TAX EXPENDITURES COUNTRY REPORT

France

François Ecalle

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List of abbreviations

EU	European Union
EUR/€	Euros
CICE	Tax credit for employment and competitiveness
COFOG	Classification of public administration functions
OECD	Organisation for Economic Co-operation and Development
GDP	Gross domestic product
MP	Members of Parliament
PLF	Finance bill (draft budget)
VAT	Value added tax
USD/$	US dollar

Summary

According to the Ministry of Finance, tax expenditures have a budgetary cost (revenue forgone) equal to 2.9% of GDP, or 6.8% of the total amount of compulsory levies in France in 2023. These derogatory measures take various forms (e.g. exemptions, reduced rates, tax reductions, etc.) and concern most taxes, in particular income tax, corporation tax and value-added tax.

Transparency: tax expenditures are described each year in a report appended to the draft budget for the following year, but the official list is debatable. In effect, these are provisions that derogate from a reference tax standard, the official definition of which is ambiguous.

Complexity: the official list includes 474 tax expenditures that add to the complexity of the French tax system.

Fiscal sustainability: the fiscal cost, or revenue forgone, of tax expenditures is often difficult to estimate, even if its impact on behaviour is not taken into account, and its total cost is therefore uncertain. However, it may be considered too high.

Evaluation issues: there has only been one evaluation of all tax expenditures (in 2011). A small number of tax expenditures have been evaluated since 2011, and these evaluations have often highlighted their low efficiency.

Recommendations: Parliament, the Government and the Court of Auditors have often recommended or announced a systematic evaluation of tax expenditures and the reduction or elimination of the least efficient among them. However, it is politically very difficult to reduce them because of opposition from the people who benefit from them. Tax expenditures have therefore continued to rise in euros but have more or less stabilised as a percentage of GDP since 2014.

France at a glance (2023)

Population

68

(in millions)

GDP

€ 2822

$ 3051
(in billions)

GDP/capita

€ 41

$ 44
(in thousands)

43.2%

(of GDP)
Taxes and contributions

23.6%

(of GDP)
Central government expenditure

109.9%

(of GDP)
Public debt

TAX STRUCTURE

Breakdown of taxes, 2023

Type of tax	% of total
Income tax	25.9
Taxes on products	10.7
Household income tax	22.6
Corporation tax	4.7
Other taxes	2.2
Social security contributions	33.9
Total	**100**

Source: Eurostat (2024a), World Bank Group (2024a), Eurostat (2024b) for 2023 at 0.9248 EUR for one USD

Tax expenditures key figures (2023)

Annual reporting since **2006**	**474** Reported provisions	**€ 82.9** $ 90 Total revenue forgone (in billions)
2.9% Total TEs as % of GDP	**6.8%** Total TEs as % of tax revenue	

Source: République française (2024), Eurostat (2024b) for 2023 at 0.9248 EUR for one USD

Since 1980, an annual report on tax expenditures (Volume II of the report on the evaluation of "*Voies et Moyens*", [total state revenues], République française, 2024) has been appended by the government to the draft State budget (Finance Bill). The first information on tax expenditures dates back to 1980, but annual reports have only been available online since 2006. Previous reports (1980 to 2005) need to be requested and collected from the archives department of the Ministry of Finance.

This annual report is prepared by the Ministry of Finance and lists tax expenditures selected by the Ministry. The document appended to the draft budget for 2025 lists 474 tax expenditures. Between 2000 and 2004, the Ministry of Finance counted around 400 of them, then their number rose to over 500 in 2010 before dropping to 450 in 2017, only to rise again in the most recent years.

The report estimates the cost of only 387 measures, but the cost of those that are not estimated is probably low. It also shows the sum of these costs for the past year, the current year (forecast) and the following year (forecast). The total cost, as shown for 2023 in the report annexed to the draft budget for 2025, is shown in the box above.

In this government report, the total cost of tax expenditures is estimated at 85.6 billion euros in 2022, which represents 3.2% of GDP or 6.7% of compulsory deductions.

Key governance and institutional features

Tax expenditure takes various forms (exemptions, reduced rates, tax credits, etc.). They are authorised, amended and abolished by laws passed by Parliament. They are described each year in a report appended to the draft budget for the following year. They are managed by the Ministry of Finance and audited by the Court of Auditors.

Different types of tax expenditures

Tax expenditure can take various forms, the main ones being as follows.

Certain income, certain activities, certain assets or certain taxpayers are "exempt" from tax. They can benefit from a "reduced rate". A "threshold exemption" exempts activities or income below a certain threshold. Some income or assets may be subject to a "rebate", either as a percentage of their amount or in euros.

The "deduction" of particular expenses from taxable income may be authorised, often up to a limit set in euros or as a percentage of taxable income before the deduction.

A "reduced tax liability", in euros or as a percentage of a particular expense, which is itself capped in euros or according to the taxpayer's income, can be granted. A reduced tax liability cannot be greater than the amount of tax due before the reduction is taken into account. If it is higher, it is itself reduced so that its amount is exactly equal to the tax due before the reduction.

