MINISTÈRE
DE L'ÉCONOMIE,
DES FINANCES
ET DE LA SOUVERAINETÉ
INDUSTRIELLE ET NUMÉRIQUE
Liberté
Égalité
Fraternité

Trésor-Economics

No. 371 • September 2025

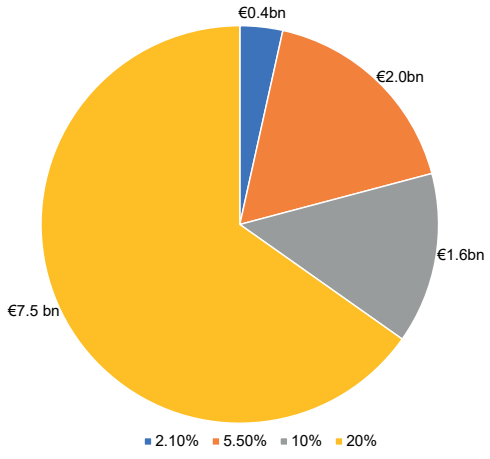
Direction générale du Trésor

Examining the Composition of VAT Revenues in France

*Maxime Gesta**

- Value-added tax (VAT) was introduced for the first time in 1954 by France and accounted for 17% of aggregate taxes and social security contributions in 2022. About half of VAT revenues accrues to the central government, while the other half is allocated to local authorities and to the social security system.
- The costing model for theoretical VAT is a tool that combines tax and national accounts data to examine the composition of VAT revenues. Its purpose is to reconstitute consumption bases subject to VAT, i.e. to break down expenditure generating VAT revenues by type of product, by rate, by use and by type of consumer. The model makes it possible, for example, to determine how much of a specific product households consume (such as beverages) and to find out the breakdown between non-alcoholic beverages, which are subject to the reduced rate of VAT (5.5%), and alcoholic beverages, which are subject to the standard rate (20%).
- The model can estimate the fiscal impact of VAT reform by product and the cost of existing tax expenditures, excluding knock-on effects on consumer behaviour. For instance, the net revenue gain from a 1-percentage-point change in VAT rates is estimated to be €11.4bn in 2025.
- VAT is a revenue raising instrument with a limited redistributive impact. The VAT burden weighs most heavily on high-income households, although it represents a slightly larger share of the income of low-earning households. Certain reduced rates affect high-income households more positively.

Revenue gain from a 1-percentage-point increase in VAT rates in 2025



Source: DG Trésor.

* This issue of Trésor-Economics was prepared in collaboration with Chloé Mas and Jean-François Tesson from the DG Trésor's Bureau Polsoc 3.

1. The economic tax base of VAT is broad, with VAT revenues divided between the central government, local authorities and the social security system

In 1954 France was the first country in the world to implement a value-added tax (VAT). VAT is different from other aggregate taxes and social security contributions regarding its payment method – known as split payments – and in that it is deductible on business expenses. It is collected on every transaction along the value chain and then subsequently deducted in the next stage, making it in theory a tax on final consumption. Specifically, when transactions are subject to VAT, sellers charge VAT to buyers: this is gross output VAT (*TVA super-brute*); then, businesses remit to the government output VAT on their sales (with some exceptions), after deducting the cost of VAT levied on their expenses (input VAT), resulting in the output VAT payable to the government. However, certain VAT costs cannot be deducted directly from the VAT collected by businesses. This is the case for passenger transport expenses: VAT on passenger transport, regardless of the means of transport used (road, railway, air, waterway), cannot be deducted. The government issues a VAT refund to businesses whose input VAT is greater than the output VAT they charged.[1]

In 2022, gross output VAT totalled around €940bn, whereas output VAT stood at €273.4bn and refunds and relief amounted to €70.7bn. Net VAT revenues were thus €202.7bn under budgetary accounting across the general government sector. This makes VAT the most significant tax in France, accounting for 17% of aggregate taxes and social security contributions in 2022.

