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Budget 2020 : What effects on households ?

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This policy brief analyzes the redistributive effects of the social and fiscal policy measures for households coming into force in 2020. Our results highlight an average gain of 1% in disposable income for the 60% of households located in the middle of the income distribution, with a standard of living between €1,274 and €2,803 per month. These increases in disposable income for the middle classes are partly explained by the latest wave of housing tax cuts. The income tax cut is the other important measure of the 2020 budget, and leads to greater gains for households above the median, with a standard of living above €1,778 per month. The poorest 8% of households, below €837 per month, and the wealthiest 5% of households, above €4,034 per month, are little affected by the socio-fiscal measures coming into force in 2020. We then analyze the effect of all the measures coming into force between 2018 and 2020. We observe gains in disposable income for a majority of households, with a maximum of 3.2% of disposable income between the 25th and 75th standard-of-living percentile (including households with a standard of living between €1,274 and €2,435 per month). Only the poorest households, below €789 per month, do not benefit on average from these measures. The wealthiest 1% of households, above €6,880 per month, see their disposable income increase by 2.2%, with an effect of 3.9% for the wealthiest 0.1% of households with a standard of living above €18,689 per month.

- The 2020 budget proposes a concomitant reduction in taxes (€9.5 billion, according to the government) and social benefits (€2.8 billion), implying an overall increase in purchasing power of €6.7 billion for 2020.
- A large middle class, with a standard of living between €1,274 and €2,803 per month, benefits from the reforms planned for 2020, with an average gain of 1% of disposable income. These gains are greater for the upper middle classes, reaching a peak of 1.5% for households earning around €2,300 per month.
- Households at the bottom and top of the income distribution benefit little or not at all from these measures.
- All the reforms introduced during Emmanuel Macron's presidency have together led to gains in disposable income of about 3.2% for the 50% of households in the middle of the income distribution, with a standard of living of between €1,274 and €2,435 per month.
- The poorest 7% of households, below €789 per month, are little affected by the reforms implemented since 2018. The wealthiest 1% of households, above €6,880 per month, have seen their disposable income increase by 2.2%, and the top 0.1% (above €18,689 per month) by 3.9%.



The budget debate in the last quarter of 2019 led to the introduction in 2020 of various socio-fiscal measures affecting households. The first version of these measures was proposed by the government to parliament in the framework of the finance (*projet de loi de finance*, PLF) and social security financing (*projet de loi de financement de la sécurité sociale*, PLFSS) bills for 2020. The finance (*loi de finance*, LF) and social security financing (*loi de financement de la sécurité sociale*, LFSS) laws for 2020 were adopted at the end of 2019 (*Loi 2019-1479* on December 28th and *Loi 2019-1446* on December 24th), closing parliamentary debate on budgetary measures for that year.

On October 15th, 2019, the Institute for Public Policy (IPP) presented its evaluations of the PLF and PLFSS socio-fiscal measures for households at a public conference¹. As a follow-up to this conference, this study presents the effects of these measures as adopted by parliament.

The French socio-fiscal system is made up of multiple devices affecting households differently and interacting with each other. Here, we propose an overall analysis, taking into account all the measures affecting households' taxes and social benefits, whether or not they fall within the scope of the LF or the LFSS². We exploit numerous administrative sources to simulate the redistributive effects of the proposed reforms according to different dimensions, and break down these effects by type of measures. We first analyze the effects of the reforms coming into force in 2020. We then evaluate the redistributive effects of all the reforms introduced during Macron's presidency, i.e. the impact of the measures coming into force in 2018, 2019 and 2020.

Social and fiscal measures introduced in 2020

Table 1 lists the socio-fiscal measures for households coming into force in 2020. The effect of each of these measures on public finances is indicated, as estimated by the government in the budget documents accompanying the PLF and the PLFSS for 2020. This table also recalls the other reforms implemented since the start of Macron's presidency, namely those in force since 2018 or 2019.

More tax cuts

Taxes and other compulsory levies, which form part of government revenue, will decrease by €9.5 billion according to the government's forecasts. This aggregate change is the result of a number of reforms, with taxes both falling (income tax and housing tax) and rising (tobacco tax). The most important tax cut proposed by the 2020 budget concerns income tax. The progressive scale has been modified to reduce the burden on those in the first tax

1. The documents associated with this presentation can be downloaded from the IPP website : <https://www.ipp.eu/actualites/15-octobre-conference-evaluation-du-budget-2020-ipp-cepremap/>.