A "tax credit" differs from a tax reduction in that its amount can be greater than the tax due. Where applicable, the portion of the tax credit that exceeds the amount of tax due is refunded to the taxpayer by the tax authorities. A tax credit is therefore independent of the tax to which it applies. In national accounting terms, a tax credit that is "refundable" in this way is public expenditure, unlike a tax reduction (which is "non-refundable" in national accounting terms). The total gain from most tax reductions and credits is capped at €10,000 per tax household.

Introducing and reforming tax expenditures

All changes to tax legislation must be enshrined in a law passed by Parliament. The creation and modification of a tax expenditure must therefore be included in a law passed by Parliament, usually a budget act or an amending budget act. The initiative lies with the government, which presents a bill, or with Parliament, which can amend the government's bill or propose a law itself.

Amendments and bills are prepared and presented by Members of Parliament (MP) under their own responsibility, without any constraints, particularly regarding their justification. In practice, before the 2022 elections, a majority of MPs supported the government, and it was rare for MPs to be able to pass amendments and bills without the government's agreement. It was therefore rare for tax expenditures to be voted through at the initiative of a MP. The government has not had a majority to support it in Parliament since 2022 and passed the 2023 and 2024 budgets using exceptional procedures that did not allow Parliament to substantially amend the draft it had presented.

Tax provisions included in government budget bills are decided by the Prime Minister, often on the initiative of the Finance Minister, sometimes after arbitration between the Finance Minister and the other ministers concerned. They are drawn up by the tax legislation department of the Ministry of Finance. The latter works with the Budget Directorate of the Ministry of Finance, which is responsible for coordinating the administrative work involved in preparing the budget act.

As part of the preparation of the budget act, the Budget Directorate has for some years been organising annual meetings with the Tax Legislation Directorate and the heads of other ministries to examine changes in tax expenditures and to propose the elimination, modification or introduction of measures in the next budget act. In practice, the outcome of these administrative meetings is limited as the measures included in the budget bill are usually the result of negotiations between ministers, political parties and pressure groups under the authority of the Prime Minister.

Bills must be accompanied by an impact assessment of the main measures proposed. In the case of tax measures, the impact assessment must specify in particular: the legislation in force, the reasons for the proposed change, consultations with stakeholders, compatibility with international law, the consequences for certain categories of the population, and the cost or budgetary impact. These impact studies are carried out by the administration and published in a report appended to the budget bill (République française, 2023), which is different from the report on tax expenditures. The document mainly presents the arguments in favour of the proposed measure and are not to be considered *ex ante* evaluations of public policies. For example, a study of the impact of a new tax credit for investment in the production of equipment to combat climate change (electric batteries, wind turbines, etc.) has been appended to the budget bill for 2024.

In practice, there are no major differences between tax expenditures and other tax measures in the procedures for preparation by the administration, decision by the government and vote by Parliament.

Managing tax expenditures

State budget credits are divided into "programmes" (with several programmes per ministry) which correspond to public policies and are managed by directors of administrative departments. These "programmes" are specific to French budget accounting and do not correspond to the international COFOG nomenclature. There is no breakdown of French tax expenditures between the functions of the COFOG nomenclature.

Tax expenditure is allocated to “programmes” in the budget documents, but the heads of the programmes concerned have limited power and control over the tax expenditures allocated to them. Their cost, whether forecast or actual, is estimated by the tax legislation department of the Ministry of Finance. It is no possibility of monitoring or regulating the amount during the year, which is only recorded the following year.

Taxpayers who have benefited from these tax benefits may be audited in subsequent years, subject to the time limits resulting from the rules governing the time-barring of offences. These inspections are carried out by Ministry of Finance officials under the same conditions as those applicable to tax inspections. These agents from the Ministry of Finance can ask for the expertise of agents from other ministries, but it is rare.

Annual report on tax expenditures

The tax expenditure report is set out in a special (“organic”) law that defines the structure and presentation of the budget, the reports that must be appended to it and the relationship between the Government and Parliament with regard to the budget act. This report is drawn up by the Tax Legislation Directorate of the Ministry of Finance, and it presents in particular:

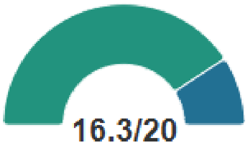
- The benchmark tax system from which tax expenditures derogate.
- A list of tax expenditures, including the relevant article of the French Tax Code, the date on which it was introduced and, if applicable, its expiry date, and specific information when available (such as, budgetary cost for the previous year, current year, and following year, method used to calculate this cost; number of beneficiaries; etc.).
- Legislative changes since the previous budget bill.
- The changes proposed by the Government to Parliament in the new budget bill.
- Methods of calculating the budgetary cost of tax expenditures.
- Indicators relating to the obtained results.
- The forecast programme for evaluating certain tax expenditures.
- The main figures for all tax expenditures (total cost, breakdown by tax and budget programme, etc.).

