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OVERVIEW ON MEASURES OF THE YEAR-2000 TAX REFORM

The year-2000 tax reform reduces the marginal tax-rates for the middle income brackets by 1 percentage point each and increases the standard tax credit. Overall, the burden on tax payers will be reduced (including changes in the system of family taxation) by approximately ATS 32.5 billion (more than 1 percent of GDP) by 2003, i.e., more substantially than through the 1989 and 1994 tax reforms. The main beneficiaries of the tax cuts will be low-income earners, who will also have the advantage of being excluded from fiscal drag. At the same time, however, the changes in the tax-rate table will result in steeper tax progression. As for the taxation of enterprises, interest on own equity will be taken into consideration for the first time and the transfer of enterprises will be facilitated. Measures have also been taken to encourage private provision for old age. Finally, a new regulation will apply to the taxation of speculative capital gains from the disposal of securities.

Within the framework of the year-2000 tax reform, the wage and income tax-rate tables will be adjusted through a reduction of the marginal tax-rates for the three middle income brackets (from 22 to 21 percent, from 32 to 31 percent, and from 42 to 41 percent) and an increase of the standard tax credit from currently ATS 8,840 to ATS 12,200. However, a comprehensive set of decremental regulations has been provided for, under which the general tax credit is reduced for higher incomes, as compared to the present legislation. Moreover, the tax-rate table now includes a "zero bracket" to demonstrate the tax exemption of minimum subsistence income (tax-rate of 0 percent instead of previously 10 percent for the first ATS 50,000 bracket).

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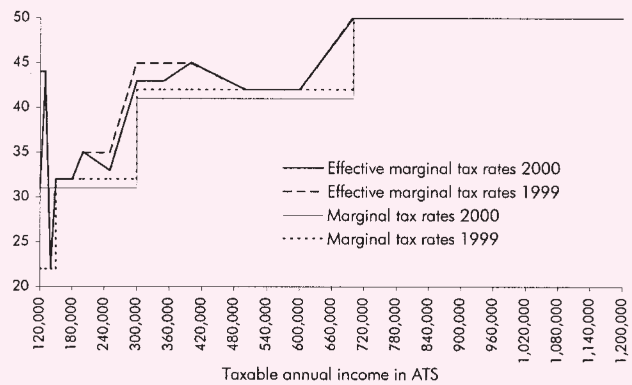
SUBSTANTIAL CHANGES IN THE WAGE AND INCOME TAX-RATE TABLES

The changes in the tax-rate tables can be assessed from three points of view:

- How will the tax cuts be distributed over the individual income brackets?

Figure 1: Marginal tax-rates

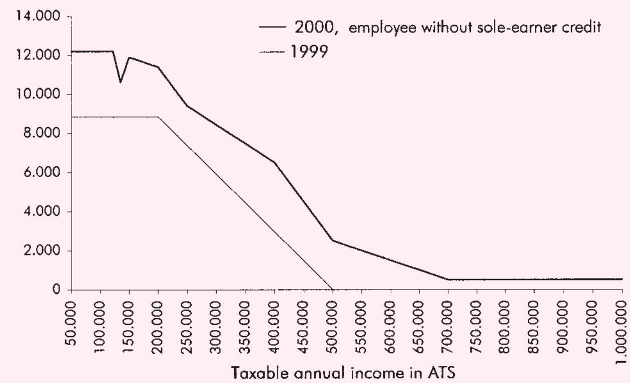
Active or retired employee without sole-earner credit



The tax payable on every additional ATS 100 amounts to ATS . . .

Figure 2: Standard tax credit

ATS per year



- How will the degree of progression and, hence, the elasticity of tax revenue, change?
- To what extent will fiscal drag be eliminated?

The comprehensive set of decremental regulations applying to the standard tax credit has been considered necessary for the following reasons: Firstly, the impact of the tax cuts in the lowest income bracket is intended to be fairly uniform, not least because the provision on minor incomes according to art. 33, par. 7, of the Income Tax Act will disappear. Secondly, sole earners should not benefit less than others from the tax cuts resulting from the new tax-rate table. Thirdly, wage and salary earners are to realise approximately the same amount of tax savings as tax payers without income from employment.

The comprehensive set of decremental regulations applicable to the standard tax credit reflects the difficulties encountered in establishing the new tax-rate table.

