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RÉPUBLIQUE FRANÇAISE
Le Gouvernement

ACTION PLAN FOR investment and growth

Official visit of the Prime Minister to Niort on 11 September 2017

11 September 2017

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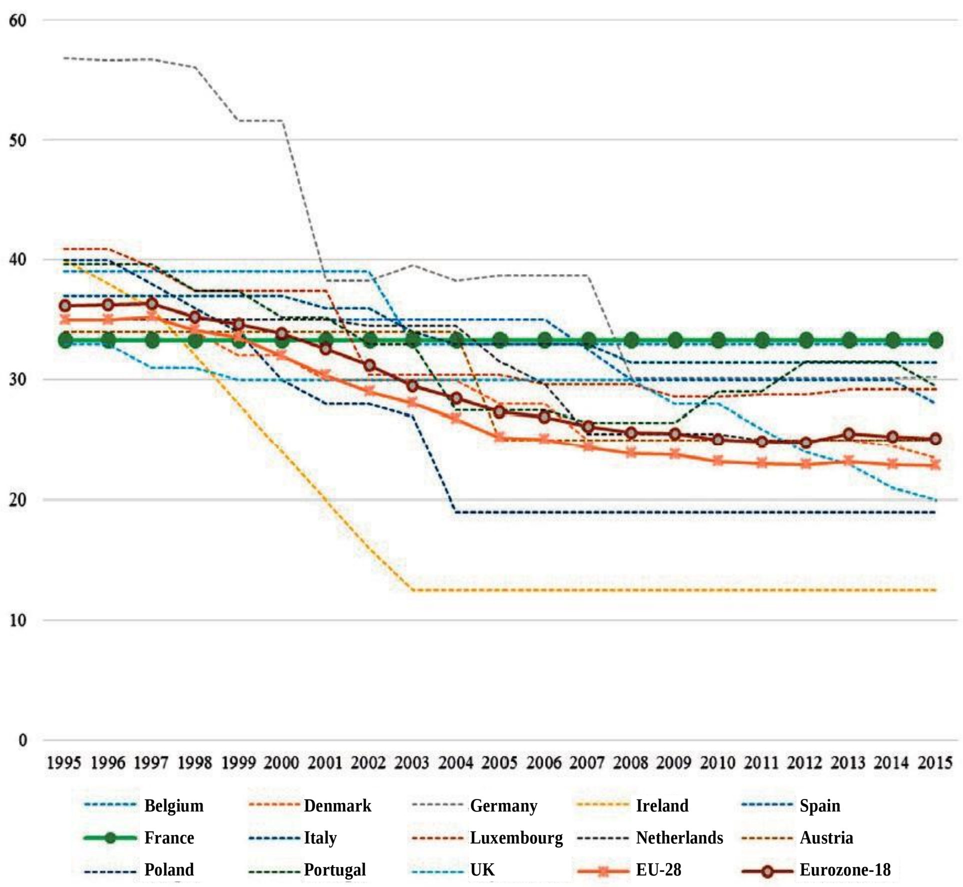
Progressive lowering of the corporate tax rate to 25%

1. France has the highest corporate tax rate in the EU

The rate of corporate tax in France is 33.33%. Now add to that the 3% contribution on dividend distributions that was introduced in 2012. By comparison, the average weighted rate of tax on corporate profits in the EU (excluding France) was 25.6% in 2015, and 26.2% in the EU's main economies.

France is at stark odds with its partners. Between 1997 and 2015, this rate dropped by 11.4 points in the EU and by 12.4 points in eurozone. The same simply didn't happen in France.

Corporate tax rate in the EU



Source: *"Taxation trends in the European Union", 2015, European Commission*

Progressive lowering of the corporate tax rate to 25%

The high corporate tax rate is hampering businesses and the economy in France:

- it is reducing the amount of investments, and consequently holding back economic growth and business competitiveness;
- it is putting off foreign businesses from setting up in France and investors from investing in French businesses.

And to top it all off, **the 3% contribution on dividend distributions deals a second blow to French business profits**:

- it is putting businesses located in France at a disadvantage and prompting head offices to relocate;
- In May 2017, the Court of Justice of the European Union ruled that France must stop taxing the distribution of profits from European subsidiaries outside France.

