Part 1: Conditions and Effects of the Tax Intergration Regime

A- Conditions
B-Effects

I will now discuss the various effects of the tax intergration regime in France.

§1. Determination of the Consolidated Taxable Income

First, the corporate group must determine its integration taxable income. This calculation is based on the individual taxable results of the group entities. Once these individual results are aggregated, the consolidated taxable income of the group is obtained.
A subsidiary within the group may generate either a profit or a loss. If a subsidiary incurs a tax loss, the parent company is entitled to utilize these losses in the calculation of the consolidated taxable income. However, the parent company's control over losses is limited to those incurred during the tax consolidation period.
If the subsidiary has carried forward tax losses from prior years (before joining the tax group), it can offset those losses against its own taxable profits earned during the tax consolidation period. However, these prior losses cannot be transferred to the group level.

§2. Treatment of Intra-Group Dividends

For the treatment of intra-group dividends, the French **parent-subsidiary regime** applies when the parent company has held at least **5% of the subsidiary's shares for more than two years**.
Under this regime, **99% of the dividend income** received by the parent company is excluded from its taxable income. Consequently, only **1% of the dividend amount is subject to corporate income tax**, as it is considered a **non-deductible portion of expenses and charges**. However, this 1% portion is not neutralized at the consolidated group level.
European subsidiaries that meet the French tax integration criteria can also benefit from this regime.

§3. Intra-Group Neutralizations and Adjustments

Now, let's focus on intra-group transactions. The tax integration regime allows for **intra-group neutralization** of such transactions, ensuring that they have no direct tax consequences within the group.

Step 1: Intra-Group Provisions

At the individual level, entities within the group may record provisions or reversals of provisions for transactions involving other group members. These provisions, which may be tax-deductible, generally fall into three categories:

- **Provisions for doubtful debts** (e.g., a loan to a struggling subsidiary);
- **Provisions for risks** (e.g., an anticipated tax audit);
- **Provisions for the depreciation of securities portfolios** (e.g., when the book value of shares held in a subsidiary is lower than the purchase price).

At the consolidated level, these intra-group provisions are **neutralized**, meaning that any tax-deductible provisions recorded at the individual company level are added back when determining the consolidated taxable income.
Similarly, reversals of provisions are also neutralized, except in the following cases:

- If the company concerned is no longer part of the tax group at the time of the provision's reversal;
- If the provision was recorded before the company joined the tax consolidation regime.

Step 2: Intra-Group Capital Gains on Fixed Assets

Intra-group capital gains arise when a company sells a fixed asset or shares to another company within the same tax group. These gains are subject to tax at either:

- The standard corporate tax rate, or
- The **long-term capital gains rate** (for qualifying equity investments).

The tax consolidation regime provides for **neutralization of capital gains and losses** arising from intra-group transfers of fixed assets. This applies to the portion of the gain related to the asset's acquisition cost as recorded in the balance sheet of the first group entity that owned it.

However, this **neutralization does not mean exemption**. The deferred gain or loss will become taxable in the future when the asset is transferred outside the group.

Step 3: Financial Expenses

A **limitation on the deduction of net financial expenses** applies under the tax consolidation regime. Any portion of financial expenses exceeding the applicable deduction cap must be **added back** to the consolidated taxable income of the group.

Charasse Amendment

Additionally, a specific limitation applies to the **deductibility of interest expenses** incurred on loans used to finance the acquisition of a company within the tax group. This rule, known as the **Charasse Amendment**, restricts the deduction of interest expenses in leveraged buyouts (LBOs) involving tax-consolidated companies.

The amount of non-deductible interest is calculated using the following formula:
Group's financial expenses×Acquisition price of sharesAverage amount of group debtGroup's financial expenses×Average amount of group debtAcquisition price of shares

§4. Taxation of the Consolidated Result

Under the tax consolidation regime, **only the parent company is liable for corporate income tax and the social contribution on profits** on behalf of the entire group. However, the other entities in the group remain **jointly and severally liable** for the tax payment.
If the group reports a **taxable profit**, the standard corporate income tax rules apply:

- **25% standard corporate tax rate**, or

- **15% reduced rate for small and medium-sized enterprises (SMEs)** that meet the eligibility criteria.

§5. Utilization of Tax Losses

Finally, let's discuss the treatment of tax losses under the tax consolidation regime.
If the consolidated group reports a **taxable profit**, the parent company is responsible for paying corporate income tax. However, if a subsidiary generates a **tax loss**, it does not have direct control over how that loss is used.
If the **consolidated taxable income** is negative, the parent company can apply the standard corporate tax loss carryforward and carryback rules:

- **Loss carryforward:**
    - The consolidated tax loss can be carried forward indefinitely.
    - It is offset against future consolidated taxable profits, subject to the standard French rules: losses can be carried forward up to **€1 million plus 50% of taxable income exceeding €1 million**.
- **Loss carryback (carry-back mechanism):**
    - The **carry-back** option allows a group to offset its consolidated tax loss against the previous year's taxable profit, up to a limit of **€1 million**.