptional profits</i>)	
—plus-values réalisées à l'occasion de la cession d'éléments de l'actif immobilisé (<i>capital gains on disposal of fixed assets</i>)	—
—autres profits exceptionnels (<i>other exceptional profits, including exchange profits</i>)	—
PERTE NETTE (<i>LOSS FOR THE YEAR</i>)	—
	—
	—



- INTRODUCTION
- CORPORATE TAXATION
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- WITHHOLDING TAXES
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INTRODUCTION

Principal Taxes

In France, taxes are levied by the central government at the national and local levels.

National taxes may be divided into three groups:

Direct taxes on income and capital gains

Indirect taxes such as value added tax (VAT)

Succession and gift taxes, registration and transfer taxes, and minor duties and fees.

Direct taxes consist of the corporate income tax, the personal income tax, and a number of withholding and flat rate taxes on special categories of income. There is an additional direct tax known as the inflation levy which is not imposed at the present time, but which could be applied if necessary.

Indirect taxes include the value added tax on most sales and services rendered, and the customs and excise duties which have been described in Chapter 3.

In addition to these national taxes, local administrative entities (such as regions, departments, and communes) receive certain local taxes based on real estate values, assets values, and payrolls.

The principal local taxes are the business tax, the dwelling tax, and the real estate tax. Rates of local taxes vary from area to area.

Yield of Various Taxes. The following schedule shows the percentage yield of the various taxes in a recent year. It indicates how heavily the

Taxation in France

French tax structure relies on valued added tax compared with taxes on income:

	%
Direct Taxes	
Corporate income tax	10
Personal income tax	19
Local taxes	<u>11</u>
	<u>40</u>
Indirect Taxes	
Value added tax	47
Customs and excise duties	<u>7</u>
	<u>54</u>
Registration and transfer taxes, stamp duties	<u>6</u>
	<u>100</u>

Sources of Legislation

The taxation laws are enacted by Parliament and are then consolidated into the General Tax Code (*Code Général des Impôts*), often referred to as the 'CGI.' However, on rare occasions, taxes may be imposed by government ordinances.

Definition of Territory

The tax laws apply to metropolitan France and, for the purposes of corporate and personal income tax, the French territorial sea and the French sector of the continental shelf. French laws are applied to the four overseas departments by special decrees.

Administration of Tax Laws

A special division of the Ministry of Budget, headed by a commissioner (*Directeur Général des Impôts*), administers tax law.

Each region has a tax director (*Directeur Régional des Impôts*) who coordinates the tax administration of the departments within his region. Each department also has a tax director (*Directeur des Services Fiscaux*) under whose authority are the inspectors of taxes (*Inspecteurs des Impôts*) situated in tax offices located throughout the country. The inspectors issue and review assessments to all taxes.

Payments of tax are made to tax collectors (*Percepteurs* or *Trésoriers* for corporate and personal income taxes and local taxes and *Receveurs* for value added tax and registration taxes). These officials are usually located in the same offices as the inspectors.

If requested, an inspector will usually give a written opinion on the tax effect of any contemplated transaction and will generally abide by that opinion, provided that the relevant facts have been fairly presented to him.

CORPORATE TAXATION

Corporate income tax (*impôt sur les sociétés*) is charged on all corporations, limited liability companies, and branches of foreign corporate entities.

Partnerships may elect to have their profits assessed to corporate income tax. If they do not so elect, each partner is liable, if an individual, to the personal income tax, and if a corporate entity, to the corporate income tax. A limited partnership with share capital, however, is always assessed to corporate income tax. A GIE is taxed in the same way as a partnership.

In this chapter, all entities subject to corporate income tax are called 'companies,' unless the context requires otherwise.

In principle, resident companies are charged to corporate income tax only on profits arising from business operations in France. However, foreign income received by a resident company is normally regarded as 'arising from business operations in France' unless it represents income relating to a foreign permanent establishment, income derived from a complete commercial cycle carried on abroad, or a dividend from a qualifying foreign subsidiary company as defined on page 155. A 'complete commercial cycle' means a purchase followed by a sale of the item purchased, possibly after some intermediate process. Moreover, these exceptions effectively apply only until the profits are distributed.

Nonresident companies are subject to corporate income tax only on certain types of income arising in France.

There are no special provisions in France to ensure the distribution of profits by companies owned by a restricted number of individuals, except that if profits are not distributed within five years of the end of the accounting period in which they were earned, the '*précompte*' (see page 154) is imposed which effectively increases the tax rate on such profits to 75%, although 25% is available for credit against the shareholders' own tax liabilities.

Taxation in France

Resident Companies

A company is resident in France if its registered address or centre of management is situated in France. Thus, besides companies incorporated under French law, any company incorporated abroad whose business is effectively managed from France may be considered to be resident.

Taxable Profits. Corporate income tax assessments are based upon the profits shown in the company's tax returns, which are detailed equivalents of its annual financial statements. Increases and decreases in the values of assets and liabilities reflected in the financial statements are thus automatically taken into account in arriving at taxable income. Assessments are therefore made on all increases in net worth as shown by a comparison of balance sheets at the beginning and end of the financial period, adjusted for distributions of profit and contributions of additional capital.

The profits derived from the financial statements are then adjusted for exempt income, disallowed expenditures, special deductions, and losses brought forward to arrive at taxable profits.

Valuation of Inventories. The *CGI* provides that the valuation of inventories must be made at the lower of cost or year-end market value. If market value is used, the difference between market value and cost price must be disclosed separately in the financial statements.

'Cost' must be arrived at by using the first in-first out (FIFO) method or the average cost method. The last in-first out method (LIFO) is not acceptable for tax purposes. For manufactured goods, 'cost' includes all direct and indirect production costs, including overheads. 'Market value' is taken as the sales price or current realizable value at the end of the financial year.

Tax-free inventory provisions may be created in certain circumstances, as described in the paragraph headed 'Provisions' in the section on 'Allowable Deductions.'

Revaluation of Fixed Assets. On a few occasions companies have been authorized to revalue their fixed assets to their current values tax-free, any gains being credited to a revaluation reserve. Apart from these occasions, companies rarely revalue their fixed assets, as the resulting gains will be treated as ordinary income and taxed accordingly. Revaluations of fixed assets may, however, be made on mergers as explained later.

When revalued assets are sold, capital gains are computed on the basis of original cost.

Capital Gains and Losses. The rules described here apply to the capital gains of resident companies carrying on business and to those of non-resident companies arising through their permanent establishment in France. Capital gains of organizations not carrying on business and of nonresident companies with no permanent establishments in France are taxed in the same way as nonbusiness gains of individuals, described on pages 186-189. A distinction is made between short-term and long-term capital gains and losses.

Short-Term Capital Gains and Losses. Short-term capital gains are gains realized on sales of fixed assets held for less than two years and the portion of gains on sales of fixed assets held for two years or more that represents the recapture of depreciation on the asset which has already been deducted from taxable income. Short-term capital losses are losses on the sale of nondepreciable fixed assets held for less than two years and losses on the sale of depreciable fixed assets whatever the period held.

Short-term gains and losses are netted at the year-end, and the resulting gain or loss is treated as ordinary taxable income subject to corporation income tax at 50% or as an ordinary loss, which is thus available for offset against trading profits. However, the company may elect to have one-third of the gain taxed in the year it is realized and one third in each of the two following years, except on a liquidation or where the gain relates to securities. In a few cases the gain may be spread over ten years.

Long-Term Capital Gains and Losses. Long-term capital gains consist of gains on the sale of fixed assets held for two years or more to the extent that such gains exceed depreciation recaptured. Long term capital losses consist of losses on the sale of nondepreciable fixed assets held for two years or more.

Long-term gains and losses are netted at the year-end. A net gain is taxed at a reduced rate of 15%, but the remaining 85% of the gain must be credited to a special reserve. A net loss may be set off against long-term gains arising in the next ten years or against the special reserve arising from previous gains. This reserve remains tax-free unless distributed as a dividend, when the 'précompte' (see page 154), representing the balance of tax on the original net gain, is imposed.

Taxation in France

Long-term gains on the sale of building plots are taxed at 25% instead of 15%, and certain speculative gains on the sale of real estate are taxed as ordinary income.

The disposal of securities, except by security dealing companies, is subject to the capital gains rules set out above. The FIFO rules are used to identify the securities sold.

Fluctuations in the value of securities held by a company give rise to long-term capital gains and losses and are not treated as ordinary income. If the market value of such securities is above cost, no adjustment is made to balance sheet values, but if the market value falls below cost, a provision may be made to write the securities down to their current values. This provision is treated as a long-term capital loss and any subsequent reduction therein as a long-term capital gain.

Profits from the sale of patents, processes, technical know-how, and certain licences are also taxed as long-term capital gains.

Dividends. *Relationship between Company and Shareholder.* When a company pays a dividend, part of the corporate income tax it has paid on the income from which the dividend is derived is treated as tax paid by the shareholder. This is done by giving the shareholder a tax credit which may be offset against the shareholder's own tax liability. Additionally, if the shareholder is an individual, the whole or part of the credit may be repaid to him if he has no tax liability or a liability lower than the credit. This credit is known as the '*avoir fiscal*' and is equal to 50% of the dividend paid. The *avoir fiscal* is available only to French resident companies and individuals and to foreign residents who are entitled to it under the terms of one of France's double taxation agreements.

A French company paying a dividend must issue a certificate to the recipient showing the *avoir fiscal*.

Précompte. In order to ensure that the *avoir fiscal* is not granted in respect of any profits that have not been subject to the full 50% rate of French corporate income tax, an equalization tax known as the '*précompte*' is levied on such income when it is distributed. The *précompte* is also levied on profits earned more than five years before distribution. It is equal to 50% of the dividend before *précompte*, or 33 $\frac{1}{3}$ % of the dividend plus the attached *avoir fiscal*. An analysis is required of undistributed profits in order to ascertain the extent to which the distribution has come from profits that have not suffered the full rate of corporate

income tax or were earned more than five years prior to the distribution. The complex rules that determine this analysis do not necessarily follow the appropriations of profits decided on by the shareholders.

The *précompte* does not apply to branches of foreign companies nor to some special classes of company such as investment companies.

The operation of the *précompte* means that the exemptions and reliefs from French corporate income tax, such as the exemption of profits of a foreign permanent establishment and the reduction to 15% of the tax rate on long-term capital gains, effectively represent only a deferral of the full 50% rate of corporate income tax until the profits are distributed. Foreign withholding taxes suffered on dividends received by French companies from foreign subsidiaries (as defined below) may be credited against the *précompte* when those dividends are redistributed to the French company's shareholders. France's double taxation agreements usually provide for the refund of the *précompte* to foreign shareholders that are not entitled to the *avoir fiscal*. If appropriate forms are filed with the French tax authorities, the company need not pay the *précompte* in respect of a foreign shareholder who is entitled to such a refund.

Treatment of Dividends Received. The tax treatment of dividends received by one French corporation from another depends on whether the paying company is a 'subsidiary' of the recipient. For this purpose, the paying company is regarded as a subsidiary if the following conditions are satisfied:

1. The recipient is a French resident company.
2. The recipient owns at least 10% of the equity capital of the paying company, or
 - a. The cost of acquisition of the shares was more than F10 million, or
 - b. The shares were received in exchange for assets on an authorized partial merger.
3. The shares must have been subscribed for by the recipient, or if they were acquired by purchase, the recipient must have declared that they will be held for at least two years.

Throughout this section on 'Dividends,' the word 'subsidiary' is used in the above sense.

When a dividend is received from such a subsidiary, 95% thereof is excluded from the recipient's taxable income. The balance of 5% is grossed up by the *avoir fiscal* attached (i.e., 2½%) and included in taxable

Taxation in France

income. The *avoir fiscal* may not be credited against the recipient's corporate income tax liability, but can be offset against the *précompte* due when the recipient company redistributes the dividend to its own shareholders. The 5% taxable portion is regarded as a lump sum to cover the deemed expenses connected with the collection of the dividend. If the recipient can show that the actual collection expenses were less than 5%, up to 100% of the dividend may be excluded from taxable income.

When a dividend is received from a company that is not such a subsidiary, the full dividend plus the *avoir fiscal* is included in the recipient's taxable income, and the *avoir fiscal* may be offset against its corporate income tax liability.

The following examples illustrate the dividend rules:

Dividends Received from Resident Subsidiaries. A company receives from its subsidiary a dividend of F300,000, on which the tax credit, or *avoir fiscal*, is 50%, or F150,000. Five percent of F450,000 (F300,000 plus F150,000) must be included in taxable income, i.e., F22,500. The *avoir fiscal* of F7,500 included in this taxable income of F22,500 may not be offset against the corporate income tax due thereon, but the whole *avoir fiscal* of F150,000 on the dividend may be offset against the *précompte* that will be due when the exempt part of the dividend is redistributed to the recipient company's own shareholders.

Dividends Received from Other Resident Companies. A company receives a dividend of F5,000, with an entitlement to an *avoir fiscal* of F2,500, from a company that is not a subsidiary. The recipient's taxable profit is F800,000, including the dividend of F5,000. Theoretically, the corporate income tax should be calculated as follows:

	F
Taxable profit: F800,000 + <i>avoir fiscal</i> F2,500	<u>802,500</u>
Corporate income tax: F802,500 x 50%	401,250
<i>Avoir fiscal</i>	<u>(2,500)</u>
	<u>398,750</u>

In practice the *avoir fiscal* is not added to the taxable profit, but only 50% of its amount is deducted from the corporate income tax charge, the calculation becoming:

	F
Taxable profit	<u>800,000</u>
Corporate income tax: F800,000 x 50%	400,000
Half of <i>avoir fiscal</i> : F2,500 x 50%	<u>(1,250)</u>
	<u>398,750</u>

The *avoir fiscal* is lost by a company that has no taxable profit. Nevertheless, if a company is not liable to tax because it has losses brought forward that can be offset against its taxable profit, it is allowed to limit the offset of those losses so as to obtain a taxable profit equal to the *avoir fiscal* received with the dividends.

