

Lower taxation on business but higher on households

By [Mathieu Plane](#) and Raul Sampognaro

Following the delivery of the Gallois Report in November 2012, the government decided at the beginning of Francois Hollande's five-year term to give priority to reducing the tax burden on business. But since 2015, the President of the Republic seems to have entered a new phase of his term by pursuing the objective of reducing the tax burden on households. This was seen in the elimination of the lowest income tax bracket and the development of a new allowance mechanism that mitigates tax progressivity at the lower levels of income tax. But more broadly, what can be said about the evolution of the compulsory tax burden on households and businesses in 2015 and 2016, as well as over the longer term?

Based on data provided by the INSEE, we have broken down trends in the tax burden since 2001, distinguishing between levies on companies and those on households (Figure). While this is purely an accounting analysis and is not based on the final fiscal impact, it nonetheless gives a view of the breakdown of the tax burden [\[1\]](#). In particular, this exercise seeks to identify the tax burden by the nature of the direct payer, assuming constant wages and prices (excluding tax). This accounting breakdown does not therefore take into account macroeconomic feedback and does not address the distributional and intergenerational impacts [\[2\]](#) of taxation.

For the period from 2001 to 2014, the data is known and recorded. They are *ex post* and incorporate both the effects of the discretionary measures passed but also the impact of fiscal gains and shortfalls that are sensitive to the business cycle. However, for 2015 and 2016, the changes in the tax burden for households and businesses are *ex ante*, that is to

say, they are based solely on the discretionary measures that have an impact in 2015 and 2016 and calculated in the Social, Economic and Financial Report of the 2016 Finance Bill for 2016 [[Rapport économique social et financier du Projet de loi de finances pour 2016](#)]. They therefore do not, for both years, include [potential effects related to variations in tax elasticities that could modify the apparent tax burden rates](#). Furthermore, under the new accounting standards of the European System of Accounts (ESA) tax credits, such as the CICE, are considered here as reductions in the tax burden, and not as a public expenditure. Furthermore, the CICE tax credit is recognized at the tax burden level in terms of actual payments and not on an accrual basis.

Several major points emerge from this analysis of the recent period. First, tax rates rose sharply in the period 2010-2013, representing an increase of 3.7 percentage points of GDP, [with 2.4 points borne by consumers and 1.3 by business](#). Over this period, fiscal austerity was relatively balanced between households and business, with the two experiencing a tax increase that was more or less proportional to their respective weights in the tax burden [\[3\]](#).

However, from 2014 a decoupling arose between the trends in the tax burdens for households and for business, which is continuing in 2015 and 2016. Indeed, in 2014, due to the impact of the CICE tax credit (6.4 billion euros, or 0.3 percent of GDP), the tax burden on business began to decline (by 0.2 GDP point), while the burden on households continued to rise (by 0.4 GDP point), mainly because of the hike in VAT (5.4 billion), the increase in environmental taxes (0.3 billion with the introduction of the carbon tax) and the increase in the contribution to the public electricity service (CSPE) (1.1 billion), together with the increase in social contributions for households (2.4 billion), mainly due to the rise in contribution rates to the general and complementary social security scheme and the gradual alignment of rates for

civil servant with those for private-sector employees.

In 2015, the tax burden on business will fall by 9.7 billion euros (0.5 GDP point) with the implementation of the CICE tax credit (6 billion), the first Responsibility Pact measures (5.9 billion related to the first tranche of reductions in employer social security contributions, an allowance on the C3S tax base and a "*suramortissement*", an additional tax reduction, on investment), while other measures, such as those related to pension reform, are increasing corporate taxation (1.7 billion in total). Conversely, the tax burden on households should increase in 2015 by 4.5 billion (0.2 GDP point), despite the elimination of the lowest income tax bracket (-2.8 billion) and the reduction in self-employed contributions (-1 billion). The hike in the ecological tax (carbon tax and TICPE energy tax) and the CSPE together with the non-renewal in 2015 of the exceptional income tax reductions of 2014 represent an increase in taxation on households of, respectively, 3.7 and 1.3 billion. Other measures, such as those affecting the rates of contributions to general, supplemental and civil servant pension schemes (1.2 billion), along with local taxation (1.2 billion), including the modification of the DMT0 tax ceiling and measures affecting tourist and parking taxes, are also raising taxes on households.

