



PrimeGlobal

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DOING BUSINESS IN FRANCE





WHAT KIND OF COMPANY BEST SUITS YOUR BUSINESS?

When you set up a business, you have to choose what kind of company to create. There are several considerations to take into account:

- Initial share capital, the number of shareholders,
- Whether there are any partners,
- The responsibilities of the management,
- The tax regime of the management, etc.

Our chart sets out a few criteria for each type of company so that you may choose the type that best corresponds to your particular constraints.

MAIN FORMS OF COMPANY/BUSINESS IN FRANCE

Sole trader

Set up and launched individually, without a company structure. Earnings from the business are liable to income tax ("IR").

Main Advantages

- No share capital contribution
- Administrative, legal, accounting and tax formalities are reduced

Main Disadvantages

- Financial liability is not limited
- Minimum social protection and pension obligation

Partnership – SNC (Société en Nom Collectif)

Partners are physical individuals or corporate entities. The profits from a SNC are liable to the tax regime of each partner unless it opts for corporation income tax ("IS").

Main Advantages

- No minimum share capital contribution
- Flexibility for financing

Main Disadvantages

- Unlimited financial, civil, criminal liability for partners
- Important decisions are taken at an AGM, normally unanimously

Limited Liability Company – SARL (Société à Responsabilité Limitée) and EURL (Entreprise Unipersonnelle à Responsabilité Limitée)

Partners are individuals or corporate entities. These two kinds of company have similar requirements in term of reports and formalities. A EURL is a SARL but has only one partner.

A SARL is always liable to corporate income tax unless it is a family SARL opting for personal income tax. A EURL is liable to income tax if the partner is a physical person but can opt for corporation income tax.

Main Advantages

- Suitable for both small and medium businesses
- No minimum capital required

- Limited liability
- The SARL is the most widespread legal form in France
- Simplified legal formalities
- Low social security costs for (majority-owning) the Manager
- It can have a single partner and is then called a EURL

Main Disadvantages

- Not flexible for future development as impossible to raise funds from the public
- Business relations can be more difficult with companies of a national or international scale
- Banks and suppliers may not appreciate the low share capital contribution
- A corporate entity can only be associated with one EURL
- No obligation for statutory audit except if the company exceeds two of the following three thresholds at the end of a financial year: Assets > 1 550 K€ ; Turnover > 3 100 K€ ; Staff > 50 employees.

Joint stock company – SA (Société Anonyme)

Partners are physical individuals or corporate entities. A SA is liable to corporate income tax.

Main Advantages

- Limited liability for shareholders
- Suitable for large companies with prospects for substantial growth
- Can raise funds from the public
- Obligatory audit which is a guarantee for commercial partners and shareholders

Main Disadvantages

- Minimum capital requirement of €37,000
- At least 2 shareholders for non-listed SA
- Accounting, reporting and auditing formalities
- Systematic obligation for statutory audit

Simplified joint stock company – SAS (Société par Actions Simplifiées)

This is a hybrid form of company marrying the features of a SARL and a SA. A SAS is liable to corporate income tax.

Main Advantages

- Limited liability
- The capital can be held by one or more shareholders
- Flexibility for the management, voting rights, distributions, and to attract shareholders (variable capital)
- From 1 January 2009, no minimum capital required (previously minimum capital of €37,000)

Main Disadvantages

- Cannot raise capital from the public
- Accounting and reporting formalities
- No systematic obligation for an audit unless:
 - the company controls or is controlled by another company
 - or the company exceeds two of the following three thresholds at the end of a financial year: Assets > 1 550 K€ ; Turnover > 3 100 K€ ; Staff > 50 employees.



PERMANENT ESTABLISHMENT IN FRANCE: BRANCH OR SUBSIDIARY?

When you decide to set up a permanent establishment in France (i.e. a fixed place of business), you have to decide first what kind of legal structure to set up in France. A permanent establishment can be either a Subsidiary, or a Branch.

- A Subsidiary is a separate company, different from its parent company.
- A Branch is a part of the same company, which happens to be in a different country than the head office.

MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

- **A subsidiary company is a French legal entity**, which might, in some circumstances, be considered as advantageous by French clients.
- **A subsidiary company is not always audited.** The simplest company you can have is an EURL (Limited Liability Company with only one shareholder who can be a foreign company). A SARL (or EURL) is only required to complete an audit in limited cases OR if it exceeds two of following three thresholds : (i) Total annual (pre-tax) turnover exceeding EUR 3.1m ; (ii) Total assets exceeding EUR 1.55m ; OR (iii) greater than 50 employees during the audited period. The auditors will be appointed for a six-year term by the shareholders.
- In the case of a Subsidiary, **the financial responsibility of the shareholders** is limited to the share-capital (except in some specific circumstances). On the contrary, for a Branch, the foreign company financial responsibility is unlimited as well as the personal responsibility of the CEO.
- **Any profit incurred in the Branch will be considered as distributed.** Consequently, withholding tax on dividends, calculated on the yearly profit, will have to be paid each year – except, notably, if the head office is located in another EU country. On the contrary, any profit in a subsidiary company is distributed only if the shareholders decide to distribute dividends.
- A French company will have to draft its own **Articles of Association** and to organize a **yearly shareholders' meeting** (not required for a Branch).
- A Subsidiary will have to prepare each year the **Corporate Tax return and Financial Statements**, whereas a Branch will have to prepare only the Corporate Tax return.
- **A French company will have to file with the French Commercial Court its own annual accounts**, whereas the Branch will have to file the accounts of the whole foreign company (i.e. the account of the French branch and of the foreign head office altogether).

SIMILAR REGISTRATION FORMALITIES

- Registration at the Commercial Court
- Obtaining a TIN ("Siret" in French) and a VAT registration number
- Registration with social funds (Social Security, Unemployment fund, Pension fund, Provident fund, Health insurance, etc.)

SIMILAR TAX AND ACCOUNTING OBLIGATIONS

- Subsidiary companies and Branches are liable to almost the **same taxes** (VAT, corporate tax, business licence tax, training tax, payroll taxes, etc...). However, if the Branch renders services only to its head office, then it falls under a specific VAT system and should follow a longer specific procedure to get VAT credit reimbursement



- **Revenue recognition** (allocation of profit) is the same for a Branch and a subsidiary company.
- A Branch cannot **invoice services to itself** (meaning it cannot issue invoices to its head office, as it is the same entity), however the Branch can issue debit notes to its head office and revenue would be recognised as if the Branch was producing services for a third party.
- For tax purposes, a Branch should have its **own set of books**, gathering all the transactions relating to the activity in France. This set of books is consolidated with those of the head office to make the whole books of the foreign company.
- As per French tax law, the **local books** (of the Branch or of the Subsidiary) should be kept in French GAAP, according to the French chart of accounts, and in French language. The amounts should be in Euros.

SIMILAR DOCUMENTS REQUIRED TO COMPLY WITH FRENCH TAX LAW

- **A general ledger and monthly journals** consolidate the accounting entries. The monthly journals should show the total amount of the entries.
- **The sub-ledgers Accounts Payables (AP) and Accounts Receivables (AR)** should include every entry related to debtors and creditors (Invoices and payments) and not only the outstanding entries.
- **Reliable accounting books:** The entries must be recorded chronologically and cannot be amended afterwards.
- **A description of the accounting procedures** when it is necessary to clarify the specific entries.
- All **accounting entries** should detail the origin, the content and the impact of each data and the reference of the supporting documentation.
- All accounting books and supporting documentation must be **kept during at least 6 years** (but for an unlimited time if a tax loss is carried forward).
- The total **documentation relating to the software** and computer organisation should be available in France in case of a tax audit (documentation, programs and processes).
- The information must be kept as **computerised data** for at least 4 years on their initial medium (disk, tape, etc...).

MY FIRST EMPLOYEE IN FRANCE

SCOPE OF FRENCH LAW

Every employee who works in France falls under the scope of French employment law, especially:

- Employees working for a foreign company with no permanent establishment in France
- Employees working for a foreign company with a permanent establishment in France

In particular, all the laws concerning employees' working time, employment equality (with regard to gender issues, sexual orientation, religion or age), or employee protection are applicable. They apply even if the employee who is seconded in France, is still on the payroll of the foreign parent company, keeps his original employment contract with the parent company and doesn't pay any social contributions in France.

