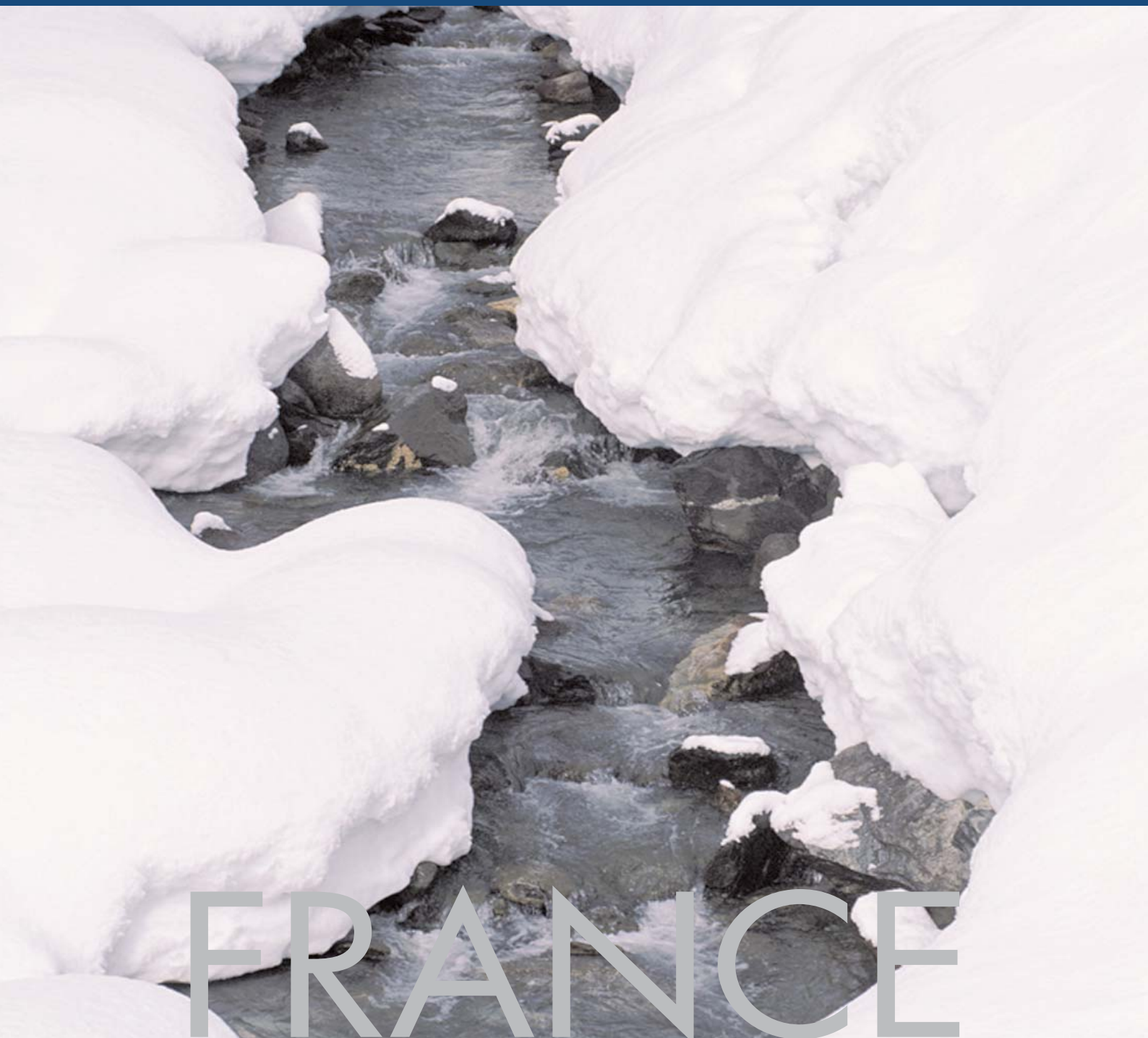


R A I S N G  
F U N D S N







## **RAISING FINANCE FOR COMPANIES (IN FRANCE): *specificities***

Availability of financing at a reasonable cost to any business, in France or elsewhere, will depend in large measure on the size of the business, its industry sector, its stage of development. Assisted financing is available in certain geographical regions of France and in certain industry sectors, as well as for small businesses. Financial markets are generally only accessible to larger businesses with proven track records and an acceptable financial position in an industry which the market deems attractive. It is not within the scope of this article to describe the listing requirements and procedures in France. For this, we refer you to the website of the AMF ([www.amf-france.org](http://www.amf-france.org)) for an overview of listing requirements and useful links to helpful administrative agencies.

France benefits from a structured and sophisticated financial market and infrastructure, with a broad range of sources of finance. In the limited space available for this article, we cannot deal with all aspects of financing in France, and will focus primarily on State-assisted financing available France.