Table. Measures affecting household and corporate tax burdens - 2015 and 2016

In billion euros

	2015	2016
HOUSEHOLDS		
Income tax cut for low-income households	-2,8	-2,0
Ecology taxes + TICPE + CSPE	3,7	2,7
Change in VAT	0,5	-0,2
Local taxes	1,3	1,1
Elimination of PPE working tax credit		2,0
Old-age and CSA community autonomy tax	0,5	0,8
Other changes to social security contributions	0,8	0,1
Other measures	1,9	0,2
Reduction in self-employed contributions (Responsibility Pact)	-1,0	
Fight against tax fraud and avoidance	-0,4	-0,6
Total of measures affecting household tax burden	4,5	4,1
Total excluding fight against tax fraud and avoidance	4,9	4,7
BUSINESS		
CICE tax credit	-6,0	-0,3
C3S allowance (Responsibility Pact)	-1,0	-1,0
Elimination of exceptional IS corporate income tax (Responsibility Pact)		-2,3
Tax reduction on investments	-4,5	-3,5
Other measures affecting social security contributions	-0,4	-0,2
Other social contributions measures	1,1	1,0
Other measures	0,9	0,9
Fight against tax fraud and avoidance	0,2	-0,5
Total of measures affecting corporate tax burden	-9,7	-5,9
Total excluding fight against tax fraud and avoidance	-9,9	-5,4

Sources: PLF (Finance Act) 2016; OFCE calculations.

In 2016, the tax burden on business will fall by 5.9 billion (0.3 GDP point), mainly due to the second phase of the Responsibility Pact. Reductions in employer social security contributions on wages lying between 1.6 and 3.5 times the SMIC minimum wage (3.1 billion), the elimination of the corporate income tax (IS) surcharge (2.3 billion), the second allowance on the C3S tax base (1 billion), the implementation of the CICE tax credit (0.3 billion) and the additional tax reduction on investment (0.2 billion) have been only partially offset by tax increases on business, mainly with the hike on pension contribution rates (0.6 billion). However, as in previous years, the tax burden on households will increase in 2016 by 4.1 billion (0.2 GDP point), despite a further reduction in income tax (2 billion). The main measures increasing household taxation are similar to those in 2015, including environmental taxation, with the hike in the carbon

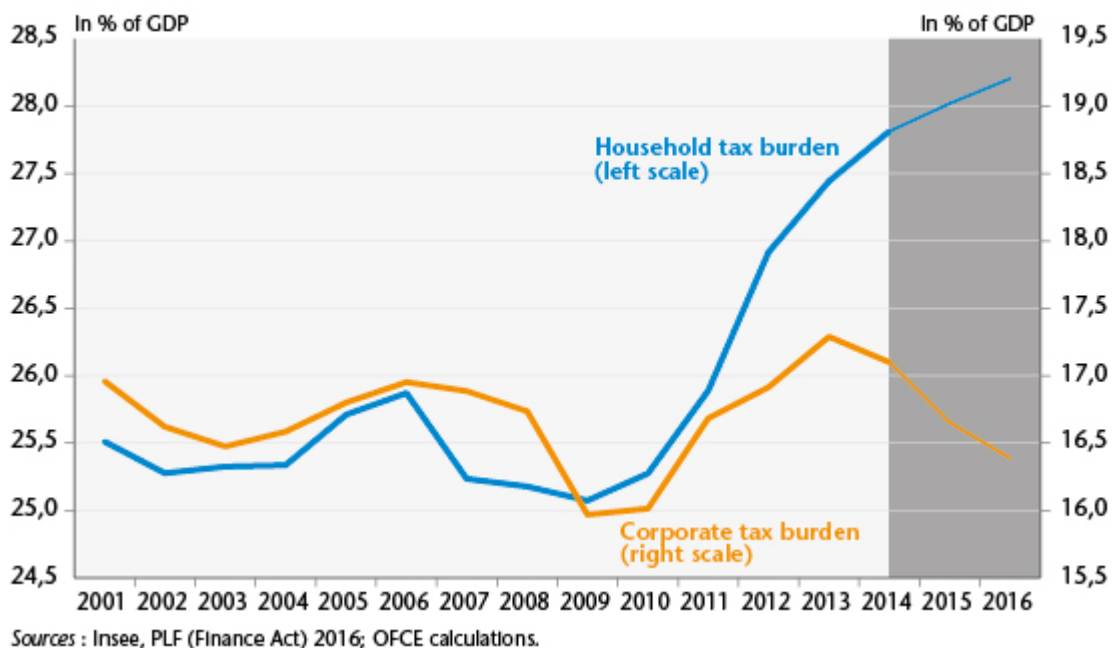
tax (1.7 billion) and the CSPE tax (1.1 billion), measures on financing pensions (0.8 billion), and the expected increase in local taxation (1.1 billion). Note that the elimination of the PPE working tax credit in 2016 will mechanically lead to an increase in the household tax burden of 2 billion^[4], but this will be offset by an equivalent amount for the new Prime d'activité working tax credit.

