

**0.8%** Mean GDP growth in France during the Hollande presidency, which compares with 2.1% in the UK over the same period

## COVER STORY: FRENCH REFORM



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*Emmanuel Macron addressing supporters at the Carrousel du Louvre, Paris, France following his victory in the presidential elections*

Emmanuel Macron's rise to power on a reforming agenda carries big implications for tax reforms and for the financial sector across Europe. **Robert Anthony** assesses the likely impact

# Macron's marvellous medicine

On 7 May, France witnessed an historic moment by electing Emmanuel Macron as President of the Fifth Republic.

At 39, the former investment banker is France's youngest-ever president although he did serve as minister of the economy. France's newly created political party *En Marche!* is totally assuming its independence and its pro-EU position.

### THE CHALLENGE AHEAD

Macron proposes an ambitious domestic reform agenda including cutting state spending and easing labour laws.



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France has for many years been strangled by the unions. The latitude a new president has to be creative for has proved a disappointment to the electors.

In addition, as in many countries senior politicians have either studied politics or practiced as lawyers.

Many do not have a commercial background or really understand how to run a business. What is a country? It is the largest income and expenditure account. Where does this lead to? Can one read into the future and quickly react to international crises? In the age of social media, news moves fast.

### THE MAN, THE JOURNEY

With his relative youth, Emmanuel Macron is often compared to the new generation called the "Millennials". The French have chosen a leader from "Generation Y"; his personality clearly reflecting an emergence with different codes and new values.

Macron attended a series of elite schools (studying public affairs at *Sciences Po* before graduating from the *École Nationale d'Administration*).

After a career as an inspector in the ministry of finance, he joined the world of investment banking at Rothschild and Co. On being asked to return to politics, he was swiftly



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Macron supporters gathering at the Carrousel du Louvre, Paris, France to celebrate the election of the new president

appointed minister of the economy.

While in government Macron tried to pass legislation to modernise the notary profession and enable more shops to trade on Sundays.

His legislation was diluted in the face of opposition. The Parisian notaries pushed through their demands to control fees more than before and the unions hardened their stance on Sunday trading hours.

Voters around the world are fed up with corrupt politicians. They are unhappy with high unemployment and taxes. They have reached a stage where they want new faces and not old professional politicians who fail to honour their manifestos. They really want change.

Macron took advantage of this to quit the government and create his own political party. His programme shows how important it is for him to change the working method of politicians and show transparency and responsibility.

The press attack on the conservative candidate François Fillon polarised support for him culminating in his election as the new president.

It is clear that Macron is a loyal European. He will try to modernise

the EU with the close collaboration of Merkel in Germany. His election and policies stabilises and clearly secures the future of the euro. It also takes the pressure off interest rates.

### ECONOMIC REFORM

To revitalise the French economy an emphasis is needed on technology and the creation of jobs.

Macron has stated he will exempt 80% of people paying employees' social security. He will finance this by creating a social taxation on the higher level pension income relating to retired people.

Macron has stated he will reduce public spending by €60bn. In order to make this happen he needs real investment as well as the autonomy and responsibility necessary for all parties concerned.

He seeks to encourage investment into corporations whether by way of direct or indirect investment. What is clear is he wishes to reduce unemployment and revitalise the economy.

It is harder to ascertain his international approach.

When he served as a government minister there was a concerted push

by the French inland revenue to collect more taxes from companies that owned assets in France.

Many tax investigations were unjustified. Whether this push originated from the prime minister or the president is unknown.

Macron will, however, probably tighten internal controls of the economy in a bid to eliminate fraud. In this respect he has announced that legislation will be passed to forbid members of parliament from employing family members, for instance.

### DIPLOMATIC STANCE

The encouraging news is that Macron is pro-EU and the euro is no longer under the threat. European interest rates are also under less pressure and with his banking background he can bring more confidence to that sector.

The French president is extremely active in Foreign affairs.

China is an important market for France. Former president Jacques Chirac for many years laid down foundation stones to develop this relationship and Macron will continue in this direction, encouraging inward investment.

