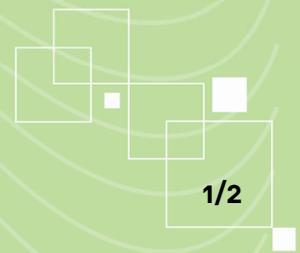




## New measures welcoming invitation to international investors



### **FRANCE IN ACTION: New economic measures voted in August 2007 are a welcoming invitation to international investors**

France's government has recently launched several key initiatives that will fast-track the French economy and make the country's business environment even more competitive. The new measures defined in law n° 2007-1223, dated August 21, 2007, introduce significant labor and social contribution reforms that have been eagerly awaited by businesses in France. The law also strengthens the nation's buying power and economic growth with major income tax cuts and inheritance tax exemptions

#### **Many of the 20,000 foreign companies currently operating in France will see direct benefits from this increasingly friendly business environment.**

France's new reforms will also help further transform the country's image and attract investors by showing that:

- 1/ France is open to fast, effective reform.
- 2/ France values hard-work.
- 3/ France encourages employees to work more to earn more.

This modern vision of France – already taking shape in international economic publications – is essential to erasing outdated stereotypes and raising France's profile in Europe, the world's largest market.

The latest approved changes include:

#### **1. Valuing hard work: reduced social charges for employers, and income tax and social security charge exemptions on overtime hours for employees.**

Starting on October 1, 2007, employers will benefit from reduced social security charges on overtime hours worked by their employees. Companies with 20 employees or less will see a reduction of €1.50 per hour and companies with over 20 employees will see €0.50 per hour. Employees will be offered the opportunity to "work more to earn more," with income tax and social security charge exemptions on overtime hours worked beyond the set legal limit of 35 hours per week. Overtime will also be paid at a 25% hourly increase. This new rule applies to all private sector employees – including managers and part-time staff – regardless of the company size.

#### **2. Making France's fiscal system more attractive: total tax fixed at a maximum 50%, including CSG (health insurance contributions) and CRDS (social debt reimbursement contributions).**

Overall income tax rates will drop from 60% to 50%, including direct, national and local taxes, as well as CSG and CRDS contributions, starting in January 2008 for taxes paid in 2007, to help keep and attract key investors in France. Applicable households will also be able to take advantage of an increase from 20% to 30% on the tax deductions allowed for capital gains related to the value of their principal residence, as well as deduct 75% from their capital gains tax to invest in small-and-medium-sized enterprises up to a set limit of €50,000 per year.



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### 3. Driving economic growth with R&D

*3.1 The highest research tax credit in the European Union:* A research tax credit reform program to improve the current system and make France's research tax credit the best in Europe is expected to be proposed under the finance law for 2008. The program will involve 30% of yearly R&D expenses, up to a limit of €100 million. For companies taking advantage of the research tax credit for the first time or those who have not used it in the past 5 years, the tax credit will be calculated based on 50% of expenses allocated during the first year.

The €16 million limit will no longer be applicable.

The measure is expected to cost an extra €800 million more in 2009, or almost double what it is now, and could reach €2.7 billion in 2012, according to Christine Lagarde, the French Minister of Economy, Finance and Employment.

*3.2 Cutting translation costs with the London Agreement (also called the "Accords de Londres"):* France hopes to soon approve the London Agreement, which allows for patents to exist in one language only (English, French or German) and eliminates the need for the translation of national patents into other languages. The agreement will be automatically applicable and reduce costs by 20%-40%.

*\*Approval for the research tax credit reform and the London Agreement should be voted on during next week's Parliament session.*

*3.3 Driving investment into innovative SMEs and public research foundations:* Applicable households can now deduct 75% from their capital gains tax, up to a set limit of €50,000 per year, to invest into innovative small-and-medium-sized enterprises (SMEs) and public research foundations.

### 4. In addition, other beneficial tax measures have been launched for households:

*4.1 Increasing inheritance tax allowances:* Some 95% of households will be exempt from paying inheritance tax. The tax will be eliminated for surviving spouses, and brothers or sisters, over 50 years old, starting in 2008. Tax-free allowances on inheritances for ascendants and descendants will triple from €50,000 to €150,000, while the allowance on donations between brothers and sisters is increased from €5,000 to €15,000.

*4.2 Encouraging home ownership:* An income tax credit equal to 20% of the interest (with certain imposed limits) paid on new mortgages for principal residences will be deductible during the first five years of the loan.

During the summer session held by MEDEF (Movement of French Enterprises) on August 30, 2007, President Sarkozy announced another series of economic measures that involve additional reforms to taxes, employer social charges and work rights. Invest in France will circulate a detailed update on these new approved laws in the next few months.

For more information, please visit [www.gouv.fr](http://www.gouv.fr).