

## The Distributional Impact of Local Taxation on Households in France\*

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### Key Question

The progressive exemption from housing tax granted to 80% of the least affluent households in France has again raised the question of the distributional impact of local taxes on households, particularly housing tax and property tax. This paper aims to document this issue and to break down the distributional impact of local taxation on households into its main determinants: the base (the rental value of occupied or owned properties), the schedule (of exemptions or reductions) and the differences between local rates.

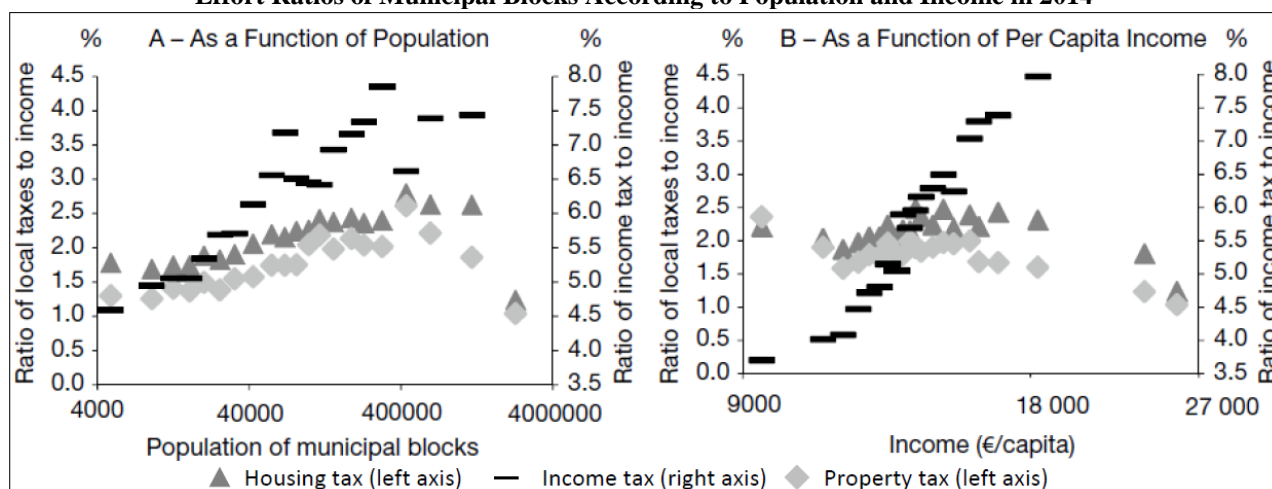
### Methodology

At the household level, the analysis uses the survey conducted to collate the Statistics on Income and Living Conditions (SRCV, Insee) at a household level. The analysis of the impact of local disparities in household tax burdens is based on comprehensive databases at the local authority level – household income and local government accounts.

### Main Results

- The distributional impact of the housing tax base is highly regressive since the value of occupied properties increases less rapidly than income. Exemptions and reductions partially offset the regressive impact of the base.
- The impact of the property tax base is progressive in the extensive margin (proportion of owners increasing with income) but regressive among actual taxpayers (in significant numbers among the lowest deciles of living standards).
- Local taxes and average income increase with the size of inter-municipalities: territorial heterogeneity therefore derives from the tendency of local taxes per capita to increase with per capita income. However, this growth is less than proportional to income growth, generating a ratio of local taxes to income that decreases with the level of average income in the inter-municipality.

#### Effort Ratios of Municipal Blocks According to Population and Income in 2014



Ratio of local taxes to income of municipal blocks (consolidation of municipalities and inter-municipalities) by quantile of population and per capita income in metropolitan France. Sources: DGFIP 2014.

### Message

If local household taxes show a slightly regressive profile, it is mainly because of the housing tax base rather than territorial tax burden disparities. In addition, it is important to note that property tax is also regressive among taxpayers, found in significant proportions among the least affluent households. As regards territorial disparities, the interpretation of the measured regressive impact depends on the reason for the clear increase in local public expenditure with the size of the inter-municipality: the impact remains moderate if the additional expenditure is mainly used to fight congestion, but it can be more significant if the additional taxes provide access to benefits in terms of amenities.