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Indigestion for ‘les Riches’ in a Plan for Higher Taxes

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Thomas Humery for The International Herald Tribune

Liz Alderman for the New York Times

Vincent Grandil, a tax lawyer in Paris, said many of his wealthy clients were asking him if they should bother to remain in France.

PARIS - The call to Vincent Grandil’s Paris law firm began like many others that have rolled in recently. On the line was the well-paid chief executive of one of France’s most profitable companies, and he was feeling nervous.

In France under **current tax law**	In France under the **proposed tax law**
2,224,694	2,224,694
−837,242	−1,137,383
−289,210	−289,210
1,098,242	798,101

Wealthy in France May Pay More



Photos by: Julien M. Hekimian/Getty Images; Eric Gaillard/Reuters; Yuri Kadobnov/Agence France-Presse — Getty Images

Some rich citizens have already left. In recent years, the actress and model Laetitia Casta, the chef Alain Ducasse and the singer and actor Johnny Hallyday all moved away to avoid high taxes.

President François Hollande is vowing to impose a 75 percent tax on the portion of anyone's income above a million euros ($1.24 million) a year. "Should I be preparing to leave the country?" the executive asked Mr. Grandil.

The lawyer's counsel: Wait and see. For now, at least.

"We're getting a lot of calls from high earners who are asking whether they should get out of France," said Mr. Grandil, a partner at Altexis, which specializes in tax matters for corporations and the wealthy. "Even young, dynamic people pulling in 200,000 euros are wondering whether to remain in a country where making money is not considered a good thing."

A chill is wafting over France's business class as Mr. Hollande, the country's first Socialist president since François Mitterrand in the 1980s, presses a manifesto of patriotism to "pay extra tax to get the country back on its feet again." The 75 percent tax proposal, which Parliament plans to take up in September, is ostensibly aimed at bolstering French finances as Europe's long-running debt crisis intensifies.

But because there are relatively few people in France whose income would incur such a tax — an estimated 7,000 to 30,000 in a country of 65 million — the gains might contribute but a small fraction of the 33 billion euros in new revenue the government wants to raise next year to help balance the budget.

The French finance ministry did not respond to requests for an estimate of the revenue the tax might raise. Though the amount would be low, some analysts note that a tax hit on the rich would provide political cover for painful cuts Mr. Hollande may need to make next year in social and welfare programs that are likely to be far less popular with the rank and file.

In that regard, the tax could have enormous symbolic value as a blow for egalité, coming from a new president who has proclaimed, “I don’t like the rich.”

“French people have an uncomfortable relationship with money,” Mr. Grandil said. “Here, someone who is a self-made man, creating jobs and ending up as a millionaire, is viewed with suspicion. This is big cultural difference between France and the United States.”

Many companies are studying contingency plans to move high-paid executives outside of France, according to consultants, lawyers, accountants and real estate agents — who are highly protective of their clients and decline to identify them by name. They say some executives and wealthy people have already packed up for destinations like Britain, Belgium, Switzerland and the United States, taking their taxable income with them.

They also know of companies — start-ups and multinationals alike — that are delaying plans to invest in France or to move employees or new hires here.

Whether many wealthy residents will actually leave and companies will change their plans, of course, remains to be seen. Some of the criticism could be political posturing, aimed at trying to dissuade the government from going through with the planned tax increase.

But some wealthy people left after Mr. Mitterrand raised taxes in the 1980s. And more recently, the former Victoria’s Secret model Laetetia Casta, the restaurateur Alain Ducasse and the singer Johnny Hallyday caused a stir by moving to countries just across the border to escape the French treasury’s heavy hand.

There is no question Mr. Hollande is under fiscal pressure. He has pledged to reduce France’s budget deficit, currently 4.5 percent of the nation’s gross domestic product, to 3 percent by next year, to meet euro zone rules.

