

Margit Schratzenstaller

The Tax Reform 2015-16 – Measures and Overall Assessment

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Most of the measures announced under the heading of the tax reform 2015-16 will take effect in 2016. By 2017, the overall impact of the reform will result in a revenue loss of € 5.2 billion or 1.4 percent of GDP. The key element is an adjustment of the income tax schedule that will reduce wage and income tax revenues by € 4.35 billion. Moreover, the negative tax will be extended for employees and newly introduced for old-age pensioners, self-employed persons and farmers. The transport tax credit and the child allowance will be raised and the commuter subsidy for low-wage earners increased. Companies and entrepreneurs will benefit from some minor tax relief measures. The reform is to be financed mostly by measures to combat tax fraud, by the abolition of exemptions in income tax and VAT, and by a higher withholding tax on dividends and capital gains from the sale of real estate. In addition, spending cuts in the federal and the state government budgets and the expected positive effects on growth shall ensure that the impact of the 2015-16 tax reform on the general government balance be neutral in the medium term.

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JEL-Codes: H20, H23, H24, H26 • **Keywords:** Tax reform, wage tax, income tax, negative tax, tax fraud, real estate transfer tax, capital gains tax

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ISSN 1605-4709 • © Austrian Institute of Economic Research 2015
Impressum: Herausgeber: Karl Aiginger • Chefredakteur: Michael Böheim (Michael.Boeheim@wifo.ac.at) • Redaktionsteam: Tamara Fellingner, Ilse Schulz, Tatjana Weber • Medieninhaber (Verleger) und Redaktion: Österreichisches Institut für Wirtschaftsforschung • 1030 Wien, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0 • Fax (+43 1) 798 93 86 • <http://bulletin.wifo.ac.at> • Verlags- und Herstellungsort: Wien

1. Introduction

In March 2015, the federal government agreed on a tax reform that will largely take effect in 2016, with a gross short-term revenue loss of € 4.0 billion or 1.2 percent of projected GDP, rising to an annual revenue shortfall of € 5.4 billion in gross terms or 1.5 percent of GDP as from 2017, once all measures have made their full impact¹. In net terms (allowing for the various counter-financing tax measures), the tax relief amounts to € 1.5 billion or 0.4 percent of GDP in 2016, rising to € 1.9 billion or 0.5 percent of GDP p.a. by 2019 (Table 1). The key element of the tax reform 2015-16 is a modification of the income tax schedule which, once fully effective, will imply revenue losses of € 4.35 billion, of which almost € 4 billion falling on wage tax and nearly € 0.4 billion on assessed income tax. The increase of the negative tax for dependent employees and its introduction for retired wage earners will lead to a further revenue shortfall of € 0.37 billion, the automatic tax refund without declaration which will be implemented in 2016 causes a further shortfall of € 0.2 billion. The doubling of the child tax allowance reduces tax revenues by € 0.1 billion, the integration of the employees' tax credit into an augmented transport tax credit and the increase in the commuter subsidy for low-wage earners generates revenue losses of € 0.16 billion

¹ This article is an updated version of Schratzenstaller (2015) on basis of several government bills (*Federal Ministry of Finance*, 2015D, 2015E, 2015F) that have passed the parliamentary process and resulted in the Tax Reform Law 2015-16 (*Parliament*, 2015). An overview of all planned tax reform measures is presented in *Federal Ministry of Finance* (2015A, 2015B, 2015C).

and the raise of a taxfree discount for employees causes a tax shortfall of € 0.01 billion.

Table 1: Overview of the tax reform 2015-16 measures

	2016	2017	2018	2019	2016	2017	2018	2019
	€ billion				Percentage shares of GDP			
<i>Tax revenues foregone</i>	- 4.050	- 5.400	- 5.400	- 5.400	- 1.2	- 1.5	- 1.5	- 1.4
Wage and assessed income tax cut	- 3.985	- 5.190	- 5.190	- 5.190	- 1.2	- 1.5	- 1.4	- 1.4
Reform of tax schedule ¹	- 3.700	- 4.350	- 4.350	- 4.350	- 1.1	- 1.2	- 1.2	- 1.1
Raise in negative tax for dependent employees from € 110 to € 400 p.a. ¹ and introduction of negative tax for retirees of € 110 p.a. ¹ , partly starting in 2015	- 0.155	- 0.370	- 0.370	- 0.370	0.0	- 0.1	- 0.1	- 0.1
Automatic negative tax refund without declaration ¹	0.000	- 0.200	- 0.200	- 0.200	0.0	- 0.1	- 0.1	- 0.1
Merger of the transport and the employee tax credit and raise of commuter allowance and supplement ¹	- 0.120	- 0.160	- 0.160	- 0.160	0.0	- 0.1	- 0.1	- 0.1
Doubling of child tax allowance to € 440 p.a. ¹	0.000	- 0.100	- 0.100	- 0.100	0.0	- 0.1	- 0.1	- 0.1
Raise of tax-free discount for employees ¹	- 0.010	- 0.010	- 0.010	- 0.010	0.0	- 0.1	- 0.1	- 0.1
Company package	- 0.065	- 0.210	- 0.210	- 0.210	0.0	- 0.1	- 0.1	- 0.1
Reimbursement of social security contributions for farmers and self-employed as equivalent to negative tax for employees ²	- 0.040	- 0.055	- 0.055	- 0.055	0.0	0.0	0.0	0.0
Tax break for financing agencies of medium-sized companies ³	0.000	- 0.050	- 0.050	- 0.050	0.0	0.0	0.0	0.0
Increase in research premium from 10 percent to 12 percent of total research spending per financial year ¹	0.000	- 0.080	- 0.080	- 0.080	0.0	0.0	0.0	0.0
Increase in tax-free participation of employees in business capital from € 1,460 to € 3,000 p.a. ¹	- 0.025	- 0.025	- 0.025	- 0.025	0.0	0.0	0.0	0.0
<i>Counter-financing</i>	3.644	4.408	4.582	4.562	1.1	1.2	1.2	1.2
<i>Tax increases</i>	2.544	3.308	3.482	3.462	0.7	0.9	0.9	0.9
Fight against tax fraud	1.965	2.140	2.252	2.190	0.6	0.6	0.6	0.6
Measures against tax and social contributions fraud ¹	1.000	1.270	1.477	1.504	0.3	0.4	0.4	0.4
Fight against social fraud according to Anti-Social-Fraud Act ⁴	0.265	0.270	0.275	0.286	0.1	0.1	0.1	0.1
Relaxation of bank secrecy ⁵	0.700	0.600	0.500	0.400	0.2	0.2	0.1	0.1
Various tax increases	0.364	0.439	0.444	0.449	0.1	0.1	0.1	0.1
Reform of real estate acquisition tax ¹	0.020	0.032	0.034	0.036	0.0	0.0	0.0	0.0
Increase in dividend tax rate from 25 percent to 27.5 percent ¹	0.115	0.150	0.150	0.150	0.0	0.0	0.0	0.0
Increase in real estate capital gains tax rate from 25 percent to 30 percent ¹	0.090	0.115	0.115	0.115	0.0	0.0	0.0	0.0
Extraordinary increase in social security contribution ceiling ²	0.139	0.142	0.145	0.148	0.0	0.0	0.0	0.0
Restriction of tax exemptions	0.215	0.730	0.786	0.822	0.1	0.2	0.2	0.2
Income tax	0.040	0.510	0.566	0.602	0.0	0.1	0.2	0.2
Step-wise abolition of wholesale deduction of special expenses ¹	0.000	0.040	0.080	0.120	0.0	0.0	0.0	0.0
Adjustment of real estate depreciation (flat-rate depreciation of 2.5 percent, extension of deduction period for renovation expenses from 10 to 15 years and increase in share of land for separation of built-up plot from 20 percent to 40 percent) ¹	0.000	0.380	0.376	0.372	0.0	0.1	0.1	0.1
Restriction of loss carry-forward and new regulation of deposit reimbursement ¹	0.010	0.035	0.055	0.055	0.0	0.0	0.0	0.0
Abolition of education premium and tax allowance ¹	0.000	0.025	0.025	0.025	0.0	0.0	0.0	0.0
Restriction of company car taxation (increase in taxable benefit value from 1.5 percent to 2 percent of new purchase price) ^{1,4}	0.030	0.030	0.030	0.030	0.0	0.0	0.0	0.0
VAT: increase in reduced rate from 10 percent to 13 percent for hotel accommodation, culture, animal food, wood etc. ¹	0.175	0.220	0.220	0.220	0.1	0.1	0.1	0.1
Expenditure cuts: subsidies and administrative spending ³	1.100	1.100	1.100	1.100	0.3	0.3	0.3	0.3
Tax reduction net ⁶ (tax cuts minus tax increases)	- 1.506	- 2.092	- 1.918	- 1.938	- 0.4	- 0.6	- 0.5	- 0.5
Tax reduction as a percentage of GDP	- 1.2	- 1.5	- 1.5	- 1.4				
Counter-financing as a percentage of GDP	1.1	1.2	1.2	1.2				
Tax reduction net ⁶ as a percentage of GDP	- 0.4	- 0.6	- 0.5	- 0.5				

