AMCHAM FRANCE

Taxation

AmCham - 12 propositions to reinforce French competitiveness internationally

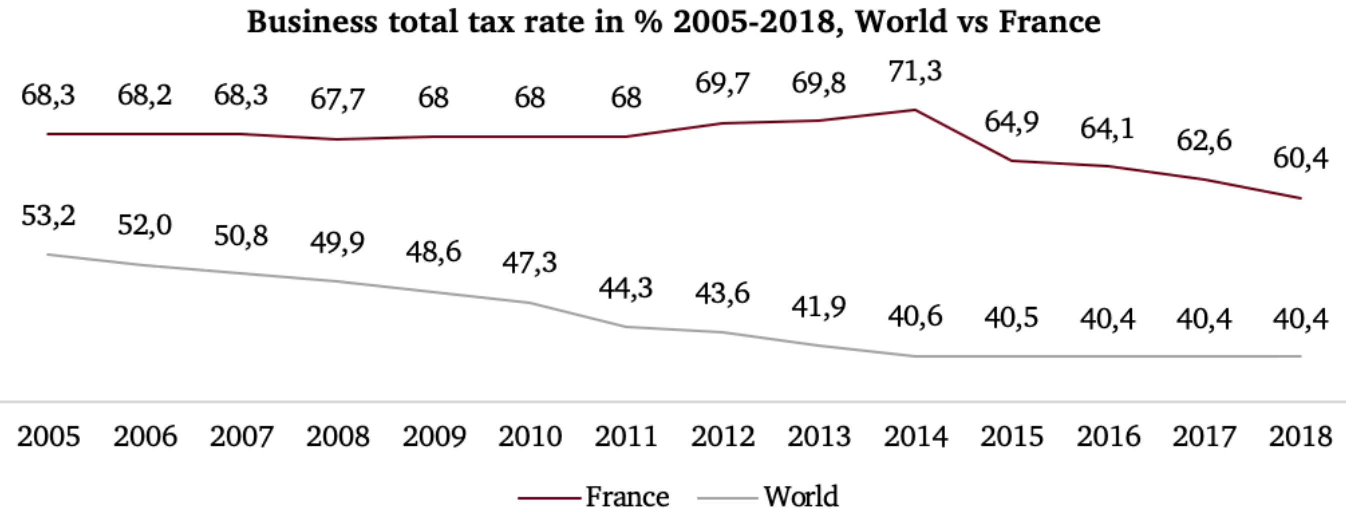
SOMMAIRE

Introduction- Overall corporate tax

Converge with other European countries by reaching a 50% total tax

France has the highest overall corporate tax in Europe. The total tax rate amounts to **60.4%** of corporate commercial profits **in France in 2018**, compared to **30% in the United Kingdom**, **53.1% in Italy** and **49% in Germany**[1], creating a discriminatory tax environment for France. It therefore seems essential for the French taxation level to converge towards the European average. For instance, the tax gap on the industrial sector between France and Germany amounts to €25 billion[2].

The French corporate taxation rate has always been at least 15 points higher (in 2005), if not 30 points (in 2014) higher than the world average[3].



American and other foreign investors[4] identify both the corporate tax system and the overall cost of labor as the main obstacles to France's competitiveness[5].

In order to make France more competitive and encourage foreign investors to establish in the country, AmCham recommends reducing all these taxes (social security contributions, corporate tax and production taxes) **so the overall corporate tax remains below the psychological threshold of 50%.**

« In order to make France more competitive and encourage foreign investors to establish in the country, AmCham recommends reducing all these taxes »

In the long term, AmCham's recommendations for France (detailed throughout this report) would save **companies** around **€100 billion**:

• 60 billion euros could be financed through a 15% reduction in the amount of social security contributions. Social security contributions now represent 18.9% of GDP[6] (2,200 billion) or about 400 billion.

• **25 billion euros could be made available by reducing production taxes by 20% in number and 33% in value.** Production taxes now represent 3.7% of French GDP (2,200 billion) or about 73 billion, almost twice the European average.

• **15 billion could be financed via the announced 8-point reduction in corporate income tax from 33 to 25%.** The 2 million companies subject to the corporate income tax generate 60 billion in tax revenue each year, or 2.7% of GDP.

This drop in the State tax revenue could be offset by the savings generated simplifying **administrative measures** and by the **investments** generated by renewed competitiveness.

