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THE PUBLIC REVENUE SHARING SCHEME AS A BUDGET POLICY TOOL

The new public revenue sharing scheme, while not affecting the basic structures of financial relations between the territorial authorities, nevertheless includes several crucial changes. It has changed the distribution formula for some taxes, with the result that the federal government will receive the greater part of additional revenues flowing from the tax measures introduced in 2000 and 2001. Less reliance on earmarking implies that the states have more leeway in disposing of their money. Higher fixed per-capita amounts for local government generate more income for the smaller communities. The public revenue sharing scheme does not fully cover all relations between the territorial authorities, and in particular leaves out much of the interdependences between state and local authorities.

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A new public revenue sharing scheme came into force at the start of 2001 and will be effective until the end of 2004. It covers three sectors of responsibility:

- apportionment of tax revenues (revenue shares),
- regulation of transfers from the federal to the state and local governments,
- determining the financing of responsibilities (state-employed teachers, income supplements, management responsibilities undertaken on behalf of the federal government).

The scheme falls short of regulating all financial relations between the territorial authorities, even when earmarked subsidies for housing (which were negotiated jointly with the scheme) are considered: several transfers are covered by other laws and agreements, and the financial relations between the state and local governments are not included in the scheme.

In its basic structures, the new scheme corresponds to previous efforts, even though the framework for financial relations between the federal, state and local government has decidedly changed over the past few years. A fact that is reflected in the intra-Austrian Stability Pact, which provides an important legal framework to that end. The pact prescribes budget surpluses/deficits for each of the territorial authorities, which will ensure a rise in tensions since both states and communities have little margin in designing their respective revenues.

Consequently, the revenue sharing scheme will further gain in importance. Its intention is to help ensure the financing of responsibilities undertaken by each territorial authority and to mitigate rather than aggravate regional differences. Nevertheless, its compensatory function takes a backseat to its distributory function: the scheme provides for the distribution of tax revenues of more than ATS 600.9 billion (1999) and transfers of about ATS 90 billion. It is thus the key financing source for the states and communities and takes a critical part in the observance and operation of the intra-Austrian Stability Pact.

This report studies, first, the effects to be expected of the changes made in the new scheme (also with a view to the Stability Pact). Secondly, it analyses whether the regulations are suited to support the joint objectives and targets of all three government levels and whether they can bleed off some of the tensions. As a third aspect, developments in the 1990s are summarily compared with the trends to be expected from the new scheme (for 2002).

In Austria, the public revenue sharing scheme is based on a (mixed) *decentralised/centralised system*, with the centralised component prevailing¹. Taxes levied exclusively by the states and communities (decentralised component) are of very minor importance in Austria, as they raise not more than 7 percent of all tax revenues. About 84 percent are raised by the "shared" federal taxes, which are levied by the federal government and then shared between the territorial authorities (centralised component). Some 9 percent are exclusively federal taxes.

The Austrian financial constitution is highly centralistic. The federal government is vested with the "competence to regulate competences", i.e., it determines who has the right to levy taxes and the proportion of tax revenues shared out (*Hüttner, 2001*). The federal government controls tax policies. Federal law controls not just the shared and exclusive federal taxes, but also some important taxes levied exclusively by the states and communities (community tax, land tax, fire protection tax), even though the revenues from the latter accrue solely to the states and/or communities.

Accordingly, the states and communities have very little leeway in designing their own tax policies. They are largely forced to adapt their expenditures to what they can expect in (predefined) receipts from taxes. In their financing, they are thus highly dependent on the revenue sharing scheme, a problem which is expected to be further aggravated in the future and is likely to lead to more tensions.

In this study, taxes are *categorised* pragmatically. At the federal level, only those taxes are included which are posted in Chapter 52 of the federal budget². Exclusive state and local taxes are those listed non-exhaustively in Section 15 of the Public Revenue Sharing Act of 2001 ("FAG 2001"). Levying these taxes is the sole prerogative of the state and local governments.

Shared federal taxes gain in importance

The states and communities have very little leeway in designing their own tax policies, but need to adapt their expenditures to their (predefined) tax receipts.

Table 1: Total tax revenues

	Shared federal taxes ¹	Exclusive federal taxes	Exclusive state taxes	Exclusive community taxes ²	Total
Million ATS					
1990	337,973	78,934	3,311	33,016	453,232
1991	370,986	85,119	3,307	34,155	493,565
1992	402,297	97,337	3,487	37,455	540,575
1993	410,351	93,893	3,581	38,253	546,077
1994	439,590	82,472	3,918	41,709	567,689
1995	436,923	82,562	3,816	41,972	565,273
1996	487,144	97,567	3,762	42,614	631,088
1997	514,027	109,341	3,965	43,514	670,846
1998	589,420	80,392	4,042	44,018	717,872
1999	600,871	68,765	4,035	44,802	718,473
Percentage shares					
1990	74.6	17.4	0.7	7.3	100.0
1991	75.2	17.2	0.7	6.9	100.0
1992	74.4	18.0	0.6	6.9	100.0
1993	75.1	17.2	0.7	7.0	100.0
1994	77.4	14.5	0.7	7.3	100.0
1995	77.3	14.6	0.7	7.4	100.0
1996	77.2	15.5	0.6	6.8	100.0
1997	76.6	16.3	0.6	6.5	100.0
1998	82.1	11.2	0.6	6.1	100.0
1999	83.6	9.6	0.6	6.2	100.0

Source: Annual federal accounts; Statistics Austria, Gebarungsübersichten; WIFO. – ¹ According to the annual federal budget, Chapter 52, exclusive of trade tax. – ² Including trade tax, exclusive of charges for the use of local government facilities.

¹ A strictly decentralised system means that each territorial authority obtains its finances solely through own levies. A strictly centralised system provides for one territorial authority to levy all taxes and distribute them by an agreed formula (*Zimmermann – Henke, 1982*). Most countries operate mixed systems.

² Contrary to the provisions of Section 8 of the Revenue Sharing Act (FAG) of 2001, which lists the exclusive federal taxes, those not posted in Chapter 52 are not considered, partly because they are earmarked (such as the employers' contribution to the Family Fund), and partly because they are based on the equivalence principle and operate like cost reimbursements (court administration fees, patent fees, etc.).

Some taxes abolished a long time ago (capital tax, capital death duty, tax on financial institutes, special tax on mineral oil) are still included in the catalogue of exclusive federal taxes (Section 8 FAG 2001).

In Austria, altogether ATS 718.5 billion were paid in taxes (as categorised here) in 1999. Of this sum, ATS 600.9 billion were shared federal taxes (83.6 percent of the total yield); ATS 68.8 billion came from exclusive federal taxes (9.6 percent); ATS 44.8 billion derived from exclusive community taxes (including Vienna; 6.2 percent); and ATS 4.0 billion were obtained from exclusive state taxes (including Vienna; 0.6 percent). In the 1990s, shared federal taxes gained considerable ground, and the centralised component was substantially strengthened to the detriment of the decentralised component. Consequently, the public revenue sharing scheme is similarly gaining in importance.