For example, assume that a company receiving an *avoir fiscal* of F8,000 has a taxable profit for the year of F100,000, but has losses brought forward of F150,000. If the company limits its loss offset to F92,000 (F100,000 less F8,000), it will be liable to corporate income tax on F8,000 at 50%, or F4,000. This liability will be extinguished by the *avoir fiscal* of F8,000 at 50%. The company will thus effectively pay no corporate income tax. Its loss carried forward will increase to F58,000, and it may distribute, without paying the *précompte*, a dividend of F8,000.

Dividends received from nonresident companies are dealt with in the following section. Certain intercompany payments are regarded as 'constructive dividends'; these are described on page 167.

Foreign Income. The income of a resident company derived from foreign sources is normally included in the income charged to corporate income tax, except as follows:

1. Profits earned through a foreign permanent establishment or from a complete commercial cycle carried out abroad. Profits include dividends, interest, and royalties derived from the operations of the foreign permanent establishment.
2. Ninety-five percent of the dividends from a foreign 'subsidiary' as already defined.

Double taxation agreements may provide further exemptions.

Because profits earned through a resident company's foreign permanent establishment are not chargeable to French corporate income tax, losses from such establishments are not normally allowable as deductions against other profits. Some temporary relief may be available where a provision is allowed in relation to an overseas investment as explained on page 164.

There are two further alternative ways in which a French resident company may deal with the profits and losses of its foreign branches and subsidiaries, but these are available only with the specific approval of the Ministry of Budget, and this approval is not often granted.

Taxation in France

1. Under the worldwide income (*'bénéfice mondial'*) provisions, the French company may aggregate the profits and losses of its foreign branches with its own profits and losses.
2. Under the consolidated income (*bénéfice consolidé*) provisions, the French company may aggregate the profits and losses of all of its foreign operations, whether conducted through branches, joint ventures, partnerships, or subsidiary companies, with its own profits and losses.

The aggregate profits and losses are then computed in accordance with French taxation principles (although some provisions are not deductible from foreign profits) and the results charged to French corporate income tax. A credit is given against the corporate income tax for foreign taxes of a similar nature suffered on the profits from foreign operations.

Exchange Profits and Losses. Receivables and payables denominated in foreign currency must be revalued at the official exchange rates at the end of each year and the gain or loss taken into account in computing taxable profits. Gains or losses actually realized on foreign currency receivables and payables must similarly be taken into account to the extent that they have not already been recognized.

Allowable Deductions. The rules relating to allowable deductions are stated here only in general terms. Broadly, any expenses charged in the financial statements and relating to the operations of the business are deductible provided that the expenditure is necessary for purposes of the business and the amount can be ascertained with certainty.

Depreciation. Depreciation is deductible in respect of all tangible assets that diminish in value with time. Items that cost less than F1,000 (including any irrecoverable VAT) may be written off on purchase as expenses. Land is not depreciable.

Depreciation must commence from the beginning of the month in which the asset was purchased or brought into service. The depreciation charged in the financial statements must at least equal the amount of depreciation that would have been charged if the straight-line method had been applied to each asset. If it does not, the right to claim the shortfall for tax purposes is lost.

Depreciation must be calculated on the original purchase price or on the cost of manufacture if the asset was manufactured by the company. Recoverable value added tax may not be included in cost. Cost must be reduced by any government grants received in respect of the asset.

If a company incurs a trading loss, it may postpone indefinitely the deduction for tax purposes of depreciation charged in the financial statements until it has sufficient taxable profits to absorb this depreciation.

Depreciation Methods. The straight-line method is normally used, but a company may elect to follow the declining-balance method for certain new tangible assets having a useful life of at least three years.

Assets to which the declining-balance method may be applied are:

- Machinery and equipment used in manufacturing, processing, storage, handling, transport, or research
- Air and water pollution control installations, including air conditioning equipment
- Heating and energy-producing equipment
- Security, alarm, safety, and medical equipment
- Office machines (excluding typewriters)
- Hotel buildings and equipment
- Light industrial buildings with useful lives not exceeding 15 years.

Declining-balance depreciation may not be applied to the following:

- Secondhand (used) assets
- Automobiles
- Delivery vans of less than 2,000 kilograms (about 2 tons)
- Telephones and office furniture
- Buildings, other than hotels and light industrial buildings.

Normal Rates. Straight-line rates are normally determined by negotiation between the company and its tax inspector. The rates most often used are as follows:

	%
Buildings	
Industrial	5
Commercial	3 or 4
Residential	2½ to 4
Machinery	10 to 12½
Tools and office equipment	10
Automobiles	20
Trucks	25

Taxation in France

Declining-balance rates depend on the life of the asset and are arrived at by applying multiples to the appropriate straight-line rates as follows:

Estimated Life of Asset In Years	Straight- Line Rate %	Multiple	Declining- Balance Rate %
3	33 $\frac{1}{3}$	1 $\frac{1}{2}$	50
4	25	1 $\frac{1}{2}$	37 $\frac{1}{2}$
5	20	2	40
6	16 $\frac{2}{3}$	2	33 $\frac{1}{3}$
6 $\frac{2}{3}$	15	2 $\frac{1}{2}$	37 $\frac{1}{2}$
8	12 $\frac{1}{2}$	2 $\frac{1}{2}$	31 $\frac{1}{4}$
10	10	2 $\frac{1}{2}$	25
12	8 $\frac{1}{3}$	2 $\frac{1}{2}$	20 $\frac{5}{6}$
15	6 $\frac{2}{3}$	2 $\frac{1}{2}$	16 $\frac{2}{3}$
20	5	2 $\frac{1}{2}$	12 $\frac{1}{2}$

Higher declining-balance rates are available if the expenditure is on equipment used to save energy or to recycle raw materials. These rates range from 66 $\frac{2}{3}$ % for assets with a life of three years to 15% for assets with a life of twenty years.

If the declining-balance method is used, the annual depreciation charge on any asset is allowed to be at least equal to its net book value divided by its remaining estimated years of life. This means that when the application of the declining-balance method results in a very small depreciation charge, a straight-line rate may be substituted so that the asset becomes fully depreciated by the end of its estimated useful life.

Accelerated Depreciation. This may be charged on the following:

1. Buildings and equipment for scientific research—50% in year of acquisition.
2. Installations for preventing air and water pollution—50% in year of acquisition.

Normal rates apply to these assets thereafter.

Although not strictly described as accelerated depreciation, certain other assets qualify for exceptional deductions. They are:

1. Shares in government-approved companies engaged in the development of agriculture, industry, and commerce—100% in year of subscription.
2. Shares in government-approved financial innovation companies—50% in year of subscription.

3. Shares in government-approved research companies—50% in year of subscription. This 50% allowance is not taken into account as part of the capital gain if the shares are sold more than three years after subscription.

Depreciation of Intangible assets. Costs connected with the organization and setting up of the company may be written off, at the company's election, either in its first accounting period or over its first five years. Other expenses incurred before the commencement of operations are normally fully deductible provided that they can be covered by profits within five years.

Patents acquired by purchase may be depreciated over their useful lives. Any amortization of expenditure on goodwill, copyrights, trademarks, or secret processes, however, is not tax deductible, except that in limited circumstances a provision for a permanent reduction in the value of goodwill may sometimes be allowed.

Investments. Securities held may not be depreciated, but the company is allowed to create a provision to cover any fall in their value. This provision is treated as a long-term capital loss.

Depletion of Mineral Resources. A deduction is allowed for the depletion of mineral resources in some sectors of the mining, oil, and gas industries. The annual allowance is limited to the lower of 50% of pretax income (excluding capital gains) for the year or 25% of sales for the year (or 15% of sales in the case of solid minerals' extraction). The amount deducted must be transferred to a special reserve, where it will remain exempt from corporate income tax only insofar as an equivalent amount of exploration expenses, including related capital expenditure, is incurred within the next five fiscal years. The exploration expenses themselves, and depreciation on the related capital expenditure, are deductible for tax purposes in the usual way.

Interest. Interest on borrowed capital is deductible provided that it is charged at a commercial rate and the authorized share capital of the company is fully paid up. It is deductible in the financial period in which it is accrued in the accounts of the company. However, where the loan is from a shareholder, interest is not deductible if:

1. Interest is charged in excess of 2% over the Banque de France rate applying to secured loans.
2. The loan is from a controlling shareholder (other than a French resident parent company), to the extent that interest charged on any portion of the loan exceeds the company's share capital by 1½ times.

Taxation in France

Such interest is not only disallowed as a deduction but is also treated as a constructive dividend and subjected to dividend withholding taxes.

Rents and Royalties. Rents of real estate or plant and equipment and royalties on patents, trademarks, know-how, and similar rights are, in general, deductible. Rents and royalties payable to related companies are, however, subject to the provisions on intercompany pricing described later in this section.

Employees' Remuneration and Pension Contributions. Wages, salaries, and other costs of employing staff are deductible if they are not in the opinion of the tax inspector excessive in relation to the work performed.

The treatment of profit allocations to employees under the national profit sharing programme (see Chapter 4) is described later in this section.

Pension contributions are deductible if they are paid to independent pension funds. Severance pay on retirement or redundancy is also deductible, and the first F10,000 paid on retirement is exempt from income tax in the recipient's hands.

Directors' Remuneration. The remuneration of directors of SA corporations, as defined in Chapter 6, and of managers of Sàrl companies is normally deductible, provided that it has been paid for actual and continuous management of the company's affairs. The tax inspector may disallow directors' remuneration if he considers it to be excessive, subject to appeal to the administrative jurisdiction. Attendance fees paid to directors are deductible only up to a limit calculated by multiplying the number of directors by 5% of the average remuneration paid to the company's five highest-paid employees in the fiscal year (ten employees if the company has two hundred or more employees). Bonuses for exceptional services, known as *tantièmes spéciaux*, may be deducted provided that they are not excessive, but are treated as if they were dividend income in the hands of the recipient.

Taxes. French and foreign taxes that are not income taxes are usually deductible. Examples are customs and excise duties, payroll taxes, business tax, registration taxes, and irrecoverable value added tax. Corporate income tax itself is not deductible. Surcharges imposed on any shortfall of advance payments over the final corporate tax liability are not deductible, but penalties for late payment of the final liability are.

Fees, Commissions, and Gifts. Professional fees are normally deductible if they relate to the company's business. Other fees and commissions are deductible only if the company files a declaration annually with the tax authorities setting out the names and addresses of the beneficiaries and the amounts paid.

Gifts that are directly in the interest of the company's business or of its employees are deductible without limit. Charitable gifts are deductible only up to 0.1% of sales to French customers.

Provisions. A transfer to a provision is generally deductible if it relates to a specific loss or expense which would itself be deductible and is reasonably certain to be incurred. Examples of deductible provisions are as follows:

Inventory Provisions. If the unit price of inventories at the end of a year has increased by more than 10% since the beginning of the same year or the beginning of the previous year, the company may make a provision against such excess over 10%. This is only a temporary relief, as the provision must be added back to taxable profits not more than six years later. If the business is transferred to a new owner, the provision must be added back to taxable profits before the transfer takes place.

A company whose main business is the processing of specified raw materials (including skins, cotton, precious metals, and cocoa) may set up a provision for fluctuations in world commodity prices. This provision is computed by reference to the company's base stocks of such commodities.

Investments. Provisions may be made to reflect falls in market values as described earlier.

Specialized Industries. Companies engaged in particular activities such as banks, newspapers, and insurance companies are allowed to set up appropriate specific provisions.

Employees. Provisions for employee grants may be deducted if it can be proved that the payments were due to the employees concerned at the end of the accounting period.

Some types of employee expense are not deductible in the year they are charged in the company's books, but only in the year they are actually paid. Examples are the obligatory housing tax described later and vacation pay. The latter is deductible in the year in which the employee takes his vacation.

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Value of the Business Reduced. If the value of a business is substantially reduced owing to external factors such as the loss of part of its markets, a provision to reflect this reduction may be allowed. In practice, the tax authorities rarely agree to the deduction of such a provision.

Foreign Investments. A French company investing overseas, either through its own branch or through a local subsidiary in which it has at least a 50% interest, may create a temporary provision allowable for tax purposes against the cost of the investment, provided that the specific approval of the Ministry of Budget is obtained. The terms on which this provision may be allowed depend on the location of the investment and the type of activity involved. The conditions are as follows:

1. For an investment in a commercial venture, a provision may be allowed in the first five years of operation equivalent to:
 - a. The lesser of the amount of capital invested during the five-year period and the losses incurred by the foreign branch or subsidiary in that period as computed in accordance with French tax principles—if the investment is in an EEC country.
 - b. The amount of the capital invested in the five-year period—if the investment is in a non-EEC country. Investments in countries designated as tax havens do not qualify for the provision.
2. For an investment in a manufacturing venture within countries regarded by the Ministry of Budget as developing countries and representing the first investment by the French company in the particular activity within that country, a provision of up to one-half of the capital invested within the first five years of operation may be allowed as a deduction.

The tax relief given in respect of such provisions is only temporary, as the total amount deducted from taxable income in the first five financial years of operation must be added back in five equal parts in the five following years.

Profit-Sharing and Related Investment Provisions. *Profit-Sharing Provision.* A provision must be set up each year under the National Profit Sharing Plan for the benefit of employees as described in Chapter 4. A transfer to this provision is a deductible expense for corporate income tax purposes in the year following that on which the transfer is based. For example, the transfer to profit-sharing provision based on 1978 results is a deductible expense for tax purposes in 1979.