Source: Austrian Parliament (2015), Federal Ministry of Finance, WIFO compilation. – . . . revenue loss, + . . . revenue increase. Rounding differences. – ¹ Government bill of tax reform, 16 June 2015. – ² Governmental bill of social security regulations (part 1 to 3), 16 June 2015. – ³ Ministerial Council draft of 17 March 2015. – ⁴ Government bill of Anti-Social-Fraud-Act of 16 June 2015. – ⁵ Government bill concerning relaxation of bank secrecy in favour of the tax authority of 16 June 2015. – ⁶ Excluding self-financing.

In addition, a "company tax package" to the tune of € 0.21 billion has been decided. It includes tax reliefs for farmers and self-employed with low earnings (€ 0.055 billion), tax breaks for financing agencies of medium-sized enterprises (€ 0.05 billion), an increase in the research premium (€ 0.08 billion) and in the tax allowance for employees' stakes in business capital ("Kapitalmitarbeiterbeteiligungen", € 0.025 billion).

2. Measures of the tax reform 2015-16 – overview and assessment

2.1 Reduction of wage and assessed income tax

2.1.1 Reform of the tax schedule

The modification of the income tax schedule provides for the increase in the number of tax brackets (including the basic tax allowance, left unchanged at a taxable income of € 11,000 per year) from four to seven (Table 2).

Table 2: Change of the income tax scale

Taxable annual income	Gross annual income In €	Tax rate	
		Nominal	Effective ¹
			Percent
<i>Income tax scale 2015</i>			
0 to 11,000	0 to 15,374	0.0	0 to 0.57
11,001 to 25,000	15,375 to 35,871	36.5	0.57 to 32.02
25,001 to 60,000	35,872 to 81,986	43.214	32.02 to 37.84
60,001 to 150,000	81,987 to 186,985	50.0	37.84 to 43.69
150,001 to 1.000,000	186,986 to 1.178,652	50.0	43.69 to 47.14
Over 1.000,000	Over 1.178,652	50.0	47.14 to 50 ²
<i>Income tax scale 2016</i>			
0 to 11,000	0 to 15,374	0.0	0 to 0.57
11,001 to 18,000	15,375 to 25,902	25.0	0.57 to 22.11
18,001 to 31,000	25,903 to 44,415	35.0	22.11 to 30.75
31,001 to 60,000	44,416 to 81,981	42.0	30.75 to 36.80
60,001 to 90,000	81,982 to 116,986	48.0	36.80 to 41.96
90,001 to 1.000,000	116,987 to 1.179,200	50.0	41.96 to 48.15
Over 1.000,000	Over 1.179,200	55.0	48.15 to 55 ³

Source: Federal Ministry of Finance, WIFO compilation and calculations. – ¹ Including the preferential tax rate for special payments up to one-sixth of annual income. – ² The top marginal tax rate converges towards 50 percent. – ³ The top marginal tax rate converges towards 55 percent.

The bottom marginal tax rate will be lowered from 36.5 percent (effectively 32 percent when allowing for the preferential tax treatment of the 13th and 14th monthly salary) to 25 percent (effectively 22.1 percent, but only up to a taxable income of € 18,000). Between € 11,000 and € 90,001, the marginal tax rate rises to 50 percent in four steps. The income ceiling beyond which the previous top tax rate of 50 percent applies will be raised from € 60,000 to € 90,000. For incomes of € 90,001 and above, due to the cut in the "sixth part" tax privilege for taxable annual incomes of € 150,000 and beyond, the effective marginal tax rate rises from 41.96 percent to 48.15 percent at a taxable annual income of € 1 million. For taxable incomes higher than € 1 million, a higher top marginal tax rate of 55 percent is temporarily introduced for the period 2016-2020. The (rather optimistically) estimated additional tax revenue of € 50 million p.a. thereby received shall be devoted to an "Austria Fund" to finance research projects in particular.

The "solidarity surcharge" on higher incomes, introduced in 2013 and originally to expire at the end of 2016, but the expiry having been suspended as part of the consolidation measures adopted in March 2014, is being maintained. For taxable incomes around € 150,000 (pro-rata supplementary monthly salary € 25,000², gross annual salary around € 187,000), the privileged tax rate of 6 percent applicable up to that level for the 13th and 14th monthly salary is raised in several steps towards the regular top marginal tax rate. For a taxable annual income above € 500,000 (pro-rata supplementary monthly salary € 83,333, gross annual salary above € 595,000) the tax privilege is no longer granted; supplementary salaries exceeding € 83,333 per year will be taxed at the regular rate, i.e., 50 percent, and supplementary salaries above € 166,667 up to 55 percent as from 2016. For a taxable annual income over

² Tax base.

€ 5.5 million, the effective top marginal tax rate is virtually identical with the top nominal rate of 55 percent.

