

Evaluation Committee of the French Recovery Plan

CALL FOR RESEARCH PROJECTS

Evaluating the effects of production tax reductions

Issues and topics

This call for research projects is organised **in a single selection process based on detailed proposals from research teams.**

KEY DATE:

Deadline for submission of full applications: **March 21st 2023 at 2PM (UTC +1 – Paris time)**

I. Context

The Initial Finance Act (*LFI, loi de finance initiale*) for 2021 mandated to a Evaluation committee the assignment to prepare and conduct the assessment of the French Recovery plan (Plan France Relance) from April 1st 2021. It takes over from the committee for the monitoring and assessment of support measures for businesses faced with the Covid-19 epidemic; its composition was carefully thought out to reflect the social and ecological dimensions of the recovery plan. Chaired by Xavier Jaravel since January 2023, it brings together representatives of the finance committees of the National Assembly and the Senate, associations of regions, departments and mayors of France, representative employers' and trade union organisations, the Cour des Comptes et Administrations (General Directorate of the Treasury, Dares, CGDD (General-Commissariat for Sustainable development)), as well as three field experts, Messrs Philippe Bouyoux, Yannick L'Horty, and Benoît Leguet. The committee's secretaryship is provided by France Stratégie.

In the mission statement sent to Benoît Coeuré on 3 April 2021, the Prime Minister asked the committee to focus its assessment work on ten to fifteen measures in the Recovery plan, and mentioned that this list could include the following measures: energy renovation of private housing, energy renovation of public buildings, measures supporting demand for low-emission vehicles, measure to reduce production taxes, profit-sharing loans, long-term short-time working, strengthening of the FNE-Formation system schemes, and the bonus for hiring young people. The committee decided to broaden the analysis of the bonus for hiring young people to include the whole "1 jeune, 1 solution" (1 young person, 1 solution) plan, support for industrial investments, support for the development of plant proteins.

Initial evaluations were carried out, leading to the first report published on 26 October 2021 and the second report published on 20 December 2022. This first report contributed to the assessment of the recovery plan as a whole (macro level) as well as to the *in itinere* evaluation of five measures implemented: MaPrimeRénov', energy renovation of public buildings, support for investment and modernisation of industry, support for the industry of the future, and the "1 jeune, 1 solution" plan. At this stage, the evaluation can only be partial and provisional.

The evaluation is particularly complex, given (1) the broad scope of the recovery plan and the large number of measures of a very different kind, some of which interact, (2) the necessity to differentiate the impact of other public policies such as the Covid-19 emergency support measures and the France 2030 plan announced on 12 October 2021, (3) and finally, a delay is necessary to appreciate the impact of the measures, particularly those leading to investments or works.

In this context, the Evaluation committee of the Recovery Plan Committee would like this call for projects to allow for the evaluation of the effects of the reduction in production taxes.

Due to its impact on the competitiveness of companies, particularly industries, production taxation is an issue for the recovery in the short-term and long-term. The recovery plan has implemented a production tax cut of €10 billion per year, i.e. €20 billion over the 2021-22 period. These measures, although included in the « France Relance » plan (France Recovery Plan), are permanent.

The reduction in production taxes is a combination of three separate measures:

- The reduction by half of the contribution on business value added of companies (CVAE): the effective rate of taxation on the value added whose level depends on the turnover excluding tax of companies is reduced by 50% since January 1st, 2021, which corresponds to the abolition of its regional part.
- Reduction of property taxes for industrial facilities: the interest rates applied to weight the rental value of industrial buildings for the purposes of the property tax on built-up properties

(TFPB) and the business premises contribution (CFE) are reduced by 50%. Previously set at 8% for soil and fields and 12% for constructions and installations, the interest rates applied to industrial facilities have been set at 4% and 6% respectively since January 1st 2021.

- Lowering the ceiling rate of the territorial economic contribution (CET): the CET had a ceiling amounting to 3% of the added value of companies before the Recovery Plan. Since January 1st 2021, this ceiling has been reduced to 2%, as leaving the ceiling unchanged would have limited the effect of the first two measures.

II. Evaluation objectives

The combination of the three production taxes reduction measures has several objectives:

- **Increasing the productivity of enterprises.** Production taxes can affect the production decisions of enterprises, which may produce with less taxed but less productive inputs, thus implying a misallocation of resources.
- **Supporting the industrial sector** through a targeted reduction in production taxes. Production taxes weigh more heavily on certain sectors and types of companies, particularly those active in capital-intensive sectors such as industry.
- **Improving the competitiveness of French companies.** The negative effect of production taxes on the competitiveness of companies has been widely documented in the academic literature. Some production taxes can be assimilated to a tax on exports and a subsidy to imports of intermediate goods.

The evaluation works could focus on the measure of reducing the CVAE by half for several reasons¹ :

- This is a more extensive measure, both in terms of the amount and in terms of the population concerned. As a matter of fact, the reduction of the contribution on the business value added concerns all companies with a turnover above 500,000€, while the revision of the rental values only concerns companies with at least one industrial facility (approximately 32,000 companies).
- In addition, from a methodological point of view, the processing of the property tax on built-up properties (TFPB) and the business premises contribution (CFE) data is complex.
- Finally, the 2023 Finance Bill abolished the CVAE completely.

Two research areas are distinguished (although in practice the two are obviously linked):

- **The economic impacts on the performance of companies, particularly industrial companies: employment, exports, investment, productivity, turnover, margin rate, fiscal earnings and the probability of survival.**
- **The induced effect on the competitiveness and attractiveness of the country.**

¹ But any proposal for an evaluation on a different field (the whole decline, or other aspects) will be considered.