2. Compulsory levies relating to unemployment insurance and supplementary pension schemes are not codified in the framework of the LF or LFSS but are an integral part of the national budget in the sense of the national accounts.

Table 1 – Impact on households from the 2018, 2019 and 2020 budgets (in billions of euros)

	2018	2019	2020
Taxes (i)	-1.3	-10.2	-9.5
Income tax cuts			-5.0
Housing tax rebate	-2.9	-3.6	-3.7
Implementation of PFU	-1.4	-0.3	-0.1
Replacement of ISF by IFI	-3.2		
Switch in contributions / CSG	+4.4	-4.0	-0.3
Overtime exemptions		-3.0	-0.8
Tobacco tax	+0.9	+0.4	+0.4
Energy tax	+2.4		
AGIRC-ARRCO rate increase	+0	+1.1	-0.1
Others*	-1.5	-0.8	+0.1
Social security benefits (ii)	+0.1	-0.6	-2.8
Revaluation of activity bonus	+0.2	+2.5	
Revaluation of minimum old-age pension	+0.1	+0.2	+0.2
Revaluation of AAH	+0.2	+0.6	
Housing allowances*			-1.0
Undervaluation of benefits		-0.7	-0.6
Undervaluation of pensions		-2.8	-0.6
Change of revaluation dates	-0.4	-0.4	
Unemployment insurance reform*			-0.8
Impact on purchasing power (ii) - (i)	+1.4	+9.6	+6.7

Notes : This table represents for each year between 2018 and 2020 the changes in public revenue induced by each measure on taxes and the changes in public expenditure induced by each measure on social benefits. These figures are based on the government's predictions. The figures for tobacco tax take account of any behavioral reactions induced by these measures. The CSG "switch" comprises all CSG increases, including the increase in the CSG rate on capital income decided under the SFP. The projected increase in CSG on this income is €2 billion (cf. PLFSS 2018, Annex 10, p. 25). The "income tax component" of the PFU corresponds to the new flat-rate levy of 12.8% on capital income. The changes in the revaluation date concern retirement pensions and ASPA.

Others : CITE (-0.3; 0.8; 0); home employment credit (-1.0; 0; 0); abolition of student fees (-0.2; 0; 0); cancellation of the CSG increase for low-income retirees (0; -1.6; 0.1).

* Not included in our simulations.

Sources : RESF 2020, p. 107; RESF 2019, p. 95. Évaluations préalables PLFSS 2018, p. 245 and 249; Évaluations préalables PLFSS 2019, p. 378; Évaluations préalables PLF 2019, p. 448; Étude d'impact du projet de loi portant mesures d'urgence économiques et sociales, p. 18 and 23; Évaluations préalables PLFSS 2020, p. 489; dossier de presse du PLF 2020, p. 85. Étude d'impact de la réforme de l'Assurance chômage 2019 (Unédic), p. 13, 27, 35, 36 and 37. For the reform of housing subsidies, the cost indicated is €1.4 billion on a full-year basis. As the measure will apply from April 2020, we are allocating an amount calculated on a pro rata basis for this year.

bracket (and to a lesser extent on those in the second bracket). The rate for the first bracket is thus reduced from 14% to 11% as of the 2020 tax year. The thresholds of the upper brackets have been adjusted to compensate for this rate reduction. The tax reduction also includes an extension of the discount and the elimination of the means-tested reduction created in 2016.

In addition, the reform of the housing tax will continue in 2020. The rate of tax relief for 80% of households introduced in 2018 will rise from 65% to 100%, leading to a drop in public revenue of €3.7 billion. In parallel with these cuts, other compulsory levies such as tobacco taxes (€0.4 billion) are being increased.

The 2020 budget follows two budgets also characterized by tax cuts (€1.3 billion in 2018 and €10.2 billion in 2019). These aggregate reductions are also the result of several socio-fiscal measures affecting households in a differentiated manner (Ben Jelloul et al., 2019a).

Box 1 : Methodology and data

The TAXIPP 1.1 model

The results presented in this study are based on the use of the TAXIPP microsimulation model (version 1.1), developed at IPP. This tool allows us to model the French socio-fiscal system on the basis of individual data and to evaluate *ex ante* the budgetary cost and redistributive effects of socio-fiscal reforms (Ben Jelloul et al., 2019b).

