

# FLAGSHIP REFORMS SINCE 2017

## To promote growth, the recovery and jobs in France

October 2021

Since 2017, the French government has been committed to a vast program of structural reforms to transform the economy, the lives of businesses and boost competitiveness.

The national strategy has been structured around four major areas of transformation, highlighted by this fact sheet: a **new tax environment**, the **transformation of the social model**, **administrative simplification** combined with the **facilitation of the establishment of industrial sites**, and **accelerated ecological transition**. Most of these far-reaching changes were introduced before the health crisis, allowing France today to post a growth forecast of 4% in 2022,<sup>1</sup> an unemployment rate of 8%, which has never been so low since 2008, as well as renewed and maintained investor confidence: in 2021, France remained the most attractive European country to foreign investors. (EY, 2021)

**Emergency economic measures** were implemented from the onset of the Covid-19 global health crisis to provide immediate and massive support to businesses during the pandemic “regardless of what it costs”, in the words of the President of France, Emmanuel Macron, and to help them to restart more quickly as soon as growth returns. Today, while the end of the crisis is in sight, the main support measures for businesses have been adapted, gradually, and are now aimed primarily at the most vulnerable businesses (Action plan for businesses in a vulnerable situation).

The **“Relaunch France” economic stimulus plan** (€100 billion) has come in addition to these schemes, providing further support over the period 2020-2022 in strategic sectors and outlining French strategy until 2030. After one year of implementation and more than half of the funds already committed, the results “reflect the effectiveness of the recovery measures, the solidity of the fundamentals of the French economy, and the mobilization of all: individuals, entrepreneurs, elected officials, parliamentarians.” Bruno Le Maire, Minister for the Economy, Finance and Recovery.

To complete the cycle of reforms enabling France to transform itself and become more attractive, a **new investment plan “France 2030” has been prepared since July and was unveiled by the President of France on October 12, 2021**. It aims to create industries of the future through targeted investments to accelerate breakthrough innovation. In the words of the French President, one of the major challenges of the France 2030 plan will be to “reconcile the France of startups and that of industry.”

### 1. PROMOTING INVESTMENT AND JOBS VIA A NEW TAX ENVIRONMENT

**Corporate taxation has been considerably reduced throughout the five-year term** to encourage investment and facilitate the economic recovery:

- Gradual reduction in **corporate tax**: From 33% to 25% by 2022, i.e. €11 billion in tax relief, thereby converging towards the European average. In 2021, the rate is being reduced to 26.5%, with the exception of businesses whose revenues exceed €250 million (27.5%).

<sup>1</sup> OECD Economic Outlook, Interim Report, September 2021.

- Massive, lasting reduction in **production taxes**: €20 billion over the period 2021-2022 as part of the “[Relaunch France](#)” plan (then €10 billion per year), which benefits all businesses liable for these taxes in France, including 600,000 businesses by 2021, regardless of size and business sector, comprising:
  - \ A 50% reduction in corporate value added tax (CVAE) and property taxes on industrial sites (built-up property tax and business property tax (CFE)).
  - \ A reduction in the capping rate from 3% to 2% of the regional economic contribution based on value added.
- Continuation of the **research tax credit**, a flagship system that makes it possible to deduct R&D expenses for tax purposes of 30% up to €100 million in expenses, then 5% thereafter. The research tax credit places France in second place among OECD countries for R&D financing. (OECD, 2019)
- Transformation since 2019 of the competitiveness and employment tax credit (CICE) into a **permanent reduction in health insurance social security contributions** of six points for salaries of up to €3,886 per month. This measure has contributed to the **reduction in labor costs** in France, particularly at minimum wage levels: €10.54/hour in France, versus €11.24/hour in Germany. <sup>2</sup>

**Taxation of individuals has also evolved** to encourage investment in the real economy and to increase the value of work:

- Reform of **capital taxation**: Fixed tax rate of 30% on capital income since 2018 called the *prélèvement forfaitaire unique* (PFU).
- Transformation of the **solidarity tax on wealth** (ISF) into a tax on real-estate wealth (IFI) (payable by taxpayers with real estate assets in excess of €1.3 million), restricting the tax base to the value of real-estate assets.
- Historic reduction of €5 billion in **income tax** in 2020.
- Measures in favor of **employee purchasing power**: Overtime tax exemption for employees, paid without tax or social security contributions from 2019.