Hence, four groups had to be provided for taxable incomes of up to ATS 200,000 with quite different decremental regulations applying to them (wage and salary earners with and without sole-earner credit; tax payers without income from employment, with and without sole-earner credit). As regards income components above ATS 200,000, uniform decremental regulations will apply[1].

The overwhelming majority of tax payers (approximately 96 percent) earn incomes from employment; approximately 80 percent of them are not entitled to a sole-earner credit. The following analysis is therefore limited to the tax-rate provisions applicable to persons in employment (and retired employees) not claiming a sole-earner credit (approximately 78 percent of all tax payers).

Given the comprehensive decremental regulations, the analysis must be based not only on formal marginal tax-rates according to the tax-rate table (art. 33, par. 1, Income Tax Act), but also on effective marginal tax-rates. The latter may differ by as much as 4 percentage points from the formal rates in certain income brackets. (For incomes between ATS 400,000 and 500,000, for example, the formal marginal tax-rate according to the tax-rate table will be 41 percent as of next year, whereas the effective marginal tax-rate, considering the reduction of the standard tax credit, will be 45 percent.)

On the whole, effective marginal tax-rates are higher than the formal ones. However, as of the year 2000, they will be lower for all income earners than they are today – which means that the year-2000 tax reform will result in tax savings for all tax payers.

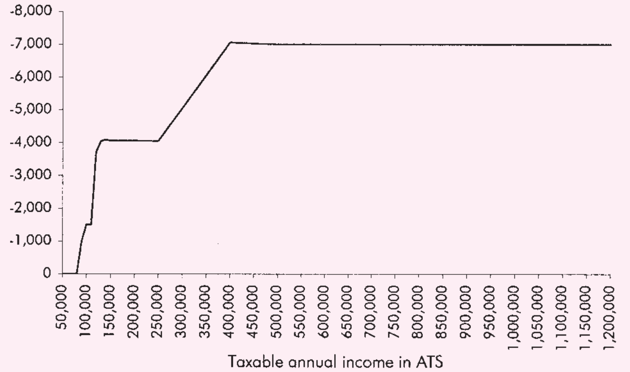
From the year 2000 onwards, the standard tax credit will be higher than before for all income groups.

From the year 2000 onwards, the standard tax credit will be higher than before for all income groups. However, the additional amount granted differs greatly for individual income brackets, ranging from ATS 3,360 (ATS 12,200 minus ATS 8,840) in the lowest income bracket to ATS 500 for incomes of more than ATS 700,000. Contrary to the present regulation, which reduces the standard tax credit to zero for taxable incomes of more than ATS 500,000, the new regulation provides for a standard tax credit of at least ATS 500 for all income earners.

[1] The provisions regarding the general tax credit and the incremental regulations are contained in art. 33, par. 3, of the Income Tax Act.

Figure 3: Reduction of the tax burden

Active or retired employee without sole-earner credit, in ATS



Tax savings result from the lowering of the marginal tax-rates and the increase of the standard tax credit. Basically, there will be three groups of income earners:

- Low-income earners (up to a taxable annual income of ATS 250,000, approximately ATS 21,000 per month) will benefit from annual tax savings of around ATS 4,000. In this income group, the tax cut is achieved primarily through the increase of the standard tax credit.
- For higher incomes the (annual) tax savings may increase to as much as ATS 7,000; this level of savings will be reached with a taxable annual income of about ATS 400,000 (approximately ATS 33,000 per month). The tax cut results in equal parts from the lowering of the marginal tax-rates and the increase of the standard tax credit.
- For annual incomes of more than ATS 400,000, the annual tax savings remain constant at ATS 7,000. For this group of income earners, the reduction of marginal tax-rates will have a much greater effect than the increase of the standard tax credit. For a taxable income of ATS 700,000, for example, tax savings result from the reduction of the marginal tax-rates for the middle income brackets (ATS 6,500) and the increase of the standard tax credit (ATS 500).

Relative to taxable income, the tax savings are more substantial for the lower income groups and decrease with higher incomes. They amount to about 3 percent for incomes of ATS 120,000 per year and drop to 0.58 percent for annual incomes of ATS 1.2 million. Hence, low-income earners will benefit more strongly in relative terms. Overall, about two thirds of the total rate-related tax relief of ATS 17 billion are accounted for by earners of monthly incomes of less than ATS 23,000.

