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THE 2019 FRENCH BUDGET:

WHAT EFFECT WILL IT HAVE ON HOUSEHOLDS?

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This brief studies the tax and social security reforms affecting households, introduced by the 2019 French budget, including the most recent measures announced in response to the "*gilets jaunes*" movement. The results reveal a mean increase in disposable income of nearly 1 % for a large share of households, mainly those receiving the in-work benefit (*prime d'activité*) and households affected by the reduction in the housing tax (*taxe d'habitation*). We also analyse the effects of the reforms implemented since the start of the current five-year presidential term, i.e. the cumulative effects of the 2018 and 2019 budgets. The mean gains across the whole population are qualitatively similar but hide large variations. The working population gains on average, regardless of living standard percentile (with a mean increase in disposable income of 2.4 %). In contrast, retired people in the most affluent 20 % of households are contributors, with a mean loss of disposable income of 3 %. The disposable income of the most affluent 1 % of households, regardless of whether they are working or not, rises by 6.4 % on average due to the replacement of total wealth tax (*impôt de solidarité sur la fortune* or ISF) with real estate wealth tax (*impôt sur la fortune immobilière* or IFI). The original budgetary measures proposed by the government in September 2018 have largely been amended by the emergency economic and social measures. These play a major role in the final redistributive effects. All income categories benefit from these new measures, with a mean increase in disposable income of 0.8 %. These effects are greatest between the 15th and 49th living standard percentiles, with a mean gain of 1.2 %.

- The 2019 French budget proposes a concomitant cut in mandatory contributions (down 10.2 billion euros according to the government) and in social benefits (down 1.4 billion euros), giving an overall increase in purchasing power of 8.8 billion euros for 2019.
- Our simulations indicate increases in disposable income for a large section of the population: from the 9th to the 81st percentile, these gains are close to 1 %.
- The working population gains on average due in particular to the switch from social security contributions (*cotisations sociales*) to the flat income tax CSG (*contribution sociale généralisée*) and to an increase in the employment bonus, whereas retired people in the most affluent 20 % of households become contributors.
- The socio-fiscal measures announced by the government at the end of 2018 represent a mean 0.8 % increase in purchasing power for households.

The Institut des Politiques Publiques (IPP) has been developed through a scientific partnership between the Paris School of Economics (PSE) and the Centre for Research in Economics and Statistics (CREST). IPP's aim is to promote quantitative analysis and evaluation of public policy using cutting- edge research methods in economics

The draft 2019 budget law and the draft 2019 social security budget law, presented in the French Council of Ministers on 24 September and 10 October 2018 respectively, introduced a number of measures likely to affect households and their purchasing power. Following debates and amendments in the French parliament, the budget law (LF) for 2019 was adopted on 28 December 2018 (Law 2018-1317), and the social security budget law (LFSS) for 2019 was promulgated on 22 December 2018 (Law 2018-1203). In addition to these two texts, a law introducing emergency economic and social measures (Law 2018-1213) was adopted on 24 December 2018, linked to announcements made by the French President in early December in response to tax protests by the "*gilets jaunes*" movement. The role of public policy evaluation is crucial to assess not only the budgetary effects of the measures passed into law, but also their redistributive and incentive effects.[1]

This brief analyses the major socio-fiscal reforms affecting households. The French socio-fiscal system is complex. It is composed of many interacting measures, hence the value of an overall analysis. We therefore take account of all measures affecting households' mandatory contributions and social benefits, regardless of whether they were covered by the budget law or by the social security budget law.[2] We make use of numerous administrative sources of data to simulate different dimensions of the proposed reforms' redistributive effects, and we break down these effects by type of measures. First we analyse the effects of the reforms coming into force in 2019. Then we evaluate the redistributive effects of all the reforms implemented since the start of the five-year presidential term, i.e. the impact of the measures entering into force in 2019 and 2018. The results presented are the outcome of a static analysis in the sense that they do not take account of any behavioural responses potentially prompted by the reforms.

Social and fiscal measures since the start of the presidential term

Table 1 lists the main measures proposed and indicates for each the cost to the public finances, as estimated by the government. To give a proper overview of the reforms implemented or proposed since the start of the five-year presidential term, we show in this table both the measures entering into force in 2019 and those that came into force in 2018. These measures correspond to the perimeter of the reforms analysed in this brief.

Overall reduction in mandatory contributions

The measures related to mandatory contributions represent a reduction of 10.2 billion euros for 2019, following a slight reduction (of 0.1 billion euros) in 2018. This overall reduction is brought about by various different measures which either increase or reduce the contributions that households have to make.

Firstly, because of the housing tax reform, households benefit from a tax cut of 3.8 billion euros in 2019, which follows a cut of 3.2 billion euros in 2018. The reform introduces a 30 % reduction in this tax in 2018, followed by a 65 % reduction in 2019, for approximately 80 % of households.

In addition, following an increase in 2018, the energy tax rate should finally stabilise in 2019, and even fall for recipients of the energy voucher (*chèque énergie*). The energy voucher will be increased by 50 euros on average and its eligibility conditions will be relaxed to increase the number of beneficiaries from 3.6 million to 5.6 million.[3]

The government's fiscal measures also consist of cutting tax on capital income. The introduction of a new flat tax (*prélèvement forfaitaire unique* or PFU) establishes a single tax rate of 30 % on capital income except income from land. On the one hand, households' previously existing flat income taxes (*prélèvements sociaux*) are increasing due to a 1.7-point increase in the CSG tax rate.[4] This measure should bring in extra receipts of 2 billion euros. On the other hand, the tax payable by households as income tax is decreasing, due to the switch from a progressive to a proportional taxation system (flat tax) for capital income. According to the government, this income tax measure will lead to a reduction in contributions of 0.3 billion euros in 2019, following a reduction of 1.6 billion euros in 2018. Overall, the introduction of the flat tax is a budget-neutral measure. The 2018 budget also replaces global wealth tax (*impôt de solidarité sur la fortune* or ISF) with real estate wealth tax (*impôt sur la fortune immobilière* or IFI). This reform consists of taxing only the real estate portion of wealth assets. According to the government, it will

[1] IPP previously put forward an analysis of the measures in the original version of the 2019 budget, following the publication of the draft budget law (PLF) and the draft social security budget law (PLFSS) in September 2018. The results of this analysis were presented at a conference organised at the Paris School of Economics on 11 October 2018. The documents associated with the presentation can be downloaded from IPP's website: `https://www.ipp.eu/actualites/11-oct-evaluation-du-budget-2019/`.

