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Property Tax and Assessment News from Around the World

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What Are Property Taxes Like in the South of France?

There are a wide variety of fees homeowners and renters must pay—though a break is on the way for many

There are two main property taxes in France, plus a wealth tax, according to Jessica Duterlay, a tax associate at Attorney-Counsel, a law firm with offices in London and Nice, France.

The *Taxe Foncière* is a tax for all property owners, and is based on the cadastral income of the property, Ms. Duterlay explained. Typically, the potential rental income is halved to calculate the cadastral income, she said.

"The tax is equal to the cadastral income multiplied by the rates fixed by the local authorities," she said.

Each local municipality has its own rate, and "these rates may be modified from one year to the next," she said.

A second tax, *Taxe d'Habitation*, is traditionally paid by the residents of the home, whether they own or rent. It is also based on the cadastral income of the buildings on the property, Ms. Duterlay said.

This tax has gotten more attention in the last few years, and under French President Emmanuel Macron's administration, most French households will no longer have to pay the levy by 2021. But that's only if the home is used as a primary residence, according to Ms. Duterlay.

Second-home owners will still be on the hook for the tax, and, in many areas, a house could also be subject to a tax on vacant housing, she added. Authorities may add as much as a 60% surcharge on the tax for furnished homes that are left vacant for more than 120 days per year. So vacation-home owners could be looking at a significant tax hike.

In addition, French households pay a wealth tax (*impôt sur la fortune immobilière*) on real estate assets of €1.3 million (US$1.45 million) or greater, according to Ms. Duterlay. That applies to non-residents, as well.

There are also transfer taxes due when a home is purchased, she said. These include a departmental tax, usually 4.5% of the purchase price, as well as a communal tax at the rate of 1.20%, and another government charge of 2.37%.

The Problem with France's Plan to Tax Digital Companies

France recently approved a 3% tax on revenues generated by large digital companies in its territory, a move that is now being investigated as a potentially unfair trade practice by the U.S. government.

The French legislation, which would invariably affect U.S. tech giants such as Alphabet, eBay, and Facebook, is the kind of tax that the European Union has wanted to impose for years. Emboldened by the EU stance, Asian and Latin American countries have begun discussions on how to tax tech giants on revenues earned in their territories. If implemented, these proposals have the potential to shift billions of dollars from tech companies to local economies. But we argue that one-size-fits-all taxation of large digital firms based on their gross revenues is too blunt an instrument to address the putative budgetary deficits of local governments. We call for a more substantial debate on the issue and more imaginative ideas to ensure fair and effective taxation.

The nature of business is rapidly changing. Digital services continue to supplant numerous physical products, and e-tailers and internet websites continue to replace many shops and physical establishments. These transformations reduce a city's or federal government's tax collection in at least three ways. First, barring a few mega establishments created by the likes of Amazon and Tesla, countless factories, offices, shops, and establishments are closing, eroding cities' land-based revenues from property taxes and development charges. Second, reduction could occur in taxes levied on production or value addition to physical goods, diminishing the state or federal government's coffers. Third, taxes collected on the salaries and wages of workers disappear when workers are rendered unemployed by the rise of the digital economy.

Consider a local newspaper that employs hundreds of local workers in its office, printing, and distribution facilities. It becomes obsolete with the emergence of a large website that has no physical presence in that country, relies on freelancers, and locates its head office in a tax-friendly country like Ireland or Luxembourg. The local advertisers shift en masse to the new internet company. So, the city and federal governments lose large portions of their tax revenues. They must now cut expenditures, fund new welfare programs, and find alternative sources of revenue.

This "remote" participation in the domestic economy — the provision of digital advertising, marketing, or buyer-seller matching services with servers and offices in a foreign country — is often seen as the key issue in the debate over whether and how to tax digital companies. Each country, in principle, has a right to tax the totality of benefits and services received by foreign corporations that interact with its residents. It is entitled to a fair share of revenues from advertisements shown to its residents (by Google, for example), from sales of its residents' personal data to third parties (such as Facebook), and from the facilitation of transactions among residents (on Ebay or other sites). Foreign corporations must contribute to the country's public expenditures, such as education, law enforcement, infrastructure, utilities, firefighting, and defense, because in the absence of those facilities and the markets generated by them, the foreign corporations would be unable to earn local revenues.

With the digitization of products and services, and the usurpation of those businesses by foreign technology firms, it becomes increasingly difficult to pinpoint and "ring-fence" the location of economic activities. As we argued in a previous HBR article, a single digital player such as Facebook, which enjoys first-mover advantages and network effects, can service large portions of global market. So, the digital company serving a local market is more likely to be a Facebook, an Airbnb, or an Uber than to be a homegrown corporation. However, local government cannot easily enforce its tax collection privileges on that foreign digital company. Neither its local revenues nor expenses incurred to earn those revenues can be reliably estimated, making local taxable income difficult to verify. This fact, combined with the allegations that tech giants evade taxes, as evident from their low tax rates as compared with local corporations, forces local governments to conceive alternative ways of taxing foreign corporations.

The proposed 3% tax mimics the manner of collecting taxes on foreigners' dividend, interest, and royalty income from a local economy, while addressing two problems. First, taxes are collected on gross remittances, thereby eliminating the need to calculate net profits. Second, those taxes are withheld at sources, leaving the burden of collection and payment of taxes to foreigners.

However, there are many arguments against the idea of revenue-based taxes on large foreign digital corporations. First, in the absence of a clear definition of a "large" and "digital" company, EU proposals are tantamount to selective targeting of American companies. Second, some academics and think tanks question whether the tax collections of EU governments have declined over time and whether there exists a need for alternative sources of corporate taxes. Third, critics argue that there is no consistent evidence that internet firms pay taxes at lower rates than other firms. Fourth, the selective imposition of taxes could violate bilateral taxation treaties, and could threaten an all-out trade war, reducing international trade and commerce. Finally, should all digital corporations pay the same 3% tax, irrespective of their business model or profits?

We believe there is a need for more thoughtful and creative solutions than a one-size-fits-all regulation, especially because the shift from the physical world to the digital one is permanent and affects economic systems in myriad ways. For example, governments might consider increasing the emphasis on value-added taxes (VAT) that are levied at each stage of the value chain. The greater the value added until it reaches the end customer, the higher the total VAT. Digital e-commerce companies must be adding value to the marketing process by helping a seller find a local customer or by enhancing the perceived value of final products. Improved marketing must increase manufacturer's revenues, input costs held constant, increasing VAT. If the government collects sales tax instead of VAT, then the final consumer, not the suppliers or the manufacturers, would pay higher taxes on the enhanced value. Furthermore, the improvement in marketing efficiency, brought about by digital e-commerce companies, should improve the profits of local corporations, increasing the taxes they pay. So arguably, taxes not paid by the foreign digital corporations are not totally lost in the system.

What is required is a new way of dividing total tax revenues among city, state, and federal governments. We admit that the tax revenue lost because of reduced land use and unemployment created by digitization would not be recovered by the above suggestions. However, imposing the burden of those deficits on digital companies would not only be unfair but also reduce innovation. It would be like taxing a foreign email provider to fund the welfare programs for unemployed postal workers.

In sum, the progress from physical to digital domains is monotonic, irreversible, and accelerating. The businesses are increasingly getting concentrated in the hands of a few tech giants that can easily shift income and taxes around the world. So local governments need to become more creative while ensuring fair and effective taxation and compliance with bilateral tax treaties.