Forty years after: the Solidarity tax on wealth (*ISF*) in France 1982-

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Outline

1. Historical Perspective
2. Tax base
3. The evolution of tax schedule
4. Dynamics of tax revenues
5. Tax migration
6. The ISF as component of wealth taxation
7. An overall assessment

1. Historical Perspective

- From 1791 to 1914 proportional property tax (on land, housing) to finance the central gvt

- Proposition of a wealth tax at 0, 1% in 1870-1880 (Emile-Justin Menier)

- Interwar period 1919-1926 a proposal of an extraordinary wealth tax to reimburse the war debt.

- Maurice Allais proposal (1966,1977) of 2% capital tax that will replace an income tax.

- And now Thomas Piketty…

Solidarity tax on wealth (*ISF*)

- François Mitterand 1982 (*Impôt sur les grandes fortunes*)
- Abolished by Jacques Chirac 1987-1989
- Re-established by François Mitterand 1989 (*Impôt de solidarité sur la fortune*)
- The right did not abolish ISF but limited its impact through tax cap and streamlining the tax schedule

2. Tax base

- The wealth must be declared by residents of France by June 15
- Global wealth whatever the country (except for countries that have signed an agreement with Fr)
- Market values
- Minus deductible debts
- - 30% for the main home
- The same tax whatever the marital status.
- No more deductions for minors .

Exemptions

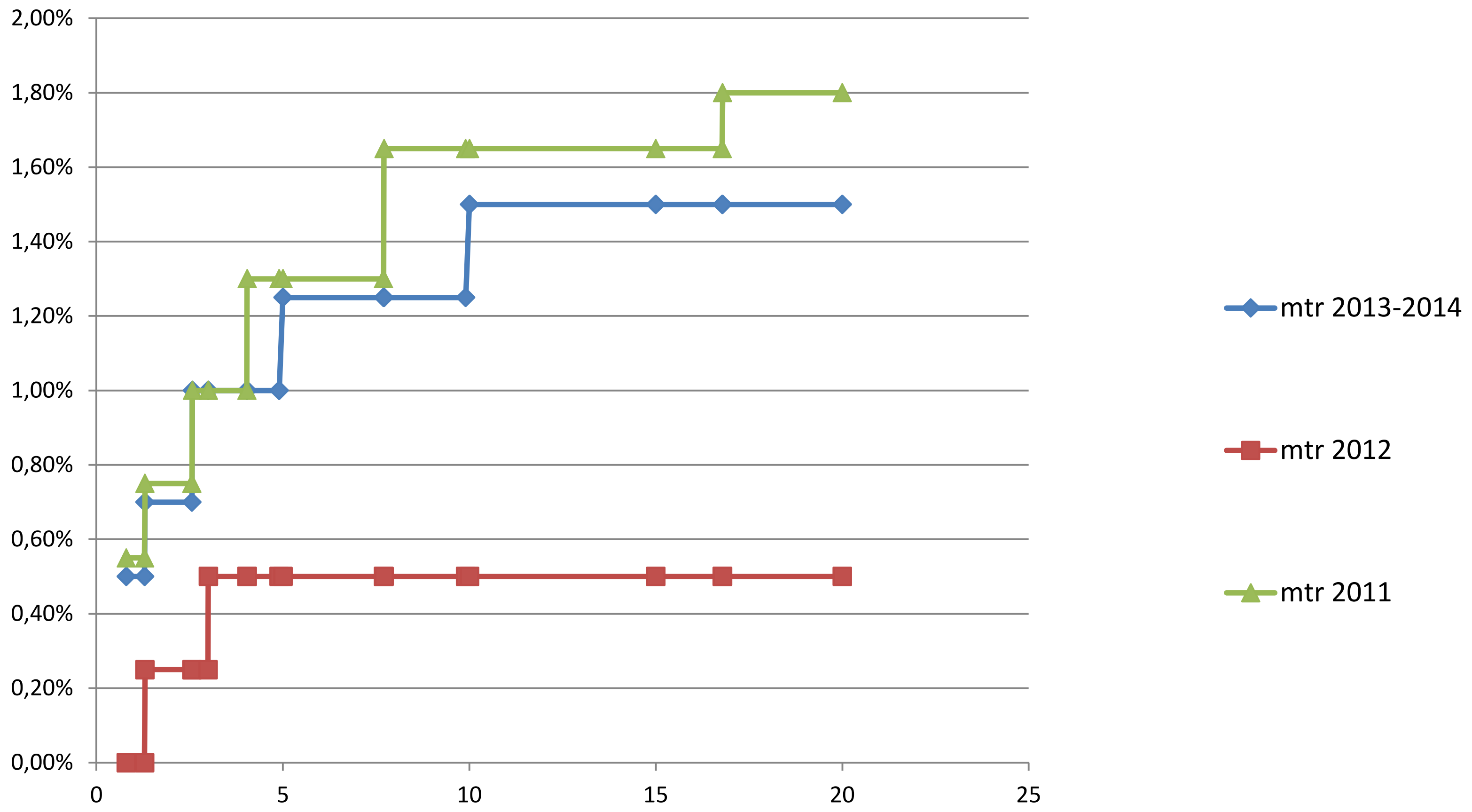
- Professional goods such as enterprises (depending on the percentage owned),
- Vintage (more than one century old) and collection objects
- Artistic, literature, or industrial rights
- Woods and participation in forestry plantations (for 75% of their value)
- Capital value of pensions and retirement plans
- Capital obtained as compensation for physical injury in accidents or due to illness.