[2] Mandatory contributions related to unemployment insurance and supplementary pension schemes are not covered by the LF or LFSS but form an integral part of France's budget in the sense of its national accounts.

[3] The other measures associated with energy consumption (increase in the vehicle conversion bonus (*prime à la conversion*), extension of the electric vehicle bonus (*bonus écologique*) and the mileage allowances system, tax exemption of the vehicle fuel payment (*chèque carburant*), increase in the boiler conversion bonus (*prime de conversion des chaudières*) require specific data on the use of this equipment and are therefore not taken into account in the simulations.

[4] The total rate of flat capital income taxes was 15.5 % before the new flat tax was introduced.

lead to a reduction in mandatory contributions of around 3.2 billion euros in 2018.

The working population also benefits from a reduction in social security contributions (SSC) financed by a 1.7-point increase in CSG. In 2019, this represents a significant reduction at aggregate level, boosted by the new exemption of overtime hours from income tax and social security contributions, giving a total reduction in contributions of 7.1 billion euros. For retired people, two measures mitigate the negative effect of CSG on those with the most modest incomes: the 2019 social security budget law relaxes the eligibility rules for the reduced rate of (or for complete exemption from) CSG on replacement income; and the draft law introducing emergency economic and social measures cancels the increase in CSG introduced in 2018, for retired people on pensions of less than 2,000 euros per month. In total, these two measures represent a reduction in CSG of 1.5 billion euros in 2019.

In parallel with these reductions in mandatory contributions, there are also some increases. The increase in taxes on tobacco should generate extra tax receipts of around 1.3 billion euros in 2019. This tax increase for households could in reality be lower if the price increase prompts people to reduce their tobacco consumption. Taking into account changes in behaviour, the government has announced additional receipts of 0.4 billion euros instead of 1.3 billion.[5]

In total, mandatory contributions would fall by 10.2 billion euros in 2019. This estimate includes increases in contributions due to the merger of the Agirc and Arrco supplementary pension schemes,[6] and uses the government's figures produced using the same methodology, i.e. not taking account of behavioural reactions.

Less generous social benefits on average

Although the government has highlighted the reduction in the level of mandatory contributions, the overall change in social benefits is less favourable as a whole for households' disposable income: some benefits targeted at specific populations have been increased by more than the rate of inflation, whereas others, covering a wider population, have been increased at less than the rate of inflation.

Retirement support benefit (*allocation de solidarité aux personnes âgées* or ASPA) and disability benefit (*allocation aux adultes handicapés* or AAH) are subject to an exceptional increase in 2019. AAH will rise by 4.7% (40 euros per month) in autumn 2019 (following a 5% increase in autumn 2018) at a cost of 0.6 billion euros. ASPA increases by 4.2 % (35 euros per month) in 2019 at a cost of 0.3 billion euros, following a 3.7 % rise in spring 2018. Other basic welfare benefits such as earned income supplement (*revenu de solidarité active* or RSA) and special welfare benefit (*allocation de solidarité spécifique* or ASS) will simply increase in line with inflation, as is usually the case. Finally, most pensions and social benefits (housing benefits, family allowances, pensions for invalidity, retirement and occupational illnesses and accidents) will rise by 0.3 % in 2019 (and again in 2020). This amounts to a 1.1 % reduction in purchasing power based on forecast inflation of 1.4 %. In total, this increase below the rate of inflation represents a cut of 3.5 billion euros in public spending. This cut mostly affects retired people, since the below-

Table 1: Measures affecting households in the 2018 and 2019 budgets (billions of euros)

	2018	2019
Measures affecting mandatory contributions	**- 0.1**	**-10.2**
Housing tax cuts	−3.2	−3.8
Social security contributions/CSG switch	+ 4.4	−4.1
CSG measures for retired people	–	−1.5
Exemptions on overtime hours (SSC and income tax)	–	−3.0
Agirc-Arrco merger	–	+ 0.7
Flat tax ('income tax' category)	−1.6	−0.3
Abolition of ISF/Introduction of IFI	−3.2	–
Energy tax measures	+ 2.4	−0.3
Increase in tax on tobacco	+ 2.3	+ 1.3
Others	−1.2	+ 0.8
Measures affecting social benefits	**+ 0.1**	**−1.4**
Below-inflation benefit increase	–	−0.7
Below-inflation pension increase	–	−2.8
Change in increase dates	−0.4	−0.4
In-work benefit increases	+ 0.2	+ 2.5
Retirement support (ASPA) increases	+ 0.1	+ 0.3
Disability benefit (AAH) increase	+ 0.2	+ 0.6
Housing benefits reform	–	−0.9
Total	**+ 0.0**	**+ 8.8**

Notes: These figures are based on government figures and do not take account of any behavioural responses caused by the measures. "Social security contributions/CSG switch" includes all increases in CSG and therefore the rise in the rate of CSG on capital income as part of the flat tax (PFU). The forecast increase in CSG receipts on this income is 2 billion euros (see PLFSS 2018, Appendix 10, p. 25). The 'income tax' part of the PFU corresponds to the new flat tax of 12.8 % on capital income, as income tax. 'Others' includes the extension and refocusing of the energy transition tax credit (CITE), the extension of tax credit for the employment of people at home and the abolition of student contributions. The change in increase dates concerns pensions and retirement support (ASPA). Sources: Economic, Social and Financial Report (*Rapport Économique Social et Financier*) 2019, p. 95, p. 212; PLF 2019, *Évaluations Préalables* document in the Appendix, p. 448; p. 545; PLF 2019, Press Kit, p. 87; PLFSS 2018, Appendix 10, p. 245, p. 249; Impact assessment of the draft law introducing emergency economic and social measures (*Étude d'impact du projet de loi portant mesures d'urgence économiques et sociales*), p. 18, p. 23.

