

# A Simplified Social Protection Scheme for Micro-entrepreneurs



International  
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## France

*To encourage entrepreneurship and reduce social and tax evasion, the Government of France introduced a simplified mechanism in 2009. It facilitated the creation of micro-enterprises, collected taxes and encouraged affiliation of self-employed workers to the social security system. The scheme has led to the creation of 911,000 micro-enterprises till date.*

The Self-entrepreneur Scheme (*Régime de l'auto-entrepreneur*) allows anyone to create and register their own micro-enterprise on a web portal. Most of the administrative procedures related to the micro-enterprise's registration, activities and the payment of social contributions and taxes can be done on the web portal.

The scheme has installed a simplified tax collection and social contribution payment mechanism for all self-employed workers. Coordination between existing social protection schemes and the tax office is done in a back office.



### Main lessons learned

- Simplified administrative procedures for the creation and registration of micro-enterprises and the payment of social contributions and taxes contribute to reducing undeclared work and facilitating the formalization of the economy.
- A unique social protection and tax payment front office can be created even in countries where the social protection system is particularly complex and involves a large number of institutions.
- Social protection entitlements are part of an incentive package that can be used to boost entrepreneurship.
- Controls and inspections are required to ensure that employers do not abuse the system by asking salaried workers to start a micro-enterprise, which would lead to less security and more flexibility.
- Massive communication campaigns are needed for such a scheme to reach its target population which is often diverse, scattered and not very organized.

SDG 1.3 aims to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030, achieve substantial coverage of the poor and the vulnerable.

Social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons. 185 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), to achieve universal social protection.

This note presents a successful country experience of expanding social protection.

Social Protection in Action: 100 success stories to achieve SDG 1.3

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## 1. Simplifying business registration for self-employed workers reduces undeclared work and is a driver for enterprise development

In 2007, international benchmarks showed that the share of self-employment among enterprises in developed countries was 76 per cent in the United States, 70 per cent in Spain and only about 50 per cent in France (Hurel, 2008). There was a need to facilitate the creation of small enterprises for merchants, artisans and professionals providing other services (*professions libérales*) and to overcome the social, cultural and administrative barriers in the full development of entrepreneurial activities in France.

The creation of the Self-entrepreneur Scheme in 2008 as part of the Law on the Modernization of the Economy aimed to support the creation of micro-enterprises for all those who want to be self-employed as their main occupation or as a supplementary activity (e.g. retired persons wanting to start a business to generate additional income to complement their pensions). Many of these potential entrepreneurs were reluctant to take action due to the administrative complexity of creating and managing an enterprise.

The Self-entrepreneur Scheme promotes the easy creation and registration of micro-enterprises to facilitate entrepreneurial development. It is particularly relevant for the unemployed or young professionals who do not find salaried jobs that match their skills and expectations, and may instead be willing to create their own micro-enterprise. Retired persons may also want to start their own businesses to generate complementary sources of income. The scheme also envisions reducing the share of undeclared activities in France, therefore formalizing employment. The Self-entrepreneur Scheme was one of the solutions to curb increasing unemployment as a result of the global financial and economic crisis.

Three main administrative simplifications were introduced via this scheme: (1) calculation rules for social contributions were simplified and their collection done through one unique payment; (2) the possibility to combine self-employment with a salaried activity or a pension was facilitated through adapted contribution and tax payment mechanisms; and (3) a simplified income tax calculation (percentage of the gross income) and payment mechanism (monthly or quarterly through the web portal) were introduced.

## 2. Creating a micro-enterprise and paying contributions and taxes through a web portal

Anyone willing to become a self-employed merchant, artisan or independent professional (e.g. consultant) can enrol in the Self-entrepreneur Scheme. The Scheme allows for the creation of a micro-enterprise, which, in 2018, is an enterprise that cannot exceed a gross annual income of (1) €170,000 in the sectors of trade, production of goods, retailing, and renting premises, or (2) €70,000 in the services sector. A micro-enterprise in which the gross income exceeds these annually revised ceilings will automatically become a standard enterprise and thus will lose the benefits of the Self-entrepreneur Scheme.

