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France's Finance Minister Reassures Corporate Leaders About Tax Changes

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By Teri Sprackland

Finance Minister Bruno Le Maire has reassured France's largest employer group, MEDEF, that corporate taxes will be reduced over the next five years.

"Our tax system must be simple and stable. It must promote risk and reward work," Le Maire told thousands attending the end-of-summer MEDEF reunion August 30.

Le Maire's comments came amid reports that the government had decided that Microsoft should pay more tax — to the tune of €600 million, instead of the €32.2 million Microsoft France paid last year. Similar to other tech companies, Microsoft routes its sales through a subsidiary in Ireland. On July 12, Google prevailed in a decision of the Paris administrative court, finding that it had no permanent establishment in France. The Microsoft case will likely be contested along similar grounds, while France's government continues to push to stop the reallocation of taxes through Ireland.

The French tax administration said it would be inappropriate to comment on an ongoing case. A spokesperson for Microsoft told Tax Analysts: "We comply with the tax law in all jurisdictions in which we operate. Microsoft serves customers in countries all over the world, and our structure, operations, and employment reflect that global footprint."

As France pursues companies it believes are avoiding corporate tax, the new government is planning to lower corporate tax rates, eliminate the wealth tax, cut mandatory employers' levies, and simplify France's complicated capital gains tax.

Special advantages for small and medium-size enterprises are unlikely to be implemented as envisioned in last year's budget law, however. According to Finance Ministry sources, the lower rate structure is simply too complicated to be manageable, and the 15 percent tax rate planned for companies with less than €38,120 in annual revenue may be reserved for companies that already pay that rate.

The business confederation representing SMEs (CPME) released a statement on August 25 decrying the change of plans, noting that SMEs pay proportionately more corporate tax than the multinationals because they lack the practical capacity to adopt the various tax reduction techniques available to larger companies.

The government's draft plan for the 2018 budget calls for gradually reducing corporate tax rates, with the aim of levying a 25 percent rate on all income levels by 2022. The wealth tax (ISF) would be eliminated in an effort to attract investors, according to Le Maire. President Emmanuel Macron's government has made attracting investment a priority to boost the country's stagnant economy. "We want to stop the flight of talent. We want to reward risk taking," Le Maire said.

Entrepreneurs are feeling optimistic that the new approach will make France more competitive, Maxime Buchet, a partner with Melot Buchet Avocats in Paris, told Tax Analysts. The full details of the new tax plan will be released later in September, but the lower corporate tax rates will still be significantly higher than neighboring European countries, he noted.

The plan would eliminate a tax credit introduced by the previous administration to reduce hiring costs, replacing the measure with a reduction in payroll charges effective from 2019. Currently, France provides a credit of 7 percent of gross payroll, excluding salaries above 2.5 times the minimum monthly wage of €1,480. The reduction in payroll charges will probably have a more significant affect than the tax credit had in stimulating employment, Buchet said, because employers won't have to wait until the following year to see the benefits, as they do with tax credits.

Capital gains will be taxed at a single rate of 30 percent from 2018, Le Maire said.

Currently, capital gains are divided into multiple categories, depending on whether they are generated by stocks and dividends or real estate, according to Buchet. They are further complicated by rates dependent on how long an asset has been held, he said. Capital gains on stocks range from 24 percent to 65 percent, and gains from real estate can be fully exempt if owned for 30 years, for example. The complexity has encouraged the use of tax havens by investors, he said.

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