[5] This figure was obtained using an assumption for price elasticity of demand of -0.7 for cigarettes, -0.5 for tobacco and -0.4 for cigars and cigarillos according to the preliminary assessments document ('*Évaluations préalables*') in the annex to the draft 2019 budget law.

[6] This reform is outside the scope of the draft budget law and the draft social security budget law, but is taken into account in the calculation of mandatory contributions as per the national accounts and European rules.

Box 1 : Methodology and data

The results presented in this study are based on the use of a microsimulation tool that models France's socio-fiscal system using individual data. With this method, it is possible to estimate in advance the budgetary cost and redistributive effects of different reforms.

The TAXIPP 1.0 model

The TAXIPP model is IPP's microsimulation model. It uses the open-source, collaborative OpenFisca socio-fiscal legislation simulator. It applies this simulator to a new database developed by IPP, based on the statistical matching of income tax files (FELIN, DGFiP) and the tax and social security income (*Revenus Fiscaux et Sociaux*) survey (ERFS, Insee). The TAXIPP 1.0 model also makes use of the housing tax files (FIDELI, Insee) and the family budget (*Budget des Familles*) survey (Insee). The TAXIPP database therefore consists of a large sample of households, representative of the French population. In addition to simulating socio-fiscal legislation, the TAXIPP model takes into account behaviours where people do not claim social benefits. These need to be measured in order to simulate accurately a broad spectrum of social security reforms. In this study, the TAXIPP 1.0 model applies a static analysis in the sense that it does not incorporate any individual behavioural changes that might stem from the socio-fiscal reforms analysed. A module that can incorporate these responses, particularly in terms of labour supply and tax optimisation behaviours, is currently being developed.

Budget evaluation: which measures should be taken into account?

To produce a budget evaluation, it is necessary to define the perimeter of the measures studied. "2019 budget reforms" refers to the measures taking effect from 2019, whether promulgated in the 2018 budget law/social security budget law, in the 2019 budget law/social security budget law, or in the law introducing emergency economic and social measures. When we talk about the cumulative effects of the 2018-2019 budgets, we mean the measures introduced by the current government or by the social partners of Unedic (the French unemployment benefit management agency) or the supplementary pension schemes, which have entered into force since 2018.

Budget evaluation: what is the counterfactual system?

The effects of the reforms are measured for 2019 on the basis of the original database "aged" using the government's growth and demographics forecasts. To evaluate the redistributive effects of the measures studied, we compare two socio-fiscal systems that start with the current system prior to reform. In the first system, referred to as "counterfactual", the 2019 budget does not introduce any political reforms. It is the pre-reform socio-fiscal system adjusted to the year 2019 so that there are no changes in terms of real incomes. In other words, taxes and benefits follow the same rules as in the pre-reform system, but the monetary calculation parameters are revalued to take account of forecast inflation. The annual indexation of the French minimum wage (SMIC) to inflation is also taken into account in the counterfactual system. The second system, referred to as "reformed", takes the pre-reform system and simply applies to it the reforms to be analysed. For the evaluation of the 2019 budget, both the pre-reform system defining the counterfactual system, and the reformed system, start from the socio-fiscal system in existence as at 31 December 2018. For the joint evaluation of the 2018 and 2019 budgets, the pre-reform system is the system in existence as at 31 December 2017.

inflation increase in pensions accounts for nearly 2.8 billion of the saving.[7]

The employment bonus was increased significantly at the start of 2019. Following an increase of 20 euros in the basic amount in October 2018, the law introducing emergency economic and social measures increased the maximum amount of the individual enhancement (bonification individuelle) by 90 euros and extended eligibility for the in-work benefit by awarding this new maximum amount from 100 % of the minimum wage, compared to 80 % of the minimum wage previously. The effect of this new enhancement is nevertheless moderated by the degressive scale for the in-work benefit being raised from autumn 2018 (from 38 % to 39 % of income from employment).

[7]The harmonisation of the dates on which these increases come into effect has also been announced: the increase in ASPA has been brought forward to 1 January 2019 instead of 1 April 2019, but the pensions increase has been pushed back from 1 October 2018 to 1 January 2019. This represents savings for the government of nearly 400 million euros.

The total cost of the reform of the in-work benefit, according to the government's forecast, is 2.5 billion euros.

In addition to the parameter adjustment measures, the 2019 budget introduces a more structural reform affecting housing benefits. From spring 2019, eligibility for these benefits will be assessed on the basis of income in the current year rather than income in the last but one year before the benefit application is made. This would represent a cut in public spending of nearly 0.9 billion for 2019.

According to the government's figures, all these measures related to social benefits would represent a reduction of 1.4 billion euros in public spending in 2019, following an increase of 0.1 billion euros in 2018. This cut in benefits, combined with the overall reduction in mandatory contributions and with the diversity of the population sectors affected by each of the measures, calls for a precise analysis of the redistributive effects of socio-fiscal reforms.

2019 budget: who are the winners and losers of the proposed measures?

Effects of the 2019 budget

This section presents the redistributive effects of the 2019 budget, i.e. of the measures coming into force in 2019. Graph 1 shows the mean variation in disposable income expected as a result of the introduction of the 2019 budget measures. This is not the variation in income compared to 2018, due for example to growth in incomes, but the variation in disposable income as a direct result of the budgetary measures implemented in 2019 (see Box 1). Graph 2 shows the same effects, but broken down by type of socio-fiscal measure.

Mean gains in disposable income of around 1 % are observed for all households between the 9th and the 81st percentiles. These mean gains are around 0.5 % between the 9th and the 24th percentiles, with a slight peak at the 9th and 10th percentiles. This peak is explained mainly by the increases in ASPA and AAH. The mean gain then starts to grow to around 1.7 % at the 40th percentile, then decreases until it reaches zero at the 82nd percentile.

The 2019 budget leads to mean gains of 1 % of disposable income from the 9th to the 81st living standard percentiles.