Exclusive state and community taxes have been further pruned since 1999: Effective as of 9 March 2000, the beverage tax on alcoholic beverages (ATS 5.6 billion in 1999) was abolished due to a ruling by the European Court of Justice, and the tax on non-alcoholic beverages and ice cream was similarly rescinded in early 2001. In 2000, the advertisement and announcement taxes (which were solely state and/or community taxes) were set aside and replaced by an advertisement tax which is designed as a shared federal tax. The movement towards a centralised system thus continues unabated in Austria.

Exclusive federal taxes developed ambiguously throughout the 1990s. On the one hand, new exclusive federal taxes were introduced (duty on vehicles based on fuel consumption, energy taxes), and on the other hand, existing exclusive federal taxes were rededicated to become shared federal taxes (corporation tax). Exclusive federal taxes as a share of total tax revenues declined from 17.4 percent in 1990 to 9.6 percent in 1999. The yield from the new exclusive federal taxes does not compensate for the loss from shared corporation tax revenues.

For the states and communities, the yield from their exclusive taxes covered just 8 percent of their total expenditure (as compared to 10 percent in 1990). How to distribute shared federal taxes between public households has thus become a central issue for Austrian budget policy.

The shared federal taxes are distributed in a process that involves several steps: For some taxes, specified amounts are deducted immediately. Thus modified, the yield is shared by a (fixed) formula between federal, state and local authorities (vertical distribution). From this income, further deductions are made (EU contribution, consolidation contribution, etc.). The remaining revenues are proportionately distributed among the states and communities in accordance with the provisions of Section 10 (par. 7 to 9) and Sections 11 and 12 of the FAG 2001 (horizontal distribution).

Revenues from shared federal taxes

Table 2: Vertical distribution of revenues from shared federal taxes

	2000 Yield	2002 Budget draft
	Million ATS	
Yield of shared federal taxes, gross total ¹	619,456	704,513
– Initial deductions ²	– 24,760	– 26,588
= Amount available for vertical distribution	594,695	677,925
Of which for:		
Federal government	408,602	473,797
– Initial deductions ³ , + additions ⁴	– 27,964	– 29,471
= Remaining federal share	380,638	444,326
States (including Vienna as a community)	103,316	111,215
– Initial deductions ³	– 8,055	– 10,884
= State share available for horizontal distribution	95,260	100,331
Communities (including Vienna as a community)	82,778	92,914
– Initial deductions ³	– 3,916	– 4,193
= Community share remaining for horizontal distribution	78,861	88,721

Source: Annual federal accounts, Austrian Federal Ministry of Finance, WIFO calculations. – ¹ According to Chapter 52 of the Federal Budget, exclusive of trade tax. – ² Payments to the Family Fund, portions of the sales tax for health promotion and under the Health and Social Sector Allowances Act, vehicle tax portion for the federal government, charge to compensate the federal government for levying the art promotion contribution. – ³ Contributions to the EU household, consolidation contributions by the states and communities, contribution by the communities to hospital funding, tax portions for the Family Fund and the Disaster Relief Fund, portion for water management system. – ⁴ EU contribution and consolidation contribution by the states and communities, vehicle tax portion and charge to compensate the federal government for levying the art promotion contribution.

A short demonstration of how the tax revenues are shared out uses figures for 2000 and 2002: the total yield of shared federal taxes of ATS 619.5 billion (in 2000) and ATS 704.5 billion (2002 budget) is first reduced by the compensation for the Family Fund (ATS 9.5 billion) and for the health and social allowances (ATS 14.9 billion in 2000; estimated at ATS 16.8 billion for 2002). Next, the vehicle tax yield is reduced by a fixed amount (ATS 0.2 billion), as is the turnover tax yield (by ATS 0.1 billion) prior to vertical distribution, so that these amounts are not included in the apportioning of the yield.

Altogether, ATS 24.8 billion (or about 4 percent) from the total shared federal tax yield were excluded from distribution in 2000. For 2002, these deductions will rise to ATS 26.6 billion (3.8 percent).

Thus ATS 594.7 billion were available for *vertical distribution* among the territorial authorities in 2000; under the 2002 budget, that figure will be ATS 677.9 billion.

When the yield from shared federal taxes has been distributed in line with the specified percentages, the EU contribution, consolidation contributions and the contribution for water management will be deducted from the shares paid to the state and local governments, and the latter's share will be further reduced by the hospital funding contribution. The federal share will be reduced by its part in the family fund, the disaster fund, the water management and EU contributions.

The states' share of the Austrian contribution to the EU budget is calculated from two components: V.A.T. own funds and the GDP own funds on the one hand, and a fixed amount on the other hand, which was set at ATS 8 billion in 1995 and which rises by 3 percent p.a. By 2000, it was ATS 9,274 million and by 2004 it will rise to ATS 9,839 million. From the sum of these components, the states' share is calculated at a rate of 16.835 percent. The states thus paid ATS 5,739 million towards the EU contribution and will pay ATS 6,594 million in 2002. The communities' share is 0.352 percent of the yield of taxes on income (excluding the withholding tax on interest payments), or ATS 1,014 million in 2000 (ATS 1,210 million according to the 2002 budget).

The consolidation contribution by the states (ATS 2.29 billion previously) was raised to ATS 4.29 billion annually in the new revenue sharing scheme, thus improving the federal portion of the yield. At ATS 1.46 billion, the communities' contribution remained unchanged.

Altogether ATS 95.3 billion remained for distribution to the individual states (including Vienna) in 2000; for 2002, ATS 100.3 billion are expected. ATS 78.9 billion were distributed to the individual communities (including Vienna), compared to ATS 88.7 billion for 2002).

Vertical distribution to the federal, state and local governments is by fixed percentages, which may vary depending on the shared federal tax involved. In 1998, a uniform distribution formula was introduced for taxes on income (income tax, wage tax, tax on capital yields and corporation tax), but not for the tax on interest. Prior to 1998, each tax on income was shared out by a separate formula, and the corporation tax, an exclusively federal tax, was not included.

Introduction of the joint formula for taxes on income in 1998 produced advantages for the states (and communities), because the corporation tax grew quite dynamically over the past years and because a shift in the yield volume from wage tax to income tax (e.g., by direct tax declarations from employees) would have meant a loss for the states and communities.

Because of different formulas used for taxes on income and the turnover tax, growth rate differences between taxes are of importance. To give a simple example which also points at future developments: the yield from the four taxes on income rose by 92 percent between 1990 and 2000, the yield from the turnover tax by 52 percent, the tax on interest by 182 percent. Accordingly, the portions of the yield from the shared federal taxes allocated to the federal, state and local governments showed different growth rates.

Table 3: Change in the formula for vertical distribution of shared federal taxes

	Federal government	States	Communities
	Change between 2000 and 2002 in percentage points		
Taxes on income	+2.916	-1.570	-1.346
Tax on interest	± 0	± 0	± 0
Turnover tax	-1.143	-0.160	+1.303
Beer tax	+9.352	-5.161	-4.191
Champagne tax	± 0	± 0	± 0
Alcohol tax	+12.623	-6.967	-5.656
Mineral oil tax	± 0	± 0	± 0
Inheritance and gift tax	+13.333	-13.333	± 0
Advertisement tax	± 0	± 0	± 0
Land transfer tax	± 0	± 0	± 0
Tax on vacant plots	± 0	± 0	± 0
Vehicle tax	+5.942	-5.942	± 0
Vehicle-related insurance tax	+2.890	-2.890	± 0
Art promotion contribution	± 0	± 0	± 0

Source: Federal Ministry of Finance, WIFO calculations.