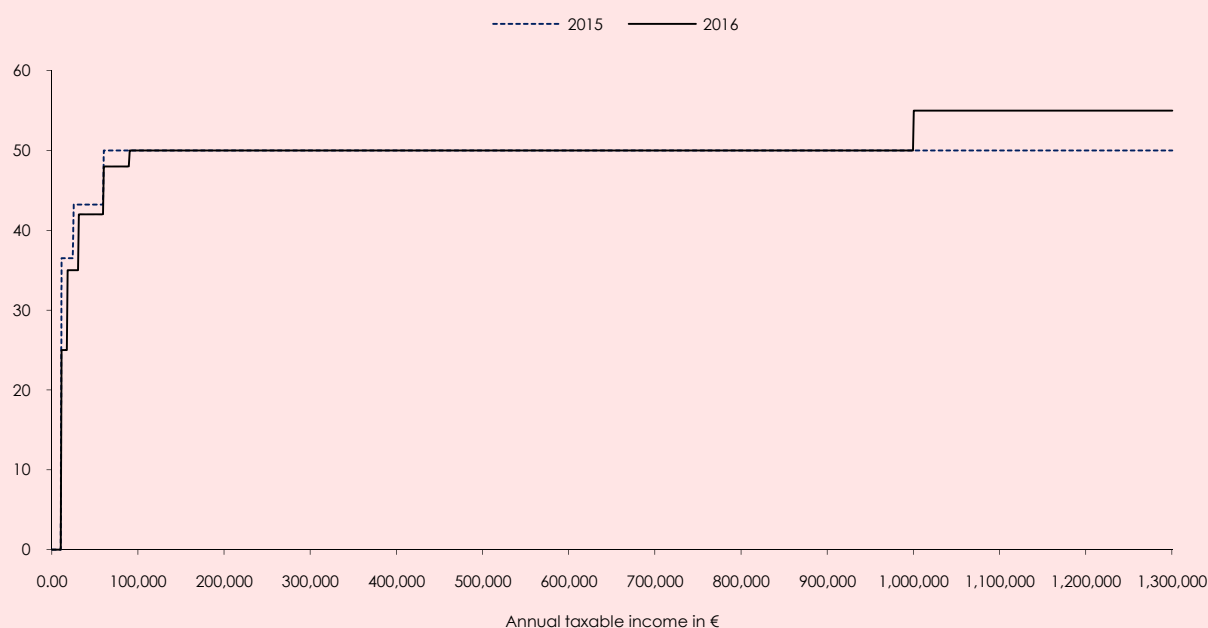
Moreover, the employee tax credit (up to now € 54 per year) will be integrated into the transport tax credit (hitherto € 291), the latter being raised to € 400.

The reduction of the comparatively high (by international standards) bottom marginal tax rate, as well as the indirect relief on social security charges via a higher negative tax, should benefit women in particular as they are over-represented in the lower-income brackets, strengthening their incentives to work and thereby contributing towards a more equal distribution of gainful employment between men and women.

However, the temporary increase in the top marginal tax rate is not without problems. Since only a few hundred taxpayers are concerned, the additional revenue will be minor. At the same time the move weakens Austria's position in those international tax rate comparisons which focus on nominal tax rates only, without taking into account the preferential tax treatment of the 13th and 14th monthly salary for the overwhelming part of taxpayers who are subject to the top marginal rate of 50 percent, nor the rather high income threshold applying as from 2016 to the 50 percent marginal rate, let alone the even higher threshold for the temporary top marginal rate of 55 percent, to which only a few hundred taxpayers are liable.

Figure 1: Nominal marginal income tax rates (excluding special payments)

Taxation of the next € 1,000 in percent

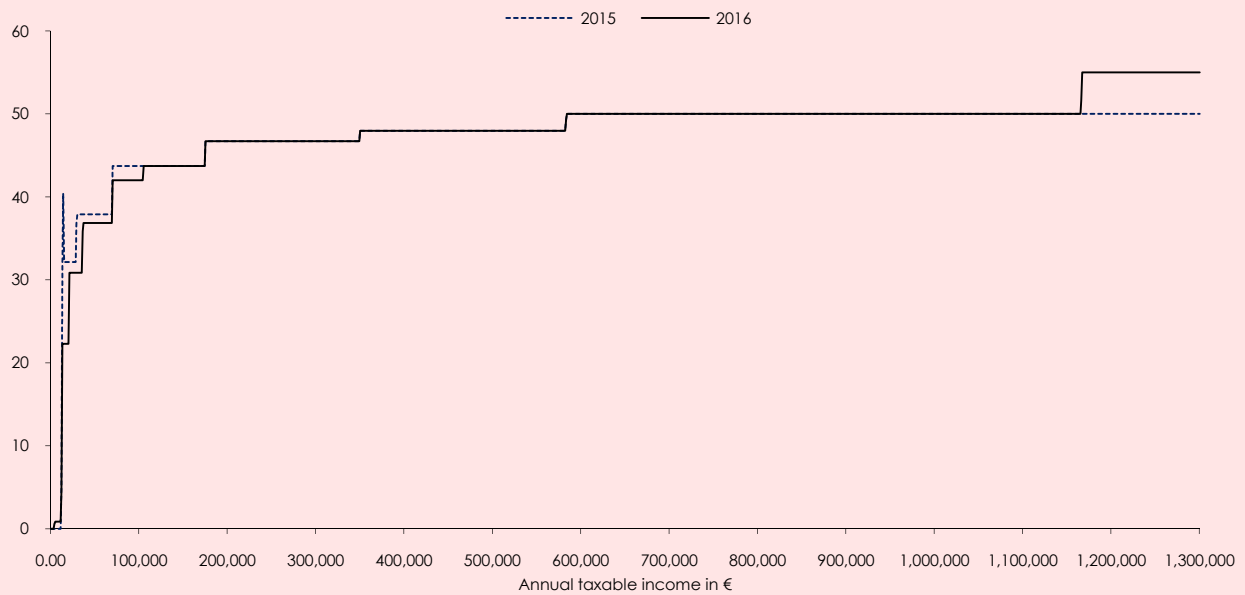


Source: Federal Ministry of Finance, WIFO calculations. Dependent employees, excluding employee and transport tax credit.

The comparison of marginal and average tax rates of the 2015 and 2016 schedules in Figures 1 to 4 distinguishes between nominal and effective taxation (i.e., with or without allowance being made for the "sixth part" tax privilege for special payments and for the "solidarity surcharge" on high incomes). The reform of the tax schedule lowers the average tax rates up to a taxable income of € 1.048 million (Figure 3). For incomes above this ceiling, the additional tax burden due to the temporary top marginal rate of 55 percent for incomes above € 1 million dominates the reduction on account of the cuts in the marginal rates below.

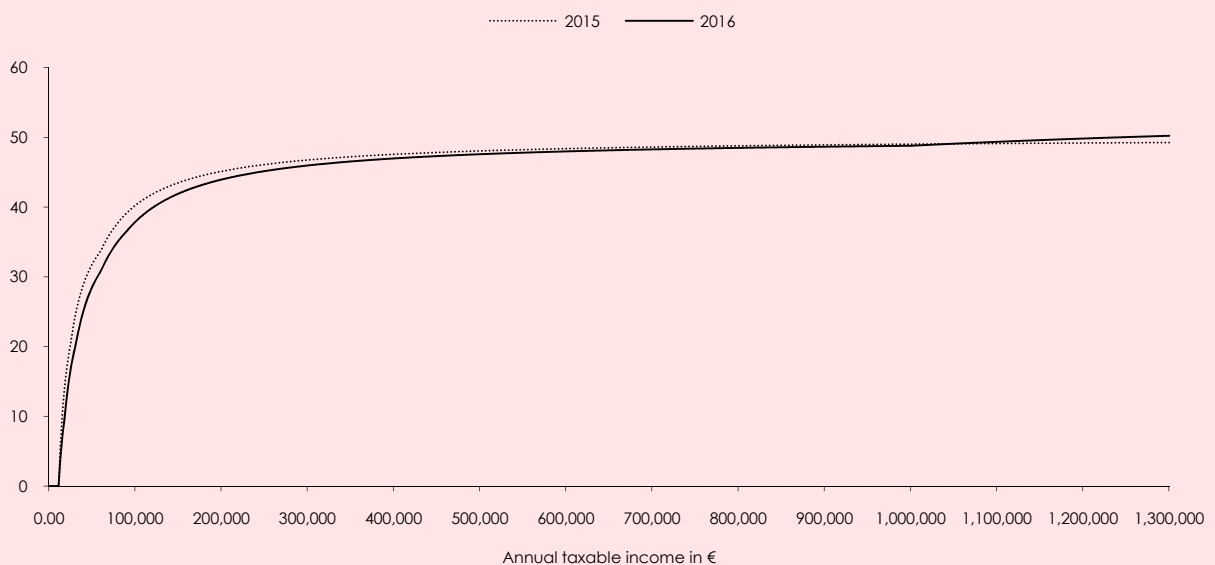
Figure 2: Effective marginal income tax rates (including special payments)

Taxation of the next € 1,000 in percent



Source: Federal Ministry of Finance, WIFO calculations. Dependent employees, excluding employee and transport tax credit.

