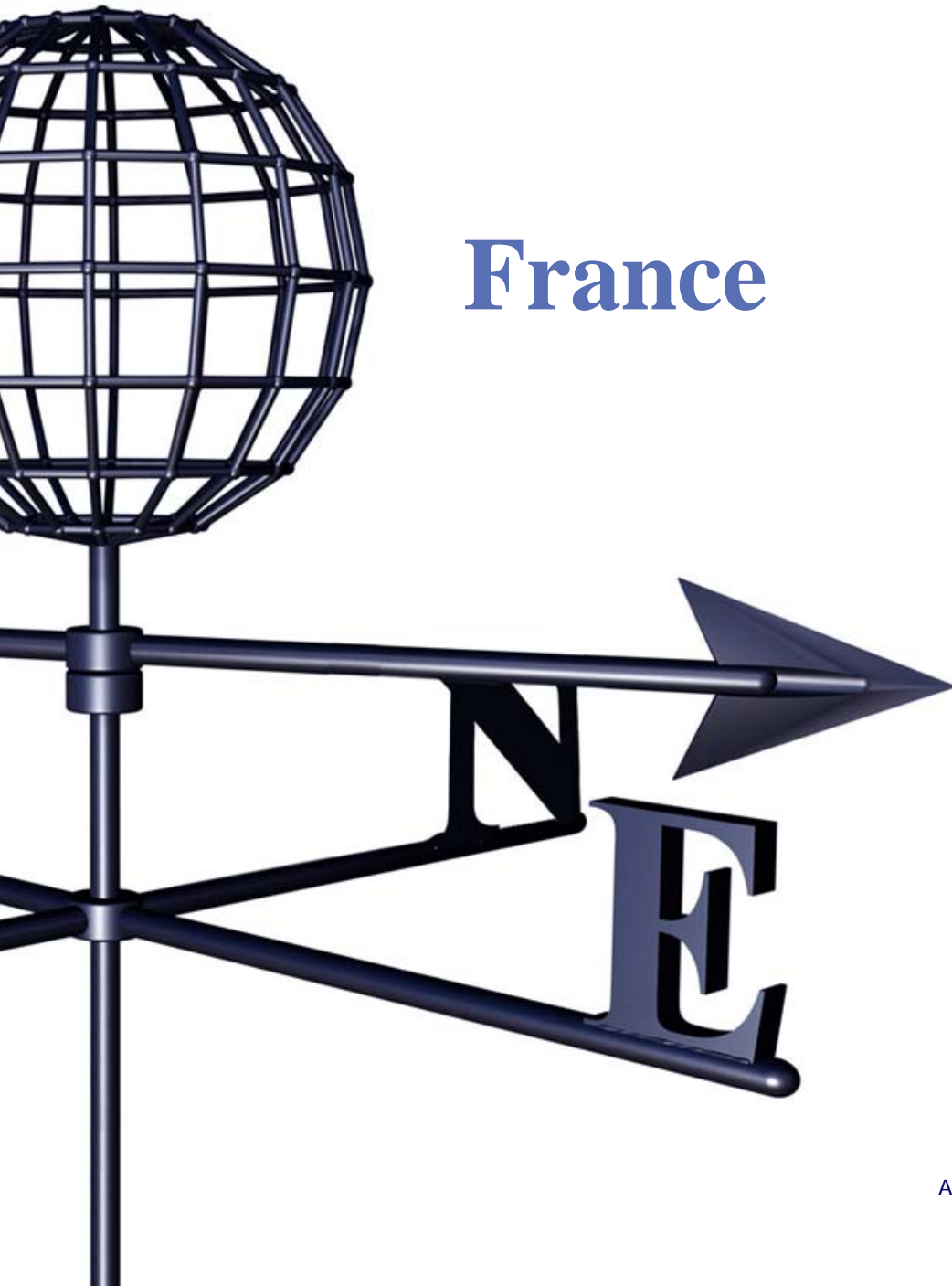


International Tax and Business Guide

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France



France

International Tax and Business Guide

Professionals of the member firms of Deloitte Touche Tohmatsu have created the Deloitte International Tax and Business Guides, an online series that provides information on investment conditions, tax regimes and regulatory requirements, along with information for executives working abroad. The Guides are supplemented by the Highlights series, an at-a-glance summary of basic information, including tax rates, for over 120 jurisdictions.

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1.0 The investment climate

Political background

France is governed by a constitution, under which the president and the prime minister share executive power.

1.1 Economic structure

France's strongest manufacturing sectors include motor vehicles, pharmaceuticals, transport equipment and aerospace (civil and military) and services. While the services sector is large, the agricultural sector's share of economic activity has fallen over the past few decades.

1.2 Banking and financing

The banking sector resembles that of many other European countries in that domestic players dominate retail banking. Foreign banks, however, are major players in wholesale banking and securities trading alongside French banks. French banks have been expanding into Asia, Central and Eastern Europe (notably the countries that joined the EU in 2004), and the US.

Paris is the national capital and the main financial centre.

1.3 Foreign trade

France's largest export markets are Germany, Spain, the UK, Italy, Belgium, Luxembourg and the US. Major exports are vehicles, aeronautical and space products, pharmaceuticals, car equipment and steel products.

Germany is the largest source of imports, followed by Italy, Belgium, Luxembourg, Spain, the US and the UK. The leading imports are crude oil and natural gas, computers and information-technology equipment and equipment for the car industry.

2.0 Business regulations

2.1 Registration and licensing

France is a party to the main international conventions governing the protection of patents, trademarks, copyrights and other forms of intellectual property. The licensing of foreign technology is widespread.

France does not restrict the entry or export of technology, unless national security is at stake or where restrictions have been agreed under EU rules on trade in dual-use technology.

French companies may enter into any form of licensing arrangement with foreigners, and such arrangements may cover product and process technology as well as marketing, sales and other operations. There are no legal restrictions on the countries to which licences may be granted, but relevant EU rules apply. These include rules on technology transfer agreements and general competition law principles that preclude market sharing and abuse of a dominant position.

Registration is compulsory if one of the parties is not French. Income from licensing agreements must be declared annually by 31 March of the following year and must be broken down into five categories: (1) purchase, sale or concession of patents; (2) purchase, sale or concession of trademarks, designs and models; (3) transfer of know-how and computer software; (4) scientific, technical and economic research and engineering services; and (5) technical assistance, business organisation and management operations.

Tie-in clauses (compelling licensees to purchase certain supplies) are legal only if technological necessity can be proved.

2.2 Price controls

Although the government can impose price controls after consultation with the Competition Counsel, it exercises this power sparingly. The government regulates some prices in quasi-monopolised sectors (e.g. electricity, gas and rail transport) or where price competition is restricted by legal or regulatory limits.

2.3 Monopolies and restraint of trade

Although there is no legal definition of "market dominance," companies are prohibited from abusing a dominant market position in France or establishing a merger that would put them in a

dominant market position. In addition, firms or groups of firms may not restrict the normal functioning of the market (case law holds that the action in concert has to be determined in every case). Also prohibited is abuse of a customer's or supplier's economic dependence, e.g. through a refusal to sell, tie-in arrangements, discriminatory sales terms or abusive termination. Concerted action and agreements are illegal if their effect is to limit market access or supply, allocate markets or supply sources or prevent price competition.

