

WHAT ARE THE ACCOUNTING AND TAX OBLIGATIONS FOR THE BRANCH OF A FOREIGN COMPANY IN FRANCE?

Unless otherwise provided in the applicable international tax convention, the branch of a foreign company in France is subject to all commercial taxes, just as a French company, and must therefore submit annual accounts to the French Treasury.

By reason of this obligation to submit annual reports, the branch is under obligation to keep its own accounts, even though it has no capital or goods of its own, distinct from the parent company's.

However, the branch is not required to keep accounts under French law and may therefore do so according to the rules of the parent company's homeland. In any case, the branch's taxable income will be calculated according to specific principles established by the French tax administration for cases in which a commercial activity is carried out simultaneously in France and abroad.

Among others, the main taxes that apply to the branch of a foreign company are as follows:

I. THE CORPORATE INCOME TAX

The normal rate of corporation tax is 33.3% of the taxable income.

A reduced rate of 15% exists for taxpayers who have a turnover of less than € 7,630,000 during a fiscal year, and meet the following requirements:

- The company's capital has been fully paid-up;
- At least 75% of the capital of the company belongs to natural persons or another company that meets all the above requirements (turnover of less than € 7,630,000, full paid-up capital and 75% of the capital owned by natural persons).

However, it should be noted that, for foreign companies doing business in France, the turnover taken into account by the tax administration will not be that which is generated by the branch in France, but rather that which is generated by the whole group's operations.

II. TERRITORIAL ECONOMIC CONTRIBUTION

In France, the self-employed natural or the legal person that is subject to corporation tax or income tax shall also be subjected to the "*Contribution Economique Territoriale*" or CET, which consists of:

1. The "*Cotisation Foncière des Entreprises*" or CFE.

The tax base of this tax is the estimated rental value of the premises used by the company for its activity during the reference period. However, there is a total tax exemption for new establishments, during the year of creation and a 50% reduction of the tax base during the first taxation year, that is, the second year following the creation of the activity.

The applicable rate will depend on where the premises are located, as the amount of the fee is set by municipalities.

In any case, all companies must pay a minimum amount of CFE. Thus, when the company is simply domiciled and therefore does not occupy any premises, a minimum tax amount must be paid. Said amount is determined according to the company's turnover, calculated by reference to the group's turnover.

2. The "*Cotisation sur la Valeur ajoutée des Entreprises*" or CVAE

If the company generates a turnover of over 152,500 euros, excluding VAT, it shall also be subject to the CVAE. The turnover is evaluated referring to the group of companies and not to the establishment.

The tax base is the "added value", that is to say, the turnover generated during the reference period minus the "expenditure" (which does not include the lease of premises, staff costs and taxes and fees).

The applicable rate is progressive in terms of turnover of the company. This can range from 0% for companies that generate a turnover of less than € 500,000 to a maximum of 1.5% for companies that pass an annual turnover of 50 million euros.

For companies that have a turnover between € 152,000 and € 500,000, although they would receive a rate of 0%, they are considered to be taxable, and therefore must make the corresponding tax declaration.

III. COMPANIES' SOCIAL SOLIDARITY TAX

The “*Contribution Social de Solidarité des Sociétés*” will probably be abolished in 2017. Currently, it is payable by companies whose annual turnover exceeds 19 million euros. The tax base is the turnover exceeding 19 million euros.

In the case of a foreign company, the reference turnover is the turnover generated by the branch in France.

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The purpose of this note is merely informative and does not take into account the specificities that may arise in each case. For complete and adapted information to your particular case, a professional advice is recommended.

Our firm is at your disposal to advise and accompany you in your project of developing your activities in France.