

SALMON-LEGAGNEUR & ASSOCIÉS

AVOCATS À LA COUR

Marie Dessimond
Nathalie Pagnon
Sybille Salmon-Legagneur

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The French tax administration issued guidelines on the general limitation to deduction of financial expenses for corporate income tax purposes¹.

For further information regarding this alert, please contact :

Nathalie Pagnon
E: npagnon@sl-avocats.fr

Marie Dessimond
E: mdessimond@sl-avocats.fr

Salmon-Legagneur & Associés
Avocats à la Cour
A.A.R.P.I.
26 avenue George V
75008 Paris
Tel. : +33(0)1 56 89 20 20
www.Sl-avocats.fr

These guidelines detail the scope of expenses subject to the “general limitation” of 85%/75%² on the following major items :

1. Remuneration and fees in exchange for ancillary services additional to receivable/amounts made available (for example administrative fees or broker fees) are not subject to the general limitation;
2. The income or expenses paid pursuant to an interest swap are subject to the general limitation.

The application of the general limitation of 85%/75% shall be computed carefully, as long as (i) this limitation is applicable after the thin capitalization rules³ but (ii) this limitation may concern financial expenses which are not subject to thin capitalization limitation rules⁴.

¹ BOI-IS-BASE 35-40 (6 August 2013)

² Pursuant to article 212 bis of the French Tax Code and providing for a reintegration/add-back of net financial expenses up to 15% for FYs closed as from December 31, 2012, and up to 25% for FYs opened as from January 1st, 2014 (general limitation applicable provided that the net financial expenses amount at least to 3 million euros)

³ For interest reintegrated/added-back on the FY concerned as well as for interest reintegrated/added-back to tax result of previous FYs, carried-over and actually deducted on the FY concerned (BOI-IS-BASE 35-40 n°60)

⁴ For example, financial expenses related to a bank loan which is not in the scope of the thin-capitalization rules according to the security package of the loan