2.4 Intellectual property

France ensures full legal recognition of the main forms of industrial and intellectual property, including patents, trademarks, copyrights and industrial designs and models. Normal forms of legal redress are available through the courts. The National Industrial Property Institute (INPI) handles applications for all types of intellectual property protection. It grants patents on the basis of novelty. It does not conduct or require detailed research, leaving the courts as the ultimate arbiter of a patent.

International patent protection may be obtained through the European Patent Treaty or through an international patent based on the Patent Co-operation Treaty. Applications can be made through INPI. EU-wide trademark and design protection can be obtained via the Office for Harmonisation in the Internal Market (Trademarks and Designs) in Spain.

French copyright legislation adheres to internationally agreed terms and conditions. The Intellectual Property Code, much of which includes EU requirements, provides basic copyright protection for literary or artistic expressions of an idea or concept, for audiovisual works, performing artists and original computer software that results from the author's personal, creative and intellectual work.

Copyright protection lasts for 70 years from the death of an author. The work of performing artists is protected for 50 years. A breach of an author's property or ethical rights is deemed copyright infringement. The author or a person with title to exploit the work has the right to have all infringing objects seized and to bring court action for infringement.

The 1992 Intellectual Property Code and subsequent amendments cover all forms of intellectual property. French protection for patents may last up to 20 years, but a utility certificate can be obtained for a six-year period for products with a short life. Trademarks are protected for 10 years in the first instance, although rights may be extended indefinitely by successive renewals.

2.5 Mergers and acquisitions

EU and French authorities share supervision of mergers, largely on the basis that the EU has authority over larger combinations and those that affect several EU countries.

Under its Merger Control Regulation, the EU has jurisdiction in two situations: (1) where the combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state; and (2) where the aggregate global turnover of the companies concerned exceeds EUR 2.5 billion for all businesses involved, aggregate global turnover in each of at least three member states is more than EUR 100 million, aggregate turnover of at least two undertakings in each of these three member states is more than EUR 25 million and aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 100 million, unless each achieves more than two-thirds of its aggregate EU-wide turnover within one and the same state. Companies whose merger would not normally come within the European Commission's purview can ask the Commission to review it if they would otherwise be obliged to notify three or more member states. The Commission goes ahead as a "one-stop shop" only if none of the relevant member states objects within 15 days.

The European Commission has 25 days after a merger is reported to approve the transaction or open a procedure. If it decides to open a procedure, it must issue a ruling within 90 days. The Commission can choose to refer the merger to France's Competition Council (CC) to determine whether the effect will primarily be in France. The decision serves as official notification to the French government.

French legislation on mergers is incorporated in the Code of Commerce. Companies must notify the Ministry of the Economy, Industry and Employment (MINEFE), which notifies the CC, of any merger or joint venture involving companies that meet one of the following criteria: (1) combined total worldwide turnover exceeding EUR 150 million, and (2) combined turnover in France exceeding EUR 50 million on the part of at least two of the companies concerned.

Companies failing to file notification of a merger that meets the criteria can be fined up to 5% of French turnover; individuals may be fined EUR 1.5 million.

The CC has two months after notification to give its opinion. Failure to respond by the end of that period may be taken as consent. However, the CC may decide to carry out an in-depth investigation. It then has an additional two months to render a decision.

3.0 Foreign investment

3.1 Foreign investment incentives and restrictions

The French government welcomes foreign investment in most industries, especially when it creates jobs, contributes new technology or increases exports, but it can be sensitive to takeovers in defence or public services.

The European Commission closely monitors incentives (also known as state aid) for compatibility with EU competition rules. All but the smallest incentive schemes require the Commission's approval.

Investment incentives focus on employment to protect existing jobs, create new posts and promote hiring from categories of the unemployed who have difficulty finding employment. However, projects to promote the environment and sustainable development and to narrow economic and social gaps between different parts of the country also are priorities. In addition, the government emphasises promotion of research and development (R&D) and technological innovation.

The government welcomes large foreign investment, although many incentives are available only to small and medium-size enterprises (SMEs). Most forms of foreign investment in France do not need prior government approval; prior approval is needed only to take over or invest in strategic sectors, such as national defence or public health. Where notification of MINEFE is required, it must be done by letter and include details of any shareholder with more than a 5% stake in the case of an acquisition of a stake in a listed company. Notification is also required for investments in kind in the form of loans or financial guarantees or technical assistance. No notification requirements apply if the target company is already part of the company's group; however, a 50% threshold applies in determining what is an existing investment or a group company. No approval is required to participate in a capital increase if the percentage of shareholding does not change. However, notification is required when a foreign investment is wound up.

These notification requirements apply in addition to any required notification to the Financial Markets Authority when investing in a listed company.

Both domestic and foreign firms may need approval to invest in certain businesses including oil refining, supermarkets, service stations and cinemas. Certain professions are only open to French nationals, other countries within the EEA and certain other countries. This generally includes Switzerland, and sometimes includes countries with which France has a reciprocal agreement.

3.2 Exchange controls

France does not impose restrictions on foreign exchange operations for companies or individuals. French banks may lend freely in both euros and foreign currencies. Reporting requirements apply to some transactions to detect money laundering and tax evasion, and to comply with rules on data collection for balance-of-payment statistics.

Capital movements, exchange operations and transfers between French residents and nonresidents may be made through any credit establishment. These institutions send monthly reports to the central bank for balance-of-payment purposes.

Banks are normally responsible for balance-of-payments reporting of corporate transactions. However, companies with annual transactions in excess of EUR 30 million in a single balance-of-payments category must report directly to the central bank.

Companies must report their transactions with nonresidents to customs for EU statistical purposes (via the Intrastat declaration). The frequency and level of detail depend on the annual volume of transactions, but the reporting obligation starts at EUR 150,000 per 12-month period.

Individuals transferring more than EUR 10,000 out of France without using a financial intermediary--such as in cash or as securities--must report the transaction to the central bank or customs. Individuals also are also required to report the existence of foreign bank accounts to the tax authorities.

Additional information must be supplied when making or liquidating an investment (including a property investment) exceeding EUR 15 million. These rules apply to investment in France and investment by a French company outside of the country.

France recently adopted stricter rules for compliance in the fight against money laundering, according to which professionals are required to report funds they suspected to come from illicit activities such as drug trafficking or corruption.

France imposes no restrictions on euro or other currency holdings held locally by nonresidents, but for statistical purposes, financial intermediaries must report loans exceeding EUR 50 million.

4.0 Choice of business entity

4.1 Principal forms of doing business

The company form most frequently used by large companies in France is the joint stock company (*société anonyme*--SA); the SA is compulsory for companies engaged in the finance or insurance industries. Smaller firms, particularly sales subsidiaries, often use the limited liability form (*société à responsabilité limitée*--SARL). A SARL with a sole shareholder is known as an *entreprise unipersonnelle à responsabilité limitée* (EURL). A subsidiary SA or a SARL is the usual form of business organisation for a foreign investment. There is no minimum capital requirement for a SARL or EURL.

An SA must have at least seven shareholders. A SARL must have at least two shareholders but not more than 100. SARLs may not issue securities to the public, but they may issue bearer bonds. Transfers of their shares are limited.

The *société par actions simplifiée* (SAS) form combines the legal status of a corporation with the flexibility of a partnership. One person may form an SAS (with capital of at least EUR 37,000), but there is no limit on the total number of shareholders. As with an SA, the maximum life of an SAS is 99 years. An SAS may not issue debt or equity to the public. The basic registration procedures are essentially the same as for an SA.

