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European Production Tax Barometer 2023



POLICY PAPER FEBRUARY 2023

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European Production Tax Barometer 2023

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ABOUT THE BAROMETER

Author:



Lisa Thomas-Darbois

She joined the Institut Montaigne in 2021 as a policy officer on economic and public finance issues. Before joining the Institut Montaigne, Lisa was a M&A analyst in a consulting and auditing firm and a technical advisor in the office of the Minister of Action and Public Accounts. She is now in charge of the Economy and State Action Department at the Institut Montaigne.

*There is no desire more natural
than the desire for knowledge*

Working team:

For this second edition of the European Production Tax Barometer, **the Institut Montaigne has once again collaborated with the teams of Mazars Société d'Avocats**. Their tax experts have proposed a harmonised legal approach to production taxes thanks to the support of its international network, based in each of the eleven countries concerned by the study. In this respect, the Institut Montaigne would like to warmly thank the following people for their contribution:



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Partner at Mazars



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Lawyer at Mazars
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ANALYZING BAROMETER RESULTS FOR THE YEAR 2021

1. Putting it into perspective: the challenges of production taxation

In 2021, despite a slight decrease of 0.5 percentage points, **France once again has the second highest compulsory tax rate** – all taxes and social contributions combined – in the European Union (EU); this represents 47% of GDP, just behind Denmark (48.8%), nearly 5 points higher than the EU average.¹

Production taxes, mostly payable by companies, are no exception: based on Eurostat figures, French production taxes reached 4.5% of GDP in 2021 (compared with 5.3% of GDP in 2020). With an average at 1.7% for the European Union,² France remains one of the countries with the highest taxations on production, behind Sweden (9.9%), whose social welfare system is significantly financed by these taxes.

Following the last presidential election, the issue of production taxes seems to have become more central to the political discourse and to government action – notably with the announcement that the value-added tax (CVAE) will be phased out over two years, as outlined by the latest finance bill for 2023.

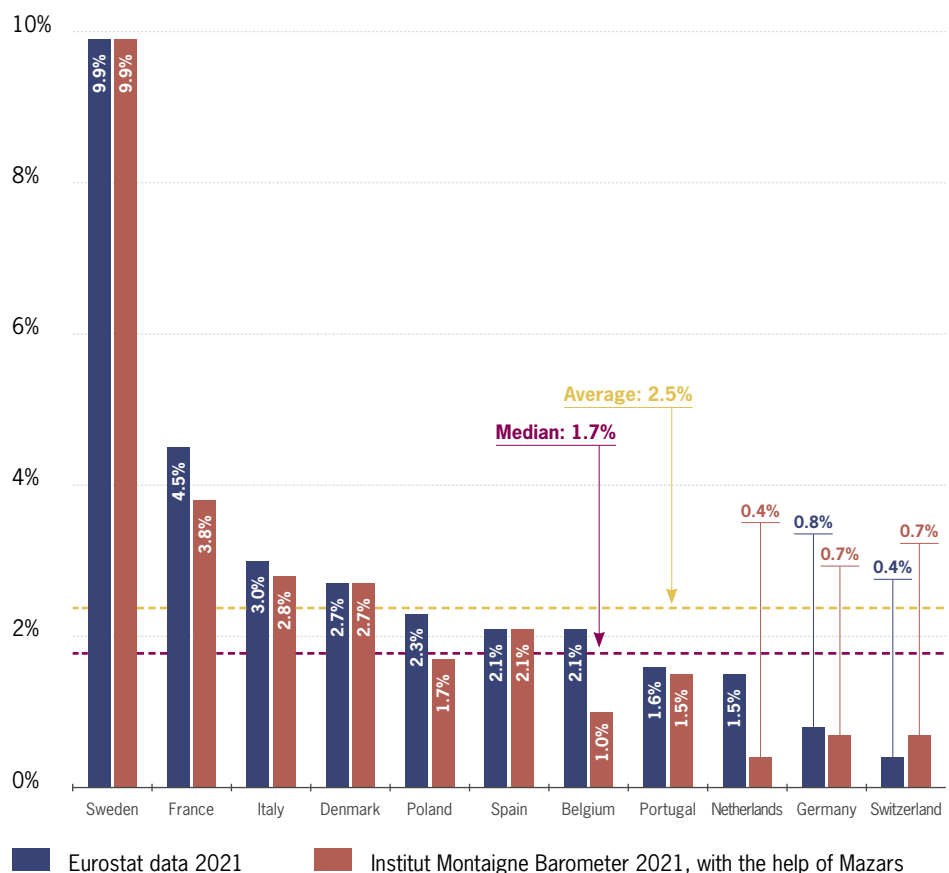
However, this downward trend must be sustained and increased, in view of the stated objective to reindustrialize and restore French competitiveness. The permanent lowering of this tax is a prerequisite to restore French economic sovereignty. Hence, the need has never been greater to contribute this clear and objective tool to the public debate, in order to measure the actual margins of progress in this area over time.