These gains come from multiple sources and they depend on where the household is placed on the income distribution scale. Social benefits increase on average until the 49th percentile, mainly because of the increase in the individual bonus on the in-work benefit. Between the 9th and the 81st percentiles, the gains are also explained by the new housing tax cut, and by the cancellation of the 2018 CSG increase for some retired people. The exemption of overtime from social security contributions and income tax also increases disposable income for a wide range of middle incomes, though the mean effect is smaller.[8]

People on the lowest incomes do not benefit from the main measures to support buying power, affecting the in-work benefit and overtime, because most of them are not working. The two main reforms affecting them are the 50-euro increase in and extension of the energy voucher and the below-inflation increase in benefits (housing benefit, family allowances). On average, the effects of these two measures cancel each other out, hence the low redistributive effects for the bottom ten percentiles on the income distribution.

The 2019 budget has little effect on average on the most affluent 19 % of households, except for the top percentile. The break point at the 82nd percentile is explained mainly by the upper eligibility threshold for the new reduction in housing tax. The low redistributive effects observed for the most affluent (apart from the 1 % of households with the highest incomes) in reality hide wide variations. These households' disposable income is pulled downwards by the below-inflation pension increase, but is raised by the income tax cut, explained mainly by the exemption of overtime from taxation. These variations reveal a difference in the treatment of working people and retired people (see next section on horizontal redistributive effects). As for the most affluent 1 % of households, their disposable income increases by 2.3 % on average. This is mainly due to the introduction of the flat tax (PFU).[9] The high concentration of income from capital at the top of the distribution explains why this effect is concentrated in the top percentile.

Effects of the 2018 and 2019 budgets

The analysis of only the 2019 budget fails to consider the effect of the measures introduced by the government in the previous budget. Annual budgets form part of a multi-annual policy perspective that cannot be ignored, as the draft public finance planning law (PLPFP) for 2018-2022 shows. This already envisioned the majority of the measures introduced in the 2019 budget. For this reason, it is important to analyse the impact of all the measures, i.e. those introduced in 2018 and those planned for 2019, in addition to the above analysis. To do this, we compare the socio-fiscal system planned for 2019 with a counterfactual system based on the 2017 legislation (see Box 1).

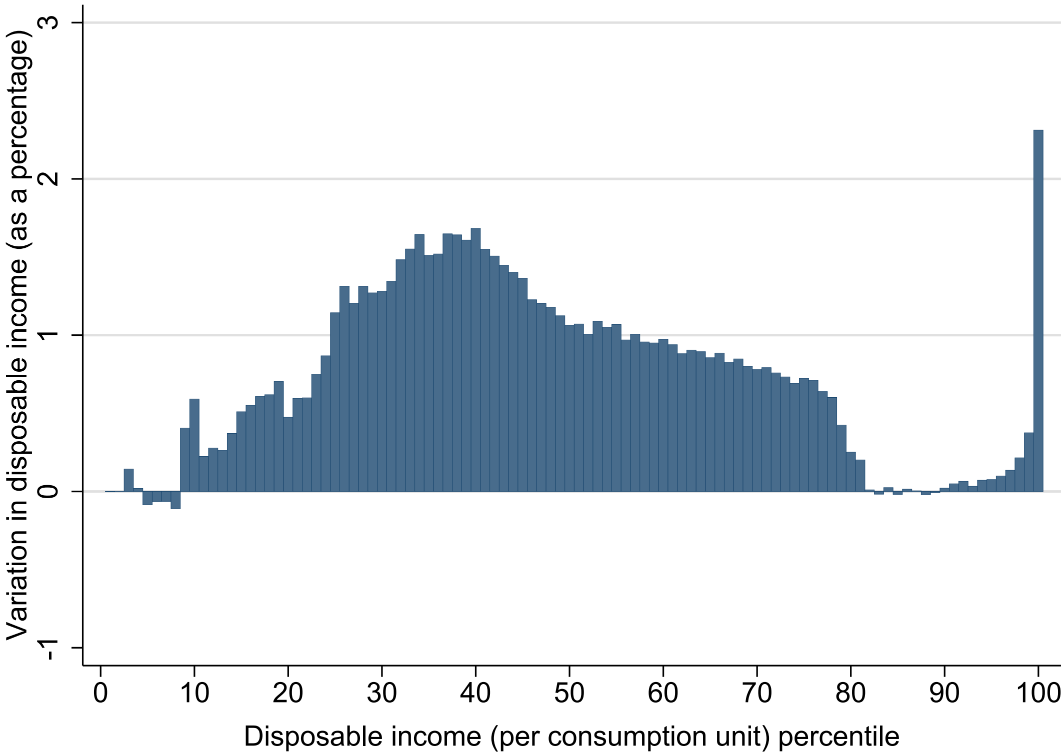
Graph 3 is the same as Graph 1 and shows the results of this joint evaluation of the 2018 and 2019 budgets. Graph 4 breaks these effects down by type of socio-fiscal measure. If we consider all the budgetary measures introduced since the start of the five-year presidential term, the redistributive effects are qualitatively similar to those of the sole 2019 budget, but differ in scale and source.

Gains are still observed for a large share of the population. The income of households between the 9th and 24th percentiles increases by 0.8 % when the 2018 and 2019

[8] The administrative files for income tax do not directly provide any information about overtime. Consequently, we have attributed pay associated with overtime to everyone in our database on the basis of descriptive statistics per income quartile taken from the labour costs and pay structure survey (Ecmoss, Insee).

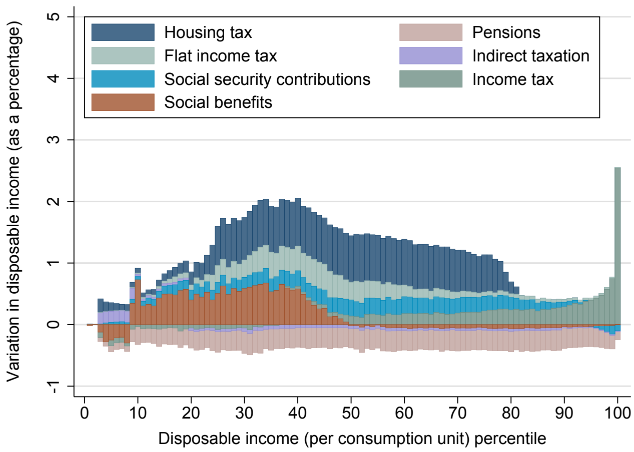
[9] The reform of the new flat tax (PFU) encompasses two measures: a 1.7-point increase in the rate of flat capital income taxes (*prélèvements sociaux sur revenus du capital*) and the introduction of a flat rate of 12.8% for income tax on that income, replacing the progressive tax schedule. The first measure comes into force on 1 January 2018. The flat rate is for 2018 income tax which is paid in 2019. We therefore assign this second component to 2019, but do not take into account advance payments withheld at source for some income. The next section on the joint evaluation of the 2018 and 2019 budgets analyses the whole PFU regardless of the implementation timetable.

