

Austria's Tax Structure in International Comparison – A Statistical and Economic Analysis

For several reasons, tax levels and structures are currently at the forefront of the economic policy debate in Austria. We aim to contribute to the scientific basis of this discussion by analyzing the specifics of the tax system in Austria.

The meaningfulness of the overall tax rate as an indicator is limited, given that there are numerous options for financing market-related services and given that some economic or social policy goals can be achieved on the revenue or the expenditure side of the budget or both. The problems arising from these facts make it difficult to draw a meaningful international comparison of tax structures.

The taxation of labor is above average in Austria, which can be only partly attributed to high social security contributions and the associated high government benefits for employees. Revenues from taxes on property and wealth are exceedingly low in an international comparison, reflecting above all Austria's very low real property tax and below-average revenues from taxes on financial and property transactions.

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The level and structure of taxes² are currently at the forefront of the economic policy debate in Austria. The reasons for this interest are manifold but above all connected to the fundamental question whether the inevitable consolidation of public finances should be achieved at least in part on the revenue side, and if so, which types of taxes can be raised without dampening growth over the medium to long term (e.g. Aiginger et al., 2010). There is also a long-standing discussion on whether high tax rates (as observed in several European countries) dampen growth as a rule.³ In addition, possible tax structure reforms have always featured prominently in the discussion on tax efficiency and fairness and the economic policy debate at large, as different taxes have different implications for growth and distribution (e.g. Aiginger et al., 2008).

The discussion on a country's overall tax burden or its tax structure is usually based on aggregated data, as compiled in accordance with the European System of Accounts (ESA) or very similar systems.⁴ The use of such data is subject to some caveats, though: The international comparability of tax ratios and tax structures is limited by several statistical and economic classification problems. As a result, data on implicit tax rates on labor and/or capital income in individual countries need to be interpreted with caution. Moreover, when international comparisons of tax structures are used for deriving policy recommendations in individual countries, it is also important to know what kinds of, say, capital taxes are actually charged in the countries under review. We aim to contribute to the discussion by analyzing the specifics of the Austrian

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² In this contribution, we use taxes to denote the sum of taxes in the narrow sense plus social contributions.

³ Schratzenstaller (2007) provides an overview of works on this issue.

⁴ For instance, the data used in the European Commission's Taxation Trends Report (2010) were compiled in line with ESA; those used in the OECD Revenue Statistics (2010a) were based on a slightly different concept.

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tax structure in an international comparison.

Section 1 explains the concept of an overall tax ratio and highlights its informative value and its limits. Section 2 provides a brief overview of Austria's tax system in an international comparison. Sections 3, 4 and 5 focus on the structure and level of taxes on, respectively, consumption, labor, and capital.⁵ In these sections, we also aim to provide explanations for well-known stylized facts of Austria's tax system, such as the very high tax burden on labor, or the very low revenues from taxes on property and wealth by international standards. Section 6 concludes with a summary of the key findings.

In addition to the literature cited in the text, our international comparisons

are based above all on the European Commission's Taxes in Europe database and the Taxation Trends Report as well as the OECD's Revenue Statistics.

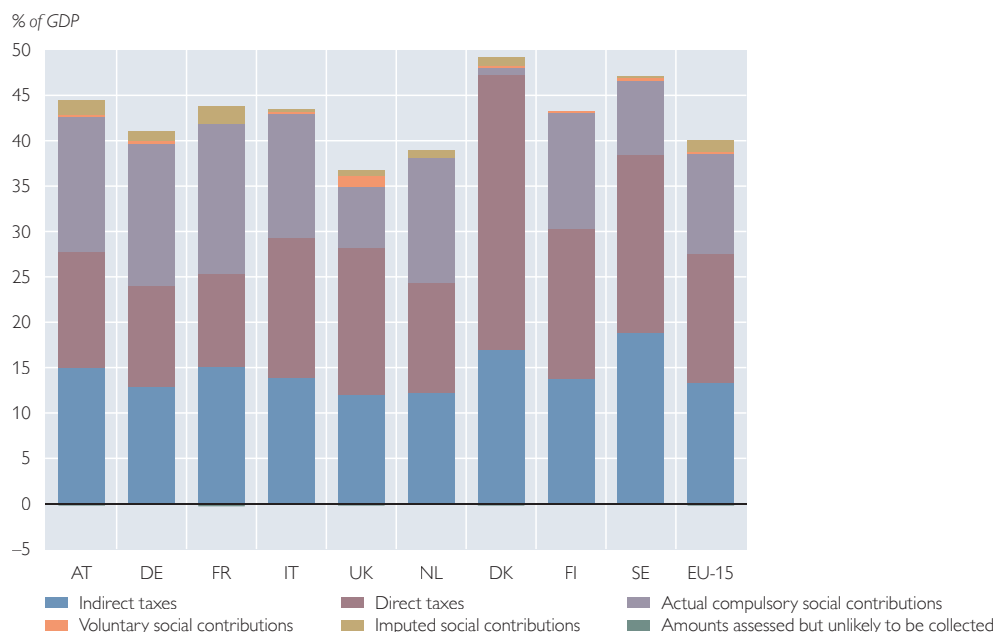
1 Informative Value of Overall Tax Ratios

1.1 Concepts for Measuring the Tax Burden

Our comparison of the tax burden in the individual EU Member States at the highest level of aggregation is based on comparing overall tax ratios according to ESA. In line with ESA 95, the overall tax ratio of an EU Member State is principally calculated as the share in GDP at current market prices of all taxes and social contributions paid by enterprises, households and the public sector to the state (minus irrecoverable

Chart 1

Tax Revenues in Selected Countries According to ESA



Source: Eurostat, European Commission (AMECO database).

Note: Indirect taxes are taxes on production and imports (ESA code D.2)

Direct taxes include current taxes on income, wealth etc. (D.5) and capital taxes (D.91)

EU-15 refers to the arithmetic mean.

⁵ Following European Commission (2010), we will use capital in a very broad sense, referring to both the production factor and to the sum of net savings including inheritances (real estate, cash, savings deposits, securities, etc.).

claims). This also includes the countries' compulsory contributions to the EU budget (VAT-based own resources, tariffs, import duties not collected on the national border, sugar levy, duty on exceeding the milk quota). A total of four tax burden indicators are used at the European level, which differ in that they include or disregard the following three types of taxes (Statistics Austria, 2010):

1. Actual social contributions payable to government units other than the social security sector; especially civil servants' pension contributions to their employers;
2. Voluntary social contributions, such as voluntary purchases of pension entitlement periods; and
3. Imputed social contributions that represent the counterpart to unfunded social benefits paid directly by public employers to their employees. In Austria, such contributions essentially reflect any pension payments by public legal entities to civil servants which are not covered by the civil servants' own pension contributions.

