OPINION OF THE COMMITTEE

The committee for the evaluation of capital tax reforms was set up in December 2018, i.e. one year after the launch of the far-reaching renovation of capital taxation carried by the government and voted by the legislature: introduction of a single flat-rate levy (PFU) on savings income and replacement of the solidarity tax on wealth (ISF) with a refocused tax on real estate wealth (IFI). In addition, the reduction of the corporate income tax (IS), complementary to these transformations, has been programmed over the entire five-year period, with a nominal rate of 25% for all companies from 2022. In its first report[1], published in October 2019, the committee had "set the scene". It presented the scope of capital taxation in France and its weight in total taxation, recalled the state of the rules just before the reform and the precise content of the reform, and gathered the a priori lessons that could be drawn from a review of the theoretical and empirical economic literature on the subject, at the French and international levels. The committee also presented the available ex ante evaluation of the 2018 reform and the first ex post figures on the taxpayers who benefited from it and on its cost for public finances. However, regarding ex-post evaluation, in the absence of the necessary data and time, the committee contended itself in 2019 to presenting initial qualitative information (hearing of representatives of professional associations, results of a survey of portfolio managers) and the nature of the quantified work it would undertake.

In its second report, published in October 2020[22], the committee's work progressed in several directions. First, the landscape was completed: more detailed analysis of France's position before and after the reform compared to other developed countries in terms of taxation of households on their wealth and the income it generates; *ex post* evaluation of the 2013 reform (which replaced the flat-rate taxation of capital income with a progressive tax), which can be seen in part as symmetrical to the introduction of the PFU. Additional figures were then provided, including the distribution of income from movable property received in 2018 compared with 2017 and the entry and exit of wealthy tax residents in 2018. Finally, the very first elements of evaluation of the introduction of the PFU and the transformation of the ISF into the IFI were presented, even if they remained very fragmentary, particularly the latter.

---

[1] France Stratégie (2019), *Comité d'évaluation des réformes de la fiscalité du capital*, First report, October.

[2] France Stratégie (2020), *Comité d'évaluation des réformes de la fiscalité du capital*, Second report, October.

This third report updates the figures and qualitative information provided in the previous reports and presents the *ex post* evaluation work carried out by the research teams contracted by France Stratégie on the introduction of the PFU and the transformation of the ISF into the IFI. From all this work, accumulated over three years, the committee has drawn the following conclusions.

1. On the positioning of France in international comparison

Expressed as a percentage of GDP, taxes on capital in France - i.e. all taxes levied on households and businesses for holding, earning, or transferring wealth - are at the same level in 2019 as in 2017 (see table below), with the dynamism of the tax bases offsetting the tax rate cuts undertaken since 2018. They remain among the highest by international standards. This is part of a more general context in which, to finance the level of our public spending and in particular our social protection spending, the rate of all compulsory levies in France is higher than elsewhere.

An international comparison of taxes on households for the capital they hold must involve a more detailed microeconomic analysis. This analysis is currently carried out by the OECD, which, at the request of the committee, updated its results for France in the second report, incorporating the effects of the 2018 reforms.

This work is based on strong conventional assumptions and could not be updated since last year, so it continues to refer to 2016 for the other countries. However, they show that the 2018 reforms have brought France's tax rates on movable assets down to levels close to the average observed in the main developed countries. This evolution is mechanically more notable for the wealthiest taxpayers. With the introduction of the PFU and the abolition of the ISF, France has in fact joined the majority of countries where income is taxed at a single rate (flat tax) and where there is no annual tax on wealth.

However, it would be important to update these comparisons, especially as legislation may have changed recently in some of our partner countries. It can also be noted that since 2020, several countries have announced plans to raise tax rates on capital[1].

For example, in the case of corporate tax, irrespective of the ongoing international discussions on the establishment of a minimum rate at global level on a different allocation of profits and taxing rights between countries, the US administration is planning to increase

[1] Reminder that comparisons between countries must also take into account differences in tax bases.

the federal rate from 21% to 26.5%[11]. The UK is planning to increase the nominal rate to 25% from 2023.

