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GOVERNMENT

Will France's proposed tax harm luxury economy further?

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Cartier is one of France's best-known jewelers. Image credit: Cartier

By JEN KING

French President Emmanuel Macron has proposed a tax on hard luxury goods for the upcoming budgetary year.

President Macron and lawmakers from his political party will propose an amendment to France's 2018 budget that would apply a tax to the purchase of yachts, supercars and precious metals such as gold. Left-wing opponents of President Macron have accused him of being a "president of the rich," but this recent tax proposal begs to differ as the wealthy would have to pay higher prices for hard luxury goods.

"Where the impact of a tax is felt is based on the elasticity of demand," said Marie Driscoll, a consultant at Driscoll Advisors, NY.

"If demand is constant regardless of tax, the luxury shopper will pay the bulk of the tax," she said. "If demand decreases with the higher price due to the added tax, the luxury goods manufacturer will either sell fewer or take on the tax burden and thereby reduce profitability.

"Generally, a tax will reduce demand and profits concurrently. Luxury items, as with luxury shoppers, have their differences. Some yachts are simply non-negotiable and simply a must-have, and therefore, a tax won't impair demand."

Taxing

On the campaign trail, President Macron promised to do away with France's wealth tax. Introduced in the 1980s by socialists, the wealth tax was applied to individuals with assets of more than 1.3 million euros, or $1.5 million at current exchange rates.

When elected, President Macron did abolished the wealth tax. Though seen as a symbol of social justice for those on the left, the wealth tax was perceived by many as the reason why wealthy French citizens opted to move abroad, thus escaping the tax.

Over the course of 15 years, 10,000 individuals worth $41 billion left France due to the wealth tax.

France's wealth tax was then supposed to be replaced with a real estate tax, but high-end goods such as automobiles and fine-jewelry were not supposed to be included.

"Their impact should be limited in terms of price for people who can afford to purchase ultra-luxury cars or yachts," said Didier Chev, analyst at Euromonitor France.

"However, the impact in terms of communication will be negative, at a time France needed to restore confidence in its local luxury market after the bad year 2016," he said. "For instance, it should discourage local potential buyers to acquire a yacht.

"Even if they buy a yacht in another country or via a foreign intermediary, French potential buyers will have to pay the extra tax."

France counts a number of high-end jewelry maisons that would be directly impacted by the tax on its goods, including Richemont's Cartier and LVMH's Chaumet, as would international brands that have a retail presence.

The Gaits Parisiennes video takes us all the way to our iconic and historical address, 12 Place Vendme in Paris... (link in bio) #Chaumet #GaitsParisiennes #ChaumetVideos

A post shared by Chaumet (@chaumetofficial) on Aug 23, 2017 at 5:35am PDT

According to Euromonitor's research, France's luxury goods value is forecasted to have a CAGR of 1.9 percent between 2016 and 2021, with expected period growth of 9.9 percent. Luxury jewelry in France, in the same five-year period, is likely to see a 0.5 percent CAGR and 2.6 percent forecast period growth.

The additional cost could result in consumers not wanting to purchase fine jewelry while in France, thus harming the French economy and deterring tourists from spending while abroad in cities such as Paris.

The auto industry in France will also be impacted by the luxury tax. Per Euromonitor, the luxury automotive category, which includes models by BMW, Lexus and others, is expected to increase its volume from 1,880 cars in 2016 to 1,950 by 2021.

Buggati supercars are manufactured in France. Image credit: Bugatti

While not as widely owned as fine-jewelry and supercars, the yachting industry in Southern France will likely feel the impact of the tax, as less new yachts are commissioned by wealthy holidaymakers.

"We live in a truly global world," Driscoll Advisors' Ms. Driscoll said. "Luxury shoppers have easy access to pricing of like product anywhere there is WiFi.

A global market for luxury goods will tend to equalize prices and it is likely that the luxury producers will bear the tax burden as consumers have many options," she said.

The 2018 budget bill is expected to be reviewed by the French parliament's finance commission this week.

Struggles continue
Aside from proposed luxury goods tax, the French luxury economy been struggling in the aftermath of the Nov. 13, 2015 terrorist attacks in Paris.

A survey by Travel Leaders Group released in the month following the terror attacks found that for the first time since 2011, Paris was not among the top 10 international destinations (see story).

Tourism is central to Paris' economy, accounting for 500,000 of its jobs. The city, which has been the top destination globally, makes about 13 percent of its GDP from tourism.

Paris is also a prime destination for shopping tourism, as consumers from emerging markets such as China, Brazil and Russia travel to buy luxury goods. This unease may see these tourists choosing other major luxury markets to carry out their shopping (see story).

Per Euromonitor, luxury goods only saw 1 percent of value growth in 2016 compared with a CAGR of 2 percent over the review period.

"Although the affluent are most able to absorb price increases, they are often the most resistant," said Chris Ramey, president of Affluent Insights, Miami. "They're also the most able to leave France.

"Exorbitant taxes always discourages or deflects acquisition of objects," he said. "The wealthy will simply go elsewhere to acquire, and France will lose again.

"There is a tipping point where taxes do more harm than good. France, in particular, has been very aggressive in blindly pushing their most affluent citizens out of the country."