The TAXIPP 1.1 model uses the OpenFisca socio-fiscal legislation simulator, which is free and collaborative, and which IPP is co-developing with various stakeholders (see <https://fr.openfisca.org/>). It applies this simulator to a database resulting from a statistical matching of income tax files (FELIN, DGFIP) and the Tax and Social Income Survey (ERFS, Insee). Housing tax records (FIDELI, Insee) and the Family Budget Survey (BDF, Insee) are also used. Compared to the previous version of the model (TAXIPP 1.0), TAXIPP 1.1 is also based on the use of tax data from the ISF 2017 and IFI 2018 declarations (see Box 3). In this study, the TAXIPP 1.1 model applies a static analysis : it does not incorporate changes in individual behavior that may result from the socio-fiscal reforms analyzed. The model does, however, take into account behavioral patterns of non-use of certain social benefits such as RSA income support, the activity bonus, or the ASPA pension allowance.

Weighing up the budget : what measures to consider ?

Evaluating the budget requires defining the scope of the measures studied. By "2020 budget reforms", we mean measures taking effect from 2020 onwards, whether they have been promulgated in the LF or LFSS for 2020, or in earlier texts. When we talk about the cumulative effects of the 2018, 2019 and 2020 budgets, we consider the measures introduced by the current government or by the social partners of Unédic or the supplementary pension schemes, and which have come into force since 2018.

The counterfactual question

The effects of the reforms are measured for the year 2020, based on the initial database that is being "aged" using the growth and demographic forecasts presented by the government. To evaluate the redistributive effects of the measures studied, we compare two socio-fiscal systems that are based on the actual system before the reforms. In the first system, known as "counterfactual", the 2020 budget does not introduce any reform of political origin : taxes and benefits follow the same rules as the pre-reform system, but the monetary parameters of calculation are revalued according to forecast inflation, as well as the minimum wage. The second system, known as the "reformed" system, starts from the pre-reform system and applies the reforms to be analyzed. For the evaluation of the 2020 budget, the pre-reform system defining the counterfactual system and the reformed system is based on the socio-fiscal system in force on December 31st, 2019. For the joint assessment of the 2018, 2019 and 2020 budgets, the pre-reform system is that in force on December 31st, 2017.

Measures of income distribution in the population

The **disposable income** of a household is the sum of the household's income, net of tax and social transfers, i.e. after payment of compulsory levies and receipt of social benefits.

The **disposable income per consumption unit**, or "**standard of living**", aims to relate disposable income to the size of the household, taking into account the economies of scale associated with pooled expenditure. The first adult in the household counts as 1 consumption unit. Each additional person aged 14 and over counts as 0.5 units, and each additional person under 14 counts as 0.3 units.

In this study, we present the average effects of the measures by "**percentile**". Households are classified according to their initial disposable income per consumption unit and are divided into 100 categories. The "initial" disposable income per consumption unit is calculated using the counterfactual socio-fiscal system. Households belonging to the first percentile are therefore the 1% of households with the (initially) lowest disposable income per consumption unit, while households in the 100th percentile are the wealthiest 1% of households. For convenience, we refer to the percentile X as the fraction of the population between the percentile $X - 1$ and the percentile X^a . Thus, households in the 50th percentile correspond, in this policy brief, to households with incomes between the 49th and 50th percentile of disposable income.

^a. A percentile is a threshold at which an individual moves from one fraction of the population to another. Thus, an income variable with a 40th percentile value of Y euros implies that 40% of the population has an income below this threshold and 60% of the population has an income above it.

The table below shows the threshold for entry into the main percentiles in terms of "initial" living standards in 2020. The entry threshold is the minimum value of standard of living within the percentile.

Percentile	Entry threshold of disposable income per consumption unit
5 th	625 € / month
10 th	874 € / month
20 th	1,158 € / month
30 th	1,386 € / month
40 th	1,587 € / month
50 th	1,778 € / month
60 th	1,993 € / month
70 th	2,248 € / month
80 th	2,574 € / month
90 th	3,155 € / month
95 th	3,806 € / month
99 th	5,470 € / month
100 th	6,880 € / month

Interpretation : Households in the 50th percentile have a standard of living in 2020 of at least €1,778 per month before taking into account the 2020 budget reforms.

