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Frédéric Bélot is partner, founder member and co-manager of the BM & Partners law firm.

Attorney at law (Paris Bar), his work in France is focused on business litigation, post-acquisition litigation, litigation related to disputes between majority and minority shareholders, on managers’/ directors’ and auditors’ liability and on white-collar crime.

He is particularly competent in matters concerning compensation of Economic Loss. He has also written a doctorate and a number of articles on this subject.

Frédéric Bélot intervenes also in conciliation, mediation and international arbitration. He is an Honored Lawyer of the Russian Federation and an Honored Doctor of the Russian Lawyers Academy.

Frédéric Bélot holds two Master Degrees in European Law and in Private Law, Diploma of Sciences Po (economics & finance) and PhD in Private Law (2004). For three years, he has taught in the Université de Poitiers and for two years in the Université Paris II Pantheon Assas, where he has taught Business law (corporate, tax, banking and bankruptcy law).

Formerly President of the Alumni Association of Sciences PO Bordeaux and President of the Fédération des Associations des Diplômés des Instituts d’Etudes Politiques (more than 50 000 of alumni), he continues to lead several alumni clubs of Political Sciences Institutes (IEP) in Paris, Brussels, and Bordeaux.

Frédéric Bélot is a member of the French Association of Company’s Governance (AFGE), of the French Institute of Administrators (IFA) and Union of European Lawyers (UAE). At present, he is also carrying out functions of General Secretary of the French-Russian Legal Society and participates in activities of the French-Russian Dialog, an association representing the biggest companies of these two countries.
Publications

“For the recognition of the concept of Economic Loss in French law”, in Petites Affiches, 28th December 2005.

“Economic Loss of a shareholder victim of share depreciation”, in Petites Affiches, 26th April 2006.

“For a better Protection of Economic Values”, in Petites Affiches, 6th December 2006.


“How can we regulate Sovereign Wealth Funds?”, in Lettre de l'Association Française de Gouvernement d'Entreprise n° 18 (June 2008).

“Evaluation of Economic Loss for innovative companies”, in Recueil Dalloz, 11th June 2008.
Unlike other countries, in France the rules, regulations, rights, obligations and public financial support are the same for all companies whether they are French or not. Foreign companies can freely set up their business activities in France. The legal position of investors is the same as for French held companies: they are therefore able to acquire or rent property; acquire French companies; or create their own legal entity.

FRENCH LEGAL STRUCTURES: INCORPORATE OR NOT?

French companies can take various legal forms: Société anonyme (SA), Société par actions simplifiées (SAS), Société à responsabilité limitée (SARL), Entreprise unipersonnelle à responsabilité limitée (EURL), Société en nom collectif (SNC), Société en commandite simple (SCS), and Société en commandite par actions (SCA). All have their advantages and disadvantages, which each potential investor may take into account in assessing his commercial goals.

There are two main categories of legal structures available to businesses in France: incorporated ones have a legal personality and have a limited duration of 99 years (which is renewable), and unincorporated ones, which include businesses which have not accomplished registration formalities, but which the law recognizes because they act as if they were incorporated and carry on a commercial or economic activity. Our presentation below will only deal with the most commonly used of these two types of business structures, i.e.: corporations.

To incorporate a company, certain documents must be filed with the clerk of the Commercial Court of the place of the company’s registered office and the company must be listed in the relevant corporate register. In addition, a notice of incorporation must be published in legal bulletins. It should be noted that, if certain conditions of formation are not complied with, this can result, in the worst case scenario, in the nullity of the corporation. However, French law usually provides for a period of time during which the company may comply with the requirements not fulfilled. This is all the more welcome incorporation in France is more complicated and time consuming than in typical Common Law jurisdictions.

Classically, one can distinguish between limited liability companies and unlimited liability companies. Limited liability companies are those where shareholders’ liability is limited to their capital contributions. They include SA, SAS, SARL, and EURL. On the contrary, shareholders of unlimited liability companies are jointly and severally liable for the company’s debts. In other words, their financial exposure is not only limited to their capital contributions, but can extend to their personal assets as well. This type of company includes the SNC. Two types of companies (SCS and SCA) are shuffling these two categories, resulting in an hybrid company form including two types of shareholders: some whose liability is limited to their capital contributions, and others whose liability is unlimited.