70.7/100

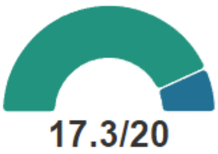
The overall GTETI score

Tax expenditures transparency

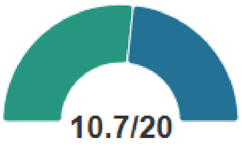
France scores 70.7 out of 100 in the Global Tax Expenditure Transparency Index (GTETI), which places it fifth out of 104 assessed countries (many of which are emerging or developing countries) (Redonda et al, 2023). This score is broken down as follows.



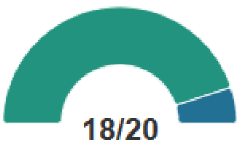
Dimension 1 – **Public availability**
This dimension reflects the extent to which reports on tax expenditures are made available to the public. It takes into account the regularity of the reports, the timeliness of the data, the online accessibility and the user-friendliness of the document.



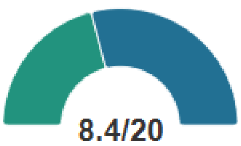
Dimension 2 – **Institutional framework**
This dimension assesses the extent to which the institutional framework promotes transparency and accountability in the development of tax expenditures policies. It assesses the legal basis for reporting tax expenditures, the obligation to submit reports to Parliament, the allocation of responsibility for reporting to a specific public authority and the inclusion of tax expenditures in the budget cycle and the country's medium-term strategy.



Dimension 3 – **Methodology and scope**
This dimension analyses the extent to which tax expenditures reports cover all tax expenditures applied at national level, the level of specification of the reference system against which tax expenditures are assessed and the method(s) used to calculate foregone revenue.



Dimension 4 – **Descriptive data on tax expenditures**
This dimension assesses the information available in the report to identify and explain the nature of different tax expenditures. It assesses the extent to which the report specifies the policy objective(s) of the tax expenditures. In addition, it analyses the availability of tax expenditures data concerning the type of tax expenditures (tax credit, deduction, etc.), the beneficiaries, the deadlines and the legal basis under which the tax expenditures are granted.



Dimension 5 – **Evaluations of tax expenditures**
This dimension analyses the extent to which lost revenue estimates are provided in the report, including the levels of (dis)aggregation choices and the duration of lost revenue estimates (previous years and forecasts). In addition, it assesses the availability of information on evaluations of tax expenditures, taking into account both the existence of *ex ante* and *ex post* evaluation frameworks and the scope of publicly available evaluations.

Source: Redonda et al. (2023)
Note: A new version of the GTETI, featuring an updated assessment for each country, will be published in December 2024. To view the updated score for France, please visit the Global Tax Expenditures Transparency Index - GTETI.

Oversight: The Court of Auditors

Taxpayers who have benefited from tax expenditures may be subject to tax audits under the conditions of common law (see above).

Each year, the Court of Auditors publishes a report on the implementation of the previous year's State budget. This report generally includes an annexed note on tax expenditures, showing at least changes from the previous year. This report occasionally provides a more in-depth analysis spanning multiple years. The Court of Auditors makes public recommendations to the Minister of Finance, but the latter is not obliged to follow them. The Court of Auditors also publishes reports on specific tax expenditures on its own initiative and at the request of the National Assembly or the Senate.

There is a Council of Mandatory Contributions ("*Conseil des prélèvements obligatoires*") which brings together judges, civil servants, experts and elected representatives. Every year the council publishes between one and five reports on tax and social security contributions, and occasionally on tax expenditures. Its recommendations are not binding.

At times, the Finance Committees of the National Assembly and the Senate produce reports on tax expenditures. They can lead to recommendations, but these have to be voted into law, possibly on the initiative of the MPs who presented the reports, before they can be implemented. For example, in July 2023, the National Assembly's Finance Committee published a report on tax expenditures for housing and home ownership (*Commission des finances*, 2023). As a result of this report, the budget act for 2024 provides that a tax reduction for certain investments in rented accommodation will be abolished at the end of 2024.

Image by Pepa Echanove

Benchmark

Tax expenditures are defined as deviations from a reference or benchmark tax system. This includes deviations from the standard tax base, deviations from the standard tax rate, or changes in the tax period benefitting the taxpayer. Nevertheless, the definition of what should be attributed to the benchmark tax system and what should be marked as a tax expenditure is not always clear-cut.

The definition of tax expenditures

Tax expenditures are often referred to in France as "*niches fiscales*" (tax loopholes), especially when they relate to personal or corporate income tax. They consist of legislative or regulatory provisions that derogate from a reference tax standard and result in a loss of budget revenue for the State.

As far as social security and social security contributions are concerned, there are "social loopholes" which take the form of exemptions or reduced rates of contributions for employers. They are not covered in this report because they do not appear in the Government's report on tax expenditures (*République française*, 2024), but their amount is significant (3.1% of GDP in 2022) according to another report (*Commission des comptes de la Sécurité sociale*, 2023).

Tax expenditures apply to taxes allocated to the State and to local taxes if, for the latter, their cost is borne by the State. The exceptional provisions relating to local taxes, the cost of which is borne by the local authorities themselves, are not listed, but they are likely marginal since local taxes are defined by the State and local authorities have little power to modify them.

