

## **Tax expenditures from 2017 to 2023**

**François ECALLE**

Tax expenditures (TEs), sometimes referred to as "tax breaks", are legislative or regulatory provisions that derogate from a "standard" or benchmark tax, and result in a revenue loss. Their official inventory of TEs is debatable because the benchmark from which they deviate is sometimes questionable in itself, but it is the only one available. A [FIPECO fact sheet](#) discusses the main characteristics of TEs. This post looks at changes in their number and estimated cost over the period 2017-2023.

### **A) The number of tax expenditures**

To determine whether or not a legislative or regulatory provision constitutes a TE, it is necessary to define the applicable standard tax from which it derogates.

Defining this benchmark is sometimes difficult because it is based on concepts of taxation that are the subject of debate and can change. The question of whether, for example, the family quotient system (*quotient familial*), used to adjust income tax according to the size of the household, is or is not a TE, can be debated at length without any consensual conclusion being reached. In practice, TEs are defined as the provisions listed in Volume II of the report *Voies et Moyens* annexed each year to the Budget Proposal (*Projet de Loi des Finances, PLF*).

This list is debatable, but there is no other one. Moreover, the Ministry of Finance sometimes removes provisions from the list, even though they still exist, and adds measures that already existed before but had not been included previously. For example, the *quotient familial* was once in the list but was removed a long time ago.

TEs take a variety of forms. The main ones are exemptions, allowances, deductions, reduced rates, reductions and tax credits.<sup>1</sup>

There were 451 TEs listed in September 2016 in the report published as an appendix to the PLF for 2017 and 467 in September 2023 in the report included in the PLF for 2024. The number of TEs has therefore increased since 2017.

#### **Number of tax expenditures**

PLF 2017	PLF 2018	PLF 2019	PLF 2020	PLF 2021	PLF 2022	PLF 2023	PLF 2024
451	457	474	468	475	471	465	467

Source: Reports annexed to LPF.

The information contained in the *Voies et Moyens* reports does not make it easy to track the newly created TEs and those that were eliminated, nor those additions to the list of provisions

<sup>1</sup> A tax reduction cannot exceed the amount of tax due before its implementation. A tax credit may exceed it and, where applicable, the difference between the tax credit and the tax due is reimbursed by the State to the taxpayer.

that existed before, and the deletions of measures that still exist. In addition, a TE may be abolished through the budget process, and still appear in the list several years later because it continues to have a budgetary cost.

In addition to the *Crédit d'impôt pour la compétitivité et l'emploi (CICE)*<sup>2</sup>, which is still in the list due to its residual cost, the main TEs that have been eliminated include the solidarity wealth tax (*Impôt de Solidarité sur la Fortune, ISF*) reduction for investment in SMEs, certain TEs relating to property tax and the tax credit for energy transition (transformed into a subsidy). The TEs created include the income tax exemption for overtime (which already existed in 2008-2012 and had been abolished).

## **B) Cost of tax expenditures**

### **1) Methodological difficulties**

Volume II of the Report “*Voies et Moyens*” annexed to the PLF 2024 presents the budgetary cost of 403 TEs (out of 467), and the sum of these costs. The reliability of the total cost of TEs therefore depends on the relevance of the list and the distinction between TEs that can be quantified and those which cannot (although the largest provisions are always quantified). These uncertainties are compounded by the fragility of the costing methods used (see that [fact sheet on TEs](#) for further details).

As it is often very difficult to estimate the impact of tax measures on taxpayers' behavior, the budgetary cost of TEs is always calculated on the assumption that taxpayers' behavior does not change as a result of these measures.

Under these conditions, the cost of tax credits is easy to assess. All one needs to do is to take taxpayers' returns and add up the tax credits they claim and are granted.

It is more difficult to estimate the cost of reduced tax rates, as the amount is capped by the amount of tax due before the reduction. It is possible, however, to simulate the cost on the basis of a representative sample or on based on tax return data, as is the case for the cost of an allowance, or a deduction.

Exempt income, activities or assets are rarely included in tax returns and it is often very difficult, if not impossible, to estimate their cost. It is necessary to estimate the exempt amount based on other tax data or statistics such as the national accounts, and then to apply the tax rate to which it would have been subject if it had not been exempted, which is not always straightforward.