There are a number of obstacles which a shareholder or an officer of a non EU country will need to overcome. For instance, a non EU citizen intending to be the Chairman of a
corporation must obtain an administrative authorization in the place in which he will be exercising its activity. This requirement does not apply to European Union citizens nor to those of a country of the European Economic Area (EEA) and of a country that is a member of the OCDE (i.e., Australia, Canada, Korea, the United States, Japan, Mexico, New Zealand and Turkey).

The comparative chart of legal structures available in France below provides a view at a glance of their respective specificities. Annex 1

What about the administrative formalities?

These have been considerably reduced! Companies that wish to set up their business in France now deal with a single administrative office: the Center for business formalities (Centre de formalités des entreprises CFE). It is this department and not the company that is responsible for forwarding the relevant documents to the various administrative departments; The possibility of completing all the required formalities online has been available for several years, making it possible to register a company in a matter of hours. The administrative cost of setting up a company in France is 76.19 euros (at 1st January 2006) plus the cost of publishing the registration details in the legal journals (approximately 220 euros), which is a total cost of approximately 300 euros.

Can foreign businesses setting up in France obtain public financial support?

All European Union member states, including the new Eastern European members, are subject to European Commission regulations, which set the limits and framework for financial assistance awarded to economic players. In this respect, the European community is able to ensure healthy competition between companies within a single market in order to maintain equality. Requests for subsidies must be made upstream from the investment project. They depend on the size and nature of the company, the amount of investment, the type of project and the number of jobs created.

Within this European Union framework, the member states are free to support the development of specific economic activities. France’s desire to create a favorable business environment is demonstrated by the extent and diversity of the public financial support available. This financial aid effectively supports company start-ups, job creation, investment and the development of businesses in France. Public financial support is granted by the French state and local authorities such as regional, departmental, inter-communal or town councils. It can take the form of a simple grant, a loan, or tax credits, etc…

Within this framework, France can provide 6 types of financial assistance to investors:

- Regional subsidies for investment in production industries in regions that are lacking economic development or undergoing industrial restructuring, according to a specific map approved by the European Commission,

- Financial assistance for R&D activities can be awarded in order to help finance companies’ in-house R&D activities,
• Assistance for professional training for salaried employees to support company training projects,

• Employment subsidies at a regional or national level for specific sectors of the working population (young unemployed, long term unemployed, among others),

• Financial assistance for investment and job creation, aimed at small and mid-sized businesses all over France,

• Environmental subsidies to enable small and mid-sized companies to achieve the current norms and larger groups to surpass these norms.

**If I set up my business in France, what assistance will I receive to finance my investment project and recruit personnel?**

France’s desire to create a favorable business environment is demonstrated by the extent and diversity of the public financial support that is available. In regional zones for example, financial grants can be awarded for up to 15% of the total investment for large companies and a quarter of the total investment for mid-sized companies.

**Job creation**

The Prime d’Aménagement du Territoire is a regional development grant of up to 15 000€ per job created.

Grants for corporate training There are several sources of assistance (Europe, French State, local authorities) which enable companies that are setting up their business to finance a significant proportion or all of their professional training expenses.

**Subsidies for business premises**

As well as subsidies for investment projects in production activities (all companies in specific regional zones, or small and mid-sized companies throughout the French territory), local authorities can also offer subsidies to finance the construction or leasing of business premises or the acquisition of land.

**Tax incentives**

Business tax – local tax levied on business activities – can be reduced or even waived for a period of 5 years for industrial companies, or companies in the scientific or technological fields. Business tax and property tax are adapted according to the zone in which the business is located, in order to attract investors.

**Setting up of a representative office of a foreign company in France**

**Difference between a representative office and a company**
Everything depends on the activity of the representative office in France. Indeed, if it is just a basic representative office in France which doesn’t have any commercial activity, it is not subject to any French legal constraints (corporate law, labour law, tax law…).