Figure 3: Nominal average income tax rates (excluding special payments)



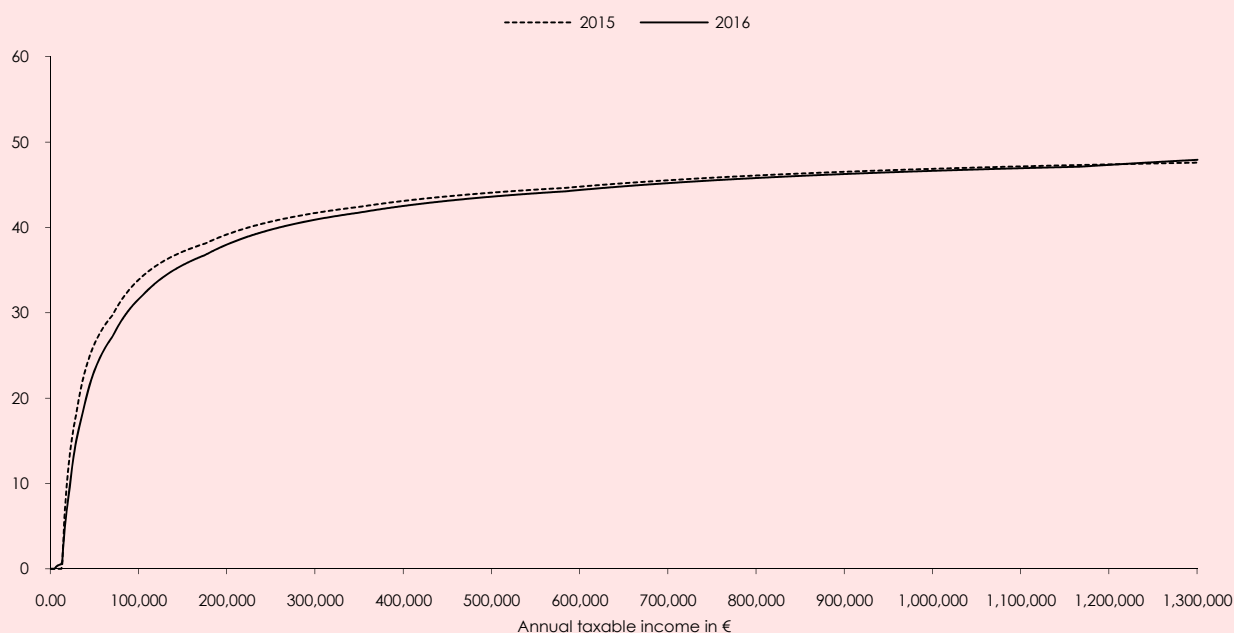
Source: Federal Ministry of Finance, WIFO calculations. Dependent employees, excluding employee and transport tax credit.

Table 3 shows the exoneration offered by the tax reform 2015-16 for dependent employees; it includes the modification of the tax schedule and the increase in the negative tax and in the employee and the transport tax credit, but not the counter-financing income tax measures (like restrictions in tax breaks for company cars³ or

³ The taxable benefit in kind is raised to 2 percent of the purchase value for motor cars with CO₂-emission of more than 0.120 kg per km; for officially and privately used company cars with electric engine no benefit in kind will henceforth be charged.

the abolition of wholesale tax deductions for certain expenses) which add to the tax burden of the taxpayers concerned (for further reference see below).

Figure 4: Effective average income tax rates (including special payments)



Source: Federal Ministry of Finance, WIFO calculations. Dependent employees, excluding employee and transport tax credit.

In absolute terms, the tax reduction for taxable annual incomes up to € 4,000 amounts to € 290, due to the increase in the negative tax, and declines with the gradual reduction of the income-dependent negative tax to € 170 for a taxable annual income around € 12,000. Above that ceiling, the tax reduction rises up to € 2,410 for a taxable income of € 90,000. For incomes above € 1.048 million, the tax increase due to the temporary introduction of the 55 percent top marginal tax rate exceeds the reduction offered by the new tax schedule.

In relative terms, the exoneration of taxable income is highest (7.3 percent) for an annual income of € 4,000 (gross annual income of € 5,800, i.e., slightly above the minimum threshold), since at that level the negative tax will be 3.6 times as high as with the current tax schedule. Above that threshold, the relative tax advantage declines down to some 1.4 percent of a taxable income around € 12,000. Over the range from € 12,000 to € 31,000, the tax advantage rises again up to 4.7 percent, before gradually declining for incomes above. At the income ceiling of € 90,000 p.a., the relative exoneration amounts to 2.7 percent, at the top income level of € 1 million to 0.2 percent only.

The relative exoneration against the amount of tax previously paid is highest for a taxable income around € 12,000. Due to the increase in the amount of negative tax, the threshold for wage tax liability is moved to around € 12,620, which benefits in particular the earners of a gross monthly salary between € 1,193 and € 1,257.

With the new tax schedule, the degree of tax progression, i.e., the relation between marginal and average tax rate, rises across the entire income range, most of all for low incomes (Table 4). Hence, also the revenue elasticity of wage and assessed income tax will increase further. For the average income (2015: € 24,656, 2016: € 25,088)⁴, the degree of progression, allowing for the employee and transport tax

⁴ In the present context, in order to illustrate the effect of the new schedule, the annual average tax base is derived from the wage bill (including supplementary monthly wages and salaries) per capita according to the National Accounts (ESA 2010).

credit, rises from around 1.9 to 2.3. Thus, an increase in the wage bill by 1 percent would let wage tax revenues grow by 2.3 percent.