Figure 1: Effects of the 2019 budget on households' disposable income



Interpretation: On average, households at the 50th disposable income per consumption unit percentile benefit from a 1.1 % increase in disposable income in 2019 due to the introduction of the 2019 budget measures.
Note: Households are classified according to disposable income by consumption unit and split into 100 categories ("percentiles") ranging from the least to the most affluent households (see Box 2).
Sources: TAXIPP 1.0 model based on data from FELIN, ERFS, Budget des familles, FIDELI.

Figure 2: Effects of the 2019 budget: breakdown by measure



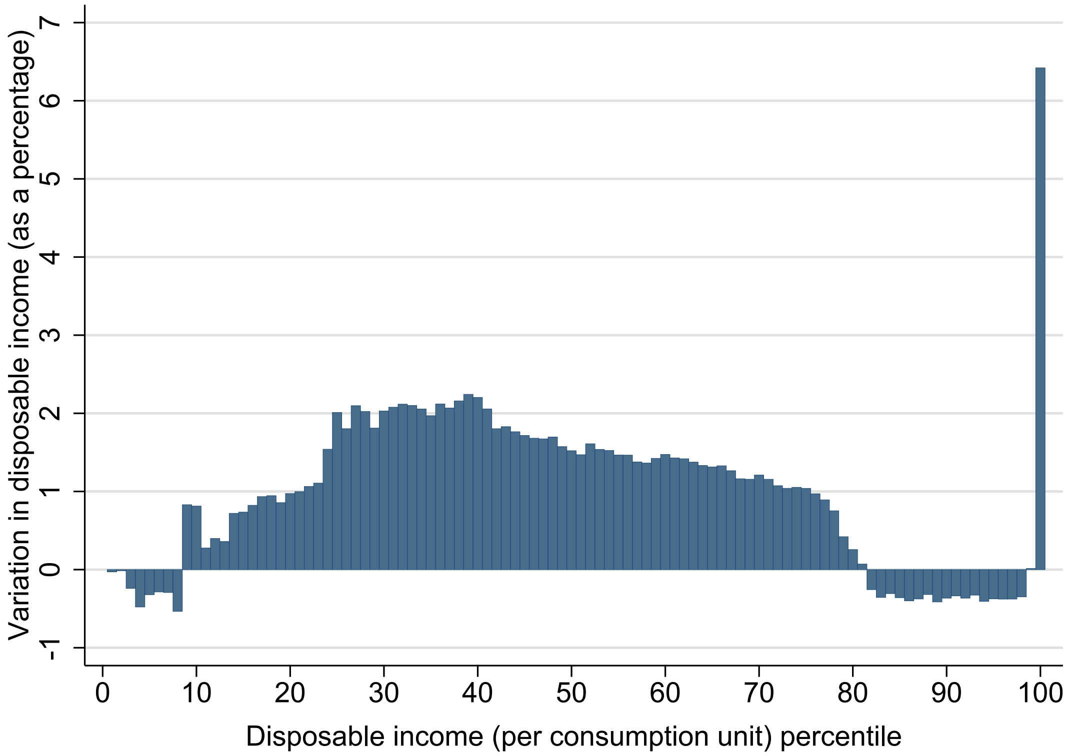
Interpretation: On average, for households at the 50th percentile of disposable income per consumption unit, the 2019 budget measures related to housing tax cuts increase disposable income by 0.8 %, and those related to pensions reduce it by 0.3 %.
Sources: TAXIPP 1.0 model based on data from FELIN, ERFS, Budget des familles, FIDELI.

measures are considered cumulatively. These gains then increase to a maximum of 2.2 % at the 39th percentile. These gains are higher than those from just the 2019 budget, particularly because they include the switch from social security contributions to CSG that took place in 2018 and the two reductions in housing tax. The least affluent households also benefit from increases in social benefits, of which the first wave was introduced in 2018 and affected AAH, ASPA and the basic level of the employment bonus.

Households from the 82nd percentile upwards, except the top percentile, on average experience a net loss of nearly 0.3 % of disposable income, which is greater than the loss observed for the 2019 budget only. This greater loss is explained mainly by the 2018 increase in CSG, which particularly affected retired people[10]. At the top of the income distribution, only the households in the top percentile, i.e. the most affluent 1 % of households, saw gains. For these households, the cumulative effect of the 2018-2019 measures is nearly three times that of the measures in the 2019 budget alone. As Graph 4 shows, this is explained by the abolition of global wealth tax (ISF)

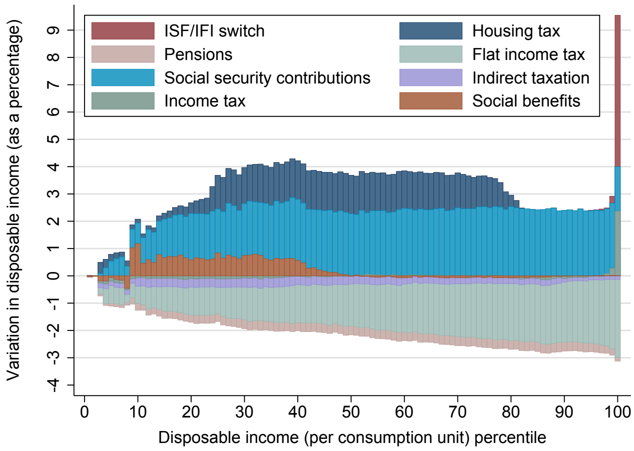
[10] The counterfactual socio-fiscal system used for the 2019 budget is based on the legislation in force as at 31 December 2018, whereas the system used for the 2018 and 2019 budgets is based on the legislation in force as at 31 December 2017 (see Box 1). Consequently, the reductions in social security contributions as part of the social security contributions/CSG switch, are allocated to the 2018 budget in our simulations.

