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France Rows Back on Tax Cut Delay as Labour Reform Debate Opens

The French government will push ahead with tax cuts promised by President Emmanuel Macron, sources said on Monday, rowing back on comments for the prime minister that some could wait.

The cuts are a key plank of Macron's economy-boosting reforms, but their timing was thrown into doubt last week when Prime Minister Edouard Philippe suggested the government could not afford to launch them as soon as next year.

Confirmation they will go ahead next year came on the day the debate opened in parliament on another of his main policy measures, pro-business labour reforms.

"The president and the prime minister's objective is for tax measures to be undertaken in the 2018 budget bill to trigger a supply-side shock and boost confidence," a source in Philippe's office said.

"To do this, the government is studying solutions to step up tax cuts starting from 2018, especially on property taxes and the wealth taxes," the source said, adding the government still aimed to meet an EU deficit target.

French business leaders had bridled at the proposed delay to the tax measures, warning that the country needs urgent to reduce the tax burden in order to restore competitiveness.

Also facing criticism over the delay from a number of economists, Philippe made a phone call late on Saturday night to set up an emergency meeting with Finance Minister Bruno Le Maire and with Macron to review the tax cut timing, a finance ministry source said.

Le Maire then hinted at a business conference on Sunday that the timing was once more under review. During the meeting itself, Macron insisted that the plans to rein in France's wealth tax and scrap local property taxes for 80 percent of those who pay them should after all begin to take effect in 2018, the source said.

A delay was raised after the public audit office said a budget shortfall left by former president Francois Hollande's government would result in a deficit of 3.2 percent of national output this year compared with the Hollande government's forecast of 2.8 percent.

Macron has promised to meet the EU's three percent target in 2017, in what would be the first time in a decade France falls in line with the European deficit ceiling.

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To meet the deficit target this year, the government is scrambling to come up with four to five billion euros in budget savings.

The situation will only get more difficult next year, and Macron's pledges to cut local property taxes and limit the scope of the wealth tax to property could put a strain on revenues in the years ahead.

Les Echos newspaper said that reining in wealth and property taxes next year would cost about six billion euros. The finance ministry declined to comment when contacted by Reuters.

The paper said that that would come on top of seven billion in tax cuts already budgeted by the previous government, which Philippe confirmed over the weekend would be maintained.

Offering some relief to the government is the growing chance that economic growth will be stronger this year than the 1.5 percent that the budget is based on. The Bank of France raised its forecast last week to 1.6 percent from 1.4 percent after recently strong data.

French finance minister insists taxes will be cut

Bruno Le Maire seeks to reassure pro-business measures will be implemented

France’s finance minister insisted on Sunday that President Emmanuel Macron’s promised tax cuts would be put in place despite an announcement last week that some reductions would be delayed because of a hole in the public finances.

Bruno Le Maire told a conference of business leaders and economists in Aix-en-Provence, southern France, the government was in a position to implement the tax cuts “now” while also bringing the deficit back in line with EU rules.

“Timing has not been decided definitively,” Mr Le Maire said at the Rencontres Economiques d’Aix. “I believe we can cut public spending very significantly to meet our European requirements and lower taxes for the French households and French companies — all at the same time and now.” He added: “Wait for the final trade-offs of the prime minister and president.”

The comment marks a change of tack only days after prime minister Edouard Philippe said he would postpone flagship tax reforms by one or more years in order to cover an unexpected €5bn increase in the deficit.

The delayed measures include a 30 per cent flat tax on investment income, a reform of the wealth tax and the scrapping of the property tax for most households.

Adding to the impression that new government was no longer prioritising the easing of the tax burden, Mr Philippe told parliament last week that higher taxes would raise the price of a pack of cigarettes by 43 per cent, while Nicolas Hulot, environment minister, has vowed to increase taxes on diesel.

On Sunday, Mr Le Maire was forced to deny a report alleging the government intended to increase taxes on the Livret A, a popular savings account.

Mounting criticism over Mr Macron’s tax plan highlights the president’s challenge in meeting the EU deficit target of 3 per cent of gross domestic product while reinvigorating the eurozone’s second-largest economy. Last month, France’s public spending watchdog warned that deficit risked exceeding the EU limit this year, accused the previous Socialist government of providing insincere” budget predictions to Brussels.

In Aix en Provence, there was a hint of disenchantment among France's business and finance elite only two months after Mr Macron's presidential victory over far-right leader Marine Le Pen.

"Delaying those tax breaks is a shame," Francois Lombard, president of Turenne Capital, a private equity firm, said. "There was high expectations among entrepreneurs. There's disappointment. It's not what was announced."

Mr Macron was elected on a resolutely pro-business platform. Promising an overhaul of the rigid French labour market, he won over entrepreneurs and financiers by pledging to cap levies on dividends at 30 per cent, down from more than 50 per cent, and to reduce corporate tax from 33 per cent to 25 per cent. Top earners tempted by the idea of moving abroad were promised their financial assets would be excluded from the wealth tax, which is levied on holdings worth more than €1.3m.

Mr Macron had also vowed to convert Mr Hollande's flagship tax credit scheme for companies into a permanent reduction in payroll charges — a shift that would incur an estimate one-off cost of €20bn. Mr Macron had also appealed to households by promising to scrap property tax. But Mr Philippe indicated last week that all those measures would be pushed back.

Academics at Rencontres d'Aix warned that the French economy needed a shock of confidence just as the government engaged in reforms to make the labour market more flexible.

"The fiscal measures that were at the core of the president's programme and that are now delayed must be implemented as soon as possible," urged Jean-Herve Lorenzi, chairman of Cercle des Economistes, the think-tank organising the conference. "Those measures would send a major signal to attract investments."