CPO conseil des prélèvements obligatoires

REINFORCING INCOME TAX EQUALITY FOR CITIZENS

Executive Summary

October 2024

NOTICE

This document is intended to make it easier to read and analyse the Council of Mandatory Contributions report.

Only the French text of the report is binding on the Council.

Both the general report and the individual reports are made public and can be consulted on the website www.ccomptes.fr/CPO.

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Introduction

France has two main types of personal income taxes:

- Personal income tax (IR) and the exceptional levy on high incomes (CEHR) are progressive taxes allocated to the State's general budget. They are based on income net of the expenses required to acquire them, and they take account of the taxpayer's family situation;

- Social levies (PS), which include the general social security levy (CSG), the social security debt repayment levy (CRDS), the solidarity levy on capital income, and the solidarity and autonomy contribution (CSA), are designed to finance social welfare through a tax which, in principle, is proportional, paid individually and based on gross income.

In 2023, these taxes and levies generated revenue of €262.8 billion, or 9.3% of the GDP, compared to €143.7 billion (7.2% of the GDP) in 2010. Therefore, the overall increase in compulsory taxation since 2010 (from 41.4% to 43.2% of the GDP, i.e. +1.8 points) can be explained by the rise in income tax. This increase is due to a spontaneous rise in revenue from Personal income tax (IR) and new measures aimed at increasing ocial levies, including a 1.7 point increase in the CSG in 2018 to replace social security contributions.

Income tax (2010-2023)

Taxation	Revenue in 2010		Revenue in 2023	
	In € billion	As a % of the GDP	In € billion	As a % of the GDP
IR-CEHR	47.4	2.4%	88.6	3.1%
CSG	84.0	4.2%	148.0	5.2%
Solidarity levy	3.3	0.2%	14.2	0.5%
CRDS	6.6	0.3%	8.9	0.3%
CASA/CSA	2.4	0.1%	3.1	0.1%
Total	**143.7**	**7.2%**	**262.8**	**9.3%**

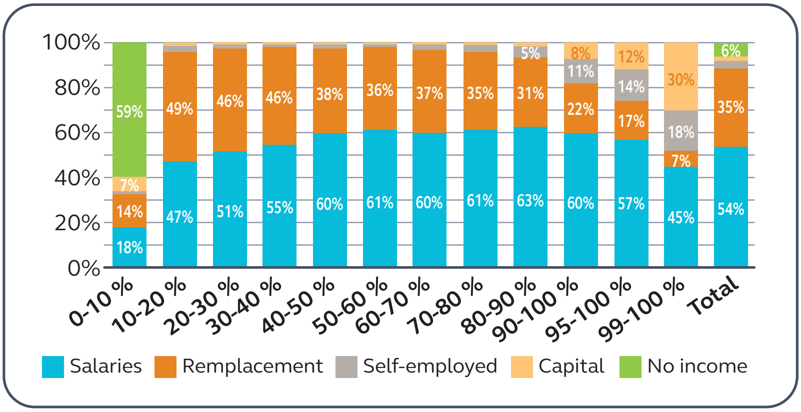
Source: Insee, 2020 baseline. Net revenue from tax credits

However, the level of revenue from personal income taxes in France remained close to the average figure for OECD Member States in 2021 (8.3%) and lower than most of its main partners and neighbours: Germany (10.5%), Belgium (11.3%), Italy (11%), the United Kingdom (10%) and even Luxembourg (10.1%). Only Spain and Switzerland had a lower level (8.6%).

Introduction

These taxes apply to different types of income, which are treated differently under tax rules. In 2023, €841 billion of earned income, €411 billion of replacement income, €84 billion of self-employed income and €138 billion of capital income were declared as subject to Personal income tax (IR). The composition of income between these different sources varies widely according to the income level. Replacement income (pensions and unemployment benefits) accounts for 49% of the income for tax households in the second tenth of the population in terms of income, but only 7% of the income for tax households in the wealthiest tenth of income. Conversely, the share of capital income rises with the income level, reaching 30% of the income for households in the last hundredth of income, 61% of those in the last thousandth of income, and up to 86% of the income for the 4,000 tax households in the last ten thousandth of income.

Composition of declared income by tenth of income



Source: Belkhir, Garrigue, Personal income tax progressivity, CPO, «Reinforcing income tax equality for citizens», October 2024

Insofar as there are no public financial documents that present an overall view, the CPO has chosen to examine whether personal income taxes, when analysed together, continue to meet the objective that they were intended to achieve, i.e. **does their combination result in a coherent contribution, using all the income to fund public spending, and divided equally among all citizens according to their means?**

1 A progressive system...

Overall, the calculation of the IR and CEHR taxes is based on a «real» scale that comprises seven bands (0% to 49%) for a single person, with the highest bands focused on the highest incomes. In 2023, it is estimated that only 18.5 million of the 40.2 million tax households will pay this tax, and 12.7 million of them were in the first 11% band. Only 5.5 million households saw part of their income taxed in the 30% band (14% of all tax households), and only 300,000 households in the 41% or higher bands (0.75% of tax households).