The scope of the underlying tax burden indicator is relevant both in international comparisons and in the political discussion in Austria. As a case in point, Austria had aimed to lower the overall tax ratio to below 40% of GDP in the years before the outbreak of the financial crisis. Naturally, the scope of the adjustment requirements associated with such a policy objective depends on the definition of the underlying tax

ratio. For instance, the overall tax ratio used in the updates to the Austrian Stability Programme – just like the ratio published in the European Commission's Taxation Trends Report (2010) – does not include imputed social contributions, which amounted to around 1.5% of GDP in Austria and to 1.1% of GDP at the EU-15 level in 2009 (chart 1).⁶

Table 1 shows that overall tax ratios also reflect tax revenues other than those reported by the Austrian Federal Ministry of Finance. There are substantial amounts of federal tax revenues which come from other budget chapters (above all contributions to the Family Burdens Equalisation Fund and various social security contributions) as well as tax revenues from social security funds and tax revenues collected by provinces (e.g. tax on radio and TV licenses), municipalities (mainly municipal tax and real property tax) and other public-sector entities (above all mandatory contributions to chambers). In addition, differences between the ESA-based tax revenues discussed here and the cash-based tax revenues reported by the Ministry result from the time adjustment of several tax categories⁷ and from differences in the treatment of tax refunds. These are transfers that are recorded as deduction items from wage, income and corporate income tax in the final budget accounts (child-related tax credits, bonus payments for building and loan contracts, research premiums, etc.), but are recorded as expenditure in the national accounts.

⁶ The other revenue categories mentioned tend to cause minor distortions, as most overall tax ratios published include the actual social contributions of public-sector employees, and voluntary social contributions are relatively small in most EU Member States (Austria: around 0.1% of GDP; see chart 1).

⁷ The national accounts are prepared on an accrual basis, i.e. transactions are recorded after an asset or a liability has been created. In contrast, cash-based accounting is used in the Ministry's administrative statistics. Therefore, revenues from VAT, the duty on vehicles based on fuel consumption and wage tax for a given period are recorded with a time lag of two months (VAT and motor vehicle tax) and one month (wage tax) in Austria (Statistics Austria, 2010).

As a result, tax revenues as reported in the national accounts are higher than those reported by the Ministry by the amount of these transfers (Statistics Austria, 2010); laterally reversed, this is also true of government expenditure according to the national accounts.

Table 1

Tax Receipts (Austrian Finance Ministry) vs. Fiscal Burden (ESA)

Net tax receipts reported by the Austrian Ministry of Finance

- + Federal tax revenues from other budget chapters
- + Import duties
- + Tax revenues collected by provinces and municipalities
- + Tax revenues of other public sector entities
- + Refunds
- +/- Time adjustments
- +/- Fees classified as taxes or output revenues

Tax revenues of Austria and EU institutions according to ESA

- + (part of) social contributions to the state according to ESA
- irrecoverable social contributions

Fiscal burden in Austria according to ESA

Source: Statistics Austria (2010), Austrian Federal Ministry of Finance.

1.2 Conceptual Problems with the Overall Tax Ratio⁸

The international comparability of overall tax ratios as a burden measure is limited by several economic and institutional features as well as statistical problems (see also Farny et al., 2010). For instance, market-related services provided by the public sector or social benefits with an insurance nature may be designed in such a way that the households' or companies' (compulsory) contributions are not included in the definition of taxes and social contributions as outlined in section 1.1:

- *Compulsory pension and/or health insurance where people choose a private insurer or insurance fund:* In some OECD countries, there is a statutory requirement for households

and companies (the latter with regard to their employees) to conclude private pension and/or health insurance policies that complement or even largely replace the public insurance systems (see also section 3). As the insurance premiums involved are not paid to units in the government sector, these payments – even though they are compulsory – are not considered government charges and are therefore not included in the overall tax ratio.

- *Market-related services* that are typically provided by government entities can be financed either indirectly through taxes or directly through fees (water, waste water and sewage fees, TV and radio fee, etc.). As these fees are typically classified as revenue from sales in ESA 95, they do not count as taxes and are thus not included in the tax ratio (Eurostat, 2010).

Another factor limiting the meaningfulness of overall tax ratios is that some economic or social policy objectives can be achieved through revenue- and/or expenditure-side measures:

- An international comparison shows significant differences in the taxation of certain social transfers, especially pension benefits (section 4.2).
- While taxes on the wages of private-sector employees are clearly government interventions in the market, those on the wages of public-sector employees are relevant only for the purpose of fiscal equalization at the domestic level, as in this instance the public sector pays taxes to itself. Still, differences in the tax treatment of public- and private-sector wages may lead to distortions in the overall tax ratio (section 4.2).

⁸ The following remarks apply exclusively to the overall tax ratio as indicated in the national accounts and ESA.

- Subsidies for research, further training and investment can be in the form of tax exemptions or direct grants. While the latter have to be financed, the former typically reduce the tax ratio.
- Certain distributive goals can be achieved through measures on the revenue side (tax progressivity, tax credits, etc.) or on the expenditure side (transfers). For instance, the distributional effects of family support measures in Austria (family allowance, child-related tax credit) could be more or less replicated through a combination of tax breaks (for higher-income groups) and income-related transfers (for low-income groups). This would lower the overall tax ratio in the national accounts by the tax breaks for higher-income groups.
- The state can also influence the pricing of certain product categories by either subsidizing them or by levying taxes on them (VAT, excise duties, taxes on insurance premiums). In Austria, for instance, travel by rail is subsidized because of transportation policy considerations. Financial support is provided both in the form of direct payments by the federal and provincial governments to ÖBB (the Austrian railway company) for infrastructure and public services and indirectly in the form of a lower VAT rate (10%), with the latter reducing the overall tax ratio.

Considering overall tax ratios as valid indicators of the tax burden is problematic, though. Regardless of what they comprise, and even if all the conceptual caveats did not apply, overall tax ratios would still be an inadequate metric for

determining the economic burden the state imposes on taxpaying citizens. The macroeconomic costs of taxation are not limited to actual tax payments; they also comprise income losses and the reduction in welfare associated with tax avoidance (Keuschnigg, 2005, p. 28ff) as well as the cost of tax enforcement. Moreover, when people pay taxes, they do not ultimately renounce their right to these funds, as tax revenues are used to finance public expenditure for the good of society (and thus the private sector). This applies not only to the expenditure items mentioned that benefit individuals or companies (subsidies, social transfers, market-related services), but also to the various public goods that benefit everyone (defense, protection of ownership rights, etc.). Overall tax ratios are thus rather a metric of redistribution and the gross burden than a measure of the ultimate net burden on taxpayers.

2 Austria's Tax Structure in International Comparison

Over the past decades, overall tax ratios have increased considerably in EU and OECD countries. Measured by the share in total tax revenues, above all social contributions and taxes on consumption have increased, whereas taxes on property and wealth have tended to become less important. Taxes influence or distort⁹ the decisions of economic agents in various ways, and they have different effects on growth and distribution. For the purpose of international comparisons of developed economies, the tax structure (i.e. the composition of the total tax ratio) is thus more relevant than the absolute level of the overall tax ratio.

⁹ *When the introduction or adaptation of a tax causes substitution effects, the tax is said to have an influencing or distorting effect on decision-making.*

There is a broad consensus in the theoretical discourse on taxation that levying taxes on corporate and capital income distorts savings and investment decisions,¹⁰ because making certain investments requires higher pre-tax returns. In contrast, taxes on labor income and VAT have a distorting effect on households' work-versus-leisure decisions. Contrary to the taxation of capital and labor, consumption taxes are generally considered growth-friendly mass taxes: Consumption taxes have a broader assessment base than taxes on labor income, as they also include consumption of profit and interest income. Their distorting effect on investment and consumption decisions is minimal, because investment (by companies that are eligible for input tax credit) and savings are exempt from VAT.

