

BUSINESS NEWS

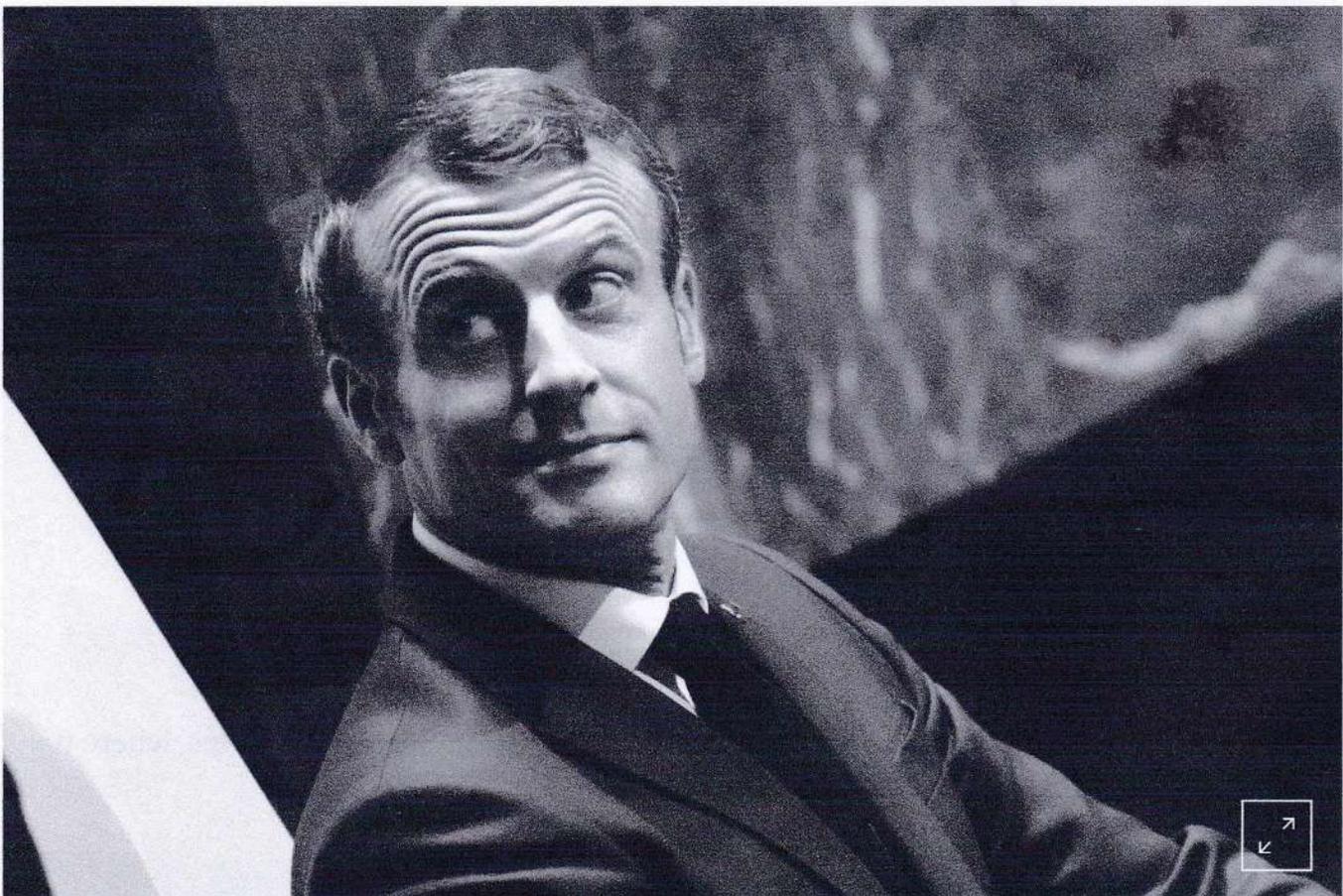
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France's Macron to offer new tax cuts in 2020 budget

Leigh Thomas



PARIS (Reuters) - President Emmanuel Macron's government will offer French taxpayers new tax cuts on Friday in its 2020 budget, as he seeks to quell any future unrest that could derail his economic reforms.



FILE PHOTO: French President Emmanuel Macron sits before addressing the 74th session of the United Nations General Assembly at U.N. headquarters in New York City, New York, U.S., September 24, 2019. REUTERS/Carlo Allegri

The budget will contain more than 10 billion euros (\$11 billion) of new tax cuts, benefiting households in particular, Prime Minister Edouard Philippe said on Tuesday.

“This is an unprecedented tax cut. It’s a fact that tax cuts have been stepped up in response to the yellow vests,” budget minister Gerald Darmanin said on France Inter radio Wednesday.

The yellow-vest protest movement forced Macron to refocus on cutting taxes for households after he eased the tax burden on businesses and investors in his first two years in office.

With many low-income families struggling to make ends meet, Macron faced a backlash at the end of last year against his pro-business push. That boiled over into some of the worst street violence in decades, led by protesters clad in high-visibility vests.

In response, Macron gave a first jolt of emergency tax relief this year to poor workers and households worth more than 10 billion euros, and is following up with a second wave next year.

The 2020 package, to be presented to journalists late Thursday and to parliament on Friday, is made up primarily of 5 billion euros in income tax cuts that Macron already flagged in April.

The rest will come in a further cut in taxes people pay on their primary residence - worth 3.7 billion euros - and the extension of a tax exemption on overtime pay, the budget minister said.

LOW INTEREST RATES

To pay for the tax relief, Macron’s government is counting on financial markets, where it has been borrowing at negative interest rates in recent months.

The finance ministry expects savings on lower-than-expected interest rates of about 3 billion euros this year and 8 billion euros next year, ministry sources said earlier this month.

Before the yellow vest protests, Macron’s government intended to cut France’s considerable public spending - the highest among rich countries, said Francois Ecalte, who

heads the Fipeco public finance think tank.

“But all that has gone up in smoke. Even if the desire (to cut spending) is still there, now there is a real fear of sparking new, hard-to-control protests,” he added.

The government also intends to eliminate some tax breaks, loopholes and exemptions to help pay for the broader tax cuts, although it's finding that easier said than done.

It was forced to abandon plans this week to reduce a tax break for at-home assistance for senior citizens after a press leak triggered a political backlash.

The government is also counting on extra revenues from a tax collection reform which the budget minister said was expected to yield 2 billion euros this year, 1 billion more than forecast.

Despite the extra strain from the tax cuts, the government expects its public-sector budget deficit to fall next year to 2.2% of gross domestic product, which would be the lowest since 2001.

The tax cuts look increasingly well-timed as the global economy slows and neighboring Germany dithers over whether to ease its fiscal burden while its economy teeters on the brink of recession. Boosted by the cuts and less dependent on exports, France's economy is for now holding up better than Germany's.

The French budget is based on forecasts for growth this year of 1.4%, slowing only marginally next year to 1.3%, finance ministry sources said earlier this month.

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