¹ *Les prélèvements obligatoires en France* (Fipeco, octobre 2022) <https://fipeco.fr/fiche/La-d%C3%A9finition,-le-niveau-et-la-r%C3%A9partition-des-pr%C3%A9l%C3%A8vements-obligatoires>

² *Les impôts sur la production* (Fipeco, novembre 2022) <https://www.fipeco.fr/fiche/Les-imp%C3%B4ts-sur-la-production>

2. This year, France is once again among the countries with the highest taxes on production

Share of production taxes in GDP by country



As in the previous year, Eurostat data ranks France among the “poor performers” of the European Union, with production taxes amounting to 4.5% of GDP, proportionally half as much as Sweden (9.9%) but twice as much in total value. France remains the country with the highest production tax revenues (€113 billion), four times higher than Germany despite German GDP being almost 1.5 times higher.

Our barometer reaches similar conclusions in terms of ranking within the European Union, but with a much greater level of precision. Thanks to a refined legal methodology, the amounts and relative burdens of the various production taxes taken into account in our barometer are as close to the economic reality as possible.

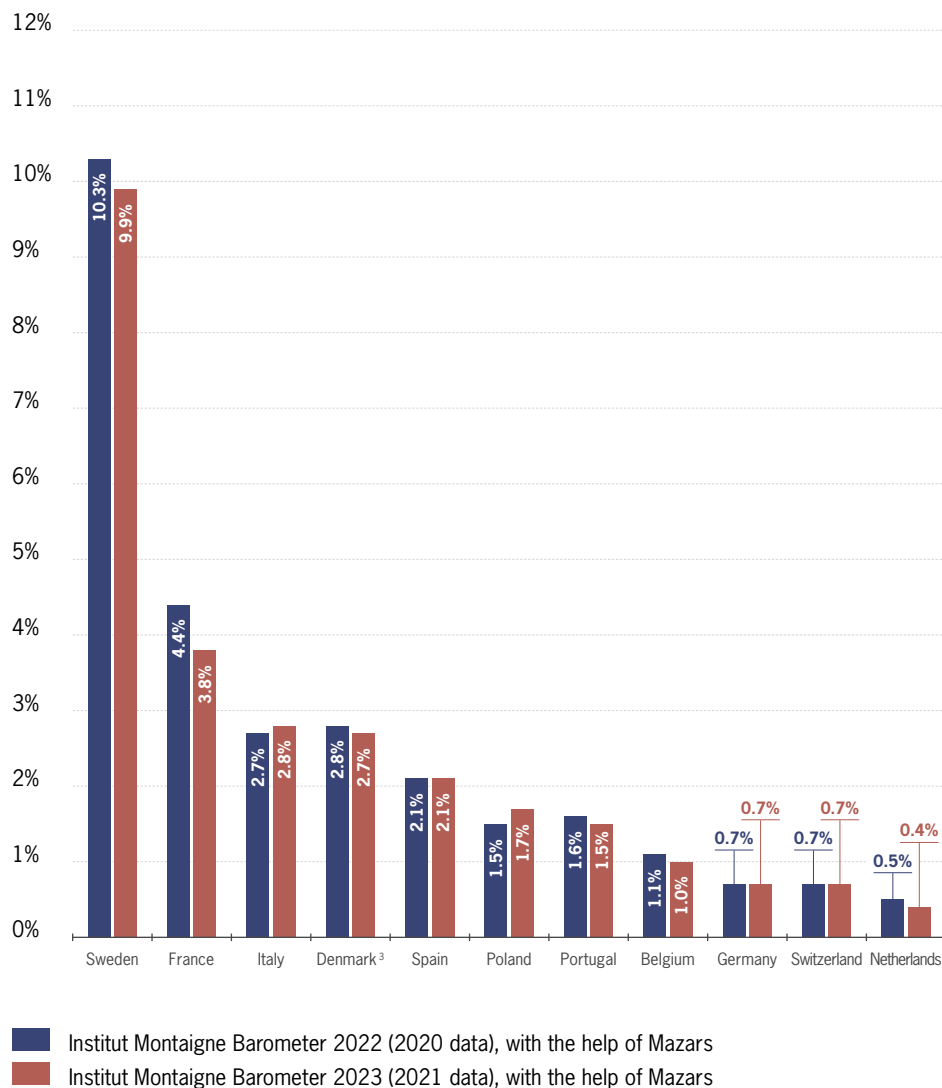
According to our analysis, in 2021, the burden of France’s production tax was the second highest of all countries studied (3.8% of GDP) behind Sweden (9.9% of GDP), a level well above the median calculated for the eleven countries in the study (which is close to 1.7%). In absolute terms, France also ranks first according to the results of our barometer: production taxes in France reached nearly €95 billion – down €5 billion from 2020 – compared to €25 billion in Germany.

