

A PROGRAM OF PRO-BUSINESS REFORMS TO STIMULATE GROWTH AND EMPLOYMENT IN FRANCE

The French government has embarked on a vast program of pro-business reforms, aimed at generating more solid, more inclusive and more sustainable growth. This national strategy is based around four themes – encouraging investment and employment, in particular through a reduction in corporate taxation, strengthening public policies in favor of supporting corporate growth and innovation, re-establishing the social model by promoting professional mobility and valuing work (labor law, training, unemployment, pensions), transforming the State (administrative simplification and reform of the civil service) while ensuring the balance of public finances.

According to the OECD, the measures adopted since the start of the five-year period of office to improve the functioning of the labor market, strengthen competition, limit government expenditure and contain tax rates would make it possible to increase GDP per capita by 3.2% over 10 years.¹

1. A NEW TAX ENVIRONMENT TO ENCOURAGE INVESTMENT AND EMPLOYMENT, AND INCREASE PURCHASING POWER

Corporate taxation is reduced by means of two flagship measures **that benefit all economic sectors and businesses:**

- **A sharp fall in the rate of corporate tax (IS)**, from 33.33% to 25% by 2022, in line with the European average. This will amount to tax savings of €11 billion.
- The transformation of the competitiveness and employment tax credit (CICE) into a **permanent reduction of health insurance contributions by 6%** for salaries of up to €3,800 per month.²

Since January 1, 2019, SMEs can also benefit from a **supplementary depreciation measure**, making it possible to deduct up to 40% of the original value of goods acquired between January 1, 2019 and December 31, 2020, where these goods are machines, sensors, software or equipment for robotization and the digitalization of industrial activity (an exhaustive list of equipment is incorporated into the law).

The **research tax credit**, a flagship system that makes it possible to deduct R&D expenditure of 30% up to €100 million in expenditure, and 5% above this threshold, has been made permanent for this period of government for an annual cost of more than €5 billion.

A **reform of local taxes** is also expected, in the context of the next French Government Budget Act, as well as a bill on decentralization and the territorial reorganization of the State, which is scheduled for presentation in the first quarter of 2020.

With regard to **environmental taxation**, the Economic, Social and Environmental Council (ESEC) is currently involved in discussions to consider new ecological transition measures. Initial proposals on transport and housing renovation are expected by the end of 2019.

In terms of **personal taxation**, a single capital gains tax rate of 30% has applied since 2018. This flat-rate tax is referred to as the **prélèvement forfaitaire unique (PFU)**. The wealth tax on total assets (*impôt de solidarité sur la*

¹ OECD Economic Studies (France), April 2019.

² 2.5 times the minimum wage (SMIC) equates to €3,803.05 per month according to the latest revaluation carried out in January 2019.

fortune – ISF) has been replaced by the **property wealth tax (*impôt sur la fortune immobilière* – IFI)**, which restricts the tax base to the value of real estate assets, in order to encourage investment in the real economy.

At the end of 2018, the President of the Republic also announced a series of exceptional measures with immediate effect, aimed at rapidly increasing purchasing power for the lowest paid. They are referred to in the Emergency Economic and Social Measures Act, promulgated on December 24, 2018. These measures include:

- **Tax exemption on overtime for employees**, which will be paid without taxes or social security charges from 2019.
- **A one-off adjustment of the employment bonus** (monthly income supplement intended for workers with modest resources), which increases purchasing power without increasing the cost of labor for businesses.
- **An incentive for businesses to pay a one-off end-of-year bonus**, by putting in place a system that exempts the tax and social security premium for 2018; this system is due to be renewed in 2019.

In addition, and at the end of the Great National Debate, the national consultation initiated from January to March 2019, **a reduction in income tax has been announced** targeting the middle classes, quantified at €5 billion. Implementation is scheduled for January 1, 2020.

Lastly, the government is focusing on tax justice in order to strengthen **the fight against tax evasion** (proposals expected for October 2019) and to make digital companies pay tax fairly (draft legislation currently being examined by parliament).

2. OVERHAULING FRANCE’S SOCIAL MODEL TO PROVIDE GREATER FLEXIBILITY FOR BUSINESSES AND TO FACILITATE EMPLOYEE CAREER PATHS

The renovation of the social model initiated by the government is based on transforming labor law, overhauling apprenticeships and strengthening vocational training.