A *Societas Europaea* (SE) or European Company also may be formed. Companies from two or more EU member states can merge to form an SE or to create an SE holding company or branch. A company can convert an existing firm to SE status without liquidating. One advantage of the form is that an SE makes it possible to move headquarters to another EU member state with minimal formalities.

A SA or SAS can be involved in an EU cross-border merger. France has adopted the EC merger Directive. The legal framework aims to facilitate the cooperation and restructuring of the group by transferring to the company resulting of the merger all the assets and liabilities of the companies being acquired (by acquisition or formation of a new company). The French implementing regulations applies to mergers of limited companies having their registered office, central administration or principal place of business in France, and where at least two of the companies involved are governed by the laws of different member states.

Requirements of a joint stock company (SA)

Capital. Minimum EUR 37,000. Only 50% of a cash contribution must be fully paid up. If capital falls below the minimum, the company must make restoration payments within one year or face dissolution. Capital must be fully paid up within five years. Firms must set aside 5% of annual distributable profits in a legal reserve until the reserve equals 10% of capital.

Contributions in kind (tangible or intangible assets) must be valued by a court-appointed assessor and approved by a founders' assembly for a publicly listed firm; for non-public firms, each founder must approve the valuation of the court-appointed assessor. Contributions in kind do not carry voting rights for their approval in listed companies but can in other companies.

Founders, shareholders. Minimum seven. No restrictions on nationality or residence.

Board of directors, management. There are two approaches: a conventional board to which management reports, or a two-tiered structure of a supervisory board and a management committee. The board must have at least three and a maximum of 18 members. All board

members must be shareholders. There are no restrictions on nationality or residence. No more than one-third of the board may be older than age 70.

For a conventional board structure, the board must elect a chairman, a general manager and up to five general-manager delegates. A single general manager is sufficient if the company's capital is less than EUR 150,000. No one person may be the general manager of more than one company. The general manager has full authority to run the day-to-day business and to represent the company.

Where there is a supervisory board and a management committee, the supervisory board appoints the members of the management committee. They may not be members of the supervisory board and do not need to be shareholders.

Employees are entitled to board representation (of up to two members) where they hold more than 3% of the company's shares either directly or indirectly (e.g. through the pension fund). The company has the option to include up to four board members representing employees (five for a listed company), which should be reflected in the company's bylaws. Additionally, employees representing board members are provided non-voting status and generally complement board membership. Their number may not exceed one-third of the membership of the board. Where there are two or more employee representatives, one must represent managers. Apart from these representatives, no more than one-third of the board may be company employees.

Labour representation in management. In companies with more than 50 employees, workers elect a works council, which has comprehensive rights to be kept up to date on company operations. Companies may choose to allow staff representation on the board.

Disclosure. All SAs with an annual turnover exceeding EUR 75,000 must publish annual financial data and deposit two copies of the approved balance sheet and profit-and-loss (P&L) statement with the local commercial court within seven months of the end of the financial year and within one month of approval of the accounts.

A listed SA must publish its annual balance sheet, P&L statement, quarterly sales figures for each branch of activity and semi-annual provisional balance sheet. Subsidiaries of these companies with assets of EUR 3 million or more, or portfolios of EUR 300,000 or more, are individually subject to these disclosure requirements.

All SAs must have at least one statutory auditor registered in France. Two statutory auditors are required for a company (listed or unlisted) with consolidated accounts or a company that solicits funds from the public. The auditor is appointed for a six-year term at a general shareholders' meeting and may be re-appointed. The local commercial court may appoint a special auditor to prepare reports on specific transactions (e.g. non-cash contributions to a capital company or acquisition of a shareholder's assets).

Taxes and fees. Contributions to start-up capital and capital increases may be taxable. They will not be taxed if they come from an entity subject to French corporate income tax that receives shares exactly corresponding to the value of the contribution. However, if the contributor is not subject to French corporate income tax (and regardless of whether it pays French personal tax), a registration tax is levied at 3% on amounts ranging from EUR 23,000 to EUR 200,000 and 5% on amounts exceeding EUR 200,000, unless the contributor commits to holding the shares for three years. If the contributor receives remuneration or a fee for the contribution, a tax of 5% is due on contributions in the form of property or property rights. If the contribution takes the form of leasehold rights, business premises or customers, the tax of 5% is levied on amounts exceeding EUR 200,000 (3% for amounts between EUR 23,000 and EUR 200,000). Notary fees based on the amount of capital also are payable.

Types of shares. Shares may be registered or bearer, but ownership of bearer shares must be recorded. Nonresidents may hold shares through nominee accounts. Shares must be registered if required in the company's bylaws or if shares are not fully paid in or are held in reserve in exchange for convertible bonds. Non-voting shares are prohibited (except for preferred shares, which are subject to certain legal limits). However, registered shares that are entirely paid up and have been held for more than two years may be granted double voting rights and limited to shareholders of EU nationality. There is no minimum nominal value. No par value shares are permitted.

Control. Shareholders representing 5% of the capital may sue in commercial court for the removal of contested auditors, obtain written replies to their questions and propose board resolutions. The trigger threshold is lower for larger companies: 4% for companies with share

capital of EUR 750,000-EUR 4.5 million; 3% for companies with share capital of EUR 4.5 million-EUR 7.5 million; 2% for companies with share capital of EUR 7.5 million-EUR 15 million; and 1% for companies with share capital exceeding EUR 15 million.

4.2 Establishing a branch

Foreign companies may use a branch for headquarters or start-up operations. A branch is generally ineligible for tax breaks and the head office is exposed to unlimited liability for the debts of the branch office. Branches are taxed on their French income even if the income is also taxed as part of the worldwide corporate income of the head office.

To form a branch in France, two copies of the articles of association and the statutes of the head office must be submitted to the commercial court in whose jurisdiction the branch will be located, together with proof of their having been published in an official gazette or equivalent publication in the home country. The manager of the branch must certify that these are the actual bylaws. Translations of the documents must be attached, and the branch manager must certify their accuracy. The branch manager may not have been resident in France for more than three months at the time the branch is set up. A copy of the office lease must be attached.

These documents must be filed with the Enterprise Formalities Centre (CFE), along with the other documents required for company formation. The CFE handles the formalities, including notifying the tax authorities. All documents must be filed within 15 days of the branch's opening. A foreigner's business permit is required for most non-OECD nationals.

A liaison office is another way to test the business environment in France. A liaison office may hire staff but may not engage in commercial activities. The head office must issue and pay all invoices. The liaison office is not liable for tax since it has no income, but it must pay payroll taxes (social security) for local staff. A declaration of existence must be filed with the CFE.

4.3 Setting up a company

Companies (even non-EU companies if the vehicle is a subsidiary in an EU country) that want to start working with a French company but do not want to commit to a formal joint venture may set up a European economic interest grouping (EEIG). The grouping functions much like a partnership in that the income is taxed in the hands of the member companies. At least two of the companies involved must be from different EU member states. The EEIG differs from other corporate forms in that it must be registered with the Tribunal of Commerce; all other company forms (and branches) are registered with the CFE.

For all existing company forms, including branches, directors generally must submit proof of identity and nationality, information on marital status and proof that the person has never been convicted of a crime. The exact requirements depend on the type of company. Many of the formalities associated with setting up a company can be done online.