When VAT was first introduced, the resulting revenues accrued exclusively to the central government. Today, social security funds and local governments receive a portion of them through transfers that were created to offset the elimination of other tax revenue streams. Accordingly, 28% of VAT revenues were transferred to social security funds in 2022 and 20% to local governments. Starting in 2021, there was a sharp rise in the VAT revenues transferred to local governments in order to offset the scrapping of the residence tax on main residences and the lowering of taxes on production under France's Recovery Plan.[2]

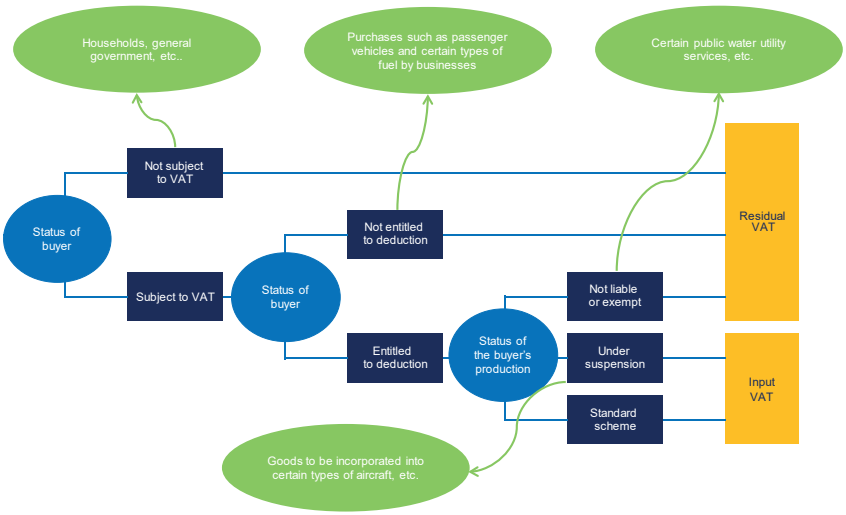
2. Theoretical VAT model: a tool that harnesses national accounts data to reconstitute consumption bases subject to VAT

Legislation (particularly the French General Tax Code) sets out the VAT rates applicable to transactions, enabling us to establish the gross output VAT collected within the economy based on consumption bases broken down by product. The status of (i) the buyer of a good, (ii) the good itself and even (iii) the seller of the good has varying consequences on the deductibility of input VAT by businesses, ultimately affecting net VAT. In practice, certain businesses and, especially, sectors are partially subject to VAT, in which case they can only deduct the VAT paid on their inputs for the share that is taxable under VAT rules. For instance, only a small portion of general government activities is subject to VAT, allowing government authorities to reclaim a (small) share of the VAT paid on inputs. This is also the case for the financial sector for example, with safe deposit box rentals being taxed at the standard rate. Given that tax data cannot provide sufficiently granular information to produce a breakdown of net VAT revenues, a statistical model was developed based on the national accounts.

(1) As a general rule, budget documents group together tax "refunds and relief", i.e. relief is aggregated with the aforementioned refunds and may come in the form of full or partial equitable tax relief or, in the event of surplus payment, automatic tax cancellation.

(2) The business premises contribution and the property tax on developed land have been reduced by 50% for industrial establishments. The same reduction also applies to the contribution on business value added, which formerly accrued to regions, départements and government-funded intermunicipal cooperation institutions.