In the other eight countries, the share of production taxes rarely exceeded 2% of GDP, in some cases it was at a level of 1% of GDP or less – as in Germany, Belgium, the Netherlands and Switzerland.

3. The general trend of lowering production taxes seems to be continuing, although in a heterogeneous way across the various countries studied

This new edition confirms this downward trend in production taxes in Europe: this drop in the tax burden for companies reflects a European desire to improve the competitiveness of its industrial fabric. Of the 11 countries studied, nine have experienced a decrease in their production tax burden.

Changes in production taxes between 2020 and 2021



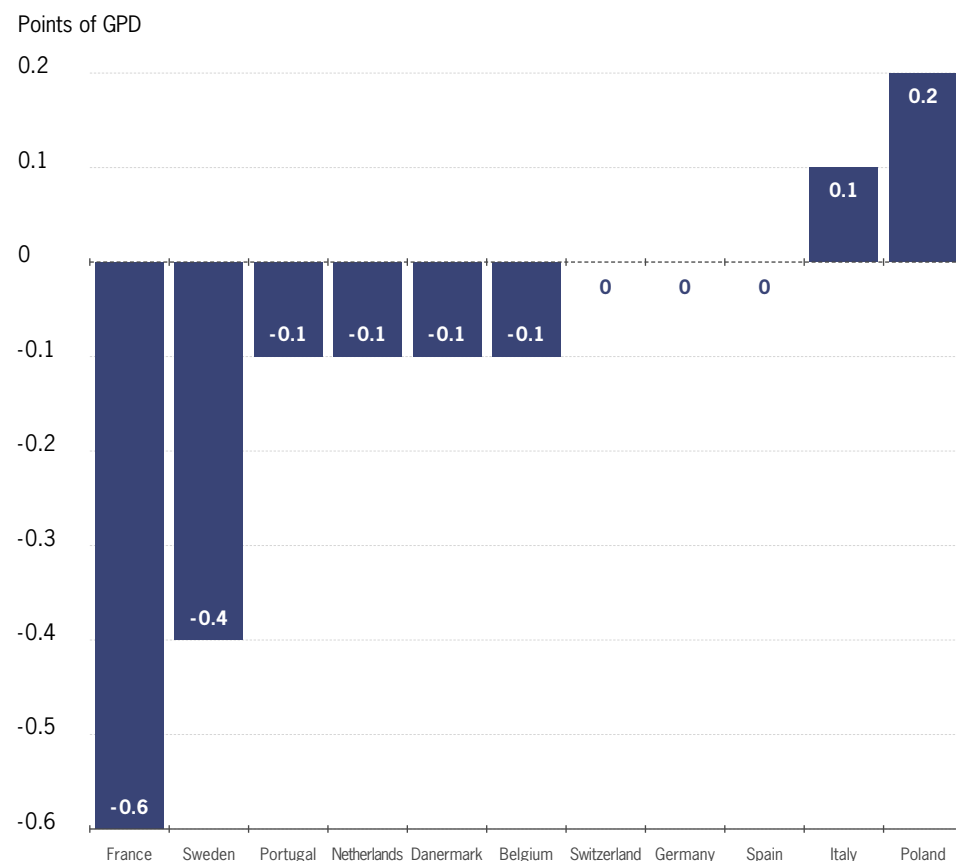
Two countries have experienced a particularly sharp decline in the share of production taxes in their GDP: France and Sweden. France is the country