We refer you to the excellent website of INVEST IN FRANCE ([www.investinfrance.org](http://www.investinfrance.org)) for an overview of doing business in France, with useful links to websites of helpful administrative agencies.



## *Types of financing specific to France*

All of the usual sources of financing are available in France: shareholders equity, grants and tax breaks, short and long term bank finance, hire purchase and leasing, trade finance, venture capital, and, of course, the stock exchange.

In the limited space available for this article, we will only go into details of the specificities of the French markets: financing methods which are specific to France, i.e. tax incentives, tax breaks, and financial assistance.

## Tax incentives

### **R&D tax credit**

A tax credit, applicable against corporate income tax, is available to manufacturing, trading and agricultural companies that spend money on research and development.

If no tax is due, the R&D credit is reimbursed in cash after three years.

Eligible expenditures include costs of basic research, applied research and experimental development (direct staff costs, depreciation allowances for plant and equipment, 75% of overhead staff costs, 100% of first 12 months of staff costs for employees holding doctorate degrees, patent filings and maintenance costs, amortisation of patents acquired, 50% of standardisation costs, outsourced R&D, patent defence –capped at €60,000, funding provided to public research bodies, universities and technical centres -which counts double).

The credit is equal to 5% of the annual expenditure, plus 45% of the variation against average R&D expenditures over the previous two years. It is capped at €8 million per company per year.

See also the tax exemptions under the section “Innovative new companies (JEI)” below.

## Family tax

This credit is equal to 25% of the spending to enable employees with children to achieve a better balance between their working life and their family life, including spending for day-care centres, training for employees on parental leave, compensation of employees on maternity or paternity leave or parental leave.

This tax credit is capped at €500,000 per company per year. It may be applied against corporate tax due, and if greater than the tax due for the year in question, is reimbursed.





## Cinema tax credit

Certain production expenses defined by law give rise to a tax credit which is made available to companies which act as assistant producers and for the production of feature-length films in France.

The tax credit is calculated on a year by year basis and is equal to 20% of the eligible expenditures, capped at €1 million per film for fiction, documentaries or animated features. The cap for fiction produced for television or cinema is €1150/minute, increased to €1200/minute for animated features. It may be applied against corporate tax due, and if greater than the tax due for the year in question, is reimbursed.

## New technologies

Available only to small and medium-sized companies, this tax credit is equal to 20% of the investment in new technologies, capped at €100,000 per 36-month period.



# Tax breaks

## Temporary business tax exemption

Local communities (municipalities, departments, regions and intermunicipal authorities) may, in certain areas, grant temporary business tax exemptions to companies which set up or expand their business or take over financially troubled businesses. Exemptions may be partial or total, and in all events may not exceed five years.

## Temporary corporate income tax exemption

Newly created companies located in certain areas of France may be eligible for temporary corporate tax exemption as follows:

- 100% exemption for first 24 months,
- taxation on 25% of profit for next 12 months,
- taxation on 50% of profit for next 12 months,
- taxation on 75% of profit for next 12 months,

all subject to an overall limitation of €225,000 in exempted income.

These exemptions are only available to companies which start up a new business and the shares of which are held by individual shareholders for at least 50%. The tax exempt income is limited to €225,000 in any 36 month period.

## Innovative New Companies (JEI)

This exemption is available to new companies which spend at least 15% of total expenditures on research and takes the form of a partial exemption from corporate income tax, business tax and property tax over eight years, up to a maximum limit of €100,000 in any 36-month period, and an exemption from employer's social security payroll charges on wages of the research staff for eight years.

This exemption is restricted to "small and medium-sized companies", i.e. companies with fewer than 250 employees, sales of less than €40 million and total assets of less than €27 million which are mainly owned by individuals or by companies that meet the same criteria.


Sales of shares in qualifying Innovative New Companies are exempt from capital gains tax if the seller has held the shares for three years or more.

## 'One-man' venture capital companies (SUIR)

An SUIR is a special legal structure owned by a single individual. It is designed to provide tax benefits commensurate with the high risk of investment in new companies.







An SUIR must be organised for the sole purpose of owning between 5% and 20% of the shares by buying founders' shares for cash or contributing to capital increases in unlisted manufacturing, trading and craft companies located in the European Union, that are liable for corporate tax and that are themselves in the majority owned by individuals.

The investments must be in companies which are 'new'.

#### **The tax benefits are two-fold:**

the SUIR is exempted from corporate income taxation for the first ten years of existence

the original shareholder of the SUIR is exempt from personal income tax on income distributed by the SUIR, including capital gains on the disposal of shares in investments.

#### **Special rules for Headquarters and logistics centres**

As is the case in many European countries, France wishes to encourage the establishment in France of corporate headquarters ordination and logistics centres. Since 2005, the special tax rules have been extended to research coordination centres.