Table 1: Changes of the tax burden

Active or retired employee without sole-earner or single-parent tax credit

Taxable annual income	Average tax rate 1999	Average tax rate 2000	Change of tax burden 2000 against 1999	
In ATS	Tax as a percentage of income		In ATS	In percent
70,000	– 2.14	– 2.14	± 0	±0.00
80,000	– 1.88	– 1.88	± 0	±0.00
90,000	– 0.60	– 1.67	– 960	–1.07
100,000	0.00	– 1.50	–1,500	–1.50
120,000	2.27	– 0.83	–3,720	–3.10
140,000	7.47	4.55	–4,093	–2.92
160,000	9.91	7.38	–4,060	–2.54
180,000	12.37	10.11	–4,060	–2.26
200,000	14.33	12.30	–4,060	–2.03
250,000	18.45	16.84	–4,033	–1.61
300,000	21.20	19.52	–5,040	–1.68
350,000	24.59	22.87	–6,047	–1.73
400,000	27.14	25.38	–7,053	–1.76
450,000	29.12	27.56	–7,027	–1.56
500,000	30.70	29.30	–7,000	–1.40
600,000	32.58	31.42	–7,000	–1.17
700,000	33.93	32.93	–7,000	–1.00
800,000	35.94	35.06	–7,000	–0.88
900,000	37.50	36.72	–7,000	–0.78
1,000,000	38.75	38.05	–7,000	–0.70
1,100,000	39.77	39.14	–7,000	–0.64
1,200,000	40.63	40.04	–7,000	–0.58

A STEEPER TAX PROGRESSION SCALE

The combination of lower marginal tax-rates, a higher standard tax credit and the related decremental regulations results in a higher degree of progression in the income and wage tax-rate tables, which is defined as the ratio of marginal tax-rates to average tax-rates (for each income bracket). The degree of progression increases faster in the lower income range than for higher incomes. Given the mathematical bases of the graduated tax-rate table and the tax credits, this is virtually impossible to avoid: in the lower range of progressive tax-rates the difference between the marginal tax-rate and the average tax-rate tends to be greater than in the higher range.

The decremental regulations applying to the standard tax credit result in a substantially steeper rate of progression, above all for the lower and middle income groups. Similar provisions, which have been in effect since 1997, have already operated along these lines, but the year-2000 tax reform clearly reinforces this trend.

The degree of progression has a major impact on the elasticity of tax revenue: a steeper progression will increase revenue elasticity in the future, which means that wage and income tax revenues will rise more strongly in subsequent years than under the present tax-rate structure. For average incomes, the elasticity of tax revenue increases from presently 1.86 to 1.88 – with a 1 percent wage increase presumably resulting in a 1.88 percent increase of wage tax revenue.

Table 2: Degree of progression

Active or retired employee without sole-earner or single-parent tax credit

Taxable annual income	Degree of progression according to tax-rate table			Effective degree of progression		
	Ratio of marginal tax rate to average tax rate			Ratio of effective marginal tax rate to average tax rate		
	1999	2000	2000 against 1999	1999	2000	2000 against 1999
In ATS			Difference in percentage points			Difference in percentage points
130,000	4.02	13.06	+9.05	4.02	18.25	+14.24
140,000	2.94	6.82	+3.87	2.94	4.91	+ 1.97
150,000	2.61	5.41	+2.80	3.79	5.58	+ 1.79
160,000	3.23	4.20	+0.98	3.23	4.34	+ 1.11
170,000	2.85	3.51	+0.66	2.85	3.63	+ 0.77
180,000	2.59	3.07	+0.48	2.59	3.16	+ 0.58
200,000	2.23	2.52	+0.29	2.44	2.85	+ 0.41
250,000	1.73	1.84	+0.11	1.89	1.96	+ 0.06
300,000	1.51	1.59	+0.08	2.12	2.20	+ 0.08
350,000	1.71	1.79	+0.09	1.83	1.88	+ 0.05
400,000	1.55	1.62	+0.07	1.66	1.77	+ 0.12
500,000	1.37	1.40	+0.03	1.37	1.43	+ 0.07
600,000	1.29	1.31	+0.02	1.29	1.34	+ 0.05
700,000	1.24	1.25	+0.01	1.47	1.52	+ 0.04
800,000	1.39	1.43	+0.03	1.39	1.43	+ 0.03
1,000,000	1.29	1.31	+0.02	1.29	1.31	+ 0.02
1,200,000	1.23	1.25	+0.02	1.23	1.25	+ 0.02