³ Denmark was not included in the previous edition, so our methodology was applied retroactively to the 2020 data, in order to allow for a comparison with the 2021 data.

with the strongest change among the countries observed (-0.6 points of GDP over the period). This reduction in the tax burden on production is mainly due to two measures implemented in 2021: the halving of the CVAE and the halving of the business property tax (CFE)⁴.

The forthcoming abolition of the CVAE, planned to be phased out between 2023 and 2024, should confirm this downward trend.

Change in production taxes in GDP points between 2020 and 2021



⁴ CFE-related revenues have fallen from €7.1 billion to €5.6 billion over the period 2020-2021 according to our barometer.

These figures show clear improvement regarding the share of production taxes for French companies, and thus potential improvement in competitiveness. While this is an encouraging trend, it should be remembered that France remains one of the countries with the highest production tax burden: 3.8% in 2021, compared to an average of 2.5% for the countries studied in this second edition.

While the relative weight of these taxes in national GDP is falling, it should be noted that this trend is more nuanced in absolute terms, with a rather upward trend. Only France and the Netherlands have seen a decline in production tax revenues in total value. But this data must be considered alongside the general increase in GDP over the period 2020-2021. Take Sweden, for example: production taxes have increased in total value by almost 10%, but its GDP has increased by 12%. In relative terms, we thus observe a decline in its production tax burden.

Finally, two countries have seen a significant increase in the weight of their production taxes: Italy and Poland. This increase is driven by a strengthening of environmental taxation in Poland and by measures to increase taxation linked to the health crisis in Italy (details below).

4. Most of the European countries in this study have, according to our analysis, even lower taxes on production than the Eurostat data estimates

Thanks to the specifications produced by Mazars (found in the appendix), these variations, more or less significant from one country to the next, are explained hereafter. It should be noted that this endeavor is not without its difficulties, since each country has its own approach and hence presents its own set of difficulties in terms of understanding.

Germany

Institut Montaigne Barometer: 0.7% of GDP

Based on Eurostat data: 0.8% of GDP

2020 Reminder: Institut Montaigne Barometer: 0.7% of GDP

In Germany, some taxes, considered to be production taxes by Eurostat, have been removed from our barometer, such as “*Steuerähnliche Einnahmen*”, or “*Rundfunkbeitrag der Unternehmen*” for a total amount of €2.6 billion in 2021. Germany stands out with a significantly stable production tax at a very low level, which contributes to substantially strengthening the competitiveness of its industrial fabric.

Belgium

Institut Montaigne Barometer: 1% of GDP

Based on Eurostat data: 2.1% of GDP

2020 Reminder: Institut Montaigne Barometer: 1.1% of GDP

In Belgium, some of the production taxes taken into account by Eurostat are in fact a contribution payable by households, not by companies. This is the case for the “*Advance tax payment on property (PP)*” for example, with an amount of €4 billion in 2021, which is not taken into account by our barometer. Other taxes, with amounts under €100 million, also do not meet the definition of production taxes according to our specifications.

Denmark

Institut Montaigne Barometer: 2.7% of GDP

Based on Eurostat data: 2.7% of GDP

2020 Reminder: Institut Montaigne Barometer: 2.8% of GDP

The taxes listed as production taxes by Eurostat are essentially the same as those used in our specifications. However, it should be said that there was a slight decrease in the production tax burden in Denmark between 2020 and 2021. Though this fluctuation is more correlated to the increase in GDP over this period than due to a real drop in production tax revenues. Indeed, the latter increased by 4% between 2020 and 2021, and was compensated by an increase of almost 8% in Danish GDP over the same period.