Reform to unemployment benefits to supplement this renovation will be presented next June, and the presentation of the bill to reform the pension system is expected by the end of 2019.

The transformation of labor law builds upon the “work decrees” of September 22, 2017, in force since January 2018, and constructed following in-depth consultation with employee and employer representative organizations. This reform aims in particular to:

- **Facilitate social dialogue, by ensuring that negotiations are aligned as closely as possible with the needs of both employees and employers**, including the creation of a single employee information and consultation body, merging three existing bodies.
- **Introduce greater labor market flexibility to boost employment**, including the possibility of adjusting pay and working time, within the framework of a collective performance agreement in order to respond to a decline in activity.
- **Simplify dismissals on economic grounds and make employment contract terminations less risky** – facilitating voluntary redundancy plans, assessing the financial difficulties of international groups at national rather than global level when they seek to carry out redundancies in France, capping damages for unfair dismissal, and limiting the time to appeal a dismissal to one year.

Reforms to the apprenticeship and professional development system³ aim to adapt employees' skills to the globalization of markets, the development of digital technology, robotics and new production methods. They make it possible to:

- Invest massively in training and the skill sets of tomorrow through the creation of a €15 billion **skills investment plan** aimed at job seekers and young people. In total, some two million people will be trained over the next five years.
- Give everyone the **freedom to choose their professional future** and the ability to build their career path, thanks notably to the free provision of career transition counseling (CEP).
- **Simplify** the formalities for businesses by **adjusting the rules for financing professional training, and pooling funds** between SMEs and mid-caps and large businesses.
- Introducing a **right to fail for the self-employed**, via the payment of a fixed benefit of €800 per month for six months in the event of judicial liquidation or if they leave as a result of a bankruptcy protection procedure.

3. ECONOMIC POLICIES IN SUPPORT OF THE GROWTH OF BUSINESSES AND INNOVATION

The Action Plan for Business Growth and Transformation, or **PACTE Act**, was adopted on April 11, 2019 and aims to give companies, **mainly SMEs, the means to innovate, transform, grow and create jobs. The aim is to encourage the emergence of a large network of mid-sized companies in France.**

The PACTE Act simplifies the business environment in several respects:

- **The removal of social thresholds of 10, 25, 100, 150 and 200 employees. These are now grouped in three levels: 11, 50 and 250 employees.** Crossing through an employee threshold to the upside is taken into account when this threshold has been reached or exceeded for five consecutive calendar years.
- **An online platform, which will be the sole interface for corporate formalities,** whatever the activity and legal form, will be set up. It will replace the seven networks of Enterprise Formalities Centers (CFE). The creator will thus be able to easily identify the right contact and their administrative burden will be reduced thanks to the complete dematerialization of formalities. In addition, a single digital register will be set up to centralize information relating to companies, replacing existing company directories and registers.
- **The system for attracting foreign talent is strengthened and simplified by exempting employees relocated to France from pension contributions for a period of three years, renewable once.** This measure only applies to employees not affiliated to a social security scheme in France over the previous five years. This provision supplements the expatriate scheme, which allows persons domiciled outside France for tax purposes during the five calendar years preceding the one in which they took up their position in the company established in France, to benefit from tax exemptions on some income (exemption period of eight years).
- **The Act simplifies initial public offerings (IPOs) and reduces their cost, facilitates de-listing, clarifies the codification of the law on listed companies, encourages the installation of financial services providers in France and aims to give greater flexibility to market infrastructures.**
- **Legislation is relaxed to allow shops to open later in the evening** – night work extends over a period of nine consecutive hours, between 9pm and 7am. The PACTE Act allows food retail stores to employ staff after 9pm, without being required to provide evidence of resorting to night work, for the period between 9pm and the time set by the company or branch agreement as the start of night work.

³ Choosing your professional future Act of September 5, 2018

PACTE also encourages innovation with:

- **The creation of a fund for disruptive innovation worth €10 billion.**
- **The implementation of a legislative and legal framework for initial coin offerings (ICOs)** or crypto-asset fundraising, which are booming for innovative projects, especially those based on the blockchain. This new system allows France to position itself as the first major financial center to propose a clear and appropriate framework for project owners and potential investors.
- **Bringing public research closer to the company** – The PACTE Act simplifies the path of public-sector researchers wishing to create or participate in a company’s life.