The residual income elasticity is an important indicator of the effects of tax-rate changes. It measures the extent to which a 1 percent increase of taxable income affects the development of net income (after taxes)[2]. Basically, residual income elasticity shows the same pattern as the degree of progression. It is very high in the lower income range and equals 1 (i.e., no effect of progression) for incomes of less than ATS 110,000 per year (ATS 9,000 per month). However, it declines noticeably for higher incomes: it stands at 0.81 for incomes of ATS 140,000 per year (ATS 12,000 per month), which means that a 1 percent increase of gross income results in an 0.81 percent increase of after-tax income.

The rate of progression is steeper on account of the decremental regulations applied to the standard tax credit.

Within the ATS 140,000 to ATS 200,000 income range, residual income elasticity declines noticeably, most probably as a result of the decremental regulations applied to the standard tax credit (which reinforce the progressive effect). The slower rate of progression in the income range from ATS 200,000 to 250,000 is due not only to the decremental regulations, but also to the reduction of the marginal tax-rate.

Table 3: Residual income elasticities

Active or retired employee without sole-earner or single-parent tax credit

Taxable annual income	Residual income elasticity	
	Increase of after-tax income if taxable income increases by 1 percent	
	1999	2000
In ATS	In percent	
60,000	1.00	1.00
70,000	0.98	0.98
80,000	0.98	0.98
90,000	0.78	0.98
100,000	1.00	0.99
110,000	1.00	0.99
120,000	0.57	0.68
130,000	0.59	0.58
140,000	0.84	0.81
150,000	0.74	0.72
160,000	0.75	0.73
170,000	0.77	0.75
180,000	0.78	0.76
200,000	0.76	0.74
250,000	0.80	0.81
300,000	0.70	0.71
350,000	0.73	0.74
400,000	0.76	0.74
500,000	0.84	0.82
600,000	0.86	0.85
700,000	0.76	0.75
800,000	0.78	0.77
1,000,000	0.82	0.81
1,200,000	0.84	0.83

The progressive effect is relatively strong again for incomes of between ATS 250,000 and 500,000, but it diminishes for higher incomes. For incomes of ATS 1 million, residual income elasticity is 0.81, i.e., the same as for incomes of ATS 140,000.

On the basis of the year-2000 tax reform, residual income elasticity will be lower than before over a wide range of incomes: similar to the comparison of progression scales, the analysis of income elasticities again shows that tax progression will have a stronger effect from next year onwards.

FISCAL DRAG LARGELY EXCLUDED

With any change of the tax-rate table, the question arises as to whether it has been possible to eliminate fiscal drag. The fact that pay rises only intended to compensate for inflation are also subject to progressive taxation results (or may result) in real income losses; the relative tax burden thus changes considerably.

To determine the effect of fiscal drag, incomes are deflated by the consumer price index to a base year for a comparison of the reduction of the tax burden on real in-

[2] In the case of proportional taxation, net income (after taxes) increases to the same extent as gross income. Hence, the residual elasticity always equals 1 in the case of a proportional tax. The lower the residual elasticity, i.e., the lower the growth of net income relative to gross income, the steeper the rate of progression.

Table 4: Taxation of comparable real incomes

Active or retired employee without sole-earner or single-parent tax credit

Taxable annual income 2000	Difference between average tax rate 2000 and the average tax rate for a corresponding real income	
	1994	1997
In ATS	Percentage points	
70,000	+0.00	±0.00
80,000	+0.16	+0.06
90,000	+0.14	+0.05
100,000	–1.42	–1.50
110,000	–1.36	–1.36
120,000	–1.32	–1.88
130,000	–1.46	–1.98
140,000	–1.67	–2.50
150,000	–1.54	–2.31
160,000	–0.82	–1.88
170,000	–0.60	–1.78
180,000	–0.56	–1.68
200,000	–0.50	–1.51
250,000	+0.19	–1.13
300,000	+0.32	–1.28
350,000	+1.15	–1.13
400,000	+1.12	–1.24
500,000	+1.50	–0.98
600,000	+1.25	–0.89
700,000	+1.07	–0.76
800,000	+1.54	–0.46
1,000,000	+1.23	–0.37
1,200,000	+1.02	–0.31

±0 . . . fiscal drag compensated, – . . . fiscal drag overcompensated, + . . . fiscal drag not compensated.

comes. The result depends on the base year selected. Usually, the year of the most recent tax-rate change is chosen. As regards the year-2000 tax reform, two years lend themselves for comparative purposes: the 1996 Structural Adjustment Act resulted in an increase of effective tax-rates as of 1997 on account of the decremental regulation applied to the standard tax credit. In 1994, the standard tax credit was increased from ATS 5,000 to 8,840; fiscal drag was largely eliminated at that time, the result being that real incomes over a wide range were not taxed more highly in 1994 than in 1982 (WIFO-Monatsberichte, 1994, 67(1), p. 59).