2. The corporate tax rate will be cut from 33.33% to 25% by 2022 and the 3% contribution on distributions will be abolished

The corporate tax rate will be brought down to 25% between now and 2022, aligning it with the European average. The plans outlined for lowering corporate tax to 28%, adopted by the last Government, did not go far enough and were overly complex. **These will be replaced with clearer and more ambitious plans** *(*see below*)*. **The tax relief is expected to amount to €11bn.**

Plans outlined for lowering corporate tax

	2018	2019	2020	2021	2022
1. **Plans agreed on by the previous Government**	28% for the first €500,000 of profit (all businesses); 33.3% above that.	28% for businesses with a turnover of less than €1bn; 33.3% for all others.	28% for all businesses.	-	-
2. **New plans**	28% for the first €500,000 of profit (all businesses); 33.3% above that.	31% for all businesses[1]	**28%**	**26.5%**	**25%**

SMEs will continue to benefit from special support:

- for businesses with a turnover of less than €7.63m, the reduced rate of 15% on the first €38,120 of profits will continue to apply throughout the five-year term;
- thanks to the immediate reduction, from 2018, in the rate to 28% for the first €500,000 of profits, SMEs will see their corporate tax slashed without delay.

The 3% contribution on distributed income will be abolished for sums payable in 2018. It will not be replaced with any lasting substitution tax. In this way, businesses' tax burden will be relieved by some €2bn a year, starting next year.

Not counting the effect of foreign investments, **the reduction in the corporate tax rate will ultimately increase business by 1.5 GDP points**[2]**.**

1 - The 28% rate is still applicable for the first €500,000 of profits.

2 - Source: Directorate-General of the Treasury, June 2017.

Conversion of the CICE into a reduction in employers' contributions

1. The CICE is an unsustainable tax credit that is not bearing sufficient fruit

The point of the tax credit for competitiveness and employment (CICE) is to reduce the cost of labour. It is equal to 7% of the wages paid by a business that do not exceed 2.5 times the minimum wage (SMIC)[3]. For wages paid in 2017, it is poised to cost around €23bn in 2018.

The CICE has played a large part in restoring businesses' profit margins and in supporting jobs. According to France Stratégie, it has helped to save or create 210,000 jobs. But a number of failings are marring its effectiveness:

- the one-year interval between the payment of the wage and collection of the tax credit reduces the incentive to hire;
- the sustainability of the CICE, a mere tax credit after all, is disputed at regular intervals, which is undermining businesses' confidence in the long-term future of the measure;
- its management, in addition to that of exemptions from social security contributions, is proving a headache for businesses, which have to comply with special requirements in terms of declaration. Even with Bpi France's effective range of services, the CICE's prefinancing is still complex.

2. The CICE will be abolished for wages paid from 2019 and replaced with a lasting reduction in employers' contributions

For wages paid in 2018, the CICE rate will drop from 7% to 6%, before being abolished in 2019. It will be replaced with a lasting reduction in employers' contributions:

- by 6 points on wages less than 2.5 x the minimum wage (SMIC);
- rounded off by a 4.1-point reinforced reduction at SMIC level[4]; this brings the total reduction to 10.1 points, thereby doing away with all general contributions at this level with a view to boosting the effectiveness of the measure on low-skilled employment.

Because the reduction will take immediate effect and low wages will be better targeted, employment will gain more from this measure.

In 2019, not only will businesses receive the CICE for wages paid in 2018 but they will also have lower social security contributions to pay. This double helping-hand is necessary to avoid any sudden disappearance in support for employment. **Businesses are set to benefit from an increase in cash flow in the region of €21bn in 2019 – which will alone be capable of creating around 35,000 jobs in 2019 and 70,000 in 2020.**

3 - The rate was 6% for wages paid until 2017.

4 - Degressive to 1.6 x the minimum wage (SMIC).

Conversion of the CICE into a reduction in employers' contributions

Cumulative effect of tax measures concerning businesses

Combined with the reduction in the corporate tax rate and scrapping of the 3% contribution on distributed income, **businesses across the board will gain from the CICE's conversion**

- **All economic sectors without exception will benefit.** For example, the tax burden on manufacturing will be €2bn or so lighter by the end of the five-year term.
- **All business sizes will benefit** (SMEs, mid-caps and large enterprises alike). For example, the tax burden on SMEs will be €1.5bn or so lighter by 2022.

Tax measures in favour of businesses will also have a positive impact for employees. Replacing the CICE with employers' contributions' exemptions will boost the special profit-sharing reserve. Some €1bn will be paid back to employees on a profit-sharing basis.