Johansson et al. (2008) analyzed the growth implications of tax structures in a comprehensive study. Their empirical results show that taxes on corporate profits have the most detrimental effect on economic growth, followed by personal income taxes (including taxes on interest and dividends)

and taxes on consumption. According to this analysis, specific taxes on property – above all inheritance and gift taxes as well as current taxes on immovable property – are the most growth-friendly (see also Pesendorfer, 2008).

In ESA 95, government revenues from compulsory contributions comprise indirect taxes (taxes on production and imports), direct taxes (current taxes on income, wealth, etc. as well as capital taxes) and social contributions and benefits (chart 1). While this distinction is highly important for the national accounts, a breakdown of taxes by their macroeconomic basis (i.e. taxes on labor, capital, and consumption) as made e.g. in European Commission (2010)¹¹ is much more relevant and meaningful for an international comparison of tax systems and for the analysis of their potential economic effects.

For instance, in the national accounts, indirect taxes include mainly consumption-related taxes (above all VAT and excise duties),¹² but some consumption-related taxes (such as the motor vehicle tax paid by households

¹⁰ While in a closed economy it does not make a difference whether the state imposes taxes on investment or on savings, in open economies the effects of imposing taxes on companies (i.e. investment) in the form of a corporate tax are distinctly different from the effects of taxes on shareholders (i.e. savings).

¹¹ See the appendix to European Commission (2010) for a detailed explanation of this allocation to economic functions (consumption, labor and capital). The breakdown of total tax revenues into these three categories leads to simplifications and approximations, as any "other taxes" have to be allocated to one of the three functions. In addition, the composition of tax revenues and implicit tax rates are subject to cyclical fluctuations, as revenues from taxes on capital tend to fluctuate more sharply than the revenues from other taxes. In Ireland and Spain, for instance, the implicit tax rates on capital declined very sharply between 2006-07 and 2008. In addition, for assessed taxes (above all taxes on corporate profits) there are in part substantial gaps between the time when the income is generated and the taxes due are actually paid.

¹² In ESA, indirect taxes are defined as follows: "Taxes in production and import (D.2) consist of compulsory payments (...) which are levied (...) in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production. These taxes are payable whether or not profits are made." According to traditional public finance theory, indirect taxes are collected from entities other than those who bear the ultimate economic burden of the tax, whereas direct taxes are paid directly by those individuals or households on whom they are imposed (Musgrave et al., 1993). In the modern literature on taxation, this definition is controversial, however. In contemporary usage, direct taxes are usually understood to refer to economic performance (such as income or wealth) and typically take into account the circumstances of those who are liable for personal income tax, whereas indirect taxes impose a burden on the use of income and on asset transactions and refer to anonymous transactions without taking account of personal circumstances (Keuschnigg, 2005).

Table 2

Tax Structure 2008 in Selected EU-15 Countries

	AT	DE	FR	IT	UK	NL	DK	FI	SE	EU-15 ¹
	% of GDP									
Total taxes	42.8	39.3	42.8	42.8	37.3	39.1	48.2	43.1	47.1	39.6
	% of tax revenues									
Consumption	27.3	27.0	25.0	22.9	28.5	30.6	32.2	29.8	27.3	28.9
of which: VAT	18.2	17.9	16.4	13.8	17.0	18.6	21.0	19.4	20.0	18.7
Excise taxes	5.8	6.5	4.6	4.5	8.6	6.0	6.6	7.8	5.8	6.7
Labor income of employees	50.0	48.8	51.2	44.8	37.2	45.0	43.2	47.3	52.8	44.7
of which: Social security contributions	29.5	32.0	35.0	26.9	17.7	29.9	2.0	26.0	23.4	25.9
Payroll taxes	5.9	0.0	2.9	0.0	0.0	0.2	1.1	0.0	9.4	1.3
Labor income of the nonemployed ²	5.8	6.7	1.5	5.8	0.5	7.1	10.1	6.0	7.7	4.8
Capital	17.1	17.4	22.8	26.6	33.8	17.3	14.8	16.9	12.2	21.7
of which: Capital income ³	14.8	14.8	12.3	20.8	18.9	12.5	8.8	13.8	9.2	15.3
Property and wealth	2.2	2.6	10.5	5.8	14.9	4.8	6.0	3.1	3.0	6.5
	% of the respective tax base									
Implicit tax rate										
on consumption	22.1	19.8	19.1	16.4	17.6	26.7	32.4	26.0	28.4	21.9
on labor	41.3	39.2	41.4	42.8	26.1	35.4	36.4	41.3	42.1	36.1
on capital ⁴	27.3	23.1	38.8	35.3	45.9	17.2	43.1	28.1	27.9	31.3

Source: OeNB, European Commission.

¹ Arithmetic mean.² Transfer recipients (pension or unemployment benefits, etc.).³ Including taxes on the income of self-employed people.⁴ EU-15 average excluding Luxembourg and Greece.

and various other tax-like charges) are classified as direct taxes. Indirect taxes also include wage-related taxes, such as the contribution to the Family Burdens Equalisation Fund or the municipal tax, as well as the most important taxes on capital stocks in Austria and in most of the other EU-15 countries (above all property tax and real property transfer tax). Taxes on capital and property income, however, are mainly classified as direct taxes (corporate income tax, interest and dividend taxes as well as capital gains tax, etc.).

Table 2 compares the overall tax ratios¹³ and tax structures of Austria with those of the four large EU countries (Germany, France, Italy, United Kingdom), other EU peers that are often compared with Austria (the Neth-

erlands, Denmark, Finland, Sweden) and the EU-15 average. The table shows that Austria has a higher overall tax ratio than the EU-15 average, which is primarily attributable to the fact that taxes on labor income of payroll employees and of the nonemployed (above all pensioners) are substantially above average.

3 Taxation of Consumption: Austria in the Middle Range

In the EU, the degree of regulation through harmonized assessment bases and minimum and maximum rates is much higher for the most important consumption taxes (VAT and excise taxes) than for taxes on labor and capital.

¹³ The figures are exclusive of voluntary and imputed social contributions but inclusive of compulsory payments to EU institutions (VAT-based own resources, taxes on imports).

Table 3

Taxation of Consumption in Selected EU-15 Countries

	AT	DE	FR	IT	UK	NL	DK	FI	SE	EU-15 ¹
Statutory VAT rate (as of January 2011)	20.0	19.0	19.6	20.0	20.0	19.0	25.0	23.0	25.0	20.8
Revenues (2008)	% of GDP									
VAT	7.8	7.0	7.0	5.9	6.3	7.3	10.1	8.4	9.4	7.4
Taxes on alcohol and tobacco	0.6	0.7	0.7	0.7	1.2	0.5	0.6	0.9	0.7	0.8
Environmental taxes ²	2.4	2.2	2.1	2.4	2.4	3.9	5.7	2.7	2.7	2.7

Source: European Commission.

¹ Arithmetic mean.

² These taxes are not all classified as consumption taxes; small deviations from national accounts data are possible for some countries.