Compared with the situation created in 1997, the adjustment of the tax-rate table effective as of the year 2000 will eliminate the fiscal drag for all income earners.

Compared with the situation created in 1997, the adjustment of the tax-rate table effective as of the year 2000 will eliminate the fiscal drag for all income earners. Thus, the tax burden on real incomes will be generally reduced.

However, if 1994 incomes are used as a basis for comparison, the situation looks quite different. Fiscal drag will be completely eliminated for incomes of up to ATS 240,000 per year (approximately ATS 20,000 per month), which means that the tax burden on the real incomes of about 60 percent of all tax payers will be relieved. However, for incomes higher than ATS 500,000 per year fiscal drag remains to the extent of about 1 percentage point of taxable income.

CHANGES IN CORPORATE TAXATION

Besides adjustments of the tax-rate table, the year-2000 tax reform also introduces important changes in the taxation of enterprises. These include, in particular, the introduction of a notional interest on own equity as an operating expense, some relief with regard to the inheritance and gift tax in the case of transfer of an enterprise, higher research and apprenticeship allowances, and tax benefits for the establishment of new enterprises.

INTEREST ON OWN EQUITY MADE TAX-DEDUCTIBLE

The Austrian system of corporate income taxation is not neutral in terms of sources of finance.

The Austrian system of corporate income taxation is not neutral in terms of sources of finance. It favours borrowed capital, since interest paid is deductible as an operating expense and, thus, reduces the assessment base, whereas interest on own equity has not been taken into consideration in any form to date. The difference in the treatment of interest on capital was reinforced through the final taxation of interest income: the fact that interest income is subject to final taxation at a rate of 25 percent and that savings deposits and securities are exempted from inheritance tax has made it attractive for businesses to invest capital outside the enterprise.

According to statistics of the Austrian National Bank, the equity ratio of Austrian enterprises has increased in recent years, but considerable sector-specific differences remain. A broader equity base is of advantage for the economy as a whole, not least because it reduces the burden on the community (creditors, tax authorities, etc.) in the event of an insolvency. Nevertheless, the new regulation regarding interest on equity is not uncontroversial[3]. Moreover, certain limitations had to be provided for reasons of budgetary constraints, which diminish the effects and the attractiveness of this measure.

[3] Farny, O., Gall, F., "Klassische, konsumorientierte oder zinsbereinigte Einkommensteuer?", Österreichische Steuerzeitung, 1998, (20), pp. 510-514.

The notional interest on equity is calculated on the basis of the annual growth in own equity; the previous year's profit must be corrected for capital contributions and withdrawals. The transactions have to be recorded in a separate equity account, interest on which is calculated on a daily basis. Thus, the effort involved for the tax payer is quite considerable.

The rate of interest is laid down annually by the Federal Ministry of Finance in a regulation. It is based on the average secondary-market yield plus an 0.8 percent age point premium. In 1998, with the average secondary-market yield being 4.4 percent, the rate of interest would have been 5.2 percent.

This notional interest income qualifies as a "special profit" and is subject to final tax at a rate of 25 percent. Thus, the tax saving results from the difference between the average tax-rate on profits (34 percent for incorporated enterprises, up to 50 percent for sole proprietorships and partnerships, depending on the amount of profit) and the final taxation rate of 25 percent. The extent to which interest on equity will actually be claimed is difficult to assess. At present, the annual loss of tax revenue is assumed to be around ATS 400 million, which would mean that equity growth to the amount of about ATS 80 billion will benefit from the new tax situation.

PROVISIONS FACILITATING THE TRANSFER OF ENTERPRISES

The transfer of enterprises by way of inheritance or donation is often prevented by the high inheritance and gift tax burden, which in turn frequently results in the loss of jobs. These problems are by no means limited to Austria.