Example of a micro-business with three employees, paid more or less the minimum wage (SMIC)

(two are on the SMIC and one earns 1.3 x SMIC)

Today, it pays its employees in year N, and declares and applies for its CICE in May of year N+1. If it has not been able to set off its CICE against its corporate tax balance, it asks for the surplus to be reimbursed, which it receives in July. ***It receives a transfer of €4,105 in July of year N+1.***

Tomorrow, the amount of social security contributions this same micro-business has to pay will have already reduced, enabling it to ***accumulate, during year N – so without delay – gains of €5,315****. In year N+1, it won't have any new formality to complete. Since its taxable profits (subject to the 15% corporate tax rate) will have gone up thanks to the reduction in social security contributions, it will pay an extra €795 in corporate tax in May of N+1.*

In all, it will be €415 better off, more quickly than if the CICE had continued in its current state.

Example of a micro-business - 3 employees (2 on the SMIC, 1 earning 1.3 x SMIC)

Profits subject to the reduced corporate tax rate (profits < €38,120)

in €	
- Net gain for the business (1)+(2)+(3)	***415***
- Gains from reinforced reductions (1)	*5 ,315*
- Feedback effect on corporate tax (2)	*-795*
- Abolition of the CICE (3)	*-4 ,105*

“ QUOTE

"The reforms of the forthcoming draft finance legislation on capital taxation are key to encouraging long-term investment and growth among French businesses. They mark a decisive first step towards a "Mid-Cap Act" which will enable our businesses to grow over time, invest and hire. In this way France will finally be able to weave afresh a strong fabric of particularly industrial SMEs and mid-caps – that famous Mittelstand that is so sorely lacking today. ”

Philippe d'Ornano,

SISLEY, President of the Supervisory Board

Establishment of a single flat-rate tax on capital income – Replacement of the ISF with a real-estate tax

1. French capital taxation is hampering businesses and the economy

Capital income tax in France is quite different from that practised in other countries – and poses quite a burden particularly following the decision in 2012 to tax capital income according to the progressive income tax scale, and because of the outmoded solidarity tax on wealth (ISF).

Example of EU countries that have abolished their ISF

Country	Date the ISF was abolished
Austria	1994
Germany	1997
Denmark	1997
Sweden	2007

The marginal tax rates exceed 40% for dividends[5] and 58% for capital gains and interest, not taking into account the exceptional contribution on high incomes (CEHR) and the ISF.

By comparison, capital income is taxed at a rate of 26.4% in Germany, 26% in Italy, 25% in the Netherlands and from 20% to 24% in Spain. Overall, capital gains tax owed by households account for 5.2% of GDP in France, versus just 3.2% in Germany and 3.5% in Spain.

Coupled with a high corporate tax rate, the high level of capital income tax is taking its toll on French businesses:

- it limits their financing, particularly in terms of equity,[6] and, in turn their ability to grow and innovate;

5 - Given the existence of a 40% rebate.

6 - Economic studies show that the high marginal rates are a particular deterrent to high-risk investments – and therefore investment in equity.

Establishment of a single flat-rate tax on capital income
Replacement of the ISF with a real-estate tax

- it requires French businesses to be more profitable than their foreign competitors to be able to pay the same level of returns to their shareholders;

To pay 100 to a shareholder subject to income tax at the marginal rate of 30%, a French business must make a pre-tax profit of 231, compared with 195 (16% less) for a German business and 183 (21% less) for a British business[8].

- it encourages businesses to seek out foreign capital, which is less committed to keeping their production units and decision centres in France.

Moreover, **the sheer complexity of the capital income tax system makes for an opaque and unequal framework,** depending on whether or not taxpayers know how to take advantage of tax loopholes.

This situation is exacerbated by the existence of the solidarity tax on wealth (ISF), which is unique to France:

- it reduces the profitability of investments and, because this tax must be paid annually according to a fixed scale, with no bearing on the economic context, it discourages high-risk investments – such as in shares whose value and return are irregular;
- it holds back business growth. Business leaders are just as reluctant to open up their business capital to external investors as investors are to acquire holdings in the capital of small- and medium-sized enterprises;
- it encourages a brain drain outside France's borders.

“ QUOTE

For 30 years, the ISF, borne by businesses in actual fact, has eaten away at equity, weakened shareholding and put the brakes on investments in mid-caps. At a time when it has become more pressing than ever for us to innovate, embrace the digital transition and change the way we do things, this reform is crucial for finally unlocking our full investment potential and job creation ”

Frédéric Coirier, Chairman of the Board, POUJOULAT

8 - Not taking the ISF into account.

