Executive summary

On 27 September 2017, the French Government presented the draft Finance Bill for 2018. This draft will be discussed by the French Parliament over the following weeks and may be subject to amendments; the final version will be enacted by the end of December 2017.

This Alert summarizes the main direct tax reforms included in this draft that may affect corporations.

Detailed discussion

Decrease of the French corporate income tax rate

The Finance Bill for 2017 had already enacted a progressive reduction of the current 33.1/3% corporate income tax (CIT) rate to 28%.1

The draft Finance Bill for 2018 is now proposing a progressive decrease of that rate from 33.1/3% to 25% as follows:

- For fiscal years (FYs) starting on or after 1 January 2018, a 28% CIT rate would apply on the first €500,000 of taxable income of all entities. Taxable income in excess of €500,000 would still be subject to a 33.1/3% CIT rate.
- For FYs starting on or after 1 January 2019, a 28% CIT rate would apply on the first €500,000 of taxable income of all entities. Taxable income in excess of €500,000 would be subject to a 31% CIT rate.
For FYs starting on or after 1 January 2020, a 28% CIT rate would apply for all entities.
For FYs starting on or after 1 January 2021, a 26.5% CIT rate would apply for all entities.
For FYs starting on or after 1 January 2022, the 25% CIT rate would apply for all entities.

Moreover, the reduced tax rate of 15% applicable to Small and Medium Enterprises would be maintained for the first €38,120 of taxable income, provided that: (i) the revenue of the entity does not exceed €7.63 million; (ii) the share capital of the entity is fully paid up; and (iii) the entity is held at least up to 75% by individuals or other entities which meet the above conditions.

Repeal of the 3% distribution tax
The 3% distribution tax would be repealed for distributions paid by French companies as from 1 January 2018.

A recent decision rendered by the Court of Justice of the European Union held that the 3% distribution tax was contrary to the EU Parent-Subsidiary Directive where it applies to profits redistributed by a parent company that originated from a subsidiary established in the EU falling within the scope of the Directive.² The French Minister of Finance had announced this repeal on 20 July 2017.³

Replacement of the Tax Credit for Competitiveness and Employment (CICE) by a decrease of employer’s social contributions
Currently, the CICE is based on wages paid by an entity to its employees over the calendar year. It amounts to 7% of the wages paid to employees receiving less than 2.5 times the French regulated minimum wage. The tax credit can be offset against the CIT liability payable by the taxpayer with respect to the calendar year during which the wages are paid. Any excess credit can be carried forward and offset against the CIT liability of the taxpayer during the next three years.

As from 1 January 2019, the CICE would be repealed and replaced by a decrease in employer’s social contributions, as follows:
- A 6% decrease would apply on wages below 2.5 times the French regulated minimum wage
- An additional decrease of 3.9% would apply on French regulated minimum wages (resulting in a global decrease in the employer’s social contributions of 9.9%).

This decrease would be addressed in detail in the upcoming draft social security Finance Bill (Projet de loi de financement de la securite sociale) for 2018.

As a transitional measure, the CICE would be maintained in 2018, but its rate would be reduced from 7% to 6% for wages paid as from 1 January 2018.

Endnotes
2. See EY Global Tax Alert, CJEU finds French 3% contribution on distributed profits incompatible with article 4-1 of the EU Parent-Subsidiary Directive, dated 1 June 2017.
For additional information with respect to this Alert, please contact the following:

**Ernst & Young Société d’Avocats, Paris**
- Eric Verron +33 1 55 61 13 31 eric.verron@ey-avocats.com

**Ernst & Young LLP, French Tax Desk, New York**
- Frédéric Vallat +1 212 773 5889 frederic.vallat@ey.com
- Alexandre Peron +1 212 773 9164 alexandre.peron@ey.com
- Mathieu Pinon +1 212 773 2021 mathieu.pinson1@ey.com
- Audrey Teurlings +1 212 773 7287 audrey.teurlings1@ey.com

**Ernst & Young LLP, Financial Services Desk, New York**
- Sarah Belin-Zerbib +1 212 773 9835 sarah.belinzerbib@ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

EYG no. 05519-171Gbl
1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com