

Austria: Large “inflation relief package” enacted

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Description

Against the background of a strong increase in inflation, the Austrian Federal Government decided to implement an “inflation relief package”. As part of this package, low-income households will directly benefit from one-off payments and from indexation of specific social transfers, whereas the structural measures related to income tax will primarily benefit households on higher incomes.

After a steady increase during recent months, year-on-year consumer price inflation reached 8.7% in June 2022. Against this background, the Austrian Federal Government presented an “Inflation Relief Package” (*Teuerungs-Entlastungspaket*), which was passed by parliament at the end of June 2022.

This package consists of a substantial number of measures of differing types: various one-off payments, some temporary but also some permanent changes in the area of income taxation, and the introduction of regular indexation of certain cash social transfers.

One-off payments will be granted to all people whose main residence is in Austria, with additional one-off payments for specific groups. First, the so-called “climate bonus”, originally planned to partly compensate for higher energy costs due to CO2 pricing, and which would have amounted to between €100 and €200 per adult (and between €50 and €100 per child) will, as a one-off measure, be increased to €500 per adult and €250 per child. This one-off payment will be granted in October 2022. Furthermore, an additional one-off payment of €180 will be granted for every child receiving the family allowance in September 2022, and recipients of specific social transfers will receive an additional one-off payment amounting to €300 in September 2022. The latter will apply, for example, to people receiving unemployment insurance or social assistance benefits, to those eligible for a minimum pension benefit in the form of a “compensation allowance” (*Ausgleichszulage*), or to long-term

recipients of sickness benefit or rehabilitation benefit. An additional one-off payment will also be granted to pensioners in October 2022. If their monthly pension benefit is between €1,200 and €1,800 gross they will receive a €500 one-off payment; if it is below €1,200 or above €1,800, they will receive a smaller amount.

Additional measures have been decided regarding income taxation. As a temporary measure, only applicable for 2022, specific tax credits have been increased by up to €500 for workers and self-employed people. Persons with low income from employment will also benefit, as these tax credits may be granted in the form of a “negative tax”, even if the person in question is not subject to income tax (i.e. if their taxable income does not exceed €11,000 per year). For families with children, the so-called “family bonus plus” is permanently increased from a maximum of €1,750 per child and year to €2,000 per child and year, applicable retroactively as from the beginning of 2022. The “family bonus plus” is a tax credit which reduces the owed income tax, which means that parents who do not pay income tax do not benefit from it. However, the latter group does receive an “additional child allowance” (*Kindermehrbetrag*), which is granted as a “negative tax”. Within the inflation relief package the level of this tax credit has been permanently increased from €250 to €550 per child and year. From 2023, these increased tax credits will really have an effect on household income, because they are granted retroactively linked to the tax declarations for the preceding year.

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A structural measure that will affect the system of income taxation is the decision to eradicate the so-called "cold progression" as from the beginning of 2023. This means that the income brackets of the income tax scale will be indexed annually according to price inflation. Related to this change, certain social benefits will also be indexed yearly in the future. This will be the case for the family allowance and child tax credit, childcare allowance, sickness, rehabilitation and requalification benefit and study assistance, but not for unemployment benefit and unemployment assistance.



Outlook and commentary

Assessments of the distributional impact of the inflation relief package show that households with low income will primarily benefit from one-off payments and from the future indexation of social benefits (Momentum 2022). When compared to modelled average increases in household expenditure, with an assumed price inflation of 6.15% throughout 2022, the measures in the inflation relief package in fact make up for about 100% of the average increase in household expenditure for the two lowest income quintiles.

However, this effect primarily derives from one-off payments, and not from structural measures. If average annual inflation turns out to be higher, if inflation continues at the recent high level or even rises further in 2023, the real value of disposable income will decrease, even for households with comparatively low incomes. At the same time, many of the one-off payments are also available to households who are not on a low income, indeed even to households with very high income, giving rise to a substantial burden for the public budget, which has been criticised inter alia by the Fiscal Advisory Council (*Fiskalrat*). Furthermore, structural measures related to the income tax system, such as the permanent increase of the "family bonus plus" and especially the eradication of so-called "cold progression", will have high costs for the public budget, whereas their effects on low-income households will be quite limited (these measures have de facto a largely regressive effect) (Momentum 2022). Another weakness of the reform is that benefits from unemployment insurance will remain excluded from indexation (whereas all other major social transfers will from now on be indexed on a regular basis).

Further reading

Fiscal Advisory Council / Fiskalrat (2022), [Verteilungseffekte der Anti-Teuerungs-Pakete \(I, II und III\) im Jahr 2022](#) [*Distributional effects of the inflation relief packages (I, II, and III) in the year 2022*], Vienna

Momentum Institute (2022), [Verteilungsscheck des Antiteuerungspakets](#) [*Assessment of the distributional impact of the inflation relief package*], Vienna

Republik Österreich Parlament (2022), [Teuerung: Nationalrat beschließt neues Entlastungspaket](#) [*Inflation: National Council approves new relief package*], Parlamentskorrespondenz No. 753, 23.06.2022

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