

## Richard McCreery's Business Blog

### Carbon tax dumped but are new taxes planned?



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Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding *RivieraLife.tv* team as Business Editor. Richard publishes a weekly Finance Blog every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur.

Mr Sarkozy this week failed to impose yet another tax on the average French household. The idea of the environmental tax was to impose a levy on energy use linked to the price of carbon, with the aim of cutting down carbon emissions and of course raising money for government spending in the process. However, the recent drubbing received by Mr Sarkozy's UMP party in the regional elections has encouraged them to change their mind.

The prime minister Mr Fillon said that "Paris would not penalise industry by imposing the tax unilaterally" but it is hardly industry that should be concerned. The original proposal for the carbon tax was ruled unconstitutional by the Conseil D'Etat last year because it exempted 1000 of the largest industrial producers in France so that 93% of industrial emissions would not be affected. It seems that this tax illustrates one of the economic and political themes of our times – the bigger you are, the less likely you are to be penalised. It would have been smaller industrial producers, road transport and households that would have borne the brunt of the tax which was expected to raise €3.5bn a year, according to the Financial Times.

The tax appears to be typical of the way that the French government likes to bring about change, ignoring for now the cynical assumption that this was simply another way to raise tax revenue. There is a strong focus on using taxes to discourage us from doing things that the government thinks we shouldn't be doing rather than providing incentives to do the right thing. Most people are keen to reduce the damage they do to the environment but when the largest carbon emitters are excluded from the scheme then the motivation behind it starts to look rather different.

Taxes increase the cost of living for everyone but in France it is the middle classes who appear to bear the brunt of the need to raise tax revenue for the State. The less wealthy are generally well looked after compared to other countries. France has a minimum wage, a great health service and a very comfortable benefit system for those that are out of work (currently 'enjoyed' by over 10% of the working population.) Changes to the tax system in recent years have also made France a more attractive destination for the wealthy. The Bouclier Fiscale legislation potentially limits the amount of tax that a person pays to 50% of their income, an arrangement that benefits those with very valuable assets, for example a retired person who owns more than one property. Between the wealthy and the not-so-wealthy sit the middle classes who it seems are destined to keep the state system afloat, in an economy where state spending accounts for over 50% of GDP activity.

The original proposal for the carbon tax would have added up to 4.5 cents to a litre of petrol and up to 7% to domestic gas bills. Last week I wrote about the rising cost of living on the Riviera and you can bet that this tax will be replaced by another money raising scheme at some point as the requirement to improve French state finances is extremely pressing. Greece is not the only country that is forced to adopt unpopular policies to sort out its financial problems and the strikes that we are seeing throughout France are also likely to increase in frequency in the near future. The failure to adopt the carbon tax might only be the start of much greater resistance to government attempts to increase state tax revenue.

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