

A note on the impact of the French 2006 cut in personal income tax rate on tax revenues

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In 2006 a major change was implemented in France regarding the income tax. Not only the top marginal rate was lowered (from 48.09% to 40.00%), but the same treatment was applied to the other rates. Also, the number of brackets was reduced from 7 to 5. As a result, whatever the level of taxable income, the rate applied was lower after the changes took place than before.

Personal income tax brackets for 2005 incomes

Level of personal taxable income	Rate
0 € – 4 412 €	0.00%
4 413 € – 8 677 €	6.83%
8 678 € - 15 224 €	19.14%
15 225 € - 24 731 €	28.26%
24 732 € - 40 241 €	37.38%
40 242 € - 49 624 €	42.62%
49 625 € and more	48.09%

Personal income tax brackets for 2006 incomes

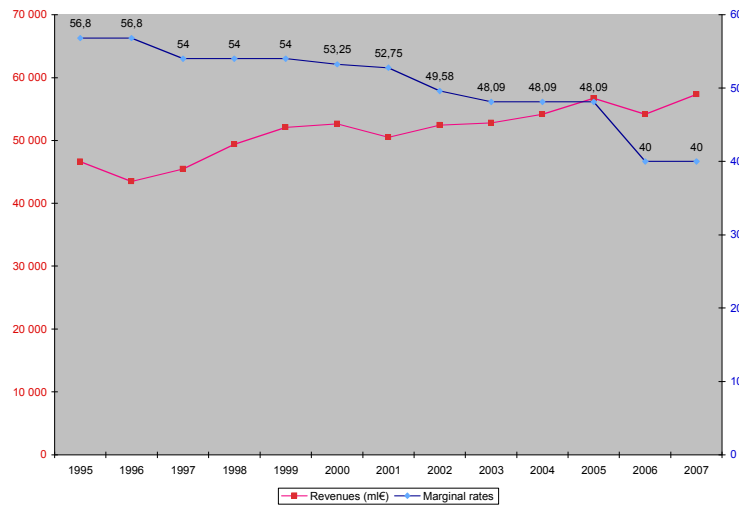
Level of personal taxable income	Rate
0 € – 5 614 €	0.00%
5 615 € – 11 198 €	5.50%
11 199 € - 24 872€	14.00%
24 873 € - 66 679 €	30.00%
66 680 € and more	40.00%

But the cut in tax rates was not the only change introduced: **the tax base was also enlarged**. In particular, while 20% of gross income from salaries was until then automatically deducted to compute the level taxable income, this was no longer the case with income earned in 2006 and after.

What were the consequences of those reforms on the level of revenues from Personal income tax? Did the state lost revenues or not?

Based on data from the French Public Finances General Directorate (DGFIP) we can see that the impact was a minor drop in tax revenues from the 2006 personal income followed by a slightly higher increase in PIT revenues from 2007 earnings.

As illustrated by the graph below, the successive cuts in marginal tax rates between 1995 and 2007 have resulted in higher tax revenues.



Source: IREF based on DGFIP data (available at <http://www.impots.gouv.fr/>)

Note: The amount of tax revenues and the marginal tax rate corresponding to year “X” are the tax revenues collected in year X+1 for income realized in year X and the rate applied to those year-X income. Hence, in 2008 the state collected € 57.304 billion from PIT based on income realized in 2007; and the top marginal rate applied to the taxable 2007 income (that is to taxable income above € 66 680) was 40%.

Year	Revenues from PIT (mil€)	Top marginal rate
1995	46 623	56,8
1996	43 457	56,8
1997	45 480	54
1998	49 371	54
1999	52 085	54
2000	52 659	53,25
2001	50 529	52,75
2002	52 425	49,58
2003	52 822	48,09
2004	54 186	48,09
2005	56 708	48,09
2006	54 183	40
2007	57 304	40

Source: IREF based on DGFIP data (available at <http://www.impots.gouv.fr/>)