3. Tax schedule as in 2014 (integrating a tax discount (*la décôte*))

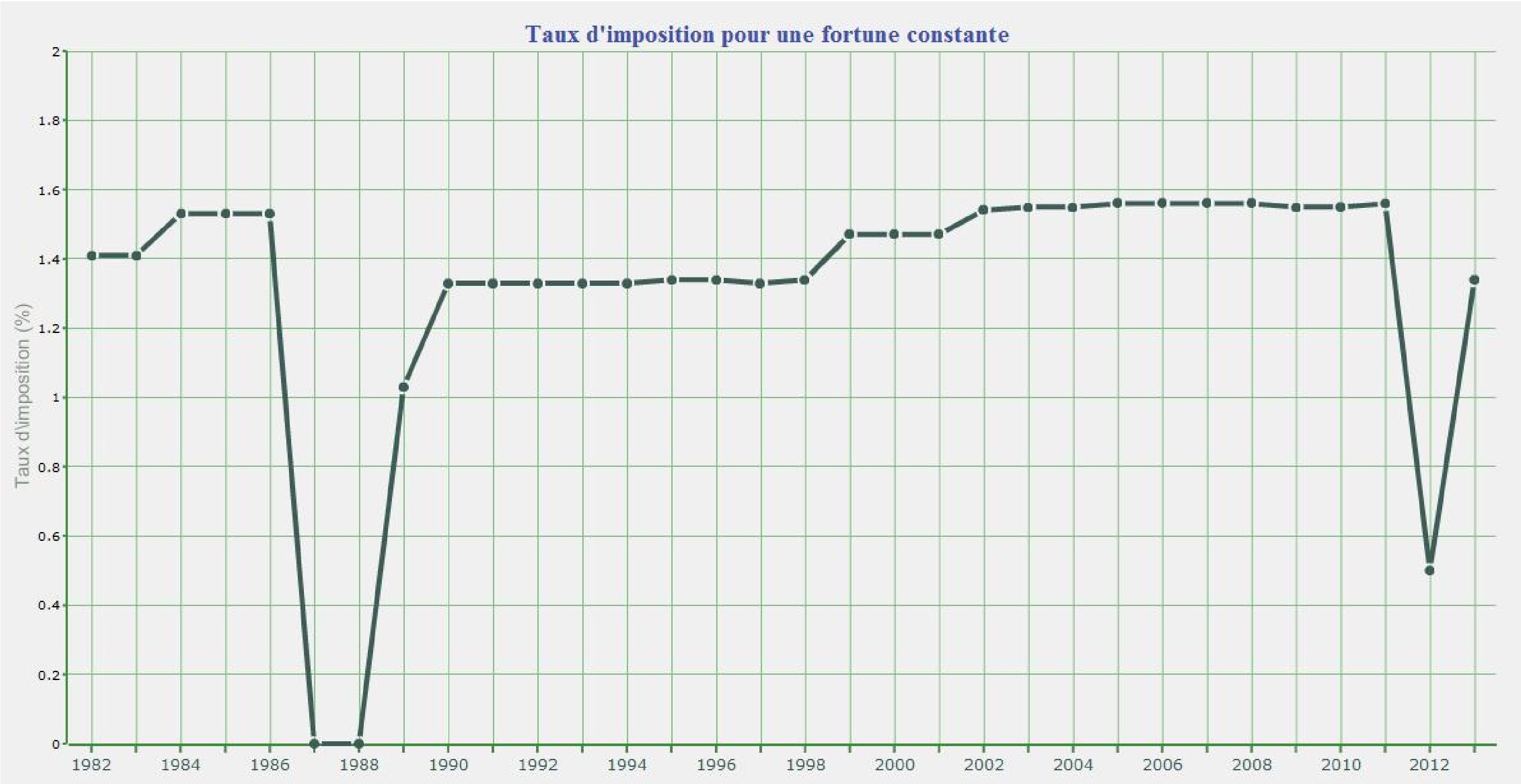
Less than	€1 300,000	0%
For X equal to	€ 1 300,000	€ 1,250
For X between	€1.30 - 1.4 million	€ 1,250 + 1.95% (X-1,3)
For X between	€1.40 - 2.57 million	€ 3,200 + 0.7% (X-1,4)
For X between	€2.57 - 5 million	€ 4,019 + 1% (X-2,57)
For X between	€5 - 10 million	€ 6,449 +1.25% (X-5)
For X over	€10 million	€ 12,699 + 1.50% (X-10)