Consequently, it can be estimated that **73.5% of personal income tax (before tax credits) was paid by the wealthiest 10% of the population in 2023.** Overall, the distribution in the personal income tax burden has hardly changed since the Conseil des Impôts, forerunner of the Council of Mandatory Levies, published its report on the subject some 50 years ago (1974).

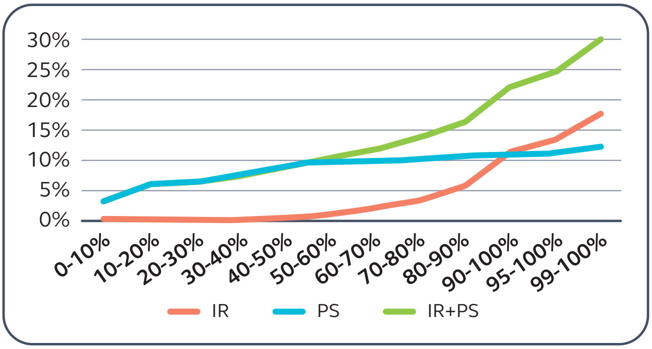
Share of certain categories of taxpayers in personal income tax (1974-2024)

	1974	2024
Wealthiest tenth of income	68.1%	73.5%
1%	29.3%	32.5%
0.1%		13%
0.016%	3.6%	
0.01%		5%

Sources: Council of Mandatory Contributions, 1974 and 2024

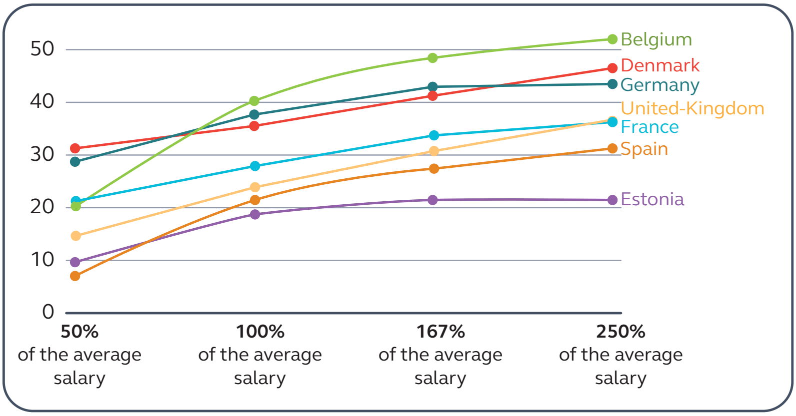
However, social levies are paid by everyone who receives labour or capital income. These types of income are subject to proportional taxation on a broader base, starting from the first euro, at rates of 12.8% and 17.2% respectively. Only replacement income is entitled to a reduced social levies rate (and even exemption for households on the lowest incomes).

Average tax rate per declared tenth of income



Source: Belkhir, Garrigue (2024), CPO, RP2, op. cit.

Trend in the average rate of mandatory taxation paid by individuals, excluding employers' contributions, by wage level in the target countries (2022)



Source: Besly, Legros, International comparison of personal income tax systems, CPO, «Reinforcing income tax equality for citizens», special report no. 3, October 2024

Combining these two taxes results in high theoretical rates that only imperfectly reflect the tax burden on households.

Taxpayers with the lowest incomes are likely to be taxed from the first euro, whereas other countries (Belgium, Spain and the United Kingdom) have taken measures to exonerate the lowest incomes from tax. Nevertheless, the average effective tax rate for households in the first tenth of income remains below 5%.

The wealthiest taxpayers may be subject to a high marginal rate on their income net of expenses of up to 61% in the case of salaries. However, in light of the scale and composition of income, the average tax rate for the wealthiest 1% is 30%.

Overall, the calculations performed when preparing this CPO report show that **France occupies an intermediate position in terms of the progressivity of payroll taxation within a sample group of seven countries with very different social protection models.**

However, the overall observation of progressivity down to the last hundredth of income applies only to income declared by households. Recent studies show that some taxpayers may have an "economic income" that is equal to the sum of their income and the income from the companies that they control, and which is potentially much higher than the declared income. That explains why the finding presented in this section does not contradict recent studies showing that the tax rate relating to such "economic income" is lower, or even decreases for very high incomes.