5.0 Business taxation

5.1 Overview

Tax in France is levied at both the national and local levels of government. The primary taxes imposed on companies are the corporate income tax, withholding tax, the business tax, VAT and registration duties.

5.2 Taxable income and rates

France operates a territorial tax system, under which tax is imposed only on profits derived by a resident or nonresident enterprise that operates in France. A company is resident in France if it is registered, managed and controlled in France.

The corporate tax rate for most companies is 33 1/3%. A 3.3% social surcharge also applies when the global corporate income tax charge exceeds EUR 763,000, yielding an overall effective corporate tax rate of 34.43%. Small and medium-size enterprises (SMEs) are subject to lower rates to the extent they are at least 75% held by individuals or other qualifying SMEs.

Taxable income defined

The taxable income of both resident and nonresident companies comprises total income from normal business activities in France, including interest, rents, royalties and capital gains. For resident companies, and under the territoriality principle, foreign-source income generally is not subject to tax in France (and foreign-source losses may not be deducted).

Under the participation exemption, dividends received by a French parent company from its resident and nonresident subsidiaries are 95% exempt from tax. The remaining 5% is deemed to constitute expenses and is taxed at the normal corporate income tax rate (the company can demonstrate that management charges are less than 5% and only be taxed on this lower amount). To qualify for the participation exemption, the parent company must have held at least 5% of the capital of the subsidiary for at least two years.

Deductions

Normal business expenses are deductible in calculating taxable income. Allowable expenses generally are those incurred for the purpose of the business and that can be verified.

Allowable expenses include interest and royalties; management fees paid to a foreign parent; salaries, wages and holiday benefits for low-income employees; repairs and maintenance; most taxes (e.g. business, payroll, property and land taxes, but not the company car tax); social security charges; amounts paid into a company's mandatory employee profit-sharing fund; consulting fees and research costs (within certain limits); and contributions to philanthropic, cultural, scientific and research organisations. Extra deductions are allowed for the entertainment expenses of top management. Contributions to an employee's savings or share purchase plan are deductible up to ceilings that vary depending on the type of plan and the employee's salary. Also deductible are provisions made for service to customers, and write-offs of machinery and inventory, although ceilings may apply to these deductions.

French corporations that incur R&D expenses during the year may benefit from a tax credit against corporate income tax which corresponds to 30% of actual R&D expenditure for expenses up to EUR 100 million and 5% for expenses exceeding EUR 100 million. This tax credit is increased to 50% (40% the second year) when a company incurs R&D expenses for the first time or has not benefited from the R&D tax credit for more than five years. The costs are deductible from corporate income tax for that year and the following three years. Any credit remaining after this period is reimbursed immediately for new businesses during the first five years, and after five years for others. (However, as part of an economic recovery plan, all companies can request the tax administration reimburse the tax credit for R&D expenses incurred in respect of tax years 2005-2007, and, in certain cases, the 2008 tax credit can be immediately reimbursed.) The research does not have to be carried out in France -- it may be carried out in another EEA country as long as the total expenditure is part of the company's tax base.

Depreciation

French tax law includes a strict definition of permissible depreciation. Straight-line depreciation is normally used; it is applied by dividing the expenditure by the estimated number of years of use for an asset.

Application of the declining-balance method is restricted to certain types of business property, including machinery incorporated into industrial-maintenance equipment; water- and air-purification systems; security and safety equipment; medical or social installations; office machinery; research equipment; hotels and hotel-related equipment; warehousing facilities; industrial buildings with a useful life of fewer than 15 years; and road vehicles used for mass transit. The declining-balance method may not be used for any product with a useful life of less than three years and only for new assets (not for second hand assets).

Under the declining-balance method, applicable straight-line rates are multiplied by 1.25 if the useful life of the asset is three to four years; by 1.75 if it is five to six years; and by 2.25 if it is longer than six years. For energy-saving equipment and investment in renewable energy, the coefficients are 2, 2.5 and 3. The coefficients are 1.5, 2 and 2.5 for purchases for R&D purposes (as part of the stimulus package, depreciation rates have been adjusted to enable quicker depreciation).

The annual depreciation charge may be applied until the last year of the asset's useful life, when the remaining depreciable value may be written off. Companies may switch between the double-declining and straight-line depreciation at their discretion until depreciation by the former is equal to depreciation by the latter. From that date, companies must use the straight-line method. Whichever method is used, companies must take depreciation at least up to the amount that would be arrived at using the straight-line method.

Certain activities deemed particularly desirable are eligible for accelerated depreciation. Capital investments for research buildings may be written off at 50% in the first year. In addition, the full depreciable value of any assets financed by an incentive grant is subtracted from the value

of the grant in the year received for corporate tax purposes. Some types of expenditure qualify for depreciation over 12 months.

Losses

Ordinary losses generally may be carried forward indefinitely. The right to carry forward losses, however, can be challenged if there is a change in the tax regime or a significant change in the company's actual business. Losses may not be transferred to another company unless a ruling has been requested from the French tax authorities and certain commitments are respected. Losses may be carried back against profits for three years in certain cases. A tax credit is granted in such cases that can be used to offset the losses against the corporation tax liability of the five subsequent tax years, and then refunded. However, any carryback receivable with respect to a fiscal year ending at the latest on 30 September 2009 will be entitled to an immediate refund.

As from 1 January 2009, qualifying small and medium-sized enterprises may temporarily take into account losses incurred by their foreign branches and subsidiaries in determining taxable income in France. The losses will be recaptured once the foreign entity returns to profitability or, at the latest, in the fifth fiscal year following the offset.

5.3 Capital gains taxation

Capital gains derived by companies are taxed at the normal rate of 33.1/3% (plus the 3.3% social surcharge, when applicable). Nevertheless, capital gains realised on the sale of a qualifying shareholding held for at least two years are 95% tax exempt (as from financial years opening on or after 1 January 2007.) As a result, such gains are subject to a maximum effective tax rate of 1.72% (5% x 34.43%).

Long-term capital gains on the sale of shares in real estate companies are taxed at a 19% rate, increased by the 3.3% corporate tax surcharge when applicable (although a rate of 33.33% may apply in certain circumstances).

5.4 Withholding tax

Dividends

Dividends paid by a French company to a nonresident company are subject to a 25% withholding tax calculated on the gross dividends paid. The withholding tax may be reduced or eliminated under an applicable tax treaty or the EC Parent-Subsidiary Directive. Under the Directive, dividends paid by a French corporation to a qualifying EU parent company are exempt from withholding tax if the parent holds at least 10% (5% in certain cases) of the French distributing company (lowered from 15% as from 1 January 2009), and has held that participation for at least two years (or intends to do so, with the appointment of a French tax representative). It is also necessary that the parties not have any artificial arrangements in place for tax avoidance purposes.

Interest

A broad domestic exemption from the normal 18% domestic withholding tax is available for interest payments, although the precise circumstances must be carefully considered in each case. In addition, tax treaty provisions may reduce or eliminate the domestic withholding tax, and no tax will be withheld if the conditions for application of the EC Interest and Royalties Directive are satisfied. Under the Directive, interest and royalties are taxed only in the state of residence of the company that receives such income, and are exempt from withholding tax in the country of origin. This exemption applies to payments made between associated companies located in EU Member States or their European branches. The companies must be members of the same group, which implies a direct holding of at least 25% of the capital for a minimum period of two years. The two-year holding period can be replaced by a commitment to hold the shares for at least two years. Subsidiaries, of which at least 25% is held by the same parent company, may also benefit from the exemption. The company that receives the income must be the effective beneficiary.