Under the new revenue sharing scheme, the additional yield from tax measures taken in mid 2000 and/or effective as of early 2001 will accrue solely to the federal budget, with the exception of ATS 1 billion for the states. This goal is achieved by changing the vertical apportioning formula of taxes affected by the tax package in two stages (2001 and 2002) to benefit the federal government. In this way, the growing yield is taken account of.

The new revenue sharing scheme shifts yield shares to the federal government.

The greatest change is found in apportioning taxes on income: the federal share was raised by 2.916 percentage points for 2002 (compared to 2000), whereas the state and community shares were lowered by 1.570 and 1.346 percentage points, respectively. Changes were also effected for the inheritance tax, vehicle tax and, already in 2000, for taxes on alcoholic beverages and the vehicle-related insurance tax. The changes in apportioning the turnover tax are due to the compensation for the beverage tax rather than budget consolidation measures: in compensation for the loss of the beverage tax, the communities receive a greater share of the turnover tax, thus reducing the federal and (to a lesser extent) the states' share. Altogether, it is the federal government which benefits most from the shift in apportioning.

Table 4: Revenue shares of the territorial authorities for horizontal distribution

	2000	2002	2000	2002
	Million ATS		Percentage shares	
		Budget		Budget
Federal government	380,638	444,326	68.6	70.2
States (including Vienna as a state)	95,260	100,331	17.2	15.8
Communities (including Vienna as a community)	78,861	88,721	14.2	14.0
Total	554,759	633,378	100.0	100.0

Source: Annual federal accounts, Federal Ministry of Finance, WIFO calculations.

Once the yield from shared federal taxes had been vertically distributed and various deductions were made (EU contribution, consolidation contribution, contributions for water management, etc.), altogether ATS 380.6 billion, or 68.6 percent of the yield available for vertical distribution, remained with the federal government. In 2002, the federal government can expect an amount of ATS 444.3 billion³ of shared federal taxes. Its share will thus rise to 70.2 percent.

In 2000, the states (including Vienna) received ATS 95.3 billion as their share of the shared federal taxes (17.2 percent of the total revenues distributed). For 2002, the states (including Vienna) can expect to receive ATS 100.3 billion. Their share will decline to 15.8 percent, because the consolidation contribution is increased and the states do not get any of the additional revenues from the tax measures.

³ All calculations of the yield shares relate to 2000 and 2002 in this report, and thus cannot be directly compared to the cash receipts by the states and communities for these years. These consist of advance payments made at a delay of two months (for 2000, they reflect the yield of November 1999 until October 2000), whereas the amount due for 2000 refers to the yield for January to December 2000. The difference is balanced by an intermediate account to be prepared by the end of March 2001.

The communities (including Vienna) received ATS 78.9 billion in 2000, or 14.2 percent of the total yield accruing to the territorial authorities. They can expect ATS 88.7 billion for 2002, or about 14.0 percent. The communities' share remains more or less constant because they receive additional revenues from the beverage tax compensation which will balance the loss from the apportionment formula.

When the vertical apportionment formula was changed, participants agreed to an ex-post audit to see whether the envisaged additional revenues would materialise. If this should not be the case, the Revenue Sharing Act provides for an (optional) change in the apportionment formula. This audit is to ensure that the states and communities will not lose any of their shares to the federal government.

The second level of distribution, which concerns the shares accruing to the states (including Vienna) and communities (including Vienna), is known as "horizontal distribution". To this end, five indicators are used: population, stepped population apportionment, fixed apportionment, yield and other criteria.

Horizontal distribution of revenue shares

Table 5: Criteria for horizontal distribution of revenue shares

	1990	1995	2000	2002 Budget
	Percentage shares in the revenues			
<i>States</i>				
Population	76.7	80.0	80.3	78.4
Fixed apportionment	0.0	5.2	17.7	19.0
Yield	18.9	10.7	0.4	0.4
Others	4.4	4.2	1.6	2.1
Total	100.0	100.0	100.0	100.0
<i>Communities</i>				
Population	16.6	14.4	14.0	13.3
Stepped population apportionment	53.4	59.2	58.1	56.4
Fixed apportionment	0.0	0.0	20.3	23.3
Yield	18.7	18.0	7.5	6.9
Other	11.3	8.4	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Federal Ministry of Finance, WIFO calculations.

Distribution of revenue shares among states and communities is primarily determined by the number of residents (either by population or as a stepped apportionment formula). In 2000, 80.3 percent of the states' share were distributed by population, 17.7 percent by fixed apportionment and only 0.4 percent by yield. For 2002, the population criterion will lose some of its importance, whereas fixed apportionment will gain in weight (to some 19 percent). The yield will continue to be of little importance.

The 1990s saw a pronounced shift of criteria at the state level from the yield to fixed apportionment, and to a lesser extent to the population figure.

At the community level, the population figure is similarly of the essence. In 2000, 72 percent of the revenue shares were distributed by this criterion, with 58 percent based on a stepped population apportionment formula. For 2002, this figure (both population per se and stepped apportionment) will be slightly less important and more weight will be accorded to fixed apportionment (its share rising from 20.3 percent in 2000 to 23.3 percent in 2002). The yield is again of little importance, with its share continuing its decline from 18.7 percent in 1990 to 7.5 percent in 2000 and to 6.9 percent in 2002.

In the long term, distribution to communities shows a similar picture as distribution among states: the yield criteria loses while fixed apportionment wins in importance.

The key position awarded to the population figure in distributing revenue shares makes for some problems because it fosters the assumption that the responsibilities to be financed by the states and communities would greatly depend on the number of their residents. The trend is further strengthened by the use of stepped apportionment, which is based on "Brecht's Law" (Zimmermann – Henke, 1982), according to which a rise in population causes *per-capita* expenditure to grow disproportionately. Yet some of the responsibilities (such as roads, farming, etc.) have always been determined by other indicators.

Efforts should therefore be made to distribute revenue shares by responsibilities and on the basis of more widely defined indicators. This is of importance because the obligations undertaken in the Stability Pact whittle away the leeway available to the states and communities.

The current distribution practice calls for investigating the role of the stepped apportionment formula and the problem of the yield as a criterion for distribution.