2 ...taking account of the family structure

Joint taxation of members within the same tax household is a defining feature of the IR and CEHR taxes. However, social levies are calculated and paid individually. Only reduced rates on replacement income are subject to income thresholds, which take account of the household's overall income and tax units, based on the personal income tax model.

Couples with high but mixed incomes benefit from the full effect of the marital quotient system (QC). Joint income taxation is associated with the allocation of two QC shares, which results in tax savings for couples with different incomes compared to tax calculated on an individual basis. This tax saving, which aims to take family expenses into consideration, i.e. mutual civil obligations resulting from marriage or civil partnership, can be up to €35,355 per household. In total, the tax saving from the QC effect alone is estimated at €12.5 billion, including €5.9 billion for households in the last tenth of income, and even €1.9 billion for those in the last hundredth of income.

On the other hand, middle-class couples are at a disadvantage compared to single people due to the French tax haircut ("décote") mechanism. This "décote" is a complex mechanism that was originally intended to provide childless single people with a smooth entry into the tax system. Consequently, they benefit from a «real scale» that is more favourable than the scale set out in the General Tax Code. However, couples with a per-unit income of between €11,294 and €28,797 are subject to an alternative «real scale», which is less favourable than the scale for single people. This means that a couple with an income of €20,000 each will have to pay €304 more tax than two single people on the same income. **As a result, three million middle-class tax households lose out with the joint taxation system.**

To overcome this issue, the CPO is proposing that the "décote" should be fully couple-based, which would cost the public finances €1.3 billion, but would also help remove what is a highly complex mechanism and benefit middle-income households.

This reform, which would give full effect to the marital quotient system for the middle classes, would go hand in hand with a limitation in its effects at the end of the distribution, in the form of a ceiling on the tax savings associated with the QC for the wealthiest households. The increase in revenue for the State would equate to €1.1 billion with a ceiling of €10,000. To calculate the tax savings and check for compliance with the ceiling, only income already declared on an individual basis (labour income and pensions) would be taken into consideration. Alternatively, other income could be declared separately, but this would increase reporting obligations for the taxpayer and complicate tax management procedures for the authorities.

The CPO also proposes that child maintenance costs should be better valued. Making the "décote" fully family-based would cost €1.5 billion (in addition to the cost of making the relief couple-based, as discussed above) and would benefit families, with a tax saving of almost €1,000 for a single parent with one child and an income of €40,000. Similarly, increasing the ceiling for the family quotient (QF) could be considered, since this is reached by tax households on intermediate incomes, which are situated in the eighth tenth of the distribution. However, this measure would entail significant costs, i.e. €0.8 billion to raise the ceiling on the family quotient half-share from €1,759 to €2,000.

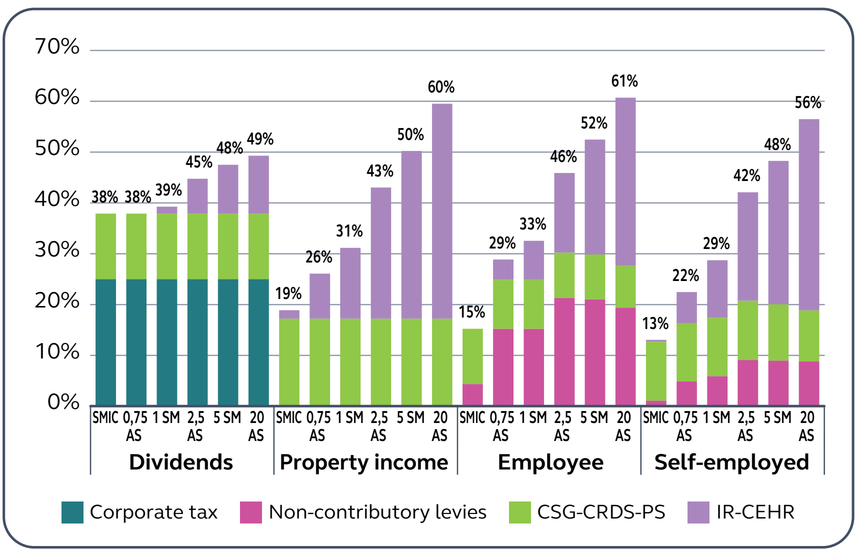
Lastly, the allocation of «additional» QF half-shares should be harmonised and restricted to taking account of actual expenses. On the one hand, these half-shares are capped at variable levels without any justification or overall vision. On the other hand, some additional half-shares do not always correspond to current expenses. This is the case for the half-share benefitting to single people who have raised a child alone for five years continue to receive. **This tax expenditure, which cost around €0.6 billion in 2023, could be abandoned.**

3 Tax differences between different types of income

There is no legal or economic principle that requires different income categories to be treated identically in terms of income taxation. However, ever since the personal income tax (1914) and CSG (1990) systems were created, legislators have endeavoured to balance the tax burden between the different types of income.