Chart 1: Principles governing the deductibility of VAT

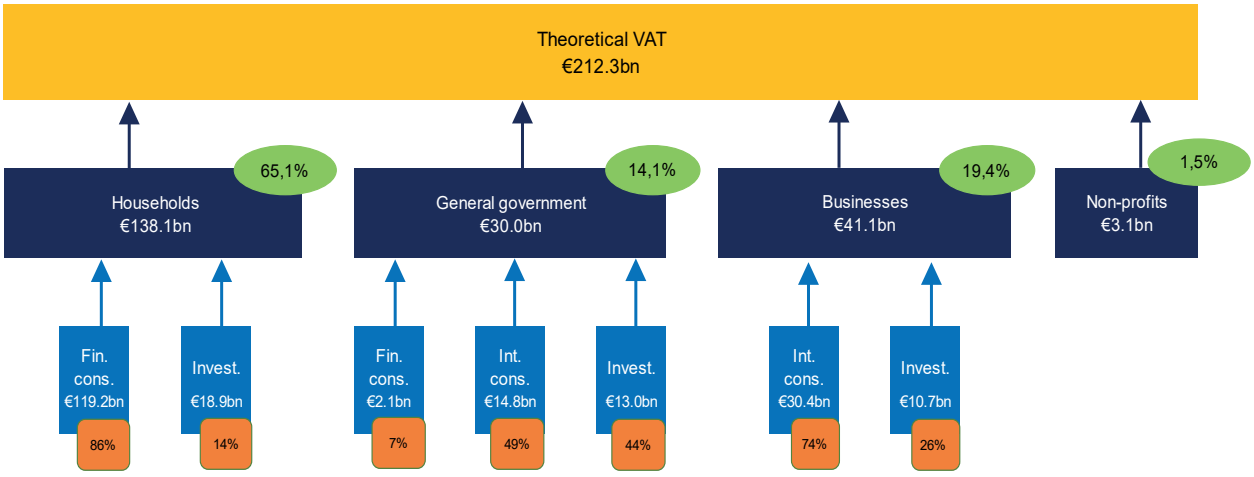


Source: J.-A. Andrivon et al. (2016), "Le modèle d'estimation de la TVA théorique", DG Trésor Working Paper, no. 2016/02 (in French only).

Tax data contains a breakdown by rate only for output VAT, not for the VAT that businesses can deduct. This data cannot be used to conduct a granular analysis of the breakdown of VAT by base or by product, leaving us unable to get a picture of the fiscal ramifications of any potential reform of the rates applicable to certain products, for instance. Based on national accounts data (from the most recent semi-final accounts prepared by France's National Institute of Statistics and Economic Studies – Insee) and on a granular analysis of legislation in order to take into account the particular rules governing deductions, the purpose of the VAT model is to establish, on a per-product and aggregate basis, a breakdown of the net VAT payable – also referred to as residual VAT (see Chart 1) – by use, by economic agent and by rate (see Chart 2).

The theoretical VAT model therefore allows us to look at specific products. For example, it can measure the short-term impact on VAT revenues of a change in petroleum product prices. The model is also used to measure revenue loss related to a reduced VAT rate,[3] such as the cost for the government of the reduced VAT rate for on-site food and drink sales excluding alcoholic beverages in the food service sector.

Chart 2: Breakdown of residual VAT by rate and by use



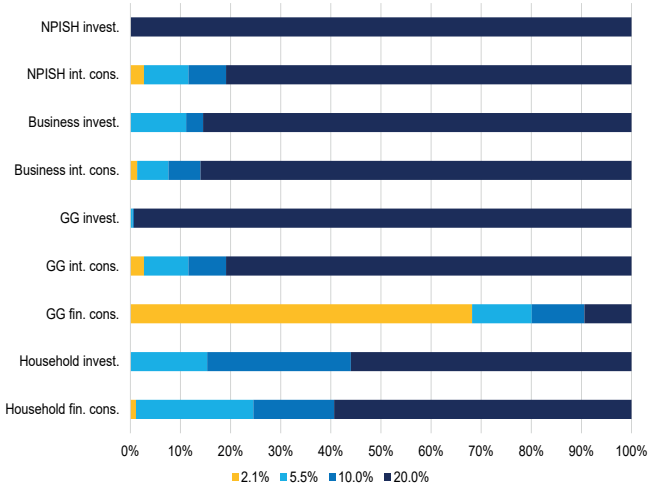
Source: DG Trésor.