Recent evolution of marginal tax rates

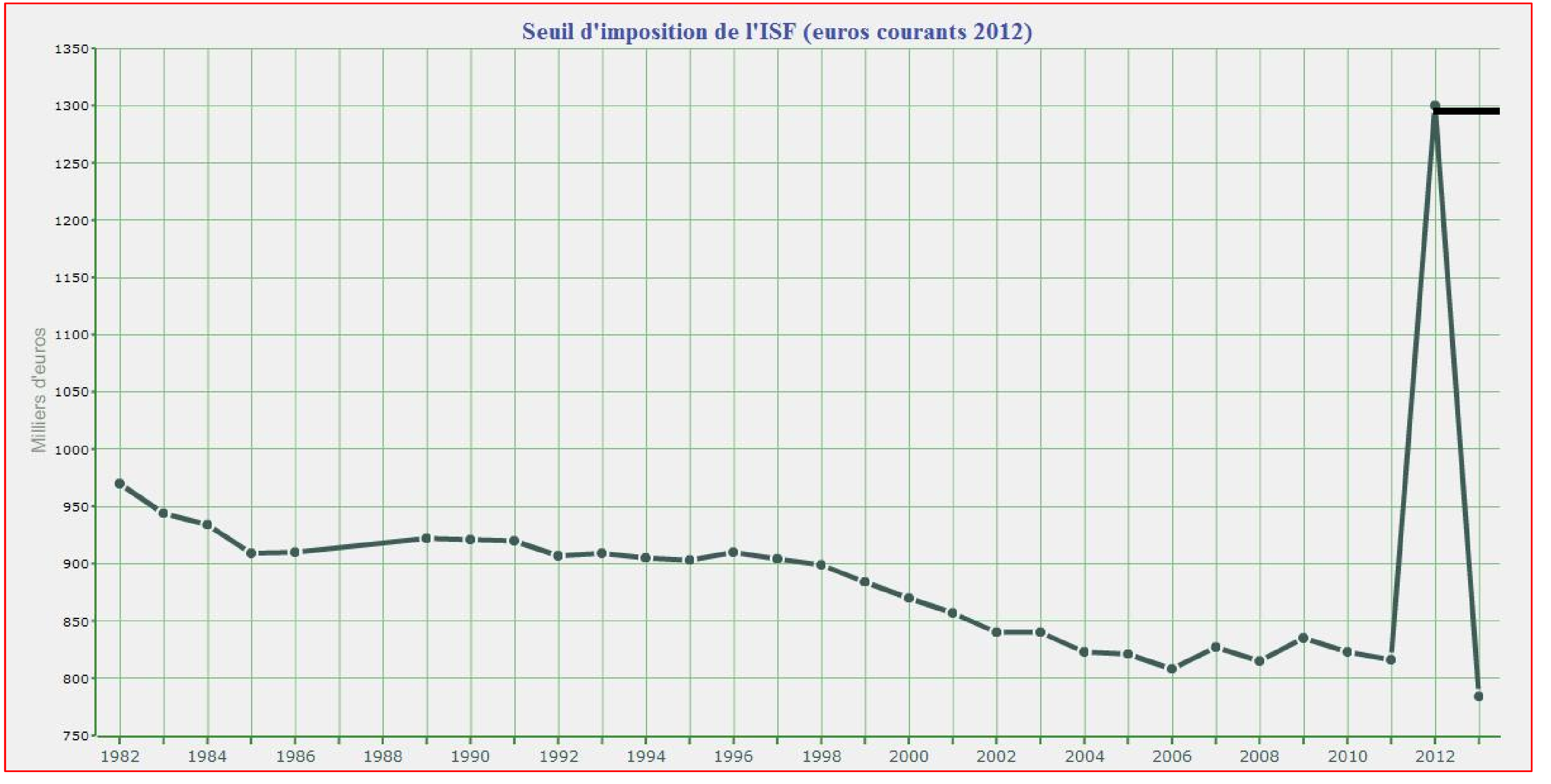
(neglecting the « décôte »)



On the long run more or less constant average tax rate for a large wealth (€13 millions)



Evolution of the tax threshold



Tax cap (*bouclier fiscal*)

- Concern that some taxpayers cannot pay the ISF because of the tax burden of the income tax

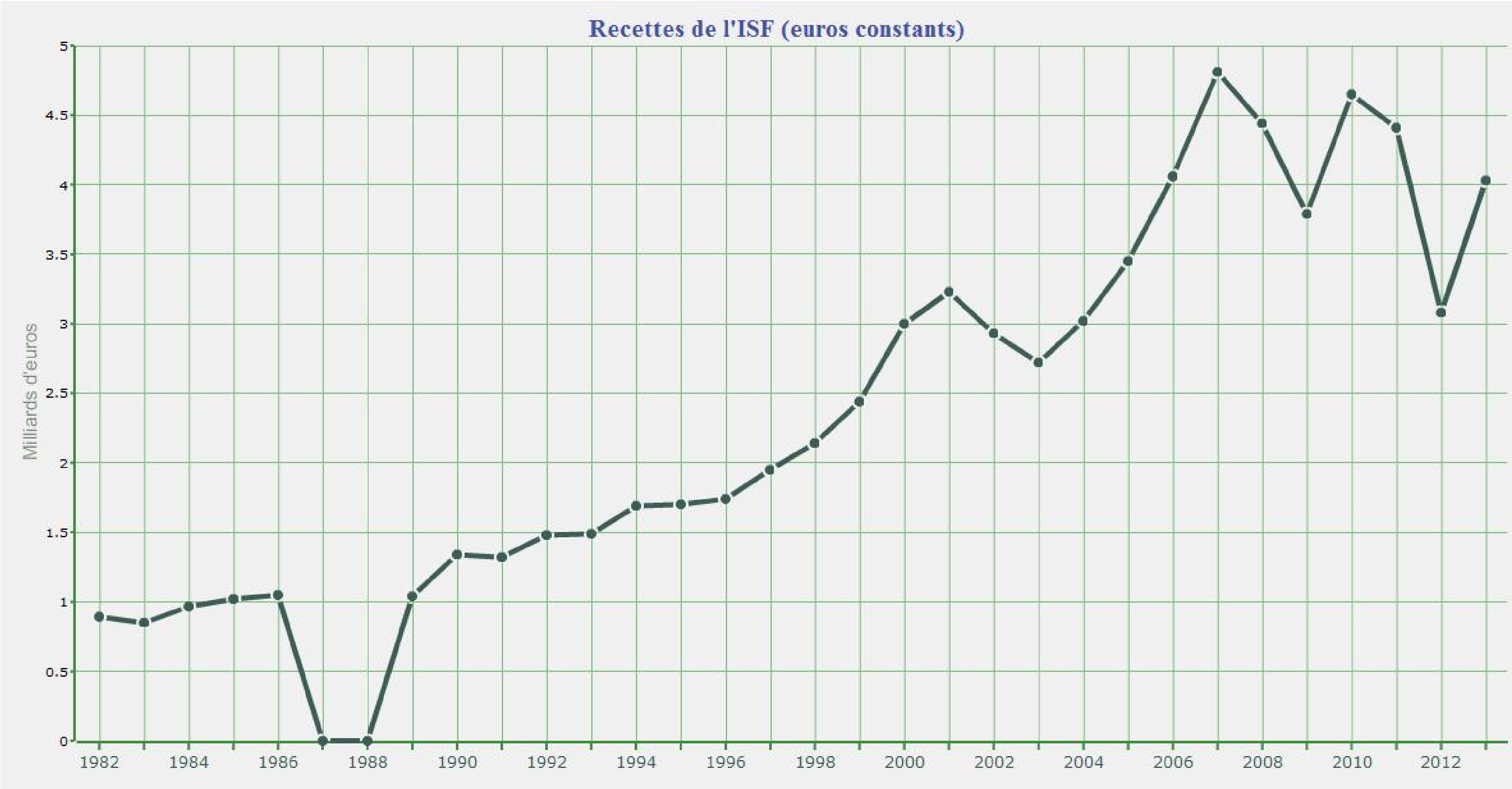
- In 2014, the cumulate tax burden for
  - the income tax
  - high wage tax (75%)
  - tax on capital income for the social security system (15,5%)
  - + ISF