In practice, there are still variations in the tax rates applied to different types of income. To assess the consistency of the applicable tax schemes, the CPO's rapporteurs calculated the cumulative tax rates applied to the different types of income by taking income taxation in the strict sense of the word and adding the upstream taxation on distributed profits to corporation tax as well as non-contributory social welfare levies. For example, the average cumulative economic tax rates for a single person earning 20 times the average salary are: 49.4% if exclusively dividends, 56.5% self-employed income, 59% property income or 60.7% salaries.

Cumulative economic tax rates on dividends, property income, income from salaried employment and income from self-employment, at different income levels (from 1 minimum wage to 20 times the average salary)



Source: Melot, Repetti-Deaiana, Differences in treatment between income categories, CPO, «Reinforcing income tax equality for citizens», special report no. 1, October 2024.

Salaries: additional remuneration subject to favourable schemes

Salaries may be subject to highly progressive cumulative tax rates (from 15% to 61%), but the development of tax-exempt salary supplements is eroding tax equality. Some ancillary or supplementary employee income is exempt from Personal income tax (for a total tax expenditure of €5.7 billion) and even from social levies in some cases (€1.5 billion), such as profit-sharing and incentive schemes, overtime, bonus shares, luncheon vouchers and holiday vouchers. There is also the wealth-sharing bonus, which is not assessed as a tax expense, even though it comes with various advantages, including exemption from Personal income tax and social levies for remuneration of less than three times the minimum wage paid by a company with fewer than 50 employees.

These advantages now account for 13.2% of the total payroll, but for some employees they may represent a more significant share of their salary. For example, for a salary equal to 1.25 times the minimum wage, salary supplements can represent up to 46% of the total income by law. The tax benefits derived from the cumulative use of salary benefits as a substitute for wages are greatest around the average wage, where they reduce the cumulative «economic tax» rate by 12 points, or almost a third.

The decision to not extend the wealth-sharing bonus, which continues to be a legally fragile and poorly managed system, would provide a partial solution to this problem of accumulation, generating between €220 million and €330 million in additional tax revenue.

In the medium term, the CPO considers that a review is required into the other salary supplement schemes examined in this section, based on an assessment of their efficiency (i) in achieving public policy objectives where applicable, and (ii) in terms of the risk of substituting the employee's basic salary.

Pensions: tax benefits that warrant better targeting

Firstly, pensions benefit from a 10% allowance, which has the effect of reducing the taxable income. This advantage, which can produce tax savings of over €1,850 a year and has a total cost of €4.6 billion, benefits almost 30% of the households in the wealthiest tenth of income. The CPO considers that the aim of this measure, which is to «help retired people», is too general and poorly targeted, in light of the wide range of situations for retired people and the constant rise in the standard of living for this category of the population compared to younger people.

This allowance for pension income alone is combined with an allowance on the overall income base for income tax purposes for taxpayers aged over 65 or with disabilities, which is effectively subject to not exceeding a certain income level (€27,670 for a single person).

Secondly, retirement and disability pensions benefit from a double advantage in terms of social levies. On the one hand, they are entitled to lower CSG rates, subject to income conditions: a single person on a pension of up to €29,094 will be eligible for the reduced CSG rate of 6.8%. On the other hand, above this threshold, a special CSG rate of 8.3% (compared to 9.2% for working people) continues to apply: for a person receiving pensions equal to 2.5 times the average wage, the benefit granted by this special rate can be close to €1,000 a year.

The CPO recommends refocusing the benefits granted in terms of personal income tax in the form of a single mechanism that could be re-centred on modest and intermediate households. It could take the form of a single deduction from categorical income (pensions and life annuities), at a flat rate and capped at a certain level of income. If this deduction were calibrated in such a way as to exactly replace the two previous mechanisms for households up to the ninth tenth of income (where households above this level would only lose the benefit of the allowance), this reform would bring a budgetary gain of at least €1.3 billion. In terms of the CSG, the standard rate (9.2%) could also be applied for pensioners belonging to the wealthiest tenth of income, with a yield of €0.5 billion.

Property income: ending the distortion between furnished and unfurnished tenancies

Unlike income from unfurnished tenancies, income from furnished tenancies can be reduced by applying depreciation to the rented property, i.e. an amount that is supposed to reflect its loss of value. The advantage is highly substantial: the typical cases examined by the CPO show that the authorised deductions can exceed 75% of the rental income or even lead to the artificial creation of a property deficit.