Note : The "initial" standard of living here is the standard of living calculated with the counterfactual system used to evaluate the 2020 measurements alone. It is therefore the counterfactual standard of living before the 2020 budget reforms, but after the 2018 and 2019 budget reforms.

Source : TAXIPP 1.1 microsimulation model, using FELIN, ERFS, ISF-IFI, Family Budget and FIDELI data.

An overall decrease in social benefits due to deindexation

In parallel with the tax cuts which in aggregate represent a gain in households' purchasing power, monetary social benefits will decrease in 2020, reducing disposable income by €2.8 billion. However, this aggregate decline conceals a differentiated impact on social benefits.

The 2020 budget includes an under-revaluation of the majority of social benefits. The amount of these benefits will increase by 0.3% for a forecast inflation of 1%. These include family benefits, housing assistance, the activity bonus and disabled adult allowance (AAH). Retirement pensions will also be increased by 0.3%, except for those below €2,000 gross per month, which will be increased by 1%. In total, these under-indexations of pensions and social benefits represent a decrease in public expenditure of €1.2 billion. Other benefits such as income support (RSA), the supplementary disability allowance (ASI) and the specific solidarity allowance (ASS) will simply be revalued on inflation at 1%. On the other hand, the minimum old-age pension (ASPA) increased by 4% on January 1st, 2020 (from €868 to €903 per month).

Finally, from April 2020, a reform of housing subsidies should come into force, taking into account the recipient's resources of the past 12 months rather than those received in the previous two years. A reform of unemployment insurance was also introduced at the end of 2019, with effects felt from 2020. The impact of these two reforms depends on individual income and employment histories. As we do not have such information, we have excluded these two measures from our simulations.

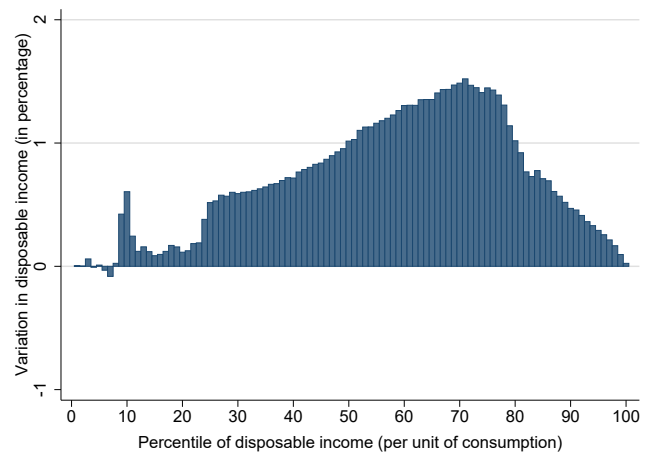
The €2.8 billion overall cut in social benefits in 2020 follows two budgets with smaller aggregate effects on benefits (€0.1 billion increase in 2018 and €0.6 billion decrease in 2019), but which also contained measures that treat households in a heterogeneous manner (Ben Jelloul et al., 2019a).

The effects of the 2020 budget

Beyond their aggregate effects, these measures have heterogeneous effects on disposable income and do not target the same households. We must therefore analyze these measures jointly and assess the redistributive effects induced by these reforms as a whole.

This section presents the redistributive effects of the 2020 budget measures. Figure 1 represents the average change in disposable income (in %) induced by these measures for every standard-of-living percentile (cf. Box 1). This is not the change in income from the previous year, due for example to income growth, but the change in dis-

Figure 1 – Effects of the 2020 budget on household disposable income



Interpretation : On average, households in the 50th percentile of disposable income (per unit of consumption) benefit from a 1.2% increase in disposable income due to the implementation of the 2020 budget measures.

Note : Households are classified according to their disposable income per unit of consumption and divided into 100 groups of the same size (percentiles), ranging from the least affluent to the most affluent (cf. Box 1).

Source : TAXIPP 1.1 model using FELIN, ERFS, ISF-IFI, POTE, BDF and FIDELI data.

posable income directly induced by the budgetary measures introduced in 2020 (cf. Box 1).

On average, the 2020 budget measures increase household disposable income across the income distribution. However, these gains are unevenly distributed across households. A large portion of them, those between the 25th and 84th percentile, benefit on average from disposable income gains of 1%. These are households with a previous standard of living of between €1,274 and €2,803 per month (see Box 1 for the standard-of-living values of all percentiles). These relative gains increase with the standard of living and reach a maximum of 1.5% at the 71st percentile. Upper-middle-class households (those in the wealthiest 15%) experience lower gains or none at all. Similarly, the poorest 25% of households experience on average little or no change in disposable income.