< 75% of the annual income. If not, the ISF tax is reduced

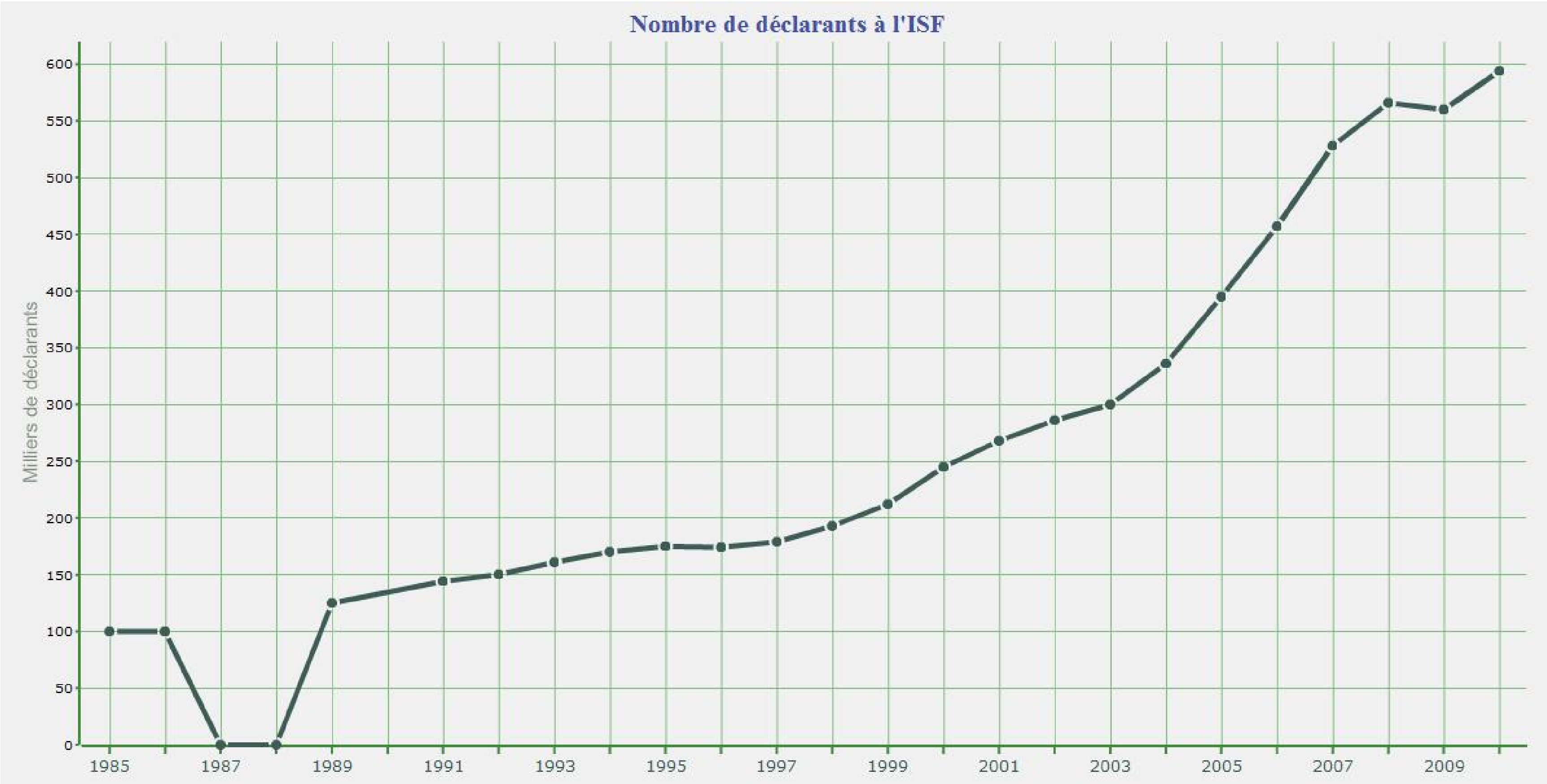
Many variations over the years of the tax cap (hot topic between the left and the right)

For instance when Nicolas Sarkozy came to power, he lowered the tax cap at 50%.