Austria ranks in the medium range of the EU-15 regarding taxation of consumption: Both the GDP share of consumption-related taxes and the statutory VAT rate, at 20%, correspond roughly to the EU-15 average. In Austria, a relatively large number of products and services are subject to the reduced VAT rate of 10% (food, accommodation services, housing rent, passenger transport, various cultural services, etc.), which can be attributed to social policy considerations and historical reasons. Such reduced VAT rates are quite common in the EU (European Commission, 2011a), even though international organizations (e.g. OECD, 2010b) have voiced serious doubts whether this tool really benefits those who need it the most and have questioned its efficiency effect.

The share of consumption-related taxes is slightly below average, given that the overall tax ratio is rather high in Austria. Regarding specific excise duties, however, Austria ranks somewhat below the EU-15 average both in terms of tax rates and tax revenues (tables 2 and 3). Specific excise taxes are designed to impose a burden on the

use of certain public bads such as fuel, nicotine or alcohol, with the aim of making sure that consumers pay for negative externalities (i.e. costs for society) and thus dampening consumption, which is also associated with negative consequences for the individual (demerit effects).

Table 3 shows that Denmark stands out regarding consumption-related taxes: Denmark has the maximum statutory VAT rate of 25%, no reduced rates and relatively few exemptions (see also European Commission, 2011a).¹⁴ The other Northern European peers, too, impose significantly higher taxes on consumption than Austria: Finland and Sweden, like Denmark, have very high statutory VAT rates, while the Netherlands have substantial revenues from environmental taxes (table 3).

Several of the fees imposed in Austria (and other countries) that might be perceived as taxes on consumption are classified as revenue from sales in the national accounts (section 1). This applies especially to certain fees for municipal services, like water and sewage fees.

¹⁴ The extremely high revenues from environmental taxes as indicated in table 3 are partly due to taxes classified as taxes on capital in European Commission (2010).

4 Austria Imposes Very High Taxes on Labor, ...

An international comparison shows that labor taxes are very high in Austria. This is reflected not only in the large share of labor taxes in total tax revenues, but also in the comparatively high implicit tax rate on labor. The above-average revenues mainly result from high social security contributions and from payroll taxes (above all contributions to the Family Burdens Equalisation Fund and municipal taxes). Besides Austria, only Sweden and France report such a high share of these payroll-based taxes in total tax revenues (table 2).

While the effective tax rate on labor has remained broadly unchanged since 1995 in the EU-15 average, it has increased significantly in Austria. The share of wage-related taxes in GDP has remained roughly unchanged despite a decline in the wage share of GDP, which can be attributed mainly to a significant rise in revenues from withholding tax on employees (wage tax).¹⁵

4.1 ... But Many Wage-Related Taxes Entitle Taxpayers to Specific Benefits in Return

Taxes are compulsory payments to the government that do not entitle the taxpayer to specific returns, and tax revenues are not earmarked for specific purposes. While social security contributions are also compulsory payments, they do constitute a legal entitlement to

certain services that can be used if need be. The compulsory contributions to the public social security system provide government-guaranteed insurance coverage including benefit entitlements from health and accident insurance, unemployment insurance and pension insurance.

When analyzing the tax burden on labor, we must therefore keep in mind that part of the tax revenues is used to finance benefits that are exclusively available to employees and former employees (and their spouses and children).

Depending on whether or not they entitle the taxpayer to specific returns, taxes on labor in Austria can be assigned to the following four categories:¹⁶

1. *Taxes with specific contribution-based benefits that are relatively evenly distributed:* public pension insurance (around 36% of wage-related taxes);
2. *Taxes with specific contribution-based benefits that are highly unevenly distributed:* unemployment insurance, contributions to insurance against non-payment due to insolvency, accident insurance (around 10% of wage-related taxes);¹⁷
3. *Taxes with contribution-independent benefits that are exclusively available to those who pay them (and possibly their relatives):* Chamber of Labour contributions,¹⁸ health insurance (overall around 13% of wage-related taxes);¹⁹ and

¹⁵ Including data from 2009 (when the latest tax cuts took effect) does not change this picture, but still has a somewhat dampening effect on the medium-term uptrend.

¹⁶ These calculations are based on revenue data of 2009 and do not include imputed social security contributions by public-sector employers.

¹⁷ Higher contributions lead to higher benefits being paid out, but the risk of falling ill, having an accident, losing one's job or of one's employer becoming insolvent are highly unevenly distributed.

¹⁸ Chamber of Labour contributions and the contribution to housing subsidies are collected together with social security contributions and are therefore included in social security contributions in chart 2.

¹⁹ While a few benefits of the Austrian health insurance system are contribution-based (e.g. sick pay or maternity allowance), they account for just about 10% of public health insurance expenditures (Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection, 2011).

4. *Taxes without specific direct benefits:* wage tax, contributions to the Family Burdens Equalisation Fund, part of the mandatory employers' contributions to the Austrian Economic Chamber, municipal taxes, the "Wohnbauförderungsbeitrag" (contribution to housing subsidies), the "U-Bahn-Abgabe" (Vienna Underground railways subsidy payable by Viennese companies per employee) (overall around 41% of wage-related taxes).

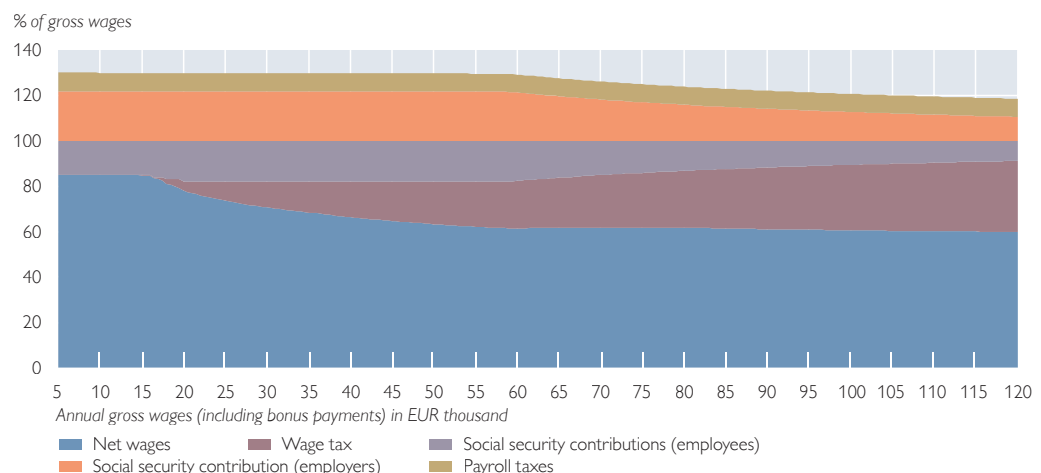
In Austria, the wage tax generates the largest tax revenues apart from VAT. While it is the only progressive tax among wage-related taxes, its revenues accounted for just around 28% of wage-related tax revenues in 2009. Taxes on labor with proportionate rates (especially contributions to the Family Burdens Equalisation Fund and municipal taxes) accounted for about 12%, and taxes with indirect regressive rates owing to contribution caps (above all social security contributions) made up around 60%. The wage tax only exceeds the sum of all other wage-related

taxes for annual gross incomes of around EUR 105,000 and higher (charts 2 and 3). Overall, this shows that wage-related taxes in Austria are only weakly progressive, and that the progression affects above all lower to medium incomes (gross annual incomes between EUR 15,000 and EUR 30,000; see chart 3).