The 2020 measures increase disposable income for a broad middle class, with greater gains for the upper middle classes (7th and 8th deciles).

Figure 2 presents a breakdown of these effects by type of socio-fiscal measure. The two most important measures concern housing tax and income tax. Concerning the housing tax in 2020, households located between the 25th and the 80th percentile see their disposable income increase by about 0.7% on average due to the last cut of 35%. The most modest households are little affected by this tax cut, as the majority of them already benefit from existing exemption or reduction mechanisms.

Households will also benefit in 2020 from lower income taxes. This reduction benefits middle-class households,

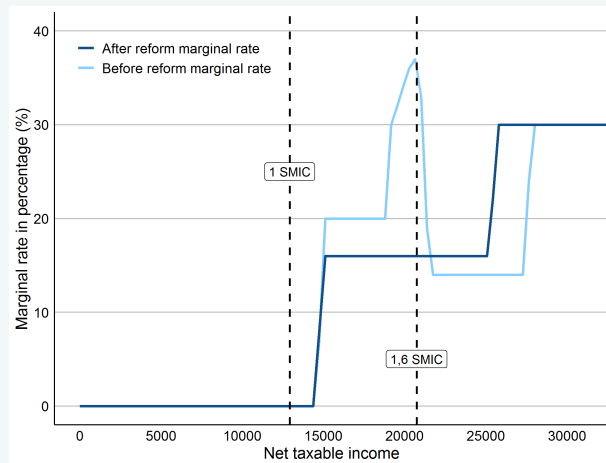
Box 2 : Changing the income tax scale

A cut in income taxes is one of the flagship measures of the 2020 budget. This reduction involves a change in the income tax scale, which now appears to be simpler and to offer more incentives to work.

Simplification of the tax scale

The first income tax bracket was previously supplemented by two devices : a discount, which delayed the imposition of the tax, but subsequently raised the rate of tax increase ; and a means-tested cut, which first lowered the rate of tax increase then raised it to catch up.

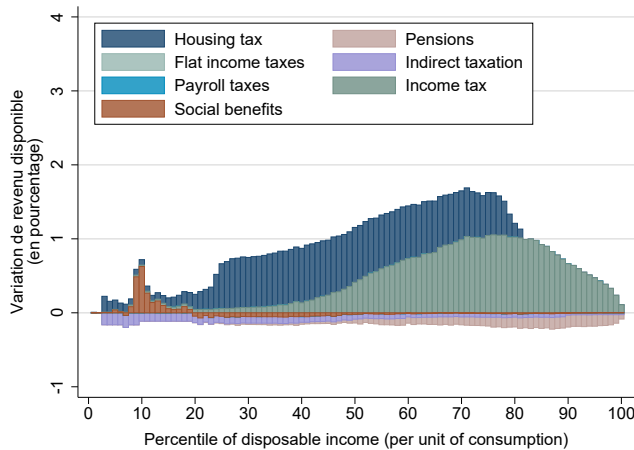
In addition to lowering the first bracket rate and the thresholds for the different brackets, the 2020 reform simplifies the tax scale by extending the discount to the whole of the first bracket and removing the means-tested cut. Together, these provisions result in a new, simpler scale with a single final rate per bracket. The graph opposite illustrates the content of these measures by showing the marginal tax rates before and after the reform, the marginal rate being defined as the taxed share of an additional euro of income (a marginal rate of 10% means that an additional €1 of income implies an increase of €0.10 in tax).



New rates may increase incentives to work

This reform lowers the marginal tax rates of the first bracket to 16%. In particular, it removes the peak which reached 38% at the level of 1.6 Smic (the minimum wage), which could have discouraged people in this part of the scale from increasing their earned income. The new scale also becomes progressive for these income levels, which was not the case prior to the reform (a scale is said to be progressive when marginal tax rates are increasing according to the taxable base).