Regarding the taxation of capital income, Joe Biden had announced at the beginning of his mandate that capital gains tax would be raised for the wealthiest. Having had to give up due to the lack of a majority for this project, an increase in the federal tax rate from 20% to 25% is now being discussed. In the UK, Boris Johnson has announced a 1.25 point increase in the already relatively high tax rate on dividends.

2. On the evolution of macroeconomic variables in France from 2018

The observation of the main economic variables - growth, investment, household financial investment flows, etc. - before and after the reforms is not sufficient to conclude on the real effect of these reforms. In particular, it will not be possible to estimate by this means alone whether the abolition of the Solidarity tax on wealth has led to a redirection of the savings of the taxpayers concerned towards the financing of companies. The fluctuations of the aggregate variables result from the addition of multiple factors of a very diverse nature, in particular in 2020 with the crisis linked to the Covid-19 pandemic. This being the case, here is what we observe in 2020:

- Household financial investment flows rose sharply in 2020 to 205 billion euros, an increase of 75 billion euros, following the 28 billion euro increase in 2019. Within this total, investments in equities (held directly or indirectly) and unit-linked life insurance amounted to 47 billion euros in 2020, or 22% of households' financial investments, a much higher share than in 2019 (9%) but similar to that of 2017.
- For non-financial companies, equity financing flows rose sharply in 2020, from 55 billion euros to 95 billion euros, in a context where gross corporate debt has risen sharply (+ 140 billion euros, primarily via the guaranteed loan mechanism set up by the State during the crisis), but not net debt.

It should also be noted that private equity fundraising from French retail investors has plateaued since 2016, after a strong increase in the previous six years. The only notable change since 2018 concerns the drop in fundraising for FCPI/FIPs, probably due to thE abolition of the ISF SME niche, but this drop has in fact been offset by an increase in private equity via other channels.

[1] The initial project was at 28%.

The sharp increase in dividends declared by households in 2018 (23 billion euros, after 14 billion in 2017), which was confirmed in 2019 (additional increase of around 1 billion) and in 2020 (stable compared to 2019), is comparable in magnitude to the drop recorded in 2013, when capital income was integrated into the progressive scale of income tax.

The "common law" capital gains realized by households are higher by 4 billion euros in 2019 than in 2017, but those with reinforced abatement are down by 2 billion (and are at the 2016 level). For their part, interest received by households is declining, in a context of steadily falling interest rates (4.5 billion euros in 2019 after 5.3 billion euros in 2017), even though their tax rate has *de facto* been reduced more than that on dividends.

3. On the evolution of the distribution of income from movable capital and assets in France from 2018

When a company makes profits (net of investments made), it has the choice of paying dividends or carrying the profits forward in the company's accounts, which a priori results in an increase in its value, and therefore in a higher capital gain in subsequent years for shareholders who decide to sell their shares. Each year, the mass of dividends received by households (excluding PEAs (shared savings plan), life insurance and companies subject to personal income tax) is concentrated in a small number of households, and capital gains even more so, as they are realised more rarely and for higher amounts.

In 2019, as in 2018, dividends were even more concentrated than in 2017: in 2019, 62% were received by 39,000 households (0.1% of households), of which 31% were received by 3,900 households (0.01% of households), whereas in 2017 half were received by 38,000 households, of which 22% by 3,800 households.

Households whose dividends increased by more than 100,000 euros between 2017 and 2018 or between 2018 and 2019 account for 9 billion euros of additional dividends in 2018 and 2019 compared to 2017, or 100% of the net increase since 2017. The 5,000 households that increased their dividends by more than 100,000 euros in 2018 and 2019 compared to 2017 account for 45% of the additional dividend volume. Of these, 310 households increased their dividends by more than 1 million euros in 2018 and 2019 compared to 2017, and together account for an increase of 1.2 billion euros.

The concentration of realised capital gains has also increased: 3,900 households (0.01% of households) account for 76% of capital gains under common law in 2019, compared with 62% in 2017. This is less the case for interest received: 39,000 households account for just over 15% of the total, in both 2017 and 2019.