France became even more competitive as an investment destination in 2018. A new record was set, with 1 323 foreign investment projects (exceeding the record 2017 figure), and the creation or protection of 30 302 jobs. In 2017[7], foreign investment amounted to €50 billion[8]. It holds that a further rise in investment could finance a substantial part of the proposed tax revenue shortfall.

PROPOSITIONS

OBJECTIVES :

- In the medium term: reduce the overall corporate tax below the maximum psychological threshold of 50%, to converge with German and Swedish levels.
- In the long term: further reduce the overall corporate tax to reach the European average of 39.6%.

RECOMMENDATIONS FOR ACTION :

- Lower social security contributions rates.
- Reduce production taxes in value and number.
- Meet commitments to reduce corporate tax to 25%.

Social taxes

Continue the decline plan initiated in 2015

Social security contributions are the highest in Europe and are a burden on French companies. They consist of <u>employee contributions</u> (CSG, CRDS, Old Age Insurance, Retirement) as well as <u>employer contributions</u>: health insurance, old age insurance (both capped), unemployment insurance, housing assistance, family allowances, wage guarantee funds, supplementary pension, death insurance, vocational training. We see that French companies are on average taxed at 42% for employers' contributions alone, compared to 17% in Germany[10].

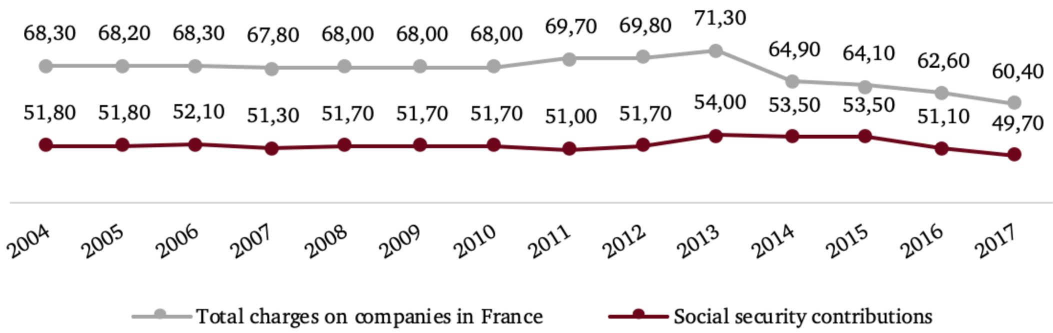
Nevertheless, social security contributions have been reduced since 2014, following the introduction of the Tax credit for competitiveness and employment (TCCE) in 2013[11]. This trend should be reinforced with the conversion of the TCCE into a reduction in social security contributions for employers in 2019.

	France	**Germany**
Employer social security contributions[9] (*social security contributions*)	Between 25 - 42%. **42%** (average France)	20% **17%** (national average rate) (flexibility in the event of a crisis - e.g. "partial unemployment")

Despite this decrease, French social security contributions remain among the highest in the European Union (18.9% of its GDP).

Hence the relevance of the proposal in the recent OECD report advocating a balance in tax levels, particularly with regard to small and mid-size companies[12] for which social security contributions have a disproportionately high cost[13].

Evolution of the social tax burden on French companies from 2004 to 2017 (%)



PROPOSITIONS

OBJECTIVE:

- The recent reduction in social security contributions sends a positive signal to investors and must continue.

RECOMMENDATIONS FOR ACTION

- We suggest a 15% total reduction of social security contributions (i.e. nearly 3 percentage points), equally divided between employee and employer contributions.

Production taxes

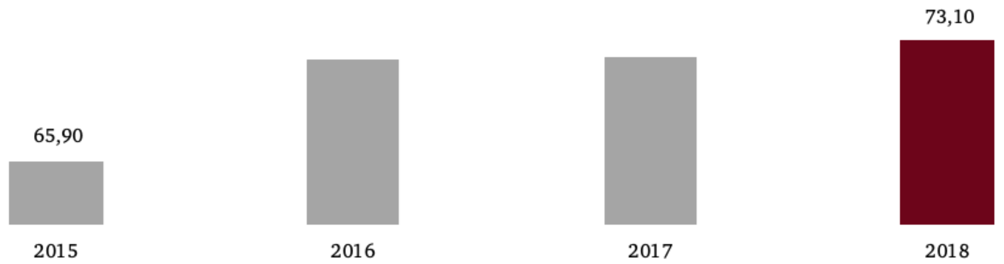
Reduce their number and value to save €25 billion