While the new president has clearly stated his wishes to protect the security of France he has not served in the armed forces and it is unclear how willing he will be to engage in foreign military deployments.

### FOREIGN INVESTMENT

It is worth examining the probability of success for his proposed efforts to make France more attractive to outside investors.

This lies principally in the likely reduction of corporate tax, currently at 33.33%. One of the decisions he will take is to harmonise, from a European point of view, the corporate tax rate at 25%. This should catalyse France into becoming more competitive and increasingly attractive for multinational companies.

By reducing this corporate tax rate it will highlight how essential it is to attract new business and support the competitiveness of French com-

**86.4%** Proportion of new hires in France in 2016 that were temporary contracts, 80% of which were for contracts shorter than one month

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panies by giving them the means to reinvest.

He is, however, coming from a liberal socialist background so it remains to be seen how close to socialism his proposals will be.

He has stated he will increase social security contributions but not sales taxes as that reduces the purchasing power of the most vulnerable people.

The social contribution is already set at a 15.5% rate on investment income and this is over and above income taxes.

Any reduction in taxes needs financing, of course.

These changes will need parliamentary approval if they are to become reality, and he needs a majority or a coalition that agrees with his proposals. At this early stage it is far from certain he will obtain this level of backing.

### TRUST AND PRIVACY LAWS

It is unlikely there will be any further amendments to the existing trust laws in France.

One should not forget that Macron was minister of the economy previously, and already had the ability to look at the current legislation in force.

France is not as sophisticated as Anglo-Saxon jurisdictions in the use of offshore entities, although there are certain Francophone countries that have independent tax legislation.

The French government has established certain tax incentives to encourage capital investments into their dependent territories. This gave tax relief to French residents investing in these places.

One should not forget the special relationship between France and Monaco. French nationals are considered to be taxable in the Alpes-Maritime commune of Menton in

France if residing in Monaco. Foreign nationals are, however, taxed differently and are often exempt. It is generally thought that Macron is not particularly interested in these arrangements.

There is, however, still the issue of social taxes. The French assess foreigners who are not tax resident with respect to these social taxes. This is thought not to be acceptable nor legal. There is no indication that Macron will address this issue and in fact he has stated his intention to increase this tax.

France's perspective about an opportunity for filing of trusts under French law in contrast to English law is already applicable and there is no reason to think that more controls will be established.

However CRS reporting and the Panama Papers scandal of 2015 have triggered several different tax investigations.

While he may reduce taxes overall, Macron is highly likely to keep the pressure on investigating parties trying to avoid French taxation.

In addition the collaboration of members of the OECD and G20 will continue and continue to strengthen.

It is important to realise that legislation is not just political and the civil servants in the Department of Finance remain despite the change of government.

Where there are no assets or residency status in France I would not

wish to choose it as a jurisdiction for a trust structure.

### BREXIT

Regarding Macron's aversion to Brexit, as a fully committed European it is hardly surprising that he seeks cohesion and unity between the members of the European Union.

He will therefore closely work with

Germany to protect EU interests and is likely to be inflexible with the UK.

Emmanuel Macron's point of view concerning Brexit is the following: "We need to strengthen Europe and give it more power. France will not be strong without a powerful Europe."

He clearly believes the UK will have to accept there are consequences to leaving the EU.

### EMPLOYMENT COSTS

One of the aspects of a new government in France is to address the cost of employment. France is insufficiently attractive due to the high social security costs.

While Macron has been elected the new president this, as has already been stated, does not mean that without a parliamentary majority he can amend employment legislation.

He is committed to making France more interesting country for inward bound investors. This is covered by programs to create new opportunities in Fintech and technology generally.

Welcoming financial services companies needing the European passport and thereby relocating personnel from the UK due to Brexit is one opportunity.

The most import task with respect to job creation is to simplify employment legislation and open doors for raising capital.

As the parliamentary election manifesto is, as it is in all elections, very general, it remains to be seen what detailed actions will be proposed for amending legislation. He has however indicated he will defer taxing at source salaries.