The average income tax rate for income tax remained stable between 2017 and 2019, with the exception of the last percentile, for which it fell. However, income taxation (excluding social security contributions) remains progressive, with the exception of the last income percentile: the average tax rate[11] is 7% at the threshold of the last decile, 17% at the threshold of the last percentile, 22.5% for the penultimate millime, and 21% for the last millime (i.e. 39,000 outbreaks). The tax rate for the wealthiest households in 2019 remains higher than in 2011, i.e. before the introduction of the capital income tax scale, while over the same period social security contributions on capital income have been increased by 2.5 points (including a 1.7 point increase under the 30% tax rate).

The literature suggests that some people, when they can choose their form of remuneration (self-employed, liberal professions, senior company managers), have an incentive to remunerate themselves in the form of the least taxed income. This led to fears that the introduction of the PFU would result in a redenomination of labour income to capital income. For 2019, the analysis of tax data shows no sign of a significant redenomination of income: households whose dividends grew very strongly in 2019 compared to 2017 did not, on average, reduce their labour income (although a small fraction of them substantially reduced their income).

Moreover, one of the objectives of transforming the ISF into the IFI is to shift investment towards movable assets. If we focus on ISF taxpayers holding more than 3 million euros in real estate assets in 2015, we observe a significant increase in the number of households declaring a substantial decrease in their real estate assets (12% on average over 2018-2020 compared to 6% in 2017). This fact, however notable, will need to be supplemented by other analyses before we can conclude on the effects of the reform. At the same time, IFI revenues are stable in 2020[22], at 1.6 billion.

4. On the departure and return of wealthy taxpayers

Since the changeover from the ISF to the IFI, there has been a decline in the number of expatriations and an increase in the number of tax impatriations of wealthy French households, so that in 2018 and 2019, the number of returns of IFI taxable households exceeds the number of departures (340 versus 280 in 2019), whereas the opposite was true for the flow of ISF taxpayers (470 versus 1,020 in 2016). However, this change concerns small numbers, of the order of a few hundred, compared with the 130,000 taxpayers subject to the IFI in 2019.

---

[1] The tax rate is calculated by adding the taxes mentioned in the income tax return to the reference tax income (tax on the scale, 12.8% tax on capital income subject to the PFU and exceptional contribution on high incomes). This rate does not include social security contributions.

[2] For the record, the IFI 2020 is based on real estate assets as of January 1st 2020.

Rather than focusing on the departures and returns of taxpayers subject to the ISF and then the IFI, which does not provide a constant scope of observation over time, it is possible to analyse the departures and returns of "wealthy" taxpayers. For taxpayers who declare a lot of income from movable assets (more than 50,000 or 100,000 euros per year), the departure rate has been falling since the high point in 2013, without any particular inflection in 2017, and the return rate has been rising sharply since 2017, whereas it had been stable before.

5. On the econometric evaluation of the effects of the PFU

In 2013, income from movable assets, which until then had been subject to a flat rate withholding tax, was automatically integrated into the progressive income tax scale. This reform, symmetrical to the introduction of the PFU in 2018, was accompanied in the same year by a drop in the level of dividends received by households.

The 2020 report presented studies that establish a causal link between the 2013 tax increase and this downward movement. However, its extent remains uncertain, as many reforms have occurred at the same time, which have also affected the taxation of capital income (notably the social security contributions on income paid to the managers of limited companies). The fact remains that the barring of dividends in 2013, which should have automatically led to an increase in tax revenue of more than 400 million euros with unchanged behaviour, probably resulted in a net loss of tax revenue, due to the contraction of the tax base that it generated. Conversely, for interest received, even though the increase in taxation was higher than for dividends, the gain for public finances from the scale would be close to its "static" estimate, excluding behavioural effects.

