Presidential election 2017

Fiscal foresight and program of the new President of the Republic

May 10, 2017

Outline / Timetable

- Key aspects
  - Predictable tax system
  - Simplification
  - Attractiveness

- Effectiveness of the new President's tax program conditioned by the result of the legislative elections

- Entry into force of the contemplated tax measures as from January 1st, 2018

Introductory comments

Program presented by the candidate:

1. Support for purchasing power

- Abolition of occupancy tax for a reference taxable income of 20,000 euros per year and per unit (€40,000 for a couple) by 2020
- Reduction of employee contributions for sickness + unemployment (paid by employees, self-employed, civil servants) in order to increase the purchasing power, financed by a 1.7 point CSG increase (except for low-income households)
- Restoration of the exemptions from social security taxes paid by employees (employee contributions and CSG-CRDS) on overtime
- Individualization option for income tax

2. Support for investment

- Reductions in charges for companies: CICE transformed into a reduction in charges
- Reduction of the Corporate Tax (IS) rate: 25%
- Replacement of the Solidarity Tax on Wealth (ISF) by a Wealth Tax on Real Estate (IFI)
- Creation of a Single Fixed Levy on savings income in the range of 30%
- Doubling the thresholds of microenterprises and quality of services for self-employed

I. Corporate taxation

II. Taxation for individuals

I. Corporate taxation

1. CICE: transformation of the tax credit into a reduction in charges

- Current system
  - Companies taxed under the actual income regime, whatever the nature of their activity, can benefit from a tax credit calculated on the remunerations paid to their employees.
  - The tax credit is based on the gross amount of the remunerations, as defined to calculate the social security contributions, which do not exceed 2.5 times the Smic (French minimum wage).
  - Terms and conditions:
    - determined per calendar year, regardless of the fiscal year closing date and duration;
    - rate fixed at 7% (as from 01/01/2017);
      - For the record, the increase from 6% to 7% resulted in a (theoretical) reduction in charges for companies of B€3.1 (if the CICE is recorded in account 64x)
    - allocated to the tax – income tax or corporate tax – due by the company for the year during which the remunerations were paid
  - (Article 244 quater C of the French Tax Code, introduced by Article 66 of the law No. 2012-1510 of 29/12/2012)
- Proposed reform
  - Transform the CICE into a reduction in charges
    - In a sustainable manner (putting an end to the fear of disappearance of the system)
    - Instantaneously (no gap between charge related to remuneration / allocation of the tax credit)
  - Intensify the system for the lowest salaries (Target: 0 charges for SMIC)

I. Corporate taxation

2. Reduction of the Corporate Tax (IS) rate: 25%

For the record, following the 2017 Finance Bill,
Progressive reduction of the rate to reach 28% by 2020

<table>
<tr><th>Companies concerned</th><th>Taxable profit brackets (in €)</th><th>Fiscal year open in 2016</th><th>Fiscal year open in 2017</th><th>Fiscal year open in 2018</th><th>Fiscal year open in 2019</th><th>Fiscal year open in 2020</th></tr>
<tr><td rowspan="4">Turnover < M€7.63</td><td>0 to 38,120</td><td>15%</td><td>15%</td><td>15%</td><td>15%</td><td>15%</td></tr>
<tr><td>38,120 to 75,000</td><td rowspan="3">33.1/3%</td><td>28%</td><td rowspan="2">28%</td><td rowspan="3">28%</td><td rowspan="3">28%</td></tr>
<tr><td>75,000 to 500,000</td><td rowspan="2">33.1/3%</td></tr>
<tr><td>> 500,000</td><td>33.1/3%</td></tr>
<tr><td rowspan="4">M€7.63 ≤ turnover ≤ M€50</td><td>0 to 38,120</td><td rowspan="4">33.1/3% (or 34.43%)*</td><td rowspan="2">28% (o 28.9%)*</td><td rowspan="3">28% (or 28.9%)*</td><td>15% (or 15.5%)*</td><td>15% (or 15.5%)*</td></tr>
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* Effective rate, after taking into consideration the social security contribution of 3.3% (if IS> €763,000)
** For the record, exceptional contribution of 10.7% (increasing the effective rate to 38%) no longer applicable to the fiscal years ended after December 31, 2016