Royalties

Royalties paid to a nonresident, commissions, consultancy fees and fees for services performed in France may be subject to a domestic withholding tax of 33.33%. This tax may be reduced or eliminated by relevant tax treaties provisions or application of the EC Interest and Royalties Directive.

Branch remittance tax

The after-tax income deriving from business carried out in France by a foreign company through a French branch is deemed distributed to non-French Shareholders and subject to a branch tax at the rate of 25%. The rate may be reduced under a tax treaty. The branch tax is not due if the foreign company is located in the EU and subject to income tax with no possibility of opting out or of being exempt.

Under French domestic law, the branch tax can be reduced if the taxpayer proves that the total income actually distributed to the foreign head office within the 12 months following the taxable year is less than the branch's net distributable profit and/or if part of the distribution made by the head office was benefited to French residents. In such cases, a claim must be lodged with the tax authorities to obtain a partial or total repayment of the branch tax previously paid.

5.5 Foreign income and tax treaties

France has a broad tax treaty network covering more than 100 countries. The table below contains the withholding tax rates that apply to dividend, interest and royalty payments by French companies to nonresidents under France's treaties. Domestic rates apply if they are lower than the treaty rate or where (as denoted in the table by a "D") the treaty does not provide an applicable rate.

Withholding tax rates under France's tax treaties (%)			
Treaty Partner	Dividends	Interest¹	Royalties
Albania	5/15	10	5
Algeria	5/15	10/12	5/10
Argentina	15	0/20	18
Armenia	5/15	10	5/10
Australia	15	0/10	10
Austria	0/15	0	0
Azerbaijan	10	10	5/10
Bahrain	0	0	0
Bangladesh	10/15	0/10	10
Belarus	15	0	0
Belgium	0/10/15	0/15	0
Benin	D	0/35	0
Bolivia	15	15	15
Bosnia-Herzegovina	5/15	0	0
Botswana	5/12	10	10
Brazil	15	0/10/15	10/15/25
Bulgaria	0/5/15	0	0/5
Burkina Faso	15/25	0/35	0
Cameroon	15	15	15
Canada	5/15	0/10	0/10

Withholding tax rates under France's tax treaties (%)			
Treaty Partner	Dividends	Interest¹	Royalties
Central African Rep	25	12	0
Chile	15	5/15	5/10
China	10	0/10	10
Congo (Rep)	15/20	0	15
Croatia	0/15	0	0
Cyprus	0/10/15	0/10	0
Czech Republic	0/10	0	0/5/10
Ecuador	15	0/10/15	15
Egypt	0	15	15
Estonia	0/5/15	10	0/5/10
Ethiopia	10	5	7.5
Finland	0	0/10	0
French Polynesia	25	0/35	33.33
Gabon	15	0/25	10
Georgia	15	0	0
Germany	0/15	0	0
Ghana	5/15	10/12.5	10
Greece	0/25	0/12	0/5
Guinea	15	10	0/10
Hungary	0/5/15	0	0
Iceland	5/15	0	0
India	15	10/15	20
Indonesia	10/15	0/10/15	10
Iran	15/20	0/15	10
Ireland	0/10/15	0	0
Israel	5/10/15	15	10
Italy	0/5/15	0/10	0/5
Ivory Coast	15	15	0/10
Jamaica	10/15	10	10

Withholding tax rates under France's tax treaties (%)			
Treaty Partner	Dividends	Interest¹	Royalties
Japan	0/5/10	10	0
Jordan	5/15	0/15	5/15/25
Kazakhstan	5/15	10	10
Korea (R.O.K.)	10/15	10	10
Kuwait	0	0	0
Kyrgyzstan	15	0	0
Latvia	0/5/15	10	0/5/10
Lebanon	0	0	D
Lithuania	0/5/15	10	0/5/10
Luxembourg	0/5/15	10	0
Macedonia	0/15	0	0
Madagascar	15/25	0/15	10/15
Malawi	D	0/35	0
Malaysia	5/15	15	10/33.33
Mali	15/D	0/35	0
Malta	0/5/15	0/10	0/10
Mauritania	D	0/35	0
Mauritius	5/15	0/35	0/15
Mexico	0/5/15	15	0/10
Moldova	15	0	0
Monaco	0/D	0/35	D
Mongolia	5/15	10	0/5
Montenegro	5/15	0	0
Morocco	0/15	10/15	5/10
Namibia	5/15	10	0/10
Netherlands	0/5/15	0/10	0
New Caledonia	5/15	0	0/10
New Zealand	15	0/10	10
Niger	15/D	D	0

Withholding tax rates under France's tax treaties (%)			
Treaty Partner	Dividends	Interest¹	Royalties
Nigeria	12.5/15	12.5	12.5
Norway	0/15	0	0
Oman	0	0	0
Pakistan	10/15	10	10
Philippines	10/15	0/15	15
Poland	0/5/15	0	0/10
Portugal	0/15	10	0/5
Qatar	0	0	0
Romania	10	0/10	10
Russia	5/10/15	0	0
St Pierre/Miquelon	5/10 /15	0	0/10
Saudi Arabia	0	0/5	0
Senegal	15	0/15	0
Serbia	5/15	0	0
Singapore	10/15	0/10	0/33.33
Slovakia	0/10	0	0/5
Slovenia	0/15	0/5	0/5
South Africa	5/15	0	0
Spain	0/15	10	0/5
Sri Lanka	D	0/10	0/10
Sweden	0/15	0	0
Switzerland	0/15	0	0/5
Tajikistan	15	0	0
Thailand	15/20	0/3/10/35	5/15
Togo	15/D	0/35	0
Trinidad & Tobago	10/15	0/10	0/10
Tunisia	D	0/12	0/5/15/20
Turkey	15/20	0/15	10
Turkmenistan	15	0	0

Withholding tax rates under France's tax treaties (%)			
Treaty Partner	Dividends	Interest ¹	Royalties
Ukraine	5/15	2/10	0/10
United Arab Emirates	0	0	0
United Kingdom	0/5/15	0	0
United States	5/15	0	0/5
Uzbekistan	5/10	5	0
Venezuela	0/5	5	5
Vietnam	5/15	0	10
Yugoslavia	5/15	0	0
Zambia	10/25	0/35	0
Zimbabwe	10/15	10	10

(1) No withholding tax generally is levied as a result of a domestic exemption, provided certain conditions are satisfied.

5.6 Transactions between related parties

Transfer pricing

Under France's transfer pricing rules, an indirect transfer of profits is presumed where the French tax authorities can prove that a transaction was not conducted at arm's length or under equitable conditions between a taxable French entity and a foreign affiliate. A presumption may arise that the parties are operating in a dependent or controlled manner.

Prices between controlled parties must be the same prices that would have been agreed upon between unrelated parties in a comparable transaction and under comparable circumstances. Otherwise, the French company bears the risks of adjustments and withholding taxes on the presumed transferred profits.

The French tax authorities have the burden of proof when making an adjustment, unless it can be demonstrated that the foreign company enjoys beneficial tax treatment (i.e. when taxation is lower than 50% of the French corporate tax rate). The French company may still demonstrate otherwise.