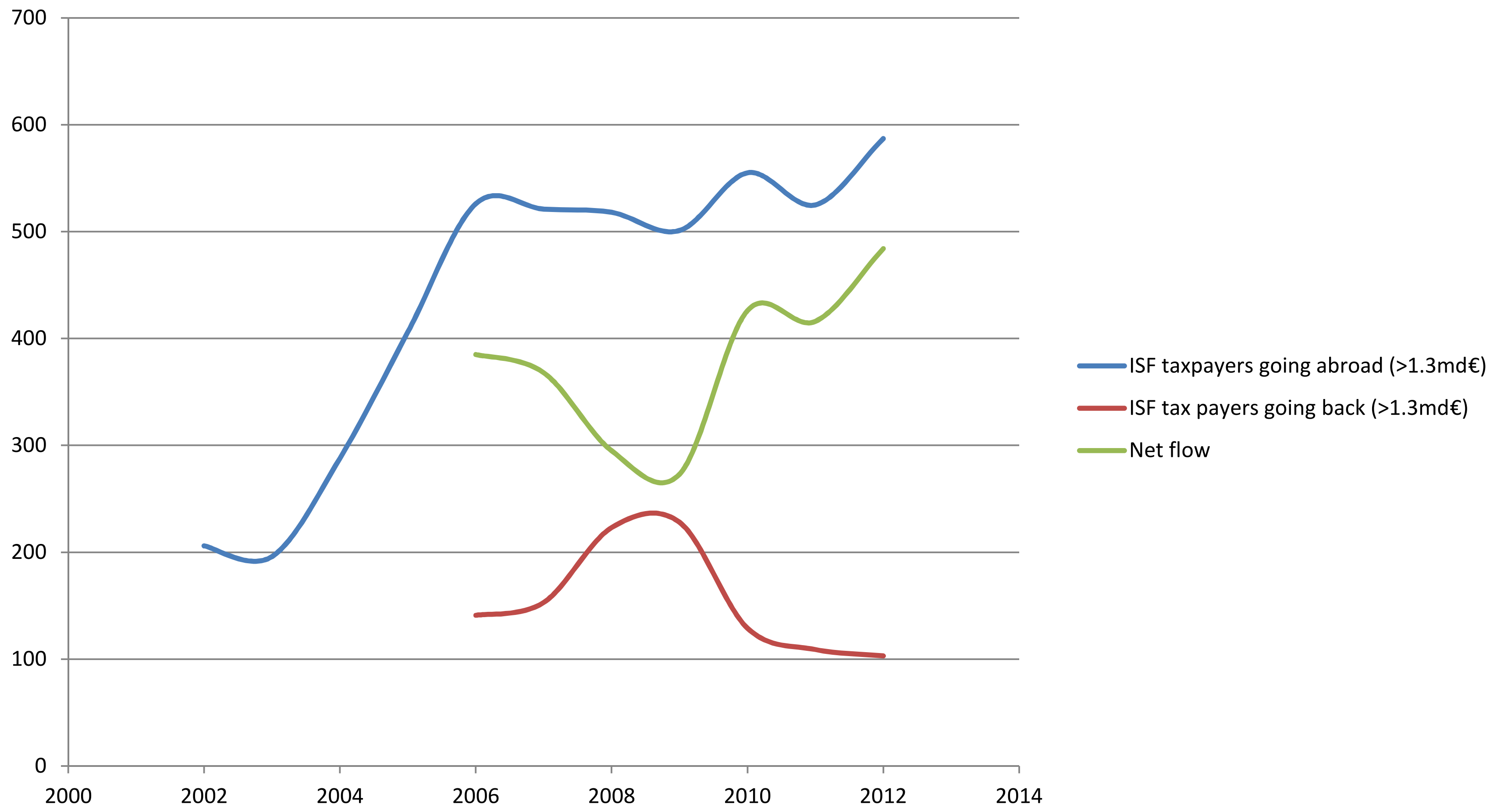
4.Tax collection



Evolution of the number of tax returns

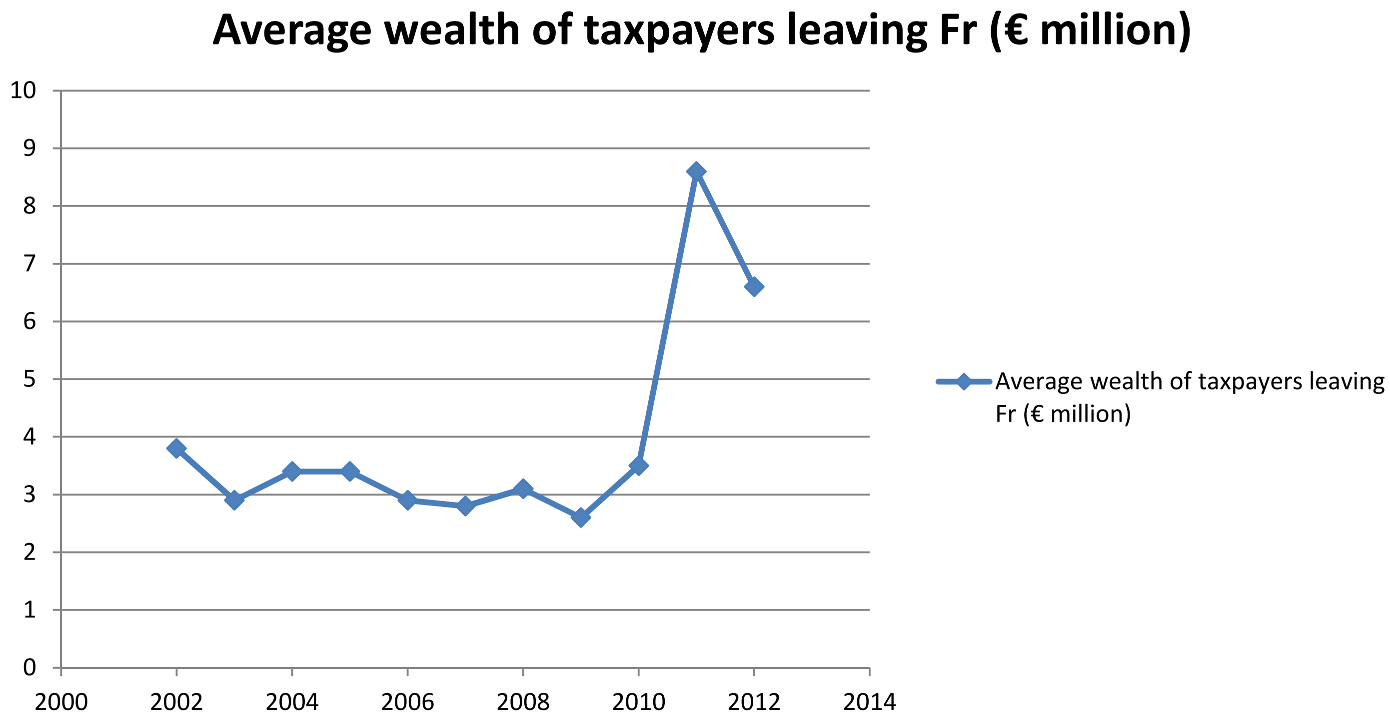


5. The Dynamics of net outflow of ISF taxpayers (Source: Rapport Yann Galut and DGFIP)



Wealthier

- The favorite countries: Belgium and Switzerland



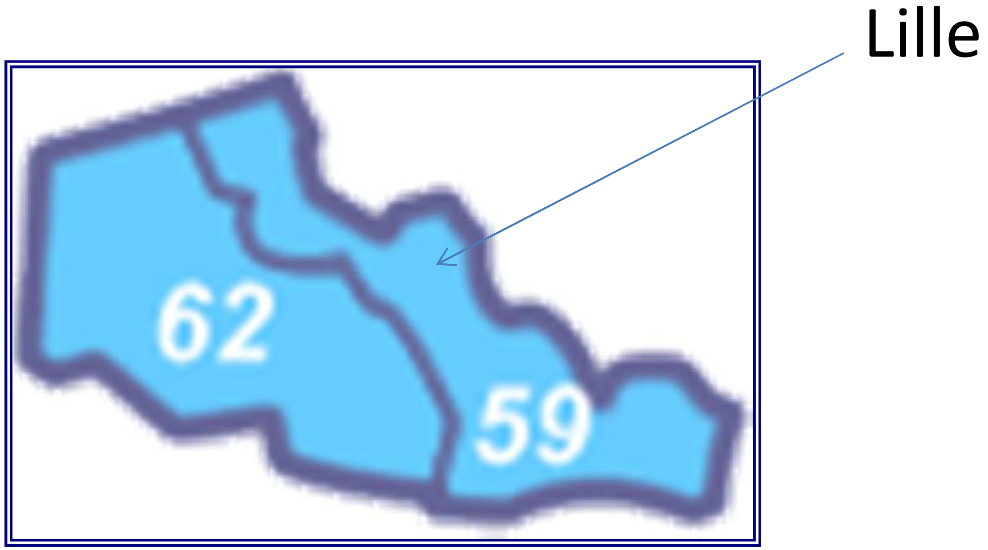
Difficult to measure a specific causal impact of ISF

- Risk of overestimation: it is the tax system on the whole that may induce tax migration
  - Estate taxes (Switzerland)
  - Tax on capital income
  - Taxes on capital gains (Belgium)
  - Taxes on stock options (even higher than on wages in France)
  - Deduction of notional interests (Bel)