Figure 2 – Effects of the 2020 budget : breakdown by measure



Interpretation : On average, households in the 50th percentile of disposable income (per consumption unit) benefit from a 0.7% increase in disposable income due to 2020 budget measures related to the housing tax.
Source : TAXIPP 1.1 model using FELIN, ERFS, ISF-IFI, POTE, BDF and FIDELI data.

above the 50th percentile, but has little impact on more modest households, which are not taxable under the current system. Lower marginal tax rates have been introduced for the first bracket of the progressive scale (from 14% to 11%) and certain additional devices have been simplified (see Box 2). The gains in disposable income resulting from these measures are increasing for households in this

first tax bracket and reach 1.1% of disposable income at the 78th percentile level. The thresholds of the brackets in the scale have also been modified so that gains are more limited for taxpayers in the second bracket. They only benefit from a flat-rate reduction of about €125 (€250 for a couple). This explains the decreasing profile of relative gains for households between the 78th and the 99th percentile. Finally, the wealthiest households in the last two progressive tax brackets, and in the 100th percentile, do not benefit from this tax cut due to changes in the thresholds of the progressive tax scale.

Other smaller measures help explain the redistributive profile of the 2020 budget. Households receiving the minimum old-age pension (ASPA) will benefit from its revaluation, leading to average gains at the 9th and 10th percentile. On the other hand, the other households in the first percentiles will mainly experience declines in disposable income, due to the under-revaluation of social benefits and the increase in tobacco taxes. Finally, the under-revaluation of retirement pensions exceeding €2,000 gross per month leads to decreases in disposable income above the median of the income distribution.

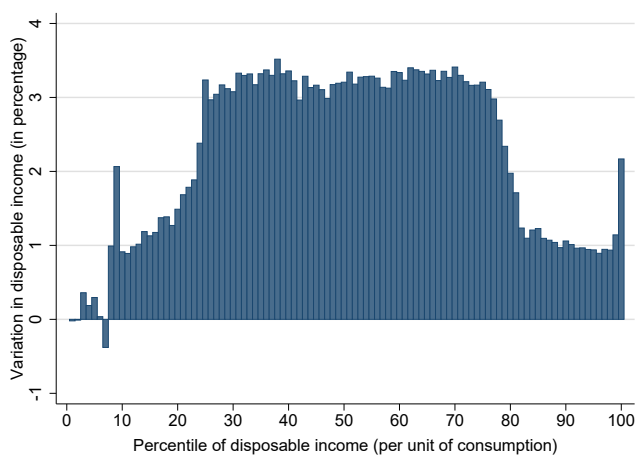
Cumulative effects of budgets since 2018

As a complement to the analysis of the 2020 budget, it is important to discuss the effects of all the measures taken during Macron's presidency. This section presents the

analysis of the effects of the measures introduced by the 2018, 2019 and 2020 budgets. The method consists in comparing the effects of the socio-fiscal system planned for 2020 (following all these measures) to a counterfactual socio-fiscal system that would have existed in 2020 if no reforms had been introduced since 2017 (cf. Box 1).

The reforms implemented since 2018 have generated average gains of 3.2% for the 50% of households in the middle of the income distribution.

Figure 3 – Cumulative effects of the 2018, 2019 and 2020 budgets on household disposable income



Interpretation : On average, households in the 50th percentile of disposable income (per consumption unit) benefit from a 3.2% increase in disposable income in 2020 due to the budgetary measures implemented during Macron's presidency. Sources : TAXIPP 1.1 model using FELIN, ERFS, ISF-IFI, POTE, BDF and FIDELI data.

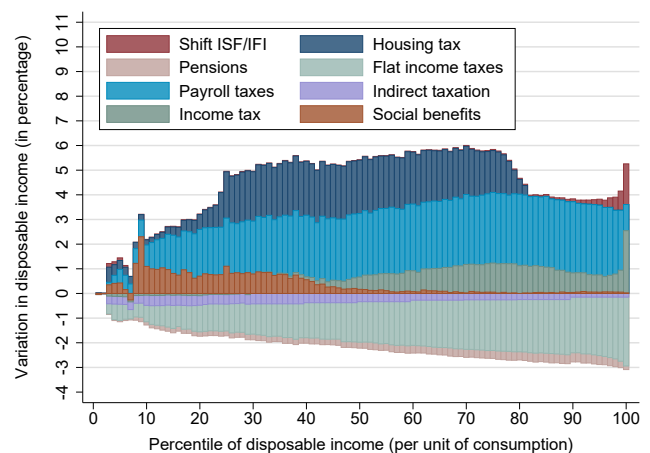
Figure 3 is similar to the Figure 1 and represents the redistributive effects of all measures adopted since 2018. It is supplemented by Figure 4, which breaks down these redistributive effects by type of socio-fiscal arrangement. The measures introduced by the 2018, 2019 and 2020 budgets have a positive average effect for all percentiles, except at the lower end of the income distribution. The most marked gains concern a middle class ranging from the 25th to the 75th percentile. For this part of the population, disposable income increases by an average of 3.2%. This effect is partly explained by the switch between social contributions and the CSG (which falls into the category of social security contributions). It can also be explained by the housing tax cuts which have produced a gain of more than 2% in disposable income for the targeted households. Finally, two additional measures have contributed to the rise in the standard of living of these middle-class households : namely, the exceptional €90 revaluation of the activity bonus³ which benefits low-income earners ; and the 2020 income tax cut which benefits households higher up the distribution.

