

April 25, 2006

Newsletter N°7

Reduction on capital gain tax for individuals

The current capital gain tax rate on sale of shares for individuals is 16% to which 11% social security taxes shall be added to reach a global rate of 27%. The law has reduced this global rate down to 11%, subject to a holding period:

I. Exemption of 16% individual capital gain tax from transferable securities and corporate rights: be patient!

French Rectifying Finance Act for 2005 created a **one third (1/3) progressive discount, from the fifth holding year**, applicable to capital gain on transfer sale of qualifying securities by French resident individuals.

The discount is applicable if the company whose securities are sold:

- Is subject to corporate income tax
- Is an operational company having a commercial, industrial, liberal or agricultural activity
- has its head office in a Country of the European Community

For the purpose of this change, holding period starts on the **1st of January 2006**, first capital gains to be partially exempted: 2012.

II. Managers of small business: think about retirement!

An entrepreneur going into retirement in 2006 or after and having hold his/her shares for at least eight years, is totally exempt from the 16% capital gain tax resulting from the sale of the shares sold if:

- 100% of the entrepreneur's shares or at least 50% of the share capital of the company are sold by the entrepreneur
- he has been the CEO of the company as a minimum during the five years preceding the transfer
- the entrepreneur has held as a minimum: 25% of share capital of the company during the last five years
- The company runs a small or medium business

If you would like more guidance on "French Rectifying Finance Act for 2005", information or detail about the French regulations in this area, please contact us at newdevelopment@kahnlaw.com, or contact directly one of our partners (www.kahnlaw.com).

This communication is provided for your information only and is not intended to constitute professional advice as to any particular situation. The specific advice of legal counsel is recommended before acting on any such matter. Permission is granted to circulate this alert, but only with all relevant information and disclaimer.

You have the right to access or correct your personal data, you may also oppose to the processing of your personal data or demand removal of your personal data from our data base (according to article 38 of the French law « Informatique et Libertés » n°78-17 dated January 6, 1978 amended). To exercise such right, please send an e-mail to info@kahnlaw.com. Data controller : SCP Kahn & Associés. Purpose of the processing: management of Kahn & Associés Newsletters.

Best venture capital law firm (Trophées du Droit et de la Finance, Oct. 2004)

Kahn & Associés - Law Offices

51, rue Dumont d'Urville 75116 Paris FRANCE - Tel: +33 1 45 01 45 01 Fax: +33 1 45 01 45 00 <http://www.kahnlaw.com/>

Branch office : Sophia-Antipolis, Cote d'Azur