Otherwise, if a representative office has a commercial activity (advisory, search of clients, exhibition promotion) the French corporate legislation will apply.

The representative office will be considered as a branch.

The rules applying to a representative office will the same as the ones applying to a company except that it doesn’t need to have registered capital.

Regarding the tax issues, when a representative office is considered as a “stable entity” in France, it will be subject to French tax regulations.

In deciding to invest in France as well as in choosing a legal structure, however, due consideration should be given to other issues, such as taxation and human resources.
TAXATION OF FRENCH BUSINESS STRUCTURES

While French companies can take various legal forms which all have their advantages and disadvantages, taxation is one of the major areas where such advantages and disadvantages materialize, which each potential investor may take into account in assessing his commercial goals.

We will intended here and after to provide as initial background information an overview of the various tax regimes applicable to legal structures available in France.

A more modern and attractive tax system

In more general terms, the government is attempting to reduce compulsory withholding (taxes, duties, social security contributions) which weigh on businesses and households. The positive impact of these measures on the economic attractiveness of France in terms of tax and regulatory environment for financial investment, can be seen in the results of the latest report published by the European Association of “Venture Capitalists” (EVCA). For the first time, France is ranked among the top three, moving from 10th position in 2004 to 2nd position in 2006, after Ireland and ahead of Great Britain.

Finally, the tax administration has undergone restructuring to provide a modern quality service for businesses, by developing “rescrit” advance ruling procedures in order to improve investors’ legal and fiscal security; contacts with the administrative services have been simplified with the introduction of a single tax office for businesses and online tax return filing and payment.

Transparent, reasonable and ensuring full legal security for investors, the French tax system has proved its capacity to carry out ambitious and rapid reforms (Barometer of tax competitiveness 2007 – Ernst & Young).

Ambitious reforms

For the past five years the French government has been pursuing an ambitious policy to reduce corporate taxation, with particular benefits for foreign investors: capping of business tax at 3.5% of added value, infinite loss carry-forwards, phasing out of tax on stock options, reform and extension of research tax credit to 16M€, reduction in patent license rates, a range of tax relief measures in favor of new innovative companies including social security payment exemptions for the first 8 years.

French tax rates on a par with the European average

The corporate tax rate in France has come down from 50% in the 1990’s to 33.33%. It is now on a par with the average tax rate in other developed countries. Moreover, the temporary 1.5% surcharge was phased out in 2006.

On a European level, comparisons between nominal corporate tax rates show that:

- France is higher than Germany (with a rate of 25%) but that the methods of assessment are more favorable in France, which brings the actual tax burdens into line,
• The French rates of tax are similar to those in many other European countries including the Netherlands (29.1%), the United Kingdom (30%) and Italy (33%).

The base figure of 33.33% does not truly represent the business tax environment in France because it is incomplete. A true tax comparison should also take into account other taxes that weigh on company profits: business tax and other local taxes. In this respect, France at 34.9% ranks ahead of Germany (38.7%), Italy (37.3%) and Spain (35%). Comparisons between companies should also take into consideration rules for determining the basis of assessment used to calculate tax. French regulations regarding depreciation, which have recently been improved, are now among the most favorable in Europe and contribute to lowering the actual amount of tax to be paid.

The legal structures most widely used in business organizations are taxable on their own under the corporate income tax regime, i.e.: SA, SAS, and in most cases SARL. The less widely used SCAs are also always subject to the corporate income tax.

An SNC and an SCS are always subject to such a pass-through regime which generally applies as well to EURLs and for which a SARL may opt in specific circumstances.

As to unincorporated branches of foreign corporations, they may or may not give rise to taxation in France, depending on whether they characterize as permanent establishments.

1. Corporate income tax : SA, SAS, SARL and SCA

While the same rules as those applicable to the taxation of a SA apply to that of a SARL, a SARL may opt for a pass-through regime under certain conditions. Conversely, while an EURL is normally subject to such a pass-through regime, it may opt for the corporate income tax regime if its only shareholder is a corporation that is itself subject to that regime.