Table 3: Exoneration through tax reform 2016 by income bracket

Dependent employees, including employee and transport tax credit

Taxable annual income In €	Average tax rate, percent of income		Change in tax due 2016 vis-à-vis 2015		
	2015	2016	In €	Percentage of tax due 2015	Percentage of taxable annual income
1,000	0.00	0.00	± 0	± 0.00	± 0.00
2,000	0.00	0.00	± 0	± 0.00	± 0.00
3,000	0.00	0.00	± 0	± 0.00	± 0.00
4,000	- 2.75	10.00	- 290	-263.64	- 7.25
5,000	- 2.20	- 8.00	- 290	-263.64	- 5.80
6,000	- 1.83	- 6.67	- 290	-263.64	- 4.83
7,000	- 1.57	- 5.71	- 290	-263.64	- 4.14
8,000	- 1.38	- 5.00	- 290	-263.64	- 3.63
9,000	- 1.22	- 4.44	- 290	-263.64	- 3.22
10,000	- 1.10	- 4.00	- 290	-263.64	- 2.90
11,000	- 1.00	- 3.64	- 290	-263.64	- 2.64
11,100	- 0.99	- 3.38	- 265	-240.91	- 2.39
12,000	0.17	- 1.25	- 170	-850.00	- 1.42
13,000	2.96	0.77	- 285	- 74.03	- 2.19
14,000	5.36	2.50	- 400	- 53.33	- 2.86
15,000	7.43	4.00	- 515	- 46.19	- 3.43
20,000	14.70	10.25	- 890	- 30.27	- 4.45
25,000	19.06	15.20	- 965	- 20.25	- 3.86
30,000	23.09	18.50	- 1,376	- 19.86	- 4.59
35,000	25.96	21.66	- 1,506	- 16.58	- 4.30
40,000	28.12	24.20	- 1,567	- 13.93	- 3.92
50,000	31.14	27.76	- 1,689	- 10.85	- 3.38
60,000	33.15	30.13	- 1,810	- 9.10	- 3.02
70,000	35.56	32.69	- 2,010	- 8.08	- 2.87
80,000	37.36	34.60	- 2,210	- 7.39	- 2.76
90,000	38.77	36.09	- 2,410	- 6.91	- 2.68
100,000	39.89	37.48	- 2,410	- 6.04	- 2.41
200,000	44.95	43.74	- 2,410	- 2.68	- 1.21
300,000	46.63	45.83	- 2,410	- 1.72	- 0.80
400,000	47.47	46.87	- 2,410	- 1.27	- 0.60
500,000	47.98	47.50	- 2,410	- 1.00	- 0.48
600,000	48.32	47.91	- 2,410	- 0.83	- 0.40
700,000	48.56	48.21	- 2,410	- 0.71	- 0.34
800,000	48.74	48.44	- 2,410	- 0.62	- 0.30
900,000	48.88	48.61	- 2,410	- 0.55	- 0.27
1,000,000	48.99	48.75	- 2,410	- 0.49	- 0.24
1,048,200	49.04	49.04	± 0	± 0.00	± 0.00
1,100,000	49.08	49.32	+ 2,590	+ 0.48	+ 0.24
1,200,000	49.16	49.79	+ 7,590	± 1.29	+ 0.63

Source: Federal Ministry of Finance, WIFO calculations. Taxable annual incomes up to € 1,048,200 face a lower tax burden, those above a higher tax burden. - . . . tax reduction, + . . . tax increase.

The residual income elasticity shows the percent gain in net income for a 1 percent increase in taxable income (Corneo, 2005). It is lower, the higher the degree of progression of the income tax schedule, and hence another measure of tax progression. A progressive tax schedule is characterised by a residual income elasticity lower than 1. The reform of the tax schedule generally reduces the residual income elasticity for most income brackets – a hint for the overall rise in tax progression created by the reform. Only for incomes between € 12,000 and € 35,000, for which marginal tax rates were markedly cut, the 2016 tax schedule yields a higher residual income elasticity than the previous one. It is highest, originally, up to a taxable income of almost € 11,000 (between 0.93 and 0.96). Beyond the basic tax allowance of € 11,000, the elasticity drops to a trough of 0.72, before hovering between 0.72 and 0.8 up to an income of € 100,000 per year. For higher incomes, the elasticity increases gradually to 0.97 for a taxable income close to € 1 million. Since at that level the top marginal tax rate of 55 percent kicks in, the residual income elasticity drops momentarily to 0.88, before heading up again.

Table 4: Degree of income tax progression

Taxable annual income In €	Excluding employee and transport tax credit			Including employee and transport tax credit		
	2015 Ratio between marginal and average tax rate	2016	2015-16 Percentage change	2015 Ratio between marginal and average tax rate	2016	2015-16 Percentage change
11,100	111.00	111.00	± 0.00	- 36.83	- 7.40	+ 29.43
12,000	12.00	12.00	± 0.00	219.00	- 20.00	- 239.00
13,000	6.50	6.50	± 0.00	12.32	32.50	+ 20.18
14,000	4.67	4.67	± 0.00	6.81	10.00	+ 3.19
15,000	3.75	3.75	± 0.00	4.91	6.25	+ 1.34
16,000	3.20	3.20	± 0.00	3.95	4.71	+ 0.76
17,000	2.83	2.83	± 0.00	3.36	3.86	+ 0.50
18,000	2.57	2.57	± 0.00	2.97	3.33	+ 0.36
19,000	2.38	3.17	+ 0.79	2.69	3.91	+ 1.22
20,000	2.22	2.86	+ 0.63	2.48	3.41	+ 0.93
21,000	2.10	2.63	+ 0.53	2.32	3.06	+ 0.74
22,000	2.00	2.44	+ 0.44	2.19	2.80	+ 0.61
23,000	1.92	2.30	+ 0.38	2.08	2.60	+ 0.52
24,000	1.85	2.18	+ 0.34	1.99	2.43	+ 0.44
25,000	1.79	2.08	+ 0.30	1.92	2.30	+ 0.39
30,000	1.78	1.76	- 0.02	1.87	1.89	+ 0.02
35,000	1.60	1.84	+ 0.24	1.66	1.94	+ 0.27
40,000	1.49	1.67	+ 0.18	1.54	1.74	+ 0.20
50,000	1.36	1.47	+ 0.11	1.39	1.51	+ 0.13
60,000	1.28	1.36	+ 0.08	1.30	1.39	+ 0.09
70,000	1.39	1.44	+ 0.06	1.41	1.47	+ 0.06
80,000	1.32	1.37	+ 0.04	1.34	1.39	+ 0.05
90,000	1.28	1.31	+ 0.04	1.29	1.33	+ 0.04
100,000	1.24	1.32	+ 0.08	1.25	1.33	+ 0.08
200,000	1.11	1.14	+ 0.03	1.11	1.14	+ 0.03
300,000	1.07	1.09	+ 0.02	1.07	1.09	+ 0.02
400,000	1.05	1.06	+ 0.01	1.05	1.07	+ 0.01
500,000	1.04	1.05	+ 0.01	1.04	1.05	+ 0.01
600,000	1.03	1.04	+ 0.01	1.03	1.04	+ 0.01
700,000	1.03	1.04	+ 0.01	1.03	1.04	+ 0.01
800,000	1.03	1.03	+ 0.01	1.03	1.03	+ 0.01
900,000	1.02	1.03	+ 0.01	1.02	1.03	+ 0.01
1,000,000	1.02	1.02	+ 0.00	1.02	1.03	+ 0.01
1,047,120	1.02	1.12	+ 0.10	1.02	1.12	+ 0.10
1,048,200	1.02	1.12	+ 0.10	1.02	1.12	+ 0.10
1,100,000	1.02	1.11	+ 0.10	1.02	1.12	+ 0.10
1,200,000	1.02	1.10	+ 0.09	1.02	1.10	+ 0.09

Source: Federal Ministry of Finance, WIFO calculations.

Table 6 shows for each income bracket to what extent the modification of the tax schedule offsets the impact of fiscal drag accumulated since the last adjustment of the tax schedule in 2009⁵. If the average tax rate of nominal income is lower than the average tax rate of the equivalent real income, taxable income is being exonerated also in real terms. For this purpose, nominal incomes of the year in which the tax cut takes place are deflated by the consumer price index with regard to a certain base year (in our case 2009 as the year of the last tax cut and 2015 as the year before the tax reform 2015-16 takes effect). Like the tax reform of 2009, the 2016 reform will over-compensate fiscal drag in almost all income brackets up to a taxable annual income of € 1 million, in some brackets even to a considerable extent: namely by lowering marginal tax rates across the board up to the income threshold for the top marginal tax rate of 50 percent, and by moving that threshold from € 60,000 to € 90,000. It is only for taxable annual incomes above € 1 million that the higher marginal tax rate dominates the effect of fiscal drag being offset.

