TAX REFORM FOR GROWTH: HOW AUSTRIA CAN BECOME MORE COMPETITIVE

By Daniel Bunn, Kai Weiss, and Martin Gundinger

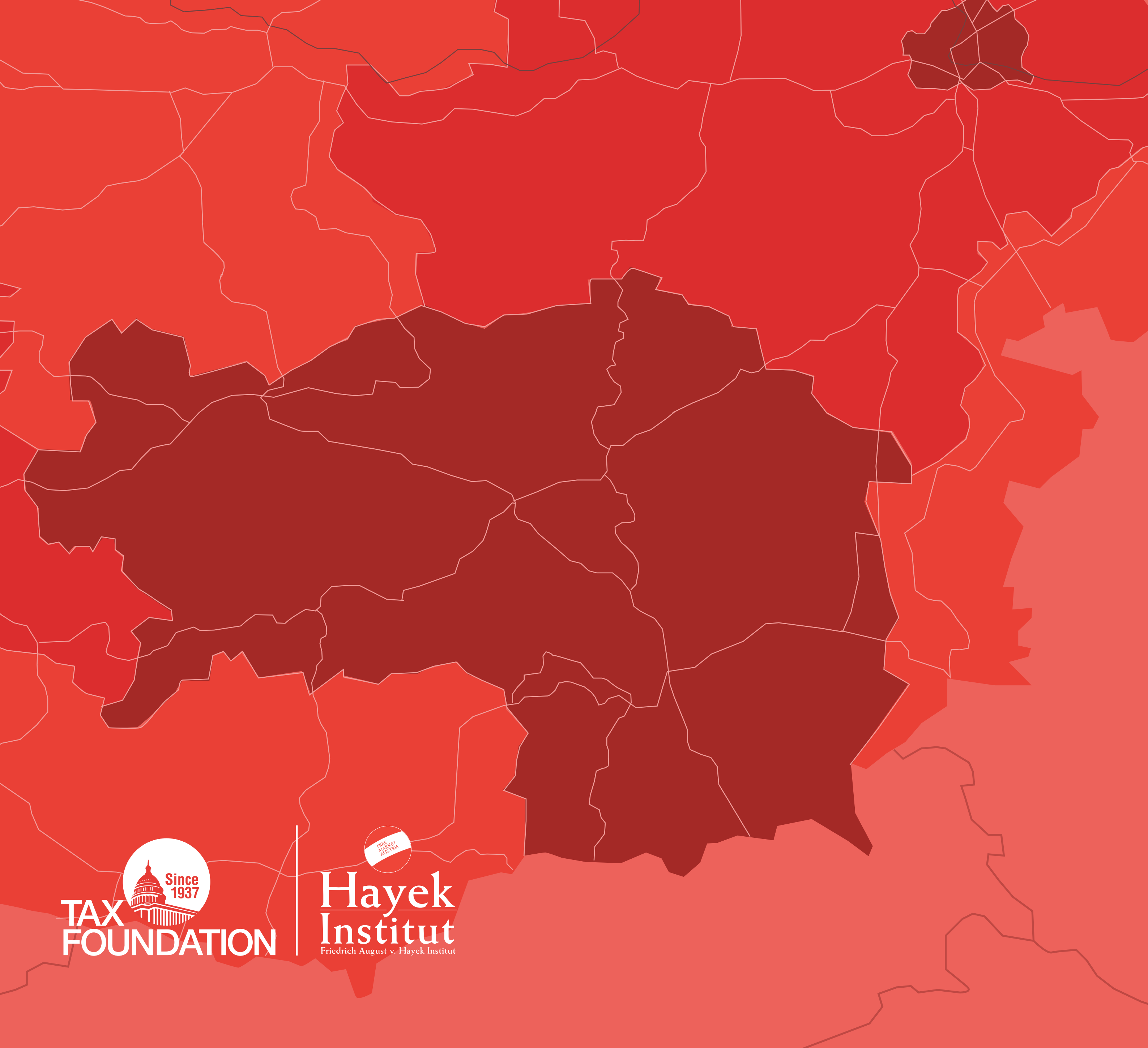

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TABLE OF CONTENTS

Executive Summary

Making Austria a more attractive place to do business has been a core focus of the new government, which has been in charge since 2017. In contrast to previous governments—which offered up tax reform ideas but managed to implement few—the current Austrian administration is in prime position to implement a comprehensive tax reform. Since economic growth is above-average in comparison to other EU member states, now is an opportune time to follow through with these plans.

In the Tax Foundation's *2018 International Tax Competitiveness Index*, which compares the tax systems of 35 OECD countries, Austria ranks tenth overall, despite only coming in 15th on business taxes and 21st on individual income taxes. The government collected taxes equal to 41.8 percent of GDP in 2017, mainly levied through taxes on labor, such as income taxes, and social security contributions.

The income tax system has clear deficiencies. For one, the system is highly progressive with a top marginal tax rate of 55 percent. The total tax burden on labor, often also called the tax wedge, is the fifth highest. For single workers, the tax wedge is 47.4 percent compared to 35.9 percent in the OECD on average. This means that the average worker in Austria only takes home half of his income. A large portion of the tax burden is social security contributions, which fund pensions and social insurance programs.

On corporations, Austria boasts a higher tax rate than any neighboring country other than Germany and Italy. Though the 25 percent corporate tax rate is significantly lower than the 34 percent Austria was boasting before a reform in 2005, it still is above-average in global comparison. The Austrian system also does not allow the full costs of capital assets to be deducted from a company's revenues. Thus, taxes are indirectly levied on business profits as well as partially on business costs. While businesses can indefinitely carry forward net operating losses to offset future profits, they cannot carry unused losses backwards to help offset tax liabilities. Finally, a minimum tax on companies, regardless of their income, is in place, which can prevent smaller enterprises from achieving economic success. All of this nonetheless only comprises 5.9 percent of Austria's tax revenue.

To be sure, there are reasons why Austria's tax system is internationally recognized as relatively pro-growth. There are no damaging wealth or inheritance taxes, its property taxes are efficient and much less distortive than those in other developed countries, and Austria's consumption taxes, including value-added taxes, are simple, comprehensive, and well-designed.

A reform of the Austrian tax system then has to focus on corporate and individual income taxes. On corporate taxes, eliminating taxes on retained earnings (as countries like Estonia have done), reducing the corporate tax rate to 20 percent, improving the treatment of capital investment and net operating losses, and eliminating the minimum tax would lead to Austria becoming more competitive and more attractive for companies interested in settling in the country.

As for individual income, reducing the progressive tax system to a flatter, broader tax base with a lower rate is of the utmost importance. For instance, Austria could include a 20 percent flat tax on income which could be revenue neutral when applied to a broad tax base. In addition, indexing tax brackets for inflation and eliminating special tax treatments for the 13th and 14th salaries could be beneficial too. Austria should also move toward a system that does not punish savings and investment. After the important reform of the social insurance system in 2018, there is now an opportunity to lower social security contributions. These measures would reduce the cost of labor significantly.

Instead of focusing on the introduction of distortionary measures like a digital services tax, the Austrian government should use its unique opportunity and implement comprehensive tax reform. By lowering taxes and simplifying the tax code, Austria would become more competitive internationally and become a place where companies as well as individuals want to do business and live.

A Menu of Tax Reform Solutions

The history of tax reform in Austria is a long one. Unfortunately, reforms of the past either increased the burden on taxpayers or were much less ambitious than they needed to be. Nonetheless, many of these changes were sold as the "biggest tax reform of all time." Overall, the effects of these attempts were disappointing. Many more comprehensive reforms would have been necessary to have a significant impact.

The last reform of Austria's tax system, which occurred in 2015 and 2016, is a good example. This reform was also labeled the "biggest tax reform of all time" by its proponents, but consisted mostly of changes to income tax brackets. Most experts agreed that it lacked crucial elements, like provisions to limit bracket creep, and ignored the urgent need for structural reforms. Without these important changes, it was just another attempt at turning some small cogs and selling it as a great success. As expected, the last "biggest tax reform of all time" failed to have a significant impact.

Now, with the new government in Austria, there might be a chance to deliver tax reform that deserves to be called significant. One thing is for sure: if Austria wants to remain competitive in the future, there are several reforms it must undertake.

Tax systems should be neutral towards consumption and investment while minimizing economic distortions. High marginal tax rates and multiple layers of taxation for the same income can impact the growth outlook for a country. Each of the following options would move Austria closer to an optimally designed tax system.

Corporate Taxes

Eliminating Taxes on Retained Earnings. Some countries, including Latvia, Estonia, and Georgia, have adopted tax systems that are completely neutral toward business investment and only tax business earnings when profits are distributed to shareholders. Austria could change its corporate tax base from net earnings less costs and allowable deductions to one that only includes distributed earnings. This could be paired with eliminating shareholder taxes on dividends. The end result would be a system that applies a single layer of tax for corporate earnings levied when those earnings are distributed.

Lowering the Corporate Tax Rate. The Austrian corporate tax rate is above the OECD average and higher than all but two of its neighbors. Lowering the corporate tax rate to 20 percent or below would allow Austrian businesses to be more competitive with their international counterparts.

Improving Treatment of Capital Investment. Capital investment is vital to long-term economic growth, but Austria lags its peers in capital productivity. Providing the ability to fully deduct the cost of acquiring new machinery and equipment in the year it is acquired will minimize the distortions of the current straight-line depreciation system. Shortening the asset lives for buildings and structures will also improve the system. Importantly, changes to depreciation schedules take into account the time value of money and the way the current system inflates taxable profits.

Eliminating Minimum Taxes on Business. The current policy of applying minimum taxes on businesses has very little revenue impact as those taxes can be credited against future tax liability. These taxes can be a squeeze on small or growing businesses that may have negative earnings in a difficult year. Removing this barrier to business growth could have immediate impacts for some sectors.

Improving Treatment of Net Operating Losses. The current limit on net operating loss carryforwards results in some businesses not being taxed on their average profitability. Allowing businesses to offset taxable earnings with the full value of their operating losses would result in a more neutral tax system.

The above options would result in the following changes to Austria's overall and corporate tax ranking in the *International Tax Competitiveness Index*.

	Overall Rank	Corporate Rank
Current System	10th	15th
Eliminate Taxes on Retained Earnings	7th	5th
Lower the Corporate Tax Rate to 20 percent	9th	9th
Improve Treatment of Capital Investment (a)	9th	10th
Eliminate Minimum Taxes on Businesses	(b)	(b)
Improve Treatment of Net Operating Losses	9th	12th
Both Eliminate Taxes on Retained Earnings and Lower the Corporate Tax Rate to 20 percent	5th	3rd

Note:
a: This assumes immediate write-offs for machinery and equipment, 25-year asset lives and straight-line depreciation for buildings and structures, and 12-year asset lives and straight-line depreciation for intangible assets.
b: The *ITCI* does not include a category for minimum taxes on businesses.

Individual Income Tax

Flattening the Tax Structure. The progressive income tax system of Austria is particularly steep. If tax systems are too progressive, they can disincentivize workers to earn more, since they may lose out in the end by having to pay an even larger share in taxes. Flattening the system is one option to prevent this. A 20 percent flat tax, for instance, could even be revenue neutral when applied to a broad tax base.

Reducing the Top Marginal Tax Rate. At 55 percent, Austria's top marginal income tax rate is one of the highest in the developed world. Austria's rate kicks in for those earning more than one million euros annually. Having such a high marginal tax rate creates serious economic distortions and can incentivize tax avoidance. It can also lead to higher-income individuals seeking to move away to other countries instead of living and investing in business and financial operations domestically.

Indexing Tax Brackets for Inflation. When inflation occurs, but the tax brackets in a progressive income tax system are not adjusted, this can cause so-called "bracket creep." Since prices rise, but the tax brackets stay the same, taxpayers potentially pay more over time. In Austria, the "bracket creep" problem could be solved by indexing tax brackets to inflation, so that tax brackets adjust from year to year.

Eliminating Special Tax Treatment of 13th and 14th Salaries. The 13th and 14th month salaries for holidays in the summer and for Christmas in winter are taxed differently than the twelve other monthly payments. The system for the 13th and 14th salaries is hard to fully grasp; it's an added layer to an already complicated tax structure. Eliminating these special tax treatments and lowering taxes overall would make the system more transparent.

Adopting a Universal Savings Account. Broad-based income taxes are not neutral between saving and consumption. A system that is neutral between choices of savings and consumption taxes income one time and allows returns to savings to be tax-exempt. A universal savings account would allow individuals to save their after-tax earnings without facing an extra layer of tax on the gains to those savings.

Lowering Social Security Contributions. Social security contributions, which finance pensions and social insurance programs, are a major contributor to the cost of labor, making up 36.2 percent of pre-tax labor costs. After important reforms to the social insurance system by the current government, including simplifications and spending cuts, a reduction in contribution levels is also in order. This would reduce the cost of labor, making Austria more competitive internationally, and let workers keep more of their income.

The above options would result in the following changes to Austria's overall and individual tax ranking in the *International Tax Competitiveness Index*.