Investment Provision. If in the year in which the profit-sharing provision is deductible the company makes a transfer to a further provision, called an 'investment provision,' and an equivalent amount is invested in fixed assets by the end of the year following the year in which the transfer is made, this transfer may be deducted from taxable profits up to an amount equal to 50% of the profit-sharing provision. To the extent that investment in fixed assets is not made within the prescribed period, the transfer to this provision must be added back to taxable income.

The assets purchased from funds representing this investment provision are depreciable for tax purposes in the normal way. If the provision is distributed to shareholders, the distribution is subject to the *précompte*.

Thus, because employers can obtain a deduction for tax purposes of at least 150% of the employees' share of profit under the Plan, the state effectively bears at least 75% of the cost as long as the corporate income tax rate remains at 50%.

Bad and Doubtful Debts. Bad debts actually incurred may be deducted. Provisions for doubtful debts, net of VAT, may also be deducted if they relate to specific debts and represent a reasonable assessment of probable losses. General provisions calculated as a percentage of receivables or turnover are not normally deductible, with the exception of provisions made of up to 10% of any medium-term credits granted in respect of export sales or foreign construction contracts.

Travel and Entertainment. Expenditure on travel and entertainment is generally deductible if it clearly relates to a business purpose. Lump-sum allowances paid to directors for travel and entertainment, however, are not deductible.

Particular expenses of a personal nature—known as 'sumptuary expenses'—are not deductible. Expenses in this category include those relating to hunting, fishing, guest and vacation houses, yachts, and depreciation on cars costing more than F35,000.

Dividends. Dividends paid by a corporation are not deductible, except that an SA established or increasing its share capital in the period from January 1, 1977, to December 31, 1981, may deduct dividends paid on these shares within the seven years following their issue (ten years for dividends on preference shares). This deduction is also available to an Sàrl established or increasing its share capital in the period from June 1, 1978, to December 31, 1981. The annual deduction is limited to 7½% of the share capital concerned.

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Some expenses are deemed to be 'constructive dividends' as described later.

Deduction for Small Businesses and Professional Practices. A special deduction from taxable profits is given to any business engaged in industry, commerce, or agriculture whose annual turnover does not exceed F1½ million and which is a member of an approved management association (*Centre de gestion agréé*). This deduction is also given to a professional person belonging to one of these associations whose turnover does not exceed F450,000.

The deduction is 20% of the first F150,000 of taxable profit and 10% of the next F207,300.

Payments to Nonresidents. Payments made to unrelated nonresidents in countries other than those regarded as tax havens are generally deductible on the same terms as those made to residents. However, as far as possible, such payments should correspond to those that would be payable in France for similar goods or services.

Transactions with Related Persons. Artificial Intercompany Pricing. As long ago as 1933, the French tax authorities obtained powers under Article 57 of the *CGI* to combat the avoidance of French taxation by artificial intercompany pricing in relation to international transactions. The provisions have since been extended and now correspond with those set out in the model OECD double taxation agreement. They have also been incorporated into most of France's double taxation agreements with other countries.

The Article 57 provisions can be applied to French companies that control foreign entities or are controlled by them and to branches of foreign companies. The provisions enable the tax authorities to increase the taxable profits of the French company or branch by the profits they regard as having been indirectly transferred to the foreign entity by means of artificial prices or charges.

A notice issued by the tax authorities in 1973 stated that the Article 57 provisions would be applied only where the following conditions were satisfied:

1. There must be an interdependence between the French entity and the foreign entity.
2. It must be proved that the French entity has given some advantage to the foreign entity which has resulted in a transfer of profits.

The burden of proof is on the French tax authorities to establish that these two conditions are satisfied. However, there is no precise definition of 'interdependence' or 'giving an advantage' either in Article 57 or in related judicial decisions.

In practice, the following are the principal items that have been regarded as transfers of profits:

1. Overpayment or underpayment for goods or services
2. Payment of excessive royalties or payment of royalties without consideration
3. Grant of loans at other than commercial interest rates
4. Write-off of debts or renunciation of contractual interests.

The French tax authorities normally determine the extent of the profits transferred by comparisons with similar enterprises in the same trade. However, the taxpayer may be able to resist the additional assessments by proving commercial or financial necessity for abnormal pricing—for example, cost-priced sales to foreign associates to enable them to compete in foreign markets.

Payments to Entities in Tax Havens. Article 238-A of the *CGI* gives the tax authorities further powers to combat international tax avoidance. It provides that all payments made to entities in foreign countries that have privileged tax systems will not be deductible for French tax purposes unless the payer can show that they were genuine commercial transactions. The application of Article 238-A is wider than Article 57 as no interdependence between the entities needs to be proved. The foreign country in question will be regarded as having a privileged tax system if the payment is excluded from tax there or is taxed at a rate lower than one-third of the rate that would apply if the payment had been made in France.

Tax Planning. There is considerable uncertainty over the operation of these provisions, particularly those in Article 57. Consequently businesses should take care to ensure that intercompany transactions are at arm's length and can be fully supported.

Constructive Dividends. Payments coming within the provisions of Articles 57 and 238-A may also be treated as constructive dividends to shareholders if they give a direct or indirect benefit, such as the waiver of interest on a loan, to a foreign parent company.

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The treatment of a payment as a constructive dividend will have the following tax consequences:

1. The disallowance of the payment as a deduction for corporate income tax purposes.
2. Taxation as a dividend in the hands of the recipient with no right to the *avoir fiscal*.
3. Imposition of the dividend withholding tax, if the recipient is a non-resident, at 25% (or lower rate if a double taxation agreement so provides).
4. Imposition of late payment and other penalties on taxes avoided.

Other payments that may be treated as constructive dividends include loans or advances to shareholders if not under a written contract or subject to normal interest rates, excessive interest paid to shareholders, and remuneration and fees paid to undisclosed recipients.

Treatment of Losses. Losses incurred in one year may be offset against profits of the following five years. However, that part of a tax loss that relates to depreciation may be carried forward without time limit. There is no carry-back of losses. Long-term capital losses may be carried forward for ten years, but may be offset only against long-term capital gains.

Group Taxation. A French resident group consisting of a parent and its 95%-owned subsidiaries may consolidate its results for corporate income tax purposes, thereby offsetting current profits and losses, if the approval of the Ministry of Budget is obtained. In practice this approval is very rarely given. Moreover, no cases are known where consolidation has been allowed to a group of resident subsidiaries owned by a non-resident parent.

A foreign company with several activities in France that may wish to offset losses from one against profits from others should therefore consider operating them as separate divisions of the same company rather than through separate companies.

Liquidations, Mergers, and Reorganizations. Liquidations. On the liquidation and dissolution of a company, the income for its final accounting period is computed under normal corporate income tax rules, except that any items that have been deferred for tax purposes (for example,

provisions, the deferred portion of short-term capital gains, or capital gains deferred on a merger) are added back. Deferred depreciation and losses brought forward may be deducted, and 30% of net long-term capital losses arising in the final period may be offset against ordinary income. Capital gains arising on the realization of assets in the liquidation are taxed under the normal rules relating to short-term and long-term gains.

On the transfer of real estate or leasehold rights during a liquidation, transfer tax of 16.6% will apply to the value transferred. If the entire business is transferred to another enterprise, its value, including any goodwill but excluding inventories, will be subject to the 16.6% transfer tax. Transfers of inventories are normally subject to VAT.

When the surplus arising from the liquidation is distributed to the shareholders, the *précompte* is applied to all profits that have not been taxed at the full 50% rate or that arose more than five years before the liquidation. Long-term capital gains are thus effectively taxed at the full rate.

In the hands of shareholders, any distribution on liquidation is divided into two parts. The part representing the contributed share capital of the company is exempt from tax as it is regarded as a repayment of capital. The part in excess of the contributed share capital is treated as a dividend to which the normal dividend rules apply. Thus the *avoir fiscal* will be available on the distribution, and if this is paid to a foreign shareholder, the dividend withholding tax will be applied, and the *précompte* may be refunded if the appropriate double taxation agreement so provides.

At the time of the final distribution to the shareholders, registration tax is payable. If the distribution does not exceed the contributed share capital of the company, this tax is F300, but if the distribution exceeds the contributed share capital, it is F300 plus 1% of such excess.

Special rules apply to liquidations approved by the Ministry of Budget that are regarded as being in the interests of the economy. This approval is normally granted only to companies engaged in seriously declining industries. In these cases, the company is effectively taxed at only 15% on all capital gains arising from the liquidation. Individual shareholders are exempt from tax on the liquidation surplus, but corporate shareholders are not, although they are eligible for a credit for the 15% tax. No *avoir fiscal* is available on dividends paid from profits subject to the 15% tax, and dividends paid to foreign shareholders out of such profits are not subject to dividend withholding tax.

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Constructive Dissolution. Certain events may give rise to a constructive dissolution of a French company, whereby the company and its shareholders are taxed as if it had been liquidated. Examples are the transfer of the registered address to a foreign country or, in certain circumstances, the sale of all or virtually all of its shares to one new shareholder. A constructive dissolution will result in transfer tax (and VAT on inventories) being payable as if the business itself had been sold on a liquidation, as already described.

Mergers. Specially favourable taxation treatment is available if certain conditions are satisfied on a merger where one company absorbs another or where a new company is formed to absorb two or more existing companies. The principal condition is that the companies absorbed receive only shares in the acquiring company in return for their assets. The tax consequence of the merger will then be as follows:

1. If the merging companies so elect, the merger may be related back for accounting and taxation purposes to the beginning of the fiscal year in which the decision to merge was made.
2. The companies absorbed will not be liable to corporate income tax on capital gains arising on assets transferred in the merger. However, if the acquiring company subsequently disposes of nondepreciable assets that were transferred, the original cost to the relevant company absorbed is used as the base for computing the capital gains. Capital gains arising from depreciable assets transferred are assessed on the acquiring company at the full 50% corporation tax rate, the payment of tax being spread over a five-year period. The acquiring company takes the assets into its books at the valuation used for the purposes of the merger, and this forms the basis for future depreciation charges and capital gains.
3. The shareholders in the companies absorbed are not taxed in respect of the receipt of the shares issued by the acquiring company.
4. The absorbed companies may normally be liquidated without any further tax liabilities arising.
5. Only nominal registration taxes, currently of F300, are payable in respect of transfers of assets. This relief is at present due to continue only until December 31, 1980.
6. Any losses available for carry-forward in the companies absorbed will be lost on the merger unless special permission is obtained from the Ministry of Budget to carry them over to the acquiring company. If permission is given, the amount to be transferred is usually restricted to a proportion (often 40%) of the assets transferred by the absorbed

companies. Normally the Ministry of Budget will require evidence that the merger will have a favourable effect on the economy, for example, by creating employment, before they will allow losses to be carried over. Permission is not often granted especially if any of the companies concerned is foreign-controlled.

If the merger has been arranged for genuine commercial reasons, the acquiring company may carry forward any losses of its own in the normal manner except that depreciation deferred will be treated as an ordinary trading loss after the merger (that is, subject to the five-year restriction rule and not to the indefinite carry-forward rule). If, however, the purpose of the merger was merely to obtain a tax advantage, the loss carry-forward may be disallowed.

The favourable tax treatment applies automatically to mergers between two resident companies or to a resident company absorbing a non-resident one, provided the required conditions are satisfied. If approval of the Ministry of Budget is obtained, the favourable tax treatment also applies to a nonresident company absorbing a resident one, to partial mergers, and to reorganizations involving division of an existing company into two or more new companies.

Furthermore, when two foreign companies with French shareholders merge, the exemption from corporate income tax on the exchange of shares applies.

Rates of Corporate Income Tax. The normal rate is 50% on profits adjusted for tax purposes. A reduced rate of 15% applies on long-term capital gains until they are distributed, when the *précompte* restores the effective rate to 50%. This reduced rate is 25% in the case of long-term gains from sales of building land. Except for newly established businesses, all companies are required to pay a minimum corporate income tax of F3,000 per year (see next page). Profits from business conducted in the four overseas departments are taxed at 33 $\frac{1}{3}$ %.

The rates are fixed for each calendar year and are announced at the end of the year concerned.

Returns and Assessments. Advance Payments. A company is required to pay an estimate of its current year's corporation tax in four instalments, on or before the twentieth day of February, May, August, and November in that year. A surcharge of 10% is imposed if payment of any instalment is not made before the fifteenth day of the following month. The estimated payments must be based on the taxable profits of the previous

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year. The first and the last payments are each 10% of the previous year's taxable profit, and the second and third payments are each 12.5%, making a total equivalent of 45% of that year's profit. A new company need not make any advance payments in its first accounting period.

An additional payment of F3,000 is due by every company in March of each year, except those established after January 1, 1977, which are exempt from the requirement during the first three years of their operations. This payment is deductible from the next regular payment. If the company does not make sufficient taxable profits, the right to deduct can be carried forward for three years, but is then lost.

If it appears that taxable income for the current year will be less than that of the previous year or that losses are being incurred, the company may inform the tax authorities that its payments will be reduced or stopped. However, if reduced advance payments are made, and the final tax liability is in excess of the rate of advance payments made, a 10% surcharge is levied on the amount by which the advance payment required exceeds the payments actually made. This surcharge is not tax-deductible. If overpayments are made, they may be offset against other direct taxes due or the next year's advance payments, or, on application, refunded if no other taxes are due.

Returns and Final Payments. The annual tax return must be accompanied by a copy of the company's financial statements and the following supporting schedules:

1. Capital gains
2. Fixed assets and depreciation
3. Movements in provisions and reserves
4. Remuneration and expenses of the five highest-paid employees (or of the ten highest-paid in the case of a company employing 200 or more employees)
5. Gifts, fees, and commissions
6. Exhibition and trade fair expenses
7. Entertainment expenses
8. Expenses relating to automobiles and other assets used outside the business premises including nonbusiness real estate
9. Declarations concerning company cars, employees' housing investment obligations, and interest paid.