- Risk of underestimation
  - The descendant in the case of estate taxes.
  - The fear to have to register for entrepeneurs when they will sell their professional good.
- What matters is the difference of tax regime between France and foreign countries
  - A favorable change in the tax regime in a foreign country can increase the threat of migration.

Still (according to magazines)

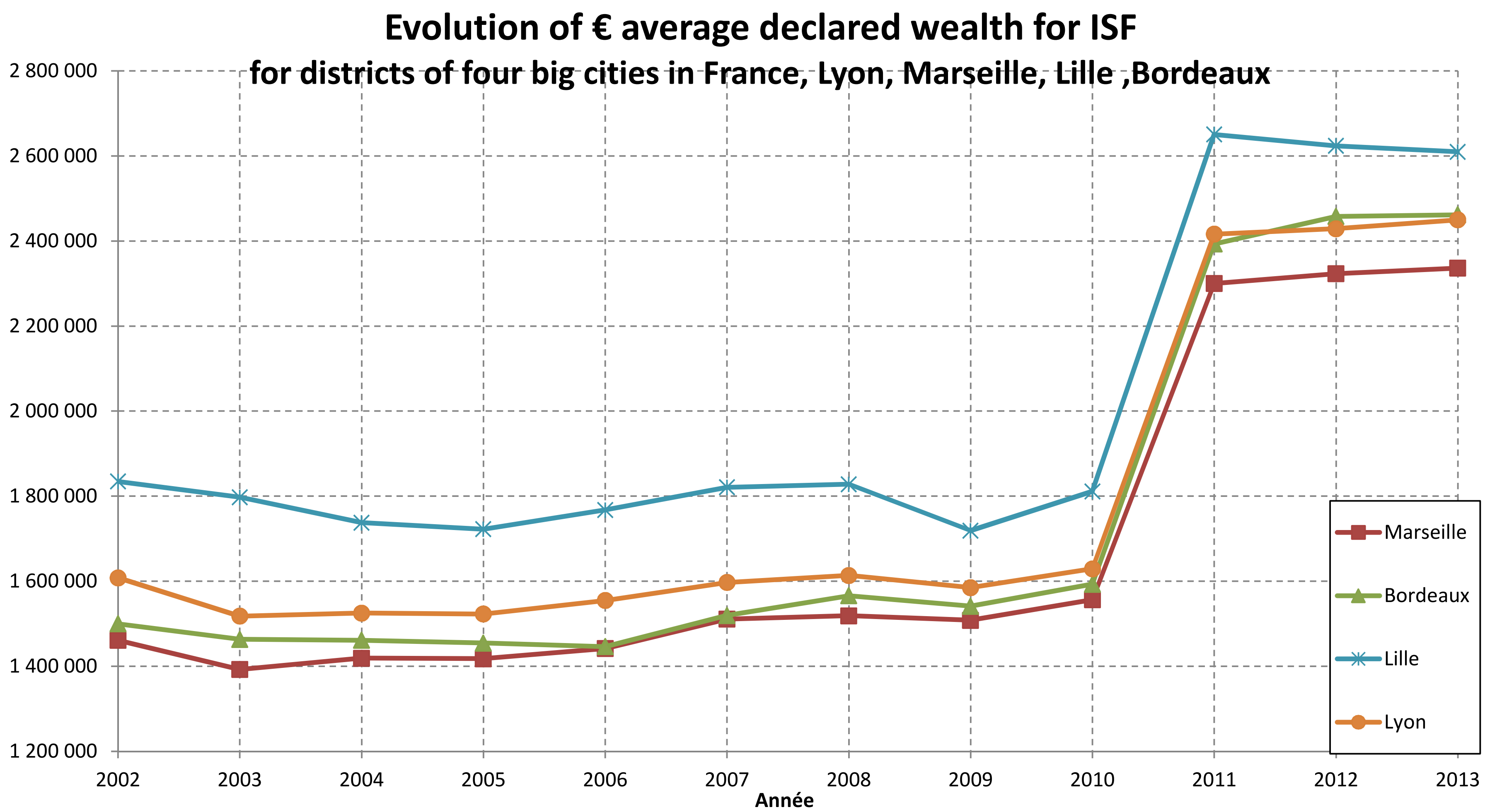
- At the top: 65 French billionnaires
- Apparently 1/3 is living abroad or have big financial or residential assets in Belgium and Switzerland
- Before 1981, almost no very wealthy Frenchmen in Belgium
- Much less in Switzerland (because the absence of estate tax there)