3. This measure was adopted at the end of 2018 within the framework of the law "on economic and social emergency measures".

70% of the gains from abolishing the ISF are concentrated among the wealthiest 3% of households.

Average gains are lowest among the poorest 25% of households, at 1.4% between the 8th and 24th percentiles. These households hardly benefit at all from housing tax cuts, since most of them already benefit from existing exemption or reduction schemes. On the other hand, active workers whose salary is around the minimum wage, and therefore above the 10th percentile, benefit from the increase in the activity bonus. Households in the 9th percentile, which includes many ASPA and AAH recipients, experience greater gains (+2.1% of disposable income) due to the revaluation of these benefits. For the most precarious households, located below the 8th percentile, the budgetary measures taken during Macron's presidency have a zero net effect. This population is the only income group that does not benefit on average from increases in living standards as a result of the socio-fiscal reforms implemented since 2018.

Figure 4 – Cumulative effects of the 2018, 2019 and 2020 budgets : breakdown by measure



Interpretation : On average, households in the 50th percentile of disposable income per consumption unit benefit from a 1.6% drop in disposable income in 2020 due to measures related to social security contributions. Source : TAXIPP 1.1 model using FELIN, ERFS, ISF-IFI, POTE, BDF and FIDELI data.

For the wealthiest 25% of households, the budget also generates lower gains (expressed as a percentage of disposable income) than those of the middle classes mentioned above. The switch between social security contributions and CSG is less beneficial to them, as their income is more often composed of capital income or pensions. The reduction in income tax also has a smaller impact on these households, which are generally in the second bracket of the tax scale.

On the other hand, gains in disposable income increase again at the level of the wealthiest 1% of households, to reach 2.2% on average. These households benefit from the introduction of the single flat-rate levy (PFU) on capital income, as this income is concentrated at the top of the distribution of living standards. In addition, these households benefit from the abolition of the ISF wealth

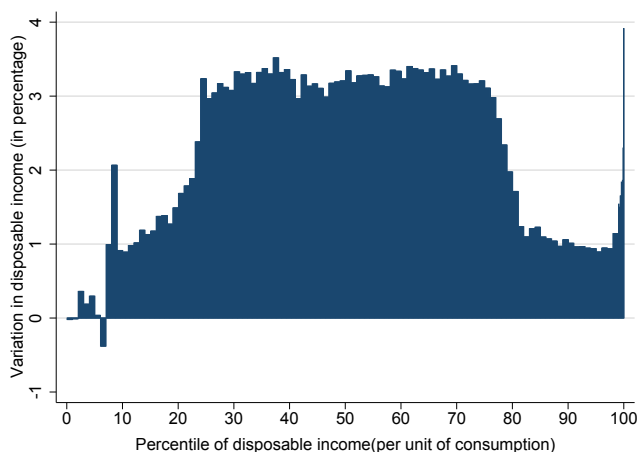
tax and its replacement by the IFI. The effect of this measure, analyzed using unpublished data on declarations for the ISF and the IFI, is also highly concentrated at the top of the income distribution : the wealthiest 3% of households receive 70% of the benefits of this reform. However, this concentration is less significant for the highest incomes than that suggested by the usual methods of deducting taxable assets from household tax revenues. This can be explained by a greater concentration of wealth tax "niches" for the most affluent households, which reduced the amount of wealth tax paid before the reform at the top of the income distribution (see [Box 3](#)).