AmCham is aware of the difficulty of changing rules and regulations in this field, given the current political, economic and social context. We aknowledge that the many vested interests in this field would require strong political arbitration, and that a tax-by-tax analysis would not allow for a consensus to be reached without investing a disproportionate amount of work and risking an uncertain outcome. It should be noted, however, that beyond the two components of the Economic Territorial Contribution (Contribution Économique Territoriale), the growing number of micro-tax categories[14] in France is very specific to the country, if not unique in Europe, which entails several negative effects:

1. It increases production costs and harms the competitiveness of French goods and services in international competition
2. It has a negative return for the Treasury
3. It distorts competition between players in the same market due to difficulties in applying and controlling the rules uniformly
4. It does not pertain to a modern tax policy

France leads the European ranking in terms of production taxes, which represented 73.1 billion euros in 2018 (3.7% of French GDP, up from 3.20% of GDP in 2016). The level of production taxes is twice as high as the European average and represents almost 7.9% of companies' added value in 2019, compared to only 4% of their added value in Germany[15].

Total amount of production taxes (in €billions) in France



PROPOSITIONS

OBJECTIVE :

- Make France more competitive in terms of production taxes, especially when taxing industry that requires particular support.

RECOMMENDATIONS FOR ACTION :

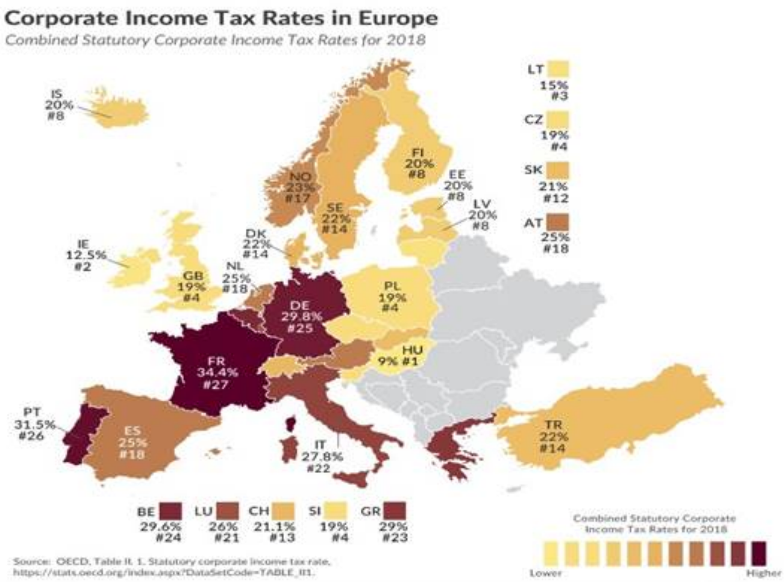
- We recommend a quantitative and pragmatic approach aimed at a 25 billion euros tax reduction for industries.
- To this end, we suggest reducing the level of production taxes by 33% and their number by 20%, over a three-year period with an annual objective monitored by Parliament.

Corporate income tax

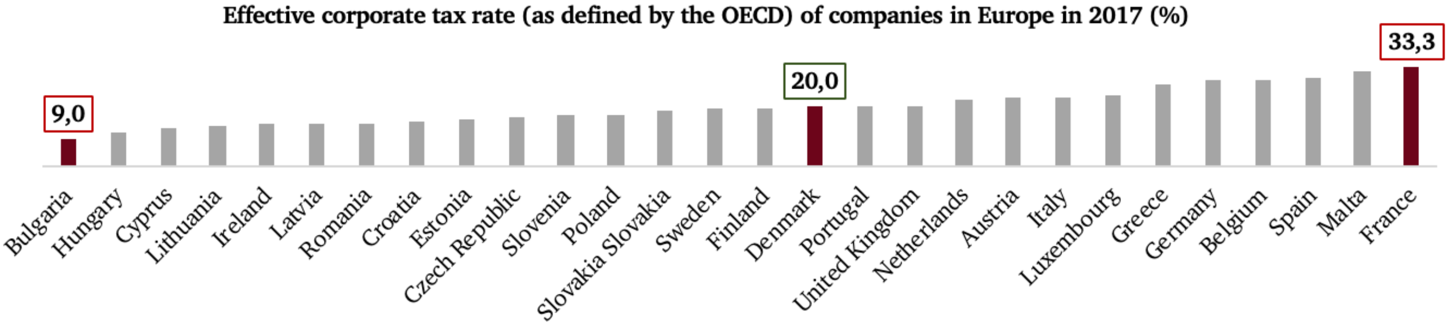
Meet the 2022 commitment for a 25% corporate income tax

With a corporate income tax (CIT) rate of 33.3%, France is first in Europe for CIT (European average in 2017: 25.6%). This impedes France from competing with its neighbors in attracting investors. **In 2016, CIT revenue represented over 2% of GDP[16].**

In addition, even when considering the **effective corporate tax rate** (as defined by the OECD, 2018), meaning: including federal, regional and local taxes at different levels of governance, France remains the European country **with the highest tax rate (34.4%),** followed by Portugal (31.5%) and Germany (29.8%).