The year-2000 tax reform therefore introduces an inheritance and/or gift tax allowance of ATS 5 million for the transfer of business assets. Thus, about 80 percent of all enterprise transfers in Austria are exempted from inheritance and gift tax. For the remaining cases the tax burden is substantially reduced: if, for instance, the assessed value of an enterprise is ATS 12 million, the tax payable will be assessed on the basis of only ATS 7 million as of next year.

These allowances also apply (on a pro-rata basis) to partnership shares and shares in incorporated enterprises, if the testator (donor) held at least 25 percent of the enterprise. In the case of transfer among living persons (donation), the donor must be at least 55 years of age and unable to continue running the enterprise for reasons of physical or mental health. This measure is intended to keep enterprises alive and preserve jobs.

APPRENTICESHIP AND RESEARCH ALLOWANCES

The changes regarding apprenticeship and research allowances are intended to strengthen Austria as a business location and/or secure an adequate level of training for its labour force. Reducing youth unemployment is another important goal. The ATS 20,000 allowance, which was introduced in 1997 for enterprises training apprentices in the first year of apprenticeship, will be increased to ATS 60,000; further allowances of ATS 20,000 each can be claimed upon completion of the apprenticeship and after the concluding exam.

In the long run, the number of apprentices has been going down noticeably. While Austrian enterprises employed 194,089 apprentices on average in 1980, the figure was down to 145,516 in 1990. Although the number of apprentices has increased slightly in recent years, it is still below the level of the 1980s.

The research allowance (presently 12 or 18 percent) has been claimed by around 500 enterprises in recent years, the total amount adding up to about ATS 1.6 billion. Through the tax reform, the research allowance will generally be increased to 25 percent. Enterprises stepping up their research expenditures are entitled to a higher allowance amounting to 35 percent of the additional expenses exceeding the arithmetic mean of their research spending over the past three years.

For the time being, it is difficult to tell to what extent these measures will actually trigger additional research expenditure or simply lead to the inclusion of other expenses under the heading of research.

As of the year 2000, 9 percent of training expenses will be tax-deductible. Thus, investments in human resources will – for the first time – be treated on the same basis as investments in tangible assets, the training allowance being equal in amount to the investment allowance. Thus, the apprenticeship and research allowances as well as the training allowance provided for by the year-2000 tax reform are intended to secure the attractiveness of Austria as a business location.

PROMOTION OF PRIVATE PROVISION FOR OLD AGE

Encouraging private provision for old age is an important goal of social policy. To further this goal, the year-2000 tax reform introduces a premium on contributions to private old-age pension schemes, similar to the premium on building-society saving. Both the annual maximum contributions qualifying for a premium (1,000 euro) and the calculation of the premium itself are based on the building-society model. Subject to the annual maximum contribution being paid in, the premium currently amounts to approximately ATS 619 per year, which corresponds to an interest rate of 4.5 percent.

The pensions thus accumulated and paid out (amounts saved plus premium and interest) are tax-free, but only subject to the conditions specified in the new art. 108b of the Income Tax Act. The new regulation is of particular interest for tax payers who either have already claimed the full amount of special expenses they are entitled to or earn incomes of more than ATS 700,000 per year and therefore can no longer claim any special expenses. For the time being, it is difficult to tell how many tax payers will make use of this possibility. To estimate the loss of revenue for the state, a figure of 750,000 has been assumed.

CHANGES OF TAXATION OF CAPITAL GAINS FROM THE DISPOSAL OF SECURITIES (TAX ON SPECULATIVE INCOME)

Austrian income tax is based on the theory of additions to net assets. Of the seven sources of income, only "other income" is truly representing of this theory[4]. The other six sources of income largely meet the criteria of the source theory. According to the theory of additions to net assets, gains from speculative transactions (disposal of securities) form part of the taxable income. However, even today many countries tax such gains only if the securities are sold within certain retention periods. The idea is to favour a longer-term association between companies and their shareholders. In line with this principle of longer-term association, the year-2000 tax reform extends the retention period from one to two years.

The length of the speculative period is determined according to the FIFO method: it is assumed that the securities first bought will be the first to be disposed of. To determine the purchase costs, the moving average price method is applied, with securities bought at points in time not within the speculative period also being included.

