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## **THE IMPACT OF TAXATION IN THE ONGOING HOUSING CRISIS IN FRANCE**

### Abstract

Housing policy affecting all facets of personal and collective life, from demography to sociology, from town planning to the economy, is a total social fact in the sense of MAUSS.

The reality of poor housing in France is now solidly documented. The literature has identified three main types of causes, some of a long-term demographic and economic nature such as the loosening of households or the concentration of jobs in large cities, others of a medium-term and legal nature such as the necessary decarbonization of housing which has recently removed thermal sieves from the market but also urban planning or even the freezing of rents in certain large cities. Added to these factors since the war in Ukraine in February 2022 is inflation which has increased the cost of construction and triggered the increase in ECB interest rates from 0 to 4% in 18 months, desolvating a large part buyers, mainly first-time buyers. There remains a cause that is too often neglected and yet crucial: the taxation of residential real estate investment.

As Institutional Investors are reluctant to invest in French Residential Real Estate due to its low profitability and legal constraints, the main source of investment is therefore among individuals. In rich countries there are six main types of wealth taxation at different stages of the economic cycle: on acquisition (and sale) via registration fees, on holding with property taxes and wealth tax, on income from assets, on transfers with inheritance and gift taxes, and finally capital gains. In France, the main residence still remains a tax oasis in the absence of tax on the rent that the owner pays to himself and tax on capital gains on sale. But regarding rental investment the situation is quite different. Three of the taxes on real estate being progressive (the marginal tax rate on property income is 62%, the IFI of 1.5% and inheritance taxes at 45% in direct line and 60% without direct link), the rental yield after taxes is sometimes negative and confiscatory. It is not surprising that Real Estate Taxation in France is the

highest in the EU at 4.9% of GDP compared to 2.6% on average and 1.1% in Germany.

However, the trend since 2018 has been towards a tightening of tax measures: the repeal of the housing tax requires local authorities to increase property tax which weighs on landlords, the revision of rental bases frozen since 1970 has begun and tax measures to incentives for rental investment will expire at the end of 2024. As a result, the gap between the cost of housing assistance of 38 billion € and tax revenues of 90 billion € will increase, further reducing the interest in investment for individuals and worsening poor housing in the coming years.

**Keywords: poor housing, public policy, wealth tax – Tax reform – property tax – wealth tax**