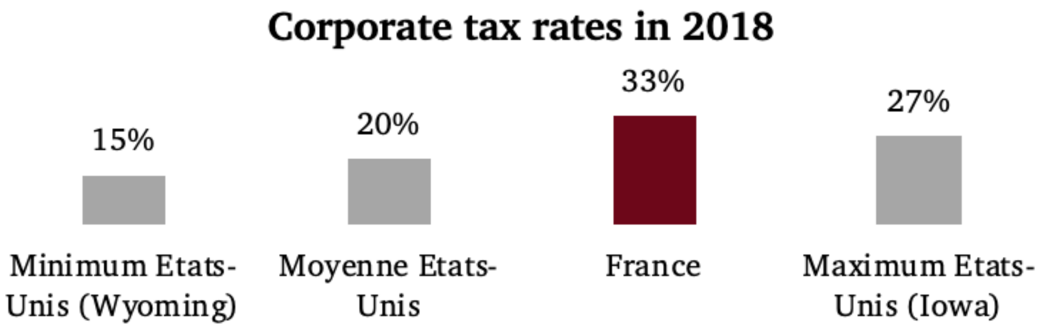
Effective corporate tax rate (as defined by the OECD) of companies in Europe in 2017 (%)



Even when looking at differences in tax bases within each country (*effective corporate[18] tax rate*, OECD 2017), France dominates the ranking while the 28 Member States average at to 20.1%. In addition, Germany's corporate income tax rate averages at 15.825%.

	France	**Germany**
[17]Corporate income tax (*Körperschaftsteuer*)	15% (bis 38,120 EUR), 28% (38,120-500,000 EUR) and 33.1/3% > 500,000 EUR **On average 30.1%.**	15% (additional contribution of 5.5%) **15,825%**

The comparison with the United States[19] is also very emblematic of a French particularism in terms of corporate income tax. Indeed, the highest *corporate tax rate* is 27% in Iowa, and the lowest is 15% in Wyoming. Only 6 states have a *corporate tax rate* above 24% and the US average is 20% (including the 15% federal tax rate). However, it should be noted that the social protection system in the US is essentially financed by the private sector, unlike the French model, based on public solidarity principles.



PROPOSITIONS

OBJECTIVE :

- Meet the commitment to reduce the corporate income tax.

RECOMMENDATIONS FOR ACTION :

- The government's plan to gradually reduce the corporate income tax rate by 2022 would reduce France's biggest disadvantage in terms of economic competitiveness. Beyond the necessary convergence towards the European level, it is essential to respect the announced engagement to maintain investors' confidence in the country.

Administrative procedures and tax standards

Simplify procedures, particularly for foreign companies that choose to establish in France, and encourage tax partnerships

Due to the 233 compulsory taxes on companies, the French tax system appears particularly complex to investors and therefore significantly affects France's tax competitiveness. This is especially true for foreign companies, as specific rules regarding foreign subsidiaries add up to complex general rules.

In this respect, it is interesting to mention the current developments regarding the trust relationship program developped by the French government, particularly for French subsidiaries of American companies - the discussions underway within the General Directorate of Public Finance are encouraging[20]. Designed to secure simple, common issues for which there are generally agreement between tax law and accounting, the examination of tax compliance by a trusted third party would first be carried out by statutory auditors before possibly being opened up to other professions at a later stage.

According to what has been presented so far, all companies could use this service. In the event of a subsequent inspection or of a subsequent reminder on a point that had already been validated by the third party certifier, the consequences would be twofold:

« Due to the 233 compulsory taxes on companies, the French tax system appears particularly complex to investors and therefore significantly affects France's tax competitiveness. »

•First, the company could be reimbursed for the fees paid to the third party certifier and engage the latter's civil liability in the event of damage suffered.

•Second, no penalty and no interest for late payment would be applied to the company that followed the recommendations of its third party certifier. Another point is that management costs generated by the complexity of the tax system are quite significant ; a simplification would allow substantial savings to be made by the State and could thus compensate for some of the tax revenue cuts previously suggested.