2. The Government intends to introduce a single flat rate of around 30% on capital income and replace the solidarity tax on wealth (ISF) with a real-estate tax

First of all, **from 2018, capital income will be taxed at a single flat rate of around 30%,** covering both social security contributions and income tax.

This single flat-rate tax will particularly apply to interest, dividends and capital gains from disposal of transferable securities.

- Savings taxation will be made simpler. Savers will no longer have to get their heads around complex tax law before making their investment decisions.
- Maximum tax rates will be lowered to encourage better returns on savings, and therefore greater risks in terms of savings.

The advantageous tax conditions associated with popular savings products (*livret A* savings accounts, life insurance below €150,000 of overall outstandings, employee savings plans) as well as the share savings plan (PEA) will remain as they are however, so as not to penalise low-income households or investment in shares. Taxpayers who would benefit from doing so (mainly households exempt from paying income tax) will retain the possibility of opting for taxation at the progressive income tax scale.

Moreover, **from 2018, the ISF will be abolished and replaced with a real-estate tax**. The future tax will concern net real estate assets worth over €1.3m, in the same way as the current ISF. Its scale will also be the same as the ISF scale.

The main residence, as with the ISF, will benefit from a 30% rebate and buildings used for the purpose of running the business of the taxpayer will be exempt.

Both of these measures will give more incentive to savers to invest – particularly in shares in French businesses.

> “ QUOTE
>
> *Introducing a ‘flat tax’ on capital income is finally bringing this form of taxation more into line with the European average. It sends a clear signal that investing savings in businesses is a good thing – as this will help to champion our expertise and create jobs.* ”
>
> ***Élizabeth Ducottet,***
>
> ***CEO of THUASNE***

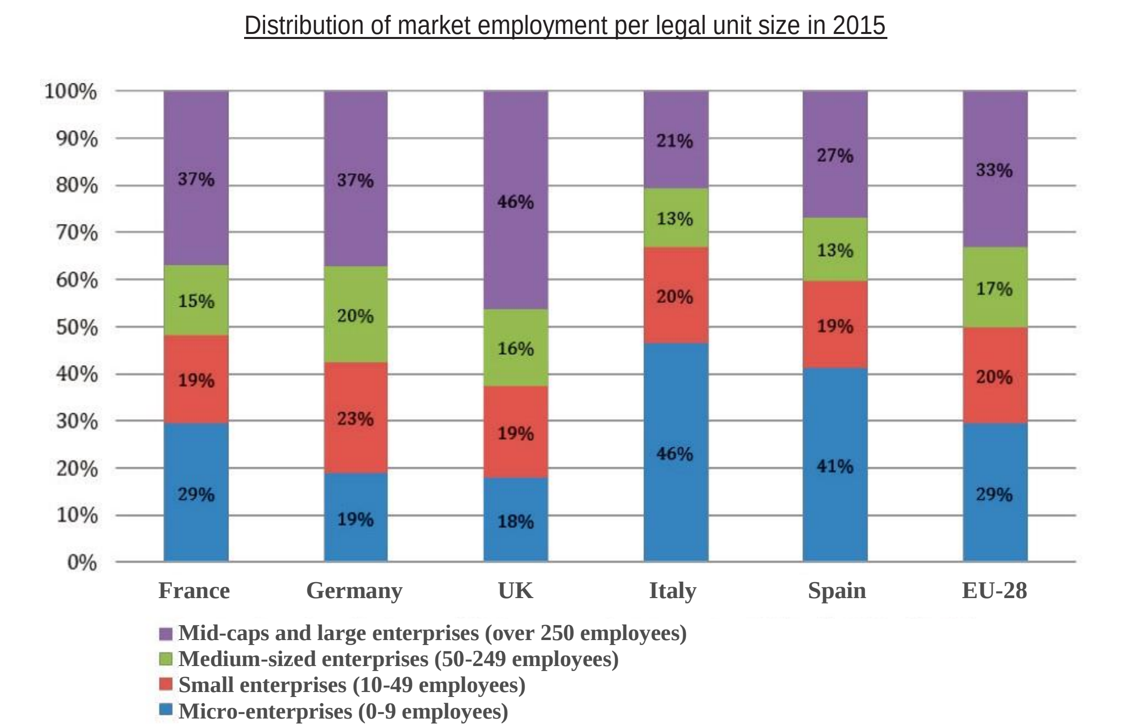
Launch of an action plan for business growth

An ambition firmly focused on reform: drafting an action plan for business growth

Our country **has a whole host of advantages it could draw on to create all kinds of businesses**: the French are very interested in startups, our workforce is well trained, our entrepreneurs innovative and our businesses at the cutting edge of their fields for example.