Spain

Institut Montaigne Barometer: 2.1% of GDP

Based on Eurostat data: 2.1% of GDP

2020 Reminder: Institut Montaigne Barometer: 2.1% of GDP

The vast majority of Eurostat's production taxes have been taken into account in this second edition of the barometer. Smaller taxes have been removed from the analysis, but did not have a significant impact on the weight of production taxes in relation to GDP.

Although it should be noted that for the real estate tax ("*Impuesto sobre bienes inmuebles*"), almost €13.6 billion in 2021, segregating the share potentially paid by households could not be done due to missing data. The share of production taxes in Spain could therefore actually be lower.

France

Institut Montaigne Barometer: 3.8% of GDP

Based on Eurostat data: 4.5% of GDP

2020 Reminder: Institut Montaigne Barometer: 4.4% of GDP

In France, most production taxes taken into account by the Eurostat data have also been listed as production taxes in the Mazars specifications. Thus, about 80% (nearly €95 billion) of the €113 billion in French production taxes, as identified by Eurostat, are also classified as such by Mazars.

On the other hand, the legal expertise of Mazars' teams has made it possible to distinguish between property tax revenues paid by households and those paid by businesses. Thus, unlike the Eurostat data, which takes into account all property tax revenues, the barometer only takes into account property tax revenues paid by businesses. As a result, a downward adjustment of €20 billion in property tax revenues paid by households has been made in relation to the Eurostat data. This adjustment explains the reduction in the share of production taxes in France, compared to the Eurostat figure of 4.5% of GDP.

Other upward adjustments have also been made. In fact, according to the definition used in the specifications, other taxes are included in the scope of production taxes: this is the case for revenues from the household waste collection tax for instance,

which have been added to our barometer (an addition of nearly €7 billion, for this tax alone).

Italy

Institut Montaigne Barometer: 2.8% of GDP

Based on Eurostat data: 3% of GDP

2020 Reminder: Institut Montaigne Barometer: 2.7% of GDP after adjustment (compared with 2.5% of GDP previously)

Tax revenues from production taxes have increased compared to the previous year. Due to lack of structural reform to the system, tax revenues increased by almost €3.2 billion, this was particularly the case for the "*Regional tax on productive activities*" (IRAP). As this increase is similar to other taxes, it could be the consequence of the various measures taken by local authorities to deal with the Covid-19 health crisis (postponements and delays in the payment of tax installments).

Netherlands

Institut Montaigne Barometer: 0.4% of GDP

Based on Eurostat data: 1.5% of GDP

2020 Reminder: Institut Montaigne Barometer: 0,5% of GDP after adjustment (compared to 0.4% of GDP prior)

There has been a significant decrease in tax revenues generated by production taxes compared to the previous year. This is the case for "*Loonbelasting*", and miscellaneous taxes on salaries – whose tax revenues have decreased by nearly €800 million between 2020 and 2021.

Poland

Institut Montaigne Barometer: 1.7% of GDP

Based on Eurostat data: 2.3% of GDP

2020 Reminder: Institut Montaigne Barometer: 1.5% of GDP after adjustment (compared with 1% of GDP prior)

In Poland, most of the production taxes included in the Eurostat data do not qualify as production taxation, according to the legal definition of production taxes developed in our methodology. This is why the share of taxes on production is reduced in our barometer.

On the other hand, a significant increase in tax revenues generated by production taxes can be seen compared to the previous year, such as real estate taxes (+€1 billion) and taxes on polluting substances emissions (+€7 billion). However, segregating the share potentially paid by households, and the breakdown of the different taxes included in their tax bases, could not be carried out due to missing data. Thus, the weight of taxes on production in Poland could actually be lower.

Portugal

Institut Montaigne Barometer: 1.5% of GDP

Based on Eurostat data: 1.6% of GDP

2020 Reminder: Institut Montaigne Barometer: 1.6% of GDP

For Portugal, some taxes, considered as production taxes by Eurostat, have been removed from our barometer. These taxes are not listed as production taxes according to the legal definition developed in the methodology. The total amount of these changes remains very marginal, since the total amount of these taxes does not exceed €200 million, which explains the similarity with the figures provided by Eurostat.