1.1 General corporate income tax regime

Net taxable income is subject to corporate income tax (impôt sur les sociétés) on its profits at a standard rate of 33.33%. In addition to that, corporations have to pay a tax (contribution additionnelle) equal to 3% of the total amount of the corporate tax ; and another tax (contribution sociale) equal to 3.3% of the amount of the corporate income tax exceeding 763,000 Euros. SMEs enjoy a reduced tax rate of 15% on the first 38,120 Euros of profits earned.

A reduced tax rate of 19% is applied to long term capital gains. The net after tax gain is placed in a special reserve and subject to a further tax (equal to the difference between the long-term capital gains and the corporate income tax) upon distribution to the shareholders. Tax losses may be carried forward indefinitely and carried back against the three preceding years subject to certain conditions.
French corporate income tax is paid quarterly and is based on the company’s taxable income from the previous fiscal year. There is a final payment equal to any excess of the amount due over the total amount of the installments paid.

1.2 Territorial scope of the French corporate income tax

The corporate income tax regime is governed by the principle of territoriality. This means that foreign corporations are subject to the French corporate income tax for the profits generated by their subsidiaries incorporated in France or managed and controlled from France. Further to the international tax treaties to which France is a party, French companies are not subject to corporate income tax for profits realized abroad by their permanent establishments.

French tax law offers an attractive tax consolidation regime which allows a group of companies to offset profits and losses arising from its various component entities. To qualify for this regime, all the following conditions must be complied with:

- the parent company and its subsidiaries must be subject to corporate income tax;
- the parent company must hold directly or indirectly 95% of the stated capital of the subsidiaries;
- all the companies involved must have the same 12-month fiscal year;
- all the companies involved must be covered by a special approval secured from the Ministry of Economy and Finance.

Distributions of profits by French companies to non-residents are subject to a 25% withholding tax. However, almost all international tax treaties to which France is a party either reduce such rate or eliminate the withholding tax. For instance, dividends distributed to Chinese residents (either natural persons or legal entities) are subject to a 10% withholding tax. For a US parent company which owns 10% of the stated capital of a French company, the tax rate is reduced to 5%.

2. Pass-through tax regime: EURL, SNC and SCS

As regards taxation of an EURL, the rules vary depending on whether the sole shareholder is an individual or a legal entity. If an individual, the EURL is treated like an SNC, the net taxable income being taxed according to the progressive tax rates applicable to individuals. However, the individual shareholder may opt out of this regime in favor of the corporate income tax regime. If the sole shareholder of the EURL is a legal entity, the corporate income tax regime applies automatically.

2.1 Taxation of pass-through legal structures
Under the pass-through regime, all the profits of the corporation are reportable on a prorata basis on the shareholders’ tax returns. If the shareholder is a natural person, he/she must include his/her share of the profits in his/her personal income tax return. In the event the shareholder is a legal entity, the profits are reported on the legal entity’s corporate tax return.

2.2 Application to the various types of companies concerned

SNCs are normally pass-through companies. Due to this pass-through regime, where all the companies of a group are SNCs, the parent company may consolidate the profits and losses of all its subsidiaries. It should be noted that a SNC may opt for the corporate income tax regime, such option being irrevocable.

Taxation of the shareholders of a SCS depends on their status. The net taxable income allocated to each shareholder is taxable directly at the applicable personal or corporation income tax rate (depending on whether a natural person or a legal entity). The net taxable income allocated to each “limited partner” is subject to corporate income tax and taxable to the company. Like a SNC, a SCS may opt for the corporate income tax regime.

3. Taxation of branches

As a matter of principle, a branch is subject to taxation in France, with profits and losses arising from permanent foreign establishments and subsidiaries generally excluded from taxable income. Otherwise, the French branch is taxed on its commercial and industrial profits in the same manner as if it had been an independent entity.

