

PRO-BUSINESS REFORM AGENDA

TO RELEASE FRENCH GROWTH

The French government is prompting a cultural shift, by implementing a vast series of pro-business reforms to overhaul the French social model, build tomorrow's skill sets, reduce corporate taxation, simplify administrative procedures, and foster business development and innovation.

1. Overhauling France's social model to provide greater flexibility for companies and clearer career paths for employees

Transforming employment law, rethinking apprenticeships, enhancing professional development, overhauling unemployment insurance benefit, undertaking pension reform, and improving purchasing power are the six pillars that will fundamentally reform France's social model over the coming 18 months.

With the mandate given to him by French voters, President Macron and the French government immediately opened dialogue in summer 2017 with employee and employer representative organizations to **transform employment law, forming an initial step to overhaul France's social model. Five decrees were signed in September 2017**, ensuring that all the measures adopted became law on January 1, 2018. The main aims of these reforms are to:

- **Facilitate social dialogue, by ensuring that negotiations are aligned as closely as possible with the needs of both employees and employers**, including the creation of a single employee representation briefing/consultation body.
- **Introduce greater labor market flexibility to promote employment**, including new possibilities for company-wide agreements to adjust pay and working time following a fall in demand.
- **Simplify dismissals on economic grounds and make employment contract terminations more secure**, facilitating voluntary redundancies, defining economic grounds for collective dismissals at national level, capping damages for unfair dismissal, and reducing the time limit for appeals regarding dismissals to 12 months.

Consultations with employee and employer representative organizations and regional authorities regarding reforms to apprenticeships and professional development began in late 2017. A government bill is due to be presented in 2018 to update employee skillsets in line with the needs of global markets and to further the roll-out of digital technology, robotics and new methods of production.

2. A new tax environment to encourage investment and foster employment

The 2018 French Government Budget Act includes **tax relief and labor cost reductions for businesses** through two flagship measures that will benefit companies of all sizes in all sectors:

- **A sharp fall in corporate tax (IS)**, which will decline in stages from 33.33% at present to only 25% by 2022, in line with the European average, amounting to €11 billion in tax savings. Starting in 2018, all businesses will be taxed at 28% on their first €500,000 of earnings. From 2019, all businesses will be taxed at 31% above this level, then at a rate of 28% on earnings in 2020, 26.5% in 2021 and 25% in 2022.

- Transforming the competitiveness and employment tax credit (Crédit d'Impôt pour la Compétitivité et l'Emploi – CICE) into a permanent reduction in employer social security contributions from January 1, 2019, with a six-percentage point fall in contributions payable on salaries up to 2.5 times the statutory national minimum wage,¹ backed up by a 4.1 percentage point fall for minimum-wage earners.
- Moreover, the 2018 French Government Budget Act includes a provision to lower personal taxation through a fall in capital gains tax, now capped at 30% of investment income.

3. An ambitious simplification drive of government action and regulation, enshrining the right to amend errors

Since summer 2017, France's ministries have been obliged to abolish two regulatory standards before introducing any new one ('one in, two out' principle) in a bid to tackle increases in government red tape. The practice of 'gold-plating' EU directives has also been prohibited.

In October 2017, the government launched the "Action Publique 2022" government action program to rethink tomorrow's public services, while on November 27, the Council of Ministers also adopted a bill to improve trust between government and the people, which has two innovative new approaches to improve relations between lawmakers on the one hand, and businesses and citizens on the other:

- **Extending trust, by enshrining the right to amend errors:** All users, whether they be businesses or citizens, can occasionally make mistakes in the declarations they submit to the French authorities. In recognition of this, they will now be able to amend any errors made in good faith, either at their own initiative or following an audit.
- **For tax matters,** penalty interest on late returns will be reduced by 30% if an error made in good faith is detected during an audit, or by 50% if users rectify mistakes of their own accord. Businesses can also exercise their 'right to an audit', by requesting an audit to ensure they are in full regulatory compliance from the authorities – which will issue binding conclusions – and all without running the risk of heavier penalties.
- **The Labor Inspectorate** will no longer systematically punish audited businesses for specific infringements, and will instead only issue a warning if there is no intent to defraud.
- **A simplification drive through the introduction of measures to reduce the complexity of administrative procedures, streamline regulations, and fast-track paperless procedures** (target of fully paperless government by 2022).

4. A transformation action plan to enable businesses to re-invent themselves

The French government has launched an innovative consultation exercise with businesses, professional bodies, and public-sector stakeholders to help co-write a government bill due to be presented to parliament in spring 2018. Suggestions concerning six topics are being analyzed: creating, growing and selling a business; sharing the proceeds of growth and corporate social responsibility; finance for businesses; digitization and innovation; administrative simplification; breaking into foreign markets.

¹ Salaire Minimum Interprofessionnel de Croissance (SMIC) of €9.88 gross / hour as of January 1, 2018.