Heterogeneity in terms of the level and composition of income is greater at the top of the income distribution, so we need to take a closer look at this category of households. [Figure 5](#) shows the same effects as [Figure 3](#) but breaks down the last percentile of the standard of living into 10 groups of households of equal size (10 "milliles"). This graph shows a gain in disposable income of around 3.9% for the wealthiest 0.1% of households. This again illustrates the high concentration of income and wealth at the top of the distribution of living standards.

tions of measures relating to household taxes and social benefits, which is crucial for democratic debate. Nevertheless, this policy brief presents only the short-term effects of socio-fiscal reforms, without taking into account behavioral reactions to these measures. Recent work at IPP estimates behavioral responses to taxation of dividends, incorporating these responses into forecasting analyses (Bach et al., 2019). This work is part of a broader research program, which ultimately aims to take into account all behavior of economic agents with regard to fiscal policy.

Finally, socio-fiscal reforms for households do not represent the full range of budgetary measures. These also concern public expenditure on goods and services (health, education, etc.), the redistributive impacts of which should be analyzed, or the evolution of public debt, the burden of which must also be allocated. These perspectives will guide the content of our future work and underline the indispensable nature of the evaluation of public policies in the context of an informed democratic debate.

Figure 5 – Cumulative effects of the 2018, 2019 and 2020 budgets - an income spike for the last percentile



Note : The bar associated with the last percentile is broken down into 10 categories, hence the lesser thickness of the last 10 bars of this graph.

Interpretation : On average, households in the 50th percentile of disposable income (per consumption unit) benefit from a 3.2% increase in disposable income in 2020 due to the budgetary measures implemented during Macron's presidency. Those in the 995th millile benefit from an increase of 1.7%.

Source : TAXIPP 1.1 model using FELIN, ERFS, ISF-IFI, POTE, BDF and FIDELI data.

Conclusion

This policy brief assesses the redistributive effects of the socio-fiscal measures planned for households in 2020. Our results highlight gains in disposable income for a large middle class, and small effects for the top and bottom of the income distribution. The analysis of all the measures taken between 2018 and 2020 produces the same trend, albeit with notable gains for those with the highest incomes.

These results make it possible to document the implica-

Box 3 : Data from ISF and IFI returns

The black box of household wealth

To study taxation based on the capital stock, data on household wealth are needed. Until recently, researchers did not have access to sufficiently precise information on this subject and had to use imputation methods to reconstruct a plausible distribution of wealth from various sources (national accounts, tax lists, survey data).

Recent access to more accurate tax data

In July 2019, data from tax returns for the ISF and the IFI were made available to researchers by the French tax authority (DGFiP). These data record the entirety of these returns from 2006 to 2018. The database provides information on the taxable assets of each taxpayer, their total assets and liabilities, and (in some cases) the composition of these assets and liabilities^a, the amounts of the relevant reductions and ceilings, and the final total of tax due. It is possible to match these data with the data from the income tax returns (POTE). The matching of these two databases is a novel source, as it provides an exhaustive representation of the joint distribution of income tax and taxable wealth for the ISF or IFI.

New sources with new results

The use of these original sources confirms the high concentration of the ISF at the top of the income distribution. Indeed, 70% of the effects of the abolition of this tax and its replacement by the IFI are focused on the richest 3% of households, according to our estimates. However, this concentration is less significant than that obtained in our previous work (Ben Jelloul et al., 2019a). For these earlier analyses, only tax revenues were available at the individual level. We therefore imputed each household's total wealth from its tax revenues using the "capitalization" method, which applies macroeconomic rates of return from the national accounts to income. We then matched the resulting wealth distributions with the ISF tax lists, which provide information on the number of taxpayers and the total taxable wealth of each ISF tax bracket (Ben Jelloul et al., 2019b). One of the underlying assumptions necessary for this method is that the "niches" associated with the ISF (exemptions, allowances, reductions and caps on the ISF) are distributed uniformly according to household income. The fact that the use of ISF administrative records weakens the concentration of the effects of the abolition of this tax on those with the highest incomes suggests that, in reality, the wealthiest households benefited more from these tax niches and paid less ISF before the reform than their imputed level of total wealth suggested. The overestimation of the level of ISF on very high incomes automatically leads to an overestimation of the gain after its removal.

^a. The declaration of the various components of the taxable assets is compulsory only for taxpayers with taxable assets of €2.57 million or more. For other taxpayers, it is possible to declare only the total amount of taxable assets.

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The results presented in this study are the sole responsibility of the authors.

Online data

See budget.ipp.eu for the data for all our results, as well as interactive and educational modules on budget analysis.

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