Ultimately, over the period 2010-2016, the household tax burden will increase by 66 billion euros (3.1 GDP points) and the burden on business by 8 billion (0.4 GDP point). The household tax burden will reach a historic high in 2016, at 28.2% of GDP. Conversely, the corporate tax burden in 2016 will amount to 16.4% of GDP, less than before the 2008 crisis. And in 2017, the last phase of the Responsibility Pact (with the complete elimination of the C3S tax and the reduction of IS corporate tax rates) and the expected CICE-related reimbursements should lead to cutting corporate taxation by about 10 billion euros, bringing the corporate tax burden down to the lowest point since the early 2000s.

The need to finance measures both to enhance corporate competitiveness and to reduce the structural deficit is placing the entire burden of the fiscal adjustment on households. Thus, the reduction in income tax in 2015 and 2016 will not offset the rise in other tax measures, most of which were approved in Finance Acts prior to 2015, and seems low in relation to the tax shock that has hit households since 2010. However, how these recent tax changes affect growth and the consequent impact on inequality will depend on the way business makes use of the new resources generated by the massive decline in its tax burden since 2014. These funds could lead to a rise in wages, employment, investment or lower prices or to higher dividends and a reduction in debt. Depending on the way business allocates these, the impact to be expected on the standard of living in France and on inequality will not of course be the same. An evaluation of

the impact of these changes on the tax burden will surely lead to future studies and debate.

Figure: Changes in the tax burden on households and business



[\[1\]](#) The tax burden on households includes direct taxes (CSG, CRDS, IRPP, housing tax, etc.), indirect taxes (VAT, TICPE, CSPE, excise taxes, etc.), tax on capital (ISF, DMTG, property tax, DMT0, etc.), and salaried and self-employed social security contributions. The corporate tax burden includes the various taxes on production (value-added tax and corporate property tax (ex-TP), property tax, C3S tax, etc.), taxes on wages and labour, corporate income tax and employer social security contributions.

[\[2\]](#) For example, employer social contributions for pensions are analyzed here as a tax burden on business and not as deferred wages for households or a transfer of income from assets to retirees.

[\[3\]](#) In 2013, 61% of the tax burden was on households and 39% on business. However, over the 2010-2013 period, tax increases

were borne 64% by households and 36% by business, which was more or less their respective weights in taxation.

[4] The PPE credit will be replaced by the Prime d'activité working tax credit, in an equivalent amount, which also encompasses the RSA activité tax credit; for accounting purposes the PPE is considered as a public expenditure. However, this new measure should not change household income macroeconomically, but only the nature of the transfer. Thus, excluding the elimination of the PPE, the tax burden on households would increase by 2.1 billion in 2016.

Higher taxes – a solution to the crisis?