STATUS OF YOUR EMPLOYEE IN FRANCE

Your employee was hired abroad before being sent to work in France

You should refer to the bilateral treaty between his country of origin and France to determine if the employee can benefit from the secondment regime and stay on the payroll of the foreign parent company.

Your employee was hired in France

You should first check if the employee is authorised to work in France, especially when he is not of French nationality.

The employee may have one of the following statuses:

- representative of a foreign company ("Représentant de Firme Etrangère" or « RFE » in French) if the company has no permanent establishment in France (payroll-only registration)
- employee of the company or a branch established in France

In both cases, you should establish an employment contract compliant with French law.

EMPLOYMENT CONTRACT

There are two main types of contract (see specific data sheet):

- Open-ended contract – CDI (contrat à durée indéterminée), which should preferably be a written contract
- Fixed-term contract – CDD (contrat à durée déterminée), which must be a written contract

PROCEDURES TO BE FULFILLED

1. Procedure only for representative of a foreign company ("RFE"): you should register the non-resident company ("Entreprise Sans Etablissement en France" or "ESEF" in French) by filing the form E0.
2. Make a recruitment declaration:
 - Preliminary recruitment declaration (DPAE – D'éclaration Préalable A l'Embauche) for all employers planning to recruit an employee;

- First hiring declaration for an office, if applicable;
- Application to register the employee with the Social Security regime (URSSAF) ;
- Application to register the employee with the unemployment insurance regime (Pôle Emploi);

3. Additional registrations (that may be mandatory depending on the law and on the collective bargaining agreement):

- Supplementary pension schemes;
- Provident fund;
- Health insurance;
- Work health service (mandatory).

Death & Disability insurance is mandatory for all executive staff, it may be mandatory also for non-executive staff depending on the collective bargaining agreement applying to the company.

The CBA may also set specific rules (minimum contributions level, minimum coverage, etc.) for death & disability insurance and/or health insurance schemes.

Health insurance is mandatory for all since 2016.

ORGANISMS TO WHICH SOCIAL CONTRIBUTIONS ARE TO BE PAID

URSSAF (Social Security) is an organism that:

- Collects employers' and employees' contributions for social security and unemployment, CSG and CRDS tax, contributions on replacement income and assets, various taxes.
- Covers the risks of sickness, old age, retirement, accidents at work, etc. by paying an allowance to the employer and to the employee.

« **Pôle Emploi** » (**Unemployment organism**) is a private organisation in charge of:

- Registering people seeking work;
- Collecting and dispatching job advertisements;
- Paying unemployment benefits.

Pension funds, provident funds and health insurance companies

- Pension funds collect supplementary pension contributions and manage employees' future supplementary pensions.
- Provident funds collect contributions and pay indemnities during periods of illness and lump sums on death and spouse annuities...
- Health insurance collects contributions and reimburses most of their medical expenses to the employees (private practice, doctors and pharmacy, hospitalization, optical costs, dental costs, etc)

PAYMENT OF SOCIAL SECURITY CONTRIBUTIONS

- Quarterly or monthly payments, depending on the staff number in France;
- Social contributions returns filed by using pre-filled forms or filed via internet (online declaration);
- Payment: cheque, bank transfer, and direct debit;
- From a practical point of view it is useful to open a bank account in France.
- Tax: The payment of the employee's income tax is made by the employee himself. No payment is made by the employer.

HOW TO READ FINANCIAL STATEMENTS IN FRANCE

The basic French Financial Statements always consist in:

- the Balance Sheet
- the Profit and Loss Account
- the Footnotes (that give details on the accounting rules used by the entity, the significant events, some balance sheet items, etc.)

You will find hereafter a translation of the Balance Sheet and Profit and Loss Account.



THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

COMPANY X		AS AT DECEMBER 31, 2010			
BILAN ACTIF	ASSETS				
Capital souscrit non appelé	Share capital-uncalled				
ACTIF IMMOBILISE	FIXED ASSETS				
Immobilisations incorporelles	Intangible fixed assets				
Frais d'établissement	Preliminary and formation expenses				
Frais de recherche et développement	Research and development costs				
Concessions, brvts, licences, logiciels, drts & val. similaire	Concessions, patents, licences, trademarks and similar rights				
Fonds commercial	Purchased goodwill				
Autres immobilisations incorporelles	Other intangible assets				
Immobilisations incorporelles en cours	Intangible assets in progress				
Avances et acomptes	Advances and prepayments				
Immobilisations corporelles	Tangible fixed assets				
Terrains	Land				
Constructions	Buildings				
Installations techniques, matériel et outillage industriels	Industrial fixtures, fittings, plant machinery & equipment				
Autres immobilisations corporelles	Other tangible fixed assets				
Immobilisations corporelles en cours	Tangible assets in progress				
Avances et acomptes	Advances and prepayments				
Immobilisations financières	Financial assets				
Participations	Shares in subsidiaries and associated companies				
Créances rattachées à des participations	Loans to group companies				
Titres immobilisés de l'activité de portefeuille	Other forms of investments				
Prêts	Loans				
Autres immobilisations financières	Other financial fixed assets				
ACTIF CIRCULANT	CURRENT ASSETS				
Stocks et en-cours	Inventories of products and work in progress				
Matières premières et autres approvisionnements	Raw materials, supplies and other consumables				
En-cours de production (biens et services)	Work in progress (for production and services)				
Produits intermédiaires et finis	Intermediate products and finished goods				
Marchandises	Inventories of goods purchased for resale				
Avances et acomptes versés sur commandes	Advances and payments				
Créances	Accounts receivable				
Créances clients et comptes rattachés	Trade accounts receivable				
Autres créances	Other accounts receivable				
Capital souscrit - appelé, non versé	Capital-called up and unpaid				
Valeurs mobilières de placement	Marketable securities				
Actions propres	Company own shares				
Autres titres	Other securities				
Instruments de trésorerie	Liquid assets				
Disponibilités	Cash				
Charges constatées d'avance	Prepaid expenses				
Charges à répartir sur plusieurs exercices	Charges to be spread over several periods				
Primes de remboursement des emprunts	Loan redemption premiums				
Ecart de conversion Actif	Unrealized exchange loss				
	TOTAL ASSETS	0	0	0	0

COMPANY X

BILAN PASSIF		LIABILITIES		in Euros	
CAPITAUX PROPRES		EQUITY			
Capital		Capital stocks including paid capital :			
Primes d'émission, de fusion, d'apport		Premiums arising from share issues, mergers, assets brought into business			
Ecart de réévaluation		Revaluation reserves			
Ecart d'équivalence		Equity method evaluation difference			
Réserves :		Retained earnings :			
- Réserve légale		- Legal reserve			
- Réserves statutaires ou contractuelles		- Statutory or contractual reserves			
- Réserves réglementées		- Regulated reserves			
- Autres réserves		- Other reserves			
Report à nouveau		Profits/Losses brought forward			
Résultat de l'exercice (bénéfice ou perte)		Result for the year (profit or loss)			
Subventions d'investissement		Investment grants			
Provisions réglementées		Regulated provisions			
		NET EQUITY	0	0	
AUTRES FONDS PROPRES		OTHER LIABLE EQUITY CAPITAL			
Produits des émissions de titres participatifs		Proceeds of issues of participating stock			
Avances conditionnées		Conditional advances			
Autres fonds propres		Other liable equity			
PROVISIONS		PROVISIONS FOR LIABILITIES AND CHARGES			
Provisions pour risques		Provisions for contingencies			
Provisions pour charges		Provisions for charges			
			0	0	
DETTES		LIABILITIES			
Emprunts obligataires convertibles		Convertible debenture loans			
Autres emprunts obligataires		Other debenture loans			
Emprunts et dettes auprès d'établissements de crédits		Loans from credit institutions			
Emprunts et dettes financières		Loans and financial debts			
Avances et acomptes reçus sur commandes en cours		Received advances and prepayments			
Fournisseurs et comptes rattachés		Trade accounts payable			
Dettes fiscales et sociales		Tax payable			
Dettes sur immobilisations et comptes rattachés		Trade accounts payable - fixed assets			
Autres dettes		Other debts			
Instruments de trésorerie		Liquid debts			
Produits constatés d'avance		Deferred income			
			0	0	
Ecart de conversion Passif		Unrealized exchange profit			
		TOTAL LIABILITIES	0	0	



