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How can the structure of taxation in France be improved?

In France, the tax burden in 2024 amounts to 44.7% of GDP, whereas it is only 40.6% in Germany and 40.1% for the European Union as a whole. We are seeking to identify the source of the difference in tax burden between France and Germany (4.1 percentage points of GDP).We observe that it does not result from:

- social security contributions (which weigh less heavily in France than in Germany); the tax wedge (the gap between the cost of labour for the firm and take-home pay for the employee) is higher in Germany (47.9%) than in France (47.2%);
- the taxation of corporate profits or household income (with very similar tax rates in France and Germany);
- VAT (whose weight is broadly similar in France and Germany).

It results from:

- the weight of capital taxes (0.7 percentage points of GDP in France, 0.2 percentage points of GDP in Germany);
- the weight of inheritance taxation (1.3 percentage points of GDP in France, 0.4 percentage points of GDP in Germany);
- and above all taxes on production and imports (15.6 percentage points of GDP in France, 10.4 percentage points of GDP in Germany), with the gap in the weight of production taxes (3.4 percentage points of GDP) being particularly large.

The most urgent priority for reforming the French tax system is therefore to reduce production taxes. Rather than focusing on shifting social security contributions (paid by employers or employees) towards VAT, it would be preferable to consider shifting production taxes towards VAT in order to eliminate the competitiveness problem resulting from the heavy burden of production taxes.

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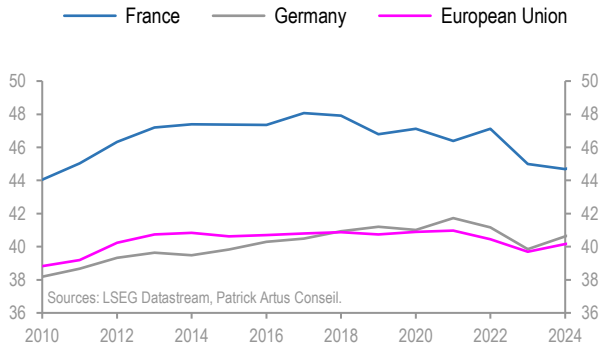
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What does not explain the difference in the tax burden between France and Germany

In 2024, the tax burden was 4.1 percentage points of GDP higher in France than in Germany (**Chart 1**) and 4.9 percentage points of GDP higher in France than in the European Union as a whole.

Chart 1
Tax burden (as % of nominal GDP)

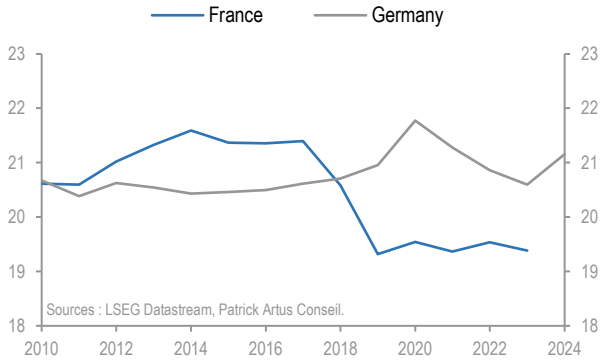


We focus on the **specific features of the French tax system**. We do not address here the issue of the level of public spending, but rather that of the structure of taxation. Our analysis centres **on the differences between France and Germany**.

The gap between the tax burden in France and that in Germany:

- **Does not stem from the weight of social security contributions** (they are higher as a percentage of GDP in Germany than in France, **Chart 2**);

Chart 2
Net social contributions (as % of nominal GDP)



- **Does not stem from the taxation of corporate profits or household income** (whose weights relative to GDP are similar, **Charts 3A/B**);

Chart 3A
Corporate income taxes (as % of nominal GDP)