## **2. TRANSFORMATION OF THE FRENCH SOCIAL MODEL TO GAIN GREATER FLEXIBILITY AND COMPETITIVENESS**

The new model built based on the “Work Orders” of 2017 and implemented before the health crisis enabled a renewed labor market prior to the health crisis by:

- Offering a **simplified, secure and predictable framework for economic redundancy and termination of the employment contract**: Facilitation of voluntary departure plans, assessment at national and no longer global level of the economic difficulties of an international group wishing to make redundancies in France, capping of damages in the event of unfair dismissal, deadline for challenging a dismissal limited to one year.
- **Facilitating social dialogue** for negotiations that are as close as possible to the needs of employees and businesses via the creation of a single employee information and consultation body (Social and Economic Committee) combining three pre-existing bodies.

<sup>2</sup> Source: Treasury Directorate, Ministry for the Economy, Finances and Recovery.

- **Offering more flexibility for the employer in order to promote job preservation:** Possibility of adjusting remuneration and working time, as part of a collective performance agreement in response to a cyclical drop in activity; improvement of the partial activity system to facilitate economic recovery. Businesses can now use two short-time working mechanisms in the event of a decline in activity:
  - \ A **statutory short-time working scheme** (APDC) catering for the need for firms to adjust their level of activity on an occasional basis: three months, renewable once within a limit of six consecutive months or not during a 12-month period, during which (1) the employee receives an allowance for hours not worked equivalent to 60% of their gross salary and (2) the employer receives a government allowance covering 36% of the gross salary (up to a maximum of 4.5 times the statutory national minimum wage).
  - \ A **long-term short-time working scheme** (APLD) designed to secure employees and business activity, enabling these firms, when confronted with a long-term reduction in activity, to reduce working hours in return for commitments, notably regarding maintaining employment. The scheme can be implemented for a period of up to 24 months, consecutive or non-consecutive, and over a total period of 36 consecutive months. The reduction in working hours may not exceed 40% of the legal hours per employee over the entire duration of the agreement. As from July 1, 2021, firstly the employee receives an allowance for hours not worked equivalent to 70% of the gross salary, and secondly, the employer receives a government allowance covering 60% of the gross salary (up to a maximum of 4.5 times the statutory national minimum wage). This temporary working scheme can be applied until June 30, 2022.
  - \ More than €36 billion in public funding have been called upon since March 2020. Short-time working is gradually returning to pre-crisis levels: while up to almost nine million employees benefited from it in spring 2020, this was the case for only 480,000 employees in August 2021.

The progressive implementation of these reforms in the last four years confirms the positive ownership of these new tools by businesses:

- **Regarding litigation stemming from individual dismissals:** A decline in the number of appeals filed with the industrial tribunals (119,000 applications filed with industrial tribunals in 2019, compared with 230,000 in 2009) and an increase in the number of permanent contracts awarded (+14% since the start of the five-year presidential term). In 10 years, industrial disputes have been cut in half.
- **In so far as concerns collective redundancy:** As of March 31, 2020, a total of 234 businesses had committed to an agreement for collective mutual termination.
- **In so far as concerns collective bargaining:** In June 2020, a total of 371 collective performance agreements were signed.

The reform of the social model was complemented by:

- **Reforms in vocational training and apprenticeships in 2018**, which aimed at adapting employee skills to the globalization of markets, the development of digital technology, robotics and new production methods, thanks in particular to:
  - \ **The launch in 2018 of a €15 billion skills investment plan until 2022**, aimed at job seekers and young people.
    - Midway through the scheme, there are:
      - Over one million people starting training every year since 2019, a level never seen before in France.
      - 111,000 training paths towards short-staffed sectors implemented with professional branches in 2018, 2019 and 2020 to meet immediate business recruitment needs.
      - More people starting training in three priority sectors of the “Relaunch France” plan: +70% in digital jobs, 12% in ecological transition jobs and 18% in priority jobs for industry.
    - \ **The opportunity to give everyone the freedom to choose their professional future** and how to build their career path flexibly, thanks to a free personalized advice offer and an innovative application, making it possible to view training rights in real time and to register for training.
- **A strengthening of support for job seekers** through tailored training, following receipt of a stable job offer requiring a skills upgrade.
- **The introduction of financial incentives in favor of apprenticeships and employment for young people** entering the labor market, contributing to the target set by the government of creating 160,000 jobs in 2021 (overall budget: €9 billion – Plan#1jeune1solution included in the “Relaunch France” plan):
  - \ • Recruitment premium of between €5,000 and €8,000 for the recruitment of an apprentice or a student on a work-study program (measure in place until June 30, 2022).
  - \ • Employee personal training accounts will be topped up so as to cover 100 % of their out-of-pocket expenses when they undergo training in a strategic sector (i.e. digital, ecological transition, sectors that face industrial relocation challenges).

Public efforts led to promote the development of apprenticeships reached a **historic high in 2020 of 495,000 apprenticeship contracts** signed in the private sector, a figure constantly rising since 2018.

- **A strengthening of the French offer of qualifying training**: Deployment of 100,000 qualifying training courses for young people soon to enter the labor market and 15,000 certifying digital knowledge training courses for employees from November 2020. Since January 15, 2021, the “**collective transitions**” scheme has also made it possible to anticipate economic changes in businesses by supporting voluntary employees in the context of professional retraining. While retaining their employment contract and their remuneration, they can therefore benefit from state-funded training in emerging professions or in professions with a shortage of skilled workers in the same area.

All of these reforms to the social model have paved the way for **greater post-crisis resilience**. The unemployment rate has now returned to its pre-crisis level (8%, the lowest since 2008) and the number of new hires is set to rise sharply in 2021 (2.2 million new hires in the second quarter of 2021, half of which will be on permanent contracts – i.e. a higher level of employment than in 2019).

A [new skills investment plan](#), worth €1.4 billion between now and 2022, was launched in September 2021 to supplement this arsenal with new measures to support a return to employment and vocational training in sectors that are struggling to recruit, in particular to adapt employees' skills to new production techniques (industry, healthcare, transport and logistics, trade-hotel-café-restaurant, personal services).

With regard to pension reform, the French President reaffirmed its necessity in his speech of July 12, 2021. The health crisis interrupted the reform process, and then modified the conditions. The government will resume the reform process "when the pandemic is under control and the economic recovery is sufficiently solid," according to the Prime Minister Jean Castex's words at the beginning of the school year.

### **3. SIMPLIFYING THE ADMINISTRATIVE ENVIRONMENT FOR BUSINESSES AND ACCELERATING THEIR ESTABLISHMENTS, STIMULATING JOB CREATION AND ENCOURAGING INNOVATION**

- **The Action Plan for Business Growth and Transformation (PACTE Act – 2019)**, enabled:
  - \ Removing multiple old social thresholds, now grouped on three levels: 11, 50 and 250 employees.
  - \ Creating an [online platform](#), the only interface for corporate formalities.
  - \ Simplifying initial public offering (IPO) procedures.
  - \ Establishing a legislative and legal framework for initial coin offerings (ICOs).
  - \ Bringing public research closer to the business: Simplification of the path of public-sector researchers wishing to create or participate in the life of a business.
  
- **The Essoc Act (2018) has made it possible to establish a relationship of trust between users – individuals and businesses – and the administrative authorities:** Enshrining the right to correct errors, the reduction of late penalties, the easing of labor controls, the principle of "Tell us just once", with the introduction of the "[France Connect](#)" platform, which brings together more than 900 online services and administrative undertakings.
  
- **The ASAP Act (Acceleration and Simplification of Public Action – 2020)**, made it possible to:
  - \ Simplify and better co-ordinate administrative procedures, in order to speed up and secure the establishment of industrial projects.
  - \ Relax procedural rules for public procurement, particularly in the event of exceptional circumstances or reasons of general interest.
  - \ Decentralize around fifteen individual administrative decisions (social, economic and financial, as well as cultural and healthcare).