1) The economic impacts of the reduction of production taxes on companies

The aim is to use econometric methods to measure the impact of the measures on the companies that benefit from them after having identified their characteristics. Several outcome variables can be considered: **employment² (in particular the different types of job contracts), exports³, investment⁴, productivity, turnover, margin rate and company behaviour (dividend distribution).**

An econometric approach using the panel structure of available data⁵ and instrumental variables could be considered to estimate the impact of the CVAE cut (more or less strong) on the trend of various indicators:

- Unlike a double-difference analysis, the very progressive scale of the CVAE (both on entry and on passing through the various levels of turnover) does not a priori allow a dual distinction to be made between the two groups (the threshold of liability to the CVAE at 500,000€ turnover is too low for a study at this threshold to be representative).
- A calculation of the intensity of the treatment (a standardisation of the amount of the reduction in the CVAE obtained following the measure, for example) might be envisaged. As the intensity of this reduction is necessarily connected to the level of turnover, the introduction of fixed effects could also be envisaged, making it possible to control all the other characteristics proper to the various companies (sector, location, size, value added, group affiliation and size of the latter, etc.) and for the various years included.

2) The impact of reducing production taxes on France's competitiveness and attractiveness

In a context of competition between fiscal systems, the reduction of production taxes is likely to orient investment decisions of french and foreign multinational companies more towards the national territory. France Stratégie has studied the factors determining the location choices of multinational companies in Europe, and estimated the impact of a reduction in production taxes on the probability of choosing France as a manufacturing site or headquarters⁶.

An analysis could be carried out to try to identify a causality link with the evolution of investment decisions by french and foreign companies in France as well as decisions to closure of production sites by french and foreign companies, in order to answer all or part of the following questions :

- Does the decrease in production costs imply a decrease in sales prices? What is the impact on the price competitiveness of national companies, and therefore on exports and imports?
- With the surge witnessed over the last few months in the price of raw materials and in view of the supply shortages observed in many sectors (automobile, electronics, etc.), can the reduction in the tax burden strengthen the localisation of productive activities in France and stimulate exports?

² Aus dem Moore N. et Kasten T. (2009), « Do wages rise when corporate tax rates fall? Difference-in-differences analyses of the German business tax reform 2000 », *Ruhr Economic Papers*, n° 532.

³ Békés G. et Harasztosi P. (2012), « [Tax credit, exports and regional disparity: microevidence from Hungary](#) », *EFIGE Working Paper*, n° 56, août.

⁴ Parsons M. (2008), « The Effect of Corporate Taxes on Canadian Investment: An Empirical Investigation », Finance Canada, *Working Paper*, n° 2008-01.

⁵ Fabrice G. et al. 2018, « Les effets du CICE : une évaluation EX POST », *Economie & prévision*, n°214 ; LIEPP – Sciences Po, (2018), « Évaluation interdisciplinaire des impacts du CICE en matière d'emplois et de salaires ».

⁶ Parsons M. (2008), « The Effect of Corporate Taxes on Canadian Investment: An Empirical Investigation », Finance Canada, *Working Paper*, n° 2008-01

- Can we distinguish an effect on incoming foreign direct investment flows? Can we distinguish an effect on the installation decisions of companies, particularly multinationals, in France? Can we identify an effect on the opening of new production sites in France and fewer closures compared to other relevant countries?

A structural econometric approach using available data⁷ could be considered to estimate the impact of the reduction in the CVAE on the localisation decisions of production and logistics sites in France. This model makes it possible to estimate the effects of a reduction in production taxes on the probability that a multinational will choose France to implement or develop a production site.

III. Data collected

- **Availability** of CVAE data at the start of year Y+2.
- Matching with tax returns is necessary (as they include companies under the 500,000 euro turnover threshold as well as profit indicators). The tax returns are available in advance in the middle of year Y+1 and in their definitive version at the beginning of year Y+2.
- FIBEN-Social reports (Banque de France), available until 2021, can be used to examine the impact on the financial health of companies benefiting from the measures.
- Location of production and logistics sites of multinational companies over the period 2018-2022, Business France database.
- Possible matching with the Fare 2020 database (Fare 2021 available in October 2023) but the latter only contains NFCs. A restriction of the scope could be envisaged in accordance with the impacts to study (in particular the indicators on dividends are only available in Fare).
- Matching with the DADS is necessary for an in-depth study on employment. Nominative Social Declaration - enterprises 2021 available.

IV. Schedule

- Launch of the call for projects : mid-February 2023.
- Selection of projects: minimum one month after the publication of the calls for research projects. Deadline March 21st 2023.
- Establishment of the notification of the files: end April 2023
- Start of work end April 2023.
- Intermediate results :
 - **By the end of August – beginning September 2023 we expect provisional but reliable and advanced results aiming at presenting the characteristics of the companies benefiting from the production tax reduction and estimating the impact on the performance of the companies in the short-term.**

⁷ Lachaux A. (2021 « Localisation de la production automobile : quels enseignements sur l’attractivité des pays et la compétitivité des entreprises ? », Document de travail, n° 2021-04, septembre.

- The final report including the fiscal year 2022 is expected in autumn 2024.

V. Selection process

This call for projects is organised in a one-stage process which consists of selecting the projects to be funded from the detailed proposals of the research teams.

The research teams' proposal **can be positioned on only one of the two strands.**

The proposed research projects will have to describe precisely the evaluation methods envisioned.

Particular attention will be paid to the methodological quality of the projects. In particular, the choice of databases as well as the matching methods envisioned must be precisely defined and justified. Access to certain databases requires a request to the Statistical Confidentiality Committee. The conditions and procedures for accessing the chosen databases must be explained in the project and the time required to prepare the file and obtain the agreement of the Statistical Confidentiality Committee must be taken into account by the submitting teams.