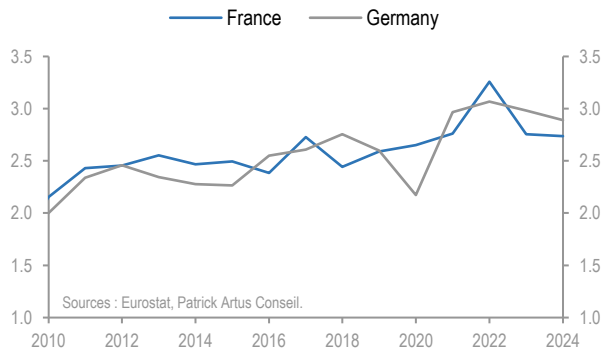
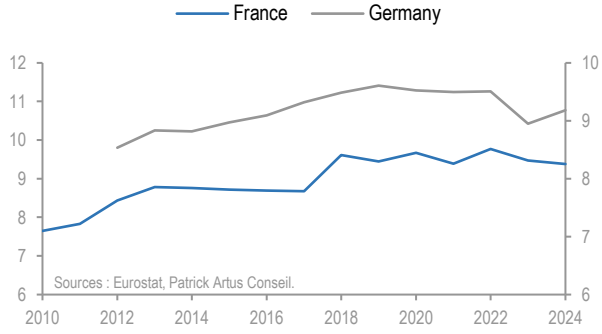
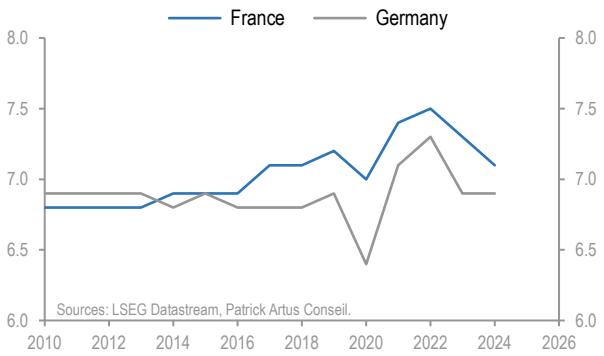


Chart 3B
Household income taxes (as % of nominal GDP)



- Does not stem from the weight of VAT, which is very similar in France and Germany (Chart 4).

Chart 4
Value Added Tax (as % of nominal GDP)

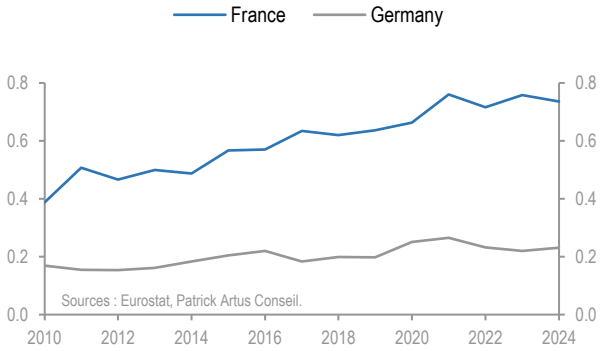


The difference in the tax burden between France and Germany mainly stems from the weight of production taxes

The gap between the tax burden in France and that in Germany results from:

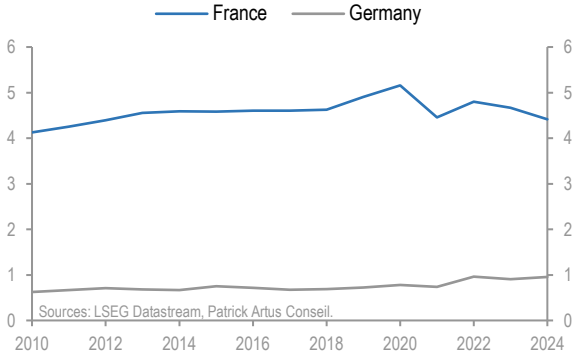
- The higher weight of capital taxes in France (Chart 5);

Chart 5
Capital taxes (as % of nominal GDP)



- But above all from the higher weight of production taxes (Chart 6).