Differential Wealth Taxation: detrimental effect on the residential choice of wealthy people living in the North of France



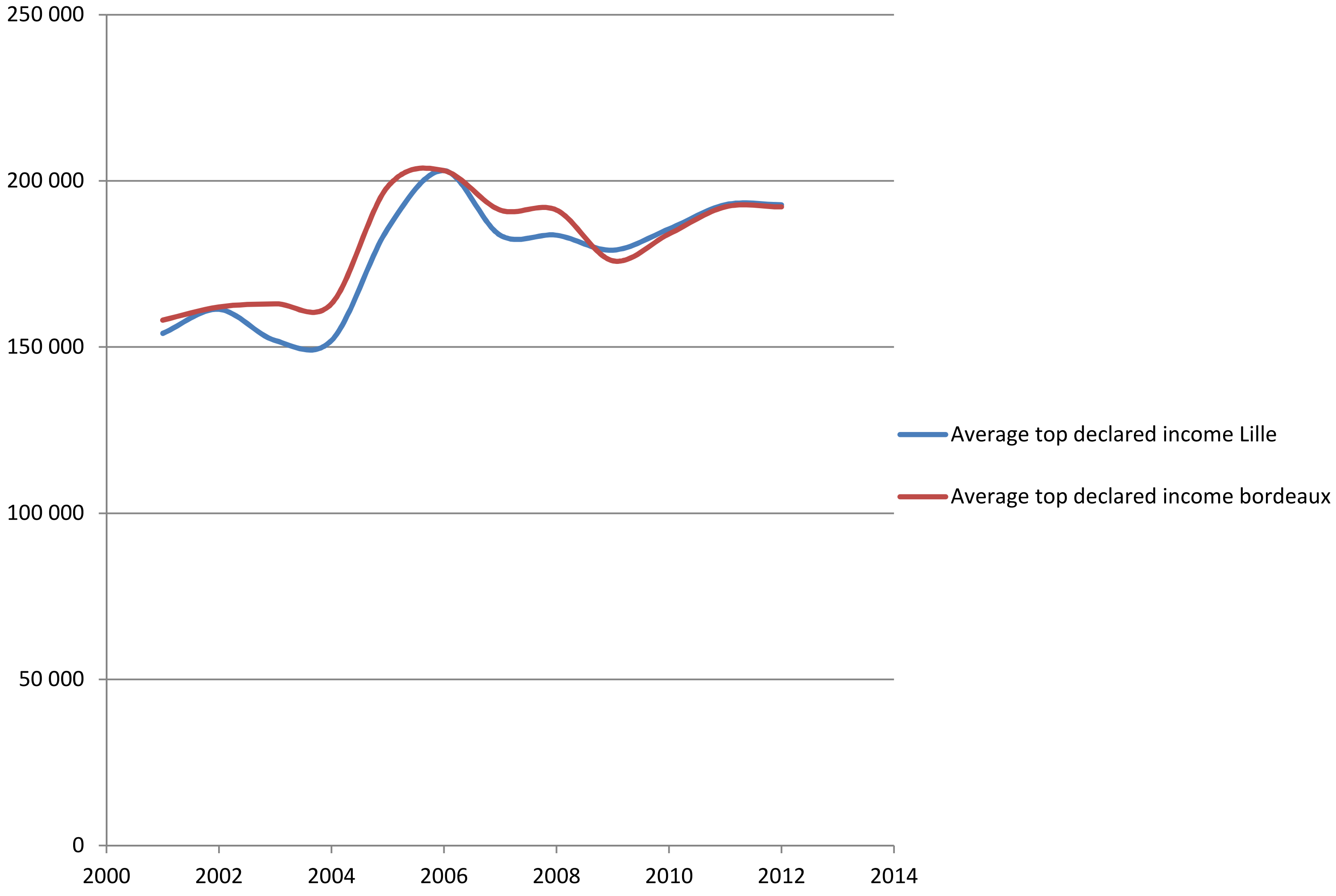
Evolution of the number of taxpayers at ISF in the districts of four major cities (Lyon, Marseille, Lille, Bordeaux)