While there are currently no contemporaneous documentation requirements, the French tax procedure code indirectly requires a taxpayer to have available transfer pricing documentation in the event of an audit and/or adjustment.

Thin capitalisation

Under France's thin capitalisation rules, interest paid by corporate taxpayers (including French partnerships that are held by corporate taxpayers) to related parties are fully deductible only if the interest rate is an arm's length rate. An interest rate will be deemed to be arm's length if it does not exceed the average annual floating rate applied by banks to two-year loans granted to businesses. If the interest exceeds that rate (5.06% for fiscal years ending on 30 November 2009), the taxpayer will have to demonstrate that it could have obtained a loan from another bank at the higher rate.

An interest deduction also may be disallowed where the interest payment exceeds certain limits. Interest paid to related parties will not be fully deductible if it simultaneously exceeds the following thresholds: (1) a related party debt-to-equity ratio of 1.5:1; (2) 25% of adjusted current profits (i.e. pretax operating and financial profits, increased by items such as intragroup

interest and depreciation) for the year; and (3) interest income received from related parties (if the company uses the funds to finance other affiliated companies). Interest is deductible up to the amount corresponding to the highest of the above ratio/thresholds, with the possibility to carry forward the nondeductible amount within certain limits (reduced by 5% each year as from the second year), unless the company can demonstrate that its own total debt-to-share capital ratio does not exceed the worldwide group's third party debt-to-share capital ratio.

Specific rules apply to tax consolidated groups.

Controlled foreign companies (CFCs)

The CFC rules apply to resident companies that directly or indirectly hold a participation of more than 50% in a foreign legal entity or permanent establishment, which is established or constituted in a country the effective taxation of which is at least 50% lower than that of France. Companies subject to the CFC rules are assessed to tax in France on a pro rata amount of the income received, or deemed received, from such entity or permanent establishment. An anti-abuse provision reduces the participation threshold to 5% where more than 50% of the shares in the foreign entity are owned by French companies or by foreign entities directly or indirectly controlled by a French company. Under certain circumstances, the CFC rules can be avoided (e.g. where the CFC is located in the EU and in some cases where the CFC is outside the EU).

New regulations apply for 2010 that target investments in non-cooperative countries (a black list will be published annually by the French authorities). Under these rules, dividends, interest, royalties and payments for services made to companies located in a non-cooperative country may be subject to a 50% withholding tax. Further, dividends received from entities located in non-cooperative countries cannot benefit from the participation exemption regime.

Consolidated returns

The French Tax Code contains an optional tax consolidation regime, whereby French group companies may file a consolidated return. Consolidation allows the companies to aggregate the profits and losses realized by the individual group companies in determining a tax consolidated result (intragroup transaction are neutralised). To qualify for consolidation, the head of group must be a French company that: (1) is no more than 95% held by another French company subject to corporate income tax; (2) the other members must be subject to French corporate income tax; and (3) the French parent must hold at least 95% in the share capital of the subsidiary, either directly or indirectly through other companies that are members of the same consolidated tax group. Following an ECJ decision, the tax code will be amended and a subsidiary held through a nonresident subsidiary holding company will be allowed in a French tax group provided the 95% requirement is maintained at each level.

5.7 Turnover and other indirect taxes and duties

VAT

French value added tax (VAT) is payable on the sales value of a product each time it changes hands. The vendor deducts from its payment of the tax it has charged, the amount paid on its inputs, so that in practice tax is levied on the price increment at each stage in the chain. Nevertheless, the charge is effectively borne by the last consumer and VAT is neutral for intermediary companies. VAT generally is payable by all manufacturers, wholesalers and retailers and by most service and transport businesses.

VAT on goods must be declared and paid in the month following that in which the customer is billed and the goods delivered. VAT on services is due in the month following that in which payment is received.

VAT rates range between 2.1%, 5.5% and 19.6% in France; other rates apply in the overseas French regions.

Excise taxes

Excise taxes at various rates apply to sales of tobacco, alcoholic beverages and fuel.

5.8 Other taxes

France levies a wide variety of taxes and charges. There is a flat rate tax of EUR 375 on most transactions that affect the amount of a company's capital. This rises to EUR 500 for companies with a minimum capital in excess of EUR 225,000 (i.e. the minimum registered capital for a

public company). Upon dissolution, a company pays a flat amount of EUR 375. A 1.10% duty may apply where certain assets are allocated to shareholders.

Share transfers are subject to a transfer tax equal to 3% of the sales price. For an SARL or SNC (*société en nom collectif* or partnership), transfer tax is not capped. For an SA or SAS, the transfer tax is capped at a maximum of EUR 5,000 per transfer.

The central government levies an apprenticeship tax at 0.5% on the amount of salaries and wages paid. The central authorities also impose a levy on payroll to fund job training. The exact level depends on the size and type of company. These taxes are deductible for corporate income tax purposes.

Corporations not subject to VAT, or with turnover at least 90% exempt from VAT in the preceding year, must pay a salary tax. Banks and insurance companies are the main groups affected. The rates are 4.25% on individual salaries up to EUR 7,461, 8.5% on the portion of the salary between EUR 7,461 and EUR 14,901, and 13.6% on the portion exceeding EUR 14,901. The salary tax is deductible for corporate income tax purposes.

The transfer of real property (including leasehold rights) is subject to taxation at varying rates. The purchaser pays transfer tax at 5.09%.

The business tax (or *taxe professionnelle*) is an annual local tax due by all enterprises in France (with some limited exemptions). The basis of the tax is the rental value of a company's tangible fixed assets (i.e. buildings or land and moveable assets) used for business purposes. The business tax liability of a company is limited to 3.5% of the value added in the year, but it may not be lower than 1.5% of the value added for enterprises with a turnover exceeding EUR 7.6 million.

5.9 Tax compliance and administration

The tax year is generally the calendar year or the taxpayer's financial year. Companies operating in France are required to make advance payments of their annual corporate taxes in quarterly instalments, due on 15 March, 15 June, 15 September and 15 December. An amount equivalent to 8 1/3% of the previous year's earnings is payable for each of the four advance payments. A 5% flat-rate surcharge is levied on late payments, plus interest of 0.40% per month.

Companies that posted losses in the previous year are not required to make advance payments, and those forecasting lower profits may apply for a reduction or suspension of prepayments. New companies need not make advance payments in their first year of operation.

The final calculation and settlement of tax for the year must be made within three and a half months after the close of the company's financial year.

6.0 Personal taxation

Individuals in France are subject to personal income tax, social security contributions, wealth tax, inheritance tax and local residence tax.

6.1 Residency

Generally, individuals domiciled in France are considered residents of France. An individual is considered domiciled in France if his/her principal residence, main place of business or professional activity or centre of financial interests is in France.

6.2 Taxable income and rates

Residents are taxed on worldwide income, whereas nonresidents are taxed only on French-source income. Taxable income generally includes income from employment, business income, professional income, investment income and capital gains. Personal income tax rates are progressive up to a maximum of 40%, with consideration given to family circumstances. Various deductions and personal allowances also are permitted. Initially implemented in 2006, a tax shield aims at preventing taxpayers from paying more than 50% of their income in taxes including CSG (social contribution) and local taxes.

Both social security contributions and social security surcharges are deducted at source from salary payments. Contributions vary by business size, geographical location and business type

and can, in certain circumstances, exceed 50% of gross pay for employers (generally 20 for employees).