Finally, a last proposition could be to consider France's participation in the international compliance assurance program (ICAP), organized by the OECD, which attempts to establish a relationship of trust through think tanks and cooperation between European multinationals on tax systems in several European countries. By coordinating discussions between a multinational enterprise and several tax administrations, ICAP supports the effective use of transfer pricing documentation, including the multinational's country-by-country report. It consequently provides a faster, clearer and more effective way to improve multilateral tax security. In the future, ICAP is expected to soften the workload of many multinational companies and tax administrations and to reduce the number of disputes that need to be settled thanks to agreement procedures.

PROPOSITIONS

OBJECTIVE:

- Simplify administrative procedures.

RECOMMENDATIONS OF ACTION:

- Consider joining the International Compliance Assurance Program organized by the OECD
- Treat companies equitably for tax purposes, regardless of their origin (principle of equity), and reduce in the number of compulsory taxes.
- Establish the fiscal trust relationship, via a third party.

Notes:

[1] https://donnees.banquemondiale.org/indicateur/IC.TAX.TOTL.CP.ZS?locations=FR-DE-IT-GB&view=chart
[2] https://www.lesechos.fr/17/05/2018/lesechos.fr/0301681576865_impots---l-ecart-with-german-industry-figure-a-25-billion.htm
[3] https://data.worldbank.org/indicator/IC.TAX.TOTL.CP.ZS?contextual=default&end=2018&locations=FR-1W&start=2005&view=chart
[4] EY barometer of the competitiveness of France 2018 (January 2018 survey, 144 respondents, companies based in France only)
https://www.ey.com/Publication/vwLUAssets/ey-barometre-de-l-attractivite-france-2018/$FILE/ey-barometre-de-l-attractivite-france-2018.pdf
[5] 19th edition AmCham-Bain Barometer
[6] https://fipeco.fr/fiche.php?url=Social-contributions-#_ftn8
[7] International investment in France, Business France, 2018
[8] https://www.latribune.fr/economie/international/les-investissement-etrangers-en-chute-libre-en-2017-781086.html
[9] The keys to a successful establishment in Germany..... MAZARS 8.10.2018
[10] *The keys to a successful establishment in Germany*..... Jean-Marc Fournier (Mazars Frankfurt), 2018
[11] INSEE
[12] https://www.boursorama.com/patrimoine/actualites/les-salaires-en-france-toujours-parmi-les-plus-taxes-selon-l-ocde-e46e596642afba2c2e66e6b572fd8f95
[13] Companies in France, 2017 edition - Insee References
[14] EY Industrial Attractiveness Barometer, November 2018
https://www.ey.com/Publication/vwLUAssets/ey-barometre-de-l-attractivite-industrielle-de-la-france/$File/ey-barometre-de-l-attractivite-industrielle-de-la-france.pdf
[15] http://www.rexecode.fr/public/Analyses-et-previsions/Documents-de-travail/Poids-et-structure-des-prelevements-obligatoires-sur-les-entreprises-industrielles-en-France-et-en-Allemagne
[16] https://www.latribune.fr/economie/france/fiscalite-de-production-le-gouvernement-revoit-ses-ambitions-a-la-baisse-779957.html
[17] https://www.oecd.org/fr/fiscalite/beps/statistiques-de-l-impot-sur-les-societes-premiere-edition.pdf
[18] *The keys to a successful establishment in Germany*..... Jean-Marc Fournier (Mazars), 2018
Variations in the definition of the corporate tax base from one country to another can have a significant impact on the tax obligations associated with a given investment. An accurate assessment of the effects of corporate tax systems on investment must therefore be based on a coherent methodological framework covering not only statutory tax rates (STRs) but also many provisions affecting the tax base, such as, for example, tax depreciation. The new OECD model described in this paper provides such a framework; building on the theoretical model developed by Devereux and Griffith (1999, 2003), it presents prospective effective tax rates (ETRs) for 36 OECD countries and selected partner economies, taking into account a wide range of corporate tax provisions. Empirical results confirm that the corporate tax base varies considerably across countries and asset classes; since tax bases are generally narrower in countries with higher STRs, RETs are generally less dispersed across countries than STRs.
[19] https://files.taxfoundation.org/20180717150707/Tax-Foundation-FF5711.pdf
[20] New relationship of trust: renewed partnerships for a more collaborative approach with the DGFiP - March 201 / EY Report