These documents must be filed with the tax inspector within three months of the end of the company's accounting year or within four months for companies whose financial year ends on December 31. The balance of corporate income tax must be paid within three months and fifteen days after the end of the accounting year (that is, before the return is filed in the case of December 31 year-end companies). A 10% penalty is imposed for late payment.

The withholding tax on the deemed distribution of profits of branches of nonresident companies is due at the same time as the balance of corporation tax. The *précompte* on a distribution by a resident company must be paid by the fifteenth day of the second month following the distribution.

If the company's accounting period exceeds a calendar year, it must still file a return relating to the calendar year before the following April 1.

Having considered the company's return and any further information submitted, the tax inspector may send a letter (*notification de redressements*) stating his reasons for any adjustment he considers necessary. The company has thirty days in which to object. If it does not do so within this time limit, it is deemed to have accepted the adjustment.

Appeals. If a dispute arises between the company and the tax inspector on questions of fact, the company may appeal to a tax committee (*Commission Départementale des Impôts Directs et des Taxes sur le Chiffre d'Affaires*) consisting of nine people: four from business and the professions, four civil servants, and a chairman who is a judge in the Administrative Court. The burden of proving to this committee that the proposed assessment is incorrect lies on the company.

When the tax committee has announced its findings, the notice of assessment (*avertissement*) is issued by the tax collector for the corporation tax and surcharges or penalties due.

The company may appeal against the notice of assessment to the departmental tax director. The appeal must be supported by evidence showing why the assessment is considered to be wrong, and must generally be lodged no later than December 31 of the second year following the notice of assessment. If the company is in dispute with the tax inspector on questions of tax law, an appeal must be lodged directly with the departmental director. An appeal from the director's decision can be made to the administrative court and then to the Council of State.

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Appeals must be lodged within two months from the date of the decision concerned. During the time that the departmental director or the courts are considering the appeal, the company may apply to defer payment of the tax claimed.

Tax Audits. A tax audit of the records of every business is carried out at periodic intervals, normally of five to seven years, either by the audit department of the tax administration or by a tax inspector. The tax audit may cover the four previous years' results, except that if the company has been guilty of tax frauds in the past, the audit may cover the six previous years, although additional tax may be charged only in respect of the first two years in cases of fraud.

After the audit has been completed, the tax inspector will notify the company of any additional assessments that are proposed. If the company disagrees with the adjustments it must dispute them within thirty days, or assessments will be issued. If the company disputes the adjustments, further negotiations may follow, after which assessments will be issued. The company may then at any time within the next four years appeal against the assessments, initially to the departmental director and from there to the administrative court and the Council of State.

The tax authorities have become increasingly strict in dealing with companies suspected of tax evasion in recent years.

Tax Investment Incentives. A number of tax incentives are available to encourage investment in designated areas of France and in particular types of assets.

Specific tax investment incentives are as follows:

1. Accelerated depreciation allowances on the acquisition of certain assets (see 'Depreciation' earlier in this chapter).
2. Special reliefs for creating new industries or expanding existing ones in the designated regions described in Chapter 2:
 - a. An exemption of 50% or 100% of the business tax (described on page 205) for up to five years. Eligibility depends on the number of jobs created or preserved and the size of the town in which the enterprise is located. The extent of the exemption is determined by the local authorities concerned.
 - b. Reduction of transfer taxes (page 207), if these are applicable, to 2% on the transfer of existing buildings or goodwill if new jobs

- are created or activities are transferred out of the Paris or Lyon regions.
- c. Reduction of the tax on long-term capital gains to 7½% on the sale of building lots.
 - d. The benefit of the favourable tax treatment on mergers and the carry-over of losses by merging companies, if approved by the Ministry of Budget, in situations where they would not otherwise apply.
3. The profits of any business set up after January 1, 1978, are exempt from corporate income tax provided that they are wholly capitalized by bonus issue (stock dividend) before December 31 of the year following the period in which they were earned, and the business concerned satisfies the following conditions:
- a. Its annual turnover must be less than F30 million.
 - b. It must employ less than 150 people.
 - c. At least two-thirds of its tangible depreciable fixed assets must be eligible for declining-balance depreciation allowances.
 - d. If the business is carried on by a company, not more than 50% of its capital must be owned by other companies formed before January 1, 1978.

Losses brought forward are ignored in calculating this exemption.

4. Tax holidays of eight to ten years for investments in the four overseas departments.
5. Foreign branch or subsidiary company operations qualify for temporary reliefs as explained in the section on foreign income.

The fixed asset investment provision described in connection with the national employees' profit-sharing arrangements is also a form of investment incentive.

Applications for tax investment incentives should be made to the regional tax director of the area in which the investment is to be made. The grants given for development in the various areas described in Chapter 2 are subject to corporate income tax. The tax payable is spread over the period during which the fixed assets acquired are depreciated, the grants being deducted from asset costs for tax depreciation purposes. Grants given for nondepreciable assets are spread for tax purposes over ten years. The taxpayer may waive his right to spread these grants if he so wishes.

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Inflation Levy. An inflation levy (*tax conjoncturelle*) was introduced in 1975 to tax excessive increases in profit margins. However, this levy applies only with the specific approval of Parliament, when the official price index for manufactured consumer products exceeds certain levels, and it is not expected to come into operation in 1979.

The levy may be charged on any company engaged in the sale of goods or the provision of housing whose annual turnover exceeds F30 million (or exceeds F10 million if the company has more than 150 employees). It may also be charged on any other company—for example, one providing services—whose annual turnover exceeds F8 million (or F3 million if the company has more than 150 employees).

Nonresident Companies

The liability of a nonresident company to French corporate income tax varies depending on whether the country in which it is resident has a double taxation agreement with France.

Position under French Law. In the absence of a double taxation agreement, the nonresident company will be liable to corporation tax on the following:

1. Profits derived from carrying on business activities through a fixed place of business in France.
2. Profits derived from carrying on habitual business activities in France (for example, through a dependent agent).
3. Profits derived from carrying out a complete commercial cycle in France.
4. Income arising from the direct ownership of real estate situated in France.
5. Insurance and reinsurance premiums from French sources.

Position under a Double Taxation Agreement. If a double taxation agreement applies, that agreement will define the nonresident company's liability to French corporate income tax. Normally, agreements provide that a foreign company will be liable only on:

1. Profits derived from carrying on business through a permanent establishment in France.
2. Income derived from real estate and other immovables that are situated in France.

A permanent establishment is usually defined as including a fixed place of business and, especially, a place of management, branch, or office; a factory or workshop; a mine or quarry; and a building or construction site existing for more than twelve months. An agent of a nonresident company operating in France who has, and habitually exercises, the power to conclude contracts on behalf of the nonresident company will also be treated as a permanent establishment of the company, unless he is an independent agent acting in the ordinary course of his business. A fixed place of business will not be treated as a permanent establishment if it is used solely for storage, display, or delivery of goods; storing goods to be processed by another enterprise; purchasing goods; collecting or supplying information; advertising; scientific research; or other activities of a preparatory or auxiliary nature.

These definitions mean that a representative or liaison office of a foreign company responsible, for example, for market research will not be taxable. Such an office must not carry on the business of the foreign company in France, and it is important to note that finding customers may be construed by the French tax authorities as 'carrying on business.' In the absence of a double taxation agreement the activities which a liaison office may undertake without incurring a tax liability would be more restricted. Advertising, for example, may be regarded as carrying on business.

Taxable Bases. The profits of a branch or other permanent establishment of a nonresident company will normally be subject to corporate income tax, computed from its financial statements in the same way as that of a resident company. A reasonable allocation of head office expenses relating to worldwide operations may be charged to the French branch and deducted in computing its taxable income, but the tax authorities may require the production of the books of the parent company before allowing this deduction. However, if the tax authorities consider that the profits so computed do not properly reflect the profits earned from operations in France, they have power to recompute them by attributing part of the profits of the parent company to the branch by reference to the profits earned by similar entities in the same line of business.

Nonresident companies are liable to flat rates of tax (33 $\frac{1}{3}$ % or 15%) on certain capital gains arising in France other than through permanent establishments on the same basis as nondomiciled individuals, described later, and to withholding taxes on dividends, interest, royalties, and service fees.

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Branch profits are also subject to withholding taxes, which are described later in this chapter.

A nonresident company without a permanent establishment in France, engaged in trading in real estate in France or deriving profits from building construction or the sale of land, will be liable to a flat rate tax (known as the *prélèvement*) of 33 $\frac{1}{3}$ % or 50% on the profits derived therefrom as explained in the section on 'Taxation of Real Estate.' This tax is payable when the transfer of property is registered.

Headquarters Operations of Foreign Enterprises. As stated in Chapter 2, the French government encourages foreign enterprises and international groups to establish their headquarters in France. Consequently, headquarters operations have a specially favourable tax status, but only if the headquarters acts solely for the benefit of the foreign enterprise or the group in the performance of management, control, or coordination activities.

Corporate Income Tax. Corporate income tax is charged on a deemed profit equivalent to a prescribed percentage of the headquarters expenses—normally 8%. The wider the range of services provided by the headquarters office, the higher the rate will be. This arrangement applies whether the headquarters is organized as a branch or as a French subsidiary company.

Withholding Tax. If the headquarters operation is organized as a French subsidiary company, withholding tax must be applied to any dividends that the company may pay. If, however, the headquarters is organized as a branch, the withholding tax is applied to the actual profits (after tax) dealt with in the books of the branch and not to the deemed profit for corporate income tax purposes.

VAT and Payroll Tax. The headquarters operation will not normally be subject to VAT except to the extent that it provides services to French resident operating companies. In that case the percentage of services provided to French companies is determined on some arbitrary basis such as the proportion of worldwide sales. Value added tax suffered may however be fully recovered. A headquarters operation is not subject to payroll tax.

Branch Conversion into Subsidiary Company. If the business of a French branch of a nonresident company is transferred into a newly created French resident subsidiary of that nonresident company, the normal rules relating to the sale of a business and the creating of a new company will apply. The principal tax consequences will be as follows:

1. If the market value of assets transferred exceeds their value in the books of the branch, a capital gain will arise. A capital gain will also arise in respect of the value of any goodwill transferred. These capital gains will be taxed as short- or long-term gains in accordance with the rules already described.
2. Transfer tax at 16.6% will be payable on the value of the business transferred (including goodwill) less the value of its inventories. The inventories transferred will be charged to VAT at 17.6%, but the acquiring company will normally be able to offset this tax against tax charged on its own sales.
3. Capital duty of 1% will be payable in respect of the share capital created in the new company.
4. Losses incurred by the branch may not be carried over to the company.

It will frequently be uneconomic to convert a branch into a company. If the branch is incurring losses, these cannot be relieved in the company. If it is making profits, there may be liabilities to corporate tax on a capital gain in respect of goodwill transferred. In either case, transfer taxes and taxes on any other capital gains may be payable.

TAXATION OF INDIVIDUALS

Individuals domiciled in France, whether of French or foreign nationality, are liable to personal income tax (*impôt sur le revenu des personnes physiques*) on their worldwide income. Individuals not domiciled in France are liable to French tax only on income deemed to arise from a French source.

Tax is also levied on some capital gains as described later, but there is at present no wealth tax in France, nor are there any local taxes on income.

Individuals Domiciled in France

The definition of domicile for French taxation purposes was substantially altered by legislation that came into force on January 1, 1977. An individual is now regarded as domiciled in France if he satisfies any of the following tests:

1. If he has his home or his principal place of abode in France. For these purposes 'home' means the place where his family normally lives, and an individual will probably be regarded as having his principal place

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of abode in France if he is there for more than six months in aggregate in any tax year.

2. If he carries on his profession or occupation or employment in France, unless his activities in France are of secondary importance to those elsewhere.
3. If his centre of economic interests is in France. 'Centre of economic interests' is defined to include the places where his most important investments are made, from which his business is controlled, and from which the major part of his income is derived.

There is still considerable uncertainty as to exactly how these tests will be interpreted in practice.

Residence. Under the legislation introduced on January 1, 1977, the concept of residence no longer has any significance for the purposes of French domestic law, but the term 'resident' is still used in most double taxation agreements. For these purposes an individual is normally regarded as resident in France if he is present in the country for at least six months in the tax year.

Basis of Assessment. Personal income tax is assessed on family groups. Thus, a father's return must normally include any income earned by his wife and dependent children, although a father may elect for the income of his dependent children to be taxed separately where this is advantageous.

A wife may be taxed separately if she is separated from her husband or if divorce proceedings have begun.

Income Splitting System. Tax relief is given to families by means of the income splitting or unit system rather than by personal deductions or allowances. Under this system, the total taxable income of the family group is divided into a number of units, and the tax applicable to a single unit is multiplied by the total number of units, to give the total amount of tax payable. An unmarried person is counted as one unit, a married couple is counted as two units and each dependent child as half a unit; however, a dependent child who is a registered invalid counts as a whole unit.

Dependent children (including stepchildren and adopted children) are those under 18 years of age or, if students, under 25 years of age. The term also includes, without age limit, disabled people and those on military service. Where a taxpayer is a widow or a widower with de-

pendent children, the number of units is calculated as if the other spouse were still alive.

Thus, since tax rates are progressive, a family normally suffers less tax as a result of this system than if tax were charged at the rate applicable to its total income. The procedure is illustrated in the specimen computation at the end of this chapter.

Taxable Income. The taxable income of an individual domiciled in France comprises worldwide income from all sources, less any income specifically exempted, and certain allowable deductions. Foreign income must normally be included in full, net of any foreign taxes suffered, although double taxation agreements may provide other relief. Particular points of interest, including the taxation of capital gains, are described in the following paragraphs.