This year, the research teams attempted to directly assess the effect of the 2018 PFU, but they encountered much greater difficulties in identifying "treated" (i.e. highly affected by the reform) and "control" (less affected) groups of taxpayers. The 2013 reform particularly affected a relatively small group of well-identified taxpayers: individuals who regularly declared dividends at the flat rate withholding tax (PFL) before its abolition. Conversely, the PFU potentially benefits a broader group of taxpayers: all tax households whose post-2017 income would have placed them, in the absence of the reform, in the 30%[1] or especially 41% and 45% marginal tax brackets. However, these taxpayers are not easily identifiable before the reform; in particular, they can only be very roughly assimilated to those who belonged to the upper tax brackets in 2017. In fact, a certain number of taxpayers with high activity income may have little movable assets (e.g. senior executives), and therefore not particularly benefit from the PFU reform, even though they belong to the top marginal tax brackets. Symmetrically, some company directors, whose dividends may represent a large part of their income, and therefore benefit greatly from the introduction of the PFU, were able to reduce their dividend payments after 2013, and thus move to lower tax brackets. Moreover, the increase in dividends in 2018 for households taxed at a marginal rate of 41% or 45% in 2017 is relatively small.

Frame 1 – What impact of the Covid crisis?

Most of the micro-data analyses presented in the report relate to the years 2018 and 2019 (2020 tax data are generally not yet available) and are therefore not affected by the 2020 crisis. It is very difficult at this stage to comment on the impact of the crisis on the effectiveness and relevance of the 2018 capital tax reforms, as well as on the ability to identify their effects. However, it is likely that the crisis will disrupt the ability to identify the effects of the 2018 reforms. The methods for estimating the effects of the PFU and the transformation of the ISF into the IFI will remain valid for the years 2020 and beyond, provided that, for the corporate population as a whole, the magnitude of the impact of the crisis proves to be statistically de-correlated from the magnitude of shareholders' exposure to the 2018 reforms.

Despite these identification difficulties, the research teams are able to establish the existence of a causal effect of the introduction of the PFU on dividend payments to households. However, the magnitude of this effect is smaller than that measured in the estimates of the impact of the 2013 reform, without it being possible to determine whether this smaller magnitude is due to a real phenomenon or to the identification difficulties encountered. The measured effect remains strong only on a very small sample: that of firm owner-managers subject to the ISF.

What can we conclude about the link between the strong increase in dividends paid to households in 2018 and the introduction of the PFU?

Despite the inconclusive assessments of the research teams, the committee considers that the majority of this increase was indeed caused by the introduction of the PFU. There are several arguments in favour of this:

- The results of the evaluations of the 2013 tax increase, which in many ways can be seen as the mirror reform of the UFP, are unambiguous;
- At the macro level, dividends fell in 2013 at the same time as the introduction of tax rise, returned to their initial level in 2018 at the same time as the introduction of the PFU, and remained at that level in 2019 and 2020;

- The increase in dividend payments is mainly observed among unlisted companies controlled by natural persons, who may be able to adjust the amount of dividends paid according to their tax situation.

However, there are other indications that the sharp rise in dividends in 2018 may not be exclusively due to the introduction of the PFU:

- At the individual level, households whose dividends were sharply reduced in 2013 contribute only a minority share to the increase in dividends from 2018 onwards: of the 7 billion euros increase in dividends in 2018-2019 within the panel, 2 billion euros come from taxpayers whose dividends were both sharply reduced in 2013 and the following years and then sharply increased in 2018-2019;
- Other factors may have contributed to the rise in dividends in 2018. 2017 was the first year in which the economy improved significantly, after several years of sluggish growth. The announcement of a "double year" of the CICE in 2019 may have reinforced business leaders' expectations about their ability to pay dividends. As for the transformation of the ISF into the IFI, it may have had a downward effect on dividends for shareholders who needed dividends to pay the ISF, but also an upward effect for shareholders who reduced their dividends as much as possible in order to take full advantage of the ISF cap (based on income).

Beyond the question of the possible self-financing of the PFU generated by the increase in dividends paid, there is also the question of the impact of the PFU on the real activity variables of companies.