To determine whether or not a legislative or regulatory provision constitutes a tax expenditure, it is necessary to know the applicable tax standard or benchmark from which it could derogate. We therefore first need to define this benchmark.

In a 2010 report, the Court of Auditors noted that this definition of the tax standard was non-existent in the report on tax expenditures appended to the budget bill. The reports now include a definition of the benchmark used for each of the main tax types levied on the national level.

The definition of the benchmark tax system and the official list of tax expenditures included in the annual report are drawn up by the Tax Legislation Directorate of the Ministry of Finance without prior consultation with bodies or experts from outside the Ministry.

Personal income tax

For the personal income tax, the norm is to apply a progressive scale (with an upper marginal rate of 49% in 2024, plus an exceptional contribution of 4%) to all the income of each tax household. All tax provisions leading to an exemption or a reduction in tax in relation to this standard should be considered a tax expenditure. However, there are important exceptions to this principle.

A system known as the "family quotient" reduces the tax payable by families with children. It appeared a long time ago on the list of tax expenditures in the report appended to the draft budget but was later withdrawn from the list. The Ministry of Finance now considers it part of the benchmark and is therefore not a tax expenditure. Its cost lies around EUR 16 billion, or 0.6% of GDP.

Employees can deduct their business expenses from their taxable income or benefit from a flat-rate deduction equal to 10% of their salary, without any checks being carried out. This flat-rate allowance is considered to be a simplification measure integrated into the benchmark tax system and is therefore not on the list of tax expenditures.

Income from financial investments is taxed at a flat rate of 12.8% or at the tax scale if this is more favourable to the taxpayer, which is not considered a tax expenditure because dividends and capital gains have generally already been subject to corporate taxation.

The capital gain realised on the sale of a principal residence is exempt from income tax. This is not considered a tax expenditure because of the exceptional nature of this income.

The benefit derived by an owner from occupying a property himself ("fictitious" or "imputed" rent in the economic literature) is not taxable in France, which is not considered a tax expenditure.

Corporate income tax

The standard rate of corporate income tax is 25% on profits or a reduced rate of 15% on profits (up to a ceiling in euros) of companies whose turnover is below a certain threshold in euros.

Arrangements for avoiding double taxation are considered to be part of the norm: exemption of dividends received by the parent company of a group from its subsidiaries; consolidation of the profits and losses of the French companies in a group under the so-called tax consolidation regime.

Schemes that result in tax being deferred or smoothed over several years are generally not considered to be tax expenditures.

The possibility of offsetting losses from previous years against profits for the current year (commonly referred to as *loss carried forward*) is not considered to be a tax expenditure.

Value added tax (VAT)

In accordance with European Union (EU) directives, France applies a standard VAT rate of 20% and reduced rates of 10%, 5.5% and 2.1% on certain products (reduced rates lower than the above are often applied to the same products in the French overseas departments and Corsica).

The Ministry of Finance makes a distinction between reduced rates designed to encourage specific consumers to buy particular products, which are considered to be tax expenditures, and reduced rates that enable all households to buy essential products at an affordable price, which are not considered to be tax expenditures.

The 5.5% VAT rate applied to food products and non-alcoholic beverages to be consumed outside the area of the shop is therefore considered to be the norm and not a tax expenditure. Compared to the application of the 20% rate, the budgetary cost of applying this rate is estimated at EUR 20 billion, or 0.8% of GDP. On the other hand, the 10% VAT rate on food and non-alcoholic beverages consumed on the premises (restaurants) is considered to be a tax expenditure costing EUR 4 billion.

There may be doubts about the rationality of this classification of reduced rates, for example as to why the application of the reduced rate of 10% to company canteens, campsites or cultural exhibitions constitute a tax expenditure, whereas the application of the 5.5% rate to school canteens and books or the 10% rate to passenger transport does not.

In accordance with EU directives, certain activities, such as bank loans, are exempt from VAT. In France, the companies concerned, such as banks, are instead subject to a payroll tax. These exemptions are not considered tax expenditures. This is justified by the existence of the payroll tax that offsets this budgetary loss.

Other taxes

The annual report appended to the budget bill defines a benchmark for other taxes such as inheritance tax, property wealth tax and taxes on energy consumption.

For taxes on energy consumption, the benchmark is the application of the standard rate per product category (petrol, diesel, gas, coal, etc.). Some sectors benefit from reduced rates that are considered tax expenditures (e.g. agriculture, at a cost to the budget of EUR 2 billion). On the other hand, the exemption for paraffin consumed by commercial aviation does not appear on the list of tax expenditures due to international agreements.

For inheritance tax, the benchmark is the application of the inheritance tax scale to the assets received by each heir. The tax exemption on the transfer of company shares, under certain conditions, is therefore considered to be a tax expenditure. On the other hand, the special favourable regime applied to transfers of life insurance policies does not appear on the list of tax expenditures.

Revenue forgone

The revenue forgone method estimates the loss in revenue incurred by the government because of a tax expenditure. This involves comparing the amount of revenues actually collected with the amount of revenues that would have been collected in the absence of the tax provision (under the benchmark tax system), and without considering taxpayers' behavioural responses.