Figure 3: Cumulative effects of the 2018 and 2019 budgets on households' disposable income



Interpretation: On average, households at the 50th disposable income per consumption unit percentile benefit from a 1.5 % increase in disposable income in 2019 due to the measures introduced since the start of the five-year presidential term by the 2018 and 2019 budgets.
Sources: TAXIPP 1.0 model based on data from FELIN, ERFS, Budget des familles, FIDELI.

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



Interpretation: On average, for households at the 50th percentile of disposable income per consumption unit, the 2018 and 2019 budget measures related to social security contributions increase disposable income by 2.3 %, and those related to pensions reduce it by 1.5 %.
Sources: TAXIPP 1.0 model based on data from FELIN, ERFS, Budget des familles, FIDELI.

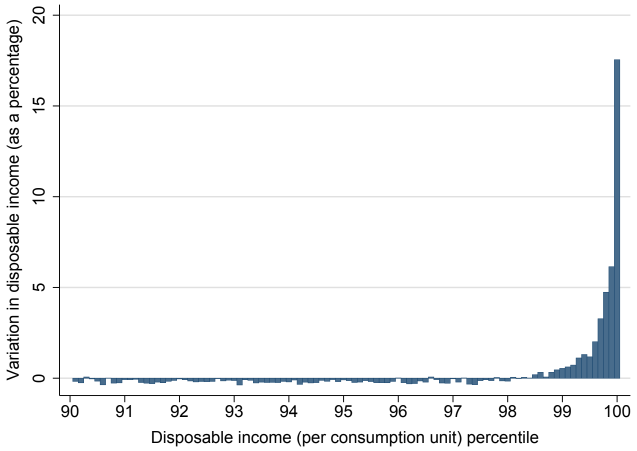
in 2018 and its replacement by real estate wealth tax (IFI).

Gains in the middle of the living standard distribution are larger taking account of the 2018 measures, because of the social security contributions/CSG switch.

Because households in the upper part of the income distribution vary greatly in terms of resources, Graph 5 focuses on the households in the last decile of disposable income per consumption unit and breaks this population down into percentiles. Each of these new percentiles therefore represents 0.1 % of households. This graph shows that the gains observed for the last percentile in Graph 3 are actually concentrated on the most affluent 0.5 % of households (i.e. around 150,000 households). These households benefit on average from a 6.7 % increase in their disposable income. These gains are particularly large for the most affluent 0.1 % of households (i.e. around 30,000 households), whose disposable income increases by 17.5 % on average.[11]

[11] The personal wealth data used for the simulation of ISF and IFI were reconstituted using the capitalisation method on the basis of the income generated from capital. We use the yields rates of different financial assets based on the national accounts. We compare these yields rates with observed capital income in order to obtain the asset values. To produce a more accurate simulation of the taxation of wealth, it would be necessary to use administrative data for that taxation.

Figure 5: Cumulative effects of the 2018 and 2019 budgets in the top disposable income decile



Interpretation: On average, households at the 100th disposable income per consumption unit percentile (i.e. the most affluent 0.1 % of households) benefit from a 17.5 % increase in disposable income in 2019 due to the measures introduced since the start of the five-year presidential term by the 2018 and 2019 budgets.
Sources: TAXIPP 1.0 microsimulation model based on data from FELIN, ERFS, Budget des familles, FIDELI.

The replacement of ISF by IFI produces gains concentrated on the wealthiest 0.5 % of households.

However, the disposable income of most households in the top decile is reduced, mainly because of the increase in flat income taxes (*prélèvements sociaux*). These households are also not affected by the new housing tax cut, and see little benefit from the abolition of the ISF.

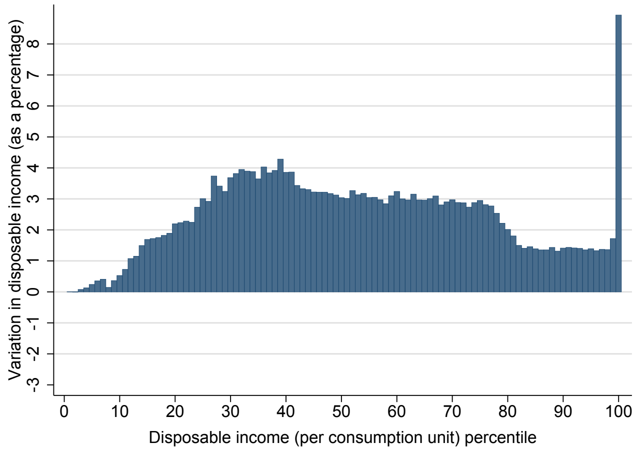
Significant horizontal redistributive effects

The socio-fiscal reforms carried out since the start of the five-year presidential term have redistributive effects between households depending on their initial disposable income level. But by their nature, these reforms also have different effects on different households based on whether the individuals in the household are working or not (particularly through the social security contribution/CSG switch, the increases in the employment bonus and the below-inflation increase in pensions). In this section, we present the results of the 2018 and 2019 budget analysis, distinguishing between "working households" and "retired households".