	Overall Rank	Individual Rank
Current System	10th	21st
Implement Flat Income Tax of 20 Percent on a Broad Tax Base	7th	8th
Eliminate the 55 Percent Tax Bracket	9th	18th
Index Tax Brackets for Inflation	(a)	(a)
Eliminate Special Tax Treatment of 13th and 14th Salaries	(a)	(a)
Adopt a Universal Savings Account	9th	17th
Lower Social Security Contributions Rates by 5 Percentage Points	10th	21st
Both Implement a Flat Income Tax of 20 Percent and Adopt a Universal Savings Account	7th	3rd

Note:
a: The *ITCI* does not include categories for these policy changes.

Consumption Taxes

Simplifying and Broadening the VAT Base. A well-designed VAT can be one of the more efficient ways for a government to raise revenue, but exemptions or special rates create distortions. Austria should continue to adopt reforms to its VAT that subject more categories of goods and services to the standard VAT rate rather than special rates. A broader tax base could allow for a lower standard rate.

Avoiding Burdensome New Taxes

Rejecting a Digital Services Tax. The current debate at the global level regarding the taxation of profits generated from intangible assets has led some countries to propose narrow taxes on revenues of certain businesses. Digital services taxes are inherently distortive and discriminatory, representing a significant departure from the principles of sound tax policy: simplicity, transparency, neutrality, and stability.

Introduction

Since December 2017, the new Austrian government has been pursuing an agenda focused on reforming its tax code with a goal of becoming more competitive for attracting and retaining business investment.[1] The last major rewrite of Austria's income tax law occurred in 1988,[2] although there have been some lesser changes since. The corporate tax rate was reduced from 34 percent to its current level of 25 percent in 2005, but the tax burden on labor in Austria is among the highest in the Organisation for Economic Co-Operation and Development (OECD).[3] The current efforts by the Austrian government come at a time when many countries around the world are reforming their tax policies to become more competitive.[4]

Tax policy in Austria has come a long way since the days of the dual monarchy. A scholar has observed that near the end of the 19th century:

> "A single tax payment in Vienna went through the hands of twenty-seven different officials. In the Adriatic province of Dalmatia, a commission set up to report on ways to improve the bureaucracy discovered that the collection of direct taxes cost twice as much as it raised."[5]

Though such high administrative and compliance costs are a thing of the past, there remain opportunities for Austria to improve its tax laws.

The current system relies heavily on revenues from taxes on consumption, individual income, and wages. Corporate income taxes play a relatively smaller role from a revenue standpoint, but they can be particularly harmful to economic growth.

Economic growth in Austria has been unimpressive over the last decade and is projected to slow in the coming years.[6] Though many countries around the world rely on multiple policy levers to improve their ability to compete in the global marketplace, Austria has no independent monetary or trade policy due to its membership in the European Union (EU). EU policies in those areas often benefit Austria, but decisions on trade or monetary policy are not Austria's sole discretion. Tax policy is different, however.

Austria is subject to EU guidelines on VAT and state aid, but that still leaves it with independent authority to improve many parts of its tax code. Austria can use tax policy reforms to build a competitive edge in Europe. By redesigning its tax code to be more efficient while raising sufficient revenue, Austria can become a more attractive destination for both businesses and workers.

In an era when business location decisions are incredibly sensitive to tax policy and workers

1 EY, "New Austrian Government presents Tax Program," Dec. 19, 2017, https://www.ey.com/gl/en/services/tax/international-tax/alert--new-austrian-government-presents-tax-program.

2 Margit Waltraud Schratzenstaller and Andreas Wagener, "The Austrian Income Tax Tariff, 1955-2006," *Empirica* 36, no. 3 (August 2009), https://www.researchgate.net/publication/225619806_The_Austrian_income_tax_tariff_1955-2006.

3 Daniel Bunn and Alec Fornwalt, "A Comparison of the Tax Burden on Labor in the OECD, 2018," Tax Foundation, Sept. 17, 2018, https://taxfoundation.org/comparison-tax-burden-labor-oecd-2018/.

4 OECD, "Tax Policy Reforms 2018," Sept. 5, 2018, http://www.oecd.org/tax/tax-policy-reforms-26173433.htm.

5 Margaret MacMillan, *The War That Ended Peace: The Road to 1914* (New York: Random House, 2014), https://www.amazon.com/War-That-Ended-Peace-Road/dp/0812980662/

6 European Commission, "Winter 2019 Economic Forecast," Economic and Financial Affairs Institutional Paper 096, February 7, 2019, https://ec.europa.eu/info/sites/info/files/economy-finance/ip096_en.pdf.

compete on a global level, it is important for the Austrian government to pursue tax policies that are neutral, stable, transparent, and competitive. These principles can lead directly to policies that improve taxation in a way that will benefit Austria for many years.

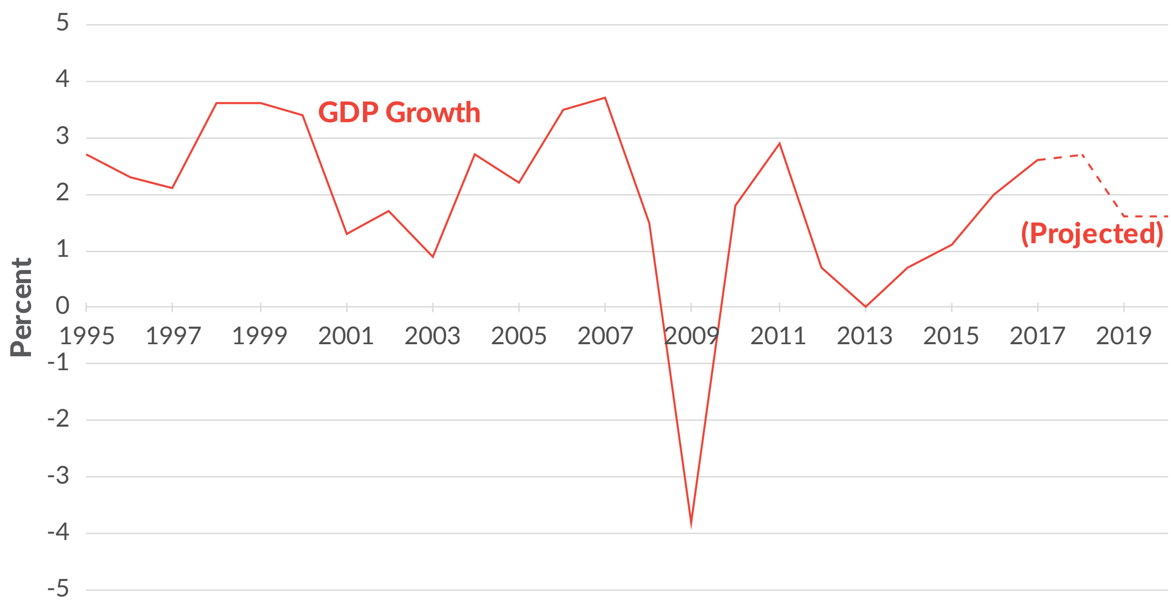
Economic Situation in Austria

The current economic environment in Austria is one of relatively low unemployment and moderate growth. Following the recession in 2009, annual GDP growth in Austria from 2010-2017 averaged just 1.5 percent. Over the 2018-2020 period annual growth is expected to average 2.0 percent.[7] In the EU, annual growth over 2018-2020 is expected to average 1.7 percent.[8] Even though Austria's growth rate is expected to be higher than the EU average, the expected deceleration in growth relative to pre-2010 levels, should be a cause for concern.

From 2008-2017, annual GDP growth in Austria exceeded growth in the EU overall in seven out of 10 years. Among countries that border Austria, the picture is just the opposite. Austrian growth exceeded the average economic growth rate in countries on its borders in just three of the 10 years from 2008-2017.[9]

FIGURE 1.

Economic Growth in Austria



Source: OECD.Stat, "Table 1, Gross Domestic Product (GDP)," https://stats.oecd.org/index.aspx?DatasetCode=SNA_TABLE1, and European Commission, "Winter 2019 Economic Forecast," Economic and Financial Affairs Institutional Paper 096, February 7, 2019, https://ec.europa.eu/info/sites/info/files/economy-finance/ip096_en.pdf.

7 Id.

8 Id.

9 Border countries include Switzerland, Germany, Czech Republic, Slovakia, Hungary, Slovenia, and Italy. Because Liechtenstein is neither an EU member state nor an OECD country, it is not included in figures in this report that show data averaging statistics for Austria's border countries. OECD.Stat, "Table 1, Gross Domestic Product (GDP)," https://stats.oecd.org/index.aspx?DatasetCode=SNA_TABLE1. Author's calculations for border country averages.

GDP per capita in Austria is high among its neighboring countries at approximately €42,000.[10] Among its neighbors, Austria is second only to Switzerland on this measure.

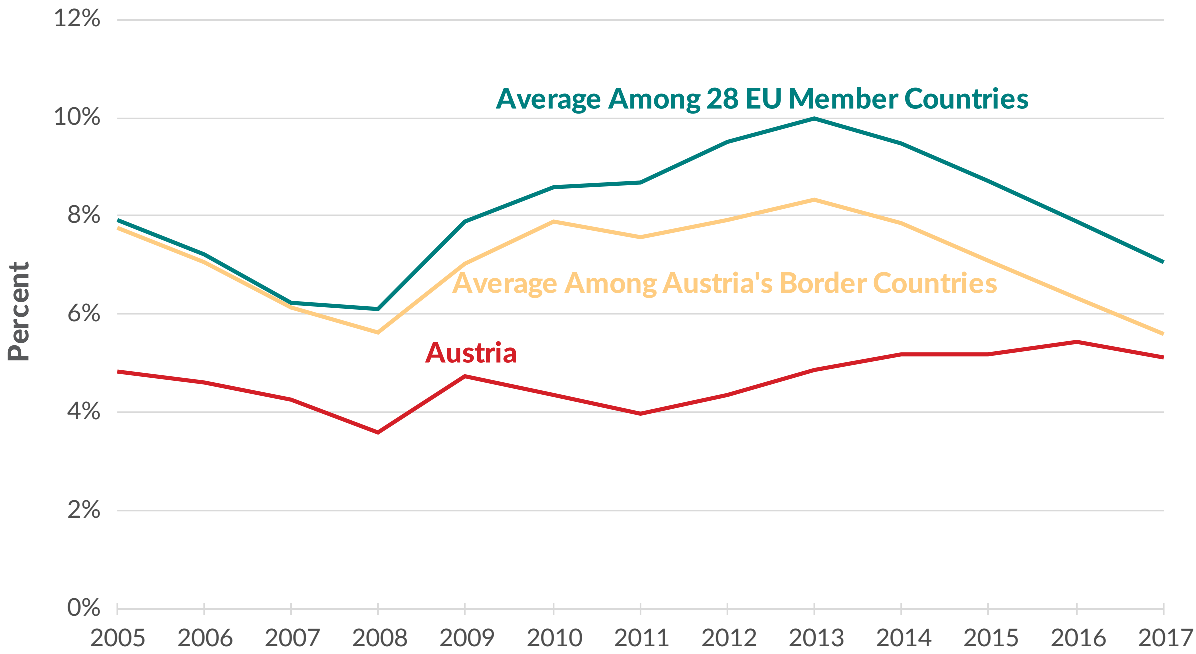
Labor Market

On the labor market front, Austria has seen levels of unemployment for workers age 25-54 above 5 percent for each year from 2014-2017 after averaging 4.3 percent in the 2010-2013 period. However, the unemployment rate in Austria has been below the average of its neighbors and the broader EU from 2005-2017.

The higher unemployment rate in recent years is partially driven by a growing labor force. The labor force activity rate for prime-age adults, a measure of those employed and unemployed as a share of the population aged 25-54, shows the increase in labor force activity in Austria in recent years. Since 2005, the activity rate for working-age adults increased from 86 percent to nearly 89 percent. Among its neighbors, the average participation rate increased from 85 percent to 87 percent.

FIGURE 2.

Prime-age Unemployment Rate, Ages 25-54

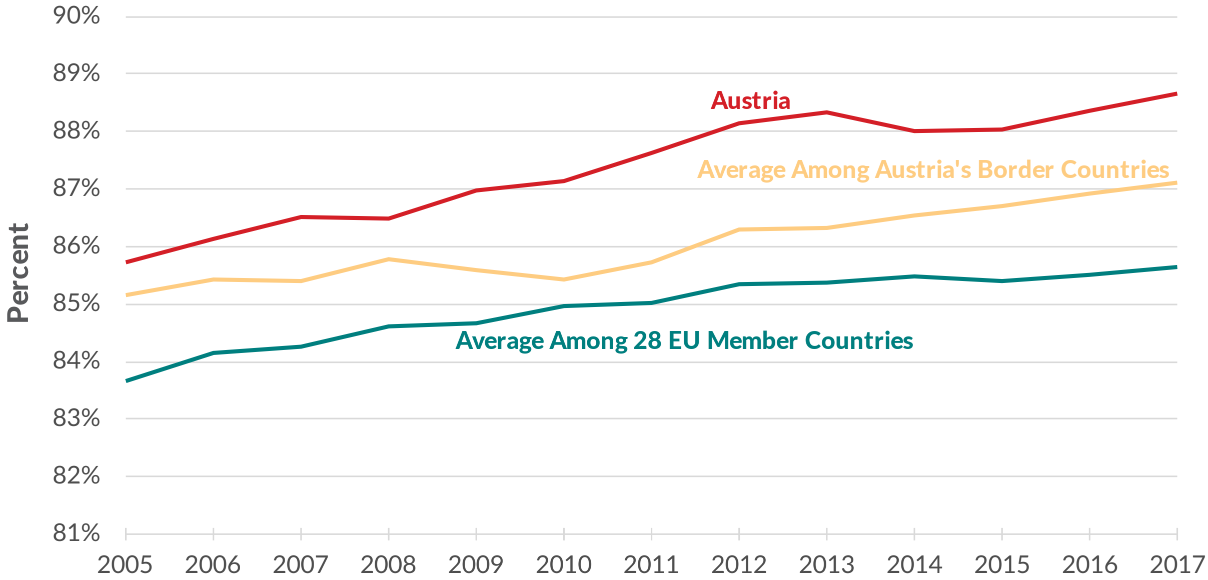


Source: OECD.Stat, "Short-Term Labour Market Statistics," https://stats.oecd.org/index.aspx?queryid=35253, author calculations.