How to read this Chart: (i) "Invest." refers to investment; (ii) "cons." refers to consumption; (iii) "Int." refers to intermediate; (iv) "Fin." refers to final.

(3) Such as in the context of annual costings of certain tax expenditures when preparing the Ways and Means Assessment, vol. 2, appended to the Budget Bill.

The results presented in this paper were produced using the latest available version of the model, i.e. theoretical VAT calculated based on the 2022 semi-final accounts in keeping with the legislation in force that year, and update those published in the 2016 Working Paper.[4] In 2022, 65.1% of net VAT revenues were collected from households, 14.1% from the general government sector, 19.4% from businesses and 1.5% from non-profits (see Chart 2). These results highlight major differences in the consumption patterns of economic agents. They show that the general government sector benefits the most, proportionally speaking, from reduced VAT rates owing to the reimbursements received by households for medicines, as they are recognised as consumption by general government. When excluding general government, households are proportionally the greatest beneficiaries of reduced VAT rates, as over 40% of their total consumer purchases are not subject to the standard VAT rate (see Chart 3).

Chart 3: Breakdown of residual VAT by rate and by use



Source: DG Trésor, VAT model based on Insee's 2022 semi-final accounts.

How to read this Chart: (i) "invest." refers to investment; (ii) "cons." refers to consumption; (iii) "int." refers to intermediate; (iv) "fin." refers to final; (v) "NPISH" refers to non-profit institutions serving households; (vi) "GG" refers to general government.

3. A 1-percentage-point increase in VAT rates results in a net static revenue gain of €11.4bn

The VAT model can be used to estimate the revenue gain from a 1-percentage-point increase in all VAT rates applicable to goods and services ("*point TVA*"). This is static costing, i.e. an estimate based on the assumption that consumer behaviour will not change after such a tax increase is implemented.

The total gross revenue gain from a 1-percentage-point increase in VAT rates is estimated to be €13.7bn in 2025.[5] Table 1 breaks down this revenue gain by rate:

Given that a portion of VAT revenues is remitted by the general government sector, the gross revenue gain from a 1-percentage-point increase in VAT rates raises public expenditure due to these higher VAT rates. Accordingly, the costing has to be adjusted for the share of VAT paid by the general government sector. This adjustment results in a net revenue gain of €11.4bn from a 1-percentage-point increase in VAT rates (see Table 2).

Table 1: Total gross revenue gain from a 1-percentage-point increase in VAT rates, by rate, in 2025

VAT rate	Combined	2.1%	5.5%	10%	20%
2025 gross revenue gain (€bn)	13.7	0.4	2.4	1.9	8.9

Source: DG Trésor, VAT model based on Insee's 2022 semi-final accounts.

Table 2: Total net revenue gain from a 1-percentage-point increase in VAT rates, by rate, in 2025

VAT rate	Combined	2.1%	5.5%	10%	20%
2025 net revenue gain (€bn)	11.4	0.4	1.6	1.9	7.5

Source: DG Trésor, VAT model based on Insee's 2022 semi-final accounts.

(4) J.-A. Andrivon et al. (2016), "Le modèle d'estimation de la TVA théorique", *DG Trésor Working Paper*, no. 2016/02 (in French only).
(5) The total gross revenue gain from a 1-percentage-point increase in VAT rates provided by the 2022 VAT model has been extrapolated with the change in total VAT revenues in national accounting, as reported in the 2023 and 2024 outturn data and in forecasts for 2025 from the annual progress report (rapport d'avancement annuel – RAA).

4. Overview of the redistributive effects of an increase in VAT rates

As the French Council of Mandatory Contributions (*Conseil des prélèvements obligatoires*) highlighted in its 2023 report on VAT,[6] VAT is first and foremost a revenue raising instrument, the primary goal of which is to finance public services. To a lesser degree, it provides financing to social security bodies. It is not redistributive like personal income tax.