⁵ See also the special contributions on fiscal drag (Steiner – Wakolbinger, 2015, Loretz, 2015, Rainer, 2015, Christl – Kucsera, 2015, Eckerstorfer – Sindermann, 2015, Brandner, 2015).

Table 5: Residual income elasticities

Dependent employees, including employee and transport tax credit

Taxable annual income in €	Residual income elasticity: increase in income after tax when taxable income increases by 1 percent		Difference
	2015	2016	
2,000	1.00	1.00	± 0.00
3,000	1.00	1.00	± 0.00
4,000	0.97	0.91	- 0.06
5,000	0.98	0.93	- 0.05
6,000	0.98	0.94	- 0.04
7,000	0.98	0.95	- 0.04
8,000	0.99	0.95	- 0.03
9,000	0.99	0.96	- 0.03
10,000	0.99	0.96	- 0.03
11,000	0.99	0.72	- 0.27
12,000	0.64	0.74	+ 0.10
13,000	0.65	0.76	+ 0.10
14,000	0.67	0.77	+ 0.10
15,000	0.69	0.78	+ 0.10
20,000	0.74	0.72	- 0.02
25,000	0.70	0.77	+ 0.06
30,000	0.74	0.80	+ 0.06
35,000	0.77	0.74	- 0.03
40,000	0.79	0.77	- 0.02
50,000	0.82	0.80	- 0.02
60,000	0.75	0.74	- 0.00
70,000	0.78	0.77	- 0.00
80,000	0.80	0.80	± 0.00
90,000	0.82	0.78	- 0.03
100,000	0.83	0.80	- 0.03
200,000	0.91	0.89	- 0.02
300,000	0.94	0.92	- 0.01
400,000	0.95	0.94	- 0.01
500,000	0.96	0.95	- 0.01
600,000	0.97	0.96	- 0.01
700,000	0.97	0.97	- 0.01
800,000	0.98	0.97	- 0.01
900,000	0.98	0.97	- 0.01
1,000,000	0.98	0.88	- 0.10
1,047,120	0.98	0.88	- 0.10
1,048,200	0.98	0.88	- 0.10
1,100,000	0.98	0.89	- 0.09
1,200,000	0.98	0.90	- 0.09

Source: Federal Ministry of Finance, WIFO calculations.

The higher revenue elasticity generated by the 2016 reform of the tax schedule will in future exacerbate the effect of fiscal drag. The indexation of marginal tax rate ceilings in order to avoid fiscal drag, as applied in a number of countries (Lemmer, 2014), is currently not envisaged in Austria.

2.1.2 Further relief measures for wage and assessed income tax

Apart from the adjustment of the tax schedule, the *negative tax* is being raised for taxpayers whose taxable income is below the basic tax allowance of € 11,000, but who are liable to social contributions. At present, on demand in the context of the annual tax assessment of employees, wage earners are reimbursed 10 percent of their social security contributions up to a ceiling of € 110 p.a. As from the assessment year 2015, the share of reimbursable social security contributions will be increased to 50 percent. For 2015, the negative tax will be doubled to € 220, and as from 2016 it will rise further up to € 400 p.a. (€ 690 for commuters with low income). Since currently reimbursement via the negative tax is subject to individual application, a considerable part of the target population makes no use of this possibility. Therefore, as of 2016 the negative tax will be granted "automatically" without application. Even this "automatically" operating negative tax will, however, have the disadvantage vis-à-vis a reduction of social security contributions via an allowance for low-wage

earners that it will not visibly exonerate labour incomes and will thus strengthen work incentives only indirectly⁶. As from 2016, also pensioners up to a gross monthly income of € 1,100 may claim reimbursement via negative tax of 20 percent of their social security contributions, subject to a ceiling of € 110 per year.

Table 6: Taxation of equivalent real incomes

Dependent employees, including employee and transport tax credit

Taxable annual income	Deviation of average tax rate 2016 from average tax rate of equivalent real income		Average tax rate for equivalent real incomes		
	2009	2015	2009	2015	2016
In €	Percentage points		Percent		
6,000	- 4.55	- 4.80	- 2.11	- 1.87	- 6.67
7,000	- 3.90	- 4.11	- 1.81	- 1.60	- 5.71
8,000	- 3.41	- 3.60	- 1.59	- 1.40	- 5.00
9,000	- 3.04	- 3.20	- 1.41	- 1.25	- 4.44
10,000	- 2.73	- 2.88	- 1.27	- 1.12	- 4.00
11,000	- 2.48	- 2.62	- 1.15	- 1.02	- 3.64
12,000	- 0.19	- 0.72	- 1.06	- 0.53	- 1.25
13,000	+ 1.74	- 1.55	- 0.98	2.32	0.77
14,000	+ 1.91	- 2.26	0.59	4.76	2.50
15,000	+ 1.01	- 2.88	2.99	6.88	4.00
20,000	- 1.11	- 4.03	11.36	14.28	10.25
25,000	- 1.19	- 3.53	16.39	18.73	15.20
30,000	- 1.51	- 4.20	20.01	22.70	18.50
35,000	- 1.66	- 3.97	23.32	25.63	21.66
40,000	- 1.61	- 3.63	25.81	27.83	24.20
50,000	- 1.53	- 3.15	29.29	30.91	27.76
60,000	- 1.48	- 2.82	31.61	32.96	30.13
70,000	- 0.66	- 2.59	33.35	35.28	32.69
80,000	- 0.83	- 2.52	35.43	37.12	34.60
90,000	- 0.96	- 2.46	37.05	38.55	36.09
100,000	- 0.86	- 2.22	38.34	39.70	37.48
200,000	- 0.43	- 1.11	44.17	44.85	43.74
300,000	- 0.29	- 0.74	46.11	46.57	45.83
400,000	- 0.22	- 0.55	47.09	47.42	46.87
500,000	- 0.17	- 0.44	47.67	47.94	47.50
600,000	- 0.14	- 0.37	48.06	48.28	47.91
700,000	- 0.12	- 0.32	48.33	48.53	48.21
800,000	- 0.11	- 0.28	48.54	48.71	48.44
900,000	- 0.10	- 0.25	48.70	48.86	48.61
1,000,000	- 0.09	- 0.22	48.83	48.97	48.75
1.100,000	+ 0.38	+ 0.25	48.94	49.06	49.32

Source: Federal Ministry of Finance, WIFO calculations. + . . . effect of fiscal drag not offset, - . . . effect of fiscal drag more than offset.

As from 2016, commuters with low income may claim a higher commuter tax credit of € 690 instead of € 400, if their annual income does not exceed € 12,200. Above that ceiling and up to € 13,000 p.a., the transport tax credit is gradually scaled down to € 400 and the supplement is phased out.

In this way, the already generous commuter subsidisation is further reinforced, without any environmental incentives being incorporated. Including the revenues foregone by the transport tax credit (that is increased by the tax reform 2015-16) total commuter subsidies amounted to over € 1.3 billion in 2013 (at the federal level only, disregarding any supplements granted by the Länder; *Steuerreformkommission*, 2014). Neither is the tax reform taken as an opportunity to simplify the array of subsidies. Indeed, the intransparent and administratively cumbersome system of parallel instruments at different government levels is being maintained (commuter lump-sum allowance, commuter supplement to the negative tax, commuter euro, transport tax credit at the federal level; commuter subsidies granted by the Länder).