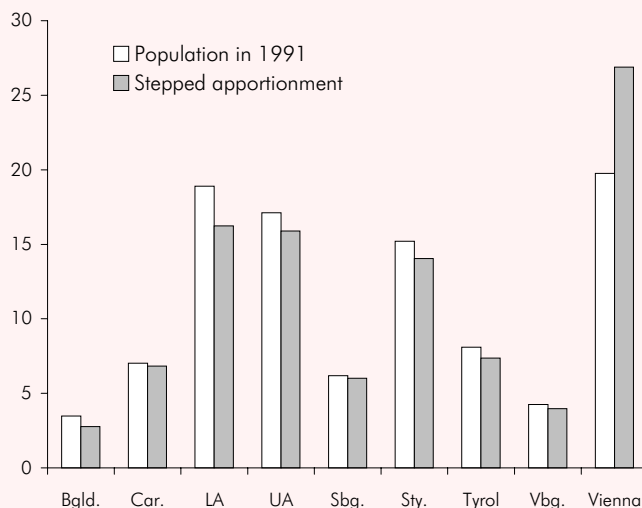
The effects of *stepped apportionment* differ greatly between the states. States that have a large number of small communities (e.g., Lower Austria and Burgenland) are at a disadvantage against states with an above-average number of larger communities (e.g., Carinthia).

The variations become clear when we compare the percentage of the total population of Austria with the population weighed by the stepped apportionment formula. According to the 1991 census, 18.9 percent of all Austrians lived in Lower Austria, but its share under the stepped apportionment formula was only 16.2 percent. For Carinthia, the figures were 7 and 6.8 percent, respectively, a much lower difference due to the latter's structure of communities.

Efforts should be made to achieve responsibility-focused revenue sharing and distribution of the shares by more widely defined indicators.

Figure 1: Stepped apportionment for distributing revenue shares

Percentage share of population

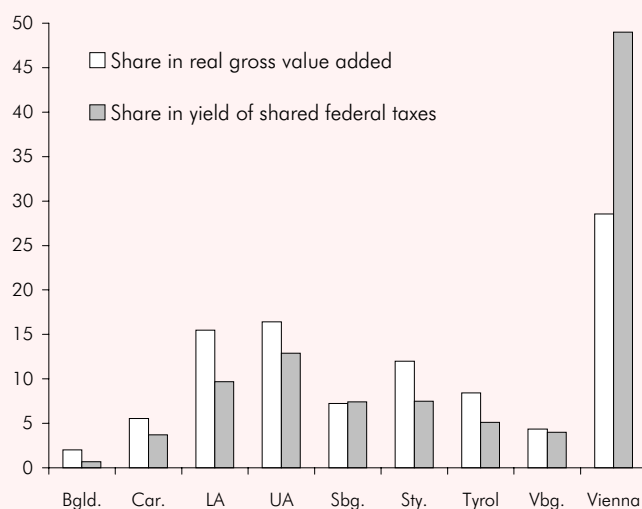


The stepped apportionment formula was embedded in the constitution by earlier revenue sharing laws because the Constitutional Court had already voiced its scepticism in its rulings. A particular problem was caused by the very strict limits applicable prior to 1997. Then, the population of a community of 9,999 inhabitants would have been multiplied by just $1\frac{1}{3}$, and that of a community of 10,001 inhabitants by $1\frac{2}{3}$. Accordingly, transition rules were introduced and continued for the 2001 revenue sharing scheme, to make this problem less dramatic.

Nevertheless, the question needs to be asked whether the responsibilities (expenditures) are so closely tied to the population figure that a rise in residents will lead to a disproportionate rise in expenditures. The high per-capita debt accrued by the smaller communities refutes any such close connection. It would therefore be reasonable to concentrate the distribution more on responsibilities and also to review other indicators for distributing revenue shares.

Figure 2: Regional GDP and sourcing of shared federal taxes in 2000

Percentage shares



Over the 1990s, the yield lost weight as a distribution criterion both for the state and community shares. The literature (*Lenk – Fuge – Schneider, 1998*), however, continues to award great importance to local tax yield as a criterion because it could intensify regional competition and thus generate pressure for greater economy in expenditures. According to these considerations, greater regionalisation of tax sourcing (possibly by surcharges on existing taxes) might be of merit.

The Austrian revenue sharing scheme nevertheless rejects this theory, reasoning that tax flows in Austria are highly centralised and that there is thus little connection with the regional GDP. In all states, with the exception of Vienna and Salzburg, the share of tax inflows (gross) is lower than the share of the regional GDP because tax receipts are geographically allocated to the place where they are due (which is usually the domicile of a company). This applies especially to the turnover tax and taxes on income.

An illustration of the phenomenon is offered by the vehicle-related insurance tax. The former vehicle tax (levied on passenger cars) could be precisely allocated by regions based on the place of vehicle registration. The vehicle-related insurance tax, on the other hand, is paid centrally by the insurance companies, which meant that Vienna's share of the yield rocketed: where once Vienna contributed about 20 percent to the vehicle tax, it now is the source of 80 percent of the vehicle-related insurance tax. Lower Austria similarly contributed about 20 percent until 1992, but its share has declined to 3 percent since 1994.

Altogether, 49 percent of the total receipts from shared federal taxes were paid in Vienna in 2000. Vienna itself generates only 28.6 percent of the regional GDP. In contrast, Lower Austria contributes 15.5 percent to the GDP, but is the source of only 9.7 percent of revenues. Lower Austria, as well as other states (Styria, Upper Austria, Burgenland, Tyrol, Carinthia) would thus be at a considerable disadvantage if distribution of the revenue shares were more focused on the yield (Figure 2).

If distribution were more regionalised in terms of sourcing this would also require considerable allocation processes which in turn would involve a growth of administrative work both for the companies and the tax authorities. Accordingly, there are strict limits to how the source can be given more consideration in the apportionment formulas, even by surcharges to existing taxes.

Granting more importance to the yield principle in the distribution of revenue shares could well lead to considerable tension between Austrian states.

Upon horizontal distribution, the per-capita share of revenues in Vorarlberg, Tyrol, Salzburg (and Vienna) is above the Austrian average, but noticeably below in the other states (particularly so in Burgenland and Styria; Table 6). This situation applied throughout the 1990s and continues unchanged under the new revenue sharing scheme. The ranking of states for 2002 (based on the data of the 2002 budget and the new revenue sharing scheme) is the same as applied to 2000 and previous years.

Marked west-east gradient in per-capita revenue shares accorded to states and communities

Table 6: Per-capita shares of shared federal taxes by states

Excluding duty on casinos

	State				Communities			
	1990	1995	2000	2002	1990	1995	2000	2002
	ATS per inhabitant							
Burgenland	7,808	9,20	11,283	11,86	4,52	5,832	7,42	8,36
Carinthia	8,344	9,65	11,866	12,51	5,75	7,199	9,24	10,50
Lower Austria	8,324	9,65	11,818	12,41	5,71	6,817	8,63	9,65
Upper Austria	8,468	9,76	12,015	12,61	5,89	7,209	9,36	10,48
Salzburg	9,281	10,40	12,685	13,38	7,22	9,286	10,84	12,29
Styria	8,193	9,49	11,724	12,31	5,44	6,842	8,64	9,72
Tyrol	8,985	10,30	12,666	13,31	6,44	7,736	10,19	11,66
Vorarlberg	9,421	10,67	13,100	13,79	6,82	8,573	10,59	11,92
States excluding Vienna	8,497	9,80	12,045	12,61	5,88	7,272	9,22	10,39
Vienna	8,880	10,25	12,796	13,48	8,23	10,427	13,58	15,24
States including Vienna	8,575	9,89	12,193	12,84	6,36	7,895	10,08	11,34

Source: Federal Ministry of Finance, WIFO calculations.