A reasonable allocation of the foreign head office’s overhead may be deducted from the taxable income of a branch. As standard practice permits, the allocation of income and expenses between the branch and its head office will be accepted by the French tax authorities as a deduction if it does not appear questionable.
HUMAN RESOURCES IN FRANCE : BASIC CONSIDERATIONS

French labor law imposes a plethora of normative rules aiming at protecting employees because they are considered to be in a subordinate, and hence unequal position. In addition to statutory law and regulation which are mostly included in the Labor Code (code du travail), major current sources of French labor law are European Union law (treaties, directives, regulations), and collective bargaining agreements. What follows is intended to provide as initial background information an overview of the main labor law issues impacting on employers active in France.

In deciding to invest in France as well as in choosing a legal structure, however, due consideration should be given to other issues, such as human resources.

In addition to rules protecting individual employees, there are significant rules regarding employee discipline, dismissal, health and safety, work hours, vacation and sick pay, continuing professional education, discriminations, and mandatory profit-sharing plans.

1. Recruitment

In principle, a French employer may freely decide whom to hire.

Nevertheless, certain rules apply concerning hiring priorities e.g.: handicapped, military service former employees terminated on economic grounds. In addition, a prospective employer must avoid making any hiring decision based on illegal considerations such as based on sexual or religious preferences or in violation of non-competition clauses. When a EU national is hired, a single declaration of hiring applies.

By contrast, when hiring a non-EU national, a variety of steps must be taken. In general, any non-French individual intending to stay in France for more than three months must first obtain a visa from the French consulate of his country of residence. Once admitted to France, the individual must apply for a residence permit (carte de séjour) at the police precinct (prefecture de police) or local equivalent.

2. Working Conditions

2.1 Term of Employment Contracts

Most employment contracts are for an unlimited duration and fixed term and temporary worker contracts can only be entered into under strict conditions.

Unlimited duration contracts may provide for trial periods, during which the employer may fire the employee at will.

To encourage stable employment, the labor administration strictly construes the rules limiting the use of fixed term contracts. A fixed contract may only be used in the following cases:
temporary replacement of an employee;

temporary increase of activity;

seasonal worker contracts (i.e., migrant farm workers) and lines of business for which unlimited duration contracts are not normally used (i.e. restaurants); or

education and professional insertion.

Likewise, French Labor law limits the use of temporary workers.

2.2 Legal Workweek

France has recently reduced its standard legal workweek from 39 to 35 hours. However, certain categories of employees are excluded from the workweek reduction:

sales representatives, home workers, maternal assistants, concierges and salaried corporate managers;

individuals employed in the maritime industry, in the public service, in local governments, in public hospitals etc…

In addition, three categories of executives are subject to special work hours regimes:

high level management executives (“cadres dirigeants”) are not covered by current work week rules;

executives part of a team (“cadres intégrés”), for whom the standard 35 hour workweek applies; and

executives in the intermediate category between high level management employees and other executives (“cadres autonomes”), whose workweek cannot be determined with any specificity, whose workweek must be subject to negotiation, the standard 35 hour workweek being determined on a weekly, monthly, or annual average basis.

An overtime system was created by a very important reform recently.

2.3 Weekly Day Off and Holidays

An employee may not work more than six days a week, he must have at least one day off per week, covering a minimum period of 24 hours.

2.4 Salary
The parties to an employment contract may freely set the employee’s remuneration subject to the minimum legal wage (salaire minimum de croissance: SMIC). As of July 1, 2004, the minimum hourly wage was 7.61 €.

Social security payroll taxes apply to the salary: employees bear around 23% of the gross salary, and employers around 40% of the gross salary.

3. **Dismissals of Employees with Unlimited Term Contracts**

Once the trial period is over, an employee serving on an indeterminate term contract can only be dismissed for a real or serious cause (i.e. professional misconduct) or for an economic reason that resulted in the elimination of the job position.

In addition, the employee enjoys extensive procedural guarantees that must be complied with.

Even where properly dismissed, an employee must be paid severance depending on the seniority in the company (more than 2 years or less than 2 years) and the number of employees (more than 10 employees or less than 10 employees). Also, an improperly dismissed employee may sue the employer for reinstatement and damages.