Costing methods

The ability to estimate the budgetary cost of a tax expenditure (loss of tax revenue) and the accuracy of this estimate depend greatly on the form it takes.

The cost of tax credits is easy to estimate. It only requires taking taxpayers' returns (the Directorate of Tax Legislation has an exhaustive file of tax returns) and adding up the claimed and granted tax credits.

Calculating the cost of reduced rates is more difficult because, for each taxpayer, the amount is capped by the amount of tax due before the reduction. The tax authorities must therefore carry out a "simulation" for each taxpayer included in the exhaustive file of tax returns or in a representative sample, which consists of calculating the tax due before the tax reduction and then the tax due after the reduction. The cost of the reduction for each taxpayer is the difference between the results of these two calculations and the cost to the State is the sum of the costs for each taxpayer.

The cost of an allowance or deduction for a given taxpayer depends on the marginal tax rate to which they are subject to, i.e. the tax bracket in which their tax income falls. To put a figure on it, we need to simulate the tax due before and after the application of the tax provision in question, for each taxpayer, and then total up the costs for each taxpayer.

Income, activities or assets that are exempt, or below the allowances, are rarely included in tax returns and it is often very difficult, if not impossible, to put a figure on the cost of these exemptions and allowances. It is necessary to estimate the exempted amount on the basis of other tax data or statistics, such as the national accounts, and then apply the marginal tax rate to which it would have been subject if it had not been exempted. In the case of a scale, an average rate is often used in practice, which may not always be representative of the rate to which the income or activity would have been subject.

It is not easy to put a figure on the cost of a reduced rate of VAT applied to specific products because, on the one hand, businesses often have several activities and are only required to declare the overall turnover subject to the same rate, without breaking it down by product. On the other hand, sales subject to a reduced rate may be destined for other businesses, which themselves are reimbursed for this VAT, whereas it would be necessary to know only about sales to households. The cost of reduced rates by product is therefore not estimated based on tax returns but on household consumption statistics (or housing purchase data). However, this does not allow to measure the number of certain purchases that benefit from a reduced rate with sufficient accuracy.

These budget estimates are always made on the assumption that taxpayer's behaviour does not change as a result of a change in a tax expenditure. In fact, it is very difficult to predict these behavioural changes, and their consideration by the Ministry of Finance could be biased to justify the measure announced. On the other hand, the evaluation of tax expenditures (see below) must be carried out by analysing these changes in behaviour.

Of the 387 tax expenditures for which the budgetary cost is estimated in the budget bill for 2025, only an approximate figure is provided for 125 of them. These figures are produced by the Tax Legislation Directorate, which delegates some of the estimation to other departments within the Ministry of Finance, without external review.

Box 1. The change of method in the budget bill for 2024.

The cost of VAT-related tax expenditures has been reduced from around EUR 20 billion in the reports appended to the budget bill preceding 2024 to around EUR 10 billion in the report appended to the budget bill for 2024 on the grounds that the State pays half of the proceeds of VAT to social and local administrations and that the cost of tax expenditures corresponds only to that borne by the State. This change in method is highly questionable.

The cost of these reduced rates is indeed borne by the State. The proportion of VAT revenue paid to social and local authorities is set so that these authorities receive a certain amount in euros to offset the cost of decisions taken by the State for these authorities. This amount is independent of the existence of reduced VAT rates and, if the State reduces the VAT rate on a product, it alone bears the entire budgetary cost.

In any event, the cost of these reduced VAT rates to the general government as a whole is around EUR 20 billion, and this is the most relevant figure.

In addition, this new method is not applied to other taxes that are partially transferred to local authorities, such as taxes on fuel consumption, which makes it inconsistent.

Finally, the Ministry of Finance does not publish a series of tax expenditure estimates using this new method for the years prior to 2022. The costs of tax expenditures in the latest annual report and in previous reports are therefore not directly comparable. In its 2024 report on the execution of the State budget in 2023, the Court of Auditors criticised the new method and recommended reverting to the previous method, but the Ministry of Finance did not follow this recommendation in the budget bill for 2025.

Developments from 2000 to 2023

Measures can be removed from the list of tax expenditure in the budget bill, even though they still exist, and others are added, even though they already existed, because the Ministry of Finance changes the benchmark. Moreover, the costing methods used were not always the same. The changes in the estimated revenue forgone presented in the reports annexed to successive budget bills are therefore of limited significance and must be adjusted to show the evolution of tax expenditure costs on a consistent basis (scope and methods). This adjustment has been made here to produce a series consistent with the list in the budget bill for 2025, with the exception of VAT-related measures, for which the total cost across all public administrations has been used (EUR 24.3 billion instead of EUR 11.1 billion).

However, the changes displayed in the following graph should be interpreted with caution. In addition to the inherent uncertainty of the figures, they are also influenced, to an undetermined extent, by adjustments in the calculation methods for certain specific measures (e.g., the use of new data sources).

As a percentage of GDP, the cost of tax expenditures dropped in the early 2000s to 2.1% of GDP, then rose to 3.7% of GDP in 2009. During this period, budgetary expenditures were subject to fairly strict rules, such as stability in constant euros, and governments circumvented these rules by replacing subsidies with tax credits.