A budgetary policy that overall favours those in work

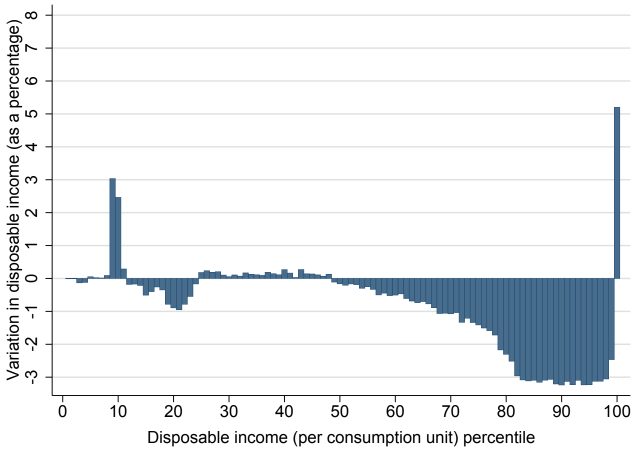
Graph 6 presents the redistributive effects of the measures introduced by the government since 2017 for "working households" (see Graph 6 for the definition of this concept). Gains are observed for all percentiles, reflecting a fiscal and social policy favourable to this category of the population. However, these gains are not uniformly distributed. They increase between the bottom of the distribution and the 39th percentile until they reach 4.3% of households' disposable income. This trend is explained by the increase in the employment bonus individual enhancement, which covers working people from 50% of the minimum wage (SMIC), increasing up to 100% of the minimum wage (full-time equivalent). The gains then decrease slightly before stabilising, as a result of the social security contribution/CSG switch and the new housing tax cut. From the 82nd percentile, households are unaffected by this tax cut, which explains why mean gains are then smaller. The increases in disposable income observed for the top percentile are again the result of replacing ISF with IFI.

Figure 6: Cumulative effects of the 2018 and 2019 budgets for working households



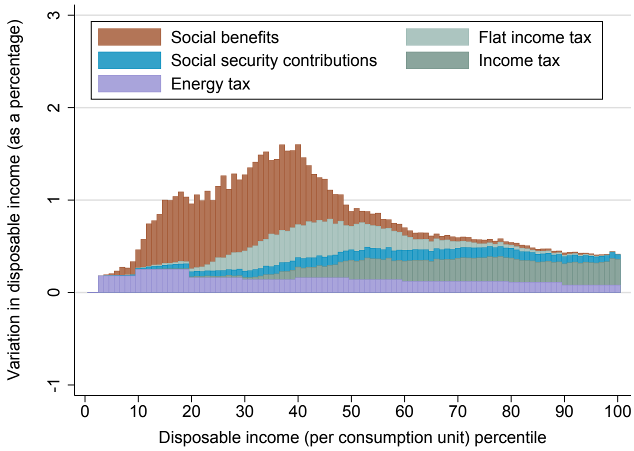
Interpretation: On average, working households at the 50th disposable income per consumption unit percentile benefit from a 3.0% increase in disposable income in 2019 due to the measures introduced since the start of the five-year presidential term by the 2018 and 2019 budgets.
Note: A household is considered to be 'working' here if the reference person in this household earns a positive income from work that is higher than the amount (if any) received from pensions. The definition of the percentiles is the same as in Graph 3. For example, the mean gain of the bottom percentile represents the mean gain of working households in the bottom percentile of the total population. However, the mean redistributive effects per percentile are reweighted here to take account of the uneven distribution of working people throughout the population. Each mean effect is reweighted by a coefficient equal to the ratio between the number of working households in the percentile and the number of working households in the total population, multiplied by 100.
Sources: TAXIPP 1.0 microsimulation model based on data from FELIN, ERFS, Budget des familles, FIDELI.

Figure 7: Cumulative effects of the 2018 and 2019 budgets for retired households



Interpretation: On average, retired households at the 50th disposable income per consumption unit percentile suffer a 0.2% cut in disposable income in 2019 due to the measures introduced since the start of the five-year presidential term by the 2018 and 2019 budgets.
Note: A household is considered to be "retired" if the reference person in the household receives a positive amount of pensions that is higher than their income (if any) from work. The definition of the percentiles is the same as in Graph 3. For example, the mean gain of the bottom percentile represents the mean gain of retired households in the bottom percentile of the total population. However, the mean redistributive effects per percentile are reweighted here to take account of the uneven distribution of retired people throughout the population. Each mean effect is reweighted by a coefficient equal to the ratio between the number of retired households in the percentile and the number of retired households in the total population, multiplied by 100.
Sources: TAXIPP 1.0 microsimulation model based on data from FELIN, ERFS, Budget des familles, FIDELI.

Figure 8: Effect of the new measures in the 2019 budget compared to the original draft budget law



Interpretation: On average, for households in the 50th percentile of disposable income per consumption unit, the new measures taken between the introduction of the 2019 draft budget law/draft social security budget law and the final 2019 budget increase disposable income by 0.9%. When this overall effect is broken down by type of measure, the measures related to social benefits lead to a 0.2 % increase and those related to flat income tax to a 0.3% increase.
Sources: TAXIPP 1.0 microsimulation model based on data from FELIN, ERFS, Budget des familles, FIDELI.

Working households are the winners from the measures in the 2018 and 2019 budgets; retired people in the most affluent 20% of households are the losers.

Retired people become contributors

Graph 7 shows the redistributive effects of the measures taken since the start of the five-year presidential term for "retired households" (see Graph 7 for the definition of this concept).

Notable are the small redistributive effects for retired people in the bottom 50 percentiles, except the 9th and 10th percentiles, for which mean gains increase to 3% of disposable income. These gains are explained by the increases in ASPA and AAH. Losses of nearly 1% are also observed around the 20th percentile. These localised losses affect retired people who both suffer the below-inflation increase in pensions and are outside the scope of ASPA and the new housing tax cuts[12]. Outside these percentiles, the redistributive effects are almost zero due to the housing tax cut and the below-inflation increase in pensions cancelling each other out.

Retired people in the most affluent 50% of households on average see a reduction in their disposable income, except for those in the top percentile. These losses increase to around 3% of disposable income between the 82nd and the 98th percentiles. The retired households affected by this new full rate of CSG tend more to be in the upper percentiles of disposable income, which explains why the profile of losses increases. The maximum mean loss from the 82nd percentile is explained by the fact that these percentiles are above the eligibility threshold for the new housing tax cut. As for the retired households in the top percentile, the gains observed are again explained by the replacement of ISF by IFI.

Impact of emergency economic and social measures

The draft budget law (PLF) and the draft social security budget law (PLFSS) for 2019, published in September 2018, were subject to various amendments to produce the 2019 budget law and social security budget law. In addition, the law introducing emergency economic and social measures was adopted, introducing additional measures to those in the other two laws. These measures include, in particular, the cancellation of the energy tax increase originally scheduled for 2019, the extension of el-

[12] The households in these percentiles may be outside the scope of the new housing tax cuts if they already benefited from the exemptions and cuts introduced before 2018.

