

FRANCE: A TAX HAVEN FOR INNOVATIVE COMPANIES AND SME

**New York, October 22, 2007
New York Palace Hotel
455 Madison Avenue, New York**

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A - FRANCE HAS BECOME A FAVORABLE COUNTRY TAXE WISE

1. Maximum tax rate for individuals is 40% plus 11%
2. Tax shield for individuals : 50% maximum
combined taxation including income tax, social tax, real estate taxes.
3. Capital gains
 - 3.1. Total exemption for individual on capital gains deriving from the sale of shares after 8 years.
 - 3.2. Total exemption for corporations if equity interest ownership represents 5% or more of issued capital for at least a period of 2 years.
4. Wealth tax
 - Tax : foreign residents of France are generally exempt from wealth tax on their financial assets for five years
 - wealth tax : 75% of investments directly made into SME's are deductible from wealth tax due of to 50 000 €

B - TAX HAVEN FOR INNOVATIVE COMPANIES AND NEW HIGH TECH COMPANIES

NUMEROUS INCENTIVES

- 1. R&D TAX CREDIT**
- 2. SPECIAL INCENTIVE STATUS FOR YOUNG INNOVATIVE COMPANIES**
- 3. INCENTIVE STATUS FOR COMPANIES LOCATED IN TECHNOLOGY CLUSTERS**

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NUMEROUS INCENTIVES

1. R & D Tax Credit

A company may obtain a tax credit on a yearly basis for expenditures incurred for basic applied research and experimental development, as well as for the protection of patents.... including legal costs in counterfeit cases.

(R&D expenses include, in addition to direct expenses, depreciation of machinery, tooling and refurbishing dedicated to research, and, for twice their amount, expenses incurred for research contracted with public and private research centers).

What Amount?

(Draft Law and subject to decrees and regulations)

- 30% of annual research expenditures, up to 100 M€ and 5% over this freshhold.
- For new companies or companies who never took benefit of research credits during previous 5 years, the rate for the 30% brackets is raised to 50%.

What Amount? (cont'd)

- The tax credit may be used to offset corporate income tax. Any unused portion may be applied against taxes over the 3 following years. In some cases, it can be cashed. Any remainder is reimbursed in cash at the end of this period.

How and When to File

A 2069A form (or a new form) must be filed with the annual tax return within the first three months of the year.

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2. Special incentive Status for Young Innovative Companies (“YIC”)

A special incentive status is granted to young innovative companies (Jeunes Entreprises Innovantes – “JEI”):

- *exemption from local taxes, capital gains tax and income tax, and*
- *100% exemption from social security contributions for eight years.*

- Social charges (e.g., social security and unemployment contributions, retirement, professional illness and accidents, family benefits) represent 50% of all wages paid to employees in France.
- This exemption granted to YIC is thus of paramount importance. Furthermore, it is uncapped.
- The exemption applies to wages of all employees and legal representatives involved in R&D projects, including, e.g., the in-house counsel or the CEO, as well as researchers and technicians.
- The exemption is applicable for 8 years.

Eligibility for “YIC ” Status

In order to qualify as a “YIC”:

- *a company must be under 8 years old, have fewer than 250 employees and a turnover of under 40 million euros and total assets of less than 27 million euros ;*
- *its R&D expenses* must represent at least 15% of total expenses.*

** Same criteria as R&D expenses entitling tax credit for research*

3. Incentive Status for Companies Located in Technology Clusters

- **Granted for their R&D activities: corporation tax benefits similar to those for « YIC » with fewer requirements (no requirement of being new). The reduction of social charges, locally decided. May be less advantageous or more advantageous.**

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4. *Incentive Tax Holiday on Corporate Income + 2-Year Tax Break*

- A YIC is entitled to total exemption from corporate income tax for 3 years, and a 50% reduction the 2 following years, capped at 200,000 euros per 3 years for all tax breaks and subsidies granted. This limit does not include social security charge breaks.
- A YIC is also exempt from the «IFA» (minimum annual corporate tax).

100% Reduction in Social Costs

- Social charges (e.g., social security and unemployment contributions, retirement, professional illness and accidents, family benefits) represent 50% of all wages paid to employees in France.
- This exemption granted to YIC is thus of paramount importance. Furthermore, it is uncapped.
- The exemption applies to wages of all employees and legal representatives involved in R&D projects, including, e.g., the in-house counsel or the CEO, as well as researchers and technicians.
- The exemption is applicable for 8 years.

C. TEMPORARY TRANSFER OF FOREIGN PERSONNEL TO FRANCE

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- Foreign personnel is exempt, through December 31 of the fifth year following their transfer, from taxation on the amounts of compensation directly related to their transfer (e.g., housing allowances, indemnities for additional taxation, and reimbursement of moving expenses).
- The exemption also applies to contributions by foreign companies for the continuation of prudential schemes and pension plans.
- The exemption is reserved for employees who were not tax residents of France during the ten years preceding the date they assumed their new position.

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