The (regional) gradient in the states' per-capita shares is the result of *fixed apportionment* formulas: the western states receive greater shares from this component than would correspond to their population figures, whereas the southern and eastern states get lower shares. This applies to the distribution to states and to communities, and it applies to taxes on income and (partly) to the turnover tax.

Consideration of the 2001 census results is likely to further enhance the gradient because the population, while growing in general against the previous census, grew at rates widely differing between the states, thus widening the gap between them as well as the west-east gradient.

This fact will make for further budget problems in states (and communities) of below-average population growth because it will take some time for their expenditure to adjust to the lower share resulting from the change in population, especially when considering that some of their responsibilities are not determined by the number of their inhabitants. It is also for this reason that greater emphasis should be put on a responsibility-focused revenue sharing scheme.

The gap between per-capita shares is greatest between Vorarlberg and Burgenland: in 2000, Vorarlberg received a per-capita share of ATS 13,100 or 16.1 percent more than Burgenland (ATS 11,283). For 2002, the gap is expected to be about the same (16.2 percent), with Vorarlberg getting ATS 13,799 per head and Burgenland ATS 11,869. The growth rates are similar in both states. In practice, the new revenue sharing scheme thus does not change horizontal distribution between the states. In the early 1990s, the gap was much higher, at 20.6 percent, narrowing to 16.1 percent until 1995. In other words, the gap between financially strong and financially weak states began to close in the first half of the 1990s and has remained constant since.

The gap in per-capita shares is greater between communities than between states, the consequence mainly of the stepped population formula. The list is topped by Vienna, which received ATS 13,586 per head in its capacity as a community, or 83 percent more than the communities in Burgenland (ATS 7,420 per head). When excluding Vienna from the calculation, the highest shares were paid to the communities in Salzburg, at ATS 10,840 per head. This makes for a gap of 46 percent to Burgenland which is still greater than the gap between states.

For 2002, the gap between communities should narrow slightly. The difference between Vienna and communities in Burgenland should decline to about 82 percent, the result of rising the base amounts (fixed per-capita amounts). When excluding Vienna, the gap will remain more or less unchanged.

A marked gradient, sloping down from west to east, can be found in the per-capita revenue shares obtained by the states and communities (excluding Vienna).

The revenue shares distributed between communities are computed in a highly complex process that involves six steps (Section 12, par. 2, FAG 2001). From the revenue shares due to the communities and calculated for each state "need-based funds" (based on Section 10, par. 7, FAG 2001), are first deducted, which make up about ATS 11.1 billion in 2002. Of the remaining funds, each community receives a fixed amount per resident, which will be raised from ATS 102.30 to ATS 602.31 in 2001 and will grow to ATS 1,000 by 2004. This base amount will be distributed by population number.

As a result, the smaller communities will receive higher shares per head and the larger communities (especially Vienna) will be given lower shares, which will narrow the gap between them. This measure redistributes altogether ATS 3.5 billion, or 6.8 percent of the communities' revenue shares. It will produce some redistribution from the larger to the smaller communities and will thus improve their narrow budget leeway reflected in their above-average per-capita debt. It may also be viewed as a measure to strengthen solidarity between the communities.

Table 7: Per-capita debt of communities by size category

		1990	1995 ATS per head	1999
<i>Inhabitants</i>				
0 to	500	6,911	13,630	23,875
501 to	1,000	8,458	13,781	20,201
1,001 to	2,500	9,824	15,234	20,284
2,501 to	5,000	11,515	16,255	19,494
5,001 to	10,000	13,536	18,270	21,427
10,001 to	20,000	14,171	18,880	21,014
20,001 to	50,000	17,060	20,472	22,649
50,001 to	500,000	13,505	18,793	18,683
Total		11,932	16,964	20,283

Source: Statistics Austria, WIFO calculations.

At more than ATS 20,000 (1999), the per-capita *debt rate* of smaller communities (fewer than 2,500 inhabitants) is higher than that of big communities (over 50,000 inhabitants, ATS 18,700). Most indebted are the smallest communities (up to 500 inhabitants, at ATS 23,875 in 1999). In the smaller communities (up to 2,500 inhabitants), per-capita debt rose at an above-average rate, more than doubling between 1990 and 1999, whereas the increase was about 50 percent in medium-sized communities (5,000 to 20,000 inhabitants) and some 35 percent in the larger communities (over 20,000 inhabitants).

Another measure to redistribute revenue shares to the financially weaker communities is to pay to those whose financial resources were insufficient to cover their previous year's financial needs an advance of 30 percent of the difference. About 3.5 percent of the communities' revenue shares will be distributed under this provision. However, the financial need is not defined by responsibilities or expenditures, but once again by a community's financial resources and thus its income; i.e., the difference is defined tautologically. The calculation is based solely on the land tax and community tax (39 percent of the yield).

Most of the communities' revenue shares (about 82 percent) is allocated by the stepped population apportionment formula. Altogether, the communities received ATS 78.9 billion in (unreduced) revenue shares in 2000. This sum will rise to ATS 88.7 billion in 2002.

With this, distribution among communities is not yet completed: a state levy and the need-based funds under Section 12 FAG must be considered as well.

The *state levy* must be paid by the communities to the state based on the reasoning that the states lost taxation rights (e.g., land tax) to the communities after World War II and are compensated for their loss by this transfer. Originally, the state levy was 20 percent of the (unreduced) revenue shares accruing to the communities. This rate was later re-

State levy and need-based funds

duced in several steps. The Revenue Sharing Act of 1997 set it at a maximum of 8.3 percent; the new Revenue Sharing Act of 2001 defines it at 7.8 percent. The states are free to levy the tax: Lower Austria has already abolished it, Upper Austria levies less than the maximum allowed. Altogether, the communities paid ATS 3.5 billion in state levy to the states in 1999.

The state levy is not identical throughout communities, but is (normally) determined by their financial power, i.e., communities with a better financial base pay proportionately more than the less well financed ones. States and communities post the levy differently: communities see them as a transfer to the states, whereas the states view them as tax receipts (explained through the levy's origin as compensation for loss of taxation rights).

Table 8: Exclusive state and community taxes as modified by the state levy

	Exclusive state taxes	States		Total	Exclusive community taxes	Communities		Total
		Plus state levy				Reduced by state levy		
					Million ATS			
1990	3,311	+	2,875	6,185	33,452	-	2,875	30,577
1991	3,307	+	3,270	6,576	34,192	-	3,270	30,922
1992	3,487	+	3,539	7,025	37,403	-	3,539	33,864
1993	3,581	+	3,786	7,367	38,048	-	3,786	34,262
1994	3,918	+	3,730	7,648	41,897	-	3,730	38,167
1995	3,816	+	3,400	7,216	42,388	-	3,400	38,987
1996	3,762	+	3,590	7,353	42,786	-	3,590	39,196
1997	3,965	+	3,293	7,258	44,186	-	3,293	40,892
1998	4,042	+	3,394	7,435	44,666	-	3,394	41,272
1999	4,035	+	3,457	7,491	45,380	-	3,457	41,923

Source: Statistics Austria.