Pension insurance contributions have a special role among wage-related taxes. They can be regarded as government-imposed savings; the yield achieved depends above all on legislative provisions and not so much on developments in financial markets. The principle of collective risk management forms the basis of Austria's public pension scheme. Accordingly, contributions to the government sector (which are used to finance this public scheme) are far above the OECD average, as replacement rates are high and people retire rather early in Austria (OECD, 2009). In addition, occupational pension plans (second pillar) and personal pension plans (third pillar) hardly play a role in Austria (Knell et al., 2006).

Chart 2

Net Wages and Taxes on Annual Gross Wages

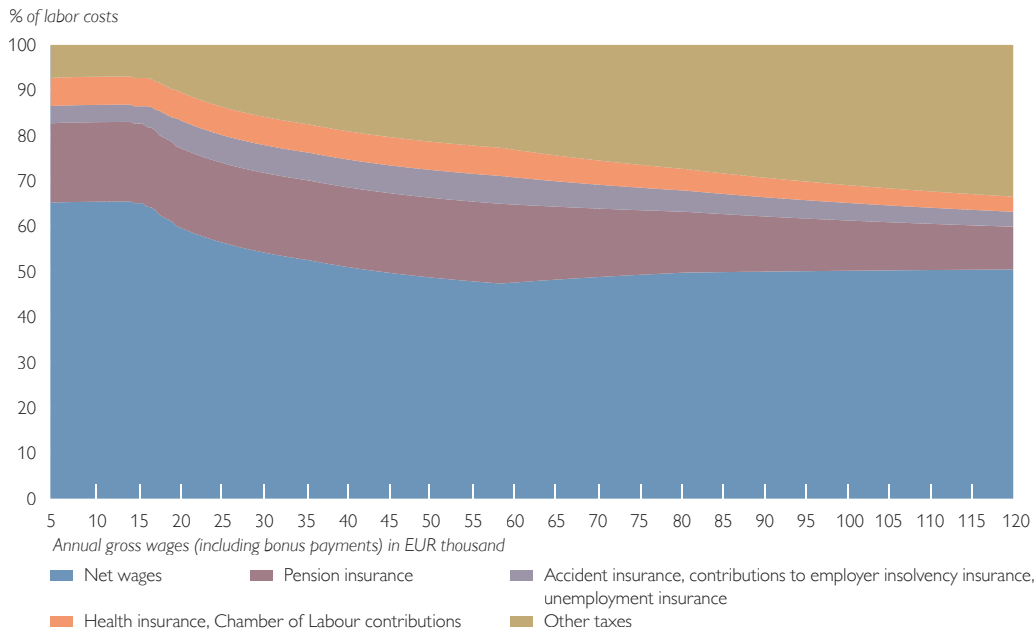


Source: OeNB, Austrian Federal Ministry of Finance.

Note: This chart shows the case of an employee in Vienna who is subject to unlimited tax liability; his employer is a member of the Austrian Economic Chamber; flat tax credit for professional expenses; no tax credit for one-income families; excluding severance fund contributions.

Chart 3

Net Wages and Taxes on Annual Gross Wages



Source: OeNB, Austrian Federal Ministry of Finance.

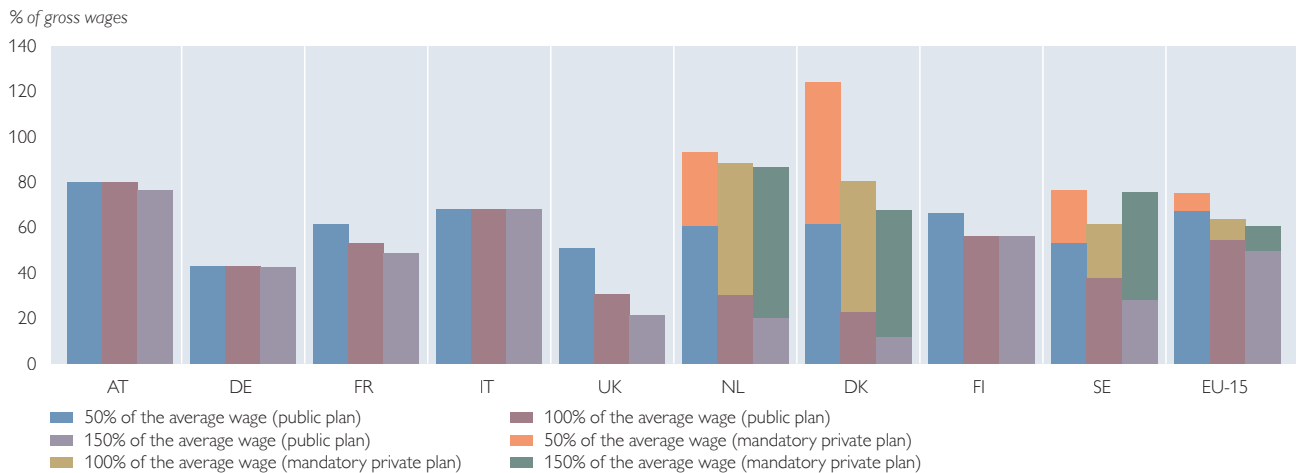
Note: This chart shows the case of an employee in Vienna who is subject to unlimited tax liability; his employer is a member of the Austrian Economic Chamber; flat tax credit for professional expenses; no tax credit for one-income families.
Labor costs = gross wages + employer contributions to social security + payroll-based taxes (excluding severance fund contributions)

Some OECD countries under review have alternative compulsory pension schemes in place, which require households and companies (for their employees) to pay into private pension funds (chart 4). Even though these contribu-

tions are mandatory, too, they are not counted toward government taxes and are thus not included in the tax ratio or in the implicit tax rate on labor (section 1.2).

Chart 4

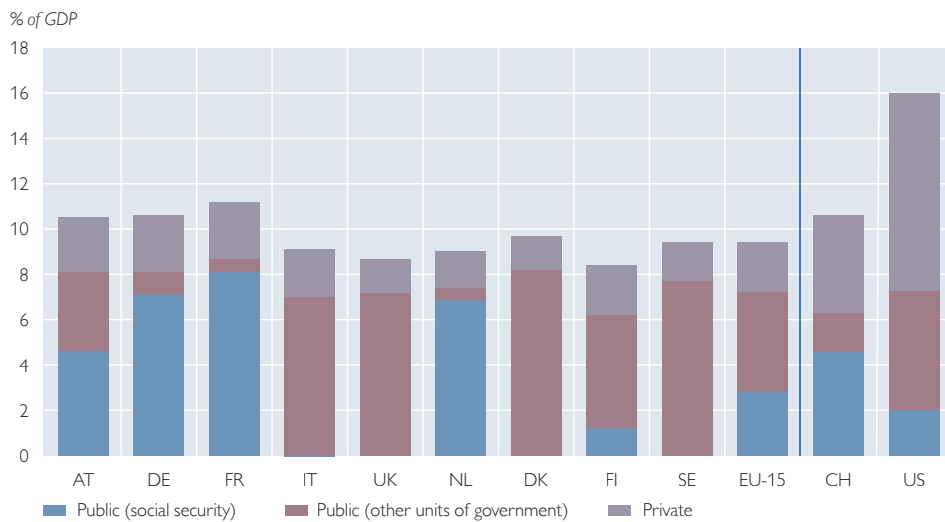
Gross Pension Replacement Rates by Earnings



Source: OECD (Pensions at a Glance 2009).