A Great Investment Plan, conducted throughout the five-year period of office, will make it possible to:

- **Support the acceleration of the ecological transition, with €7 billion to finance the 70% increase in renewable energy production capacity.** It involves speeding up the ecological transition (projects for sustainable and smart cities, development of new energy sources, etc.) and financing initiatives designed to change the behavior of individuals and businesses.

- **Consolidate innovation and competitiveness** thanks to:

- **€4.6 billion to improve innovation in businesses**, at the heart of French competitiveness. The Great Investment Plan will notably encourage risk-taking in the sectors of the future, such as artificial intelligence, the exploitation of big data, nanotechnologies and cybersecurity.

- **€5 billion to speed up the adaptation of tools and changes in agricultural, fishing, agri-food and forestry/wood practices**, which are all key sectors.

- **€3.5 billion to support French scientific excellence.** As a priority, the aim is to consolidate the emergence of major world-class integrated universities, boosting the entire higher education and research system.

This plan aims to have a knock-on effect on private investment in the sectors of the future (healthcare, agriculture, digital transformation).

In order to offer investors maximum predictability, the government has also announced the implementation of multi-year frameworks with:

- A law of **multiannual research programming** presented to Parliament in early 2020 for implementation in 2021.
- **The multi-year energy planning and the national low-carbon strategy** (currently being examined).

4. AN AMBITIOUS, PRO-ACTIVE PUBLIC-SECTOR TRANSFORMATION: TO REFORM THE CIVIL SERVICE, SIMPLIFY ADMINISTRATIVE PROCESSES, GO PAPERLESS, ENSHRINE THE RIGHT TO AMEND ERRORS AND CONTROL GOVERNMENT SPENDING

A bill on the transformation of the civil service is currently before Parliament (vote scheduled for summer 2019). Through this major reform, the government aims to **build the civil service of the 21st century, be more agile, more open and more attractive, with more efficient public services as close as possible to the regions.**

A reform of the *École Nationale d’Administration* and the way major French administrative bodies recruit and train individuals is expected by the end of 2019.

A multi-purpose public service branch (France Service) will be created in each administrative district by 2022.

As part of the **“Action publique 2022” program** designed to define tomorrow’s public services and support government spending cuts, with a target of -3% of GDP by 2022, a law to improve trust between government and the people, the ESSOC Act, was passed on August 10, 2018, fixing **objectives for the entire duration of the five-year period of office:**

- **“Extending trust”, by enshrining the right to amend errors:** All users, whether they be businesses or private individuals, will have the right to make mistakes in the declarations they submit to the French authorities and amend any errors made in good faith, either at their own initiative or following an audit.
 - **Regarding tax,** penalty interest on late returns will be reduced by 30% if an error made in good faith is detected during an audit, or by 50% if users rectify mistakes of their own accord. Businesses will also be able to exercise the **“right to an audit”**, i.e. to request that an audit be performed by the authorities, so that the latter can check the firm’s compliance with official procedures and issue binding conclusions, all without running the risk of heavier penalties.
 - **The Labor Inspectorate** will no longer systematically penalize audited businesses for certain infringements, and will instead only issue a warning, provided there is no intent to defraud.
- **“Keep things simple” by introducing measures to reduce the complexity of administrative processes, streamline regulations and speed up the drive for administrative procedures to go paperless.** The government has notably set itself the objective, in so far as concerns the State administration, of **making all its administrative procedures paperless** (excluding the initial provision of identity documents) by 2022, as well as extending to companies the principle of **“tell us once only”**, i.e. they will not be required to provide information to a government body if it is already in the possession of another government body (via the **France Connect** platform).

To this end, general implementation measures and trials will be launched. Key measures will include:

- Tackling the inflation of regulatory standards by obliging ministries to suggest the abolition of two standards when a new one is introduced (the **“one in, two out”** rule).
- **Ending the practice of over-implementing EU directives** into French law (or “gold-plating”).
- Setting up **information certificates** containing the rules applicable to a particular economic or social activity, which any user may request from the relevant authorities.