Individual income tax is payable in the year after the income was earned. It may be paid in three or 10 instalments. All individual taxpayers in France must file an annual declaration of income by February/March for the previous year. Individuals must also declare any foreign bank accounts on their tax forms.

Determination of taxable income

Individuals domiciled in France are subject to tax on worldwide wages, salaries, fees and other income received in the normal course of their regular occupation. They also must pay social security contributions and surcharges.

Dividends are taxed as ordinary income.

A number of deductions are allowed in calculating taxable income. All expenses connected with generating income are deductible unless reimbursed by the taxpayer's employer or otherwise. A taxpayer may opt to deduct all documented expenses or alternatively may take a flat rate deduction. The deduction is 10% of income up to a maximum of EUR 13,893 (but not less than EUR 413). An 18% final withholding tax is levied on the yield on fixed-income securities, money-market investments and certain forms of officially encouraged savings.

Tax deductions are available for a variety of favoured activities and transactions. These include various forms of retirement planning, investment in local business start-ups and on borrowing to finance a new company, on income earned as a mentor for a start-up, for interest on loans taken out to finance the transfer of a family business to other family members and for the purchase or medium-term lease of an environmentally friendly car. There are deductions for school-age children, and 25% of the cost of care for children younger than age six may be deducted. Other deductible expenses, within limits, include alimony and support for dependents (children and parents), charitable donations and costs of residence in a long-term-care home, including for dependents. There are tax incentives for borrowers purchasing their first home and tax credits for investment in home improvements.

The amount of income tax payable depends, in part, on the number of dependents. A couple (married or cohabiting) without dependent children is required to calculate the tax as equal to that due on two incomes (two parts), each equal to one-half of the total income. A couple with two children pays tax equal to that due on three incomes (three parts), since each child is counted as one-half of a part.

Taxable capital gains include gains from the sale of movable property, land and buildings (but not bonds or the taxpayer's principal residence). Each taxpayer can carry out transactions worth EUR 25,000 annually without having to declare any capital gain on sale of shares. Above that amount, capital gains (including on the first EUR 25,000) are taxable, but losses can be deducted. Capital gains on securities and similar transactions are taxed as income. Capital gains on property sales are taxed at 16% (plus special social security surcharges for French residents, amounting to about 12.1%). Deductions can be taken for the effect of inflation on property transactions. Other deductions include certain investment and legal costs. Payment of the tax may be spread over five years. Losses from the rental of real property (as well as mortgage interest payments) are generally deductible from overall taxable income, although there are ceilings depending on the type of investment.

France imposes a withholding tax on amounts paid to nonresidents for professional activities carried out in France. The tax is levied at progressive rates: 0% on amounts up to EUR 13,977, 12% on amounts between EUR 13,977 and EUR 40,553, and 20% thereafter. The withholding tax will be refunded if the tax paid exceeds the amount that would have been due under normal domestic rules, but taxpayers must file a claim to obtain the refund.

6.3 Special expatriate tax regime

Foreign executives working in France may receive special exemptions, and different treatment of allowances granted to expatriates working in France is possible. The tax authorities take a generous approach to deductions for expatriates because they want to make France attractive for foreign investment. Individuals and their employers can maximise the use of the existing deductions for up to six years. Generally speaking, deductions are available for items such as moving expenses, school fees, the additional costs of living in a separate location from a working spouse, agency costs incurred for renting an apartment, hotel costs on arrival and fees for professional advisers. Expatriates claiming such deductions may not claim the 10% flat rate deduction for professional expenses but must deduct all these charges as documented expenses

Deductions for tax equalisation allowances are also subject to the documented expenses regime.

Cost-of-living allowances for expatriates are tax-free, unless their basic salary is more than that of similarly situated French executives. Only the amount of the cost-of-living allowance above the French salary level would then be tax-free. To benefit from this scheme, an executive must have arrived in France after 1 January 2004 and must not have lived in France in the previous five years. In addition, income that can be attributed to work carried out outside of France by these executives is tax-free up to an amount equal to 20% of the total income. Tax-free status is available for five years. Posted executives may deduct contributions to complementary pension schemes in another country for the same five years.

6.4 Capital taxes

Households pay a wealth tax on net worth of more than EUR 790,000 (rather than per individual). Some types of assets designed to fund retirement income are exempt and small deductions for dependents are allowed. Various property holdings outside France are exempt, although other assets are not. Nonresidents must pay tax on their property in France unless exempted under a tax treaty.

The tax is levied on a sliding scale beginning at 0.55% on assets between EUR 790,000 and EUR 1.28 million, rising to 1.8% on assets exceeding EUR 16.48 million. There is a mechanism to ensure that the amount of tax due on assets does not exceed 85% of net taxable income. This calculation is not as straightforward when the value of assets exceeds EUR 2.52 million, but the principle is the same: tax can never exceed income.

Inheritance taxes are high and inheritance laws mean that it is not possible to dispose of property at will. Children and spouses have pre-emptive rights, and children may have pre-emptive rights over a spouse. Transfers between close relatives are subject to tax from 5% to 40%, after a rebate (e.g. up to EUR 156,359 per child).

Owner-occupants are liable for a tax on developed real property. This may be calculated by multiplying the rate set forth by the local authority on the property value of record.

7.0 Labour environment

7.1 Employees' rights and remuneration

The Labour Code sets out the minimum standards for working conditions in France including: working hours, overtime, paid vacation and time off, dismissal conditions and procedures and the framework for collective agreements. The Code also makes provisions for employee board representation while the Social Security Code regulates employee contributions.

French law makes it illegal to discriminate on the basis of sex, family orientation, morals, ethnicity, religion, age, health or handicaps for all matters relating to pay or employment.

The Labour Code provides for different types of employee representation depending on the size of the business. All companies employing 11 or more persons must arrange for employee delegates to be elected every four years, by the full workforce. Employee delegates are required to present individual or collective grievances related to working conditions; inform government inspectors of labour law infringements and in the absence of a works council in the company, provide prior agreement to any reorganisation of the working week. Employee delegates must be given a certain amount of time off, with full pay and the necessary workspace to carry out their duties. Special rules apply to discharging employee delegates.

A works council must be elected for companies with at least 50 employees. Companies with fewer than 200 employees may designate the employee delegates as the works council members as well. Otherwise, a works council is to be elected in addition to the employee delegates. Trade unions have observer-status rights. The works council is consulted on all matters affecting the company and must be informed in advance of any decisions affecting working conditions.

In most cases, works councils have no veto power over corporate affairs, but they have the right to obtain financial and strategic information on business operations and to question bidders in takeovers. When provided on a periodic basis or in the context of a consultation, the information must be provided to the council in writing. As a general rule, the information must be provided quarterly in companies with at least 300 employees and twice a year in the others.

Companies with at least 1,000 employees in the EEA must have a European works council if they employ at least 150 workers in at least two member states. Councils may have three to 30 members. While the company-funded council holds no bargaining power, it must meet once a year to exchange information on a range of company issues. An EU directive sets the rules on European work councils.

Working hours

The work week is 35 hours and the annual statutory number of hours is fixed at 1,607, taking into account two days of rest per week, five weeks' paid holiday leave and 11 public holidays. However, the average number of hours in any 12-week period must not exceed 44 hours per week. The maximum number of overtime hours is 220 unless otherwise provided for by a national collective bargaining agreement or a company-wide agreement. Overtime is paid at 125% of the basic rate for the first eight hours and 150% after that, but these are default rates in the absence of an applicable collective agreement. Rates of 110%-150% can be negotiated in collective agreements.