### TAX

Emmanuel Macron will try to influence the future strategy of taxes. His program shows he wants to reduce €20bn of employee contributions by increasing by 1.7% the supplementary social security contribution (CSG).

Around 40% of retired people will be concerned, mainly couples who will more than €14,325 per year. The newly elected President Macron explained: "To the better-off of the retired, I will ask them to create a

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more intelligent system for their children and grandchildren."

The *En Marche!* programme envisages boosting households' purchasing power by this strategy. During his presidential campaign, Macron had a strong message for the middle class, saying "Housing tax [rates] is an unjust tax" and he wants to exempt 80% of French people from this tax.

For top earners, who are subject to the wealth tax (ISF), one will probably see a reform that will exempt investments from capital taxes (*valeurs mobilières*) as well as life insurance and equity investment funds by creating a single rate tax for securities of 30% (PFU). He will respect the tax relief for the main house of 30%.

In other words it is property values that are targeted in the future; it won't be a wealth tax (ISF) anymore but a property tax (IFI). This does not help non-residents unless they already have debt.

No change will be made for the threshold of the tax rate for wealth tax. His ideas are the continuation of his plans for the future while he was working as a minister for the French government.

### ASSET MANAGEMENT

Macron wishes to inject some dynamism into finance, a process begun by his "Macron Law" in August 2015, when he was minister of economy under François Hollande and made a program for "Investment for the future".

Within the "Macron Law", we can highlight one of the important decisions he made concerning investment; he created SLP (Société de Libre Partenariat), the equivalent of "limited partnership" in order to attract foreign investment funds.

Four vehicles have already been declared at the French Financial Market Authority (AMF) at the end of 2016.

The purpose of this specific vehicle created by Macron's law was to influence economic growth and French economic activity. Moreover it should have been a boost for foreign investors like pension funds of

Nordic countries or companies that do not like the French FCP statutes.

The idea was that the formal French investment regime is known to be among one of the least restrictive in the world.

It is questionable whether this has been achieved in practice, is a reality or even user friendly. The competition around shows that there is no originality to this concept.

The investment strategy will allow any asset in this vehicle; it also brings increased flexibility which will surely hold a competitive advantage compared to neighbouring countries like Luxembourg for example and could turn Paris into a business hub.

The initiative comes from strategic priorities in maintaining higher education, innovation, by encouraging starts up, supporting more training and research which will help sustain development in France.

Macron's long-term plan will be to set up a European venture capital financing fund to support the growth of European digital start-ups. This fund must be endowed with at least €5bn, which is ambitious but achievable.

The economic growth plan will need an investment plan of €50bn during the five-year term of Macron's presidency, with the goals of reviving investment and reducing public expenditure.

### A FRESH START?

If one starts with a blank piece of paper what does one think France could do in relationship to its future.

The first step is to establish where one is today. The pressure of the press has a great influence on what can be achieved by the government.

The fact that political people influence contractual obligations will not

stop international trade. However, taxes and duties in order to do business will be the reality and demand will then balance the need.

Technology speeds the exchange of information. Macron, as a young leader, will be very influenced by technology. From his investment plans, one of the main priorities will

be investing €15bn in order to improve the energy and ecological transition.

Aspects of energy within the EU have been seriously influenced by the Japanese nuclear crisis.

Initially there were fiscal advantages investing into solar and wind energy. It is more than predictable that Macron will

kick-start the development of green energy, albeit that nuclear power will still be important to France.

Investments into technology such as electric cars are important to France. The lowering of corporate taxes to become more competitive is very likely thereby creating employment.

Emmanuel Macron is bringing a fresh eye in the governance of France compared to the previous president. His program will influence not only the French; Europeans will also be influenced by his vision.

Most of all, he will have the challenge of giving a positive economic growth with his investment plans. It can be from attracting multinational firms, helping small and medium sized enterprises (SMEs) or even by supporting starts-up and innovation.

His priority is to give dynamism by lowering income tax and employees' contributions and modifying wealth taxes which encourage hundreds of taxpayers to emigrate each year. ■

*Alexane Palide contributed to this article.*

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