⁶ Köppl – Schratzenstaller (2015b); Mayrhuber – Rocha-Akis – Zulehner (2014) simulate the effects of an income-dependent allowance for the assessment of social security contributions.

The *child tax allowance*, introduced in 2009, which exonerates annual incomes above € 11,000 will be doubled from € 220 (or € 132 per parent, if claimed by both) to € 440 (or € 300 per parent). The family cash benefits will thus be further reinforced, after the increase in the child allowance in three steps until 2018 that was decided in 2014, with an overall budget cost of € 830 million. Against the additional € 1.15 billion to be devoted to the extension of child care facilities and supervision of pupils after school hours, the increase in cash benefits via a higher child allowance and a higher child tax allowance of a similar cost of € 1.13 billion (cumulated over the period 2014-2018) appears comparatively generous. A turnaround in the composition of total family benefit expenditure away from the dominating cash benefits⁷ that at an amount of € 9.3 billion (2013) are also high by international standards (*Schratzstaller*, 2015A) while being only partly successful with regard to key objectives of family policy (*Blum*, 2014, *Rille-Pfeiffer et al.*, 2014, *Schratzstaller*, 2014), is not being initiated by the latest reforms⁸.

2.1.3 Company "package"

For incomes from entrepreneurship, a company "package" will be introduced in addition to the lower income tax rates for businesses liable to income tax and for self-employed. Farmers and low-income self-employed exempt from income tax but liable to social security contributions shall enjoy a relief in their tax burden in the same way as the employees liable to wage tax, in that from 2016 on they may be reimbursed up to 50 percent (2015: 20 percent) of their social security contributions up to € 110 (2015: € 55) per year (negative tax). Financing agencies for small and medium-sized enterprises (the "Mittelstand") will be granted tax subsidies, and a lump-sum tax allowance will be introduced for science and research personnel from abroad. In addition, the tax allowance for the transfer of employees' stakes in business capital for free or at reduced price will be raised from € 1,460 to € 3,000.

The most important single measure, estimated at a cost of € 80 million, will be the increase in the research premium from 10 percent to 12 percent. Empirical studies⁹ suggest that tax incentives for private research expenditure may in principle serve as effective tool for stimulating research activities by private companies. Before raising the research premium once again, an evaluation of its effectiveness would nevertheless have been appropriate.

2.2 Counter-financing measures

The income tax reduction is to the larger part counter-financed by an increase in other taxes, expected to yield slightly more than € 2.5 billion in 2016 and rising to € 3.5 billion by 2019 (Table 1). In 2019, this accounts for nearly two-thirds of the gross tax relief. The tax hikes are supplemented by envisaged expenditure savings of € 1.1 billion (one-fifth of the gross tax relief), one-third of which are to be supplied by the Länder and municipalities. Finally, part of the tax cuts are expected to be self-financing via growth and employment effects¹⁰.

2.2.1 Anti-fraud action

The measures planned to combat tax evasion and fraud shall yield additional revenue of almost € 2.0 billion in 2016, rising to almost € 2.2 billion p.a. by 2019 (around two-thirds of the total amount of tax relief). The introduction of cash registers and the obligation of issuing and accepting a receipt for all financial transactions, together with action against evasion of taxes and social contributions in the construction sector as well as against VAT and mineral oil tax fraud, are supposed to generate additional tax and contribution revenues of € 1 billion in 2016, rising to € 1.5 billion per

⁷ With cash benefits (direct transfers plus tax subsidies) accounting for about 70 percent of total family benefits in 2013.

⁸ According to the study by *Neuwirth – Wernhart* (2015) on the redistributive effects of the tax reform 2015-16 especially for families, the latter benefit, apart from the child tax allowance, also from the general cut in marginal tax rates; see also the contribution from *Rocha-Akis* (2015).

⁹ *European Commission* (2014).

¹⁰ For details see the article by *Baumgartner – Kaniowski* (2015).

year as from 2019. A further almost € 0.3 billion are expected from the fight against evasion of social security contributions. The relaxation of bank secrecy in favour of tax authorities investigating into tax fraud in the corporate sector shall yield higher revenues from income and corporate tax of € 0.7 billion in 2016, declining thereafter to € 0.4 billion by 2019¹¹.

2.2.2 Curtailing of tax exemptions

By 2019, additional income tax and VAT revenues of € 0.82 billion are expected from the restriction of tax exemptions (Table 1), of which € 220 million to be generated from the increase from 10 percent to 13 percent of the reduced VAT rate on certain goods and services, and € 600 million from the restriction or abolition of several income tax exemptions.

Basically, the list of items to which the reduced VAT rate applies ought to be radically wedged out. Lower taxation should be confined to those goods and services that belong to the socio-cultural basic needs and for which the reduced tax rate is the best-targeted instrument from a social point of view¹². The now-decided increase of the reduced VAT rate for hotel accommodation (as from May 2016), living animals, seeds, plants, cultural services, animal feed, wood, youth care, intra-Austrian air transport, swimming pools, museums, zoos, cinema shows and direct wine sales by winegrowers is no consistent solution insofar as by the de-facto introduction of a second reduced VAT rate¹³ the system becomes even more complex. Simplification would only be achieved by subjecting the goods and services concerned to the regular VAT rate. Moreover, some items of social policy relevance will in future be taxed at a higher rate (notably entry fees for swimming pools and zoos), whereas other exemptions (collectors' coins, antiques, bees, flower bulbs etc.) remain unchanged.

The phasing-out of exemptions in income and corporate tax represents a contribution towards the simplification and transparency of the system; it partly concerns private persons liable to income tax (wholesale deductibility of special expenses), partly non-incorporated firms liable to income tax and companies liable to corporate tax (application of a flat-rate depreciation allowance of 2.5 percent, instead of the current array of 2 percent, 2.5 percent and 3 percent and further restrictions to the depreciation of buildings; cancellation of training premium and training allowance for staff members and several smaller adjustments). Nevertheless, the opportunity has been missed of reviewing the entire income tax code and screening all special concessions without any reservation, as had been done in the context of the comprehensive income tax reform of 1988. Such a radical review and restriction of exemptions should have two main objectives: simplification (such as by reducing the complexity of wholesale deduction regulations for operating expenses of self-employed, for special expenses of persons suffering from chronic illnesses, of tax subsidies for families and commuters) and a reform of counter-productive regulations, like tax subsidies for overtime work bonuses, for commuters or tax privileges for company cars. Potential revenue gains should be used for further cuts in nominal tax rates which remain relatively high even after the 2015-16 reform. This also goes for the preferential tax treatment of the 13th and 14th monthly salary: the regulation has become highly complex after the introduction of the solidarity surcharge and gives an awkward impression in an international comparison. A revenue- and distribution-neutral integration of the preferential tax rate for the 13th and 14th monthly salary

¹¹ According to the draft Act against social security fraud (*Sozialbetrugsbekämpfungsgesetz, Parliament, 2015*) circulated for consultation, the additional revenues for the federal government and the social security agencies are projected at € 229.5 million for 2016, rising to € 238.8 million by 2019. The measures concerning bank secrecy and easier information exchange with financial authorities shall yield additional revenues of € 700 million, declining by € 100 in each of the subsequent years (*Federal Ministry of Finance, 2015E*).