10 OECD.Stat, "Level of GDP per capita and productivity," https://stats.oecd.org/index.aspx?DatasetCode=PDB_LV.

A growing share of working-age individuals that are part of the labor force is a good sign for the growth. However, the unemployment rate signals that not all these labor force participants are currently able to find work.

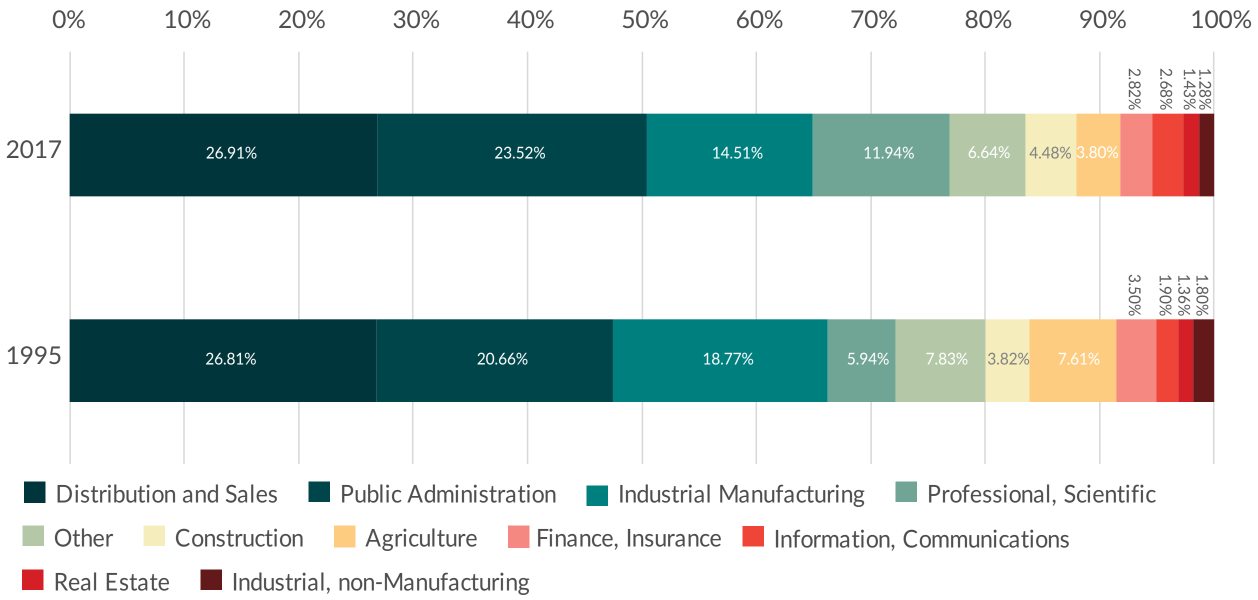
FIGURE 3.
Prime-age Labor Force Activity Rate, Ages 25-54



Source: OECD.Stat, "Short-Term Labour Market Statistics," https://stats.oecd.org/index.aspx?queryid=35253, author calculations.

In 2017, approximately 24 percent of employees in Austria were in the public sector; this share has grown by 3 percentage points since 1995. Another 27 percent were in the distributive sector, which includes retailers, after-sale repair, and installation services. The core productive sectors made up 21 percent of employment. These sectors include industrial manufacturing and construction. In 1995, the core productive sectors accounted for 27 percent of Austrian employment. The professional sector, which includes professional, scientific, technical, administrative, and support service employees, made up 12 percent of employment in Austria in 2017. In 1995, such employees made up just 6 percent of Austrian employment.

FIGURE 4.
Employment by Sector in Austria, 1995 and 2017



Note: Employment sector categories are defined as follows: Distribution and Sales, ETOVG_I; Public Administration, ETOVO_Q; Industrial Manufacturing, ETOVC; Professional, Scientific, ETOVM_N; Other, Construction, ETOVF; ETOVR_U; Agriculture, ETOVA; Finance, Insurance, ETOVK; Information, Communications, ETOVJ; Real Estate, ETOVL; Industrial, non-Manufacturing, ETOVB_E.
Source: OECD.Stat, "Population and employment by main activity," https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE3.

Capital Productivity

Productivity growth in an economy is driven both by innovation and a growing capital stock, and the productivity of the capital stock is an important metric to determine an economy's health.[11] In the long run, the growth capacity of an economy is strongly related to the accumulation of a productive capital stock.[12] The capital stock grows when individuals and companies invest in machines, buildings, and technology that make their work more productive. Over time, though, these machines or other assets can degrade or become less productive and need to be replaced or updated.

One way to measure the productivity of the capital stock in a country is to see how much GDP is produced by capital assets on a per-euro basis. To get this measure, one must take the value of all assets in each economy including buildings, machinery, and intellectual property. That value must then be adjusted to account for the age of those assets because as machinery and other capital assets age, they can become less productive. The ratio of GDP to the capital stock can then be taken to determine how productive the capital stock is each year.

For Austria, on average, one euro of capital produced €0.52 of output in 2015. This is similar to the capital productivity of Switzerland (€0.50) and Italy (€0.48), but well below the level of Hungary (€0.79) or the Slovak Republic (€0.70).[13]

11 See Dale W. Jorgenson, "Capital Theory and Investment Behavior," *The American Economic Review* 53, no. 2 (May 1963): 247-59, http://www.jstor.org/stable/1823868, and Dale W. Jorgenson, "Innovation and Productivity Growth," *American Journal of Agricultural Economics* 93, no. 2 (January 2011): 276-96, http://www.jstor.org/stable/41240284.

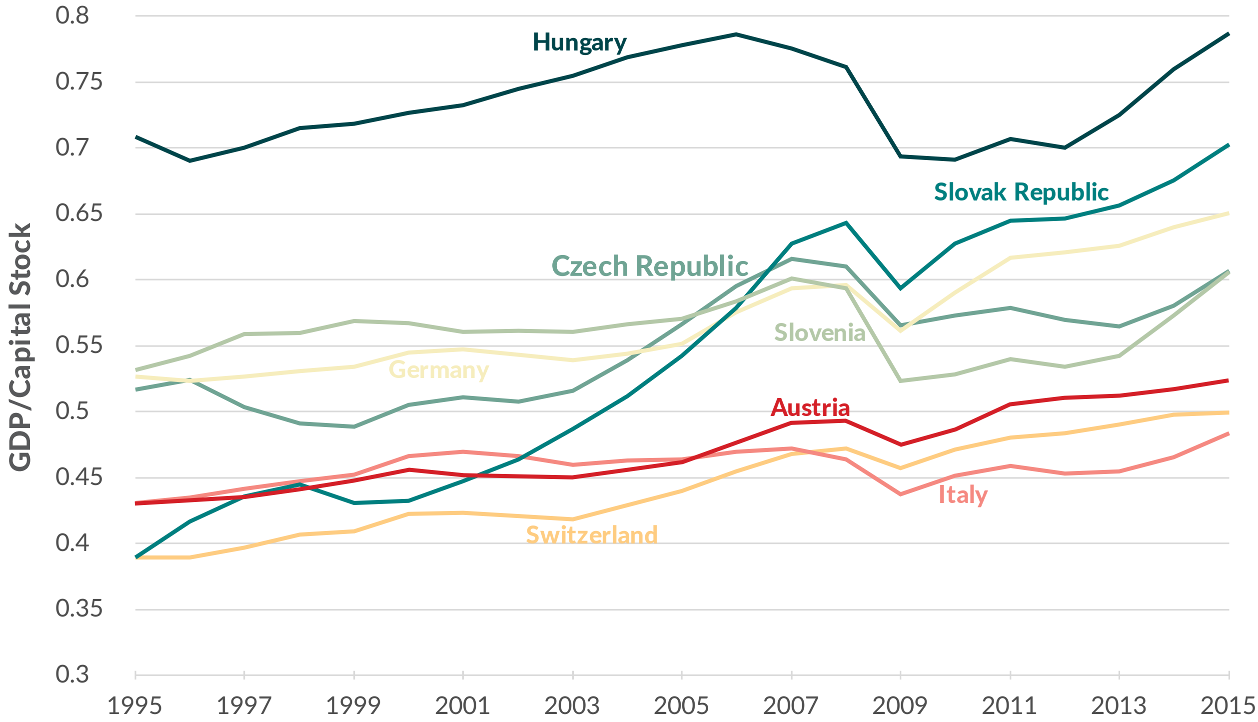
12 Philippe Aghion, and Peter Howitt, "Some Thoughts on Capital Accumulation, Innovation, and Growth," *Annals of Economics and Statistics*, no. 125/126 (June 2017): 57-78, https://www.jstor.org/stable/10.15609/annaeconstat2009.125-126.0057#metadata_info_tab_contents.

13 Author's calculations using International Monetary Fund, "The IMF and Infrastructure Governance: Investment and Capital Stock Dataset," January 2017, https://www.imf.org/external/np/fad/publicinvestment/#5.

For some former Soviet economies, their higher levels of capital productivity are due to recent investments in plants and equipment. It is likely that if companies in Austria were to update old machinery, buildings, and technology, the capital stock would become more productive.

FIGURE 5.

Capital Productivity in Various Countries



Source: International Monetary Fund, "The IMF and Infrastructure Governance Investment and Capital Stock Dataset," 2017, https://www.imf.org/external/np/fad/publicinvestment/#5, author's calculations.

As this report describes in the following sections the challenges of economic growth both from a labor and capital perspective can be partially addressed by improvements to the Austrian tax system.

Assessment of Austria's Tax System

The Austrian government collected €155 billion in taxes in 2017, equal to 41.8 percent of GDP.[14] The main sources of revenue collected were taxes from labor (income taxes, social security contributions, and taxes on payroll and workforce). Together, these taxes made up 63 percent of Austrian tax revenue in 2017.[15] Consumption tax revenue, mainly through the Austrian value-added tax (VAT), made up 28 percent of revenue, and corporate income taxes were accountable for 6 percent of revenues.[16]

14 OECD.Stat, "Revenue Statistics – OECD Countries: Comparative tables," https://stats.oecd.org/index.aspx?DataSetCode=REV.

15 Id.

16 Id.

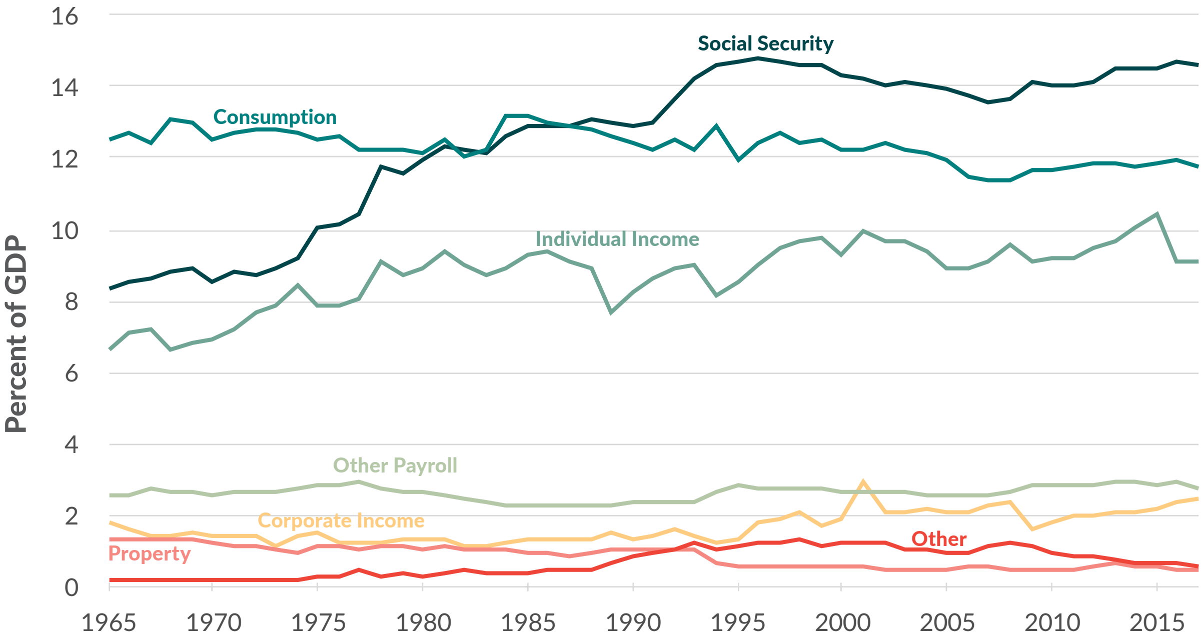
These shares have been generally stable over the last half century. However, the share of revenue from consumption taxes has fallen from 37 percent in 1965 to 28 percent in 2017, while the share coming from social security contributions has risen from 25 percent in 1965 to 35 percent in 2017.[17] This effectively has been a shift from a less distortive type of taxation (indirect taxes on consumption) to a more distortive type of taxation (direct tax on workers' wages).[18]

On average across the OECD, 52 percent of tax revenues are generated from taxes on individual income, social security contributions, and payroll and workforce taxes, while 33 percent are derived from consumption taxes and 9 percent from corporate income taxes.