The registration of the micro-enterprise is done by responding to ten questions on an online portal ([www.lautoentrepreneur.fr](http://www.lautoentrepreneur.fr)). During the online registration, the self-entrepreneur can:

- request complementary financial assistance for the creation of the micro-enterprise (only unemployed persons and beneficiaries of the social assistance system can benefit from this option);
- select institutions that will administer social health insurance protection from a list of providers;
- declare dependants who will benefit from the social health insurance scheme;
- register a partner if a partner also regularly works in the micro-enterprise;
- choose between two different income tax payment options: (1) the general taxation scheme in which revenues from the micro-enterprise are aggregated with other sources of income and taxed according to the regular process and rates, or (2) a simplified scheme which allows taxes to be paid based on a fixed rate of the gross income, only for those whose global taxable income is below a certain threshold;
- decide on the frequency (monthly or quarterly) of social contributions and simplified tax payments; and
- decide to separate one's professional estate from their personal estate in order to protect the latter in case of bankruptcy.

Upon validation of the form, the self-entrepreneur receives an identification number from the National Institute of Statistics and Economic Studies (INSEE). The only additional steps are to register the micro-enterprise at the appropriate professional registry

(merchant, artisan or professional services), and to subscribe to professional liability insurance.

The self-entrepreneur then has to declare monthly or quarterly earnings according to the option selected on the web portal. Social contributions are automatically calculated based on a percentage that can differ from one sector to another. If the self-entrepreneur has chosen the simplified tax scheme, a predefined percentage will be applied to the gross income.

**Table 1: Social contribution and income tax rates applied to micro-enterprises' gross income in 2018**

Type of activity	Social contribution	Income tax (simplified)
Sale of goods	12.8%	1%
Provision of services – merchant or artisan	22%	1.7%
Provision of services – other (e.g. massage)	22%	2.2%
Professional services	22%	2.2%

Source: ACOSS, Janvier 2018

In addition to the above mentioned payments, the self-entrepreneur has to pay a contribution for continuous vocational training and a levy to the professional registry. These two payments cannot be completed through the web portal. It is important to note that micro-enterprises do not pay any value-added tax (VAT) to the Government. In exchange, the micro-enterprises cannot deduct VAT from the cost of goods and services that they purchase.

The unique social contribution payment provides access to health insurance including maternity, work injury insurance, sickness insurance, family allowances, invalidity pensions, survivor pensions and retirement pensions. If the self-entrepreneur is also a salaried employee, they will remain under the general scheme for health insurance, maternity and work injury, but will contribute to two pension schemes and ultimately cumulate the two pensions.

However, on average, micro-enterprises generate limited revenues and thus, pay limited social contributions. Only 5 per cent of merchant, 12 per cent of artisan and 18 per cent of professional service self-entrepreneurs manage to contribute in full to their respective pension schemes. For the vast majority of self-entrepreneurs, low levels of social contributions will lead to low levels of old-age pensions.

### 3. The scheme has been a success in supporting the creation of enterprises

At the end of the first semester of 2017, nine years after the creation of the programme, 1,197,000 self-entrepreneurs were registered in France, 62.5 per cent of whom had a positive gross income in 2016, with an average gross income of €9,064. Self-entrepreneurs represented 51 per cent of the self-employed in France and about 23 per cent of the total number of enterprises. However, with a total gross income of €6.5 billion in 2013, they account for only 0.31 per cent of the GDP.

Although the scheme has been successful in creating enterprises, the level of income generated remains low and more than 90 per cent of the self-entrepreneurs earn less than the minimum wage. The socio-economic diversity of the participants partly explains why some do not strive for higher income levels. In fact, only a minority aims to create a regular activity, while the unemployed or underemployed benefit from the scheme through creating their own jobs and testing their ideas. Others use the scheme to generate supplemental income to complement regular wages or retirement pensions. Finally, some are satisfied with the size of their micro-enterprises and do not seek to develop them further (i.e. sufficient to survive).

### 4. Way forward

Today, some of the administrative procedures (e.g. registration in the relevant professional registry) and payments (e.g. contributions for continuous vocational training and professional liability insurance) cannot be done through the scheme's portal. The web portal should be further developed to offer the possibility to do all declarations and payments online. Additionally, numerous reports mention the complexity of the back-office processes and the need to further coordinate the tax office and social security institutions involved.

There is also a need to further develop controls and inspections in order to prevent the scheme from being used to avoid VAT payments and disguise undeclared work or to ensure that employers do not abuse the system by asking employees to create their enterprises. Ideally, these should be developed together with the provision of additional support to the micro-entrepreneurs with a view to help them graduate from micro-enterprises to standard enterprises.

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