PRESS RELEASE

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Tax Survey by PwC Société d'Avocats

France's attractiveness is being seriously undermined by fiscal instability

France again ranks number one in terms of tax burden on pharmaceutical companies according to the updated survey of taxation of the French and European pharmaceutical industry[1], with figures for 2016, conducted by the firm PwC Société d'Avocats on behalf of Leem. Irrespective of business profile (Contractor, Manufacturing Distributor or Distributor), the overall rate of taxation in France remains the highest in Europe. And yet, in a globalised environment where taxation is one of the main components of competitiveness, the excessive burden of French taxes is a major handicap to France's industrial influence on the international stage. Leem cautions against the tax burden imposed on French pharmaceutical companies as it has a major impact on the attractiveness of France as a destination for industrial investment in healthcare.

France is still trailing behind but the gap is narrowing

France consistently trails behind the seven countries included in the survey (France, Germany, Italy, United Kingdom, Ireland, Spain and Switzerland), with tax rates well above the European average. The foreign rates are lower than the French rates, with a minimum gap of 2 points (Italy being the one exception, with a rate identical to that of France for the Contractor category only). In two-thirds of cases (12 out of 18 rates), the foreign rates are at least 10 points lower than the French rates. The greatest gaps are observed in Distribution businesses (a gap of up to 42 points between France and the United Kingdom) and in Manufacturing - Distribution (a gap of up to 25 points between France and the United Kingdom). Although the gulf for Contractor entities remains very wide (18-point gap between France and the United Kingdom), it is narrowing as a result of the French tax regime applying to patent royalties, which puts France on a par with Italy and 2 points higher than Germany. Designed to encourage research and the location of high-value assets in France, the preservation of this tax regime is now a necessity if France is to avoid the risk of falling behind its European neighbours.

Despite a slight narrowing of the gap with its European neighbours - due in particular to the repeal of additional corporation tax levies - France remains the top taxing country with no fewer than nine taxes and charges while the other European countries have only three (Spain and Italy), only one (Germany) or none (United Kingdom, Switzerland and Ireland).

Fiscal instability is putting off foreign investors

[1] This survey covers the main general and sector-specific taxes and levies for which companies in the pharmaceutical industry are liable (direct taxes and contributions, registration fees, wage-based taxes and profit-sharing schemes, social security contributions on wages and mandatory payments to employees, and industry-specific taxes and levies imposed on the pharmaceutical industry).

Besides the overall rate of taxation, the chronic instability of French tax regulations is also posing an obstacle to foreign investors seeking to establish themselves in France. France, traditionally a leading host market for innovative products, is now suffering from a complex and unstable legislative and regulatory environment. Thus, of the 282 medicinal products authorised by the European Medicines Agency (EMA) between 2012 and 2016 (excluding generic and biosimilar medicines), only 21 are produced in France, whereas 86 are produced in Germany, 68 in the United Kingdom and 39 in Ireland. Along with regulatory mechanisms that are ill-suited to a return to innovation in therapeutics, chronic fiscal instability is proving to be a further disincentive for the French pharmaceutical industry. This situation is particularly worrying at a time when the French economy is facing competition from European countries which have put the imperative of industrial competitiveness and attractiveness at the heart of their policies.

France's loss of attractiveness has prompted Leem to campaign for a simplified taxation system, as a driver of economic growth, job creation and innovation acceleration. Leem is putting forward a number of measures to simplify and stabilise the sector's regulatory environment:

- Cutting of corporation tax to 25%;
- Ring-fencing of the Research Tax Credit;
- Extension of the "Macron" additional depreciation tax mechanism over five years.

"*The findings of the survey by PwC Société d'Avocats are conclusive: The burden, instability and inconsistency of France's tax regulations are posing a threat to our country's ability to attract foreign investors*, **according to Patrick Errard, Chairman of Leem.** *Despite resources, talent and a universally recognised innovative spirit*, *the French pharmaceutical market is now losing ground to its European neighbours. Investors prefer the much more welcoming stability offered by the fiscal and legal environment of the UK, Germany or Ireland. Instability is not inevitable. There is an urgent need to reduce the tax burden on our companies and to return to a balanced agreements policy, while moving away from fiscal and budgetary regulations that spurn innovation*. "

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