Looking at revenues as a share of GDP, social security contributions make up the highest share of the tax burden in Austria when measured as a percent of GDP. These taxes on labor were 15 percent of GDP in 2017. Consumption taxes, the second largest share of taxes overall, were 12 percent of GDP in Austria. On average across the OECD, social security contributions were 9.3 percent of GDP in 2017, and consumption taxes were the second-highest, at 11 percent of GDP. Thus Austria's social security contributions and consumption taxes were higher as a share of its economy than the typical OECD country."

FIGURE 6.

Sources of Tax Revenue in Austria as Shares of GDP



Note: Revenue categories defined as follows: Individual Income, 1100; Corporate Income, 1200; Social Security, 2000; Other Payroll, 3000; Property, 4000; Consumption, 5000; Other, sum of 1300, 6000, and CUS.
Source: OECD.Stat, "Revenue Statistics – OECD countries: Comparative tables," https://stats.oecd.org/index.aspx?DataSetCode=REV.

17 Id., author's calculations.

18 Åsa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, "Tax and Economic Growth," OECD Economics Department Working Paper No. 620, July 11, 2008, http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp(2008)28.

Tax Competitiveness

According to research from the OECD, corporate and individual income taxes are, respectively, most and second-most harmful to economic growth. Consumption and property taxes are also harmful to economic growth, but to a lesser extent.[19]

International tax rules can also be barriers to growth if multinational businesses are deterred from investing in a country by complex rules or lack of participation in tax treaties.

The Tax Foundation's *International Tax Competitiveness Index* (*ITCI*) attempts to incorporate these concepts, ranking OECD countries on five areas of tax policy—corporate income, individual income, consumption, property, and international taxes.[20] The *ITCI*'s ranking is an assessment of whether tax policies in these areas are neutral and competitive. Countries with tax policies that are distortive receive lower rankings while efficient tax systems—those that seek to raise revenue with the lowest economic impact—rank higher.

Austria ranks 10th overall among 35 OECD countries in the 2018 *ITCI*.[21] Even with this relatively high rank, Austria has room to improve its tax policies. Austria's business taxes rank 15th on the *ITCI*, and the country ranks 21st for individual income taxes. The lower ranks on corporate and individual taxes are due to complexities in the tax code that make raising revenue from these taxes distortionary for business and workers.

Austria's corporate tax rate stands at 25 percent, higher than in all but two of its neighboring countries.[22] Additionally, the cost recovery system for business investment can lead to inflated taxable earnings and net operating losses cannot be fully carried forward.[23] Additionally, the personal income tax system is burdensome and the overall tax burden on labor amounts to nearly half of labor costs.[24]

19 Id.

20 Daniel Bunn, Kyle Pomerleau, and Scott Hodge, *2018 International Tax Competitiveness Index*, Tax Foundation, Oct. 23, 2018, https://taxfoundation.org/publications/international-tax-competitiveness-index/.

21 Lithuania is the 36th member of the OECD, having joined in 2018, but is not included in the 2018 *ITCI*.

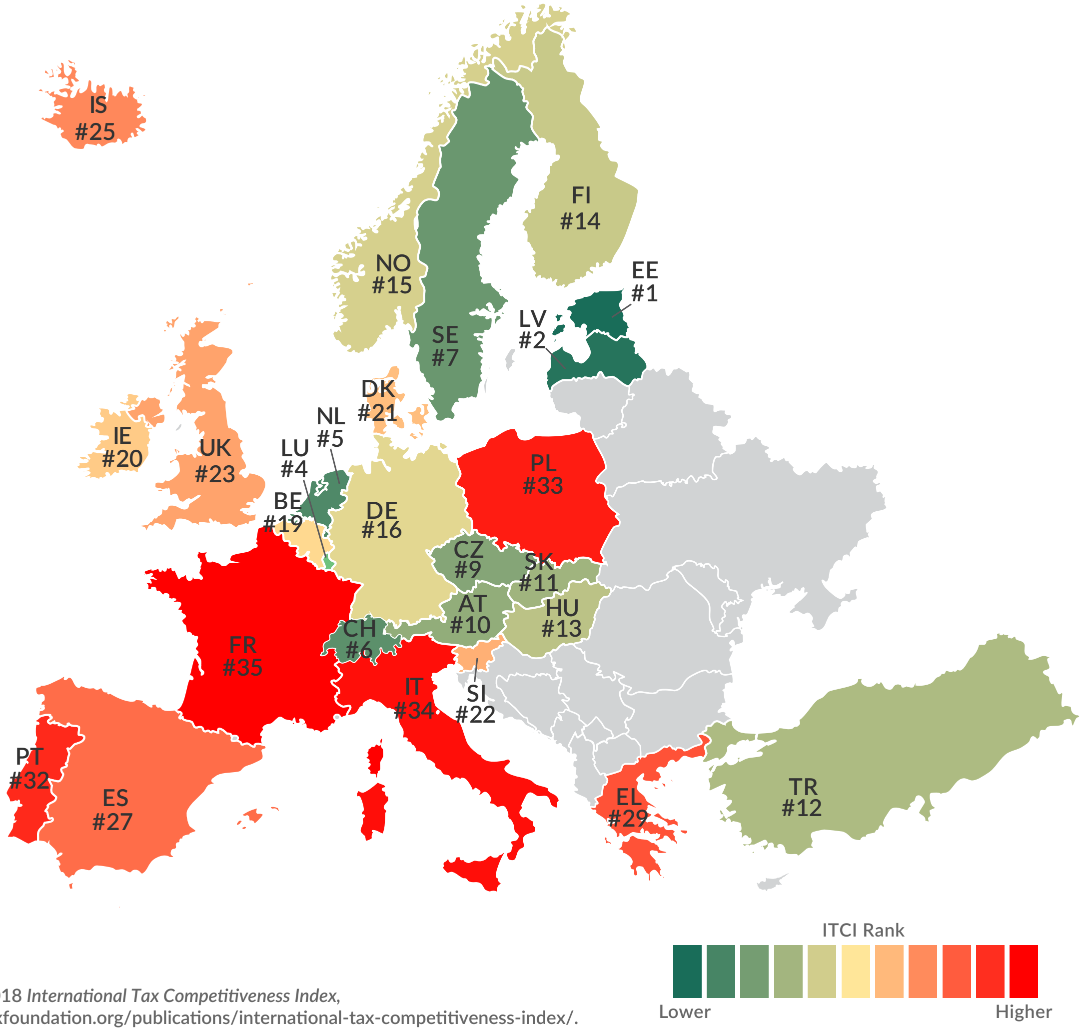
22 OECD.Stat, "Table II. 1. Statutory corporate income tax rate," https://stats.oecd.org/index.aspx?DataSetCode=TABLE_II1.

23 Deloitte, "Taxation and Investment in Austria 2017," https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-austriaguide-2017.pdf

24 Daniel Bunn, Kyle Pomerleau, and Scott Hodge, *2018 International Tax Competitiveness Index*.

FIGURE 7.

European Country Rankings on the 2018 *International Tax Competitiveness Index*



Source: 2018 *International Tax Competitiveness Index*, https://taxfoundation.org/publications/international-tax-competitiveness-index/.

Austria has improved its rank on the *ITCI* in each year that the *Index* has been calculated—from being ranked 16th in 2014 to 10th in 2018. Many of the improvements reflect policy changes—such as the lower compliance time for consumption taxes that the PwC and World Bank observed in their survey from 2017.[25] Other changes from year to year are due to various OECD countries changing their policies, sometimes for good and other times for bad, while Austria maintained the status quo in a policy area.

25 PwC, "Paying Taxes 2019: Interactive Tax Data Explorer," November 2018, https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/explorer-tool.html?WT.mc_id=CT13-PL1300-DM2-TR2-LS1-ND30-TTA4-CN_payingtaxes-2019-data-explorer-button.

TABLE 1.

Austria's Rank on the *International Tax Competitiveness Index*

Year	Overall Rank	Corporate Tax Rank	Income Tax Rank	Consumption Tax Rank	Property Tax Rank	International Rules Rank
2014	16	16	26	18	10	8
2015	15	17	24	21	11	9
2016	13	17	22	20	9	9
2017	11	16	21	10	9	10
2018	10	15	21	10	9	13

Note: Green cells reflect an improvement over the prior year's ranking, and red cells reflect a lower ranking relative to the prior year.
Source: *International Tax Competitiveness Index*, author's calculations using 2018 methodology.

The mix of tax policies can determine, to a substantial extent, the long-term growth rate of an economy.[26] Shifts in taxation to a cash-flow tax base or a consumption tax base can provide both efficiencies in collecting revenues (while minimizing economic distortions) as well as a foundation for growth.[27]

Taxation of Corporations

Corporate taxes comprised 5.9 percent of Austrian tax revenue in 2017. Following a 32 percent collapse in corporate tax revenues in 2009, revenues grew at an average annual rate of 8.8 percent in the years from 2010-2017. Corporate tax revenue totaled €9 billion in 2017.

For corporate taxation, both the corporate tax rate and the definition of net income are important. In Austria, taxes on businesses are applied to annual net income. Taxable income can be offset by prior losses, expenses, and depreciation of assets.

Corporate Tax Rate

Corporate tax rates have been consistently falling for the last several decades around the world.[28] This is partially due to countries recognizing the harmful impact of high corporate tax rates on business investment. Additionally, lowering corporate tax rates has allowed countries to stay competitive internationally.

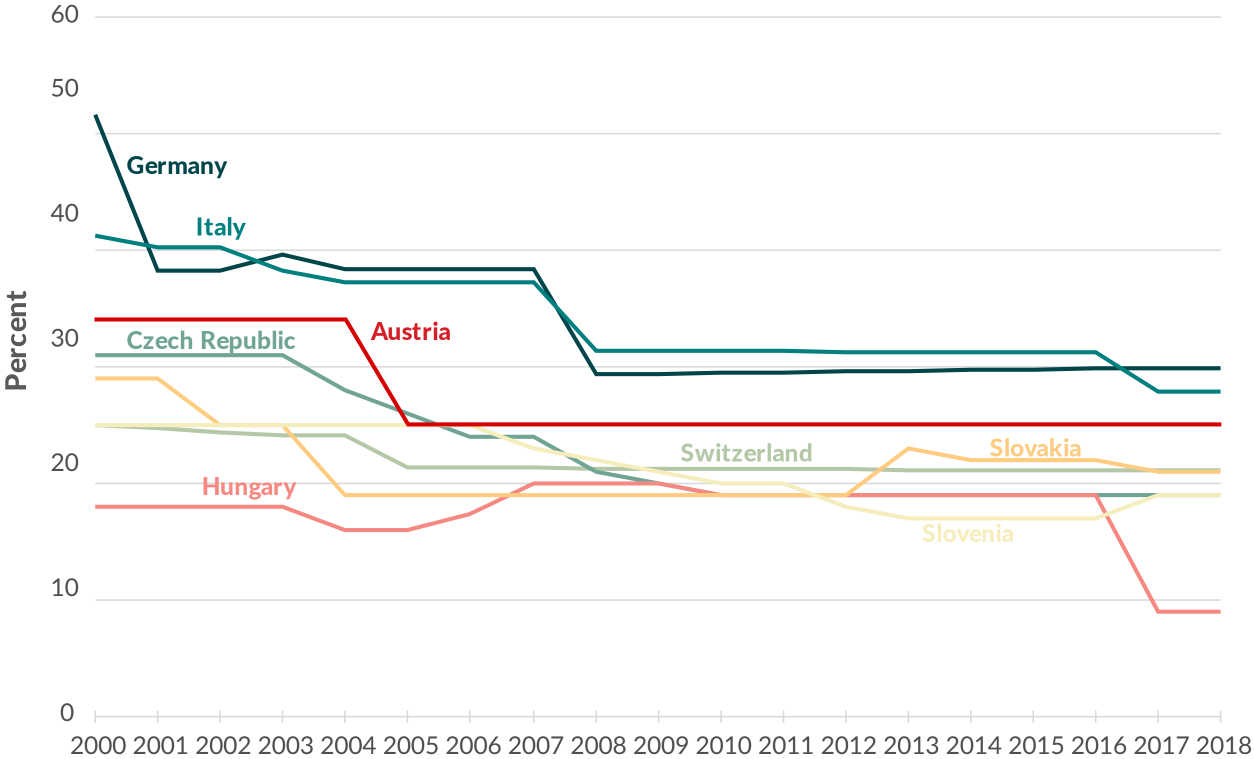
Austria's corporate tax rate stands at 25 percent, reduced from 34 percent in 2005. Among its neighbors, Austria's corporate tax rate is lower than just two of them. The combined statutory corporate tax rate in Germany is 29.8 percent and the rate in Italy is 27.8 percent. Austria's other neighbors have lower rates, and Hungary has a corporate tax rate of just 9 percent.