Source : Direction Générale des Finances Publiques



Source : Direction Générale des Finances Publiques

Alternative explanation would be a lower growth in Lille. Not obvious

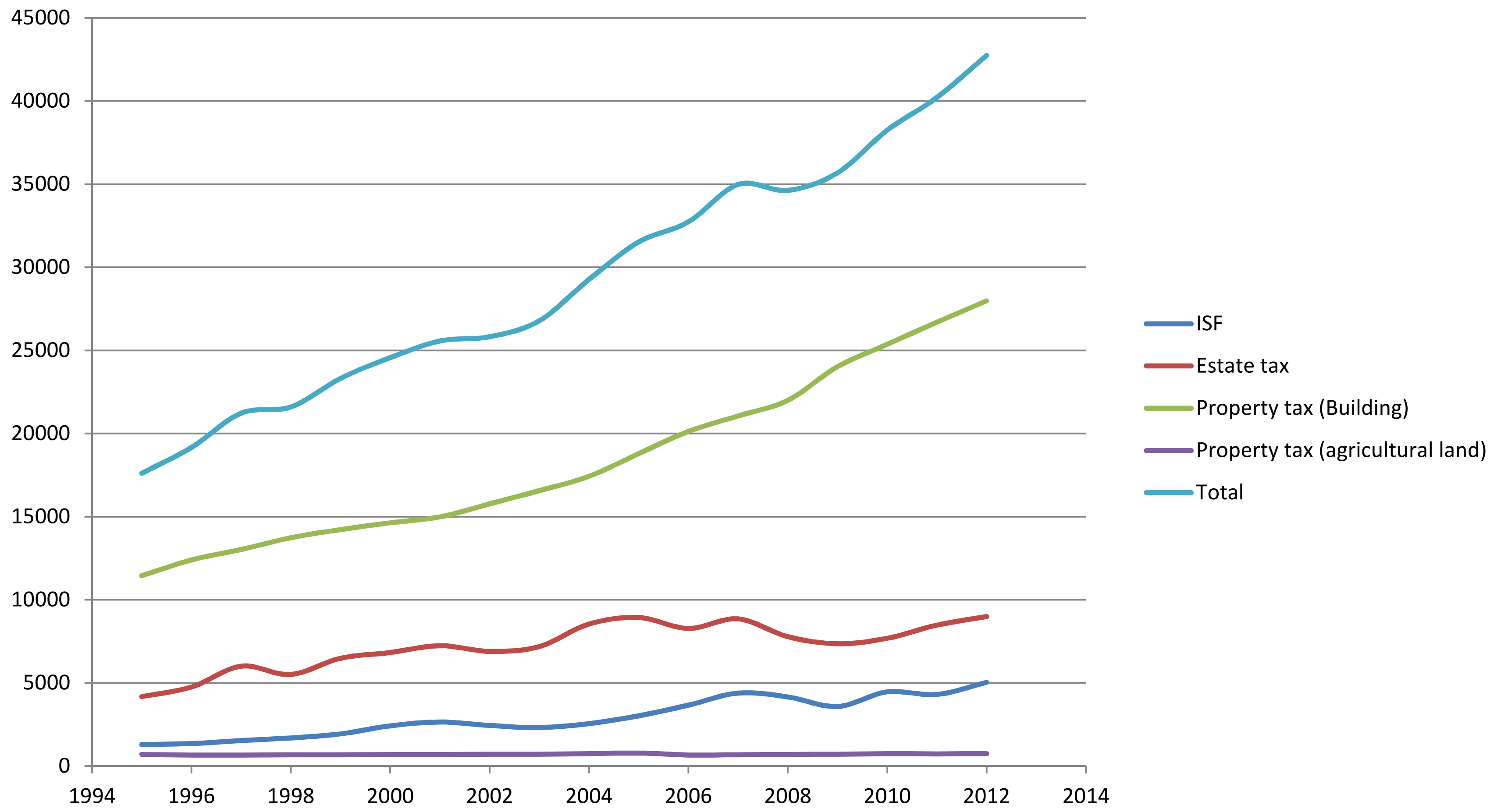


6. Taxes on wealth in France

- Other main taxes on wealth
  - Estate tax
  - Property tax

ISF: About 10% of the total of tax revenues collected on wealth (less in 1982, more in 1984)

Evolution of tax revenues for the different components of wealth taxation



Back to Menier

- Total net wealth of French households: €10 300 bn in 2011, (Source: Insee 2014)
- Total tax base for ISF in 2013: €850 bn
- About 10%

- In 2013, the ISF tax receipts represent 0.5% of the tax base and then 0.04% of the total wealth

- Since its beginning, the total amount of ISF revenues = € 63,5 bn (in current Euros), 0.6% of the total net wealth.

- Even if it had been transferred to the poor households as initial asset, its direct impact on wealth inequality would have been negligible.

7. Overall Assessment

- A quite modest contribution to the budget but not completely negligible those times.
- A narrow tax base and quite high tax rate
- It contributes to fuel tax emigration to Switzerland and Belgium.
- Difficult to measure the impact on French economy because the emigrants can still invest in France (ex: Patrick Drahi who invests 13.5 Billions of € from Genève)

ISF as a rich repellent

The efficacy to reduce wealth inequality among French residents is more easily established than among French citizens.

Maybe wealth inequality in France has been reduced at the expense of an increase of inequality in neighbor countries.

If they are more tolerant to wealth inequality than France, it will represent a global welfare improvement if we adopt Tiebout’s perspective.

Wealthy vote with their feet up to the point their destination country is gonna increase wealth taxation.

In the context of lack of tax coordination, wealth tax in a country more efficient to repel rich than to effectively redistribute wealth at the world level