- The provision of [127 turnkey industrial sites](#) offers investors shorter and better controlled deadlines to install a new plant, via the anticipation of administrative procedures relating to urban planning, preventive archaeology and the protection and preservation of the environment.

The “[Relaunch France](#)” plan (€100 billion) implements:

- \ **A €2 billion action plan to accelerate the creation or relocation of industrial activities in France**, in the form of grants to businesses in the context of [calls for proposals](#).
  - \ Investments in public works, aimed at creating an attractive and simplified environment for the establishment of industrial activities: **€650 million for the rehabilitation by the State of nearly 1,400 hectares of brownfield industrial sites, €550 million for infrastructure works, €4.7 billion for the rail sector and €200 million for the greening of ports.**
  - \ Government initiatives supporting the modernization, digitization and greening of industrial activities.
  - \ **Investments in technologies of the future: €11 billion between 2021 and 2022, €1.5 billion for the digitization of public services.**
  - \ **Strengthening of the equity** of VSEs, SMEs and mid-caps to the tune of €3 billion in guarantees for €10 billion to €20 billion in financing.
- Facilitating the process of recruiting a foreign employee: Since April 6, 2021, work permit requests to recruit a foreign employee can only be carried out online at the [website for paperless procedures for foreigners in France](#).

#### **4. SPEEDING UP THE ECOLOGICAL TRANSITION AND AFFIRMING THE CHOICE OF A PIONEERING ECONOMY IN INDUSTRIAL DECARBONIZATION**

By providing investors with visibility on the strategies pursued:

- Publication of the [Multiannual Energy Program](#) (PPE, 2019): It contains the guidelines and priorities for action of the public authorities for the management of all forms of energy in France, to achieve the energy policy objectives defined at the European and multilateral level incumbent upon France.
- Publication of the [National Low Carbon Strategy](#) (SNBC, 2020): France’s roadmap to fight climate change, it provides objectives and guidelines to implement, in all business sectors, the reduction of greenhouse gas emissions by 2050, and the transition to a low-carbon, circular and sustainable economy.
- [The Anti-Waste and Circular Economy Act](#) (AGEC, 2019): Fixed the gradual end of single-use plastic packaging by 2040; a target of 100% recycled plastic by 2025; upscaling of the quality of French production through incentives for eco-design upstream and recycling downstream; incentives for sorting and recycling; strengthening of extended producer responsibility.
- [The Climate and Resilience Act](#) (2021): Reflects France’s commitment to meet the European objective of reducing greenhouse gas emissions by at least 55% compared with 1990 levels by 2030 and aims to anchor ecology in the French model in a sustainable manner; the Act is based on five main themes: consumption, production and work, transport, housing and food.

By supporting the decarbonization of industry and investing heavily in innovation for the ecological transition:

- **“Relaunch France” ring-fences €30 billion for the ecological transition:** Support for the development of a strategic green hydrogen industry (€7 billion by 2030, including €2 billion by 2022); the allocation of grants on [calls for proposals](#) for the adaptation of industrial processes and improvement of energy efficiency in the sectors that [emit the most](#) (€1.2 billion); long-term support for projects aimed at producing “low-carbon” heat; aid for the renewal and development of agri-equipment (€250 million and “National Investment Program” financing) needed for the agri-ecological transition; €500 million from the [ADEME circular economy fund](#); development of clean transport for [daily life](#) (€1.2 billion); assistance plan for the energy renovation of [public and private buildings](#) (€6 billion).
- **The “National Investment Program” (PIA4)**, which was created 10 years ago, finances the life cycle of innovation, from experimentation to the marketing of innovative products and services. The fourth PIA, with a target budget of **€20 billion over five years**, will invest €11 billion by 2022 within the scope of “Relaunch France”, focusing on three areas:
  - \ Financing exceptional investments in strategic sectors and technologies, targeting the digital (cloud, quantum technologies, cybersecurity, artificial intelligence, EdTechs), healthcare (digital health and bioproduction of innovative therapies) and space markets.
  - \ Combining structural financing for higher education, research and innovation ecosystems so as to speed up the transfer of technologies from the academic sphere to the world of business.
  - \ Allowing companies to measure and publish their environmental, social and good governance data through the IMPACT platform.

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