When adding the state levy to the exclusive state taxes, revenues accruing to the states under this title rose to ATS 7.5 billion in 1999, whereas the exclusive community taxes were reduced to ATS 41.9 billion (1999). In the 1990s, receipts from the state levy grew at a lower than average pace because the levy was abolished in Lower Austria and its rate cut in other states.

A major tool to support regional policy and provide a balance between communities is provided by the *need-based funds* under Section 12 FAG. These funds are first deducted from the communities' revenue shares, at a rate of 12.7 percent as of 2001 (formerly at 13.5 percent, and an intermediate stage of 13.3 percent for 2000), and then transferred by the states as earmarked funds to the communities (and associations of communities). As a result, the need-based funds act as a measure of redistribution between communities.

These funds serve mainly two purposes: they act as a transfer to allow less well financed communities to balance their (ordinary) budgets, and as a (capital) transfer to finance investment projects. In that, they provide some of the (positive) external effects accruing from investments by communities which benefit people outside those communities.

By earmarking their need-based funds, the states can impact on regional policy. Nevertheless it is difficult to pinpoint the criteria used by the states to allocate need-based funds to their communities. For the state budget, such a transfer is a transitory and thus self-balancing item. Altogether, need-based funds made up ATS 10.4 billion in 2000 (estimate for 2002: ATS 11.1 billion).

The revenue sharing scheme provides for transfer payments by the federal government to less well endowed states and communities, but not for equalisation payments between states and communities. The financially weak states receive payments from a "per-capita revenue share equalisation scheme" (Section 20 FAG) if and when their per-head revenue shares (state quota) are less than the states' average of per-head revenue shares (federal quota). The gap is to be compensated at a rate of 87.9 percent (revenue sharing scheme of 2001). Up to 1996, it was still compensated at a rate of 92.6 percent. Currently five states (Burgenland, Carinthia, Lower Austria, Styria and Upper Austria) receive such transfers from the federal government (as they did throughout the 1990s).

The per-capita revenue share equalisation rate remained highly stable throughout the 1990s. Austria-wide, ATS 172 were paid per head in 1990, ATS 174 in 1995 and ATS 179 in 2000. For 2002, a slight rise is expected. The highest transfers per head are paid to Burgenland (ATS 758 in 2000), followed by Styria (ATS 397), Carinthia

Transfers to financially weak territorial authorities

(ATS 294) and Lower Austria (ATS 278). Altogether, the equalisation scheme required ATS 1.36 billion in 2000; the figure budgeted for 2002 is ATS 1.41 billion.

Table 9: Per-capita revenue share equalisation scheme and revenue shares

	Revenue shares				Per-capita revenue share equalisation				Revenue shares including per-capita revenue share equalisation			
	1990	1995	2000	2002	1990	1995	2000	2002	1990	1995	2000	2002
					ATS per inhabitant							
Burgenland	7,80	9,2	11,2 ^t	11,86	778	712	758	805	8,58	9,9	12,04	12,6
Carinthia	8,3 ^z	9,6	11,8 ^t	12,51	226	239	294	309	8,57	9,8	12,16	12,8
Lower Austria	8,3 ^z	9,6	11,8	12,43	251	248	278	297	8,57	9,8	12,09	12,7
Upper Austria	8,4 ^z	9,7	12,0	12,65	115	138	112	119	8,58	9,9	12,13	12,7
Salzburg	9,2 ^z	10,4	12,6 ^t	13,38	0	0	0	0	9,28	10,4	12,68	13,3
Styria	8,1 ^z	9,4	11,7 ^t	12,35	388	404	397	429	8,58	9,9	12,12	12,7
Tyrol	8,9 ^z	10,3	12,6 ^t	13,33	0	0	0	0	8,98	10,3	12,66	13,3
Vorarlberg	9,4 ^z	10,6	13,1 ^t	13,79	0	0	0	0	9,42	10,6	13,10	13,7
States excluding Vienna	8,4 ^z	9,8	12,0 ^t	12,68	215	216	223	238	8,71	10,0	12,26	12,9
Vienna	8,8 ^z	10,2	12,7 ^t	13,48	0	0	0	0	8,88	10,2	12,79	13,4
States including Vienna	8,5 ^z	9,8	12,1 ^t	12,84	172	174	179	191	8,74	10,0	12,37	13,0

Source: Federal Ministry of Finance, annual accounts of states.

These funds are not earmarked for any particular use by the states. The scheme provides for a substantial narrowing of the gap between well- and less well-endowed states. When taking into account these transfers, receipts from revenue shares (including the per-capita revenue equalisation scheme) per head of population were higher by 8.8 percent in Vorarlberg than in Burgenland in 2000 (without equalisation the gap would have been 16.1 percent). The scheme thus cuts by almost half the deviations resulting from the distribution of the revenue shares. Nevertheless, the effect has been lessened in recent years because the percentage rate was reduced from 92.6 percent to 87.9 percent.

The federal government similarly pays for transfers to financially weak communities (community per-capita equalisation, Section 21 FAG), which flow to communities whose financial power is more than 10 percent below the Austrian-wide average. For the scheme, the financial strength is determined separately for each size category. It is interesting to note that the definition used for financial strength in this respect differs from that used in Section 12 for distributing revenue shares. The new revenue sharing scheme sets aside 1.26 percent of the unreduced share of the communities plus ATS 125 million, as compared to 1.34 percent plus ATS 70 million allowed in the previous scheme. The variable component was thus reduced in favour of the fixed component, but the level of funds remained more or less unchanged.

The *transfers* made by the federal government to the state and local governments are the second mainstay of the revenue sharing scheme. In the Revenue Sharing Act they are defined as financial allocations and subsidies (Sections 20 to 24). Parts of the transfers are directly linked to the receipts from specific taxes, parts are fixed amounts earmarked for a particular purpose by law. In addition, we need to distinguish between discretionary and earmarked transfers.

Payments to reimburse the costs of teachers employed by the states and transfers to cover project management and construction supervision of road and construction work on behalf of the federal government are shown separately. Transfers under the Earmarked Housing Subsidy Funds Act are included because this act is normally negotiated (and amended) jointly with the revenue sharing scheme.

Altogether, the federal government spent ATS 37.8 billion on such transfers, excluding the per-capita revenue share equalisation scheme (Section 20, par. 1 FAG) and the community per-capita-based equalisation scheme (Section 21 FAG), in 2000 (of which ATS 24.5 billion were for subsidies under the Earmarked Funds Act); the 2002 budget provides for ATS 41.2 billion (a plus of 8.7 percent). Of the 2000 funds, the states received ATS 36.8 billion (ATS 39.8 billion for 2002) and the communities were paid ATS 1.0 billion (ATS 1.3 billion in 2002).