Sweden

Institut Montaigne Barometer: 9.9% of GDP

Based on Eurostat data: 9.9% of GDP

2020 Reminder: Institut Montaigne Barometer: 10.3% of GDP

Sweden, which is ranked ahead of France, is the leading country in terms of production taxation as a percentage of GDP. The significant share of production taxation in Sweden is explained by a decision to finance its social system, which is based, for the most part, on taxes, and not on social contributions, as is the case in France. Thus, the vast majority of production taxes are actually levied on the wage bill, instead of on social security contributions. Here again, certain taxes have not been taken into account in the calculations, while others have been added, arriving at a similar result to that of the Eurostat data.

Switzerland

Institut Montaigne Barometer: 0.7% of GDP

Based on Eurostat data: 0.4% of GDP

2020 Reminder: Institut Montaigne Barometer: 0.7% of GDP

For Switzerland, some taxes that were not considered to be production taxes by Eurostat have been added to our barometer. These taxes are considered to be production taxes according to the legal definition developed in our methodology.



BAROMETER METHODOLOGY

1. Barometer Characteristics and Objectives

The various indicators or studies of production taxation are usually based on data provided by Eurostat, though these may be skewed since the data (i) does not guarantee a harmonized comparison of the various types of production taxes and (ii) does not dissociate the various categories of taxpayers subjected to these taxes (households, administrations or companies).

Our European Production Tax Barometer overcomes these limitations, delivering two significant innovations:

- **The first is a legal and fiscal analysis of production tax revenues in France and in ten other European countries with comparable economies:** Denmark, Sweden, Spain, Portugal, Italy, Belgium, Poland, the Netherlands, Germany and Switzerland. The expertise and methodology implemented by Mazars have thus made it possible to compare, in an exhaustive and harmonized manner, the burden of production taxes actually borne by companies in these countries, including France.
- **The second is a long-term analysis, as this Barometer is currently in its second edition, and shall be regularly updated over the next five years.** Thus, since France's position in terms of production taxation can be analyzed and compared with that of its main European neighbors, taking into account future tax reforms. This new tool is another step towards improving tax transparency for French and European economic players.

The barometer aims to provide clarity on a crucial issue for all companies, especially companies in the industrial sector, which is heavily affected by this category of taxes.

To what extent do production taxes differ between countries? To find out, Mazars' teams helped the Institut Montaigne develop a common reference indicator by benchmarking the legislative and tax systems of ten countries with the French

system. This barometer now allows us to **see the weight and effects of the different production taxes for companies in each country studied.**

2. Specificities of the Second Edition of the Barometer

This second edition of the Production Tax Barometer follows up on the work started the previous year. In light of past, current and future tax reforms – particularly in France with the CVAE phase out – the Institut Montaigne, in collaboration with Mazars, has decided to give it another go in order to provide a critical and relevant perspective on these issues.

This year, the United Kingdom has been removed from the list of countries studied, mainly because of its withdrawal from the European single market. As the United Kingdom is no longer subject to the same legislative constraints and no longer part of the same economic environment, comparing the UK with the other countries in this study is no longer relevant. Moreover, Eurostat no longer studies the United Kingdom since its exit from the European Union, depriving our barometer of reliable data useful for our analysis.

Denmark enters this new edition of our barometer. The country has a strong presence in the common market, thanks in particular to a strong export industry: the study of Danish production taxes is an excellent case study to illustrate the challenge of competitiveness for European companies.

3. Defining precise specifications

The experts relied on the European Regulation No 549/2013 of May 21, 2013, which defines production taxes, as well as on French legal standards, in particular from case law determined by the French High Courts. Once the scope of the legal definition of production tax were formalized, **Mazars' teams in France drew up a set of specifications listing the information required to identify and analyze production taxes for each of the eleven countries studied.**

The specifications thus include a list of all existing taxes with an indication of the taxes, duties and contributions that meet the definition of taxes on production (e.g., property taxes or taxes on use of land, buildings and constructions for production

purposes – CFE, property tax...), taxes on movable assets used for production purposes (corporate vehicle tax...), taxes on labor (payroll tax...), based on 4 main criteria. These taxes must be :

- mandatory
- payable by companies
- levied by public administrations or European Union institutions
- due for production capacities

These specifications also include **the sticking points and offer a substantiated justification for the classification of certain taxes**, for example, the exclusion of the tax on commercial wasteland (payable on account of possessing an vacant building and therefore does not constitute a means of exploitation) or the inclusion of the Contribution Sociale de Solidarité des Sociétés or C3S (mainly based on turnover, though its specificities nevertheless allow it to be considered a tax on production).

