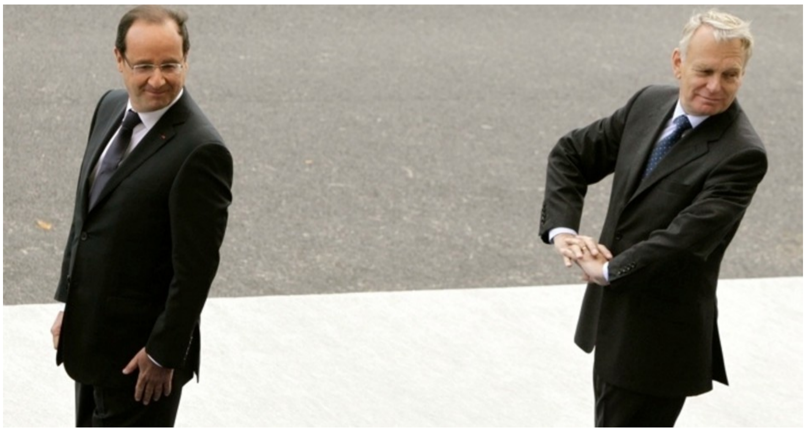
Written by **Bruce Walker** on July 17, 2012

High Income Frenchmen Look to Flee Higher Taxes



The new president of France, Francois Hollande, whose socialist political philosophy was bolstered in French National Assembly elections, which provided a huge increase in Socialist Party members and a clear majority for the radical left in France, has proposed a standard socialist way of attacking his nation's economic problems: increase taxes on the wealthiest Frenchmen.

The French president's proposal would raise taxes on all Frenchmen by a total of €7.8 billion and one third of that he plans to obtain by increasing the tax by 75 percent on citizens making more than one million euros a year. The other 4 billion or so euros would come from tax increases on other Frenchmen. This is intended to keep France on course to reduce its deficit, which an independent audit recently revealed was significantly larger than previously thought, without reducing government spending.

These taxes are aimed not so much at rich Frenchmen as at those with high incomes. When nations levy increasing confiscatory taxes on high income citizens, the result for many decades has been the same: flight to nations that have relatively lower taxes on high income citizens. The consequence is often the exact reverse of what socialists intended. The high income earners, who are often the most productive citizens, take their skills across the border and the income base of the nation that tries to "soak the rich" shrinks.

Nations such as Monaco and Switzerland have become some of the richest and most pleasant places to live in the world because of low tax policies. The effects on nations that welcome high income people can be dramatic. In Monaco, for example, the life expectancy for women is 94 years, far higher than in France, which largely surrounds the tiny nation.

The same is true of Switzerland, which is a confederation and not a federation, so that its cantons have great autonomy in setting tax rates. A study by Fabrizio Gilardi suggests that these cantons even compete against each other in having the lowest tax rates on higher income people. Gilles Martin, a tax consultant in Switzerland, observed, "Since the socialists came to power in France, I have been deluged with inquiries from rich French people who would rather pay their tax in Switzerland."

Alexander Kraft of Sotheby's Realty noted, "The result of the presidential election has had a real impact on our sales. Now a large number of wealthy French families are leaving the country as a direct result of the proposals of the new government. These properties are then bought up by foreign investors looking for a stable real estate market like France to invest in. It shows the high-end property market is holding up very well, even in these difficult times." Inquiries by wealthy Frenchmen have jumped by more 30 percent in the first part of this year, largely reflecting the fear of higher taxes by a socialist government.

Liam Bailey, Knight Frank's global head of residential research in Britain, generally concurred with the trend Kraft sees:

> It is too early to see the impact of the proposed wealth taxes in France in terms of actual purchases in London. But there is strong evidence from our web search statistics. This evidence from web search activity backs up a noticeable spike in anecdotal comments from our office network, where French applicants have become much more.

British Prime Minister David Cameron said that he would welcome Frenchmen who would prefer to live and pay taxes in Britain. At the B20 summit in Mexico last month, he elaborated: "I think it's wrong to have a completely uncompetitive top rate of tax. If the French go ahead with a 75 per cent top rate of tax we will roll out the red carpet and welcome more French businesses to Britain and they can pay tax in Britain and pay for our health service and schools and everything else."

What is happening in Europe is reminiscent of the flight of high income Americans out of Massachusetts (nicknamed "Taxachusetts") to New Hampshire in the past few decades. Wisconsin Governor Scott Walker also welcomed to his state businesses in Illinois that felt that the state tax burden was too great to make them competitive. This has been reflected nationally in the last seven decennial censuses, which have shown a movement of Americans out of states with high tax rates such as New York and New Jersey and toward states with low tax rates such as Texas and North Carolina.

A recent study by *Forbes* magazine suggests that Americans with high incomes are moving increasingly to states with low income tax rates or no income tax (such as Texas) and that even within states Americans are fleeing cities, such as New York, with municipal income taxes, to regions that do not have those taxes. High income earners, even when they are paying lower at lower tax rates than they had been in the state they left, help any state that they choose to live in. Sales taxes, property taxes, and other tax revenues increase. High income citizens also do not need the "social safety net" of welfare programs. They are "low maintenance" citizens. These new citizens also help keep property values high, which helps middle class home-owning state residents preserve the value of their investment.

This has led Republican governors to find ways of reducing existing tax rates to make their states more attractive to high income citizens. Maine, for example, under Governor LaPage, has worked to lower the income tax rate and eliminate state taxes on pensions, which would provide another New England state where Massachusetts residents could relocate to avoid paying that state's high taxes. Ohio has actually repealed its estate tax, prompting Dick Patten of the American Family Business Institute to observe: "By repealing this suffocating tax, Governor Kasich and the Ohio Legislature have made their state stronger and made it the model for the remaining 21 other states including Ohio's neighbors Indiana, Kentucky and Pennsylvania." Even residents of sunny California, long a magnet for people seeking a pleasant year-round climate, have been leaving the state for tax-friendly places such as Nevada and Arizona.

These lessons seems lost on President Hollande of France. His approach to government deficits is to tax the rich more, and this will almost certainly drive the most productive Frenchmen to the United Kingdom, Ireland, Switzerland, Monaco, and other nearby nations with lower taxes. The shrinking tax base will mean higher deficits or even higher taxes on the Frenchmen who remain. This will make the French economy weaker and the prospects for an implosion of the beleaguered European Economic Community even more sure.

Photo: French President Francois Hollande, left, and French Prime Minister Jean Marc Ayrault right, take a break during the Bastille Day military parade on the Champs Elysees in Paris, July 14, 2012: AP Images