The Finance Act for 2024 did not substantially rectify this disparity. Following on from the CPO report on housing taxation (2023), this Act may have reduced the advantages of the micro-BIC scheme by allowing a flat-rate deduction of 70%. However, the micro-BIC scheme only applied to a minority of furnished tenancy income: less than 20% of the rental income in the last decile was subject to this scheme, compared to 80% under the «real» scheme, since the advantage of deducting depreciation was greater. However, the loss of the property asset's value (building envelope, fixtures and fittings, front, equipment, etc.) is identical in the case of an unfurnished or furnished tenancy, whereas in the case of an unfurnished tenancy, it is not recognised by tax law. **Therefore, the CPO recommends challenging the very principle of the option for depreciating property in the case of a furnished tenancy.**

Dividends and capital gains: limiting concurrent benefits

Since the 2018 Finance Act became effective, dividends and capital gains on securities have been subject, on option, to a single withholding tax (PFU) of 30%, to which the CEHR tax may be added. Although the cumulative tax rate on dividends in France still ranks among the highest in OECD member countries, France is now one of the countries that taxes capital relatively less than labour for very high incomes (-11 points at 20 times the average salary). 91 % of the advantage of being taxed under the PFU instead of the tax scale is concentrated on the wealthiest hundredth of the population. Nevertheless, assessments into the introduction of the PFU have shown that the reform, given the increase in dividends and capital gains (+157% in dividends between 2017 and 2022), has not led to any losses for public finances. Implementing the PFU, combined with other reforms (reducing corporate income tax, transforming wealth tax into a tax on personal property assets), has also been accompanied by a fall in the number of expatriates and a rise in the number of wealthy impatriates. Initial evaluations for the period 2017-2022 do not show any other significant effects on the financing of the economy. **For tax stability reasons, the CPO recommends keeping the PFU tax as it stands and continuing evaluations.**

However, a number of adjustments would be desirable.

Payments into a PER (retirement savings plan) can be deducted from taxable income, but the annuity or lump-sum payment is reintegrated into the taxable income when it is released. However, if the PER is transmitted on to heirs, and in addition to the inheritance benefits that they are likely to enjoy, they will not be subject to income tax when the sums are released. **To avoid concurrent benefits and refocus the PER on its function as a true retirement savings mechanism, the CPO recommends regulating the age required to release the sums.**

Since a company's non-distributed income (constituting «unrealised capital gains») is not subject to income tax, its shareholders may see a substantial difference between their «economic income» and their effectively taxable disposable income. This means that they can control their taxable income, particularly when holding companies are involved.

In light of constitutional constraints, income taxation does not appear to be the most appropriate instrument for addressing the issue of non-distributed income from cash boxes.

However, income taxation should not facilitate tax avoidance, unlike what can be seen today with the transfer of assets regime (150-0 B ter of the General Tax Code). This system, which is not monitored as a tax expenditure, allowed €13 billion in new capital gains to be exempt from taxation in 2021 alone in the form of deferred taxation, which was concentrated almost exclusively on the wealthiest 0.01% of tax households (99.99%). This system is used to encourage capital gains to be reinvested in the economy, but the conditions for continuing to defer taxation are not restrictive enough. In 2021, the capital gains actually taxed (when the deferral period expired) only represented 3.8% of the new capital gains deferred.

Therefore, the CPO recommends broadening the situations where tax deferral is terminated when the holding company disposes of the securities contributed: (i) by significantly extending the period during which the condition for reinvestment is verified, currently set at three years, (ii) by establishing the rule that tax deferral is only maintained in proportion to the sums reinvested - whereas under the current framework, reinvesting 60% of the sums is enough to maintain 100% of the deferral.

Similarly, the decision not to tax the capital gains realised before a gift or inheritance for personal income tax and social levies is only justified if the inheritance taxes (DMTG) are capable of ensuring a satisfactory level of taxation of the corresponding enrichment. Unlike several European countries, the rules for calculating capital gains in France mean that the enrichment arising from the increase in an asset's value is not subject to personal income tax if the asset is donated or inherited. However, such enrichment is taxed under the DMTG scheme at the time of transfer. However, overall tax fairness is undermined when the DMTG on the transfer of shares and securities is reduced. Therefore, the overall tax rate (for personal income tax and then for the DMTG duty) on earned income that would have been saved and then passed on can, in some circumstances, exceed 70%, while the tax rate on business assets passed on can be limited to 5.65% under certain schemes.

