

Reforming Austria's Tax System

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Challenges Ahead

- **National Debt:** 73.4% of GDP
=> Reduction to 60% of GDP
- Benefits for an **aging society**
- **Climate Change**



Solutions

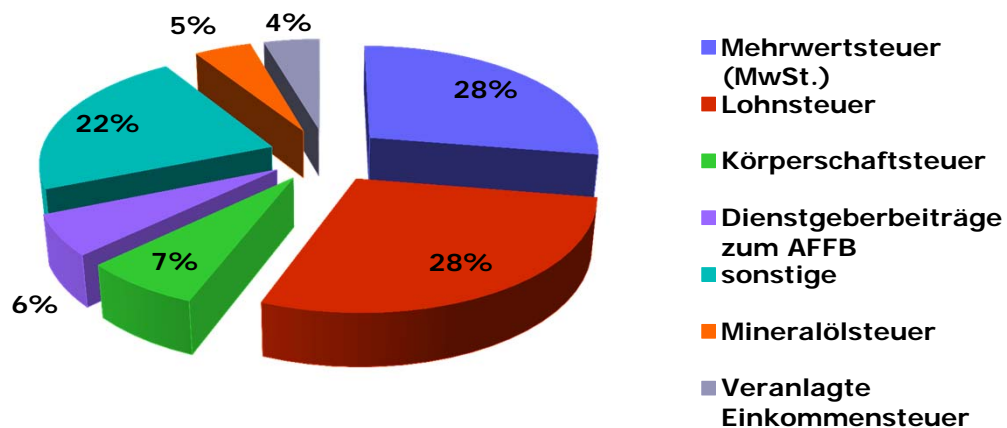
- Stimulate **economic growth**
- Cut spending
- Privatization
- Increase taxes

Debt ceiling: 2017 Deficit should not be more than 0.45%

Dilemma

- Increasing taxes does not automatically lead to higher tax revenues and might restrict economic growth (Greece / Spain / Portugal)
- In small economies, lowering taxes will result in higher tax revenues.
- Taxation of inelastic factors

Tax revenues in Austria



Income Tax Rates

Income	Tax rates
11,000 €	0%
25,000 €	36.5%
60,000 €	43.2%
> 60,000 €	50%

Tax Rates on Income from Labor

Income	Tax rates
11,000 €	0%
25,000 €	32.1%
60,000 €	38.0%
> 60,000 €	43.7%

Burden on Labor

- In Austria, **48.4%** of the labor costs consist of taxes and social security contributions.
- OECD average: 35.2%

Corporate Tax Rates

Year	Tax rate
1966	24-44% / Distribution
1972	30-55% / Distribution
1988	30%
1993	34%
2005	25%

VAT Rates

Year	Tax rate
1972	8% (reduced) / 16%
1984	10% (reduced) / 20%

Only Luxembourg (15%), Malta (18%), Cyprus (19%) and Germany (19%) have lower VAT rates.
Highest VAT rates can be found in Hungary (27%), Sweden (25%), Croatia (25%) and Denmark (25%)

Increase of VAT Rates?

- VAT is not born by enterprises. The VAT burden is passed on to the consumer.
- Exports are VAT exempt.
- Imports are subject to VAT.

but

- Less progressive.
- Rich people can save more while poor people have to spend more of their income on consumption.

Rate Reduction and Base Broadening

- Reagan Tax Reforms 1986
- Corporate Tax: Expense limitation rules
- Income Tax: Capital gains tax on sales of shares and on the sale of immovable property.

- Austrian Court of Audit (2013): **558 tax exemptions**. Administrative costs outweigh the benefit for the taxpayer.

Rate Reduction and Base Broadening

Countervailing Trend:

- Patent Box Regimes (new compromise)
- Holding Regimes

Tax burden on capital decreased

- Corporate tax rates went down
 - Abolition of municipal business tax (1994)
 - Abolition of wealth taxation (1994)
 - Abolition of inheritance taxes (2008)
 - Final capital yield tax on interest and dividend payments at a rate of 25%
- but
- Private Foundation less attractive (2011: 25%)
 - Introduction of a Financial Transaction Tax as of 2016.

Tax Secrecy

- Introduction of **Art. 26(5) OECD MC** in 2005.
 - Austria's reservation withdrawn.
 - FATCA IGA II signed 2014
 - **Savings Directive**: Switch to automatic exchange of information in 2017
 - **Mutual Assistance Directive**: Automatic exchange of information in 2017
 - **OECD**: Automatic exchange of information in 2017
- => Bank secrecy only in purely domestic situations

Synthetic Income Tax

- Should interest income be taxed at progressive rates?
- Inflation adjustment
- Differences between equity and debt financing

Austria's Strengths

- Group taxation (2005)
- Half rate system / final capital yield tax
- International participation exemption and full deductibility of expenses
- Private Foundation regime (1993)

Austria's Strengths are watered down

- **Group taxation:**
 - Limited to companies in EU or exchange of information requirement
 - Deduction limited to 75% of profits of parent
- **Private Foundation regime:**
 - Remaining benefit is participation exemption. Annual costs are at least 10,000 €
- More and more **expenses** are no longer deductible
- Restricted loss carry forward
- Bracket Creep (kalte Progression)
- **Predictability**

Proposals

- **Reduce the tax burden on labor**
 - Lower labor costs will attract more investments
 - Abolition of exceptions / renders the system easier to administer
 - Harmonize the basis for taxation and for social security contributions / one competent authority
 - Increase retirement age
 - Cut spending
 - Negative income tax for low income earners (110 €) "EITC"
 - Municipal Tax (Kommunalsteuer)

Proposals

- **Create competitive advantages for businesses**
 - Predictability
 - Improve provisions on group taxation
 - Abolish or soften the rules disallowing the deduction of expenses

Proposals

- **Additional Funding:**
 - Increase VAT rates
 - Progressivity:
 - Progressive tax rates for interest income
 - Reintroduce inheritance taxes (100-150 Mio €)
 - Abstain from levying a comprehensive wealth tax (110-150 Mio €) or one-time capital levy



Cocktail Invitation



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