Likewise, it is not easy to estimate the cost of a reduced VAT rate applied to a particular activity, as it is not generally possible to calculate it based business returns. It is therefore not estimated based on tax returns but rather based on consumption statistics. However, these statistics do not allow to measure with sufficient accuracy the amount of certain goods and services that benefit from a reduced rate.

Of the 403 TEs quantified in the PLF 2024, the estimates only provide an order of magnitude for 129 of them.

### **2) The methodology change in the PLF 2024**

The PLF 2024 states that “*TE amounted to EUR 85.6 billion in 2022 (final figure, EUR 1.3 billion higher than the forecasted) and would rise to EUR 81.3 billion in 2023 (EUR 3.7 billion*

---

<sup>2</sup> The CICE was a tax credit for competitiveness and employment that was introduced in January 2013 and was replaced (except for Mayotte), in 2019, by a reduction in social security contributions for employers.

higher than forecasted) and EUR 78.7 billion in 2024. In the case of VAT TEs, these figures take account of the impact of these measures alone on the share of net VAT receipts remaining with the State, i.e. less VAT receipts transferred to local authorities and social security bodies. As a result, the latest forecast for 2022, estimated at EUR 94.2 billion in Volume II of the Report *Voies et Moyens* annexed to the PLF 2023, has been revalued to EUR 84.3 billion using this new approach (with only VAT-related TEs being reviewed). Similarly, the 2023 forecast of EUR 89.1 billion has been re-revised at EUR 77.7 billion.”

In the PLF 2023, the cost of VAT-related TEs (reduced rates on housing maintenance, catering, etc.) was estimated at EUR 19.0 billion for 2021 and forecasted at EUR 20.5 billion for 2022 and EUR 21.4 billion for 2023. In the Finance Bill for 2024, the cost for 2021 no longer appears, in accordance with the Ministry of Finance’s practice whereby the report *Voies et Moyens* indicates only the cost for the year preceding its submission, the cost for the current year and the cost for the following year. The cost for 2022 has been "reviewed" at EUR 10.3 billion and the cost for 2023 at EUR 9.7 billion.

### **Cost of VAT-related tax expenditure (EUR billion)**

	2021	2022	2023	2024
PLF 2023	19,0	20,5	21,4	n.d.
PLF 2024	n.d.	10,3	9,7	10,3

Source: Finance bills; FIPECO.

A significant proportion of VAT receipts had already been allocated to social security administrations for several years in 2017. Since 2017, an increasingly large proportion has been allocated to local authorities as compensation for the abolition of the residence tax (*taxe d’habitation*) on main residences and then the gradual reduction in the contribution on businesses value added (*cotisation sur la valeur ajoutée des entreprises, CVAE*). By 2022, the State will have retained only 50% of net VAT receipts. Under the new method implemented in the 2024 Budget Bill, the cost of VAT-related TEs that appeared in the 2023 Budget Bill has therefore been halved.

If it was justified, this new method could have been applied several years ago to VAT-related TEs, and it could now be applied to TEs on excise duties on fuels, a substantial part of which is allocated to the regions. But this is not the case. So there is, at least, a problem of consistency between methods.

The transfer of half of net VAT receipts to administrations other than the State does not change the cost to the public administration as a whole of TE resulting from VAT exemptions and reduced rates. It would therefore be preferable for the PLFs to continue to show the total cost. Many budget documents rightly provide information on the general government as a whole, starting with the introductory article of all finance acts (*lois des finances*): public deficit, public spending, etc.). The Organic Law of December 28 2021 is a step in this direction, and this reform of the method of accounting for TE runs counter to it.

Volume II of the *Voies et Moyens* report annexed to the PLF has long stated that TEs are "legislative or regulatory provisions whose implementation results in a loss of revenue for the State and therefore, for taxpayers, a reduction in their tax burden compared with what would have resulted from the application of the norm, i.e. the general principles of French tax law". It also states that "certain reliefs applicable to direct local taxes may be considered as derogations from the tax norm. These measures are detailed in this booklet, provided that they have a direct impact on the resources and expenses of the State (payment to the beneficiary of a compensatory allowance or tax relief for the taxpayer)".