Broaden the reference taxable income (RFR) to take better account of taxpayers' ability to pay when accessing social welfare benefits and local taxes

The RFR, which is determined from income tax returns, is aimed at measuring taxpayers' actual ability to pay tax. It is broader than taxable income for income tax purposes and is widely used for applying certain taxes (property tax, CSG, CEHR, etc.), accessing certain social welfare benefits, or pricing public services (school meals, etc.). However, the CPO notes that 177 examples of income tax-exempt resources or income are not included in the RFR, such as social welfare benefits, salary supplements (profit-sharing and luncheon vouchers) and income from assets (income from regulated savings, share savings plans, capital gains on property). Although some constraints, such as the administrative burden of having to declare certain types of exempt income, may justify the reason for disregarding them in the RFR, this decision must be the result of an explicit choice by the legislature. **The CPO recommends establishing the rule that all income net of expenses should fall within the scope of the RFR, except where tax law provides otherwise.**

4 Tax credits and reductions concentrated on certain taxpayers with sometimes uncertain justifications

The tax credit for employing someone to work in the taxpayer's home (€5.9 billion in 2023) is equal to 50% of the expenses incurred and is capped in principle at €6,000 (i.e. €12,000 of eligible expenses). This tax credit is concentrated in the wealthiest households. The use of this scheme is less than 10% at the 70th percentile, 20% at the 90th percentile, 30% at the 95th percentile and over 50% at the 99th percentile. In line with the recommendations issued by the Cour des comptes (2024), it would be appropriate to reduce support for the activities of daily living to a level that is sufficient to tackle undeclared work, while preserving activities relating to independent living or childcare. **For the first category of expenditure, the tax credit rate could be reduced to 40%, which would save the State around €770 million.**

The tax reduction for donations (€1.7 billion in 2023) is equal to 66% of the amount paid, up to a limit of 20% of the disposable income. The CPO notes that a number of criticisms have been levelled at this mechanism: in comparison to other European countries, this scheme has the highest rate, it does not benefit non-taxable households, and finally it is the only tax break or tax credit scheme without a value cap. However, due to the scheme's concentration, imposing a value cap would be likely to cause a substantial fall in donations from high-income earners to associations, for a limited return to the budget. A €2,000 ceiling on the impact of tax breaks for donations, for a budget saving of €0.5 billion, would have the result of withdrawing tax relief from 25% of all donations declared by households. **The CPO recommends reducing the amount of the benefit to 50% of the donation, supplemented by a gift aid mechanism whereby the donation from a taxpayer who does not benefit from a tax break triggers a public subsidy of a proportional amount paid to the beneficiary association.**

The tax break for investments made in French overseas territories (€589 million in 2023) is by far the largest support scheme for investments by individuals. This tax expenditure is highly concentrated at the top of the distribution: 84% of the 28,935 beneficiaries in 2020 belonged to the last tenth of income, and even 52% in the last two hundredth of income. A report by the Inspectorate-General of Finance (2023) shows that this system is plagued by abusive practices. Finally, preferable alternative schemes are already available, especially a tax credit that directly benefits companies making productive investments. **Therefore, the CPO recommends abolishing the tax break scheme benefiting individuals.**

The tax break for school fees (€433 million in 2023) is highly concentrated at the top of the distribution, unlike the allowance for the start of the new academic year: the three highest deciles of income taxpayers account for 66% of beneficiary households for secondary school, 67% for college and 75% for higher education. This concentration can be explained by the tax reduction mechanism, which only benefits taxable households, but also by a probable lack of use. **This concentration, when combined with its lack of incentive and low amount, justifies the abolition of the tax break scheme.**

Tax breaks and credits

Main tax credits and breaks	Number of beneficiary households	Amounts granted	Average amount per beneficiary household
Units	**In millions**	**In € billion**	**In euros**
Tax credits: Total	**8.1**	**8.4**	**1,046**
Employing someone to work in the taxpayer's home	4.6	5.6	1,204
Out-of-home childcare costs	1.9	1.6	857
Payment of union fees	1.3	0.1	113
Tax breaks: Total	**7.0**	**8.3**	**1,175**
Taxation of foreign-source income	0.4	2.6	7,324
Donations to charitable organisations	3.3	1.3	411
Pinel tax break for buy-to-let investments	0.3	1.4	4,026
French Overseas territories productive investments	0.1	0.7	14,566
Scellier scheme for buy-to-let investments	0.1	0.4	3,413
Children's school fees	2.5	0.5	183
Donations to people in need	1.9	0.5	246
Dependency costs	0.2	0.3	1,180
Duflot scheme for buy-to-let investments	0.0	0.1	3,506
SME capital subscription	0.1	0.1	2,291
Tax credits and breaks: Total	**12.0**	**16.7**	**1,388**

Source: Mazeau, Suard, Tax expenses and other tax benefits, CPO, «Reinforcing income tax equality for citizens», special report no. 5, October 2024