The increase in the return on equity savings induced by the PFU may have several effects of different kinds. It may lead to an increase in investment (and, because of the complementarity of production factors, in the demand for labour) in companies whose shareholders benefit greatly from the introduction of the PFU, because it broadens the scope of investment projects that are sufficiently profitable from the point of view of their shareholders. It can also, however, lead to an increase in investment in a more diffuse way in the economy (for example, if individuals decide to invest the dividends received in other companies). This diffusion may not only benefit domestic producers if it goes beyond the borders of the French economy. Finally, dividends can be invested in real estate or used for consumer spending.

The research at this stage has sought to identify the first effect (the increased investment in firms most exposed to the PFU, which can be described as the "intensive margin" of investment). To shed more light on the full range of possible effects, it would be useful to be able to identify whether households whose dividends rose sharply between 2017 and 2018 reinvested all or part of this extra income in shares in other companies. This data is not available. However, it is possible to track the evolution of real estate assets for those subject to the IFI: it appears that for households whose dividends increased in 2018 by between 100,000 euros and 1 million euros, real estate assets increased concomitantly by 150,000 euros on average[1].

Regarding the "intensive margin", no effect had been detected from 2013 on the investment of companies whose shareholders had been most affected by the introduction of the dividend scale, nor on the wages paid (in particular, no phenomenon of “income shifting”). These lower dividend payments were reflected in an increase in equity and cash flow; they also went hand in hand with a deterioration in the net income of the companies concerned, via an increase in their intermediate consumption, which could correspond both to an increase in the personal expenses of the managers paid by their company and to an increase in intangible investments (advertising expenses, training, etc., recorded as expenses in the income statement).

If we replicate the same type of analysis over the years 2018-2020, we again detect no impact on investment and wages among companies owned more by natural persons following the introduction of the PFU. On the other hand, the increase in dividends does not seem to have been accompanied by lower intermediate consumption either, but by a fall in their self-financing capacity net of dividends, i.e. their savings.

The absence of an identified effect on the investment of companies owned more by natural persons is in fact in line with numerous academic studies available at the international level, which fail to show that a change in the taxation of capital on households can have a significant effect on the actual behaviour of companies, both in terms of investment and labour demand (employment and level of compensation of employees). On the other hand, the literature identifies an effect of a change in corporate taxation on investment and labour demand, as the Committee pointed out in its first report.

However, the identification of companies whose shareholders are particularly affected by the PFU remains imprecise in the researchers' work, which weakens the robustness of their estimates. It is also possible that an increase in investment will take time to materialise, as long as the PFU is considered sufficiently permanent to be incorporated into expectations of capital profitability (as, symmetrically, could be the case for a transformation into investment of the increase in equity capital resulting from the 2013 reform).

[1] Increase that seems to go beyond the simple appreciation of existing wealth: the real estate wealth of IFI taxpayers in 2018 and 2019 increased by 8% for those whose dividends grew by more than 1 million euros between 2017 and 2018, by 5% when dividends increased from 100,000 euros to 1 million euros, and by 3% for other IFI taxpayers, which seems to indicate a positive correlation between the variation of real estate wealth in 2019 and dividends received in 2018.

6. On the evaluation of the transformation of the ISF into the IFI

One of the arguments frequently put forward against the ISF is that it would lead to a policy of high dividend distribution, in order to allow the main shareholders to pay it. These dividend payments would in turn affect the investment and performance of companies. Invented to mitigate these potential negative effects, the exemption mechanisms for business assets are themselves likely to generate other undesirable effects for companies, by discouraging the transfer and circulation of capital and by favouring closely held companies to the detriment of widely held companies.

For the first time, a research team has endeavoured to estimate the causal effect of the ISF on the behaviour of firms (payment of dividends, investment, and the payroll) as well as on their governance, thanks to the creation of an unprecedented database on French companies and their shareholders, making it possible to determine the taxes (in particular the ISF) to which the shareholders of a company are subject as households.

The results presented are very preliminary and will need to be confirmed by further studies, as the research team in charge of this evaluation work has only had a few weeks to exploit the data. They are as follows.