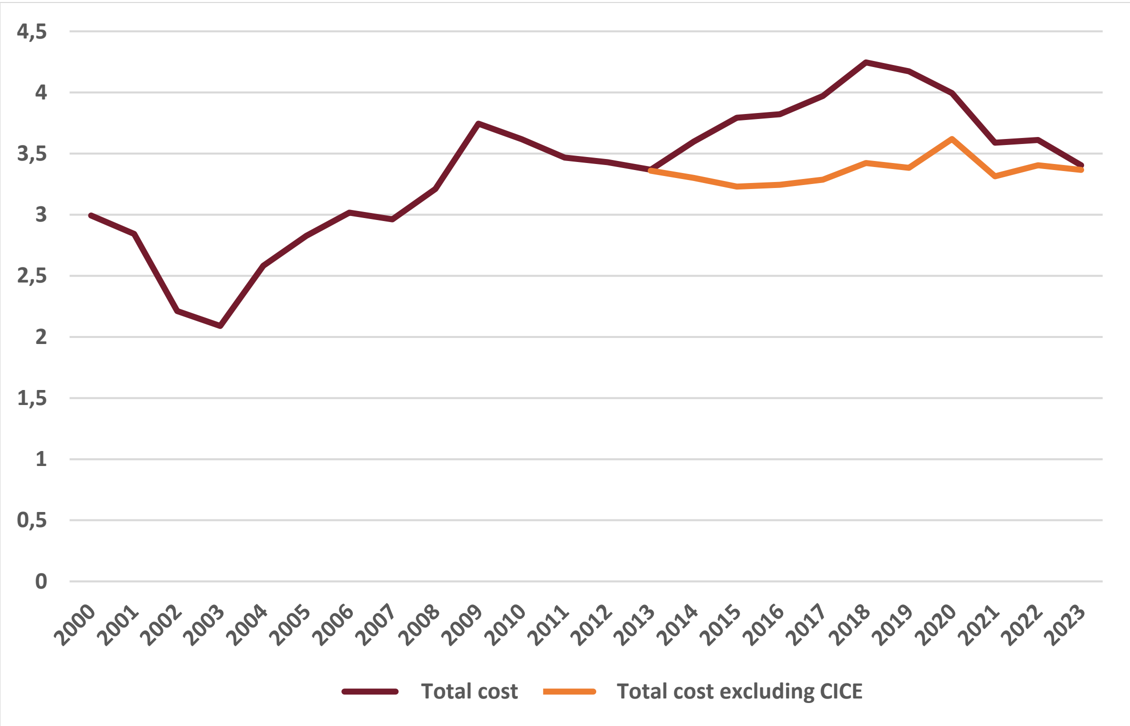
The Court of Auditors and the Finance Committee of the National Assembly published reports at the end of the 2000s in which they expressed concern about this growth in tax expenditures and recommended that the government should adopt measures to reduce it.

This recommendation was followed by the government, which included a "pledge rule" in the multi-year public finance planning law for 2009 to 2012, under which the budgetary cost of creating or extending tax expenditures had to be offset by the gain from reducing or eliminating other tax expenditures. The Public Finance Planning Act for the period 2011-2014 transformed it into a "freeze rule" related to the total cost of tax expenditures. This last rule was particularly difficult to comply with in practice, as there is no way of limiting the growth of tax expenditures during the year.

These budgetary rules on tax expenditures nonetheless had some effectiveness in the period 2009-2013, with the sharp rise in their cost between 2003 and 2009 giving way to a slight fall as a percentage of GDP.

In 2014, a new tax expenditure was created, the tax credit for competitiveness and employment (CICE), the cost of which was very high (0.9% of GDP in steady state). This was a corporate tax credit equal to 6% of the total salaries below 2.5 times the minimum wage. The CICE was abolished in 2019 but continued to be reimbursed (on the basis of 2018 salaries) to certain businesses until 2023. It has been replaced by reductions in employers' social security contributions on salaries below 2.5 times the minimum wage. As this tax credit was significant but also temporary, Figure 1 shows the cost of tax expenditures with and without the CICE.

Figure 1. The cost of tax expenditures as a percentage of GDP



Source: République française (2024), reports appended to the budget bill (the cost shown in the 2024 and 2025 draft finance laws for 2022 and 2023 has been corrected to include the total cost of VAT-related tax expenditures); FIPECO (2024), the CICE is a tax credit relating to corporation tax that was created in 2014 and has been replaced from 2019 onwards by reductions in social security contributions for employers.

The Public Finance Planning Act for the period 2014-2019 set an annual ceiling in current euros on the amount of tax expenditures, which was increased to consider the ramp-up of the CICE, but which was exceeded. The Public Finance Planning Act for 2018 to 2022 set a ceiling on the cost of tax expenditures, which was no longer expressed in current euros but as a percentage of total State tax revenue plus the cost of tax expenditures (28% for 2018 and 2019, then 27% in 2020, 26% in 2021 and 25% in 2022). These annual ceilings were set at high level and were easy to comply with.