Baking personal income tax equality for citizens

There is a lack of consistency in the overall ceiling for the tax credits and breaks that a tax household can benefit from. At first sight, the overall ceiling appears to be rigorous: in the absence of any revaluation, the €10,000 ceiling created in 2009 has fallen by 68.4% at constant euro rates. In reality, however, 20 tax breaks or credits escape the overall €10,000 ceiling (investments in French overseas territories, Sofica, Malraux, Denormandie, expenditure on accommodation in a long-term care facility, school fees, etc.), without any justification or overall coherence. Furthermore, the ceiling is not adjusted to reflect the composition of the tax household, which puts couples and families at a disadvantage. **The CPO recommends that all tax breaks and credits, with the exception of tax breaks for donations, should be included under a single ceiling adjusted according to the composition of the tax household and the existence of any dependent adults or children.**

5 A «tax compact» undermined by tax fraud and evasion

Progress may have been achieved, but greater efforts are needed to tackle international personal income tax avoidance.

Firstly, arrangements have not been sufficiently developed for exchanging information between countries about the beneficial owners of companies. While the European Union (DAC-5 Directive) now requires Member States to collect and share this information, this is not the case at a broader level, despite ongoing work. Firstly, the OECD has not established any standards for automatically exchanging information in this area. Secondly, when it comes to «on-demand» exchanges, as of 8 November 2023 only 50% of the countries assessed by the OECD Global Forum were in a position to exchange information to a satisfactory standard.

The CPO believes that information about beneficial owners is needed to stamp out international strategies for avoiding personal income tax. To encourage the work carried out within international and European bodies, France could **add States with an insufficient level of information sharing to the «blacklist» of non-cooperative countries and territories (NCCTs).**

Secondly, competition has intensified between countries to attract the tax residence of wealthy taxpayers, which is having a detrimental effect on the ability to lead public policies. On the one hand, countries are witnessing the development of «preferential schemes», where the total number of beneficiaries in Europe is estimated to have climbed from 50,000 to over 250,000 since 1994. France is not exempt from similar mechanisms that are already in place or in the pipeline (impatriation scheme, planned personal income tax exemption for employees of sports federations, etc.). On the other hand, many countries have no income tax at all (United Arab Emirates), apply a set tax rate (Switzerland) or exempt major components of this income for the most affluent, such as non-professional capital gains (Belgium). As far as this last point is concerned, although EU Member States have the option of introducing a defensive mechanism to tackle such harmful competition, i.e. the exit tax, France is struggling to come up with a lasting and effective mechanism.

The CPO recommends launching work within the OECD as part of a three-step process: (i) define harmful tax practices in the area of personal income taxation, (ii) set up a peer review and establish a related «blacklist», and (iii) ultimately launch a project on minimum personal income taxation.

6 The fight against fraud is a key aspect of the «tax compact»

Tax fraud is an offence committed through the intentional behaviour to fraudulently evade tax. The French have a paradoxical view of fraud: only 44% of those polled believe that there can never be any justification for cheating on tax and social security contributions. However, 55% of the French people questioned were in favour of increasing public funds to tackle the various types of fraud (and only 10% wanted to reduce them).

In terms of income taxation, this phenomenon is still something of a grey area: France does not produce any assessments into tax evasion or the tax gap in this area (unlike 38% of high-income countries as defined by the IMF).

For both personal income tax and social levies, there was a downward trend in the total number of audits carried out by the DGFiP (Directorate General of Public Finance) and URSSAF (national social security organisation) respectively up to 2023. On the one hand, programming increasingly uses data mining. On the other hand, when it comes to social levies, audits are being refocused on the fight against unlawful employment. Even though this strategy appears to be fully warranted, the CPO calls for vigilance due to the very low rate of amounts that have been recovered through efforts to eliminate unlawful employment: between 4% and 10% recovered within two years, compared to between 60% and 80% for other URSSAF audits. **These challenges mean that the DGFiP and URSSAF need to continue coordinating their efforts when it comes to audits, rectifications and tax debt collection.**

Lastly, anti-fraud procedures require greater coordination between the courts. Firstly, automatically referring the most serious cases to the public prosecutor's office has given the criminal courts a central role in the fight against income tax fraud. However, constitutional case-law requires improved coordination between tax judges (who may be appointed to settle disputes about the amount of tax due) and the criminal courts responsible for punishing tax fraud offences. Secondly, tax collection litigation continues to be an excessively complex process for taxpayers. In this respect, the CPO proposes that tax collection litigation should be brought under the sole jurisdiction of the tax judges.