4. A comparison of the specifications and of “Eurostat” data by Mazars teams in France and Europe

Mazars experts based in the ten other countries involved in the study received the terms of reference as well as the “Eurostat” data on production taxes from Mazars in France – which is the coordinating country for the project. While the Eurostat data is an interesting starting point, it takes into account contributions and taxes that are **based on an interpretation of production taxation that is different from the one used by Mazars in certain respects, because it is less precise.**

Thus, on the basis of these specifications, Mazars experts were asked to classify the Eurostat information, to analyze and, if necessary, to revise the pre-existing classification with regard to the established criteria.

For example, Eurostat data for France classifies all property tax as a production tax, without distinguishing the share paid by companies from that paid by households. The unprecedented analysis provided by this new barometer, based on pre-existing legal sources, required a **particularly meticulous analysis by Mazars’ tax specialists**. The degree of precision achieved is unprecedented. However, it should be noted that there is a possible margin of error in isolating the share of these taxes paid by households versus those paid by companies. Indeed, for some countries,

such as Spain and Sweden, some data is missing and does not allow us to conclude that households do not contribute to production taxes, which must be borne by companies according to the established legal definition.

The teams then drew up an exhaustive list of all the taxes by country and determined, line by line, whether or not they were taxes on production, justifying their decisions and taking into account the complexity of the tax rules specific to each country.

Finally, while the specifications have not changed between the two editions of the barometer, it should be noted that certain methodological improvements have been made (as described below), updating certain figures from the previous edition. This is notably the case for three countries: Italy, the Netherlands and Poland, whose 2020 data has been updated in light of these new analyses.⁵

Proportion of production taxes in national GDP – 2022 edition of the Barometer (2020 data)

	Originally published data	Revised data
Italy	2.5%	2.7%
Netherlands	0.4%	0.5%
Poland	1%	1.5%

For Italy and the Netherlands, the revision is mainly due to the inclusion of production taxes relating to the banking sector, for amounts of 1.9 billion and 650 million euros respectively, in 2020.

For Poland, the main difference lies in the inclusion of taxes on the emission of polluting substances. In the previous edition, taxes on activities with a negative impact on the environment were not included,⁶ yet these amounted to €2.5 billion in 2020, which explains the shift of almost 0.5 percentage points with the revised data.

⁵ Details of the production taxes recorded for each country are provided in the specifications prepared by Mazars, which are appended to this note.

⁶ « levies on environmental exploitation ».

5. Developing the indicator

Mazars then sent the data, with comments and classifications, to the Institut Montaigne. The Institut Montaigne, with the help of HEC Junior Conseil, then used this data to **construct the indicator necessary to compare France's overall annual amount of production taxes with that of the ten other European countries. For 2021, this shared indicator is presented as a percentage of GDP.**⁷

⁷ Source: Eurostat, November 2021.

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Work team:

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The opinions expressed in this policy paper are not necessarily those of the above-mentioned persons or of the institutions that they represent.

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European Production Tax Barometer 2023

In line with the *European Production Tax Barometer 2022*, this new edition aims to compare taxation levels across different European countries, in a reliable and harmonised way.

The Institut Montaigne, with the support of Mazars, has updated the data from the previous edition in order to analyse the national and European production tax trends. This *European Production Tax Barometer 2023* shows that in 2021, France remained among the countries with the highest production taxes as a percentage of GDP, reaching 3.8%, just behind Sweden's 9.9%. Yet in absolute terms, France still ranks first, with €95 billion - i.e., almost four times more than in Germany.

This indicator will be regularly updated by the Institut Montaigne, and is therefore another step towards improving tax transparency for the French and European economies.

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Institut Montaigne

59, rue La Boétie - 75008 Paris
Tél. +33 (0)1 53 89 05 60
www.institutmontaigne.org/en

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