Chart 5

Health Expenditure Financing in Selected OECD Countries



Source: OECD.

Note: 2007 data for DK, GR, U.S.; 2006 data for PT; 2006 data on insured people for LU; excluding investment for BE and NL.

Similar differences across EU and OECD countries can be observed also in the field of health insurance: While some countries focus on public health insurance schemes or compulsory contributions to private health insurance funds, others let people choose between public or private insurers. Switzerland is a well-known example of a system with compulsory contributions to private health insurance funds, where (similar to the U.S.) private health expenditure plays a relatively large role by international standards (chart 5). According to OECD data, Greece is the only EU-15 country where the private sector covers more than 30% of overall health expenditure; there are, however, substantial differences across the EU-15 countries regarding expenditure distribution within the public sector between the

social security sector and other units of government. This fact also limits the meaningfulness of country comparisons of the level of social security contributions (as opposed to other wage-related taxes).

4.2 Institutional Characteristics Limit the Comparability of Tax Rates and Implicit Tax Rates

An analysis of the tax burden on labor, especially for the purpose of international comparisons, must take account of the tax treatment of pension benefits (and other social transfers). In Austria, taxes on pension benefits (income tax, health insurance contribution, pension contribution rates for retired civil servants) come to around 2.5% of GDP (table 2).²⁰ Levying taxes on pension income is customary internationally, but the associated revenues vary signifi-

²⁰ This share includes only those contributions and taxes that are deducted from gross pension income. Contributions transferred from public pension funds to health insurance funds are classified as intergovernmental transfers (Statistics Austria, 2010).

cantly across countries (e.g. because of the different treatment of social contributions on pension income; see OECD, 2009); this further limits the international comparability of overall tax ratios. Cutting gross pension income and taxes on this income while at the same time keeping net replacement rates constant would leave net pension incomes unaltered but would lead to an equivalent decline in tax revenues and government expenditure. Given that most statistics do not distinguish between income tax on pension income and wage tax, a superficial analysis of tax revenues may cause the implicit tax rate on labor to be overestimated.

An analysis of the situation in Austria has to take account of the fact that the different tax treatment of public- and private-sector wages leads to a distortion of the implicit tax rate on labor. There are substantial differences between the two sectors regarding the level of employer contributions to social security,²¹ above all because these contributions are very low for civil servants²² but pension replacement rates are high. As a result, the public sector's actual employer contributions are much lower than those of the private sector, but including imputed social contributions they would be significantly higher

than those in the private sector. In addition, for most of its employees, the public sector does not pay municipal tax or employer contributions to the Austrian Economic Chamber. If the imputed social contributions were counted toward taxes, and assuming that the public sector would have to pay the same level of payroll-based taxes as the private sector, the implicit tax rate on labor would rise by around 3 percentage points according to our estimations; this also distorts international comparisons.

5 Taxation of Capital Below Average in Austria

The term capital has many uses. According to European Commission (2010, p. 393), capital comprises “physical capital, intangibles and financial investments and savings”; as a consequence, taxes on capital include taxes on business income, taxes on capital and investment income and taxes on property and wealth (box 1).²³

Table 2 shows, among other things, that revenues from these taxes are rather low in Austria compared to the EU-15, which is above all due to low revenues from taxes on property and wealth.

²¹ According to national accounts data, public-sector employees accounted for almost 20% of employees' compensation in Austria in 2009.

²² While the public sector pays employer contributions for health insurance for civil servants, there are no such contributions to pension insurance.

²³ In the analysis by the European Commission (2010) – as opposed to taxes on property in OECD (2010a) – capital taxes comprise not only the traditional taxes on property and wealth summarized in box 1, but also a number of other taxes paid by corporations that fulfill the following criteria: not profit-related, not related to the factor labor (like payroll taxes), cannot be assigned to specific produced goods. In Austria, this is mainly tax-like charges and the motor vehicle tax paid by companies.

Taxes on Property and Wealth

An international comparison shows that the taxation of capital is far more heterogeneous than that of income or consumption. According to traditional concepts, taxes on capital include recurrent taxes on property and wealth as well as on capital/asset transactions and capital transfers.

Accordingly, we distinguish between the following types of taxes:

1. **Recurrent taxes on property and net wealth:** These taxes have to be paid irrespective of actual income from these assets.¹ Taxes on property and net wealth can be imposed on part of an individual's or a household's assets (non-personal tax) or on the individual's (household's) total net assets (gross assets minus debt), like the Swiss net wealth tax, which is only levied by canton governments today. Net wealth taxes have lost importance over the past decades and have been abolished in almost all European countries. They are based on the ability-to-pay principle. In contrast, the benefit principle underlying non-personal taxes on real property, above all the real property tax, is based on the assumption that the provision of specific public services raises the property value. This is why the real property tax is typically a local tax. The importance of the real property tax is still high in all countries under review, and even rising in some. Unlike taxes on labor, capital income and consumption, the real property tax has hardly any distortive effect, as it does not affect labor supply and investment decisions by households or companies. Instead, it provides a relatively stable source of tax revenues for local governments, given that the volatility of property values is generally low. Defining the assessment base (i.e. assessing the value of land, houses and flats) can be difficult, though. In Austria, the tax base for the real property tax is calculated using an assessment unit value,² which was defined on January 1, 1973, and has been raised only three times since (by a total of 35% by 1983). Real property tax design differs across countries, among other things, in whether or not it captures immovable property (houses) on a plot of land. While this is the case in Austria, Denmark, for instance, only imposes a land tax on the value of the plot.³
2. **Taxes on asset transactions** (land transfer tax, financial transaction taxes, etc.): These taxes have to be paid when purchasing/selling real estate (land transfer tax) or when making certain financial transactions. Taxation of financial transactions includes a wide range of taxes, such as the tax on stock transactions as introduced in the United Kingdom or in Sweden, or a general financial transaction tax for all types of financial instruments, which has been discussed in the context of the global economic crisis.
3. **Taxes on capital transfers** (taxes on inheritances and gifts): Inheritance taxes are similar to a net wealth tax, but are imposed only in case of capital transfers when someone has died and are collected from the heirs. Tax rates usually depend on the degree of kinship between the heirs and the testator. Another type of tax can be imposed on the transfer of the taxable estate before any assets are transferred to the heirs (e.g. the estate tax in the U.S.). Like with net wealth taxes, there are usually substantial exemptions for inheritance taxes.

¹ If no other income is available for covering the tax debt, the assets must be sold to meet the tax liabilities.

² The assessment unit value reflects the notion that this value (unlike the market value) is indicative of the capitalized value.

³ In Denmark, however, people have to pay a tax on the imputed rent of owner-occupied housing in addition to the land tax.

