



ESPN – Flash report

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Austrian parliament adopts legislation on income tax reform

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reform**

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Theme:	<i>Taxation, social contributions and fiscal consolidation</i>
Title:	Austrian parliament adopts legislation on income tax reform
Category:	<i>Adopted legislation</i>
Abstract:	On 7 July 2015, the National Assembly of the Austrian parliament adopted the Tax Reform Act 2015/2016. This encompassing reform comprises no less than 43 different measures, of which major changes to income tax is one of the most important. Income tax will be reduced for most taxpayers from 2016. However, the positive impact for low-income households will be rather limited.
Description:	<p>The tax reform 2015/2016 is the result of lengthy negotiations between the Social Democratic Party and the People's Party in the current coalition government. The Social Democrats repeatedly stressed that a reform of income tax should especially benefit those on a low and/or middle income, whereas the People's Party also wished to reduce income tax for people with comparatively high earnings. Other especially important players in the debate were the trade unions and the Austrian Chamber of Labour, coming forward with their own proposal for a reform of income tax.</p> <p>All proposals included the common goal of tax relief within income tax, however with different ideas on who should benefit from the reform and to what extent.</p> <p>The final compromise includes an increase in the number of different tax brackets and a reduction of the income tax rate for most people. In the old system, people with income up to €11,000 gross per year were exempted from income tax. For incomes between €11,000 and €25,000 the tax rate was 36.5%, between €25,000 and €60,000 43.21%, and above €60,000 50%.</p> <p>The new tax brackets and tax rates, to be implemented as from 2016, are the following: no income tax has to be paid on personal gross yearly earnings up to €11,000 (so the lower earnings limit for income tax remains unchanged), the tax rate for income between €11,000 and €18,000 will be 25%, between €18,000 and €31,000 35%, between €31,000 and €60,000 42%, between €60,000 and €90,000 48%, between €90,000 and € 1 million 50%, and above €1 million 55%. A reduction (to 50%) in the tax rate for income above €1 million is planned from the year 2021.</p> <p>Besides the reform of the tax scale, child tax relief (tax base reduction; <i>Kinderfreibetrag</i>) will be increased from €220 to €440 for single earners, and from €132 to €300 per person for dual income households. Furthermore, the transport deduction (<i>Verkehrsabsetzbetrag</i>) and assistance for commuters on a low income will be raised.</p> <p>People with income below the lower earnings limit can be granted a "negative tax", whereby contributions to statutory social insurance are refunded. Currently, this negative tax amounts to 10% of the social insurance contributions paid by jobholders, but may not exceed €110 per year. With the tax reform 2015/2016, the negative tax will be increased</p>

	<p>and expanded. Employees with income below the lower earnings limit for income tax will, in future, have 50% of their social insurance contributions refunded, up to a maximum of €400 per year. A similar instrument has now also been introduced for the first time for old-age pensioners with a gross income below €11,000 per year. This refund again amounts to 50% of social insurance contributions, but up to a maximum of €110 per year. The latter measures are intended to ensure that people who are already not obliged to pay income tax also benefit to some degree from the reform.</p> <p>It is estimated that the total reduction of income tax deriving from this reform will be ca. €4.35 billion per year. The new rules on refunding social insurance contributions will result in additional public costs of approximately €370 million per year. The overall reduction in taxes due to the tax reform 2015/2016 is estimated to amount to €5.2 billion or 1.4% of GDP in 2017.</p>
<p>Outlook & Commentary:</p>	<p>The distributional impact of the income tax reform is somewhat mixed (see Schratzenstaller, 2015; IAS 2015). There are no changes for people with annual earnings below ca. €5,700 gross, as this group does not pay social insurance contributions, meaning that the “negative tax” in form of a refunding of social insurance contributions is not applicable to them. The relative effect on net yearly earnings will be highest for yearly earnings of ca. €5,700 gross. In this case, there will be an increase of 6.3% of net income compared to under the current system. This is due to the effect of the higher refund of social insurance contributions (“negative tax”), which increases by 4.7 times for this group. The relative effect is then reduced in stages to approx. 1.3% for people with a yearly income of €16,000 gross (currently ca. €13,650 net). In the income bracket between €16,000 and €45,000 gross, the relative effect again increases by up to 5%, and then decreases again stepwise to 3% for a yearly income of €90,000 gross, and further to 0.2% for a yearly income of €1 million.</p> <p>A microsimulation analysis by the Institute for Advanced Studies (IAS 2015) has examined the impact of the income tax reform on net household incomes. The results indicate that the relative effects will be larger the higher the earnings of the households (apart from the top decile). In the lowest earnings decile, yearly disposable income will only increase by 0.8% (due to the income tax reform), in the second decile by 1.5%, in the third decile by 2.5%. From the fourth to the ninth decile the effect will increase further stepwise, from 3.2% to 3.8%. For the tenth decile, the increase will amount to 3.2%. 53.1% of the total reduction in income tax is allotted to the three highest earnings deciles, 8.9% to the three lowest earnings deciles.</p> <p>Overall, this means that the income tax reform will not reduce monetary inequality, but is likely to have the opposite effect. Furthermore, one important shortcoming of the reform seems to be that tax relief for the income bracket between €10,000 and €20,000 gross appears to be comparatively low. This is a group in low-income employment, where additional work incentives and a reduction in on-wage labour costs can be deemed to be especially important, both from an employment and from a social inclusion perspective.</p>

<p>Further reading:</p>	<p>IAS (Institute for Advanced Studies) (2015) "Steuerreform erhöht Arbeitsanreize. Lohn- und einkommensteuerpflichtige Haushalte werden merklich entlastet": https://www.ihs.ac.at/fileadmin/public/media_corner/user_upload/Steuerreformerhoeht_Arbeitsanreize_2.pdf.</p> <p>Parlament der Republik Österreich / Budgetdienst (2015) "Analyse Steuerreform 2015/2016": http://www.parlament.gv.at/ZUSD/BUDGET/BD_-_Steuerreform_2015_und_2016.pdf.</p> <p>Schratzenthaler, M. (2015) "Steuerreform 2015/16 – Maßnahmen und Gesamteinschätzung": http://www.wifo.ac.at/publikationen/wifo-monatsberichte?detail-view=yes&publikation_id=58169.</p>
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