Box 2: Measures to distribute income throughout the population

The **disposable income** of a household corresponds to the total income of the household minus any fiscal and social transfers, i.e. once any mandatory contributions have been paid and social benefits received.

The **disposable income per consumption unit**, or **living standard**, aims to link the disposable income to the size of household, taking account of any economies of scale associated with shared expenditure. The first adult in the household counts as 1 consumption unit. Each additional person aged 14 years or over counts as 0.5 units, and each additional person aged under 14 years 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 split into one hundred categories. The "initial" disposable income per consumption unit is calculated with the counterfactual socio-fiscal system (see Box 1). The households in the bottom "percentile" are therefore the 1% of households with the lowest disposable income per consumption unit (initially), whereas the households in the 100th "percentile" are the most affluent 1% of households. Somewhat imprecisely, we use the term "percentile X" to refer to the fraction of the population between percentile $X-1$ and percentile X[a]. So the households in the 50th "percentile" are, in this brief, the households whose income is between the 49th and the 50th percentile of disposable income.

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

The table below gives the mean "initial" disposable income per consumption unit within the main percentiles.

Percentile	Mean disposable income per consumption unit
5th	€ 620 /month
10th	€ 830 /month
20th	€ 1,120 /month
30th	€ 1,350 /month
40th	€ 1,540 /month
50th	€ 1,730 /month
60th	€ 1,940 /month
70th	€ 2,190 /month
80th	€ 2,530 /month
90th	€ 3,120 /month
95th	€ 3,790 /month
99th	€ 5,790 /month
100th	€ 10,930 /month

Interpretation: Incomes are expressed in euros per month. Households in the 50th percentile of initial disposable income per consumption unit have on average a disposable income per consumption unit of 1,730 euros per month before the reforms are taken into account. In this table, the "initial" disposable income per consumption unit is calculated with the counterfactual socio-fiscal system before taking into account the reforms entering into force in 2019.
Sources: TAXIPP 1.0 microsimulation model based on data from FELIN, ERFS, Budget des familles, FIDELI.

igibility for the energy voucher and a 50-euro increase in the payment, a 90-euro increase in the individual bonus on the in-work benefit, the cancellation of the 2018 CSG increase for retired people with a net pension of less than 2,000 euros per month, the exemption of overtime from income tax, and the decision to bring forward to 1 January 2019 the entry into force of the exemption of overtime from social security contributions (originally scheduled for 1 September). All these measures represent a total cost of 8.3 billion euros in 2019, according to government forecasts.[13].

[13] The cost associated with the measures related to CSG for retired people, the energy voucher, the exemption of overtime from social security contributions and income tax, and the increase in the employment bonus is 7.3 billion euros (see Table 1).The additional receipts originally forecast from the increase in energy tax on households for 2019 (1.9 billion euros) should be added to this sum. Finally, the cost of the exemptions of overtime from social security contributions already included in the initial draft laws (0.6 billion) and the cost of the measures related to CSG for retired people already proposed in the initial budget (0.3 billion) should be deducted. The forecasts for the initial measures come from the 2019 Economic, Social and Financial Report (Rapport Économique Social et Financier 2019) (p.95).

Graph 8 presents the redistributive effects of these measures, which were not included in the initial draft laws. For this, we compare the socio-fiscal system in force in 2019 following the adoption of the 2019 budget measures, with the socio-fiscal system that would have resulted from the 2019 draft budget law and draft social security budget law in their original versions. The effects presented are broken down by type of socio-fiscal measure. For all measures together, the provisions introduced by the government in the autumn significantly altered the redistributive effects of the 2019 budget. All the living standard percentiles benefit from the new measures. On average the gain per living standard percentile is 0.8% of disposable income. The gains per percentile grow in the first part of the living standard distribution, to reach a maximum of 1.6% of disposable income at the 40th percentile.

The cancellation of the energy tax increase for 2019 as a result of the "gilets jaunes" movement, raises the standard of living of all households, with stronger effects at the bottom of the distribution because of the increase in the energy voucher and the extension of eligibility for it.

The mean effect of these measures on the whole population is 0.1% of disposable income. However, within a single living standard percentile, the situation with regard to energy tax can vary significantly, especially because of differences in mode of transport used within one income category.

The effect of the income tax exemption on overtime is concentrated on the most affluent 60% of households, with a mean increase of 0.2% of disposable income within this population. Bringing forward the date of entry into force of the exemption of overtime from social security contributions increases the disposable income of households from the 10th living standard percentile, with the effects relatively stable between different income categories.

The emergency economic and social measures benefit all living standard categories, especially beneficiaries of the employment bonus.

Regarding the flat income tax, the cancellation of the CSG increase for retired people with a pension of less than 2,000 per month affects the middle of the distribution most. The least affluent retired households do not benefit from this measure because they are already on a reduced rate of CSG (or are completely exempt).

Finally, the effects of the increase in the employment bonus individual enhancement are concentrated in the bottom half of the living standard distribution. However, this measure does not affect the very bottom percentiles because the individual enhancement targets people paid the full-time equivalent of at least half of the minimum wage. Between the 10th and 50th percentiles, the mean effect of this measure is 0.7% of disposable income, reaching a maximum of 0.9% at the 34th percentile.

What are the implications for the structure of the socio-fiscal system?

This study estimates the redistributive effects of the socio-fiscal measures that entered into force in 2018 and 2019. Our simulations indicate gains for a broad section of the population, split unevenly between working households, which mostly gain, and the most affluent retired households, which become contributors. The most affluent 1% of households register the largest gains due to the abolition of the ISF. These results provide a clearer understanding of the effects of the recent budgetary measures.

However, these reforms could lead to behavioural reactions responses on the part of households, which could in turn affect the redistributive effect of the evaluated measures in the medium term. Do increases in disposable income among the working population encourage them to work more? Will the reform of the tax on income from capital open up new opportunities for tax optimisation and will it have an effect on investment? What impact will the reduction of social security contributions have on pay? Lastly, will the reduction of wealth tax be a factor in the decisions of the wealthiest about where to locate? These questions are still of central importance and they will be the subject of future evaluation work by the IPP.

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