5.1 Taxes on Business Income and Current Property Income in Austria Roughly Equal to the EU-15 Average

Since the 1980s, extensive efforts have been made around the globe to reform

corporate taxation, with the aim of increasing the efficiency of tax systems and taking into account the rise in international capital mobility: While corporate taxes have been lowered considerably, the tax base has been wid-

ened substantially by eliminating tax credits and exemptions. In addition, starting in Northern Europe, several countries introduced a dual income tax (Sweden: 1987, Norway: 1992, Finland: 1993), thus renouncing the principle of synthetic taxation and shifting to a – systemically planned – system of schedular taxation.²⁴ Dual income taxation combines low proportional taxes on capital income with a progressive tax on labor income, with the proportional rate on capital income typically corresponding roughly to the initial rate of the progressive tax on labor income and transfers. This development in corporate taxation was also observed

in Austria: The corporate income tax has been cut in several steps since the late 1980s, down from 56% to currently 25%, and the tax base has been widened at the same time. The trade profit tax (“Gewerbeertragssteuer”) was abolished in the mid-1990s, following the earlier abolition of the trade capital tax in the mid-1980s (see also Knirsch and Niemann, 2005). Moreover, final taxation of capital income (primarily interest and distributed profits) was implemented in 1993-94. (Mooslechner, 1994).²⁵ At the same time, the taxation of property and wealth was changed substantially (section 5.2).

Box 2

Uniform Taxation of Labor and Capital Incomes?

The income tax is the backbone of all tax systems. One key question arising in the field of income taxation is how to gauge its fairness. In theory, there are two fundamental approaches to taxation: the benefit and the ability-to-pay principle. Tax systems today include elements of both.

The ability-to-pay principle means that taxes should be imposed on an economic entity according to its economic capacity, with income (in addition to consumption and wealth) being a key indicator of the entity's ability to pay taxes. Income taxes according to the ability-to-pay principle should be levied in accordance with an individual's total (net) income irrespective of the type of income (synthetic income taxation).¹

Historical experience shows, however, that no OECD country imposes uniform taxes on all types of income. In a system of comprehensive synthetic income taxation, problems with uniform taxation arise above all in the taxation of capital and property income, which is partly due to technical reasons such as valuation problems (e.g. in the case of income from owner-occupied housing²) and partly due to economic policy considerations (e.g. savings subsidies). A (politically desired) differential tax treatment of different types of savings violates the ability-to-pay principle in that it is a form of comprehensive synthetic income taxation and thus de facto a system of schedular taxation. The introduction of a dual or rudimentarily dual income tax in many OECD countries implied that these countries renounced the system of synthetic income taxation; progressive taxes on labor are complemented with lower proportional taxes on capital income.

¹ Under a comprehensive income tax approach, an individual's ability to pay taxes includes capital gains, which have to be treated as taxable income, regardless of whether any increases in value or capital gains have been realized, and irrespective of whether the income is regular or irregular (e.g. inheritances or gifts). Today's tax systems, however, tend to use only regular income as an indicator of a taxpayer's ability to pay income tax, whereas inheritances and gifts (as well as capital gains in some systems) are taxed separately. In addition, taxes are typically only imposed on capital gains realized.

² Only a few OECD countries impose taxes on imputed income from owner-occupied housing (e.g. Denmark or the Netherlands and formerly also Germany).

²⁴ *Schedular taxation means that specific taxes and tax rates are imposed on different types of income.*

²⁵ *Before that, the taxation of interest had been changed several times in the 1980s. For debt securities and deposits, final taxation applied not only to income taxes but also to taxes on inheritances and gifts (the latter have been abolished in the meantime).*

An argument in favor of a dual tax system and lower tax rates on capital income is that actual capital income is systematically overestimated because of the interplay of nominal tax bases and positive inflation (as observed e.g. in Austria). This problem arises for all types of income for which expenses typically precede income.³

In addition, governments try to keep capital income taxation low to prevent capital outflows given international competition, as capital is the most mobile production factor by far. Tax competition is the most powerful argument in favor of a low corporate income tax in small open economies, as corporate income taxation is source based. Even though this argument does not apply to the taxation of the resulting shareholder income (as this income is generally taxed according to the residence principle), imposing higher taxes on this income may not be easily enforceable (owing e.g. to banking secrecy). This would make a case for source taxation and a proportional tax rate for practicality reasons.

The lifetime perspective provides another argument in favor of lower taxes on capital income. If the calculation is based on income over a person's lifetime, the application of the ability-to-pay principle requires that different tax rates be imposed on investment income and labor income. Consider the following example: In terms of net present values, two people (A and B) have identical labor incomes and consumption levels over their lifetimes, but one of them (A) spends a lot of money initially while the other (B) saves money initially. In the lifetime perspective, they have the same ability to pay taxes based on the present value of their labor income. In a system where capital income is taxed under an income tax, B has to pay higher taxes, even though his investment income merely results from the fact that he put the same labor income to a different use. If the taxes A and B pay in line with the ability-to-pay principle are to be independent of how they use their identical labor incomes, B's income from savings must not be taxed again. According to this economic perspective of the ability to pay, taxes have to be imposed consistently on other means of wealth accumulation, e.g. inheritances or gifts (Keuschnigg, 2004, p. 38).

Large differences in the taxation of labor and capital income can serve as an incentive to "transform" labor income into capital income. In theory, the distinction between the production factors labor and capital is relatively clear cut, whereas in practice, an exact allocation to one or the other is rather difficult. Self-employed work, for instance, can be highly capital intensive (e.g. in retail), but also highly labor intensive (e.g. business consultancy).

³ A typical example would be a savings account with an annual rate of interest of 3%. Assuming inflation at 2% and a tax rate of 25%, real earnings before taxes come to just under 1% and after taxes to almost ¼%, so that the tax burden accounts for 75% of real earnings.

The rationale for reducing the tax burden on companies (i.e. the production side) was based, on the one hand, on the finding that imposing taxes on capital has a dampening effect on investment demand and thus on long-term growth. In addition, the numerous tax exemptions (applicable to high tax rates) created dubious incentives from a structural policy perspective.²⁶ On the other hand, tax competition has become an important factor given the increasing openness of economies and

the liberalization of capital markets. Tax competition is especially relevant for the rates of corporate income tax and the definition of the tax base, as the corporate income tax is imposed by the source country in line with international taxation rules. As a result, especially small open economies have an incentive to impose low rates of corporate income tax to attract portfolio investment or direct investment from abroad.

²⁶ Above all profitable capital-intensive companies benefited from preferential tax treatment.

Generally speaking, low taxes on capital income serve as an incentive to transform labor income into capital income (e.g. by keeping salaries low and distributing high profits in family-owned limited companies). This explains the attempts made in Sweden, Norway and Finland to decompose business income (or profit distributions) into a labor income component and a capital income component (Sørensen, 2009): This is typically achieved by imputing a “normal” return on capital to which a concessionary tax rate is applied and imposing a higher tax rate (similar to that on labor income) on the remaining return. Such provisions contribute to the neutrality of business taxation for partnerships and limited companies. No such distinction is made in Austria, though, where a progressive income tax is levied on self-employed income (as well as employed income).²⁷ The European Commission (2010), however, allocates taxes on this income to the production factor capital (table 2).

