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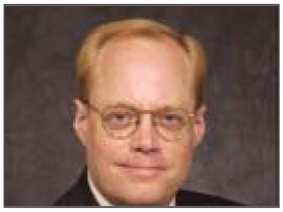

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Best French Exports: Bread, Brie, Fashion and Taxes

Atlas Shrugged (Photo credit: Rodrigo Paoletti)

The French are civilized except perhaps when they burn cars in protest. And civilization, after all, costs money. That's why it should come as no surprise that the French, as good Socialists, are going very, very sophisticated indeed with their much touted 75% tax rate. See France Budget: Taxes Favoured Over Spending Cuts. Businesses are hit too, with new limits on deducting financial charges. See French Budget Hits Rich and Businesses With Tax Boost.

Americans like to imitate the French even if we purport to hate them. And surely that means we too will be upping our rates. But what about collections? As this author noted, Why France's 75% Income Tax Rate Is Going To Be So Disastrous, the U.K. recently increased its tax rates, topping up tax rates from 40% to 50%. Did collections rise?

Evidently not, says Tim Worstall, because those who have the wherewithal simply leave the country if they believe they're being taxed too heavily. Look at Britain. In the 1960s it had a "super tax," causing rock stars to expatriate. It is also said to have inspired George Harrison's song "Taxman."

Britain repealed its super tax in 1973. But Britons faced progressivity more extreme than their American cousins. Amazingly, twice in post-war years, U.K. income tax rates were above 100%. How is this possible?

- For 1947-48 a special contribution was payable when a person's total income exceeded £2,000. For investment income over £5,000 it was 50%. So with income tax at 45% and surtax at 52.5%, the effective rate was 147.5%.
- In 1967-68, the special charge was imposed. For investment income over £8,000, the rate was 45% which—with income tax at 41.25% and surtax at 50%—meant a total rate of 136.25%.

For now, France's richest man is Bernard Arnault, CEO of LMVH. But not for long. When he took note of President François Hollande's 75% tax to earnings over one million Euros, Mr. Arnault applied for Belgian nationality. The publication called Libération condemned his turncoat action, but an exit tax would be a more tangible consequence.

The act of expatriating from the U.S. can trigger a U.S. exit tax on one's worldwide property. Like a deemed sale, it is computed at fair market value the day before you leave. But the tax can be reduced or avoided in many cases. See Ten Facts About Tax Expatriation. A tax motivation for expatriation used to trigger even tougher rules, but no longer. See Celebrity Leavings: Bidding Stars Adieu.

Copying French food and fashion may be advisable. Taxes less so. It's unlikely Americans will embrace a 75% rate, but steeper progressivity is another matter. Unless we're careful, it could happen.

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