Price gains (i.e., the difference between the proceeds from disposal and the purchase price) are taxed at a rate of 25 percent, which means that capital gains are treated at the same rate as dividends and interest income. However, an assessment option is available as an alternative: if tax payers include their capital gains in the income tax statement, they also have the right to claim losses from the disposal of securities (within the same income category), which are then set off against the 25 percent tax already paid.

Introduction of the speculative gains tax will coincide with the abolition of the stock-exchange turnover tax, which currently generates revenues of about ATS 700 million. The level of revenues to be derived from the new speculative gains tax is difficult to estimate, as it will be determined by stock price developments (in the coming years). Past experience has shown, however, that – given the loss of revenues from stock-exchange turnover tax – net revenues will be low.

BUDGETARY EFFECTS OF THE TAX REFORM

The year-2000 tax reform is subject to considerable budgetary constraints imposed by the "Maastricht criteria" and the European Stability and Growth Pact. Like all other EU member states, Austria has submitted a stability programme which provides for a reduction of the deficit of all public households to 1.4 percent of GDP by 2002.

Budgetary constraints have a major impact on the year-2000 tax reform.

Besides the measures outlined above, the new provisions on family taxation (higher child tax credits and family benefits) also have budgetary effects. Overall, the short-term budgetary effects (loss of revenues) of the year-2000 tax reform and the changes of family taxation are estimated at approximately ATS 32.5 billion. Three aspects need to be taken into consideration in this context:

- On account of the time lag, some of the revenue losses will only be felt in the following years. This goes for measures concerning assessed taxes (income tax, corporate income tax, and inheritance tax). One twelfth of the wage tax-rate cuts will have an effect on the 2001 budget.
- Some of the family taxation measures are financed from the Family Benefit Fund (approximately ATS 6 billion) and therefore have no effect on the revenue balance, unless payments from the Family Benefit Fund have to be pre-financed by the Federal Government. On balance, the budgetary effects of the year-2000 tax reform, including family taxation measures, amount to a total of about ATS –26.5 billion.
- The measures concern all public households – about one third of the revenue losses is to be borne by the provinces and the local authorities in accordance with

[4] Blankart, Ch., Öffentliche Finanzen in der Demokratie, Munich, 1991, p. 222.

the provisions of the Financial Equalisation Act. It should be noted, though, that the limits on public deficits provided for in the Stability Programme also apply to the entire public budget.

At the same time, the tax reform 2000 will stimulate domestic demand and private consumption. Hence, VAT revenues are expected to increase, which means that part of the revenue lost will be recovered by public households through other taxes. Nevertheless, the year-2000 tax reform will constitute a major challenge to budgetary policy in the years to come, especially with a view to the goals laid down in the Stability Programme (to be reached by 2002).

Overview on Measures of the Year-2000 Tax Reform – Summary

In June 1999, the Austrian Parliament adopted the year-2000 tax reform, which will take effect as of the beginning of the year 2000. It will reduce the tax burden by about ATS 32.5 billion, i.e., more substantially than the 1988 and 1994 tax reforms.

The reform is focused on two priorities: first, adaptations of the wage and income tax-rate table; second, measures in the field of taxation of enterprises. Moreover, the system of tax privileges for private provision for old age will be improved and a new regulation will apply to the taxation of capital gains from the disposal of securities.

As regards the wage and income tax brackets, marginal tax-rates will be reduced from 22 to 21 percent, from 32 to 31 percent, and from 42 to 41 percent; furthermore, the standard tax credit will be increased from ATS 8,840 per year to ATS 12,200 per year, with the amount of tax credit declining for higher incomes.

These measures will ease the burden on the tax payer by ATS 4,000 up to 7,000 a year. About two thirds of the entire reduction of the tax burden will benefit people earning incomes of less than ATS 23,000 per month.

Through these measures, the tax burden on the majority of incomes will be lowered in real terms.

Regarding the taxation of enterprises, the tax reform 2000 package contains two new provisions: on the one hand, interest payments on own equity will be taken into consideration for taxation purposes, and on the other hand, a tax allowance of ATS 5 million will be introduced for inheritance (gift) tax in the case of enterprise transfers.

Moreover, the research contribution and the apprenticeship allowance will be increased.

Private provision for old age will be promoted through a premium comparable to that granted to building-society savers.

As regards the taxation of capital gains from the disposal of securities, the retention period will be prolonged from one year to two years. If securities are sold within the retention period, profits will be taxed at a rate of 25 percent.