Business or Professional Income. The profits arising from carrying on a business or profession are included in taxable income. The appropriate share of a partnership's profits would be included under this heading unless the partnership had elected to be charged to corporate income tax. In general, profits are computed in a similar manner to those of companies for corporate income tax purposes, except that if an individual employs his spouse in his own business, the deduction for the spouse's salary is limited to F13,500 per year.

Employment Income. In principle, an individual domiciled in France is taxable on his wages or salaries from all sources. Cost-of-living, housing, education, and other expense allowances are included in taxable income, although allowances paid for language tuition and for transportation in the Paris area are not. However, a French citizen (and also a foreign citizen whose country has an appropriate double taxation agreement with France) is exempt from French tax on income derived from working outside France if either of the following conditions are satisfied:

1. The individual has been sent abroad by a French employer and his income is taxed in the country where he works at a rate such that his liability there would be at least two-thirds of the French liability on the same income.
2. If the individual works abroad for at least 183 days within a period of 12 consecutive months, and is engaged in certain specified activities such as construction, assembly, installation of industrial plant, research, prospecting, or extraction of natural resources. In other cases, special benefits and allowances given to individuals to enable them to work abroad are normally exempt.

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Furthermore the terms of particular double taxation agreements may provide for the exemption from French taxation of any wages or salaries received by a French resident which under the terms of the agreement are taxable in the foreign country.

Amounts due to employees under the National Profit Sharing Plan described in Chapter 4, including income arising therefrom, are exempt from income tax provided they are not made available to the employees for at least five years, except in the case of marriage, death, retirement, dismissal, or incapacity. Special bonuses (*tantièmes spéciaux*) paid to directors are taxed as if they were dividends received, although no *avoir fiscal* is available.

Pensions and Social Security Benefits. Retirement pensions, whether received from former employers or from the social security authorities, are normally taxable in full except that the first F10,000 of severance pay on retirement is exempt. Social security benefits paid due to absence from work through sickness are taxable, but other social security benefits are not.

Dividends. Dividends from resident and nonresident corporations must be included in taxable income. Dividends from French resident corporations are grossed up by the *avoir fiscal*, described earlier, equal to 50% of the dividend payment, which may then be credited against the income tax on the dividend. However, the *avoir fiscal* applies only to French domiciled individuals or to residents of another country who qualify for it under the terms of that country's double taxation agreement with France. No *avoir fiscal* is available on constructive dividends.

An individual domiciled in France is exempt from tax on the first F3,000 of dividends per year (including the *avoir fiscal*) provided that his annual taxable income does not exceed F160,000 and that he does not claim the investment deduction described later in this chapter.

Bonus issues (stock dividends) are not taxable in the hands of the recipient, but the issuing company is subject to registration tax on the amount capitalized.

Interest. Interest from all sources must be included in taxable income, with the following exceptions:

1. The first F3,000 per year of interest on quoted bonds or debentures.
2. Interest derived from specified long-term savings schemes.
3. Interest on specified government bonds.

Domiciled individuals may elect to have interest from corporate and government bonds, savings deposits, and bank accounts excluded from their taxable income and subjected instead to a special withholding tax (*prélèvement*) of 25% on interest from bonds and 40% on interest from savings deposits and bank accounts. Withholding taxes on other interest are described later.

Rents from Real Estate. Rents received less related expenses must be included in taxable income. Expenses allowed include interest and (for residential properties) improvements, plus a notional deduction of 20% of gross rents to cover depreciation.

Exempt Income. Gambling winnings, profits from the sale of patents by their inventors, and some expense allowances and profit-sharing distributions mentioned earlier are all excluded from taxable income.

The first F15,200 per year of salary paid to an apprentice is also exempt from taxable income.

Losses. Losses arising from any activity except the renting of real estate may be offset against any other income of the same fiscal year, and unabsorbed losses may be carried forward for five years. Losses arising from the renting of real estate may be offset only against other rental income of the same or subsequent five years.

Allowances and Deductions. Expenses Incurred in Employment. The following items are deductible in computing taxable income from employment:

1. Social security and retirement pension contributions.
2. A notional expenses deduction of 10% of income after the above contributions (minimum deduction, F1,800), unless the taxpayer can prove that he has incurred expenses relating to his employment in excess of 10%. If the notional expenses deduction is claimed, the deduction may not exceed F40,000 (that is, the income limit for this deduction is F400,000), but if actual expenses incurred are claimed, there are no prescribed limitations, except that the expenses must be fully justified.
3. An employment income relief of 20%, calculated on the balance after the above expenses deduction has been made. This relief is available only on net income of up to F360,000. It is reduced to 10% for an individual with an interest in excess of 35% in the company that employs him and a salary in excess of F150,000.

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Interest. Interest paid on loans to purchase or repair the taxpayer's principal residence is deductible up to an annual limit of F7,000, plus F1,000 for each dependent child, for a period of ten years from acquisition. Interest on certain other loans is also allowed.

Life Assurance Premiums. Premiums on policies taken out since January 1, 1967, are deductible, up to an annual limit of F3,250 plus F600 for each dependent child.

Elderly People and Invalids. Pension and life annuities are taxed in the same way as employment income, except that the capital element of a purchased life annuity is exempt and an allowance of the lower of 10% or F5,000 is given instead of the expenses deduction. The 20% deduction is available in the normal way.

An elderly person over 65 years of age or an invalid is entitled to a further deduction of F3,720 if his total income does not exceed F23,000, or of F1,860 if his income is between F23,000 and F37,200, in addition to the allowances in respect of pensions described in the preceding paragraph.

Payments to Relatives and Others. Reasonable living allowances paid to dependent relatives (other than dependent children) are deductible, and F3,000 per year may be deducted where the taxpayer is responsible for the day care of a child other than his own.

Alimony is deductible by the payer without restriction, but is fully taxable in the hands of the recipient.

Contributions to specified charitable and educational organizations are deductible, up to 1% of taxable income.

Investment Deduction. As an alternative to claiming the F3,000 per year exemption for dividends received, an individual may claim a deduction of F5,000 if he makes a net investment in securities (i.e., purchases less sales) of at least that amount in the year. The deduction is increased by F500 for each of the first two children in the family and F1,000 for each subsequent child. The deduction is intended to apply up to the end of 1981, but individuals over fifty will be able to claim the deduction each year until retirement or for a maximum of fifteen years. After five years their deduction would be increased to F6,000.

Taxation Based on External Signs of Wealth. If the taxpayer's style of living is out of proportion to his declared income, the tax authorities may

assess him on the evidence of his external signs of wealth. These are valued on an arbitrary basis, examples being:

- Three times the rental value of houses owned.
- 75% of the value of a new automobile purchased.
- F30,000 for one domestic servant and F37,500 for each additional servant.

An assessment based on external signs of wealth may be made only where the valuation exceeds 133⅓% of declared taxable income.

Rates of Personal Income Tax. Personal tax rates, like corporate tax rates, are fixed at the end of the year to which they relate. The rates of personal income tax for 1978 are as follows:

Taxable Income	Tax Rate	Cumulative Tax On Upper Income Limit
F	%	F
0 - 7,925	0	—
7,925 - 8,300	5	18.75
8,300 - 9,925	10	181.25
9,925 - 15,700	15	1,047.50
15,700 - 20,625	20	2,032.50
20,625 - 25,925	25	3,357.50
25,925 - 31,350	30	4,985.00
31,350 - 36,175	35	6,673.75
36,175 - 62,600	40	17,243.75
62,600 - 86,125	45	27,830.00
86,125 - 105,950	50	37,742.50
105,950 - 125,050	55	48,247.50
Over 125,050	60	

Returns and Assessments. Returns. Personal income tax is assessed upon the income arising in a calendar year, except that income derived from carrying on a business is assessed on the results for the accounting year ending within the calendar year.

Every tax return must be filed by February 28 following the end of the year in question unless it relates to an individual carrying on a business whose accounting year ends on December 31. In this case, the individual has until the following March 31 to file his return if the profit from the business for the previous year is more than F90,000, and until the following May 15 if the profit for the previous year is F90,000 or less.

Payments. Income tax on each year's income will not be payable until the following year. In the case of a business, the tax based on its income

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for the accounting year ending within a particular calendar year will be assessed in the following year. Consequently, no income tax will be payable on any source of income during the first year in which it arises.

After the submission of the tax return, an assessment will then be issued before the end of the year. If the assessment is issued by September 30, the taxpayer will have two months and fifteen days in which to pay the tax, but if it is issued after that date, only one month and fifteen days.

However, any taxpayer whose final liability to income tax in the previous year exceeds F400 must make payments on account of his liability during the year, prior to the payment of his final assessment. He may choose between the following alternatives:

1. Two equal payments on or before February 15 and May 15. Each payment will normally be one-third of the tax paid during the previous calendar year. The balance of the tax will then be paid after the assessment for the year is issued as described above.
2. Ten equal payments at the end of each of the first ten months of the year, each of one-tenth of the tax paid in the previous calendar year. In the eleventh and twelfth months, the balance of tax due (if any) for the year will be paid in equal instalments or, alternatively, a repayment will be made.

Amendments and Appeals. Similar procedures apply for individuals as for companies, and similar penalties may be imposed.

Quitus Fiscal. A domiciled individual who leaves France permanently is required to obtain a form from the French tax authorities known as a 'quitus fiscal,' certifying that all taxes have been paid. Unless this form can be produced, he will not obtain customs clearance to ship his assets from France.

Taxation of Capital Gains. Liability to Tax. Capital gains derived by an individual from the disposal of assets that have been used in his business are taxed as part of his business income at normal income tax rates. Capital gains derived from the disposal of most other types of assets, except securities, are taxed according to the rules described below. These rules also generally apply to gains on disposals by non-business organizations and by nonresident companies as well, if the disposals do not relate to permanent establishments in France. Gains from the disposal of securities by individuals are taxed according to special rules described later.

French-domiciled individuals and nonbusiness organizations are taxable on all gains, other than those derived from securities, subject to certain exemptions. After deducting allowances and making adjustments for inflation since acquisition, gains are added to other taxable income and taxed at normal personal income tax rates. Double taxation agreements may exempt gains on certain foreign assets such as real estate. The position of nondomiciled individuals and nonresident companies is described later.

A loss arising from the disposal of one asset may not be offset against a gain from another.

Exemptions and Allowances. Domiciled individuals are exempt from tax on the following:

1. Gains from the disposal of the taxpayer's principal residence or, in most cases, his secondary residence if neither the taxpayer nor his or her spouse owns their principal residence. If this exemption does not apply, any interest paid on a loan taken out for the acquisition of a residence that has not been allowed as a deduction from income may be added to the acquisition cost in computing the capital gain.
2. Gains derived from agricultural or forestal property not cultivated by the taxpayer.
3. Gains from the disposal of building plots owned for at least thirty years and other real estate owned for at least twenty years.
4. Gains on the disposal of furniture, household appliances, and private cars.
5. Gains from the sale of real estate amounting to less than F30,000 per year and from sales of other property amounting to less than F20,000 per year.
6. Gains accruing to retired persons not paying income tax.
7. Transfers on death or by gift.

Additionally, gains derived from the sale of precious metals, jewels, *objets d'art*, and antiques are subject to a tax of 2% to 4% on sales proceeds in place of tax on the capital gains, unless the taxpayer elects to pay tax on the capital gains instead.

Domiciled taxpayers who together with their spouses and dependent children do not own real estate valued at more than F400,000 (plus F100,000 for each dependent child over three in number) are exempt from tax on capital gains that were not taxable before the new capital

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gains tax laws came into force on January 1, 1977. Loans taken out for the purchase or improvement of real estate are deducted from its value for this purpose.

Taxable gains may be reduced each year by F6,000, or by F75,000 if they arise from the expropriation of real estate for public purposes.

Adjustments for Inflation. Taxable gains from the sale of real estate are reduced to allow for the effect of inflation since acquisition of the property if it has been held for a defined period.

Gains on disposals of real estate held for more than two years are reduced by multiplying the allowable cost by a prescribed coefficient based on the rate of inflation over the period held.

A further relief is available in respect of gains from the sale of real estate held for more than ten years. If the gain arises on disposal of a building plot, it may be reduced by 3 $\frac{1}{3}$ % per year for each year the site has been held in excess of ten years. In the case of other real estate the reduction is 5% per year for each year held in excess of ten. However, where real estate was disposed of with speculative intent, these rules do not apply, and inflation relief is given merely by increasing the acquisition costs by 3% per year for the first five years of ownership and 5% per year for each subsequent year.

Capital Gains Derived From Securities. A domiciled individual carrying on a business of dealing in securities will be taxed on gains arising as ordinary business income, as described earlier in this chapter. In all other cases, capital gains arising on the disposal of securities by domiciled individuals will be taxed in three situations as follows.

Regular Transactions. Capital gains from the disposal of securities listed on a stock exchange or transacted on the over-the-counter market are taxed if the individual makes regular transactions. 'Regular transactions' are defined for this purpose to include the following:

1. Transactions by an individual whose portfolio is managed for him by a stockbroker.
2. Certain speculative transactions including those financed by borrowings.
3. Transactions in security options.
4. Transactions by an individual whose sales in the year exceed 160% of the value of his portfolio at the end of the previous year and also

exceed F100,000 per year. The limit of F100,000 per year is to be increased annually in accordance with adjustments to the income tax scale.

Capital gains derived from regular transactions are taxed at 30% unless they exceed the taxpayer's other taxable income, when they will be taxed as ordinary income. However, the taxpayer may elect for the gains to be taxed as income even if the gains are less than his other taxable income.

Substantial Sales. Capital gains from the disposal of securities listed on a stock exchange or in the 'over-the-counter' market are taxed during any year in which the individual makes substantial sales—this means sales in a year exceeding F150,000, except that proceeds of 'regular transactions' are not taken into account in computing this limit. The limit of F150,000 will also be increased annually in accordance with adjustments to the income tax scale. Gains from substantial sales will be taxed at a flat 15%.