Conclusion

The CPO believes that income tax equality for citizens could be reinforced in four areas:

- **Improve how tax takes account of the family structure, while allowing for greater progressivity;**
- **Ensure greater consistency in the tax treatment for different income categories ;**
- **Limit the concentration of income tax credits and breaks;**
- **Step up the fight against fraud and establish an international framework to tackle harmful tax practices.**

Depending on the parameters used, the proposed measures will provide a targeted way of maintaining or increasing the yield from income tax and CSG, while reinforcing both horizontal and vertical equality in terms of income taxation. The «winners» from these reforms will be spread between the sixth and ninth tenths of income, while the «losers» will be concentrated mainly in the last two tenths of income. Still, the tax burden will not become confiscatory for these households.

This would strengthen the «tax compact» that places personal income taxation at the heart of our social contract, without damaging our public finances.

Conclusion

Financial summary of recommendations

Guideline	Impact on public finances (in € billion)
Improve how tax takes account of the family structure, while allowing for greater progressivity *Where the tax relief is couple-based and family-based* *Where the dependent spouse allowance is capped (€10,000)* *Where the family quotient ceiling is increased*	**Between -1.9 and -3.2** *-2.8* *+1.1* *From -0.8 (€2,000) to -2.1 (€2,500)*
Ensure greater consistency in the tax treatment for income categories *Where pension benefits are means-tested*	**Between +1.7 and +2.1** *From +1.4 to +1.8*
Limit the concentration of income tax credits and breaks on certain taxpayers *Where the tax credit rate for human services is reduced to 40%, excluding childcare and dependency care*	**+1.5** +0.8
Step up the fight against income tax fraud and establish an international framework to tackle harmful tax practices	**No figures**
SUMMARY	**Between 0 and +1.7**

Source: CPO, 2024

List of recommendations

Guideline 1: Improve how tax takes account of the family structure, while allowing for greater progressivity

Recommendation 1: Give full effect to the dependent spouse allowance for the middle classes by making the "décote" couple-based and limit the advantage enjoyed by the wealthiest households by setting a ceiling.

Recommendation 2: Improve how personal income tax takes account of family expenses by making the tax relief mechanism family-based and increasing the ceiling on the family quotient.

Recommendation 3: Abolish the additional half-share that benefits people living alone who have raised children for five years that are no longer dependent on them, since it does not correspond to any actual dependents covered by the tax household at the time that the tax is paid.

Guideline 2: Ensure greater consistency in the tax treatment for different income categories

Recommendation 4: In the short term, do not extend the wealth-sharing bonus beyond 31 December 2026. In the medium term, conduct an assessment into the tax benefits associated with the other salary supplements.

Recommendation 5: Means-test tax benefits for people receiving a pension.

Recommendation 6: In the future, abolish the option of depreciating property as part of the income tax treatment of furnished tenancies.

Recommendation 7: Refocus the retirement savings plan on its function as a true retirement savings mechanism by regulating the age required to release the sums.

Recommendation 8: Broaden the cases for challenging the transfer of assets scheme when the securities contributed are transferred in exchange beyond the sole condition of reinvesting 60% of the sums within three years.

Recommendation 9: All income net of expenses should be reintegrated into the reference taxable income, with the exceptions provided for by law.

Guideline 3: Limit the concentration of income tax credits and breaks on certain taxpayers

Recommendation 10: Reduce the «human services» tax credit rate to 40%, excluding childcare and dependency costs.

Recommendation 11: Abolish the tax break for school fees, since it overlaps with the new academic year allowance.

Recommendation 12: Streamline tax benefits for French overseas territories by prioritising tax credits for companies making direct investments.

List of recommendations

Recommendation 13: Reduce the rate of tax breaks on donations from 66% to 50% of the value of donations made and combine this tax break with the payment of a public subsidy adjusted to reflect the amount of donations received from resident individuals who have not benefited from a tax break.

Recommendation 14: Include all tax breaks and tax credits, with the exception of tax breaks for donations, under a single ceiling adjusted according to the composition of the tax household and the existence of any dependent adults or children.

Guideline 4: Step up the fight against income tax fraud and establish an international framework to tackle harmful tax practices

Recommendation 15: Finalise the process of incorporating the transparency obligation for beneficial owners into the criteria for inclusion on the «black list», if necessary based on the rating established by the Global Forum of the Organisation for Economic Co-operation and Development (OECD).

Recommendation 16: Encourage international work on harmful tax practices relating to personal taxation.

Recommendation 17: Improve coordination between the DGFiP (Directorate General of Public Finance) and URSSAF (national social security organisation) in terms of audits, rectifications and tax debt collection.

Recommendation 18: In criminal matters, ensure greater coordination between the tax and criminal courts. Simplify the division of powers with regard to collection litigation by entrusting such cases to the tax judge rather than the enforcement judge.