But the fact is that, all too often, our businesses find it difficult to grow, recruit and export.
Our startups struggle to become SMEs, our SMEs mid-caps and our mid-caps large enterprises.

Firms with more than 10 employees account for 71% of the private wage and salaried workforce in France, versus almost 81% in Germany and 82% in the UK.



Launch of an action plan for business growth

We need to **update our policy in order to foster business growth**, in a way that gives our entrepreneurs and businesses the desire, framework and tools they need to innovate, change, grow and create jobs – with the focus on cutting through the complexity of the myriad existing schemes.

Several flagship measures outlined in this press pack will already help to unlock our businesses' potential for growth: labour law reform, conversion of the CICE into reduced social security contributions, lowering of the corporate tax rate to 25% by 2022, tightening the application of wealth tax to real estate only and reform of savings taxation to channel French people's savings more towards productive investment and jobs.

> Beyond these initial decisions, the Government is laying the groundwork for **a sweeping action plan for business growth**.

An original and participative method

This action plan will be underpinned by **draft legislation**, but it will go further than this. Also forming **the cornerstone of our approach** are measures enabling our entrepreneurs and businesses to be informed and supported in the changes affecting their operational framework and in how to use the new tools available to them.

The Government plans to launch a participative approach to developing the action plan, for all of our collective energy and skills must be galvanised if this plan is to achieve the far-reaching changes our economy needs.

From October, the Government will begin **extensive talks with the stakeholders**, across the economic, social and political spectra at national and regional level alike.

> **Workgroups on each of the six identified themes will be co-chaired by a business leader and MP.**
>
> **The talks will take an array of forms so that perspectives can be compared and society's full capacity for innovation can be tapped into:**
>
> - interviews with experts;
> - involvement of the Regions – including those Overseas;
> - calling on parliamentary groups;
> - online public consultation to gather the views of our fellow citizens directly and more widely.

Six key themes have been identified

1. **Creation, growth and transmission:** business startups and takeovers and the first stages of growth need to be given a helping hand by removing the barriers to entrepreneurial initiative, introducing more flexibility and clarity in the manager's fiscal and social environment and inspiring a new mindset to overcome the fear of failure. We need to make it easier to launch a new product and open a new workshop, a new factory or a new warehouse.

2. **Business funding:** whether or not businesses can grow depends to a large extent on their ability to leverage the right kind of funds for their needs, in terms of equity and debt alike, at a competitive price.

3. **Simplification and securement of relations between businesses and central government:** despite the efforts of the past few decades, dealing with central government obligations is still an uphill struggle for businesses: a long list of requirements in terms of declaration, mountains of red tape, the same information has to be supplied many times over and the time it takes for central government to get back to them is no longer realistic given the pace of economic life these days. This all results in an excessive administrative burden which is hampering the competitiveness of businesses and the growth of our country. Building on the bill on the right to make mistakes, we need to take our simplification policy for businesses further with a view to paving the way for a personalised relationship between businesses and central government – one that is based on trust and advice.

4. **Conquest of international markets:** beyond contributing to our trade balance, access to foreign markets and including our businesses in international value chains are key factors for their development. We need to be working on making export processes easier and tailoring the guidance businesses are given in their international strategies to the times, so as to build their capacity to seize these opportunities.

5. **Digitisation and innovation:** our SMEs need to innovate in order to grow, update their expertise and adapt to new uses and markets. France has still not fully turned its innovative ability into economic growth, and not all French businesses have harnessed the benefits of digital technology. We should be encouraging initiative and risk-taking, by designing our instruments and rules in a way that helps innovators and game-changers. Indeed, in addition to the planned Fund for industry and innovation, which will support breakthrough innovations, our rules need to change so that the French economy enables each micro-business, SME or startup showing potential to make a difference on the international stage.

6. **Initial training and continuing professional development:** the extent to which businesses are sustainable and able to grow depends largely on the skills of their employees and managers alike, not least through high-quality management, the adoption of digital technology and capacity for innovation. The aim is to better match the training and support options open to businesses, to their needs.

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Layout and printing: Pôle Conception graphique-Fabrication – DSAF/DPL/Blog – SEPTEMBER 2017