Special Circumstances. Capital gains arising from the sale of shares in any company are taxable if:

1. The individual (or his relatives or associates) has owned at least 25% of its share capital at any time during the five years prior to the disposal. Such a gain is taxed at 15%.
2. At least 50% of the assets of an unquoted company consist of real estate other than that used for the company's own industrial, commercial, or agricultural business. The capital gains on the shares are then taxed as if they were gains arising on the underlying real estate.

The exchange of securities on mergers, reorganizations, divisions, or stock conversions and the disposal of securities by employee profit-sharing investment funds, long-term savings schemes, and other investment funds do not normally give rise to taxable gains.

There is no general allowance for inflation over the period that the securities were held in computing the gains in these three situations. However, in the case of the quoted securities taxed in the first two situations, the taxpayer may elect to take the highest market quotation in 1978 in place of the actual acquisition cost for all quoted securities acquired before 1979. In the case of variable-income French securities, the average quotation in 1972 is to be used instead of the highest quotation in 1978.

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It is proposed that for disposals of quoted securities from 1984 onwards, the highest quotation in 1983 may be taken in place of the actual acquisition cost. This adjustment would be repeated every five years.

Where there has been more than one acquisition of the same security, the average acquisition cost is used in respect of subsequent disposals.

Gains and losses arising on the disposal of securities may be offset in the same year or in the subsequent five years, provided that they arise under the same rules. Thus, for instance, gains from regular transactions may be set off against losses from regular transactions but not against losses from substantial sales.

Succession and Gift Taxes. Succession and gift taxes apply to the worldwide property of individuals domiciled in France, although credit is given for foreign taxes paid on property situated abroad. Double taxation agreements may amend the general rules.

The taxes are charged on property passed on at death and on gifts given under a donation contract.

Tax rates vary with the value of the property and the relationship of the beneficiary with the deceased person or donor. They are at present as follows:

1. Surviving spouse, direct ancestors, and direct descendants. The first F175,000 received by each beneficiary is exempt, and any excess is taxed as follows:

Taxable Amount	Tax Rate %
To F50,000	5
F50,001- F75,000	10
F75,001-F100,000	15
Over F100,000	20

2. Other relatives and beneficiaries:

Relationship and Taxable Amount	Tax Rate %
Brothers and sisters	
To F150,000	35
Over F150,000	45
Uncles, aunts, nephews, nieces, great-uncles, great-aunts, great-nephews, great-nieces, first cousins	55
Others	60

Individuals Not Domiciled in France

Taxation of Income. *Income Liable to Tax.* Individuals who are not domiciled in France are charged to personal income tax on income deemed to be derived from a French source. This includes the following:

1. Income derived from real estate situated in France, including income from rights attaching to such property and income from French real estate companies.
2. Dividends and interest from French corporations, banks, and state-owned entities and royalties from persons domiciled or established in France. However, a nondomiciled individual will be assessed to French income tax on such dividends, interest, and royalties at the progressive income tax rates only if he receives them in France (for instance, through a French bank account). Otherwise his liability will be limited to the income tax withheld at source as described in the section on 'Withholding Taxes.' If the individual is assessed to income tax, the tax withheld may be credited against his ultimate liability.

If the individual is a resident of a country with which France has a double taxation agreement, dividends, interest, and royalties are normally subject only to withholding taxes at reduced rates.

3. Business profits derived from a fixed place of business, from habitual business activities, or from a complete commercial cycle carried out in France. If the nondomiciled individual is resident in a country with which France has a double taxation agreement, his profits will usually be taxed only if his business is carried on through a permanent establishment in France. Income from an agricultural holding in France is always subject to French tax.
4. Employment income, if the duties of the employment are performed in France. However, if the individual is resident in a country with which France has a double taxation agreement, his income will normally be exempt from French tax if he is employed by a foreign employer and is present in France for not more than 183 days in the tax year, provided his salary is not charged to the French permanent establishment of the foreign employer. The employer may be required to withhold income tax at source, and the tax withheld is credited against the individual's final liability.
5. Income from an independent profession or other occupation carried on in France.
6. Pensions and life annuities receivable from persons domiciled or established in France.

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7. Income paid for the performance of any service rendered or utilized in France if paid by a person domiciled or established in France, including payments for services by an individual to any corporation controlled by him.

Tax Rates. Generally, nondomiciled individuals are taxed at the same rates as domiciled individuals, but certain deductions (for example, life assurance premiums) are not available to them, and they are not entitled to use the income splitting system unless they are nationals of a country with which France has a double taxation agreement or of certain other designated countries. The 10% expenses deduction and the 20% employment income relief described earlier are, however, granted to an individual who receives income from duties performed in France.

A minimum tax rate of 25% is imposed on a nondomiciled individual, unless he can show that if French income tax were charged on his worldwide income, it would be at an average rate of less than 25%. The withholding taxes on dividends, interest, royalties, and employment income set out on pages 195-199 also normally constitute minimum taxes on nondomiciled individuals.

Alternatively, a nondomiciled individual is subject to income tax each year on three times the annual rental value of any residence in France available to him, if this figure is greater than his income from the sources listed above. If the residence is owned by a foreign company, corporate income tax at 50% may be imposed on three times the annual rental value instead. However, these provisions will not apply to nondomiciled French nationals, or to foreign nationals of countries with which France has double taxation agreements, provided such foreign nationals are subject to tax on their worldwide income in their countries of domicile and this tax is not less than two-thirds of what the French tax liability would be on that income.

Foreign Employees. No specially favourable tax treatment is available to foreign employees seconded to work in France for limited periods. The position under double taxation agreements has already been described.

Capital Gains. Individuals not domiciled in France, and also nonresident companies deriving gains other than through permanent establishments in France, are charged to tax only on the following:

1. Capital gains derived from the disposal of real estate situated in France, or of shares in any unquoted company where more than 50% of its assets consist of real estate in France, unless the real estate is

used for the purposes of the company's own commercial, industrial, or agricultural business. Sales of such shares are taxed as if they were sales of the underlying real estate.

2. Capital gains derived from the disposal of shares in a French company where the shareholder has a substantial interest—that is, where he and his associates have owned an interest of more than 25% in the company at any time during the five years before the disposal.
3. Gains derived from the sale of goodwill in a French enterprise.

Gains from the sale of real estate are taxed at 33 $\frac{1}{3}$ %, and gains from the sale of substantial interests in French enterprises are taxed at 15%. Gains from the sale of shares representing a substantial interest will frequently be exempt under the terms of a double taxation agreement where the recipient is resident in a country with which France has such an agreement.

Succession and Gift Taxes. Nondomiciled individuals are charged to these taxes only on property situated in France, including real estate, securities, and debts.

TAXATION OF REAL ESTATE

Special tax reliefs are available in respect of profits derived by certain designated entities from housing construction and managed-property rental income. The rules relating to these reliefs are complex and are only summarized here.

In the absence of such reliefs, income from rents and gains on disposals of real estate are taxed as described earlier in this chapter. Differing methods and rates apply to resident companies, domiciled individuals, nonresident companies, and nondomiciled individuals.

Value added tax aspects are described at the end of the section headed 'Value Added Tax.'

Profits from Housing Construction

Conditions for Relief. The special reliefs are given in respect of profits arising from the sale of buildings if the following conditions are satisfied:

1. The profit is from the sale of a completed building or from a contract requiring the seller to complete the building.
2. At least 75% of the floor area of the building is to be used for dwelling purposes.

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In the case of a company, the relief is available only if its sole objective is the construction of buildings at least 75% of which are to be used for dwellings. Moreover, 90% of the company's assets must be used in the construction of such buildings, the remaining 10% being used in related construction activities.

Corporate Taxpayers. If the profit is realized by a resident company or through the French permanent establishment of a nonresident company, only 30% is subject to corporate income tax at 50%, provided that the remaining 70% is transferred to a special reserve and is not distributed for seven years. The effective corporate income tax rate is therefore 15%.

If the special reserve is distributed more than four years but less than seven years after the realization of the profit, one-half of the reserve becomes taxable, making the effective corporate income tax rate 32½%.

If the special reserve is distributed within four years of realization of the profit, the whole amount becomes taxable at the 50% corporate income tax rate, plus a late payment interest penalty at 9% per year from the date of realization of the profit.

A nonresident company with no permanent establishment in France will be subject to tax at 33⅓% on housing construction profits, provided that the following conditions are satisfied:

1. The nonresident company is not directly or indirectly controlled by French residents.
2. Profits made by the company in France do not represent more than 25% of its total profits. Otherwise the profits will be subject to tax at 50%.

These taxes (known as *prélèvements*) are due for payment when the transfer of title to the property is registered.

Housing construction is frequently carried out through a civil company known as a *Société Civile de Construction-Vente (SCI/CV)*. Such a company may have either corporate or individual shareholders. The *SCI/CV* is taxed on profits from housing construction at a rate of 33⅓%.

Individual Taxpayers. If the profit is realized by an individual, it will be taxed at 33⅓%. No further tax will be payable provided that the accumulated gains from such transactions do not exceed F400,000 over a period of four years.

On any excess, French domiciled individuals will be subject to income tax at the normal progressive rates on the profit and nondomiciled individuals will be charged to tax at a flat rate of 50%.

Rental Income

Several types of entity in France have as their sole objective the renting of properties to tenants and are therefore accorded special tax treatment.

1. A *Société Civile Immobilière (SCI)* must have as its sole objective the management and letting (renting) of unfurnished dwellings, unfurnished commercial or industrial offices, or unoccupied land. Its income is subject to corporate or individual income tax in the hands of its shareholders as it arises, unless the shareholders jointly elect that the *SCI* shall be subject to corporate income tax. Profit shares paid to foreign shareholders will be subject only to dividend withholding tax in the latter case.
2. A *Société Immobilière pour le Commerce et l'Industrie (SICOMI)* must have a minimum capital of F25 million, and its sole objective must be the letting of unfurnished premises for business use. Provided that 85% of net profits are distributed each year, no tax is charged on the company, the shareholders being taxed on their dividends. Dividends paid to nonresident shareholders are subject to dividend withholding tax. Normally nonresidents may not own more than 50% of the shares of a *SICOMI*.
3. A *Société Immobilière d'Investissement (SII)* must have a minimum capital of F50 million, and its sole objective must be the management of buildings that are let to tenants and that have at least three-quarters of their floor area devoted to dwellings. The income is not subject to tax in the hands of the company, but only in the hands of the shareholders. In this case no withholding tax is imposed on dividends paid to foreign shareholders.
4. A *Société Anonyme Immobilière (SAI)* may manage and let both furnished and unfurnished premises. It is subject to corporate income tax and dividend withholding tax in the same way as any other SA corporation.

WITHHOLDING TAXES

Taxes must be withheld at source on payments of several kinds of income. The withholding tax (*retenue a la source*) rates referred to in the following paragraphs for payments of dividends, interest,

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royalties, and fees to nonresidents are those that apply to countries that have not concluded double taxation agreements with France. Most agreements with France either reduce the rate of withholding tax or exempt the nonresident entirely, as illustrated in the table at the end of this section.

Dividends and Profits

There is no general withholding tax on dividends to French resident or domiciled shareholders, but dividends to others are subject to a 25% withholding tax. Moreover, profits earned by the branch of a nonresident company are deemed to have been distributed and are therefore subject to the 25% dividend withholding tax on the full amount, unless the nonresident recipient can show that its actual dividend distributions were less than the French branch profits or that the dividends were paid to shareholders domiciled in France. The tax on the difference between French profits and actual dividends or dividends to French shareholders is then refunded. For this purpose, distributions by the nonresident company are deemed to have been made first out of French branch profits. If a refund is expected, the company may apply for relief from this withholding tax on the full after-tax profits. However, if the tax paid is less than the final liability, penalties may be imposed.

Dividends paid out of profits that have not suffered the full 50% rate of corporate income tax, or that were accumulated more than five years before the distribution, must be paid after deduction of the *précompte* at a rate of 50% of the net dividend or 33⅓% of the dividend plus the *avoir fiscal*. The *précompte* does not apply to the profits of a branch of a nonresident company.

Business profits earned in France by partnerships and individuals and subject to income tax are not subject to any withholding tax on distribution to the proprietors.

Interest

Interest paid on French corporate and local government bonds and negotiable debt instruments is subject to withholding tax, whether the recipient is resident or nonresident. The rate is 12% if the bonds were issued before January 1, 1965, and 10% if issued later. Interest on central government bonds may also be subject to withholding tax at these rates, although many such bonds are exempt.

It has already been mentioned that individuals domiciled in France may elect to pay a further withholding tax (*prélèvement*) in lieu of income tax

on interest from bonds, savings deposits, and bank accounts. The rate applied is 25% on bond interest and 40% on other interest. The *prélèvement* also applies to all kinds of interest paid to nonresidents other than that arising from deposits in foreign currencies with French banks and a few other financial transactions.

In cases where both withholding tax and *prélèvement* are due on interest, the former may be credited against the latter, so that the *prélèvement* represents the maximum rate of tax payable.

Royalties and Fees

Royalties and fees paid to companies or individuals resident or domiciled in France are not subject to withholding tax. A 33 $\frac{1}{3}$ % withholding tax is applied to royalties, paid to nonresidents. This tax also applies to payments of service and management fees to nonresident individuals or companies where the services are utilized in France and to remuneration for noncommercial activities carried out in France.