Taxes on interest, dividend and royalty income as well as taxes on capital gains are part of the taxation of capital income. The distinction between this type of taxation and taxes on property and wealth is not always clear cut, though. In the Netherlands, for instance, a 4% gain is imputed for some types of net wealth (sum of savings deposits, securities and several other

financial assets, excluding consumer loans and an allowance) irrespective of the actual gains. These imputed gains are taxed at a rate of 30%²⁸ (European Commission, 2011b;²⁹ Bach et al., 2004), which corresponds to a net wealth tax of 1.2% (4% times 30%).³⁰ This goes to show that a relatively low tax rate on wealth imposes a considerable (additional) tax burden on capital gains. Unlike taxes on capital gains, wealth taxes have to be paid irrespective of whether or not gains have been realized.

5.2 Taxes on Property and Wealth Exceedingly Low in Austria

Taxes on property and wealth used to play an important role in Austria but have been replaced by income and consumption taxes over time. Today, however, Austria's revenues from taxes on property and wealth are especially low: In 2008, these taxes accounted for around 6.5% of revenues in the EU-15 average, but for a mere 2.2% in Austria (table 2).³¹

The main reason for this is that Austria's real property tax is very low by EU standards (table 4); among all taxes imposed in Austria, this tax shows the largest difference to the EU-15 average. It is a municipal tax, like in most OECD countries. In Austria, municipalities have a relatively low level of fiscal autonomy and receive part of the central government's tax

²⁷ However, income from self-employed work is not treated the same as that from employed work. There are significant differences in the calculation of the tax base (preferential tax treatment of earnings up to one-sixth of the annual income as well as various tax credits for employees, profit allowance and tax discretion for self-employed people) and in implicit tax rates (no payroll-related tax and lower pension insurance rates for the self-employed, but usually higher social security contribution basis).

²⁸ Certain assets are exempt from this imputed tax; for instance, imputed rent from owner-occupied housing and returns on large equity holdings in a company are taxed separately.

²⁹ ec.europa.eu/taxation_customs/taxinv/getcontents.do?mode=normal&kw1=*&kw2=-&kw3=-&year=2010&coll=NL+-+Personal+income+tax

³⁰ In the OECD tax statistics, this tax on imputed income is not included in taxes on net wealth (table 4).

³¹ For a more detailed discussion of taxes on property and wealth in Austria, see Schmidl and Schratzenstaller (2011).

Table 4

Taxes on Property and Wealth in Selected EU-15 Countries (2008)

	AT	DE	FR	IT	UK	NL	DK	FI	SE	EU-15 ¹
	% of GDP									
Taxes on property according to the OECD	0.5	0.9	3.4	1.9	4.2	1.6	2.0	1.1	1.1	1.9
of which: Immovable property	0.2	0.4	2.2	0.6	3.3	0.6	1.2	0.5	0.7	0.8
Net wealth	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Estate, inheritances and gifts	0.0	0.2	0.4	0.0	0.2	0.3	0.3	0.4	0.0	0.2
Financial and capital transactions	0.3	0.2	0.6	1.1	0.7	0.7	0.5	0.3	0.3	0.6
Memo item: Taxes on capital stocks according to the European Commission ²	1.0	1.0	4.5	2.5	5.6	1.9	2.9	1.3	1.4	2.5

Source: European Commission, OECD.

¹ Arithmetic mean.

² The European Commission's definition of taxes on capital stocks is somewhat more comprehensive than the OECD's definition of taxes on property.

revenues through fiscal equalization transfers. At the same time, municipalities have more important own sources of income, such as payroll-related municipal taxes and fees for typical municipal services (e.g. water and waste water). This fact seems to have somewhat mitigated the need for adapting the dated ratable values, at least until the outbreak of the global economic crisis.

According to Bach (2009), the situation is similar in Germany, where revenues from real property tax are also low compared to the EU-15 average. By contrast, land taxation is typically very important in the United Kingdom and the U.S.A.

Taxes on asset transactions, too, are very low in Austria compared with other EU countries: Since the abolition of the "Wertpapiersteuer" (tax on securities) and the "Börseumsatzsteuer" (tax on stock transactions), the "Gesellschaftssteuer" (equity duty for corporations) is the only capital transaction tax imposed in Austria. At the same time, the tax rate on real property transfer is rather moderate in Austria compared to the other EU-15 countries, and Austria has not experienced a real estate boom in recent years. The very high revenues from financial and asset

transactions observed in some countries (table 4) are above all attributable to revenues from real property transfer tax. The U.K. is one of the few OECD countries reporting significant revenues from financial transaction taxes (on average ¼% of GDP over the past years). The stamp duty (as it is called in the U.K.) is only imposed on the transfer of shares in companies registered in the U.K., and transactions carried out by professional stockbrokers are exempt from stamp duty (Hemmelgarn, 2011). Thus, the stamp duty does not have too much in common with a general financial transaction tax.

In Austria, the general (net) wealth tax and the inheritance tax equivalent were abolished in the mid-1990s (Schmidl and Schratzenstaller, 2011). Austria is not an outlier in this respect, though: Over the past few decades, many OECD countries abolished net wealth taxes because the administrative effort involved was high relative to revenues (especially problems with valuation and thus fairness) and because these taxes were in part unenforceable due to specific legal framework conditions (banking secrecy, numbered bank accounts, etc.). Within the OECD, current taxes on net wealth generate

revenues above ¼% of GDP only in Switzerland (a few cantons), Luxembourg and Norway.³²

The taxes on inheritances and gifts generated very low revenues in Austria and were abolished in early August 2008 (that year, revenues from these taxes were just below the average observed in past years). Among other things, the low revenues were due to numerous tax exemptions (savings accounts, debt instruments, holdings in limited companies below 1% of nominal capital) and the low valuation of real property (Berghuber et al., 2007). While quite many other OECD countries still impose inheritance taxes, the associated revenues tend to be rather low compared with those from taxes on immovable property and on asset transactions. According to the OECD, Belgium had by far the highest revenues from these taxes in 2008 (less than 2/3% of GDP), followed by France and Finland (around 0.4% of GDP each).

6 Summary and Conclusions

The informative value of ESA-based overall tax ratios is limited because of the different options for financing market-related public services and certain social benefits with insurance charac-

teristics. It is limited even further by the fact that certain economic or social policy objectives can be implemented via revenue or expenditure measures or both. Many of the associated challenges make it difficult to compare tax structures internationally.

Regarding the taxation of consumption, Austria ranks in the middle range of the EU-15, but revenues from taxes on public bads are rather low. The comparatively high taxation of labor in Austria can be partly explained with the high level of social security contributions and the associated high level of public benefits for employees (high public expenditure for healthcare, high gross replacement rates for pensions). However, another important reason is that payroll-related taxes are very high in Austria (above all the contributions to the Family Burdens Equalisation Fund and municipal taxes), and revenues are not earmarked for funding services or benefits for employees. The main reasons why Austria's revenues from taxes on property and wealth are exceedingly low in an international comparison are the very low real property tax and below-average revenues from taxes on financial and asset transactions.

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³² These are the three countries with the highest GDP per capita within the OECD (not adjusted for purchasing power).

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