26 William McBride, "What Is the Evidence on Taxes and Growth?" Tax Foundation, Dec. 18, 2012, https://files.taxfoundation.org/legacy/docs/sr207.pdf.

27 See Jens Matthias Arnold, Bert Brys, Christopher Heady, Åsa Johansson, Cyrille Schwellnus, and Laura Vartia, "Tax Policy for Economic Recovery and Growth," *The Economic Journal* 121, no. 550 (February 2011): F59-80, http://www.jstor.org/stable/41057701; Alan J. Auerbach and Michael P. Devereux, "Cash-Flow Taxes in an International Setting," *American Economic Journal: Economic Policy* 10, no. 3 (August 2018): 69-94; and Kyle Pomerleau, "Details and Analysis of the 2016 House Republican Tax Reform Plan," Tax Foundation, July 2016, https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF516.pdf.

28 Daniel Bunn, "Corporate Tax Rates Around the World, 2018," Tax Foundation, Nov. 27, 2018, https://taxfoundation.org/corporate-tax-rates-around-world-2018/.

FIGURE 8.
Corporate Tax Rates in the Region



Source: OECD.Stat, "Table II. 1. Statutory corporate income tax rate," https://stats.oecd.org/index.aspx?DataSetCode=TABLE_II1.

Depreciation Schedules

The tax treatment of capital assets can have significant implications for economic growth.[29] The Austrian system does not fully allow the cost of capital assets to be deducted from income and therefore levies taxes both on business profits and partially on business costs.

Depreciation for tax purposes is the deduction of the cost of capital over time. In calculating net income, businesses subtract their costs from their revenues. Costs generally include labor, materials, inventory, and the cost of capital investments like structures, machinery, and plants.[30]

However, many countries limit the amount of costs that businesses can deduct for their capital investments each year. When Austrian businesses invest in machinery and equipment, they can deduct their investment costs in equal amounts over the life of an asset.[31] This is called straight-line depreciation. For buildings, businesses can only deduct 2.5 percent of the cost each year, which sets the assumed useful life of a building at 40 years.[32] Assets with a value of no more than €400 can be written off fully in the purchase year.[33]

29 Stephen J. Entin, "The Tax Treatment of Capital Assets and Its Effect on Growth: Expensing, Depreciation, and the Concept of Cost Recovery in the Tax System," Tax Foundation, April 2013, https://files.taxfoundation.org/legacy/docs/bp67.pdf.

30 James R. Kee, "Introductory Discussion of the Basic Concepts of Depreciation and Expensing," Institute for Research on the Economics of Taxation, March 10, 1999, https://files.taxfoundation.org/iret/BLTN-75.PDF.

31 Deloitte, "Taxation and Investment in Austria 2017."

32 This is not true for all buildings; the depreciation rate for residential buildings is 1.5 percent, implying an assumed useful life of 67 years. Deloitte, "Invest in Austria: Tax Aspects," January 2018, https://investinaustria.at/en/downloads/brochures/ABA_Tax_Aspects_Austria_2018.pdf.

33 Id.

Spreading out the deduction of costs over time presents a problem for businesses. If a business is deducting equal amounts for a piece of equipment over time, even a low level of inflation will erode the real value of those deductions in later years. This results in businesses being unable to fully deduct the cost of their investments.

When a business is unable to write off the full costs of investments that are used in production, it will not only be taxed on profits from production but also partially on its costs. Allowing businesses to write off the full net present value of their capital investments allows companies to be taxed on their profits rather than their costs. This method of writing off capital costs is often referred to as expensing, or full expensing.[34]

Requirements associated with deducting capital costs are included in the tax laws of many countries as part of their depreciation schedules. In Austria, only 81 percent of the net present value of investments in machinery can be deducted as costs.[35] For buildings, it is even lower, at 39 percent, and for intangible assets like patents, the net present value of deductible costs is 74 percent.

As mentioned above, the capital stock in Austria is not as productive as in some of its neighbors to the east. One partial explanation for this is the structure of the depreciation allowances. A simple average of percent of net present value allowed to be written off taken across three classes of investment (machinery, buildings, and patents) reveals that Austria has the lowest amount of allowed deductions for capital costs (65 percent) among its neighbors. The Slovak Republic has the highest average at 80 percent of investment costs allowable as deductions.

TABLE 2.

Net Present Value of Depreciation Allowances for Austria and its Neighbors

Country	Machinery	Buildings	Patents	Simple Average of Three Investment Classes
Slovak Republic	87%	65%	87%	80%
Switzerland	86%	56%	91%	77%
Czech Republic	87%	54%	84%	75%
Italy	76%	46%	97%	73%
Germany	74%	39%	87%	67%
Slovenia	87%	39%	74%	67%
Hungary	82%	28%	87%	66%
Austria	81%	39%	74%	65%

Source: Author's calculations using Oxford University Centre for Business Taxation, "CBT Tax Database 2017," http://eureka.sbs.ox.ac.uk/4635/.

Depreciation schedules can be adjusted in several ways to account for the time value of money and allow businesses to write off the full costs of their investments. First, asset lives could be shortened for tax purposes. A business that is writing off the cost of a new building over a 40-year time period is more likely to see the value of deductions eroded by inflation over time than a business that is writing off the cost of a new building over a 10-year time period.

34 Id.

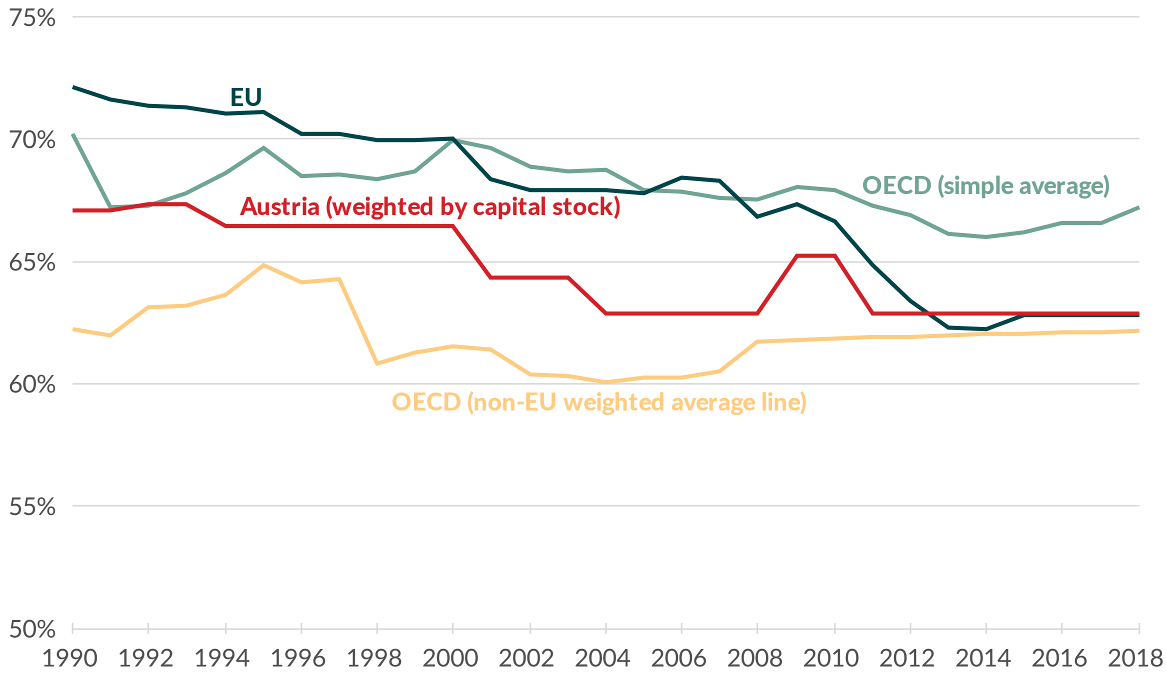
35 Author's calculations using Michael Devereux and Katarzyna, "CBT Tax Database 2017," Oxford University Centre for Business Taxation, May 23, 2013, http://eureka.sbs.ox.ac.uk/4635/.

Second, an adjustment for an expected rate of inflation plus a required rate of return (4 percent, for instance) could be added to the allowable deduction for costs. In this way a business can write off the full cost of its investment over the depreciable life of the asset.[36]

Third, businesses could be allowed to write off the full cost of an investment in the first year of owning the asset. This is often referred to as full expensing, and it is one of the most direct ways to make tax policy neutral toward investment and thus supportive of long-term growth.

FIGURE 9.

Average Net Present Value of Capital Allowances, Austria and OECD, 1983-2018



Source: Author's calculations using Oxford University Centre for Business Taxation, "CBT Tax Database 2017," http://eureka.sbs.ox.ac.uk/4635/.

In Austria, accelerated depreciation is available for some assets that undergo extensive wear and tear, but, in general, depreciation schedules do not match the costs associated with capital investments.[37]

As part of its response to the recession in 2009, the Austrian government adopted accelerated depreciation for investments in machinery. For those years, a larger share of the costs of investment in machinery could be written off. However, the government returned the system to its prior policy of straight-line depreciation in 2011.

36 Stephen J. Entin, "The Neutral Cost Recovery System: A Pro-Growth Solution for Capital Cost Recovery," Tax Foundation, Oct. 29, 2013, https://taxfoundation.org/neutral-cost-recovery-system-pro-growth-solution-capital-cost-recovery/.

37 Deloitte, "Invest in Austria: Tax Aspects."

Permanent improvements to capital allowances can provide long-term economic benefits, but temporary boosts are unlikely to yield lasting economic results.[38] However, like Austria did from 2009-2011, many countries turn to tax reforms that improve capital allowances when the economy is weak.[39]

Businesses spend years developing project plans and determining what business strategies will be profitable. A short-term increase in deductions for investment costs is likely to benefit businesses that had already decided that they would be developing a new production facility and buying machinery to put in it. Permanent changes to capital allowances are necessary to improve investment activity overall.[40]

A long-term commitment to allowing businesses to fully deduct the value of the costs of their investment will allow businesses to assess the profitability of projects based on a system that does not penalize investment.[41]

Treatment of Losses

Profitability varies across time for many businesses. Difficult revenue years or years in which products are still being developed can often result in negative net earnings or net operating losses (NOLs). Because corporate income taxes apply to profits, tax systems should account for years in which there are positive profits as well as years when there are negative earnings. The appropriate way to treat NOLs, or negative earnings, is to apply tax on the average profitability of a business over time. Many countries allow businesses to carry their losses forward into the future or back into the past to offset tax liability from profitable years.

In Austria, a business that has an NOL in one year can carry that loss forward indefinitely to offset future profits. However, Austrian businesses cannot carry their losses backward and offset past tax liability, and only 75 percent of profits can be offset using a carried forward NOL in any given tax year.[42] For businesses that are subject to the personal income tax rather than corporate taxes it is possible to offset 100 percent of profits with carried forward losses.[43]

The restrictions on NOL carryforwards and lack of carrybacks limit the extent to which Austrian businesses are taxed on their average profitability.

38 Kyle Pomerleau, "Economic and Budgetary Impact of Temporary Expensing," Tax Foundation, Oct. 4, 2017, https://taxfoundation.org/economic-budgetary-impact-temporary-expensing/.

39 Kunka Petkova and Alfons J. Weichenrieder, "The Relevance of Depreciation Allowances as a Fiscal Policy Instrument: A Hybrid Approach to CCCTB?" University of Vienna International Taxation Research Paper Series No. 2018-07, Sept. 25, 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3249512.

40 Kyle Pomerleau, "Economic and Budgetary Impact of Temporary Expensing."

41 James R. Kee, "Introductory Discussion of the Basic Concepts of Depreciation and Expensing."

42 Deloitte, "Taxation and Investment in Austria 2017."

43 Id.

International Tax Rules

Austria operates a territorial tax system that taxes businesses only on their income derived from operations in Austria. If an Austrian company receives dividends or earns capital gains from a foreign subsidiary or other company in which it has an ownership stake, the dividends and capital gains are fully exempt from taxation in Austria if certain conditions are met. These conditions include:

- 10 percent ownership by the Austrian parent company in the foreign corporation;
- a continuous ownership period of at least one year;
- the non-deductibility of dividends for the foreign subsidiary; and
- a recognized legal form for the subsidiary according to EU law, or legal to the Austrian parent company.[44]

The exemption only applies for countries with whom Austria has a double-tax treaty or where the subsidiary is not located in a low-tax jurisdiction with a corporate income tax rate of less than 15 percent.