By Mario Amendola, [Jean-Luc Gaffard](#) and Fabrizio Patriarca

This question, which may seem provocative, is worth asking provided that consideration is given both to the full dimensions of the crisis, and not just its financial aspects, as well as to the assumptions needed to make this a credible scenario. In the perspective discussed here, if tax hikes are to play a role, it would not be as part of a fiscal adjustment intended to restore public accounts worsened by the crisis, but rather with the aim of maintaining or restoring a level of productive spending that was altered by increasing inequality. Furthermore, everything would depend on the nature of both the taxation and the government spending.

Everyone agrees today that rising inequality, particularly in the United States, has had an influence on the course of

events. The indebtedness of the least affluent households merely delayed a fall in aggregate demand. The realization that these households were insolvent is what triggered the crisis. Furthermore, there is no solution in the medium or long term without deleveraging both households and business. The role of the public authorities is to assist this. But they can do this only by taking decisions that wind up increasing the public debt. Public debt is thus substituted for private debt. The debt-financed public deficit also needs to be stretched out until consumers and business have been able to get back to a balanced financial position enabling them to raise their level of consumption and investment. This scenario is, however, running up against the potential insolvency of the states, a situation that is particularly aggravated in the euro zone. It does not actually explain what are the sources for a recovery in consumption and investment due to a failure to relate this to the implications of rising inequality in regards to the distribution of demand for productive and non-productive activities.

Recognizing the weight of inequality means, of course, recognizing that there is a problem with demand, but it also requires recognizing the heterogeneity of consumers and the non-homothetic nature of individual preferences. The rise in inequality is most of all changing the structure of demand. Some would say this is at the expense of goods consumed primarily by the mass of workers, to the benefit of luxury goods, while others would say at the expense of productive assets and to the benefit of existing financial and real estate assets.

The following mechanism might be at work. The richest households have excess savings that they devote, on the one hand, to the purchase of luxury goods and assets on the financial and real estate markets, and, on the other hand, to loans to less affluent households channelled through financial intermediaries. The rise in inequality thus has two combined

effects: pushing up the price of assets purchased by the more affluent, and raising the level of indebtedness of the less affluent. The first effect supports the second by allowing the loans granted to rely on the increasing value of the assets pledged (the “collateral”).

Based on the assumption that public spending is a productive expenditure – it fuels demand for goods and services from the productive sector – an increase in public debt would support aggregate demand and stem the recession. However, in the medium term, interest charges could make it difficult to sustain the public debt with – and this is key – a need to reduce public spending before there is a significant recovery in private spending. The substitution of public debt for private debt shifts the problem, without solving it.

One possible alternative might be to tax the income of the wealthiest households. Still on the assumption that public spending is directed at the productive sector, this kind of taxation would ensure a redistribution of income, with as a corollary a reconfiguration of the structure of demand in favour of productive activities. Another assumption would also be necessary: that the additional taxes are actually paid by households that use a significant portion of their savings for the purchase of non-productive assets. In this situation, the objective would not be to raise taxes to absorb the public deficit in the hope that an economic recovery would make it possible to reduce them later, but rather to make better use of taxation as a tool for redistribution. While the tax burden would indeed increase, the point is to tax incomes that, in large part, consist of rents that go to unproductive consumption.

The hypotheses used here are somewhat uncertain due to the nature of public expenditure and revenue. Some public expenditure is unproductive, and it is difficult to distinguish what is productive from what isn't. The tax increases would affect different categories of taxpayers

without actually discriminating between them according to the structure of their spending.

Furthermore, our purpose here is not to set out a credible solution that can be applied immediately. The point is to highlight the illusory nature of all-embracing solutions, whether this is a matter of generalized austerity, involving tax increases that wind up weighing down household and business spending, or the prolonged maintenance of public debt, which merely replaces private debt without affecting the structure of demand. So, following this analytical digression, this points to the conclusion that the effective implementation of a redistribution mechanism that could lead to an increase in potential output requires a reform of the state that affects both the orientation of public spending and the structure of taxation, all of which requires time and foresight, not to speak of political courage.

... See Amendola, M., J.-L. Gaffard and F. Patriarca (2013), "Inequality, debt and taxation: the perverse relation between the productive and the non-productive assets of the economy", [OFCE Working Paper No. 2013-21](#).