The cost of tax expenditures excluding the CICE has increased over the period 2014 to 2023, sharply in current euros and very slightly as a percentage of GDP. They were particularly high in 2020, because temporary measures were taken to support businesses during the health crisis and because GDP fell, which affects the cost of tax expenditures when expressed as a percentage of GDP.

The cost of tax expenditures in 2023

In 2023, the cost of tax expenditures was estimated to EUR 82.9 billion according to the government report appended to the budget bill for 2025, using the new method for quantifying VAT-related tax expenditures, and EUR 96.1 billion using the old method.

Table 1. Top 10 largest tax expenditures, 2023

Tax expenditure	Billions €	Billions $
Tax credit for research	7.3	7.9
Tax credit for the employment of a home-based employee	6.1	6.6
Tax reduction for donations to charitable organisations	1.9	2.1
10% rebate on retirement pensions	4.5	4.8
Reduced rate of VAT on home maintenance work	4.5	4.9
Special taxation arrangements for shipping companies	5.6	6.1
Reduced VAT rates applied in French overseas territories	4.0	4.3
Reduced rate of VAT on restaurant services	4.2	4.5
Deduction of property repair and improvement expenses	1.8	1.9
Exemption for expenses paid by companies in respect of profit-sharing and employee savings schemes	2.7	2.9
Total	**43.1**	**46.6**

Source: République française (2024).
Note: Eurostat (2024b) for 2023 at EUR 0.9248 per USD

The aim of the research tax credit is to encourage companies to carry out research and development. It is equal to 30% of companies' research expenditures up to a maximum of EUR 100 million and 5% of expenditures in excess of EUR 100 million. This includes expenditures on fundamental or applied research or the development of new products and processes. Companies can deduct the amount of this tax credit from their corporate income tax for three years and, at the end of the third year, the unused balance is reimbursed by the State.

The aim of the home employment tax credit is to encourage households to employ domestic workers (in their main or second home) by declaring them and paying social security contributions. It is equal to 50% of household expenditures up to a maximum of EUR 12,000. Eligible expenses are diverse and include housekeeping, gardening, tutoring, childcare, IT assistance, etc. This tax expenditure was assessed in an INSEE working paper several years ago (Claire Marbot, 2011), at a time when it was a tax reduction and not a tax credit. The assessment showed that the employment of household employees was highly concentrated among the most affluent households, which is most likely still the case.

The aim of the competitiveness and employment tax credit was to improve the competitiveness of businesses and encourage them to increase their workforce. This was a corporate tax credit equal to 6% of total salaries below 2.5 times the minimum wage. It was abolished in 2019, and its budgetary cost will be low from 2023.

Pensioners benefit from a 10% allowance on the amount of their retirement pension before it is subject to the income tax scale. The allowance is capped at EUR 4,100. It has no justification other than improving the purchasing power of taxable pensioners (employees also benefit from a 10% allowance on their salary, but this is a flat-rate method to include their professional expenses, which can also be deducted at their actual cost).

Maintenance, improvement and refurbishment work on homes built more than two years ago (primary or secondary residence) is subject to a VAT rate of 10% instead of the standard rate of 20%. If this work reduces energy consumption, the VAT rate is 5.5% (the cost of EUR 4.5 billion shown in Table 1 is only of the 10% rate).

Shipping companies are subject to a special corporate tax regime. Instead of being taxed on their profits, they pay a lump sum based on the total tonnage of their ships. As rates for freight transport by ship rose sharply when world trade picked up again after the health crisis, the budgetary cost of this special scheme (revenue forgone compared with the application of corporate income tax under ordinary law conditions) was particularly high in 2022 and 2023.

In the French overseas departments, the standard rate of VAT is 8.5% and a rate of 2.1% applies to goods and services subject to the reduced rates of 10%, 5.5% and 2.1% in mainland France. Certain products and services are subject to lower VAT rates in Corsica compared to mainland France.

Food and non-alcoholic drinks served on the premises, particularly in cafés and restaurants, are subject to a VAT rate of 10%. Support granted to companies during the 2020-2021 health crisis has been exempt from corporate income tax. This support measure has been abolished and the tax expenditure is therefore temporary.

Profit-sharing and incentive schemes are compulsory for companies with a workforce above a certain threshold. They are negotiated with the trade unions and enable employees to receive bonuses based on the company's results. These bonuses can be paid directly to employees or into "employee savings plans" opened in their name. Premiums paid by companies under this scheme are deductible for corporation tax purposes and exempt from personal income tax.

Expenditure on repairs and improvements to property may be deducted from income from property subject to income tax.

Donations to philanthropic organisations involved in certain activities (aid for the poor, scientific research, etc.) entitle the donor to a tax reduction equal to 66% of the amount donated, up to a limit of 20% of the taxpayer's taxable income.

Evaluation

A systematic evaluation of all tax expenditures is often recommended by Parliament and the Court of Auditors, or even provided for by law, but there has only been one (in 2011). A small number of tax expenditures have been evaluated since 2011, and these evaluations have often revealed a lack of efficiency.