7.2 Wages and benefits

The statutory minimum wage is EUR 8.82 (as from 1 July 2009) per hour, which increases in line with annual inflation (based on price increases plus one-half of the increase in purchasing power of average hourly wage rates).

Many French firms pay a 13th month salary at year-end to white collar and other salaried staff. Salaries generally are higher in the Paris region than elsewhere.

The total cost of fringe benefits as a percentage of base pay may vary significantly, since the list of non-mandatory fringe benefits to which an employee is entitled is determined by the applicable collective bargaining agreement and at the discretion of the particular company.

Pensions

The state pension is payable from age 60. As a general rule, the full retirement pension may be claimed at any time from age 60 by an individual who has completed 161 quarters of contributions (increased by one quarter each year to reach 164 in 2012). Employers are not allowed to require employees to retire until they are 70.

A complementary ("second-pillar") pension, compulsory for all individuals, is also available from age 60 as soon as an employee has completed 161 quarters of contributions to the state scheme. However, the required number of quarters of contributions to be granted a full pension varies depending on the birth year of the employee; otherwise, the normal age for eligibility for a full pension is 65. As a general rule, each company decides which complementary insurance schemes to offer its workforce; such options may also depend on the individual employee's status within the firm and the sector in which the employer operates. Employers and employees make contributions to fund these plans.

Social insurance

France's mandatory national social insurance system comprises five separate regimes, covering health (including maternity, disability and death), retirement, family allowances, housing benefits, and occupational accidents and illness. Financed by both employers and employees, social security contributions fund the universal healthcare system and a complementary health insurance regime. Additionally, some employers partially fund the supplementary contributions.

Other benefits

Employees are entitled to at least two and a half working days of paid holiday per full month worked, or five weeks of holiday a year. The period within which employees are entitled to take holiday is set by collective agreement or with the works council and the personnel delegates. When set by collective agreement, it must include in the period from 1 May through 31 October. Some collective agreements provide for one to three extra days of holiday leave a year to be granted for employees with long term service.

Additional paid-leave entitlements include four days for the employee's own marriage, two days for the death of a spouse/partner or child, one day for a child's marriage, one day for the death of a parent and three days for each birth or adoption of a child for which the employee has not taken maternity leave. Pregnant women may not be employed six weeks prior to and 10 weeks after child birth. Men are entitled to 11 days' paternity leave in addition to the three days' paid leave for the birth of the child. Unpaid leave of up to three months, renewable once, can be

taken when required for reasons of "family solidarity" (e.g. to care for an ailing family member).

There are 11 public holidays when most businesses are closed. The only public holiday the employer is legally obliged to grant with pay is 1 May, though most businesses close and grant pay for the other national holidays as well. Companies are allowed to create a "time savings plan" via a national collective bargaining agreement or a company-wide agreement that allows employees to build up time in reserve for a long leave or early retirement. The basic entitlement is any difference between 24 days of paid holiday and their total holiday entitlement, time off in lieu of overtime payment and voluntary working-time reductions, which may be modified by a collective agreement.

Companies with 50 or more employees must have a profit-sharing scheme. The amount of profits that must be made available to the workforce is calculated by a pre-determined formula: 5% of the combined value of reserves and the amount set aside for investment in tax-free reserves are deducted from after-tax profits. This amount is then multiplied by the ratio of the wage bill to after-tax profits. The resulting figure is divided by two to arrive at the amount of profit to be distributed to the workforce.

Profit sharing may be allocated to a special investment company fund. Such allocation may be combined with allocation to special company savings account dedicated to investment.

Profit-sharing schemes implemented before 1 January 2007 may provide for allocation of company shares into a mutual fund.

7.3 Termination of employment

French employers may dismiss employees where real and serious cause exists, such as legitimate disciplinary or economic reasons. Adherence to certain procedures, however, is required especially for mass redundancies.

Employers may dismiss workers for a variety of reasons, such as personal misconduct, breach of company regulations or a severe decline in business. The employer must first inform the employee of the reason(s) for the dismissal in a preliminary meeting. Thereafter, the employer must direct a registered letter to the individual's home, confirming the dismissal and providing the grounds in full. The dismissal letter may not be mailed until after a specified number of days following the initial meeting. The employee has a right of appeal to a labour court. Employees may not be made redundant until every possible effort (including retraining) has been made to find them alternate suitable employment elsewhere within the company or the group.

Mass redundancies in France are subject to strict requirements regarding the information that the company must supply to the workforce, including a process of prior consultations. The rules depend on the number and timing of the redundancies but affect any company laying off more than 10 employees over a period of no more than three months. In such situations, the authorities may need to be notified. Larger companies with at least 1,000 employees must put forward a comprehensive re-employment plan for employees and pay for up to nine months of retraining leave. Works councils are entitled to employ an accountant, at the company's expense, to advise them on the restructuring plans. The authorities can put forward proposals, and they must be discussed between the works council and the employer.

Except in serious disciplinary cases, a discharged worker is entitled to severance pay. Laid-off employees may sue in the labour courts to challenge the employer's motives, and the courts may order an employer to award damages (of at least six months' salary under certain conditions) to the employee. Employers are required to provide advance notice in termination cases, as must employees upon resignation. This period is usually one month for employees with fewer than two years of service, two months for those with more and three months for supervisory level staff. Severance pay is due to any individual employed for more than one year.

Rules introduced in 2008 aim to encourage the use of a new way of terminating an employment contract -- termination of employment by mutual agreement -- especially by maintaining unemployment benefits for the worker and avoiding the taxation of certain indemnities due upon termination. Termination of an employment contract by mutual agreement must be approved by the French local employment authorities and a specific procedure must be followed.

7.4 Labour-management relations

The largest union in membership terms is the French Democratic Confederation of Labour.

Collective bargaining procedures vary depending on whether the agreement covers several sectors, a single sector or a company. Multiple procedures are available for various sectors and enterprises.

While company-level agreements may be concluded on terms less favourable than sector-level agreements, let-out clauses may not alter minimum pay rates, job classifications, complementary social protection or pooling of training funds. Workplace elections are open to any legally constituted union.

Outside of the state sector, negotiations are conducted at either the regional or the industry level, or both, in most industries and professions. The resulting agreements set minimum pay rates for all companies in the region or industry, although larger employers generally exceed them. Contracts are binding on all companies, whether or not affiliated with the employers' association, and may subsequently be enshrined in legislation.

7.5 Employment of foreigners

There are no restrictions on employing nationals of the 27 EU countries or on employing the nationals of Iceland, Liechtenstein, Norway and Switzerland. Nationals from one of these countries are not required to have a residence permit but they are allowed to request a permit to facilitate the proof of residence in France. Specific rules apply to Bulgarian and Romanian citizens until January 2012: they must apply for a work authorization and residence permit (unless certain conditions are satisfied).

For foreign nationals that need work permits, the home or the host company must apply while the employee is still outside France and file the permit with the French Labour Authority. Once the employee obtains a work authorization, he/she is required to apply for the proper visa before entering and working in France. Upon arrival in France, the individual must apply for a residence permit, which are initially granted for one to three years and renewed under certain conditions. The validity of the initial work and stay permits is tied to the nature of the employment contract (if this is for a fixed term, the stay permit will be limited to that term).

8.0 Office locations

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