
FRENCH 75% TAX RATE: AN OPPORTUNITY TO OPTIMIZE THE FRENCH SOCCER LEAGUE ATTRACTIVENESS?

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Abstract

This paper analyzes the impact of French 75% tax rate on French soccer league attractiveness. This tax is an effective law since 2014 and during two years to tax all the part of annual remunerations over 1 M€ at 75 percent. 114 players coming from 14 clubs of French soccer league are concerned. As the Constitutional council of the French Republic struck down this top income tax rate, because it was not related to tax household, government redrafted the measure to shift the burden from individuals to employers. In other words this measure does not impact the players' net salary, but increases employer's contribution for salaries over 1 M€ per year.

According to their soft budget constrains (Kornai, 1980), professional soccer clubs "operate chronically on the verge of financial collapse" (Storm and Nielsen, 2012, p. 183). Yet, the concerns of the new taxation are not based on clubs' bankruptcy risk, but it may harm uncertainty of outcome. A model of professional team sport leagues is first employed to calculate seasonal competitive balance (El Hodiri and Quirk, 1971). This non cooperative model inspired by Nash equilibrium (Késenne, 1996) implies a variable supply of talent, which allows to evaluate the exodus of talent. The new taxation system has a twofold effect : it acts as a salary cap and enables to improve competitive balance, and entails a number of units of playing talent reduced. We also evaluate the effect of the implementation of cap taxation at 5% of a company's revenues and note an intermediate situation for league attractiveness .

We then release two standard hypothesis of the classical model to fit with peculiar situations of French soccer league: a social and fiscal distortion and a behavior asymmetry between clubs to conclude that the new taxation now increases the competitive imbalance (one is looking for win-maximizing facing strict budgetary constraint, when its rival behaves as a sugar daddy behavior). The new model predicts a negative trend in competitive balance and an exodus of talent to be the result of the 75% tax rate, which could spoiled French soccer league attractiveness. We

discuss how the regulator could manage to maximize the league attractiveness related to the new budgetary constraint. We stand for revenue sharing in order to find an optimal degree of imbalance to maximize league's welfare (Dietl, Lang and Werner, 2009) according Yankee / Manchester United paradox despite the need for a league to have teams able to perform well in European competition.

References

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