Transfers from the federal to the state and local governments

Table 10: Federal transfers to the states and communities under the FAG

		Transfers to states		Transfers to communities	
		2000	2002	2000	2002
		Million ATS			
<i>FAG 2001</i>					
Section 20 (2)	Local transport			388	439
Section 20 (3)	Local transport			399	453
Section 20 (4)	Local transport	1,351	1,440		
Section 20 (5)	Reimbursement for police costs			24	26
Section 20 (6)	Agricultural affairs	200	200		
Section 20 (7)	Ecological and energy-saving measures	817	1,065		
Section 22	Need-based funds	8,314	10,870		
Section 23	Need-based funds			5	258
Section 24 (1) (1)	Theatre management	127	127	166	166
Section 24 (1) (2)	Environmental protection	95	95	25	
Section 24 (2)	Hospitals	1,436	1,523		
Sum		12,341	15,320	1,007	1,342
Earmarked funds for housing promotion		24,500	24,500		
Total		36,841	39,820		

Source: Arbeitsbehelf zum Bundesfinanzgesetz, enclosure D.

Transfers directly related to tax receipts include in particular need-based funds payable to the states under Section 22 FAG, transfers for ecological and energy-saving measures (calculated from the energy tax), and payments for local transport (which depend on the mineral oil tax). Per-capita revenue share equalisation and payments to financially weak communities are also included in these transfers.

The need-based funds under Section 22 are highly important for financing state budgets because they are not earmarked and thus extend the financial leeway available to the states, also with a view to the Stability Pact. Their amount depends on the receipts from taxes on income and on the contribution for the promotion of residential buildings.

The percentage used to calculate the transfers based on taxes on income was reduced in the new revenue sharing scheme: Up to 2000, it was 9.223 percent of the receipts from taxes on income (reduced by the compensation payment to the Family Fund), and is now set at 8.403 percent for 2001 and 8.346 percent for 2002. Of the contribution for the promotion of residential buildings, 80.55 percent are used for calculating these transfers. Of the overall amount thus obtained, ATS 24.5 billion are deducted and the remaining part is transferred to the states as need-based funds, distributed by their population number.

In 2000, the states received ATS 8.3 billion in need-based funds, a figure which is set to go up to ATS 10.9 billion in 2002. In spite of a reduction in rates, the funds will rise by more than 31 percent from 2000 to 2002. In the long term they are expected to exhibit vigorous growth rates if the legal situation remains unchanged.

In this connection it appears to be advisable to discuss the role of the deductions made at an annual rate of ATS 24.5 billion. The Revenue Sharing Act provides no indication of how these sums are (or need to be) used; no link can be found between the housing subsidy scheme on the one hand and the deductions on the other. The amount of ATS 24.5 billion is specified only in the Earmarked Funds Act, but without any reference to its source.

So far, the earmarked funds amounting to ATS 24.5 billion have been dedicated to housing subsidies. They are paid to the states in amounts fixed in the Earmarked Funds Act. However, earmarking has been considerably reduced as of 2001, and the states may now use the funds for measures to maintain and improve their infrastructure and to achieve the Kyoto targets. This change enlarges the financial room to move for the states and helps them gain the surpluses defined in the Stability Pact.

Transfers for local transport consume 4.888 percent of the receipts from the mineral oil tax. Their amount thus depends on the actual consumption of petrol and diesel fuel. The transfers are shared among the states by a fixed formula, and the communities receive part of the funds. Altogether, ATS 2.14 billion were paid under this heading in 2001, ATS 1.35 billion to the states and ATS 0.79 billion to the communities. For 2002,

transfers are expected to reach ATS 2.33 billion (ATS 1.44 to the states and ATS 0.89 billion to the communities).

Transfers for ecological and energy-saving measures depend on the yield from the energy taxes, of which 11.835 percent are allocated to this purpose and shared among the states by their population number. An interesting point to note is the fact that the federal government failed to declare the energy taxes shared federal taxes, of which the states would get their share, but rather grants an earmarked transfer. The alternative would not have changed the federal net position, but it appears that in this manner the federal government prescribes certain targets to the states which would not be possible with revenue sharing.

Another transfer included under this heading is the communities' contribution to hospital financing, computed at 0.642 percent of the receipts from the turnover tax.

The transfers defined as fixed amounts are as a rule earmarked for a particular purpose. Ranging from subsidies to theatres to farm subsidies and environmental measures, they amounted to ATS 0.64 billion in 2000 and are posted at ATS 0.80 billion in the new revenue sharing scheme. They remain constant through the revenue sharing period.

The revenue sharing scheme regulates not only distribution of tax revenues and payment of transfers (subsidies) but also covers the financing of responsibilities. The latter involves three sectors: financing the state-employed teachers and their pensions; expenditures to support federal investments in construction and roads; and income supplements and special unemployment assistance.

The federal government pays for all staff costs of teachers at statutory schools (primary and general secondary schools). The teachers themselves are employed by the respective state, and staff expenditure for them is posted to the state budgets. For vocational teachers, the federal government reimburses half their cost to the states, a rule that has been retained by the 2001 Revenue Sharing Act.

Nevertheless it was agreed to raise the number of pupils per class (without changing their maximum number as regulated by the law). Primary schools are to achieve a minimum threshold of 14.5 pupils per class; and the respective figures are 10 for general secondary schools, 9 for the pre-vocational year and 3.2 for special-education schools.

These measures are to be implemented by 2004-05, in order to stabilise the staff expenditure for state teachers and thus the federal transfer payments. The federal government furthermore pays for the difference between the gross expenditure for pensions and the pension contributions by state teachers. Altogether, federal transfers to the states for state teachers consumed ATS 48.1 billion in 2000; for 2002, ATS 48.7 billion are projected.

The states also provide works and services for the federal government in terms of project design, site and project supervision and management of federal road and construction investment projects. Their services are reimbursed by a lump sum of 10 percent of the cost of a road project and 12 percent for a construction project, as regulated in Section 1 (2) (2) FAG. With the federal government cutting down on its investments, the transfers are similarly reduced. The staff and material costs of maintaining federal roads incurred by the states are also reimbursed by the federal government.

Altogether, the federal government paid ATS 1.0 billion to the states for such services; for 2002, the item is posted at 0.6 billion. Payments made in this context of investment and maintenance are a vivid example of the enormous gap between performance and financing.

Last but not least, the federal government assumes payments for income supplements (in the social security system) and for the special unemployment assistance. Income supplements made up ATS 10.2 billion in 2000, and are set at ATS 10.1 billion in 2002. As of 2001, payments in connection with pension indexing (difference between the inflation rate and the pension adjustment factor) are posted to the income supplements, consuming ATS 2 billion in 2001.

In spite of its apparent complexity, the revenue sharing scheme does not cover *all* transfers between the federal, state and local governments. An in-depth enumeration of payment flows between the territorial authorities is given in the enclosure to the Federal Finance Act. According to this, the transfers regulated in the revenue sharing scheme (including state teachers and earmarked funds) cover just some 86 percent of all transfers between the three authorities.