The existence of a “switch-over” clause enables Austrian tax authorities to offer a tax credit in lieu of the exemption. The clause is typically enforced in cases where passive income exceeds 50 percent of total income, and the subsidiary is subject to an effective tax rate of less than 15 percent.[45]

Austria has tax treaties with 91 other countries.[46] The average number of tax treaties among OECD countries is 77.[47] Tax treaties provide certainty for foreign corporations looking to invest in Austria and for Austrian businesses looking to grow their business abroad. A wide tax treaty network can contribute to the competitiveness of a country.

Minimum Taxes

The Austrian tax code applies minimum taxes on companies regardless of their income. For a limited liability company subject to the corporate income tax, a minimum €500 tax liability applies, regardless of profitability in its first five years of existence.[48] The minimum payment jumps to €1,000 in the years 6-10 that a company exists, and following that the minimum tax is €1,750.[49]

Joint stock companies face a minimum tax liability of €3,500.[50]

44 Id.

45 Kyle Pomerleau and Kari Jahnsen, “Designing a Territorial Tax System: A Review of OECD Systems,” Tax Foundation, July 2017, https://files.taxfoundation.org/20170822101918/Tax-Foundation-FF554-8-22.pdf.

46 PwC, “Austria: Corporate – Withholding Taxes,” Worldwide Tax Summaries, http://taxsummaries.pwc.com/ID/Austria-Corporate-Withholding-taxes.

47 Daniel Bunn et al., *2018 International Tax Competitiveness Index*.

48 Deloitte, “Taxation and Investment in Austria 2017.”

49 Id.

50 Id.

Payments of the minimum tax can be credited against a future tax liability.[51] This makes the tax a matter of the timing of profitability rather than a tool for raising revenue. For some loss-making businesses such a minimum tax could be a squeeze on cash flow. The benefit of reducing future taxes with a credit in the same amount of the minimum tax paid may be no benefit at all if the squeeze of the minimum tax means that the business cannot be successful.

Taxes on Personal Income

Progressive income taxation was adopted in Austria (during the period of the dual monarchy) in 1898.[52] At that time, the top marginal tax rate was 5 percent. In years since, direct taxation of individual income has evolved to the current system with both a progressive income tax with a top rate of 55 percent and payroll taxes used to fund pensions, healthcare, and other social programs.

Just as businesses respond to taxes by comparing the profitability of investments considering the provisions of a country's corporate tax code, workers also respond to taxes. High taxes on labor can disincentivize work and ultimately lead to slower economic growth.[53]

Tax Burden on Labor

The tax burden on labor is a measure of the total taxes paid by an employer and employee (minus family benefits) divided by gross labor costs. This is sometimes referred to as the tax wedge on labor income.[54] In 2017, Austria had the fifth highest tax wedge (47.4 percent) for single workers making average wages among the 35 OECD member countries.[55] In the OECD, the average tax wedge for single workers was 35.9 percent in 2017.[56]

Gross labor costs for an average-wage single worker in Austria are approximately €59,000. However, the after-tax, take-home pay for that same worker is only about €31,000. Thus they lose approximately €28,000 of income to taxes. On average in the OECD, workers lose about €15,000 to taxes.

A large portion of the tax wedge in Austria is due to social security contributions. These include taxes that fund pensions and social insurance programs. A part of these taxes is paid by the employer and a part is paid by the employee. However, the true burden, or economic incidence, of these taxes is faced by the workers.[57] Employer payroll taxes are simply a cost associated with workers and effectively lower take-home pay.

The combined employer and employee shares of social security contributions in Austria make up 36.2 percent of pre-tax labor costs. On average in the OECD, payroll taxes make up 23.4 percent of pre-tax labor costs.

51 Id.

52 R. Sieghart, "The Reform of Direct Taxation in Austria," *The Economic Journal* 8, no. 30 (June 1898): 173-82, https://www.jstor.org/stable/i352761.

53 Scott A. Hodge and Bryan Hickman, "The Importance of the Tax Wedge on Labor in Evaluating Tax Systems," Tax Foundation, 2018, https://files.taxfoundation.org/20180913095728/Global-Primer_tax_wedge.pdf.

54 Id.

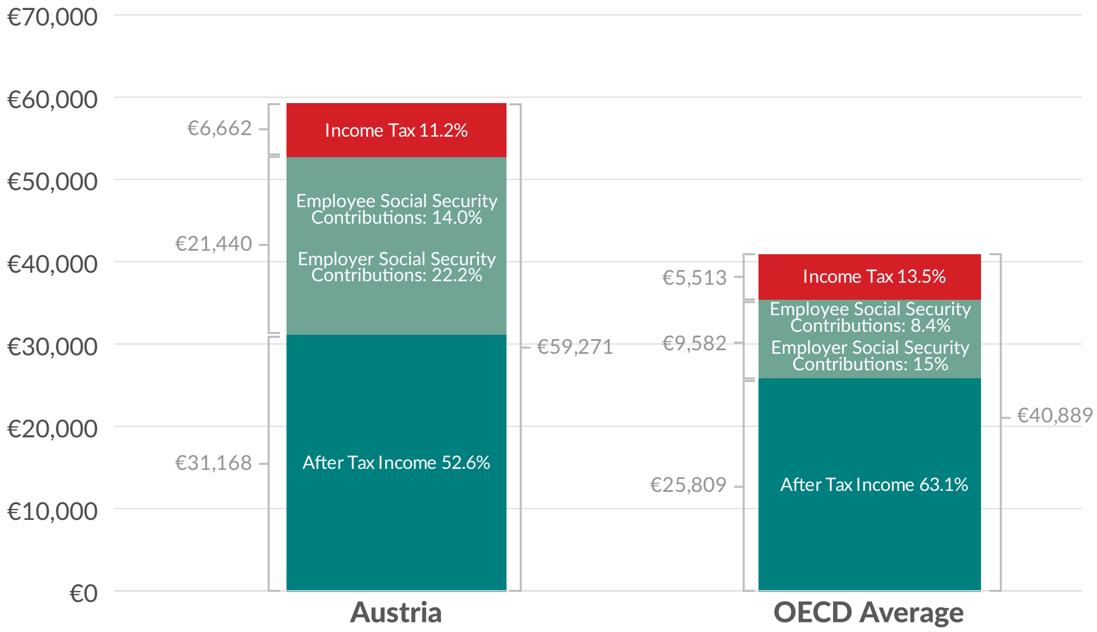
55 OECD Publishing, "Taxing Wages 2018," https://doi.org/10.1787/tax_wages-2018-en.

56 Id.

57 Stephen J. Entin, "Tax Incidence, Tax Burden, and Tax Shifting: Who Really Pays the Tax?" Institute for Research on the Economics of Taxation, Sept. 10, 2004, https://files.taxfoundation.org/iret/BLTN-88.PDF.

FIGURE 10.

Tax Wedge for an Average-wage Worker, No Children



Source: OECD.Stat, "Taxing Wages – Comparative tables," https://stats.oecd.org/index.aspx?DataSetCode=AWCOMP.

Like many developed countries, Austria's income tax code treats families differently than it treats single workers who have no children. Though the tax wedge faced by a single worker with no children was 47.4 percent in 2017, the tax wedge faced by a married couple with just one average wage earner and two children was 37 percent.

Prior to the start of 2019, Austria had a tax deduction for children (€440 per child if claimed by one parent, €300 per child, per parent if claimed by both parents). This has now been replaced by a tax credit of €1,500 per year for each child, called the Family Bonus Plus.[58] The new credit is limited to a household's tax liability. For example, if a family has two children and owes €3,500 in taxes on wages, the amount paid after applying the credit would be €500. Austria also has a family allowance that varies by the number of children in a household and their age.[59] Provisions like these reduce the tax wedge faced by workers with children.

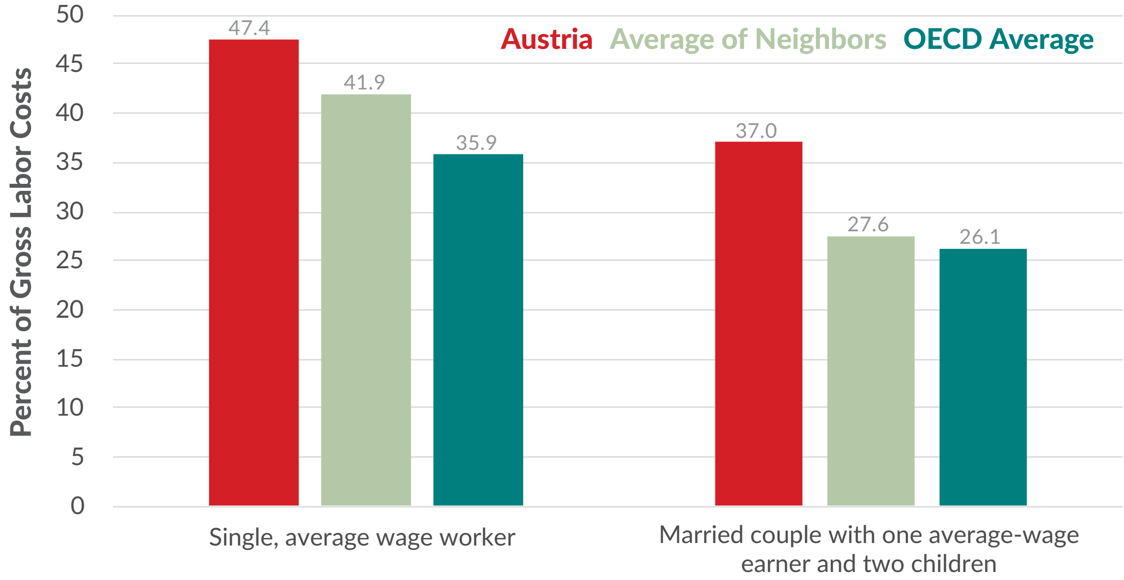
However, when compared to the OECD average tax wedge and the average tax wedge among Austria's neighbors, Austria's tax wedge stands out as relatively high for single workers and for married workers with children.

58 Federal Chancellery Republic of Austria, "Familienbonus Plus," https://www.bmf.gv.at/top-themen/familienbonusplus.html.

59 Federal Chancellery Republic of Austria, "Family Allowance and Tax Credit for Children," https://en.bmfj.gv.at/families/family-benefits/family-allowance-and-tax-credit-for-children.html.

FIGURE 11.

Tax Wedge on Labor for Single and Married Workers Making Average Wages



Source: OECD.Stat, "Taxing Wages – Comparative tables," https://stats.oecd.org/index.aspx?DataSetCode=AWCOMP, author's calculations.

Personal Income Taxes

Austria has a progressive personal income tax with rates ranging from 25 percent to 55 percent. The first €11,000 of income falls into the 0 percent bracket, and income above €1,000,000 is taxed at 55 percent.

TABLE 3.

Personal Income Tax Brackets

Taxable income	Rate
€0-11,000	0%
€11,001-18,000	25%
€18,001-31,000	35%
€31,001-60,000	35%
€60,001-90,000	42%
€90,001-1,000,000	50%
Over €1,000,000	55%

Source: Deloitte, "Taxation and Investment in Austria 2017."

Austria also has an allowance for what could be called the August holiday salary and the Christmas salary. The 13th and 14th salary payments (assuming an individual is paid on a monthly basis) are taxed differently from other salary payments throughout the year. For these two salary payments, the first €620 is tax-exempt. The amount above that threshold is taxed at a minimum of 6 percent, but rates on this income increase progressively to 55 percent.[60]

60 Deloitte, "Taxation and Investment in Austria 2017."

Table 4.

Personal Income Tax Brackets for 13th and 14th salaries

Taxable income	Rate
€0-620	0%
€621-25,000	6%
€25,0001-50,000	27%
€50,001-83,333	35.75%
€83,334-1,000,000	50%
Over €1,000,000	55%

Source: PwC, "Tax Information Austria – 2018: People and Organisation," https://www.pwc.at/de/publikationen/steuern-und-recht/taxinformation_austria18_en.pdf.

Let's say an individual is making €70,000 per year in salary with 14 payments of €5,000 each and no special deductions or tax credits. The standard tax rates would result in a tax bill of €23,280 and an effective tax rate of 33.3 percent. However, this is not the true result because of the special treatment of the 13th and 14th salary payments. Since those payments are taxed differently than the other 12, the individual's tax liability is €19,043 with an effective tax rate of 27.2 percent.

Even though this system results in a lower effective tax rate faced by workers it is not transparent and is difficult to administer.

Deductions and Credits

Austrian taxpayers who are subject to the personal income tax can deduct various costs from their income before arriving at their taxable income. These include allowances for commuters, training expenses, moving expenses, charitable donations, childcare expenses and other items.

TABLE 5.

Sample of Tax-free and Deductible Amounts

Category	Annual Amount
Transportation Tax Credit	€400
Sole earner/single-parent tax credit with one child	€494
With two children	€669
For each additional child	€220
External professional education per child	€1,320

Source: PwC, "Tax Information Austria – 2018: People and Organisation," https://www.pwc.at/de/publikationen/steuern-und-recht/taxinformation_austria18_en.pdf

Family Allowances

In Austria, families receive benefits based on the age and number of their children. These per-child benefits vary from €172.40 for a child under three years old in a family with just one child to €275.50 per child for a child over the age of 19 in a family with seven or more children.

TABLE 6.