The Ministry of Finance could therefore argue that VAT-related TE only has a 50% impact on the State's accounts, since it passes on half to social and local administrations. This argument would be untenable because the fraction of VAT allocated to these administrations is adjusted to correspond exactly to the cost of abolishing or reducing certain social security contributions (on low salaries in particular) or certain local taxes (residence tax, CVAE in particular). If VAT-related TEs had been higher in 2022 (with lower reduced rates, for example), the fraction of VAT allocated to social and tax administrations would have been adjusted upwards and the State alone would have borne the cost of higher TE.

This will continue to be the case for the social security authorities in the future insofar as the State must compensate the Central Agency for Social Security Organizations (*Agence centrale des organismes de sécurité sociale, ACOSS*) to the nearest euro for the cost of reducing employers' contributions for certain bodies. As far as local authorities are concerned, the proportion of VAT allocated to them should be kept constant and, under these conditions, the cost of new TE will in fact be shared between the State and local authorities, but only in the future.

Nonetheless, the *Voies et Moyens* report should present information on the cost of TE for all public administrations, and this information is now incomplete. Finally, as the Ministry of Finance does not publish a series of TE estimates for previous years using this new method, the costs of TE in the 2024 Budget not comparable to those from previous years.

### **3) Changes in the cost of TEs from 2017 to 2023**

In some case, provisions are removed from the list of TEs even when they still exist...in other cases, new provisions are added even when they had already existed before. In addition, as we have seen, the methods used to estimate the cost of TEs are sometimes changed. Hence, the cost estimates shown in the reports annexed to the PLFs must therefore be adjusted to reflect these changes on a constant basis (scope and methods). This is what we have done down here to obtain a series that is consistent with the list and methods in the 2024 PLF, except for VAT-related TEs. Indeed, their total cost for the State as a whole is used here.

In 2017, the total cost of TEs (in the 2024 PLF format) amounted to EUR 90.6 billion and their cost excluding the CICE to EUR 74.9 billion.

By 2022, it have risen to EUR 95.5 billion (compared with EUR 85.6 billion as per the PLF using the new method for calculating VAT-related TE). Excluding the CICE, the figure EUR is 90.0 billion.

The main taxes concerned are personal income tax (EUR 36.6 billion), taxes on both household income and company profits (industrial and commercial, agricultural and non-commercial profits) (EUR 13.1 billion), corporate income tax (EUR 7.4 billion), VAT (EUR 20.2 billion) and excise duty on energy products (EUR 7.5 billion).

The most costly TEs in 2022 are the tax credit for research (EUR 7.2 billion), the tax credit for employing home workers (EUR 5.7 billion),

the CICE (EUR 5.5 billion)<sup>2</sup>, the 10% rebate on pensions (EUR 4.4 billion), the reduced rate of VAT applied to housing maintenance work excluding energy renovation (EUR 4.4 billion), the replacement of corporation tax by a flat-rate levy based on the tonnage of ships from which 57 shipping companies benefit (EUR 3.8 billion), the reduced rate of VAT applied to on-site catering (EUR 3.1 billion), the reduced rates applied in the French overseas departments (EUR 3.4 billion), the exemption of aid granted to companies by the Solidarity Fund during the crisis (EUR 3.0 billion) and sums paid under the profit-sharing or employee savings schemes (EUR 2.6 bn).

Forecasts of the cost of TE are fragile and those of the Ministry of Finance have often underestimated their dynamism. This said, the cost of TE should fall by EUR 2.8 billion in 2023 to EUR 92.7 billion (EUR 81.3 billion in the PLF using the new method for VAT). Excluding the CICE, however, it would increase by EUR 1.5 billion to EUR 91.5 billion.