The first report pointed out that the ISF was progressive in relation to taxable assets (i.e. excluding professional assets) only up to the threshold of the last percentile, with the tax rate falling sharply thereafter for the wealthiest, due to the capping mechanism. This diagnosis of the strong degressivity of the ISF for the wealthiest is considerably reinforced when professional assets are included in the wealth, which are essentially concentrated among the wealthiest 0.001%.

On average, the ISF represents about 1% of shareholders' income, but this share is high for some companies: for 10% of MSEs, the ISF represents more than 15% of shareholders' reference taxable income. Moreover, this exposure to the ISF increases with the age of the company.

Did this exposure to the wealth tax lead companies to pay out more dividends? In the light of the first estimates, it seems difficult to demonstrate such an effect when comparing the behaviour of companies that were very much affected by the abolition of the ISF with that of companies that were not very or not at all affected. On the other hand, this initial work shows that companies whose shareholders were mostly capped at the ISF distributed fewer dividends, and less often, and that it is for these companies that the probability of paying dividends increased the most in 2018.

With regard to corporate governance, since 2017 there has been an increase in the share of natural persons in the capital of companies that were the most potentially affected by the wealth tax; on the other hand, no effect of the abolition of the ISF seems to be detectable on the management of companies (no effect on the average age of managers, or on the probability that a change of manager will be announced in the company), nor on the circulation of capital (no marked effect on the probability that share sales will take place, or on the presence of legal persons in the capital)[1]. However, these results must be interpreted with even more caution than the previous ones. Indeed, the impact of the abolition of the wealth tax on corporate governance may take several years to materialise. It may also depend on expectations about the sustainability of the reform, which, according to the qualitative survey of asset managers conducted by the committee again this year, remain relatively cautious.

Table 1 – The amount of compulsory levies on capital in France in 2017, accordingto the different reasons for taxation

	2017	2018	2019
Corporate income tax	70,5	67,5	73,1
Corporate income tax	*57,9*	*55,0*	*59,2*
Social contribution on corporate profits	*1,1*	*1,1*	*1,2*
3% dividends	*1,7*	*0,0*	*0,0*
Taxes on the income of self-employed persons	39,9	41,3	45,2
Taxes on household capital income	39,9	43,7	45,3
Taxes on capital stock	102,4	100,7	102,8
Taxes on built-up land	*33,2*	*34,2*	*35,0*
Registration tax	*14,5*	*15,2*	*16,7*
Free transfer tax	*14,2*	*14,3*	*15,2*
Housing tax (capital share)	*11,6*	*10,1*	*8,4*
Business property tax	*6,7*	*6,8*	*7,1*
ISF and IFI	*5,1*	*1,8*	*2,1*
Social solidarity contribution	*3,6*	*3,8*	*3,9*
Total taxes on capital	252,6	253,2	266,4
Weight in GDP	11,0 %	10,7 %	11,0 %
Weight in total OP	23,7 %	23,2 %	24,1 %

Source: European Commission data, processing by the Directorate General of the Treasury

The Committee would like to thank all those who contributed their expertise to its work by agreeing to be interviewed. The Committee would also like to thank France Stratégie for its invaluable secretarial role, all the government departments for their contributions (the Directorate General of Public Finance, the Directorate General of the Treasury and the Directorate General of Statistics, Studies and International Affairs of the Banque de

[1] It should be noted that at the macro level, since 2017 there has been a clear increase in the number of "donation/succession" Dutreil pacts signed, and a decrease in the average age of the donees and heirs.

France), which provided assistance, and of course the IPP and CRED teams, which produced the estimates presented in Parts 5 and 6 of this opinion[1].

The 2022 report will provide an opportunity to update the estimates presented in this report, albeit with the uncertainties associated with the impact of the crisis on the year 2020. It will also be an opportunity to conduct additional investigations (resulting in particular from the use of RCM payment forms), for example on the investment behaviour of taxpayers benefiting from the PFU or the transformation of the ISF, by identifying beforehand whether additional data could usefully be made available to researchers to carry out these evaluations.

[1] And whose reports are online on the France Stratégie website.