By limiting the costing scope to household consumption, it is nevertheless possible to measure the redistributive effects of changes in one or more VAT rates. In theory, if supply is much more price elastic than demand, then the pass-on rate, i.e. the share of the tax that consumers ultimately pay, approaches 100% and consumers are actually paying the full amount of the tax. However, if demand is more price sensitive than supply, then producers will absorb more of the change in tax burden through reduced profit margins. Ultimately, the impact of a change in VAT rates depends on the specificities of each market (demand-side characteristics, competitive environment, etc.), as well as, in the short run, whether rates have gone up or down.[7]

The redistributive effects of a change in VAT rates can be examined by making the simplified assumption that the change will be fully priced into consumer goods and therefore borne by households. The cost of this increase is distributed based on households' living standards, with the share of each VAT rate shown, using data from Insee's Household Budget Survey (see Chart 4). On an aggregate basis, the fiscal yield of a uniform increase in VAT rates would primarily be carried by high-income households: 12% of the yield would be carried by the first quintile of the household distribution compared to 31% by the fifth quintile with the highest income level. Relative to available income, the effect on households would be greater for those spending a larger share of their income on consumption (meaning their savings rate is low). Accordingly, a uniform 1-percentage-point increase in VAT rates would have a more pronounced relative effect on low-income households than on high-income households, which have a higher savings rate: households in the first living standard quintile would see the purchasing power of their available income fall by 0.7% on average, compared to 0.4% for households in the last quintile (0.5% decline for all households combined).[8]

This more pronounced effect at the low end of the distribution would, however, be seriously mitigated by adjusting minimum social benefits and the minimum wage for inflation, but such adjustments have not been factored into our analysis.[9] Furthermore, a report from Insee claims that VAT is half as regressive over a consumer's lifetime than over a cross-section of time, such as a year.[10] Lastly, given households' consumption patterns, an increase in the intermediate VAT rate would have a more uniform effect across the living standard distribution, whereas an increase in the standard, reduced or super-reduced rate of VAT would have a more pronounced effect on low-income households.[11]

(6) *Conseil des prélèvements obligatoires* (2023), "La TVA, une taxe à recentrer sur son objectif de rendement pour les finances publiques" (in French only).

(7) C. Geay (2015), "La taxe sur la valeur ajoutée l'incidence économique de la TVA", *Rapport particulier*, no. 3, *Conseil des prélèvements obligatoires* (in French only); Q. Lafféter and P. Sillard (2014), "L'addition est-elle moins salée ? La réponse des prix à la baisse de TVA dans la restauration en France", *Insee Working Paper*, no. F1404 (in French only); C. Carbonnier (2008), "Différence des ajustements de prix à des hausses ou baisses des taux de TVA : un examen empirique à partir des réformes françaises de 1995 et 2000", *Insee Economics and Statistics,* no. 413 (in French only).

(8) Intuitively, a 1-percentage-point increase in VAT rates would result in a similar drop in purchasing power. In reality, elasticity is lower due to VAT being applicable to prices net of tax (i.e. already excluding VAT) and the fact that just over one-third of household consumption is not subject to VAT.