4. **Law Applicable to Foreign Employees Assigned to France**

When the contract is performed within the European Union, the Rome Convention of June 19, 1980 applies. In this case, the principle is that the law applicable is the one that the parties designated in the contract. However, such choice cannot deprive the employee of the protection of the imperative provisions of the law of the place where the employee usually works. When the parties do not choose any law in the contract, the law applicable to the employment agreement will be either i) the law of the place where the employee usually works, even if the individual is temporarily assigned to another country, ii) the law of the place of the establishment which hired the employee, iii) the law of the country with which the contract has the most closest links.

5. **Labor Relations**

French labor law protects unions, mandates the creation of employee representation institutions of various kinds, and compels communication and negotiation between employers and employees in various instances.

The right for employees to become members of unions, the right for these unions to be represented on a national level in order to negotiate national or local labor agreements with employers, and the right to strike are so protected.

In addition, certain employers are required to have one or more of the four major employee representative institutions (union delegate, employee delegate or labor management committee), depending on their size. Employee representatives of different descriptions are given legally protected, consultative roles regarding, inter alia, employee dismissals for
economic reasons, discipline, health and safety and changes in corporate structure or ownership.

A system of mandatory collective bargaining is also mandatory. On a broad level, representative unions and employer representatives are encouraged or compelled to negotiate different types of collective bargaining agreements that complement provisions of French labor law and may provide more favorable rules for employees.

**But what is the reality of the French 35 hour week?**

The French effectively have a longer working week than for example in the United States, Germany, Great Britain, Ireland, Belgium, the Netherlands or Scandinavia. The **effective length of the working week in France is 38 hours**, which is one hour more than in Great Britain and 2 ½ hours more than in Germany, and is effectively more than the average working week of the 27 European Union member countries. Moreover, the 35 hour working week does not apply to management staff, who work on a basis of days and not hours.

**Is the organization of labor inflexible?**

Legislation regarding the 35 hour week has been considerably relaxed since 2003, with the introduction of a quota of **220 additional hours per year**, the possibility of working “selected hours” over and above that quota or negotiating yearly packages. The 35 hour week has therefore become a guarantee of flexibility for businesses operating in France: it enables peaks in production or business activity to be easily absorbed by calculating working hours on an annual basis. The organization and scheduling of staff working hours are therefore compatible with the needs of the company and adapted to fluctuations in the market.

The French have a longer working week than, for example, in the US, Germany, Britain, Ireland, Belgium, The Netherlands, Scandinavian countries. **The work week is 38 hours, superior to the average European Union 27 members.**

Legislation concerning the 35-hour work week has been relaxed, with the launch of a **quota of 220 overtime hours**, the possibility to work “extra hours” over and above this quota, and the possibility to negotiate yearly rates. The result is increased workload organization flexibility, leading to higher performance rates in France in terms of productivity.

The French have exceptionally high performance rates in terms of productivity. France offers one of the best hourly productivity rates in the world, with **performances that are 20% higher than the European average.**

One of the reasons that the French are so productive is their **high level of training**: 7% of France’s GDP is spent on education and training. The French educational system is free and open to everybody. It is designed to provide the business world with employees that are able to rapidly adapt to competitiveness constraints.

**Privileged entry conditions for foreigners**

Seconded staff (inter-group transfers only) can obtain a **residence permit** that is valid for several years. Their family may also be able to obtain a “family” residence permit which entitles them to
carry out a professional activity in France. Children may be registered in a French state school at any time during the school year, or parents may choose a private school. Many educational establishments have **international sections** that run from primary through to sixth form. Part of the curriculum is taught in French, the rest is taught in the language of the international section concerned, and follows the educational program of that country; lessons are taught by qualified teachers from that particular country. This educational system leads to the French Baccalaureate with International Option (OIB) which is accepted as an equivalent entry qualification by universities in the associated countries.