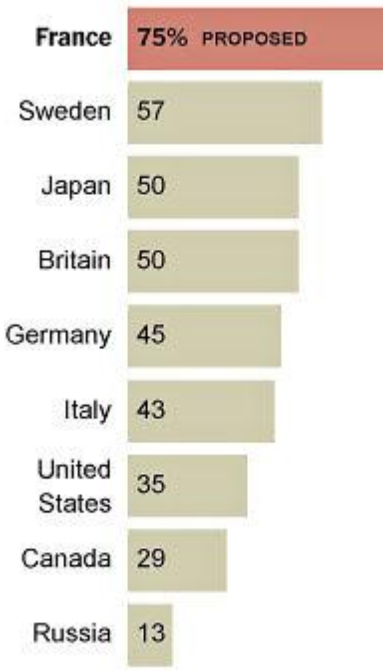
The matter of how best to hit that target, though, is as much a political question as a fiscal one. Mr. Hollande was elected in May on a wave of resentment against “les riches" — company executives, bankers, sports stars and celebrities whose paychecks tend to be seen as scandalous in a country where the growing divide between rich and poor touches a cultural nerve whose roots predate Robespierre.

Half the nation's households earn less than 19,000 euros a year; only about 10 percent of households earn more than 60,000 euros annually, according to the French statistics agency, Insee.

Big Range of Top Margins

The top individual income tax rate varies widely among countries. If France raises its top rate to 75 percent, it will surpass Sweden, which has long had the top rate.

TOP INDIVIDUAL INCOME TAX RATE, 2012



Source: KPMG

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There is currently no plan to change the tax rates for most people, which is 14 percent for the poorest and 30 percent for the next rung. For higher earners — people with incomes above 70,830 euros a year — the tax rate will soon rise to 44 percent, up from 41, in a change that was already set before Mr. Hollande's election.

A tax accountant in Paris with many wealthy clients, Steve Horton, has calculated that a two-parent, two-child household with taxable annual income of a bit more than 2.22 million euros ($2.75 million) now has after-tax take-home pay of about 1.1 million euros ($1.35 million) under France's current tax system.

That household would end up with 780,000 euros, or $966,000, if the Hollande tax took effect, Mr. Horton says. (The same family, with comparable income in Manhattan, would take home $1.55 million, the dollar equivalent of 1.25 million euros, after paying federal, state and city income taxes, he calculated.)

Taxes are high in France for a reason: they pay for one of Europe's most generous social welfare systems and a large government. As Mr. Hollande has described it, the tax plan is about "justice," and "sending out a signal, a message of social cohesion."

That struck a chord with voters angry about the wealth divide. And it is supported by some economists, including Thomas Piketty, a professor at the Paris School of

Economics, who has conducted studies indicating that high earners will not work less hard if taxed more. But some say France could send out the wrong signal.

“People have an acceptable amount of taxes they are willing to pay,” said Mr. Horton, the accountant, “and if it goes above that, they will move somewhere that’s more reasonable.”

“The thing French politicians don’t seem to understand or care about is that when you tax away two-thirds of someone’s earnings to appeal to voters, productive people who can enrich businesses and the economy won’t come — or they will just leave,” said Diane Segalen, a corporate headhunter.

She said she had been close to sealing a deal for a seasoned executive in London to join one of France’s biggest companies earlier this year, when Mr. Hollande made his 75 percent vow.

“When the guy heard that, he said, ‘I’m not coming,’ and withdrew from the process,” said Mrs. Segalen, the head of the Segalen et Associés, a consulting firm.

For Mrs. Segalen, the proposal is the latest red flag in a country that has long labored under the image of being a difficult place to do business. France has a 33 percent corporate tax rate — the euro zone’s second-highest, after Malta’s 35 percent. That contrasts with the 12.5 percent rate in Ireland, which has deliberately kept a lid on corporate taxes as a lure to businesses.

“It is a ridiculous proposal, but it’s great for us,” said Jean Dekerchove, the manager of Immobilièr Le Lion, a high-end real estate agency based in Brussels. Calls to his office have picked up in recent months, he said, as wealthy French citizens look to invest or simply move across the border amid worries about the latest tax.

“It’s a huge loss for France because people and businesses come to Belgium and bring their wealth with them,” Mr. Dekerchove said. “But we’re thrilled because they create jobs, they buy houses and spend money — and it’s our economy that profits.”