Reimbursement of staff cost and other expenditures

Transfers outside the revenue sharing scheme

In addition to the transfers provided for in the Revenue Sharing Act and the Earmarked Funds Act, the federal government makes transfers for a number of other purposes, ranging from hospital financing (including financing of additional clinical expenditure) to transport projects (rail system agreement) and flood control measures. In 2000, the federal government co-financed measures of this type by the states and communities (which are not covered in the revenue sharing scheme or the Earmarked Funds Act) to the tune of ATS 21.2 billion; for 2002 the estimate is ATS 13.6 billion.

In total, the federal government paid ATS 107.2 billion in transfers to states and communities in 2000; of this sum, ATS 104.3 billion accrued to the states and ATS 2.8 billion to the communities (transfers to the states also include amounts passed on by the states to the communities). In the other direction, states and communities paid just over ATS 1 billion to the federal government.

For 2002, federal transfers are set slightly lower than in 2000, at ATS 103.5 billion, a decline that affects exclusively the states. Payments by the states and communities for 2002 are about the same as in 2000. On a net basis, the federal government thus pays altogether ATS 102.4 billion in transfers to the other territorial authorities.

This densely woven network of transfers reflects the immense gap between performance and financing, which could be narrowed by focusing the revenue sharing scheme on responsibilities and by changing the distribution criteria. This would enhance efficiency and might produce savings in the medium term.

Table 11: Federal transfers to the state and local governments

	1990	1995	2000	2002 Federal budget
	Million ATS			
Payments made by the federal to the state governments	57,176	78,530	104,321	100,057
Payments made by the federal to the local governments ¹	3,086	2,878	2,845	3,407
Payments received by the federal from the state governments	485	705	641	517
Payments received by the federal from the local governments ¹	122	205	398	531
Net payments made by the federal to the state and local governments	59,655	80,498	106,127	102,417

Source: Arbeitsbehelf zum Bundesfinanzgesetz, enclosure D. – ¹ Including associations of communities.

The revenue sharing scheme is restricted to regulating financial relations between the federal government and the two other territorial authorities, but does not cover the manifold linkages and relations between states and communities (including state funds and associations of communities). Nevertheless these links indirectly touch upon the revenue sharing scheme because distribution of tax revenues affects the leeway available, and transfers between states and communities need to be financed mostly from their own revenue shares. A short overview of the financial interlacings is given below to round off the description of the revenue sharing scheme.

The states (excluding Vienna) have installed 69 funds; and the communities have joined in over 1,000 associations. These funds and associations, some of which get transfers from the states and communities, perform tasks which relieve the state and community budgets.

The *state funds* have greatly gained in importance by the establishment of hospital funds in all states, since these handle much of the hospital financing. State funds also play a key role in housing and social services. The *associations of communities* have been given a multitude of different tasks, ranging from health and social care to education and environmental measures.

In 1999, the state funds received transfers from the states and communities of altogether ATS 12.5 billion and spent ATS 57.1 billion. The associations were paid transfers of ATS 8.4 billion by the states and communities, and themselves spent ATS 30.8 billion.

States and communities are linked by a dense network of financial relationships. Financing contributions are most frequent with regard to hospitals, education (including music schools and kindergarten facilities) and social services. In general, the states stipulate financing contributions by the communities by state law. These transfers need to be covered from regular (non-earmarked) revenues collected by the communities. This situation also provides the connection to the revenue sharing scheme since the communities cannot directly influence either their receipts or their expenditures in this respect.

The revenue sharing scheme regulates only relations between the federal government and the other territorial authorities. It does not cover the manifold interlinkages between states and communities (including the state funds and associations of communities).

On the other hand, the states support the communities in their obligations (e.g., kindergarten facilities, schools and community services, water supply and sewage disposal). The respective transfers by the states to the communities are mostly regulated by state laws.

Table 12: Transfers between territorial authorities in 1999

	Federal government including federal funds	Transfers from . . .		Total
		States, excluding Vienna, including state funds	Communities, including Vienna, including community funds and associations	
Million ATS				
<i>Transfers to . . .</i>				
Federal government including federal funds	23,131	4,118	397	27,646
States, excluding Vienna, including state funds	107,735	14,485	17,930	140,150
Communities, including Vienna, including community funds and associations	4,653	11,865	11,319	27,838
Total	135,519	30,468	29,646	195,634

Source: Statistics Austria, WIFO calculations.

Total transfers between the territorial authorities (including funds and associations) amounted to ATS 195.6 billion in 1999. The federal government (including federal funds) covered a substantial part of this sum; here the net balance was ATS 107.9 billion in 1999. Most of this sum went to the states (including their funds), which posted a plus of ATS 103.6 billion against the federal government: the federal government paid ATS 107.7 billion to the states and received ATS 4.1 billion from them. Communities fared equally well, at a plus of ATS 4.3 billion, receiving ATS 4.7 billion from the federal government and paying ATS 0.4 billion to it.

Communities themselves supported the states at about ATS 6 billion net in 1999, paying (together with the funds) ATS 17.9 billion to the states and receiving ATS 11.9 billion from them. An interesting point is found in the dense links between states and communities: transfers from and to the state funds made up ATS 10.7 billion in 1999; payments from and to the associations of communities totalled ATS 6.5 billion. This compact web linking the territorial authorities once again illustrates the (growing) gap between performance and financing.

The new revenue sharing scheme has changed little of the original structure of earlier laws, except that the formula for distributing shared federal tax revenues (for taxes on income, inheritance tax and vehicle tax) has been shifted to benefit the federal government. With the exception of ATS 1 billion the federal government claims all additional revenues flowing from tax measures provided for in the budget acts of 2000-01. As a result, the federal portion of the shared federal taxes is rising, and will further grow in 2002, when the federal government will receive 70.2 percent of the shared federal tax revenues available for distribution.

Within the scope of the Growth and Stability Pact, the states achieve a surplus of 0.75 percent of GDP and local governments are set to achieve a balanced budget. Consequently tensions are expected to rise in view of the narrowing leeway open to the states and communities. Nevertheless the new revenue sharing scheme and the law covering earmarked contributions show a trend towards lesser use of earmarked funds, which in turn widens the margin given to the states.

The legal frame for transfer payments has remained widely unchanged. The smaller communities were able to negotiate for a greater portion of the horizontal distribution of revenue shares: they will now get a higher base amount which will rise annually for the duration of the current scheme. Consequently, the share obtained by the smaller communities will increase at the expense of larger municipalities – first indications of a growing solidarity between communities.

In the longer term it will be necessary to refocus the revenue sharing scheme on responsibilities. The object should be to reduce the enormous transfers between territorial authorities (almost ATS 200 billion in 1999) and replace them by a distribution of revenue shares on the basis of financing responsibilities, so that performance and its financing are more closely linked. This implies not just changing the financing system, but also

Conclusions

further departing from the earmarking practice which aggravates efforts by the states and communities to achieve the goals of the Stability Pact.

Greater emphasis on responsibility-focused distribution of revenue shares would also meet the demand for more competition between regions without the need to change fiscal sovereignty. In Austria, greater consideration of the source principle would be problematic for revenue distribution as it would compound regional problems. Altogether, the new revenue sharing scheme needs to be viewed as being only an intermediate step towards comprehensive change and restructuring of future financial relations between territorial authorities.

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