



## EconoMag

The Show that demystifies Economics

**VAT: The Queen of Taxes!**©

by Vincent Dennery and Abby Klein

Welcome to another edition of EconoMag on EnglishWaves.

This week we'll look at a tax you pay every day, often without even realizing it. You know its name well, or rather its acronym, but you probably know very little about the tax itself. It is... VAT, or value-added tax! As a product goes through the process of being designed, manufactured and sold its value increases, and it is this value that is taxed. The companies involved in the design chain, manufacturing and sales will all charge VAT, but this VAT is refunded to them so it's not a real cost. At the end of the chain the consumer buys the product and VAT is included in the price. So only the final consumer actually pays VAT. It is thus collected by the merchant who pays it to the state.

So how much do we pay exactly?

There are four VAT rates in France, different rates in Corsica, and yet others in the *Départements et Territoires d'Outre-mer*.

For the sake of simplicity we will focus on the rates in effect in metropolitan France. The standard rate is 20% and it applies to all products and services, however there are many exceptions!

The first exception is the preferential rate of 10%, which is applied to transport, the restaurant industry and museums. The second exception is the preferential rate of 5%, which applies mainly to necessities such as food, but also to books and shows. There are some subtle differences for food, for example if you buy oysters the rate is 5%... but if the fishmonger opens them the rate is 10%! The third exception is the lowest rate, which is called "super-reduced" and is 2.1%; it covers print media, most medications and the television license fee. Considering that the television fee is a tax, we are thus paying a tax on a tax...!

These different rates have sparked a lot of debate and sometimes controversy, for example the Mediapart case which is currently going through the courts. Mediapart has said since its creation in 2008 that it is unfair to tax digital media at 20% while print media is taxed at 2.1%. It decided to apply the super-reduced rate and now the tax office is demanding 3 million Euros in tax arrears, and imposing a 1 million-euro fine for

acting in bad faith! A fine which is that much more difficult for our colleague to accept as the law has recently accepted that the super-reduced rate of 2.1% be applied to the press, both print AND digital!

Another profession that lobbied for a lowering of VAT is the restaurant industry. In 2009 it obtained a preferential rate promising to raise employee wages, lower prices and create 40,000 jobs. Six years later the state has been losing 2.6 billion euros a year; while the last two promises have not been kept. Consequently, many politicians are now demanding a return to the standard VAT rate of 20%.

The latest debate is over so-called "social VAT." The idea is to reduce social security contributions on salaries – both for the employer and the employee - and to compensate for this loss of resources by increasing VAT rates. By reducing contributions French companies will be able to reduce their pre-VAT prices, and the price of the product or service to the end-user will remain stable even though VAT rises. On the other hand, the price of imported goods will increase as it will be subjected to an increased VAT rate. This ultimately gives French companies an advantage.

But, how much does VAT contribute to the French state as a whole? A huge amount! 150 billion euros a year, that is to say more than half of the country's tax revenues. In comparison the wealth tax, income tax and tax on petroleum products contribute *only* 5, 76 and 15 billion euros, respectively. By itself, French VAT funds education, research, universities, defense, and homeland security!

And in conclusion here's a riddle for you: when and where was VAT, the tax that brings in so much and which nowadays is used almost everywhere, created? It can only be in the country where taxes are among the highest in the world - in France of course, in 1954!

Stay tuned to EconoMag on EnglishWaves.