I. Corporate taxation

2. Reduction of the IS rate: 25% (2/2)

- The program announces a reduction of the theoretical rate from 33 1/3% to 25%
  - o Regardless of the turnover,
  - o Regardless of the sector of activity

- “Gradual” reduction during the five-year presidency
  - o No information on the rhythm of implementation of the system
    - ➢ The impact could be more significant than expected in the 2017 timetable
  - o No information on the interaction of the system with the reduction programed by the 2017 Finance Bill (28%)

- France’s tax attractiveness
  - ➢ To put into perspective with the EU reforms: harmonization of the tax base and corporate tax rate convergence

I. Corporate taxation

II. Taxation for individuals

II. Taxation for individuals

- 1. The future of withholding income tax

  - Implementation of a **feasibility audit** (autumn 2017)
    - *Immediately after the presidential election, we will carry out an audit on the implementation of withholding income tax* (EM team)
  - Implementation of a **test phase** during 1 year (in 2018)
    - Desired introduction of this withholding income tax
      - Possible option for tax individualization versus taxable household
    - But possible modifications of the “technical terms and conditions” / Tax collector

II. Taxation for individuals

1. The ISF becomes the **IFI** (Wealth Tax on Real Estate)

- Current system
  - o Tax point: the fact, for an individual domiciled in France, to own, on January 1st of the taxation year, **taxable assets with a net value in excess of M€1.3** (French Tax Code, Art 885 A)
    - ➢ All assets, whatever their nature (movable or real estate assets, rights or securities), French Tax Code Art 885 E
    - ➢ ***Except***: professional assets/ Antiquities, works of art or collectors' items (French Tax Code Art. 885 I, al. 1 and 2) / owner of literary and artistic property rights (French Tax Code Art. 885 I, al. 4), inventor / creator holding industrial property rights (French Tax Code Art. 885 I, al. 3), shares subject to a Dutreil agreement (French Tax Code Art. 885 I bis).

- Transformation of the ISF into the IFI
  - o Innovation: IFI is based **only on real estate assets**
  - o Unchanged:
    - it will be based on the same taxation threshold (M€1.3),
    - the same scale,
    - the same rules (30% abatement on principal residence).

- Analysis / prospects?
  - ▪ possible evolution of the system?
  - ▪ Announced support for investment
    - ➢ Quid of ISF tax exemption tools (such as tax funds, FPCI for example)

II. Taxation for individuals

2. Creation of a Single Fixed Levy on savings income (**30%**)

- Current system
  - Principle: taxation under income tax (IR) (progressive scale) of all investment income (French / foreign source), received by an individual domiciled in France + social security taxes (CSG, CRDS)
  - Exceptions:
    - Exemption under an express provision (Livret A interest)
    - Proportional rate (fixed levy in discharge) for certain categories of revenue
- Contemplated reform
  - Stated objective: Clarity of taxation
  - Creation of a "Single Fixed Levy (PFU) in the range of 30%, which will replace the existing taxes"
    - Return of the option: PLF / IR
    - Social security taxes included
    - Scope: all revenues resulting from movable capital: interest, dividends, capital gains, etc.
  - The following instruments remain unchanged: PEA + Livret A + Life Insurance (inheritance, abatements, bonuses)

I. Taxation for individuals

3. Purchasing power / miscellaneous

2 measures

1. “Reduction of employee contributions for sickness + unemployment to increase the purchasing power + 1.7 point CSG increase (except for low-income households)”

   WARNING for civil servants / pensioners

2. “Restoration of the social security taxes paid by employees (employee contributions and CSG-CRDS) on overtime”

Merci

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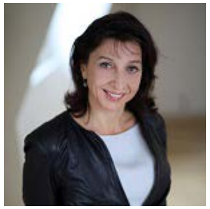

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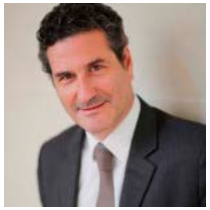

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