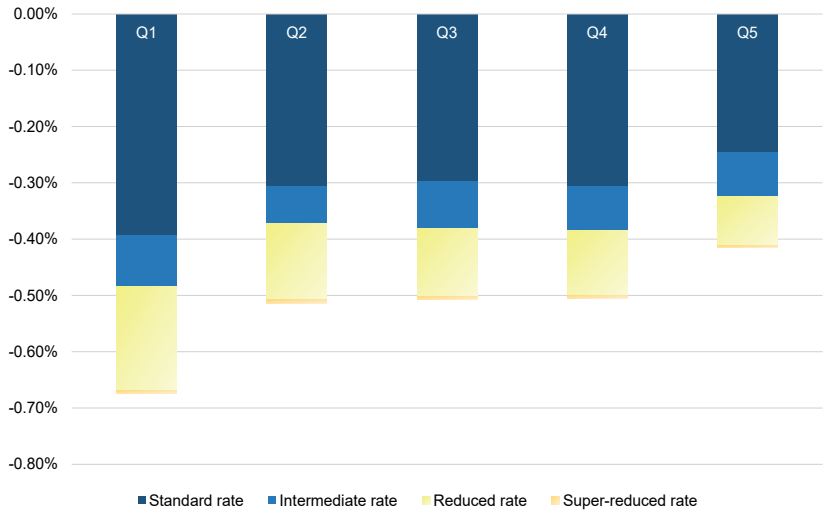
(9) M. André and A. L. Biotteau (2019), "À moyen terme, une hausse de la TVA augmente légèrement les inégalités de niveau de vie et la pauvreté", *Insee Analyses*, no. 43 (in French only).

(10) S. Georges-Kot (2015), "Annual and lifetime incidence of the value-added tax", *Insee Document de travail*, no. G2015/12.

(11) The French Council of Mandatory Contributions shares the view that, in contrast to the intermediate rate, the reduced rate is applicable to consumption items which are overrepresented in low-income households' spending (see C. Grégoire and P.-A. Veillon (2022), "La taxe sur la valeur ajoutée (TVA) face aux défis socioéconomiques", *Rapport particulier,* no. 5, *Conseil des prélèvements obligatoires*) (in French only).

The anti-redistributive effects of a uniform increase in VAT rates should be interpreted with caution. The self-reporting nature of the Household Budget Survey, which gathers information about households' spending behaviour, and the limited time span of the data collected (one reference week), can skew the survey results in certain ways, the accumulative impact of which is unknown (overreporting of spending by low-income households related to occupying a social category associated with high consumer spending, personal spending data collected over a week that is not representative of their spending over a longer period),[12] that modify the distribution of the effect of an increase in VAT rates. Moreover, the relative effect of an increase in VAT rates depends on the share of income consumed. However, the situations reported in the Household Budget Survey data where households are spending above their income – this is more often true of low-income households – are not permanent. Lastly, calculating the burden of a hypothetical increase in VAT for each group in the living standard distribution does not take account of the possible changes in consumer behaviour that can arise from amending legislation.

Chart 4: Static effect of a uniform 1-percentage-point increase in VAT rates on purchasing power based on households' living standards



Source: Insee, 2017 Household Budget Survey, 2022 Tax and Social Income Survey, 2021 and 2022 National Accounts, DG Trésor calculations.

How to read this Chart: A 1-percentage-point increase in VAT rates would decrease purchasing power by 0.7% on average for the first quintile of households with the lowest living standards (Q1).

(12) The increase in VAT rates is distributed based on the consumption of various goods (differentiated by the applicable VAT rate) measured in the 2017 Household Budget Survey, adjusted in line with data on household consumption by item in national accounting.

Publisher:

Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique

Direction générale du Trésor 139, rue de Bercy 75575 Paris CEDEX 12

Publication manager:

Dorothée Rouzet

tresor-eco@dgtresor.gouv.fr

English translation:

Centre de traduction des ministères économique et financier

Layout:

Mimose Mellia

ISSN 1962-400X

eISSN 2417-9698

Recent Issues in English

September 2025

No. 370 World Economic Outlook in Autumn 2025: Global Economy Hampered by an Adverse Trade Environment

French Treasury (DG Trésor) International Forecasting Team

August 2025

No. 369 The Attention Economy in the Digital Age

Solal Chardon-Boucaud

https://www.tresor.economie.gouv.fr/Articles/tags/Tresor-Eco

Direction générale du Trésor

@DGTresor

To subscribe to *Trésor-Economics:* bit.ly/Trésor-Economics

This study was prepared under the authority of the French Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry of Economy, Finance and Industrial and Digital Sovereignty