Tax and social contribution measures to have a marked calendar effect on household purchasing power in 2018

In 2018, numerous tax and social contribution measures voted in the Finance Bill (PLF) and the Social Security Financing Bill (PLFSS) for 2017 and 2018, will shift household purchasing power either upwards or downwards. The generalised social contribution (CSG) rate is to be increased by 1.7 points on 1st January while in return, contributions payable by employees and the self-employed are to be reduced. In addition, three direct taxes will fall substantially: the local residence tax, the wealth tax (ISF), transformed into a property tax (IFI), and fixed levies on capital income (PFO-PFU). Lastly, the tax credit to employ a person for in-home services will be extended to inactive persons paying little or no tax, on the basis of expenditure incurred in 2017. Regarding indirect taxation, the price of tobacco will increase in Q4 2017 then in March 2018, and energy prices will rise in January 2018. These measures will take effect at different times of year (*Table 1*), with the result that the quarterly profile of household purchasing power is likely to be very heavily dependent on the tax calendar in 2018.

On average over 2018, taxes and social contributions for households are set to rise slightly, most notably as a result of indirect taxation

The increases in the rate of the CSG and taxes on tobacco and energy are expected to be largely offset throughout 2018 by the measures planned for employees and the self-employed. On the one hand, households' gross disposable income (GDI) is likely to decrease by €20.4 billion[1] with the rise in the CSG (i.e. a contribution of –1.4 points to its annual change), and price rises (tobacco, energy) are expected to reduce purchasing power by around 0.5 points. On the other hand, households should receive about €24.4 billion, with the reductions in social contributions and contributions on earned income (+€15.6 billion or +1.1 points of GDI), the decrease in the wealth tax and the introduction of the PFU (+€4.5 billion or +0.3 points of GDI), the reduction in the local residence tax (+€3.0 billion or +0.2 points of GDI), and the generalisation of the tax credit for employing a person for in-home services (+€1.0 billion or +0.1 points of GDI).

All in all, over 2018 the combination of these increases and decreases is expected to raise taxes and social contributions for households by around €4.5 billion, which would take –0.3 points off the growth in purchasing power (the contribution of direct tax measures looks set to be positive at +0.2 GDI points, but that of indirect taxation is likely to be –0.5 points).

1. Figures for direct tax measures come from the PLF and the PLFSS 2018. However, the effect of indirect taxation on the consumption deflator is an estimate produced for this edition of Conjoncture in France and may therefore differ from that given in the PLF.

Table 1 - Main measures planned for taxes and social contributions for households in 2018

Measures	Details (for 2018)	Date of implementation
Effect on gross disposable income		
Family allowance contributions (self-employed)	Reduction in rate by 2.15 points	1st January 2018
Health insurance contribution (employees)	Abolition of contribution (0.75%)	1st January 2018
Unemployment insurance contribution (employees)	Abolition of contribution (2.4%)	Exemption of 1.45 points for this contribution on 1st January 2018, then an additional 0.95 points on 1st October 2018
Generalised Social Contribution	1.7 point rise	1st January 2018
Local residence tax	30% reduction for 80% of households	1st January 2018 but tax paid in November for households not paying in monthly instalments
ISF-IFI	Repeal of wealth tax and introduction of property tax	Tax paid from Q2 onwards
PFO-PFU	Introduction of a single fixed levy of 30% of capital income (12.8% of income tax and 17.2% of social contributions)	1st January 2018
Exceptional solidarity contribution (civil servants and public agents)	Abolition of this contribution at a rate of 1%	1st January 2018
Contributions for civil servants' pensions	0.27 point increase	1st January 2018
Tax credit for employing a person for in-home services	Generalisation of tax credit	Reimbursement in H2 2018
Effect on household consumption deflator		
Tobacco	Increase in consumption duties applied to tobacco	November 2017 and March 2018
Energy	Rise in domestic tax on energy products (TICPE)	1st January 2018

Sources: Finance Law project (PLF) 2017 and 2018, Social Security Financing Act project (PLFSS) 2017 and 2018

Increases in levies are likely to be concentrated more in H1, whereas some of the decreases are unlikely to be applied before the end of the year

Nevertheless, these different measures do not all have the same timetable for implementation in 2018: the reduction in employees' contributions in the private sector will probably be implemented in two stages (a drop of 2.2.points in the contribution rate on 1st January, then a drop of 0.95 points on 1st October); the reduction in the tax on property income is likely to affect the wealth tax in Q2 and to be spread across the whole year for the flat tax. All in all, in H1 alone, these reductions should almost completely offset the increase in the CSG rate, which is to be implemented on 1st January, but not the increases in indirect taxation planned at the same time.

All in all, the contribution that the measures applied to taxes and social contributions will make to the change in purchasing power is likely to be –0.7 points in Q1 then +0.1 points in Q2. Purchasing power should be at a standstill throughout H1 2018 (–0.3% in Q1 then +0.4% in Q2). The growth overhang for purchasing power mid-year is also likely to be relatively low (+0.6% after +1.6% in 2017 and +1.8% in 2016), mainly due to the effect of indirect tax measures (–0.5 points) (*Table 2*).

In Q3 2018, the generalisation of tax credits for employing a person to work in the home is expected to add an extra +0.1 points to GDI. Next, the reduction in the local residence tax will benefit households, especially at the end of the year, as two thirds of those who pay this tax, which is due in November, do not do so in monthly instalments.[2] In Q4 2018, this should represent a rise of +0.6 points in quarterly purchasing power. In addition, the second tranche of the decrease in employees' unemployment insurance contributions, which should be introduced at the beginning of October, is likely to add +0.4 points to purchasing power in Q4 2018. All in all, the contribution of taxes and social contribution measures to purchasing power growth is likely to be very positive in Q4 2018 (+1.0 point). ■

2. The reduction will probably not be automatic for eligible households paying in monthly instalments. The assumption is that two thirds of eligible households paying in monthly instalments will adjust their monthly payment from 1st January to take advantage of the reduction in their local residence tax. All the rest (those not paying monthly and the remaining third who are paying monthly) will then only benefit from the reduction at the end of the year.

Table 2 - Contributions to purchasing power growth by taxes and social contribution measures announced for 2018

Contribution to quarterly and annual variation of purchasing power of households in points

	2018				Annual average 2018	Overhang mid-year
	Q1	Q2	Q3	Q4		
Indirect taxation	–0.4	–0.2	0.0	0.0	–0.5	–0.5
of which Tobacco	–0.1	–0.2	0.0	0.0	–0.3	–0.3
Energy	–0.2	0.0	0.0	0.0	–0.2	–0.2
Direct taxation and contributions	–0.3	0.3	0.2	1.0	0.2	–0.1
of which CSG	–1.4	0.0	0.0	0.0	–1.4	–1.4
Contributions on wages except CSG	1.0	0.0	0.0	0.4	1.1	1.0
Local residence tax	0.1	0.0	0.0	0.6	0.2	0.1
ISF and PFU	0.0	0.3	0.0	0.0	0.3	0.3
Tax credit for employing a person for in-home services	0.0	0.0	0.1	0.0	0.1	0.0
Total	**–0.7**	**0.1**	**0.2**	**1.0**	**–0.3**	**–0.6**

Source: INSEE