France politics

France's wealth tax riles and divides presidential candidates

Amid cries for tariffs on rich, critics say it drives entrepreneurs away

The wealth tax has become a talking point in the French presidential campaign © AFP

APRIL 10, 2017 by: **Harriet Agnew** in Paris

When Olivier moved from France to Belgium in 2008, one thing the entrepreneur sought to leave behind was the wealth tax. "I wanted to break free," he says.

Few things illustrate France's ambivalent relationship with money better than the wealth tax. In the 35 years since it was introduced it has been abolished, reinstated and reformed by successive governments. Now, once again, the divisive tax — known as the *impôt de solidarité sur la fortune*, and levied on those with personal assets of at least €1.3m — is a talking point in the presidential campaign.

Centre-right candidate François Fillon wants its abolition. Emmanuel Macron, the centrist frontrunner, wants it to cover only property, excluding investments that he says would allow more savings to be channelled into the real economy. Both want a package of fiscal reforms aimed at dragging the eurozone's second-largest economy out of years of anaemic growth.

Yet other candidates are making hay with a message of a greater assault on wealth. "Greed must be done away with for virtue," Jean-Luc Mélenchon, the far-left candidate, has exhorted, campaigning on a platform that includes a 100 per cent top rate of income tax, for those earning more than €360,000 a year.

Meanwhile far-right leader Marine Le Pen has seized upon Mr Macron's stint as an investment banker at Rothschild to disparage him as the "candidate of finance". Polls predict a second round run-off between Ms Le Pen and Mr Macron.

Critics of the wealth tax say it inhibits wealth creation and, combined with France's high level of capital gains tax, drives entrepreneurs out of the country. With them go jobs, investment and innovation — not to mention other tax revenues.

The wealth tax costs France more than it yields, says Eric Pichet, a professor of economics at finance at Kedge Business School, who calculates that the country loses €5bn in tax revenues each year because of people who leave to avoid paying the tax. He estimates that the resulting lack of investment could cost at least 0.2 per cent of annual gross domestic product.

"The wealth tax is often seen by the rich as unfair, as its weight is no longer in line with the current return on assets," says Vincent Lazimi, a partner at law firm Vaslin Associés. "There has been an acceleration of departures from France due to the unstable nature of the policy. Removing it would be a good signal and should help change the perception of France abroad."

Since 2000, France has experienced a net outflow of 60,000 millionaires, according to research group New World Wealth. "Removing the wealth tax would help to repatriate the wealth of people who've moved to Belgium, Switzerland or other countries and lead to stronger investment in France," says Eric Chaney, economic adviser to the Institut Montaigne, a French think-tank. "More investment means more competitiveness and more growth."

The wealth tax directly affects those with personal assets of €1.3m and above — a tiny minority of France's 67m population. In 2015, a total of 343,000 households paid €5.22bn, an average of about €15,200 per household. It accounts for less than 2 per cent of France's tax receipts.

But, as previous governments have recognised, removing the wealth tax is as contentious as levying it. Any measure perceived to help the rich would find short shrift with voters in a country with unemployment at 10 per cent.

"It was a political decision when the wealth tax was put in place. Since then no politician has had the courage to stop it as it would send a very bad message to the majority of the electorate," says Vincent Schmitt, a partner at De Gaulle Fleurance & Associés in Paris.

Mr Chaney says Mr Macron's proposal to replace wealth tax with a property tax would have "some impact on corporate investment, inflows and competitiveness" but reckons that these benefits would be more muted than if it were removed completely. "People who moved to neighbouring countries would think twice about moving back," he adds.

Others believe Mr Macron's proposed reform of the wealth tax does not go far enough. "For a lot of people, not just high-net-worths, real estate is a very significant part of their assets, and they would still get caught by the wealth tax," says David Blanc, a partner at wealth manager LGT Vestra. Even small-scale farmers and fishermen on the Île de Ré, an island on the Atlantic coast frequented by the wealthy, have found themselves caught by the tax because of rising property prices.

Another consideration in the future of the tax is cross-border competition. France must reckon with other jurisdictions wanting to lure the wealthy; it also wants to use the opportunity provided by Brexit, which could prompt some businesses — and wealthy individuals — to move from the UK. Britain is also overhauling its long-term "non-domicile" regime for foreigners, which has pushed many of them to evaluate their future in the UK.

Last July France revealed its own incentives for executives considering France as a base, including the right to exclude foreign properties and assets from the calculation of wealth tax for eight years, up from five years currently.

If one of the advocates of abolishing the wealth tax does make it to the Elysée Palace, the main challenge might still be to give voters confidence that any improvement in the fiscal environment was a long-term commitment rather than something that could change with the political wind.

As Mr Lazimi says: "You can't dismiss the possibility that the wealth tax is suppressed but then in several years' time another government brings it back."

The Wealth Tax Explained

France's "'impôt sur la grosse fortune" was created in 1982 under socialist president François Mitterrand and was abolished by Jacques Chirac's government in 1987, before being reinstated as the "'impôt de solidarité sur la fortune" (or ISF) a year later.

It affects taxpayers whose total personal net assets (gross assets minus debt such as mortgages or loans) are at least €1.3m. The rate starts at 0.5 per cent and increases to 1.5 per cent for assets of €10m and above.

Taxable assets include real estate, cash, savings and financial securities. Works of art are exempt, while main residences enjoy a 30 per cent tax relief. The tax can also be partially offset by investing in the capital of small and medium-sized companies.

Under a "wealth shield" created under President Nicolas Sarkozy, the total of income tax and wealth tax cannot exceed 75 per cent of overall net income.

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