Employment Income

Wages and salaries are not generally subject to withholding taxes. When paid to individuals not domiciled in France, however, tax must be withheld at the following rates:

Annual Income (F)	Tax Rate (%)
Up to 21,600	Nil
21,601- 64,600	15
Over 64,600	25

Principal Withholding Tax Rates on Payments to Nonresidents

Recipient's Country of Residence	Dividends %	Interest %	Royalties %
Countries having double taxation agreements with France			
Australia	15	10	10
Austria	15	Nil	Nil ⁽¹⁾
Belgium	10 ⁽²⁾	15 ⁽³⁾	Nil
Brazil	15	15 ⁽⁴⁾	15 ⁽⁵⁾
Canada	15	15 ⁽³⁾	10
Denmark	Nil	Nil	Nil
Germany (Federal Republic)	Nil	Nil	Nil
Greece	25	Nil ⁽³⁾	5
Ireland	10 ⁽⁶⁾	Nil	Nil
Italy	15	15 ⁽³⁾	Nil

(Continued)

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Principal Withholding Tax Rates on Payments to Nonresidents

(Continued)

Recipient's Country of Residence	Dividends %	Interest %	Royalties %
Japan	15	10	10
Luxembourg	5 ⁽⁷⁾	10 ⁽⁸⁾	Nil
Netherlands	5 ⁽⁹⁾	10 ^{(8), (10)}	Nil
Norway	Nil ⁽¹¹⁾	Nil	Nil
Portugal	15	12 ⁽³⁾	5
Spain	10 ⁽¹²⁾	10 ⁽⁸⁾	6
Sweden	Nil ⁽¹³⁾	Nil	Nil
Switzerland	5 ⁽¹⁴⁾	10 ⁽⁸⁾	5
United Kingdom	5 ⁽²⁾	10 ⁽⁸⁾	Nil
United States	5 ⁽¹⁵⁾	10 ⁽⁸⁾	5
Countries having no double taxation agreements with France	25	40 ⁽¹⁶⁾	33 ¹ / ₃

Notes:

- (1) 10% withholding tax will apply if the recipient is a company owning at least 50% of the share capital of the French company.
- (2) This rate applies if the recipient is a company owning at least 10% of the share capital of the French company; otherwise the rate is 15%.
- (3) 10% on interest from negotiable loan instruments and other specified loans (12% if issued before January 1, 1965).
- (4) In some specific cases the rate is further reduced to 10% or nil.
- (5) The rate is 25% for trademark royalties and 10% for copyright royalties.
- (6) This rate applies if the recipient is a company owning at least 50% of the share capital of the French company; otherwise the rate is 15%.
- (7) This rate applies only if 25% of the share capital of the French paying company is owned by a Luxembourg company or its subsidiaries.
- (8) 12% on negotiable loan instruments and other specified loans issued before January 1, 1965.
- (9) This rate applies only if the Netherlands company owns at least 25% of the share capital of the French company and is not subject to Netherlands tax on the dividend; otherwise the rate is 15%.
- (10) Some specified types of interest are exempt.
- (11) The rate is nil if the recipient company owns at least 50% of the share capital of the French company; otherwise it is 10%.
- (12) This rate applies only if the recipient is a company owning at least 25% of the share capital of the French company; otherwise the rate is 15%.
- (13) 15% if the recipient is a Swedish company that is subject to Swedish tax on the dividend or is an investment company or fund more than 80% owned by Swedish resident individuals.
- (14) The rate is 15% if the recipient is entitled to the *avoir fiscal* and in certain other cases. The conditions are complex, and reference should be made to Article 11 of the France/Switzerland double taxation agreement.

- (15) This rate applies only if the recipient is a US company owning at least 10% of the share capital of the French company, and not more than 25% of its income for the prior taxable year consists of dividends and interest (other than from subsidiaries or from a banking, insurance, or financing business).
- (16) 25% on interest from bonds.

DOUBLE TAXATION AGREEMENTS

Current Agreements

France has concluded comprehensive agreements covering income, and in some cases capital gains, with the following countries. Those marked with an asterisk also have agreements with France that deal with inheritance taxes.

Algeria*	India	Norway
Australia	Iran	Pakistan
Austria*	Ireland	Poland
Belgium*	Israel	Portugal
Benin*	Italy	Romania
Brazil	Ivory Coast*	Senegal*
Cameroon*	Japan	Singapore
Canada*	Lebanon*	Spain*
Central African Empire*	Luxembourg	Sweden*
Comoro Islands*	Madagascar*	Switzerland*
Congo (Brazzaville)*	Malaysia	Thailand
Czechoslovakia	Mali*	Togo*
Dahomey*	Malawi	Tunisia*
Denmark	Mauritania*	United Kingdom*
Finland*	Monaco*	USA*
Gabon*	Morocco*	Upper Volta*
Germany (Federal Republic)	Netherlands	Yugoslavia
Greece	Niger	Zambia

There are also agreements relating solely to shipping and air transport profits with the following countries:

Afghanistan	Guinea	New Zealand
Argentina	Haiti	Peru
Bulgaria	Hungary	Philippines
Cambodia	India	Sierra Leone
Chile	Indonesia	South Africa
Colombia	Iraq	Syria
Dominican Republic	Jersey	Tanzania
Egypt	Jordan	Uganda
Ethiopia	Kenya	United Arab Republic
Ghana	Liberia	USSR
Guatemala		

Taxation in France

Scope of the Agreements

The comprehensive treaties relating to income and capital gains generally follow the OECD model and provide that:

1. Nonresidents are taxed on business profits in either country only if they carry on business there through a permanent establishment.
2. The rates of withholding tax on dividends, branch profits, interest, and royalties are reduced or extinguished.
3. The right to tax capital gains may be reserved to one country only, depending upon the nature of the gain.
4. Nonresidents are not taxed on wages or salaries paid in respect of duties performed in the country if they are employed by a nonresident employer and are not in the country for more than 183 days in a year, and their salary is not charged to a permanent establishment of the nonresident employer in that country.
5. Nationals of one country are not taxed in the other country on a less favourable basis than the other country's nationals.
6. The *avoir fiscal* is refunded to nonresident shareholders resident in the other country, if they are individuals with any level of shareholding or companies with a shareholding up to a stated maximum percentage. The *précompte* is usually refunded where the *avoir fiscal* is not available. The refund of both the *avoir fiscal* and the *précompte* is subject to dividend withholding tax at the rate specified in the agreement.
7. French residents will be exempted from French tax on certain sources of income and gains which are taxable under the terms of the agreement in the other country. Common examples are income and gains from real estate located in the other country and wages and salaries from employment exercised in the other country.
8. Direct foreign taxes suffered on dividends, interest, royalties, and in some cases other types of income derived from the other country may be credited against the French tax liability on the same income provided that such income is brought into account gross of the withholding tax. A few treaties allow a credit for the notional foreign tax which would otherwise be payable on such income but for a special exemption.

French double taxation agreements do not give relief for foreign underlying corporate taxes on dividends from foreign countries, as the 95% dividend deduction explained earlier is available, subject to the pre-

scribed conditions, to any French company that owns 10% or more of the shares in the foreign company paying the dividend.

Unilateral Relief

In the absence of specific provisions in a double taxation agreement, foreign taxes may not be credited against French corporate or individual income tax except in the rare case of a company taxed on its worldwide income, although foreign withholding taxes may be credited against the *précompte*. Foreign taxes may be deducted from income liable to French tax where a credit against the French income taxes is not available.

VALUE ADDED TAX

Value added tax, referred to in France as '*TVA*' (*taxe sur la valeur ajoutée*) but called here by the English-language abbreviation, 'VAT,' was extended to cover virtually all supplies of goods and services as of January 1, 1968. It forms a very significant part of the French tax structure.

Taxable Transactions

VAT is levied on all transactions of an industrial or commercial nature carried out within France, unless specifically exempted. The term 'transactions' covers all supplies of goods and services made by an enterprise in the course of its business.

All goods imported into France are liable to VAT. Although, in principle, the VAT applicable to imports is payable by the foreign exporter, in practice it is paid by the importer on his behalf if the foreign exporter does not have an establishment or representative in France. Services rendered by persons established outside France to persons established in France who are chargeable to VAT are also taxable.

Interest and royalties are subject to VAT except for bank interest, interest on bonds, and in some cases royalties paid to a licensor who is himself the inventor of the product or process licensed.

Exemptions from VAT

The following are exempt from VAT:

- Direct sales by primary producers of agricultural and forestry products
- Educational institutions
- Medical and dental services

Taxation in France

Research centres

Charitable and social activities within defined categories

Stock exchange transfers

Transactions which are subject to registration and transfer taxes.

A service rendered by a person established outside France to a person established in France who is not chargeable to French VAT is also exempt.

Transactions in real estate may be subject either to VAT or to transfer taxes as explained at the end of this section.

The services provided by the following are exempt from VAT only for a five-year period from January 1, 1979:

Veterinary surgeons

Lawyers

Notaries

Assessors

Artists and writers.

Sporting activities are exempt for a similar period.

Where transactions are within the above exempt categories, no credit will be available for VAT suffered on related supplies.

Exports. Sales of goods for delivery outside France are exempt from VAT. The supply of some types of service are exempt from VAT in the following circumstances:

- Where the service is rendered by a person established in France to a person established in a non-EEC member state
- Where the service is rendered by a person established in France to a person established in another EEC member state who is chargeable to VAT in that country.

Consequently such services, rendered by persons established in France to persons established in other EEC member states who are not chargeable to VAT, are taxable.

Unlike other exempt transactions, credit will be allowed for VAT suffered on supplies relating to export transactions. Exporters may arrange for

their suppliers to invoice them without charging VAT if the consent of the tax authorities is obtained, but the amount of supplies so invoiced may not exceed the export supplies during the previous year.

Mechanics of VAT

In most cases, VAT does not constitute a cost element for business enterprises, as tax charged on suppliers' invoices or paid on imports represents an advance payment of the tax that can be recovered on sales or services to customers. An entrepreneur is entitled to credit the total VAT paid on his purchases of goods, equipment, and services for use in his business, including his capital expenditure, against the total of the tax he charges to his customers for deliveries made and services rendered by him.

Businesses that are exempt from VAT on part of their supplies are entitled to a credit for VAT on only part of their purchases. The credit is determined either on a pro rata basis or by splitting the business into taxable and exempt sections.

No VAT credit is allowed for expenditure not necessary for business purposes or expenditure on accommodation and entertainment for directors and employees, gifts, company cars, and fuel oils.

The following information is required on every invoice to enable the purchaser to obtain credit for VAT he has suffered:

1. The purchaser's name and address
2. The rate of VAT applicable to each item
3. The net unit price and the total price of the goods or services invoiced, exclusive of VAT
4. The total amount of VAT invoiced.

The information in 2, 3, and 4 can normally be omitted if the purchaser is not able to recover VAT paid.

Returns and Payments. VAT returns must be made monthly, not later than the date specified by the authorities, which is normally in the month following the month to which the return relates. The net amount of tax payable must be remitted to the tax authorities together with the return. If tax charged by suppliers exceeds the tax charged to customers for the month, the excess may be carried forward and will be refunded periodically on application to the tax authorities.

Taxation in France

Taxpayers must keep proper accounting records in respect of VAT transactions, and the tax authorities may examine these records. If a tax audit discloses errors or omissions resulting in underpayments, a penalty for late payments is charged at the rate of 3% for the first month's delay and 1% for each subsequent month. Penalties of 60% to 200% of the tax may be imposed where errors or omissions are shown to have been deliberate. The procedure for appeals is similar to that for direct taxes.

Taxpayers are not required to register separately with the tax authorities for VAT purposes.

Rates. VAT is calculated on the net invoice price of the goods or services concerned, excluding the tax itself. There are three rates:

1. 7% (reduced rate) on books, newspapers, magazines, most food-stuffs, public transport, medicines, and a few other items.
2. 17.6% (standard rate)
3. 33 $\frac{1}{3}$ % (increased rate) on cars and luxury products.

Foreign Suppliers. A nonresident supplier who has no permanent establishment in France must appoint a representative in France who will be responsible for VAT payments and collections. If no representative is appointed, the authorities may require the French customer to pay the VAT due.

Nonresidents who use services in France are not generally allowed to recover any VAT charged to them on such services, although there are exceptions to this rule.

Relief for Low-Turnover Businesses. Although all businesses must normally charge VAT on all taxable transactions, businesses with a turnover of less than F500,000 per year will pay VAT over to the tax collector on the basis of notional figures determined by the tax authorities. Also where the VAT payable for the year is less than F1,350, the business will not be required to pay any tax over to the collector, and where the VAT payable is between F1,350 and F5,400, only part will have to be paid in accordance with a prescribed formula.

Banks and VAT

Banks were formerly subject to TAF, a special turnover tax, instead of VAT, but this tax was abolished as of January 1, 1979, and replaced by a new annual tax on 'credit liabilities.' What these words mean was unclear

when this business study was written. Banks may now elect to pay VAT at the standard rate on some transactions such as security deals. If they do so elect, they will pay the new tax on credit liabilities at two-thirds of the rate otherwise applicable. The proposed rates of the new tax for banks not electing to pay VAT are 0.24% in 1979, decreasing to 0.15% by 1985.

VAT on Real Estate

The sale of land and the first sale of a building, if within five years of construction, are subject to VAT. Lettings, other than of unfurnished premises, and sales of shares in the special property companies described earlier are also subject to VAT. However, the following transactions are exempt:

1. The sale by an individual of the house in which he lives, except when sold within five years of acquisition if VAT was not paid on acquisition.
2. The acquisition of land without the intention to develop it within four years.

The acquisition of land intended for development within four years is subject to the standard rate of VAT on 30% of its value (effective rate, 5.28%). If construction has not been commenced within the four years, VAT at 17.6% must be paid together with a supplement of 1%.

Where VAT is not payable on a sale of land or property, transfer taxes will be payable.

OTHER TAXES

Local Taxes

The most important of the local taxes are discussed below. In addition, several other small taxes are levied by local authorities.

