

# MICRO-MANAGING

Want to set yourself up in France as a sole trader or small business? **Tracy Leonetti** takes a closer look at the 'micro-entrepreneur' system

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It's widely known that access to the healthcare system in France is easier if you have a salaried position or a business activity, but there are so many questions around what options exist for small businesses that many people tend to spend hours on the internet, only to find that they are back to square one.

Over the years, I have found there are many reasons why people don't actually take that next step into creating their small business, but lack of good information shouldn't be one.

## Ask the right questions

Before deciding which is the right business structure for you, it's important to ask the right questions and this is a process I go through with every client. Some (but there are more) of the key questions should be:

- What are your estimated earnings for the first year?
- What are your estimated costs of running the business for the first year?
- Will you work alone or do you have an associate?
- Are you looking for financial investment for your project?
- Do you have any assets that you need to protect?
- Do you need access to healthcare in France?

The responses to these questions will help determine which direction to go with your business

“As an *entreprise individuelle*, there is no distinction between business and personal assets – as the owner, you have full liability for your business transactions”

structure. Most people start off by thinking of the *auto-entrepreneur* option as it's known for being the easiest form of business. This is true; however, bear in mind it is a business and as such there are legal implications to respect.

With over one million *auto-entrepreneurs* in 2016 according to France's national statistics agency INSEE, it is obviously a popular option. Let's take a look at some of the key questions I receive every day concerning the *auto-entrepreneur* system.

Let's start by understanding the language which can be confusing at times.

## What is an 'entreprise individuelle'?

This is a sole trader business structure i.e. one run by a single individual. The legal structure of an *entreprise individuelle* means the owner has full liability for their business transactions.

There is no distinction between your business assets and your personal assets. The business is set up in your name and no business entity is created. Professional insurance is a necessity to ensure that your liability is covered.

The simplest and easiest form of an *entreprise individuelle* is what is commonly known as an *auto-entrepreneur*.

## What is a 'micro-entrepreneur'?

The *auto-entrepreneur* was replaced by the *micro-entrepreneur* on 1 January 2016. This enabled two similar systems to merge and benefit from a simplified social and fiscal structure still under the legal umbrella of an *entreprise individuelle*. People often still refer to it as *auto-entrepreneur*.

So let's look at the key points of the *micro-entrepreneur* structure:

- You have limited earnings limits (indicated below)
- You do not charge (or recuperate VAT) up to certain levels.
- You cannot deduct any running costs from your business, such as

materials. This means you are charged a fixed amount of social charges on your gross income.

- For income tax purposes you are given a fixed reduction percentage before the tax brackets are applied.
- Monthly or quarterly social charges are based on what you invoice.

## Micro-entrepreneur advantages

- A good structure for testing your idea for a certain period.
- Simplified book-keeping.
- Quick to set up.
- Easy to close down or modify.
- Access to healthcare in France.
- Fixed social charges.
- Fixed reductions for taxes
- You do not need to pay an accountant.

## Disadvantages

- Limited earnings!
- No reduction of running costs (very important for a commercial or artisanal business where materials or products are bought to be transformed or sold on).
- Difficult to get investment from banks.
- No VAT (TVA) charge, which can be a disadvantage if dealing with corporates and/or buying products.
- You are solely responsible for your business.
- From 1 January 2018, the earnings limit for *micro-entrepreneurs* have gone up, however, the VAT levels have not, so you could find yourself having to charge VAT halfway through the year.

## What are the earnings limits?

When President Macron announced the new higher earnings limits from 2018 for the *micro-entrepreneur* regime, there were shouts of joy from many corners. However, do be aware that the VAT limits did not follow.

This means that many *micro-entrepreneurs*, originally part of a simplified system, find themselves in a hybrid situation of having to declare VAT halfway through the year but paying social charges as a *micro-entrepreneur*. This is often the time to start thinking of other business structures that better suit your situation.

To benefit from the fixed rate of social charges, your earnings limits (since 1 January 2018) must stay within the *micro-entrepreneur* limits: €70,000 for artisanal (manual) activities and services; €170,000 for trading companies, buying and selling products.

## Where do I register as a micro-entrepreneur?

You can register online at [lautoentrepreneur.fr](http://lautoentrepreneur.fr) or directly with the appropriate CFE (Centre de Formalités d'Entreprises):

Type of activity	Who to Contact
Manual activity (artisanal)	Chambre des Métiers
Commercial activity	Chambre des Métiers
Liberal activity (consultancy)	URSSAF
Sales reps (agent commercial)	Greffe de Tribunal de Commerce

## What do my social charges cover?

The social charges cover sickness, maternity, invalidity and death, base retirement pension, supplementary pension entitlement and family benefits.

Since 1 January 2018, access to maternity benefits has been allocated after an initial period of 10 months' affiliation with the SSI (Sécurité Sociale des Indépendants).

## How much will I pay in social charges?

The simplified *micro-entrepreneur* system means that you only pay your social charges on what you invoice, a key advantage for many



“Although the auto-entrepreneur system was replaced in January 2016 by the micro-entrepreneur scheme, it's often still referred to as auto-entrepreneur”

people setting out into business. So you would just need to apply the below percentages, based on your activity, to the amount that you have invoiced. I have rounded them up to take into account the additional taxes for training and CFE costs.

- Commercial activities (i.e. trading, sales, gites, B&B): 12.9%.
- Manual activities (i.e. electricians, hairdressers etc): 12.9%.
- Liberal activities (i.e. sales reps, consultants, architects): 22.2%.

### Will I pay income tax?

That depends on your declaration and other household income. You would certainly need to declare your auto-entrepreneur earnings, along with your other sources of revenue for your household.

As a micro-entrepreneur under the simplified system, you would benefit from a fixed reduction against your business earnings. The government recognises that you can't reduce your business expenses as a micro-entrepreneur and therefore they give a big tax reduction to compensate for this:

- Commercial activities (eg trading, sales, gites, B&B): reduction of 74%.
- Manual activities (eg electricians, hairdressers etc): reduction of 50%.
- Liberal activities (eg consultants, sales reps, architects, doctors): reduction of 34%.

### Do I get healthcare cover in France?

Yes, access to healthcare is from the first day the business is set up. However, the paperwork can take

a while longer to come through. As a micro-entreprise you would be classed as a non-salaried worker and affiliated with the SSI. You can add your dependent children to your healthcare cover but your spouse/partner would need to make a request in their own right via the PUMA.

### Entreprise individuelle au réel/normale

If you find yourself limited by the micro-entrepreneur system, there are other options. Again the right questions need to be answered to evaluate whether your project would be better as a sole trader business or not.

Maybe you want to bring in an associate or protect your assets? However, one of the most logical next steps from a micro-entreprise is to stay an entreprise individuelle but under a different social and fiscal structure.

As an example, you could choose to be under a social and fiscal structure that allows you to take into account the running costs of your business while still

staying the sole owner of your business, known as the réel system. For this, it's important to have a full understanding of your profit and loss for the business so that a comparison can be made.

Under the réel system, you would see your social charges and tax liability adjusted to fit your real net profit, so you would have the possibility to reduce the running costs of your business.

The social charges are higher (approximately 46%) but, of course, they are set against your net profit! Hence why you need to have good profit and loss records to make the comparison.

I certainly hope that this has thrown some light on your project but feel free to come back to me if you would like a more detailed look at your situation. ■

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