

WHEN YOU CLOSE THE ACCOUNTS, DON'T FORGET THE MAIN PROVISIONS OF FINANCE LAW FOR 2021 CONCERNING CORPORATE TAX AND VAT IN COVID CONTEXT.

IN THIS CRISIS CONTEXT, THE FRENCH TAX LAW HAS BEEN MODIFIED FOR 2021 IN ORDER TO SUPPORT ACTIVITY AND TO DECREASE SOME TAXES OR TO SET UP NEW TAX TOOLS SUCH AS THE "FRENCH VAT GROUP".

1. Corporate tax

• Revaluation of tangible and financial assets (art. 31)

The Finance law for 2021 allows a company that decides to revalue all its **tangible and financial assets** according to the Commercial Code) to defer or spread the corresponding capital gain taxation. This is a temporary and optional regime: on the first revaluation recorded at the end of a financial year ending between 31 December 2020 and 31 December 2022.

The taxation of the gain is:

- ▶ spread over 5 or 15 years for amortizable assets,
- ▶ taxed only at the time of a future transfer for non-amortizable assets.

• Extension of reduced corporate income tax for small and medium sized enterprises (art. 18)

Until now, small and medium-sized enterprises whose annual turnover does not exceed EUR 7.63 million can benefit from a reduced corporate income tax (CIT) rate of 15% on the first EUR 38,200 of taxable profit.

The Finance law for 2021 has extended the reduced CIT rate of 15% to the companies whose annual turnover is between EUR 7.63 million and 10 million for fiscal years beginning on or after 1 January 2021.

The French CIT rates will still progressively decrease down to 26.5% in 2021, except for companies whose:

turnover exceeds EUR 250 million (27,5%) and to 25% for all companies in 2022.

- **Reduction of the corporate value added tax rate and cap mechanism of the territorial economic contribution rate** (art. 8)

The Finance law for 2021 reduces by 50% the rate of the contribution on added value of companies (CVAE). These changes come into force for the computation of the CVAE due as from 2021.

The Finance law for 2021 also reduces the land contribution for companies (CFE) cap rate based on value added from 3% to 2%.

- **Territorial economic contribution exemption for the creation/extension of an establishment** (art. 120)

The Finance law for 2021 introduces a non-mandatory exemption of territorial economic contribution (CET) during three years for creation or extension of an establishment from:

- ▶ The year following the establishment's creation;
- ▶ The second year following the year during which an extension was completed

The exemption is optional. It is subject to a request from the taxable person to the local community and is allocated by local community after deliberation.

The measure came into force on 1st January 2021.

1. Value added Tax (VAT) reforms

- **Postponement of the application of the new rules amending the e-commerce VAT regime** (art. 51)

The Finance law for 2021 postpones the entry into effect of the e-commerce VAT reform to 1st July 2021.

The law excludes certain deliveries (such as of second-hand goods, works of art, collectors' items, or antiques) subject to VAT on margin from the territoriality rules applicable to distance sales of goods inside the EU and distance sales of imported goods.

The law also limits the application of the EUR 10,000 turnover threshold below which intra-EU distance sales are treated as domestic transactions to taxpayers established in a single EU member state.



• **Clarification of VAT rules for composite supplies** (art. 44)

The Finance law for 2021 implements into French law principles set out by the European Court of Justice that clarify the treatment under VAT of composite supplies (i.e. when a transaction contains supplies subject to different VAT regimes).

The law 2021 provides that the composites supplies can result from:

- ▶ A single composite supply which combines one or more principal supplies and ancillary supplies. According to the cases law of the CJEU, a supply is ancillary when, from the point of view of the average consumer, this supply has a limited interest or does not constitute an end in itself but is a way to benefit from the principal supply under the best conditions.
- ▶ A transaction which combines different supplies for which it is not possible to determine the principal and ancillary supplies, but which are so closely linked that they form, objectively, a single indivisible economic supply, that would be artificial to split.

To determine whether this transaction can be qualified as a single transaction, the Finance law for 2021 specifies that it must be assessed from the point of view of the average consumer, considering the qualitative and quantitative importance of the various elements as well as all the circumstances in which the transaction takes place.

The law also recognizes the various travel services provided by travel agencies and tour operators as a unique service delivery subject to its own regime.

The measure came into force on 1st January 2021.

• **Creation of a VAT group regime** (art. 162)

The Finance law for 2021 provides the option to set up a VAT group which will be considered as a single VAT taxable person.

The new regime will be applicable as and the first French VAT groups will be created as from 1st January 2023 with an election before 31 October 2022.

▶ **Conditions to create a VAT group**

- Entities which want to form a VAT group must be established in France,
- Entities must be closely linked at financial, economic, and organizational levels; at the time of the creation of the group and during the group's existence, i.e., three years at least.



► **Group VAT operation**

- The VAT group will be considered as a single taxable person. A representative must be appointed by the members of the group. This representative will be responsible for ensuring VAT compliance.
- Each member will constitute a separate sector of activity to facilitate the monitoring of the rights to deduct VAT.
- The single taxable person will be subject to the same rights and obligations as any other taxable person.





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