Family Allowance per Month and Child

Age of Child	With 1 child	With 2 Children	With 3 children	With 4 children	With 5 children	With 6 children	With 7 or more children
Below 3	172.4	179.5	189.8	198.9	204.4	208.1	224.4
Ages 3-9	180.3	187.4	197.7	206.8	212.3	216	232.3
Ages 10-18	199.9	207	217.3	226.4	231.9	235.6	251.9
Ages 19+	223.5	230.6	240.9	250	255.5	259.2	275.5

Source: PwC, "Tax Information Austria – 2018: People and Organisation," https://www.pwc.at/de/publikationen/steuern-und-recht/taxinformation_austria18_en.pdf.
Note: An additional amount of €155.90 per month was paid for children with severe disabilities in 2018. Together with the family allowance, a child benefit of €58.40 per month and child is paid out. This amount is included in the figures in the table. For children between the ages of 6 and 15, an additional amount of €100 per year and child is paid in September. Under certain circumstances, it is possible to receive family allowance until the child's 25th birthday.

Social Security Contributions

Social security contributions in Austria generally fall into one of four buckets: health, accident, pensions, and unemployment.[61] For state pensions, an employee is required to contribute 10.25 percent, but the cap on the income subject to the tax is set at €5,130 per month. Because of this the maximum annual employee tax liability for pensions is €6,309.90. Employers pay a rate of 12.55 percent for pensions, subject to the same limit, so that the maximum annual employer tax liability for pensions is €7,725.78.[62]

TABLE 7.

Social Security Contributions

Type of Insurance	Social Security Cap (in euros per month)	Employer Rate (%)	Employer Liability (euros)	Employee Rate (%)	Employee Liability (euros)
Health	5,130	3.78	193.91	3.87	198.53
Accident	5,130	1.3	66.69	0	0.00
Pension	5,130	12.55	643.82	10.25	525.83
Unemployment	5,130	3	153.90	3	153.90
Other	5,130	0.85	43.61	1	51.30
Total Rate		21.48		18.12	
Maximum Liability Per Month			1,101.92		929.56
Maximum Liability Per Year			13,223.04		1,1154.72
Special Rate for 13th and 14th Salary		20.98		17.12	
Special Payments for 13th and 14th Salary Maximum Per Year	10,260		2,152.55		1,756.51
Total Maximum Annual Social Security Contributions Liability			15,375.59		12,911.23

Source: PwC, "Tax Information Austria – 2018: People and Organisation," https://www.pwc.at/de/publikationen/steuern-und-recht/taxinformation_austria18_en.pdf.

61 PwC, "Tax Information Austria – 2018: People and Organisation," January 2018, https://www.pwc.at/de/publikationen/steuern-und-recht/taxinformation_austria18_en.pdf.

62 Id.

Employers are also subject to some additional labor costs including:[63]

- employer contributions to family assistance fund (3.9 percent)
- surcharges to employer contribution to family assistance fund (0.36 percent to 0.44 percent)
- employee provision funds (1.53 percent)
- municipal taxes (3 percent)
- metro taxes – only for Vienna (€2 per employee per week)

Each layer of tax on employers and employees adds additional costs to businesses and reduces the take-home pay of workers. Separately, consumption taxes also impact workers because they reduce the purchasing power of wages that are spent on consumption.

Taxes on Capital Gains and Dividends

The tax rate on personal income from capital gains and dividends is 27.5 percent in 2018.[64] This rate is higher than any of Austria's neighbors; Switzerland, on Austria's western border, does not levy any federal tax on capital gains.

Double taxation of the same income arises in tax systems that tax both corporate income and personal income from capital gains. However, some countries, like Estonia and Australia, have integrated their corporate income and capital income taxation to bring about efficiency and neutrality.[65]

The combined effect of the 25 percent corporate income tax and the 27.5 percent tax on dividends and capital gains results in an integrated corporate tax rate in Austria of 45.6 percent. For dividend income, this is above the average for OECD countries of 41.7 percent.[66] Among Austria's neighbors, only Germany has a higher integrated corporate tax rate on dividend income, at 48.3 percent.[67]

Eliminating double taxation could both lower the integrated corporate tax rate and improve the competitiveness of the Austrian tax system.[68]

63 Id.

64 EY, *Worldwide Personal Tax and Immigration Guide 2018-2019*, November 2018, https://www.ey.com/Publication/vwLUAssets/ey-2018-19-worldwide-personal-tax-and-immigration-guide/$FILE/ey-2018-19-worldwide-personal-tax-and-immigration-guide.pdf.

65 Kyle Pomerleau, "Eliminating Double Taxation through Corporate Integration," Tax Foundation, Feb. 23, 2015, https://taxfoundation.org/eliminating-double-taxation-through-corporate-integration/.

66 OECD.Stat, "Table II. 4. Overall statutory tax rates on dividend income," https://stats.oecd.org/Index.aspx?DataSetCode=TABLE_II4#.

67 Id.

68 Kyle Pomerleau, "Eliminating Double Taxation through Corporate Integration."

TABLE 8.

Tax Rates on Capital Gains and Dividends, Austria and its Neighbors

Country	Capital Gains Rate	Net Personal Tax Rate on Dividends	Integrated Corporate Tax Rate (Dividend Income)
Austria	27.5%	27.5%	45.6%
Czech Republic	15.0%	15.0%	31.2%
Germany	26.4%	26.4%	48.3%
Hungary	15.0%	15.0%	22.7%
Slovak Republic	21.0%	7.0%	26.5%
Slovenia	0.0%	25.0%	39.3%
Switzerland	0.0%	21.1%	37.8%

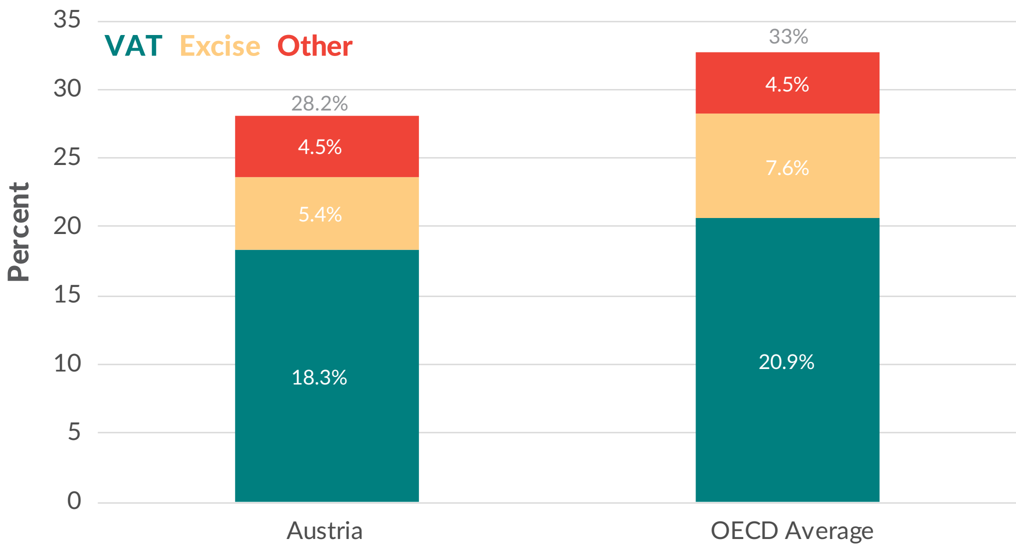
Source: EY, Worldwide Personal Tax and Immigration Guide 2018-2019, https://www.ey.com/Publication/vwLUAssets/ey-2018-19-worldwide-personal-tax-and-immigration-guide/$FILE/ey-2018-19-worldwide-personal-tax-and-immigration-guide.pdf, and OECD.Stat, "Table II. 4. Overall statutory tax rates on dividend income," https://stats.oecd.org/Index.aspx?DataSetCode=TABLE_II4#.
Note: In Slovenia, the 0 percent capital gains rate applies to sales of property owned for 20 years or longer. Sales of property with shorter periods of ownership trigger capital gains taxes of up to 25 percent.

Consumption Taxes

For 2017 in Austria, consumption tax revenues made up 28 percent of revenues, or €43.5 billion, with 18 percent coming from value-added taxes (VAT), 5 percent from excise taxes, and 4 percent from other taxes on consumption. On average among OECD countries, 33 percent of revenues came from consumption taxes of which 21 percent were from VAT, 8 percent from excise taxes, and 5 percent from other taxes on consumption.

FIGURE 12.

Consumption Taxes as a Percent of Total Tax Revenue



Source: OECD; https://stats.oecd.org/index.aspx?DataSetCode=REV#.

Consumption taxes are less harmful to economic growth than corporate or individual income taxes because consumption is generally less sensitive to taxes if those taxes are applied to a broad base and administered in a way that minimizes compliance costs.[69] From a revenue stability perspective, consumption behavior is usually less volatile than income either for individuals or businesses. This makes consumption taxes attractive to governments looking to stabilize their tax revenue over the long run.

Well-designed consumption taxes can raise significant amounts of revenue while minimizing economic distortions. However, consumption taxes that have too many exceptions or special provisions can create incentives for purchasing items in the informal sector or changing consumption habits to purchase comparable goods that receive special ratings.

VAT

The VAT in Austria is generally well-designed and has a headline rate of 20 percent.[70] One way to measure the efficiency of a VAT system is to look at the OECD measure of the VAT Revenue Ratio. This measure looks at the standard VAT rate and total consumption to see how much the VAT would collect if applied to all consumption.[71] This shows how broad the actual tax base for the VAT is relative to an ideal VAT base. A VAT that has a multitude of exemptions, a low compliance rate, or a high rate of business failures will have a lower VAT Revenue Ratio. On the other hand, systems that are closer to the ideal will have a higher VAT Revenue Ratio. A perfect score of 1 would imply that the standard VAT rate applies to all final consumption and a robust administration of collections.

In Austria, the VAT Revenue Ratio is 0.60, which is above the OECD average of 0.56.[72] These levels are comparable to those among Austria's neighbors, although the VAT rates differ dramatically. Hungary has the highest VAT rate in the EU at 27 percent and Switzerland has a low rate of 7.7 percent.[73]

Like many countries that administer VAT systems, Austria has special rates for some goods. The reduced rate of 13 percent applies to tickets for sporting and cultural events, domestic flights, and some other goods and services.[74] A further reduced rate of 10 percent applies to many items including food, pay and cable TV, hotel accommodations, social services, domestic transports, newspapers and periodicals, and other goods and services.[75]

Special reduced rates and exemptions create distortions and complexities. For a given level of VAT revenue, the trade-off for special rates is a higher overall VAT rate.

69 Åsa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, "Tax and Economic Growth."

70 OECD, "OECD Tax Database, D. Taxes on Consumption: Rates of Value Added Tax (General Sales Tax), Table 2.A2.1," http://www.oecd.org/tax/tax-policy/tax-database.htm#D_TaxesConsumption.

71 OECD, *Consumption Tax Trends 2018: VAT/GST and Excise Rates, Trends and Policy Issues* (Paris: OECD Publishing, 2018), https://doi.org/10.1787/ctt-2018-en.

72 Id.

73 OECD, "OECD Tax Database, D. Taxes on Consumption: Rates of Value Added Tax (General Sales Tax), Table 2.A2.1.

74 Avalara, "Austrian VAT rates and VAT Compliance," https://www.avalara.com/vatlive/en/country-guides/europe/austria/austrian-vat-rates.html.

75 Id.

Another measure that is used to evaluate VAT systems is the VAT Gap. The VAT Gap is defined as the percent of estimated VAT total tax liability that is not collected in VAT revenues.[76] The gap arises for several reasons including tax fraud and inadequate collections. Additionally, bankruptcies, financial insolvencies, and miscalculations can occur that result in less VAT revenue than what the system would otherwise collect. In Austria, the VAT Gap was 7.3 percent in 2016, below the average for the 28 EU member states of 12.3 percent.[77] The VAT Gap in Austria has fallen 2.7 percentage points from 10 percent in 2013.[78]

Not all VAT systems are designed to make compliance easy. Some systems have quite onerous reporting requirements and systems that make the time necessary to comply exceedingly high. Compliance time for consumption taxes in Austria averages 35 hours per year.[79] The average among OECD countries is 54 hours, and the average among Austria's neighbors is 67 hours. Czech Republic, Hungary, and the Slovak Republic all have compliance times in excess of 80 hours.[80]

TABLE 9.