**Advantageous tax and social security framework**

Over the past several years, the French government has introduced measures to favor **mobility** among management staff:

- Expatriate staff in France benefit from **tax exemptions for their expatriate premiums**. This exemption is extended to that part of their income which is earned abroad up to but not exceeding 20% of total taxable income earned in France. At the same time, expatriate staff in France are able to deduct social security payments in their home country from their taxable income in France.

- France has already entered into approximately **40 social security treaties** with third party countries as well as with the EU and EEE countries. These social security treaties greatly facilitate the movement of workers and enable them to maintain their initial social security cover and be exempt from social security payments in France.

**Conclusion: Is it easy to be innovative in a country like France?**

Yes, because encouraging innovation within business is a priority in France. Subsidies, loans, tax credits…. the scope of public assistance is very broad and the amounts are considerable. They are particularly beneficial for small and mid-sized companies and young start-up companies, and they encourage partnerships between private businesses and public sector research.

**Public sector assistance**

Policies to support company in-house research activities have been introduced. Various measures have been introduced to support innovation within private companies at every stage of their development. Ministries, government agencies and local authorities employ measures to encourage R&D activities, from the initial research stage, through feasibility studies, to the final prototype: subsidies can be awarded to laboratories and companies involved in public/private sector partnerships, to small and mid-sized innovative businesses, but also to major industrial projects.

**Tax incentives**

R&D activities benefit from a specific system of tax credit which can total 16 million euros per company per year, or up to 8 years of social security payment exemptions for a young start-up company.
Research tax credits can cover between 10% and 50% of a company’s total R&D expenses (according to the date of business creation). The amount can be deducted from corporate tax or reimbursed in cash after a 3 year period, except for new companies, young innovative companies (JEI) and “gazelles” which benefit from immediate reimbursement. Expenses covered by the research tax credit include salaries for research scientists, depreciation, operating costs, patent costs or costs related to research missions allocated to registered organizations.

Young innovative companies (JEI) can further benefit from social security exemptions for research scientists’ salaries, corporate tax exemptions for 5 years (capped at 200,000€ per 36 month period) and can also benefit from business tax and/or property tax exemptions for 7 years (subject to local authority approval).

**Employment grants**

In almost every region in France, companies that set up a R&D project can obtain a Prime d’Amenagement du Territoire, which is a development grant that can total up to 25,000€ per job created.

**Clusters**

French clusters, including 66 clusters that were officially designated by the French government in October 2005 (5 new clusters have been designated recently), are made up of a network of companies, research and training facilities. The French government supports these clusters with a dedicated budget of 1.5 billion euros over 5 years. Clusters also benefit for example from a corporate tax franchise. (Source: Invest in France Agency – Thieffry & Associés)
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<td>President, manager, or any other administrative body</td>
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<table>
<thead>
<tr>
<th>Contributions to Stated Capital</th>
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<tbody>
<tr>
<td>In cash,</td>
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<td>In know-how and services</td>
<td>In know-how and services</td>
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<tr>
<th>Taxation</th>
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</thead>
<tbody>
<tr>
<td>Corporation income Tax</td>
<td>Corporate Income Tax</td>
<td>Corporate income tax (SARLs whose shareholders are all family linked may opt for the personal income tax)</td>
<td>Personal income tax at shareholders level (corporate income tax option)</td>
<td>General Partner: personal income tax</td>
<td>Limited Partner: corporate income tax</td>
<td>Corporate income Tax (corporate income tax if shareholder is a corporation)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statutory Auditor</th>
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<tr>
<td>Must be appointed by the shareholders.</td>
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<td>If 2 of the 3 following triggers are met: total assets of 1,550,000 €; net sales 3,100,000 €; number of employees &gt; 50</td>
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</tr>
<tr>
<td>Transfer of Shares</td>
<td>Unrestricted</td>
<td>Unrestricted</td>
<td>Subject to approval by a majority of shares</td>
<td>Subject to unanimous, shareholders’ approval</td>
<td>Unrestricted</td>
<td>Unrestricted</td>
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</table>

Number of employees > 50
or by Court order

Net sales 3,100,000 €;
Number of employees > 50
or by Court order

Net sales 3,100,000 €;
Number of employees > 50
or by Court order