To be eligible to benefit from the special rules, corporate headquarters must service only companies in the same group (providing management, administration, coordination and control functions). The same group rule also applies to logistics centers (for packaging, labelling and distribution functions).

An agreement is reached with the French tax authorities under which the headquarter, research coordination or logistics centre is taxed on a 'cost-plus' basis at an agreed rate, which is generally 6-10%.

Business tax is applicable under normal rules, which allow for an initial 2-year exemption for new companies.

In additional, all or part of special expatriation remuneration of expatriate employees may be eligible for tax relief, on application to the French tax administration.

#### **Favourable tax rules available to all corporate tax payers**

##### **Depreciation rules**

Fixed assets are generally depreciated according to the straight line method over their estimated useful life.

New production assets are depreciated according to an accelerated method multiplying the straight line ratio by 1.25 to 2.25, depending on the asset.



Equipment and tools used for scientific and technical research which are purchased or produced after January 1, 2004 can be depreciated using an accelerated declining balance method with multiples which range from 1.5 to 2.5.

Software, energy conservation equipment, renewable energy production equipment, noise abatement equipment and non-polluting vehicles (running on electricity, LPG or natural gas) can be depreciated over 12 months.

Fixed assets which have been financed by capital grants, regional development grants or agricultural development grants can be depreciated on the basis of their cost price plus half of the grant amount.

### **Capital gains tax**

Capital gains from the sale of shareholdings in 2006 are taxed at 8%. They will be exempt as from January 1, 2007.

### **Repatriation of profits**

Interest, royalties and management fees: there are no particular obstacles here. The amounts invoiced must be justified and in line with market practice for arms length transactions between independent entities.

Withholding tax: France has an extensive network of bilateral treaties which reduce or eliminate withholding tax on dividends, interest and royalty payments. There is no withholding on dividends or branch income paid to a European parent company.







## Financial assistance

### Investment and job creation

Numerous forms of investment assistance are available, in particular to small and medium sized businesses, in the form of subsidies, soft loans, etc. Maximum rates apply to aggregate assistance from all sources. Packages are designed to encourage businesses to set up in distressed areas and/or create jobs for certain categories of job seekers.

Creation of companies in or transfer to designated urban 'free zones' gives rise to a full range of tax and social security exemptions for a five year period.

Information is best obtained by contacting the DATAR ([www.datar.gouv.fr](http://www.datar.gouv.fr)) which handles applications with respect to priority development areas (PAT or '*prime d'aménagement du territoire*' areas). Assistance covers 11.5% to 23% of the amount invested in land, plant and equipment for large corporations, and 21.5% to 33% for small and medium-sized corporations.

Assistance is also available from the European Regional Development Fund and the Small and Medium-sized Enterprise Development Fund.

Subsidies and exemptions from social security charges may also be available for hiring of certain categories of workers, such as young jobseekers and the long-term unemployed.

### employee training

The Ministry of Social Affairs manages, along with the Regions, employee training programs. Tax credits are available for training expenses incurred by small and medium-sized employers.

In qualifying areas undergoing industrial restructuring, group training programs are eligible for co-financing from the European Social Fund.

### research and development

Financial assistance to cover research and development costs is available on application to the Ministry of Industry, the Ministry of Research or the Innovation Agency (ANVAR).

Research spending may also give rise to tax credits up to €8 million per company per year.



## competitiveness clusters (pôles de compétitivité)

Under recently adopted rules, businesses established in the research and development sections of competitiveness clusters may be eligible for tax and social security exemptions of up to €100,000 per 36 months for tax, and up to 50% exemption over up to 30% of payroll for social security and related contributions. Information is available at [www.competitivite.gouv.fr](http://www.competitivite.gouv.fr).





## **Technical skills**

Technical skill is a fundamental for Vatier & Associés : the former head of the Paris Bar (with a life-long right to the title " Bâtonnier "), Bernard Vatier, has attracted a group of partners chosen for their high level of technical qualification, as well as their corporate and litigation experience. The type of cases and the fidelity of the clients bear witness to the quality of the work done.

## **Humanity**

Each case has a human side.

Clients deal directly with partners, from the opening to the close of the case. A reasonable number of associates (approximately 15) assist, but the firm makes it a point of honor that clients work as much with the partner as with the associates.

## **Ethics**

The attachment of the partners to their ethical duties, and their experience in dealing with ethical issues are essential to the firm, as both the Courts and clients well know.

Ethics are not only revealed in the strict respect of rules of conflict of interest and client/attorney privilege, but also in the quality of the work performed for clients, a transparent approach to billing, a respect for specific client needs, continued legal education for all lawyers in the firm, particularly in rapidly changing areas of the law.

***The principal areas of the firm's practice are:***

***Litigation, Corporate, Property, Health, Public Service.***

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