Business Tax. This tax (*taxe professionnelle*) is imposed on most commercial, industrial, and professional enterprises (including branches of foreign companies), although some small traders, farmers, and craftsmen are exempt. Tax is charged on the annual rental or deemed annual rental value of the tangible fixed assets of the enterprise and on one-fifth of its gross salaries and related payroll benefits. Tax rates vary widely from commune to commune and from year to year and in some communes may represent a significant tax burden.

Taxation in France

Real Estate and Dwelling Taxes. The real estate tax (*taxe foncière sur les propriétés bâties ou non bâties*) is paid by owners on the assessed rental value of real estate, whether developed or undeveloped. Temporary exemptions (usually for two years) are granted for new industrial and residential buildings.

The dwelling tax (*taxe d'habitation*) is paid by the owners or, if let, the occupiers of all residential premises. It is based on theoretical rental values. Reliefs are granted where the taxpayer has dependent children. Owner-occupiers pay both the real estate tax and the dwelling tax.

Real estate tax and dwelling tax are normally charged at the same rate and from year to year. At present, each tax would amount to about F1,500 for an apartment in Paris of about 100 square metres in size.

New Construction Tax. This tax (*tax locale d'équipement*) is charged on all new construction work, at 1% to 5% of the notional value of the building under construction, computed according to its size and nature.

Regional Transfer Tax. This tax (*tax régionale*), which is levied for the benefit of regional government authorities, is charged at varying rates up to 1.6% on transfers of real estate.

Registration and Transfer Taxes

Capital Taxes. The capital of a company is subject to registration taxes (*droits d'enregistrement*) as follows:

On Formation

Contributions of cash	1%
Other assets contributed by entities subject to corporate income tax	1%
Other assets (except real estate, goodwill, and leasehold rights) contributed by persons not subject to corporate income tax	1%
Real estate, goodwill, and leasehold rights contributed by persons not subject to corporate income tax (unless to an entity not subject to corporate income tax, when the rate remains at 1%)	11.4%

On Increases of Capital

Capitalization of reserves (bonus issue or stock dividend)	12% (reduced to 3% if capitalization occurs before December 31, 1980, and is accompanied by an equivalent subscription of shares for cash)
--	---

Additional capital raised from proprietors 12%

On Reorganizations

On conversion of an entity not subject to corporate income tax into one that is so subject	As on formation (including 11.4% on appropriate assets held at the time)
On conversion of an Sàrl into an SA or vice versa	F100 (provided no major changes made in articles)
On corporate mergers (these favourable rates due to end December 31, 1980)	
Basic tax	F300 (levied on absorbing company)
On excess of shares issued by absorbing company over capital of absorbed company	1.2%

Transfer Taxes. The sale of certain assets gives rise to transfer taxes (*taxes de publicité foncière*). These are normally borne by the purchaser, and the most important are:

Sales of Real Estate. Sales of real estate and leasehold rights are subject to transfer tax if they are not subject to VAT. Tax is payable at 16.6%, although on sales of residential property it is reduced to 5.4%. This tax is in addition to the regional transfer tax already mentioned.

Sales of Businesses. The entire proceeds are taxed at 16.6%, except that the value of any inventories included in the sale price is subject instead to VAT.

Sales of Securities. Sales of securities other than shares in corporations are taxed at 4.8%. Tax is charged on sales of French-registered securities wherever the transfer takes place and of foreign-registered securities transferred within France. Interests in limited liability companies are regarded as securities for these purposes. Sales of shares in corporations are taxed only if made by deed of sale signed in France. As such a deed is not legally required, tax is not usually paid.

Transfer taxes are based on the market value of the assets concerned. On a real estate transfer, the tax authorities may contest the stated price and require the purchaser to pay tax on market value.

Sales of securities in a real estate company may be charged to transfer taxes as if they were sales of the underlying real estate. The rates

Taxation in France

applied are the same as those for real estate set out above. A real estate company is defined in the same way as for capital gains purposes.

Transfer and registration taxes and VAT are mutually exclusive and are not both levied on the same transaction.

Stock Exchange Transactions Tax. Securities transferred on the stock exchange are subject to a further registration tax paid by the brokers, known as the stock exchange transactions tax. This tax is charged at 0.3% on transactions of up to F100,000 and at 0.15% on transactions of a greater amount.

Miscellaneous Taxes

Taxes Based on Wages and Salaries. Several taxes are levied on the amount of wages and salaries paid by commercial or industrial entities. These are in addition to the social security contributions described in Chapter 4. All are allowable deductions from business profits for income tax purposes.

Payroll Tax. This tax (*taxe sur les salaires*) is levied on the payroll of any enterprise that is not subject to VAT on 90% or more of its turnover. Current rates are 4.25% on the first F60,000 of each employee's pay, plus 9.35% on any excess.

The amounts so calculated are then reduced to the proportion that turnover not subject to VAT bears to total turnover.

Amounts paid as reimbursement of expenses, fixed expense allowances, and sums paid under qualifying share acquisition plans are not included in pay for this purpose.

The tax is normally paid monthly (quarterly by small firms).

Continuous Education Tax. All employers with an average of ten or more employees in a year must allocate a minimum of 1.1% of total wages and salaries (including taxable benefits) to staff training. Any shortfall of qualifying expenditure below this minimum is assessed on the employer as a tax (*taxe de formation professionnelle*) payable to the revenue authorities. If the number of employees exceeds fifty, staff training expenditure must be approved by the authorities.

For the purpose of tax on business profits, training expenditure is allowed as a deduction in the year incurred, but the tax is deductible in the year in which it is paid.

Apprenticeship Tax. All employers with an average of ten or more employees in a year are subject to a tax (*taxe d'apprentissage*) of 0.5% of total payroll, to finance the training of apprentices. Employers are exempt from this tax to the extent that they incur training expenditure themselves with the approval of a special committee responsible for the tax.

Tax is payable by March 15 following each calendar year-end, regardless of the employer's accounting date.

Obligatory Housing Tax. Every employer with an average of ten or more employees in a year is required to invest 0.9% of his annual payroll in the provision of housing by December 31 of the following year. Qualifying expenditure includes loans to employees at low interest rates as well as direct construction or provision of funds to housing institutions.

If less than the required 0.9% of payroll is expended by the employer, a tax is charged according to the following formula:

$$\frac{2\% \times 100 \times \text{shortfall}}{0.9}$$

The maximum tax payable is thus 2% of payroll.

Transport Tax. Employers in Paris and a number of other areas are required to pay a transport tax if they have ten or more employees working in the defined area. The tax is charged at varying rates (maximum 2%) on the part of the payroll on which social security contributions are due. This tax is additional to the Paris area transport allowances mentioned in Chapter 4.

Other Duties and Licence Fees. A number of documents, such as bills of exchange, promissory notes and receipts for cash payments are subject to small stamp duties. Among various minor duties are a television and radio tax (currently of F320 per year), a street cleaning tax, and several small fees and duties.

An automobile licence (*vignette automobile*) must be purchased each year by every vehicle owner. The rate varies according to the car's age and the size of its engine. On new vehicles, the rates range from about F120 to F1,200. Another automobile tax is payable by companies whose directors or employees use company-owned cars either for work or for private enjoyment. Rates range from about F2,000 to F2,900 per year according to the size of the engine.

Taxation in France

SPECIMEN TAX COMPUTATIONS

CORPORATE INCOME TAX

Facts	F	F
Profit after tax		<u>810,000</u>
This includes:		
Dividends from nonsubsidiary <i>(avoir fiscal F10,000)</i>	20,000	
Profit on disposal of machine	1,000	
Profit on disposal of building	<u>400,000</u>	
Notes		
1. The machine cost F12,000 four years ago, was depreciated to F8,000, and sold for F9,000.		
2. The building cost F120,000 25 years ago, was depreciated to nil, and sold for F400,000.		
Tax Payable		
Profit after tax		810,000
Add		
Provision for paid vacation (current year)	70,000	
Obligatory housing tax (current year)	40,000	
Provision for taxes	<u>350,000</u>	
		<u>460,000</u>
		1,270,000
Deduct		
Provision for paid vacation (previous year)	60,000	
Obligatory housing tax (previous year)	30,000	
Long-term capital gain on building (F400,000-F120,000)	<u>280,000</u>	
		<u>370,000</u>
Profit taxable at 50%		<u>900,000</u>
Tax thereon		450,000
Less one-half of <i>avoir fiscal</i>		<u>(5,000)</u>
		445,000
Tax on long-term capital gain (F280,000 at 15%)		<u>42,000</u>
Tax payable for the year		<u>487,000</u>

Note

The profit of F1,000 on the disposal of the machine and F120,000 of the profit on disposal of the building represent recaptured depreciation and are taxed as income.

PERSONAL INCOME TAX

The following tax computation is for a married man, domiciled in France, with two dependent children, in 1978:

Income	F	F	F
Real estate income			12,600
Salary from employment (after deducting social security and pension contributions)			128,000
Dividends			3,200
<i>Avoir fiscal</i> on these dividends			<u>1,600</u>
Expenses			
Premiums on life assurance policy			3,000
Interest on loan for the purchase of principal residence			12,000
Contributions to charitable organizations			<u>1,400</u>
Taxable Income			
Real estate income		12,600	
Deductions			
20% standard deduction	2,520		
Real estate property tax	700		
Repairs	<u>2,800</u>		
		<u>6,020</u>	
Taxable real estate income			<u>6,580</u>
Salary		128,000	
Deductions			
10% standard deduction	12,800		
20% x (F128,000 less F12,800)	<u>23,040</u>		
Taxable salary		<u>35,840</u>	92,160
Dividends			
Net		3,200	
<i>Avoir fiscal</i>		<u>1,600</u>	
Taxable dividends			<u>4,800</u>
Gross income for tax purposes			103,540
Deductible expenses			
Premiums on life assurance policy		3,000	
Interest on loan incurred for purchase of principal residence <u>F12,000</u>			
Limitation	7,000		
+ F1,000 x 2 =	<u>2,000</u>	<u>9,000</u>	
Allowed deductions			<u>12,000</u>
Taxable income			91,540
Contributions to approved charitable organizations <u>F1,400</u>			
Limitation: 1% x 91,540			<u>915</u>
Net taxable income			<u>90,625</u>

(Continued)

Taxation in France

PERSONAL INCOME TAX

(Continued)

Tax Payable

Computation of units

Father and mother = 2

Children 2 x ½ = 1

3

Taxable income per unit: F90,625 ÷ 3 = F30,208

Tax payable per unit at graduated rates: F4,642

Tax payable by the family group: F4,642 x 3

Less: *Avoir fiscal* on dividends

Payments made on account (e.g.)

Net tax payable after assessment

F

F

1,600

8,000

13,926

9,600

4,326



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Panamá

PAPUA NEW GUINEA

Lae
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Bacolod
Davao
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Umtali

SAUDI ARABIA

Dammam
Jeddah
Riyadh

SHARJAH

Sharjah

SINGAPORE

Singapore

SOUTH AFRICA

Cape Town
Durban
Empangeni
Johannesburg
Pietermaritzburg
Port Elizabeth
Pretoria

SPAIN

Barcelona
Madrid

SURINAME

Paramaribo

SWAZILAND

Mbabane

SWEDEN

Stockholm

SWITZERLAND

Geneva
Zurich

SYRIA

Damascus

THAILAND

Bangkok

TRANSKEI

Umtata

TRINIDAD AND TOBAGO

Port of Spain

TURKEY

Istanbul
Izmir

UNITED KINGDOM

Belfast
Birmingham
Bristol
Edinburgh
Glasgow
Leeds
Leicester
Liverpool
London
Manchester
Shrewsbury

UNITED STATES OF AMERICA

Akron, Ohio
Albuquerque, New Mexico
Anchorage, Alaska
Atlanta, Georgia
Austin, Texas
Baltimore, Maryland
Birmingham, Alabama
Boise, Idaho
Boston, Massachusetts
Buffalo, New York
Canton, Ohio
Charlotte, North Carolina
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Colorado Springs, Colorado
Columbus, Ohio
Corpus Christi, Texas
Dallas, Texas
Dayton, Ohio
Denver, Colorado
Detroit, Michigan
Elizabethtown, Kentucky
Fresno, California
Grand Rapids, Michigan
Hackensack, New Jersey
Harrisburg, Pennsylvania
Honolulu, Hawaii
Houston, Texas
Jackson, Mississippi
Jacksonville, Florida
Kansas City, Missouri
Lansing, Michigan
Lincoln, Nebraska
London, Kentucky
Los Angeles, California
Louisville, Kentucky
Melville, New York
Memphis, Tennessee
Miami, Florida
Milwaukee, Wisconsin
Minneapolis, Minnesota
Mobile, Alabama
Morristown, New Jersey
Nashville, Tennessee
Newark, New Jersey
New Orleans, Louisiana
Newport Beach, California
New York, New York
Oakland, California
Oklahoma City, Oklahoma
Omaha, Nebraska
Philadelphia, Pennsylvania
Phoenix, Arizona
Pittsburgh, Pennsylvania
Pocatello, Idaho
Portland, Oregon
Richmond, Virginia
Rochester, New York
Sacramento, California
St. Louis, Missouri
Saint Paul, Minnesota
Salem, Oregon
Salt Lake City, Utah
San Antonio, Texas
San Diego, California
San Francisco, California
San Jose, California
Santa Rosa, California
Seattle, Washington
Southfield, Michigan
Stamford, Connecticut
Steubenville, Ohio
Syracuse, New York
Tampa, Florida
Toledo, Ohio
Topeka, Kansas
Tulsa, Oklahoma
Washington, D.C.
Worcester, Massachusetts
Youngstown, Ohio

VENEZUELA

Caracas
Maracaibo

YEMEN ARAB REPUBLIC

Sana'a

YEMEN (PDR)

Aden