Chart 6
Taxes on production (as % of nominal GDP)



How can the structure of taxation in France be improved?

Once again, our aim is not to examine measures to reduce public spending that would lower the overall tax burden in France, but to propose changes to the structure of taxation. The idea of **a "social VAT", involving a shift from social security contributions to VAT, is often mentioned**.

If this concerns employees' social security contributions, such a shift increases employees' purchasing power, reduces that of pensioners, recipients of capital income and foreign exporters. It reduces the "tax wedge" (the gap between labour costs for firms and employees' net income after social contributions and income tax).

If it concerns employers' social security contributions, this shift normally leaves domestic production prices inclusive of VAT unchanged, reduces export prices (through lower labour costs for firms), increases import prices (which are subject to VAT), and is therefore equivalent to a devaluation (if such a policy were still possible).

However, when one looks at the **tax wedge**, it is very similar in France (47.2% in 2024) and in Germany (47.9%).

When one looks at **labour costs in manufacturing** (**Table 1**), they are higher in Germany than in France.

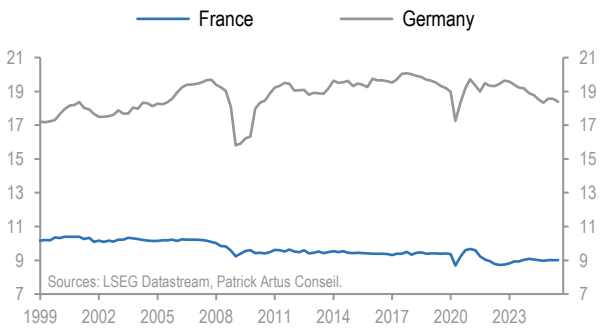
Table 1 : Mean nominal hourly labour cost per employee in the manufactring sector (2024, EUR)

	Germany	France
2016	38.2	36.4
2020	42	41.3
2021	42.1	41.4
2022	44.3	43
2023	46.2	44.6

Source : BIT

These observations suggest that it is not the weight of social security contributions that explains France's deindustrialization relative to Germany (**Chart 7**).

Chart 7
Real value added in manufacturing
(as % of real GDP)



One avenue that seems more interesting to us is to replace production taxes with VAT.

Production taxes are much higher in France than in Germany. Part of production taxes is paid by households (property tax). When one looks at production taxes paid by firms, they represent 5% of their value added in France and 1% in Germany.

Production taxes (which mainly consist of the payroll tax, the mobility levy, the contribution to the financing of apprenticeships, the corporate property contribution, the social solidarity contribution, and the corporate value-added contribution) are unfavourable to firms since they tax them from their creation, without reference to their profitability or their size.

Moreover, since production taxes are significantly higher in France than in other European countries (4.4% of GDP in France, 1.0% of GDP in Germany, 3.0% of GDP in Italy, 1.7% of GDP in Spain, 1.1% of GDP in the Netherlands), **they generate a competitiveness handicap for French firms vis-à-vis their European competitors**.

Since cutting taxes is very difficult given France's current budgetary situation, substituting VAT for production taxes would be good news for the French economy.

Summary: a tax substitution that would be effective but whose implementation is very unlikely

The proposals that have been put forward regarding a modification of the structure of taxation in France most often consist in suggesting a substitution of VAT for social security contributions (paid by employers or employees). In reality, however, the "tax wedge" is not higher in France than in Germany or Italy.

The real anomaly of the French tax system is the weight of production taxes on firms. This leads us to propose a substitution of VAT for production taxes. Production taxes increase production costs, like employers' social security contributions. Substituting VAT for social security contributions requires financing an increasing share of social protection through state taxes. Substituting VAT for production taxes would reduce production costs and would therefore also be equivalent to a devaluation (if the franc still existed) in France.

Unfortunately, the likelihood that the substitution of VAT for production taxes will be accepted is very low, owing to the preference for consumption over production that characterises French economic policy.

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