COMPANY X	AS AT DECEMBER 31, 2010
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COMPTE DE RESULTAT	PROFIT AND LOSS ACCOUNT	in Euros		
		12/31/2010		12/31/2009
		France	Export	Total
Produits d'exploitation	Operating income			
Ventes de marchandises	Sales of goods purchased for resale			
Production vendue (biens)	Sales of finished goods			
Production vendue (services)	Income for services			
Chiffre d'affaires net	Net turnover	0	0	0
Production stockée	Change in stock of finished goods and work in progress			
Production immobilisée	Capitalized production costs			
Produits nets partiels sur opérations à long terme	Attributable profit on long term contracts			
Subventions d'exploitation	Operating subsidies			
Reprises sur provisions et transfert de charges	Write-off of provisions and transfer of charges			
Autres produits	Other income			0
Charges d'exploitation	Operating costs			0
Achats de marchandises	Purchase of goods for resale			
Variation de stocks	Change in stock			
Achat de matières premières et autres approvisionnements	Purchase of raw materials, supplies and other consumables			
Variation de stocks	Change in stock			
Autres achats et charges externes	Other purchases and external charges			
Impôts, taxes et versements assimilés	State - Taxes and similar levies			
Salaires et traitements	Salaries and appointments			
Charges sociales	Social contributions			
Dotations aux amortissements, dépréciations et provisions :	Depreciation and provisions :			
* Sur immobilisations : dotations aux amortissements	* Fixed assets : depreciation/amortization			
* Sur immobilisations : dotations aux dépréciations	* Fixed assets : provision for loss in value			
* Sur actif circulant : dotations aux dépréciations	* Current assets : provision for loss in value			
* Pour risques et charges : dotations aux provisions	* Provision for liabilities - operating			
Autres charges	Other expenses			
RESULTAT D'EXPLOITATION	OPERATING RESULT	0		0
Quotes-parts de résultat sur opérations faites en commun	Share of profits from joint ventures			
Bénéfice attribué ou perte transférée	Allocated gain or transferred loss			
Perte supportée ou bénéfice transféré	Allocated loss or transferred profit			

Produits financiers	Financial income		
De participations	Income from shares in and loans to group companies		
D'autres valeurs mobilières et créances de l'actif immobilisé	Income from securities and other financial fixed assets		
Autres intérêts et produits assimilés	Other financial income		
Reprises sur dépréciation, provisions et transfert de charges	Write-off of financial provisions and transfers of charges		
Différences positives de change	Realised gains on exchange differences		
Produits nets sur cessions de valeurs mobilières de placement	Proceeds from sale of securities		
		0	0
Charges financières	Financial expenses		
Dotations aux amortissements, dépréciations et provisions	Depreciation and provisions expense		
Intérêts et charges assimilées	Interest expenses		
Différences négatives de change	Realised losses on exchange differences		
Charges nettes sur cessions de valeurs mobilières de placement	Net loss from sale of securities		
		0	0
RESULTAT FINANCIER	FINANCIAL RESULT	0	0
RESULTAT COURANT AVANT IMPOTS	CURRENT RESULT BEFORE TAX	0	0

COMPANY X

COMPTE DE RESULTAT

PROFIT AND LOSS ACCOUNT

in Euros

12/31/2010	12/31/2009
Total	Total

Produits exceptionnels	Extraordinary income		
Sur opérations de gestion	Extraordinary operating profits		
Sur opérations en capital	Proceeds from sales of assets		
Reprises sur dépréciations, provisions et transferts de charges	Write-off of depreciations, provisions and transfers of charges		
		0	0
Charges exceptionnelles	Extraordinary expenses		
Sur opérations de gestion	Extraordinary operating expenses		
Sur opérations en capital	Net book value of assets disposed of		
Dotations aux amortissements, dépréciations et provisions	Depreciations and provisions expenses		
		0	0
RESULTAT EXCEPTIONNEL	EXTRAORDINARY PROFIT	0	0
Participation des salariés aux résultats	Employees' profit sharing		
Impôt sur les bénéfices	Corporate tax and research tax credit		
Total des produits	Total income		
Total des charges	Total expenses		
BENEFICE OU PERTE	NET PROFIT/LOSS		