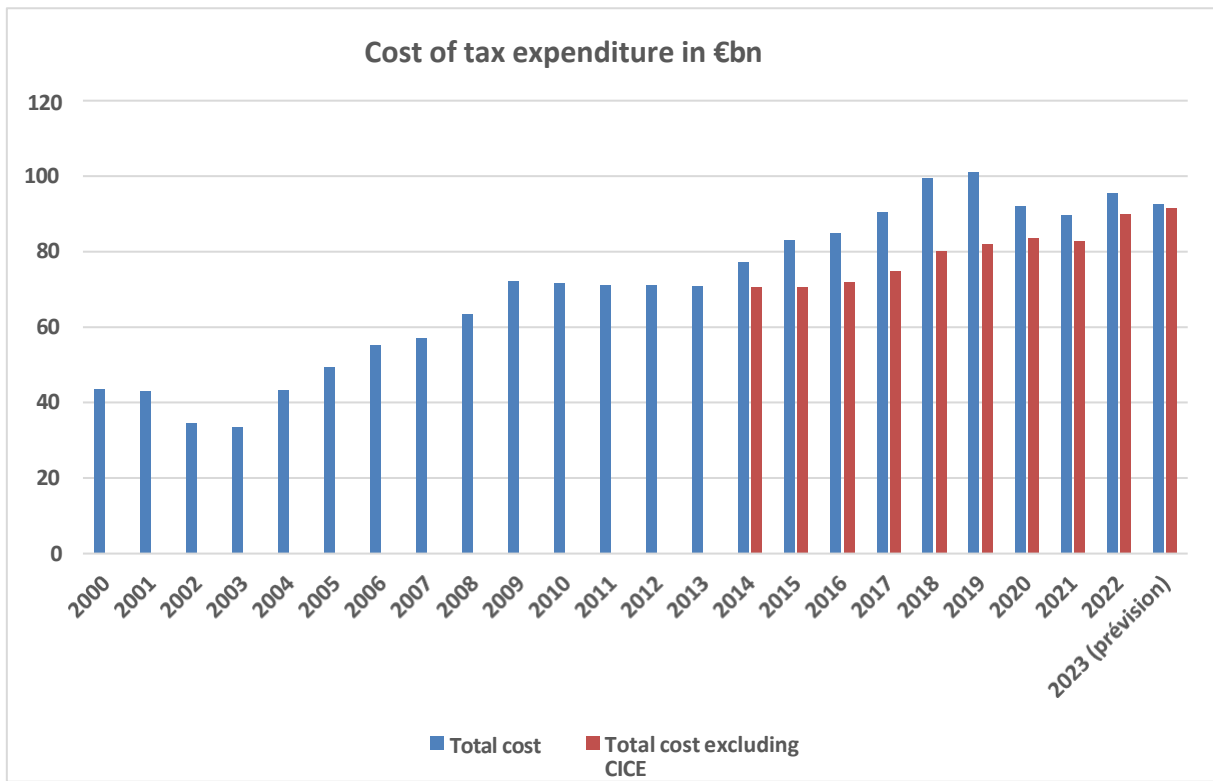
The cost of the exemption for aid granted by the Solidarity Fund is expected to fall sharply (-EUR 3.0 billion), as is that of the CICE (- EUR 4.3 billion), while the cost of the special scheme for maritime transport companies is expected to rise sharply (+ EUR 1.8 billion).

The cost of TE, with or without the CICE, has therefore increased in euros since 2017, but this cost in euros can increase even if tax legislation does not change. As the cost of a reduced rate of VAT on a product, for example, is the product of the consumption of that product and the difference between the standard rate and the reduced rate, it increases in euros when the consumption of that product increases. It is therefore also necessary to examine the evolution of the cost of TEs in relation to an indicator of economic activity such as GDP.

As a percentage of GDP, TEs would fall from 3.9% of GDP in 2017 to 3.6% of GDP in 2022. There is therefore a reduction, but it is due solely to the transformation of the CICE into a reduction in employers' social security contributions. Excluding the CICE, this cost would rise from 3.3% of GDP in 2017 to 3.4% in 2022.

---

<sup>2</sup> The CICE has been abolished in 2019 but continues to be reimbursed to companies on pre-2019 salaries.



Sources: reports annexed to the PLFs (the cost shown in the PLF 2024 for 2022 and 2023 has been adjusted to include the total cost of VAT-related TE); FIPECO.