Value-Added Tax Statistics for Austria and its Neighbors

Country	VAT Rate	VAT Revenue Ratio	VAT Gap	Compliance Time for Consumption Taxes
Austria	20%	0.60	7%	35
Czech Republic	21%	0.60	14%	102
Germany	19%	0.56	9%	43
Hungary	27%	0.57	13%	96
Slovak Republic	20%	0.50	26%	84
Slovenia	22%	0.58	8%	69
Switzerland	7.7%	0.68	N/A	8

Source: VAT rate is for 2018 and from OECD, "OECD Tax Database, D. Taxes on Consumption: Rates of Value Added Tax (General Sales Tax), Table 2.A2.1," http://www.oecd.org/tax/tax-policy/tax-database.htm#D_TaxesConsumption. VAT Revenue Ratio is for 2016 and from OECD, *Consumption Tax Trends 2018: VAT/GST and Excise Rates, Trends and Policy Issues* (Paris: OECD Publishing, 2018), https://doi.org/10.1787/ctt-2018-en. Compliance time for consumption taxes is for 2017 and from PwC, "Paying Taxes 2019: Interactive Tax Data Explorer," https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/explorer-tool.html?WT.mc_id=CT13-PL1300-DM2-TR2-LS1-ND30-TTA4-CN_payingtaxes-2019-data-explorer-button.
Note: The VAT Revenue Ratio is defined by the OECD as VAT Revenue/[(Total Consumption – VAT Revenue) x standard VAT rate] where total consumption is Final Consumption Expenditure in national accounts. The VAT Gap is defined as the percent of estimated VAT total tax liability that is not collected in VAT revenues. The European Commission does not estimate the VAT Gap for Switzerland because it is not an EU member state.

Excise Taxes

Excise taxes are applied on various goods in Austria, and revenues from excise taxes make up a shrinking share of tax revenue. In 1965, excise taxes accounted for nearly 10 percent of tax revenue in Austria, but in 2017 less than 5 percent of tax revenues came from excise taxes.

Tax rates for excise taxes vary depending on the product, with tobacco products taxed anywhere from 13 percent to 47 percent of their sales price and petroleum taxed from €40 to €6,000 per 1,000 liters.[81]

76 European Commission, "Study and Reports on the VAT Gap in the EU-28 Member States: 2018 Final Report," Sept. 11, 2018, https://ec.europa.eu/taxation_customs/sites/taxation/files/2018_vat_gap_report_en.pdf.

77 Id.

78 Id.

79 PwC, "Paying Taxes 2019: Interactive Tax Data Explorer," and author's calculations.

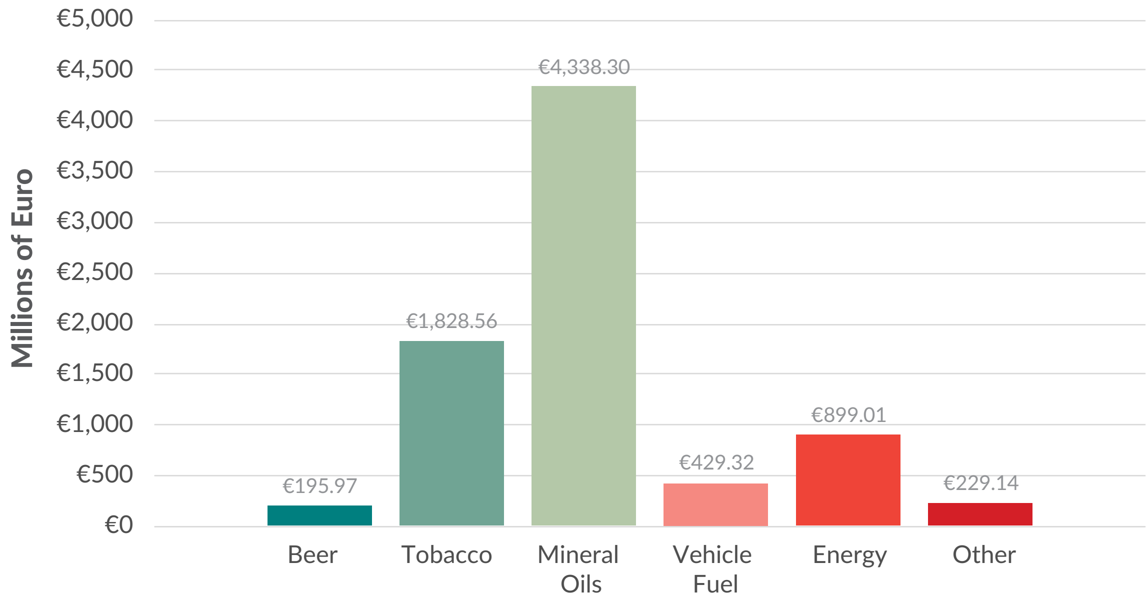
80 Id.

81 PwC, "Austria: Corporate – Other Taxes," Worldwide Tax Summaries, http://taxsummaries.pwc.com/ID/Austria-Corporate-Other-taxes.

Among the product classes subject to excise taxes, taxes on mineral oils including gasoline, liquid petroleum, diesel, and light fuel oil brought in 55 percent of excise tax revenues or €4.3 billion in 2016. Tobacco taxes brought in the second-largest share at 23 percent of excise tax revenues, or €1.8 billion.

FIGURE 13.

Excise Tax Revenues in Millions of Euro, 2016



Source: OECD.Stat, "Details of Tax Revenue - Austria," https://stats.oecd.org/index.aspx?DataSetCode=REVAUT.

Property Taxes

Property taxes in Austria raised nearly €2 billion in 2017, or 1.3 percent of revenues. On average among OECD countries, property taxes generate 5.6 percent of revenues. Taxes on property are estimated to have the least impact on economic growth because land and buildings are immobile. However, many countries have property tax systems that are complex and burdensome with multiple layers of provisions that effectively tax the same income multiple times.

Over the years, Austria has administered some of these distortive taxes, but currently it administers a rather efficient property tax system. In 1993, taxes on net wealth made up 43 percent of property tax revenues. In the following year, the Austrian government put in place a new law with a final withholding tax on interest income at 22 percent.[82] This law also removed the bulk of the burden of the net wealth tax, and revenues from net wealth taxes in Austria went to zero by 2001.[83]

Similarly, collections from inheritance taxes collapsed following the Austrian Supreme Court ruling that abolished the main provisions of Austria's inheritance tax law in 2008.[84]

82 Wolfgang Eggert and Bernd Genser, "Dual Income Taxation in EU Member Countries," CESifo DICE Report, ISSN 1613-6373, ifo Institut für Wirtschaftsforschung an der Universität München, 2005, https://www.econstor.eu/bitstream/10419/166833/1/ifo-dice-report-v03-y2005-i1-p41-47.pdf, and Bernd Genser, "Austria's steps towards a dual income tax," Diskussionsbeiträge: Serie II, Sonderforschungsbereich 178 "Internationalisierung der Wirtschaft," Universität Konstanz, No. 288, 1995, Konstanz, https://www.econstor.eu/bitstream/10419/101649/1/722309147.pdf.

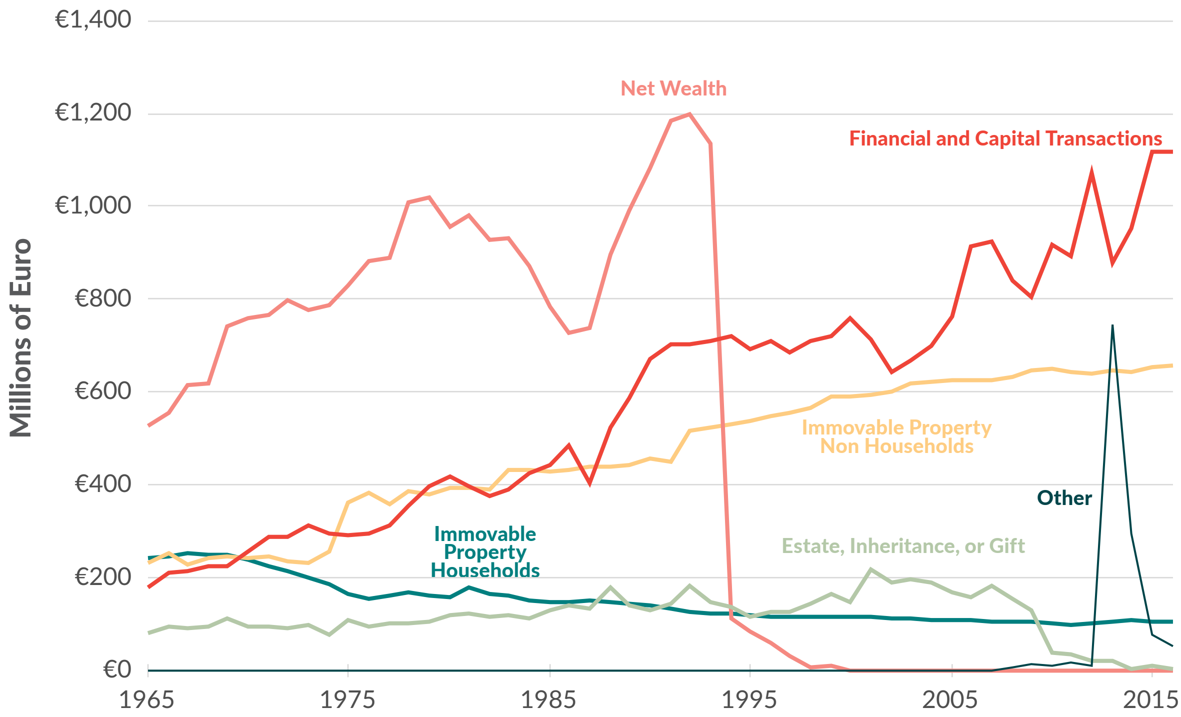
83 OECD.Stat, "Details of Tax Revenue – Austria," https://stats.oecd.org/index.aspx?DataSetCode=REVAUT#.

84 EY, "Wealth under the spotlight 2015: How taxing the wealthy is changing," 2015, https://www.ey.com/Publication/vwLUAssets/ey-wealth-under-the-spotlightv6/$FILE/ey-wealth-under-the-spotlightv6.pdf.

A new withholding and capital gains tax structure that was introduced in 2012 brought in a short period of high revenues associated with the transition to the new structure. Since 2016, the rate paid on income from capital gains has been 27.5 percent.[85]

FIGURE 14.

Tax Revenue from Property Tax Categories, Millions of Euro, 1965-2016



Note: Data has been adjusted for inflation using the CPI index for Austria where 2015=100, https://stats.oecd.org/index.aspx?DataSetCode=PRICES_CPI" Property tax categories are defined in the following way: Immovable Property -Households, 4110; Immovable Property -Non Households, 4120; Net Wealth, 4200, Estate, Inheritance, or Gift, 4300, Financial and Capital Transactions, 4400; Other, includes all revenue in 4000 minus those categories previously defined.
Source: OECD.Stat, "Details of Tax Revenue - Austria," https://stats.oecd.org/index.aspx?DataSetCode=REVAUT.

Transfer Taxes

Transfer taxes for land and capital make up 57 percent of revenues collected from property taxes.

Austria levies a real estate transfer tax on the transfer of real property to a new owner.[86] The transfer tax is applied in a progressive manner for transfers of real estate through a gift or inheritance. The first €250,000 of value is subject to a 0.5 percent tax, the next €150,000 at 2 percent, and the remainder at 3.5 percent.[87] For transfers of agricultural or forestry land between close family members, the rate is 2 percent.[88] The minimum basis for the assessment is fair market value.

Additionally, transfers of shares of a business that owns Austrian real estate could trigger the real estate transfer tax. If the transfer shifts at least 95 percent of the shares to a new owner or if a transfer results in a new owner holding at least 95 percent of shares, the transfer tax would apply.[89]

85 EY, *Worldwide Personal Tax and Immigration Guide 2018-2019*.

86 EY, *Worldwide Estate and Inheritance Tax Guide 2018*, June 2018, https://www.ey.com/Publication/vwLUAssets/ey-worldwide-estate-and-inheritance-tax-guide-2018/$FILE/ey-worldwide-estate-and-inheritance-tax-guide-2018.pdf.

87 Id.

88 Deloitte, "Taxation and Investment in Austria 2017."

89 Id.

Real Estate Taxes

Property taxes that apply to the value of land and improvements on the land act partially as a tax on those improvements. Austria has relatively low property tax collections when measured as a percent of the private capital stock. In 2017, property tax collections in Austria were just 0.13 percent of the value of the private capital stock; the OECD average for this measure was 0.84 percent.[90]

Real estate taxes in Austria are assessed by local municipalities on immovable property regardless of whether the property has been developed.[91] The basic federal rate is 0.2 percent and municipal coefficients for calculating property tax liability range up to 500 percent. For tax purposes, the estimated value of property is generally far below the market price.[92]

90 Daniel Bunn, et al., *2018 International Tax Competitiveness Index*.

91 Deloitte, "Taxation and Investment in Austria 2017."

92 Id.

ABOUT THE TAX FOUNDATION

The Tax Foundation is the world's leading independent tax policy research organization. Since 1937, our research, analysis, and experts have informed smarter tax policy in the United States and abroad. Our Center for Global Tax Reform produces timely and high-quality data, research, and analysis on taxation in countries around the world that influences the debate toward economically principled policies.

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Since 2017, the new Austrian government has been pursuing an agenda focused on reforming its tax code with a goal of becoming more competitive for attracting and retaining business investment. The last major rewrite of Austria's income tax law occurred in 1988, although there have been some lesser changes since. The corporate tax rate was reduced from 34 percent to its current level of 25 percent in 2005, but the tax burden on labor in Austria is among the highest in the Organisation for Economic Co-Operation and Development (OECD). The current efforts by the Austrian government come at a time when many countries around the world are reforming their tax policies to become more competitive.

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Tax Foundation
1325 G Street, N.W. Suite 950
Washington, D.C. 20005
202-464-6200

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