A report by the Finance Committee of the National Assembly in 2008 (Commission des finances, 2008) and a report by the Court of Auditors in 2010 (Cour des comptes, 2008) highlighted the rudimentary state of tax expenditure evaluation, noting that these expenditures were often renewed without any analysis of their efficiency. The Public Finance Planning Act for the years 2009 to 2012 provided for their systematic evaluation. Subsequent planning acts also mandated periodic evaluations of all tax expenditures, but in practice, these have only covered a few of them.

The only evaluation of all tax expenditures occurred in 2011, in accordance with the 2009-2012 planning law. It was carried out by a "tax expenditures and social expenditures assessment committee" (*Comité d'évaluation des dépenses fiscales*, 2011), which brought together representatives of the relevant departments of the Ministry of Finance under the chairmanship of an Inspector General of Finance (the Inspectorate General of Finance enjoys a degree of independence within the administration).

It covered 315 of the 449 measures on the list annexed to the budget bill of 2011, the total cost of which was EUR 56 billion. It also covered 24 non-listed measures with the total cost of EUR 4.5 billion.

The authors of the report focused on characterising the measures, examining the estimation of their costs, assessing their direct effects on the taxpayers concerned, and evaluating their economic, social, and environmental effectiveness, as well as their efficiency (the ratio of achieved results to budgetary cost). The significant heterogeneity of available information and the limited time to conduct extensive statistical analyses inevitably constrained the quality of certain evaluations.

The authors used harmonised methods, and the results were presented in a standardised format. In particular, the efficiency of each measure was rated on a scale from 0 (inefficient measure) to 3 (very efficient measure). The cost of tax expenditures rated 0 or 1, i.e. inefficient or of low efficiency, amounted to EUR 40 billion. However, few tax expenditures have been eliminated or modified as a result of this work.

For its part, the Court of Auditors often highlights the low efficiency of numerous tax expenditures in its reports. In 2019, it published a report on the 66 tax expenditures for housing, noting that they are "insufficiently managed to function as effective instruments of housing policy" (*Cour des comptes*, 2019).

The Council of Mandatory Contributions often examines tax expenditures in its reports, and its conclusions are often equally unfavourable. In its 2023 report on VAT, for example, it emphasised that reduced VAT rates are not an effective instrument for encouraging economic development and job creation (*Conseil des prélèvements obligatoires*, 2023). For example, the costs per job created by the reduced rates applied to catering and home maintenance are much higher than those of the reductions in employers' contributions targeted at low salaries. They are also poor instruments for redistributing purchasing power to the lowest-income households.

As observed by the Court of Auditors in its report on the implementation of the State budget in 2022 (*Cour des comptes*, 2023a), the tax expenditure evaluations announced by successive governments over the past decade have rarely been carried out. At the same time, the Court of Auditors pointed out that the tax expenditures associated with taxes on energy products almost all have a negative impact on the environment, as acknowledged by the government in its “green budgeting” framework.

The Public Finance Planning Act for the years 2023 to 2027 stipulates that new tax expenditures can only be created for a limited period of three years and that they may only be extended for a further three years if they have been evaluated. However, as has often been the case in the past, while the duration of a tax expenditure is limited by law, the Parliament can vote to extend it without an evaluation, potentially in a slightly different form.

“ *At the same time, the Court of Auditors pointed out that the tax expenditures associated with taxes on energy products almost all have a negative impact on the environment, as acknowledged by the government in its “green budgeting” framework.*

Political economy and reform

In autumn 2023, the government announced a reduction of tax expenditures in the areas of energy, agriculture, and housing, but encountered strong opposition from the beneficiaries of these provisions. In France, reducing tax expenditures, like budgetary and social spending, is very challenging.

More specifically, the government announced that, in order to achieve its environmental objectives, it planned to phase out tax expenditures on diesel taxes payable by farmers and firms working with construction and public works, in return for budgetary support to encourage the use of more energy-efficient techniques. The farmer protests in early February 2024 led the government to announce that tax expenditures on agricultural diesel would be maintained. Construction and public works companies succeeded in securing a partial retention of the reduced tax on the diesel they use.

The government has announced that a tax reduction for households investing in low-rent housing will be abolished at the end of 2024, but the property market is in a poor state and professionals are calling for the tax expenditure to be maintained. We will not know until the end of 2024 whether it will be abolished or not.

It is very difficult to reduce tax expenditures in France, but it is also difficult, probably for the same reasons, to reduce public spending as a percentage of GDP, as it is the highest amongst the OECD countries. Major savings are needed to regain control of public debt and comply with EU's budgetary rules.

There are many reasons for this, and the opinion by economists tend to differ. This is a very old cultural problem, dating back to before the revolution of 1789. The French have always asked the State to solve all their problems through regulation and public spending (budgetary or fiscal). The very large subsidies paid during 2020-2022 to households and businesses were necessary to support them but have led to the belief that public spending is unlimited. Finally, since the legislative elections of 2022, there has been no majority in the National Assembly and France is not used to coalition governments, which makes reforms particularly difficult.

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