¹² See Köppl – Schratzenstaller (2015B) and the references quoted there.

¹³ While at present there is actually also a second reduced VAT rate of 12 percent next to the one of 10 percent, it only applies to direct sales of wine from producers to customers and is therefore of little practical relevance.

into the regular income tax schedule would amount to a substantial step of simplification.

2.2.3 Heavier taxation of high incomes and increase in the real estate acquisition tax

A total of € 0.439 billion in additional revenues is to be generated as from 2017 by an extraordinary increase in the social security contribution ceiling by € 100 per month to a level of € 4,750 (€ 0.142 billion), a hike of the tax rate on dividends from 25 percent to 27.5 percent (€ 0.15 billion) and of the tax rate on capital gains from the sale of real estate for secondary residences from 25 percent to 30 percent, and by the abolition of the inflation rebate for real estate sales as from 1 January 2016 (€ 0.115 billion) as well as by a reform of the real estate acquisition tax (€ 0.032 billion).

The increase in the tax rate for dividends and capital gains from the sale of land and real estate property (except for the principal residence) is as such an interesting "substitute" for the re-introduction of a general net wealth tax¹⁴ that had been the subject of heated debate in the run-up to the tax reform 2015-16. Taxes on capital income are not imposed on the substance of wealth, but only on actual earnings or capital gains realised. The hike in the dividend tax rate actually raises the tax burden on distributed profits of medium-sized companies: the effective tax rate on distributed dividends, including the prior imposition of corporate tax, rises from currently 43.75 percent to 45.63 percent. It nevertheless depends on the number of shareholders, profit allocation behaviour and the level of taxable earnings, whether the legal form of unincorporated vs. incorporated enterprise is more favourable from the tax side. Moreover, the additional tax burden is rather limited, especially since the potential exoneration from the lower income tax schedule (such as for managerial earnings) has to be set against the higher capital taxation.

The envisaged reform of the real estate acquisition tax, supposed to yield additional revenues up to € 36 million by 2019, includes the following new regulations: as from 2016, a progressive tax schedule will replace the current differential tax rate for acquisitions within the family (2 percent) or outside the family (3.5 percent). The new schedule will apply to all transfers of real property, whether paid or unpaid (i.e. gifts or bequests). Also, gifts and inheritances within the family will no longer be taxed on the basis of the assessed tax value multiplied by 3, but at the current market value¹⁵. As from 2016, the transfer of land and real estate property up to € 250,000 will be taxed at 0.5 percent; from € 250,001 to € 400,000, a tax rate of 2 percent and above € 400,000 a rate of 3.5 percent applies. The tax allowance for the unpaid transfer of an enterprise due to the owner's old age will be raised from currently € 365,000 to € 900,000; the tax rate for the unpaid part of enterprise transfers will be limited at 0.5 percent. An overhaul of the real estate acquisition tax was due in any case. In particular it was questionable whether the regulation on privileged acquisitions within the family, introduced in mid-2014, whereby such acquisitions are taxed at 3 times the assessed tax value rather than at the usually higher current market value, could be maintained. Also the tax rates are moderate by international standards. The real estate acquisition tax, due to its confinement to land and real estate property and due to its low rates, but also due to the lack of exemptions for transactions in the private sphere, is in any case only an imperfect substitute for an inheritance and gift tax with high exemption ceilings and moderate tax rates.

3. Strategic goals of the tax system

The focus of the tax reform 2015-16 is on a substantial exoneration of labour incomes, both of dependent employees and independent workers, including those roughly 30 percent of workers who because of their low income pay no wage tax,

¹⁴ For an assessment of different options for higher property-related taxes in Austria, see *Schatzenstaller* (2015B).

¹⁵ For agricultural and forestry property, the assessed tax value remains the tax base also in the future.

but are liable to social security contributions and likewise carry a heavy effective tax burden.

In order to counter-finance the tax cuts, the authorities put the emphasis on the fight against tax evasion and fraud, in line with recommendations issued by the European Commission in the context of the Europe-2020-Strategy¹⁶. This approach is meaningful for two main reasons: first, greater effectiveness in the collection of existing taxes should have less problematic distorting side-effects than an increase in current tax rates or the introduction of new taxes; second, more forceful action against tax evasion may indeed lead to greater honesty in tax matters and attenuate overall resistance to taxation.

Set against the goals of a forward-looking tax system and the shortcomings of the Austrian system in this regard (*Köppl – Schratzenstaller, 2015A, 2015B*), further moves should follow the tax reform 2015-16.

A number of structural reforms of the tax system seem indeed appropriate. Beyond short-term considerations of counter-financing, a fundamental shift in the overall tax composition should be sought, based on a vision of a "tax system 2025", to be realised in several, carefully designed and planned steps. Priority should be given to the further reduction of labour taxes, in order to strengthen the incentives for hiring and taking up work: on the one hand, employees' social security contributions should be cut for low incomes and in particular for those earners who in the context of the reform 2015-16 are reimbursed a large part of their social contributions via the increase in the negative tax¹⁷. On the other hand, non-wage labour cost for employers should be lowered, as announced by the federal government¹⁸.

At the same time, reliance on more growth- and employment-friendly taxes should be increased step by step (inheritance and gift tax, real estate tax), but also steering taxes (environmental, alcohol and tobacco taxes) which in Austria have lost importance in the last years and whose contribution to the overall volume of revenues is below the EU-average (*Köppl – Schratzenstaller, 2015A*). Further restraint on exemptions in income tax and VAT are also deemed appropriate. The additional revenues thereby generated may be used to lower the tax burden on labour.

The tax reform 2015-16 hardly touches upon the numerous tax exemptions that are counter-productive from an environmental point of view. With the exception of a slight reduction and ecologically-inspired adjustment of the taxation of company cars and of the increase in the reduced VAT rate for domestic air transportation by 3 percentage points, the tax reform sets no clear environmental priorities. In fact, by raising the transport tax credit and the commuter supplement, environmentally relevant tax breaks are even being extended. It is worth noting that both the Report by the Tax Reform Commission and the Subsidy Report by the Federal Ministry of Finance have drawn up a list of environmentally relevant tax exemptions totalling € 2.66 billion. In addition, there is the environmentally problematic tax privilege for diesel vis-à-vis petrol, causing shortfalls in mineral oil tax revenue of at least € 600 million.

Special emphasis should continue to be given to removing obstacles inherent in the tax system to female labour force participation and to a more equal sharing of paid and unpaid work between men and women. By lowering the bottom tax rate and extending the negative tax, the tax reform 2015-16 sets certain incentives in this regard. Yet, a well-targeted cut in social contributions for low-income earners who pay no wage tax but, beyond the minimum-income threshold, almost the full amount of social security contributions, may provide incentives for taking up a regular job (liable to social security contributions) or for increasing individual work hours, which may shift intra-family net wage relations in favour of the secondary earner

¹⁶ *Garnier et al. (2014)*.

¹⁷ The option of an income-dependent exemption of social contributions that would exonerate low incomes is analysed by *Mayrhuber – Rocha-Akis – Zulehner (2014)*.

¹⁸ *Federal Ministry of Finance (2015B)*.

and support a more equal distribution of paid work, notably in families with children. Further reform moves should also remove obstacles from the tax side for a more equal distribution of paid and unpaid work (e.g., tax privilege for overtime work hours, single-earner tax credit, contribution-free health insurance for non-active spouses).

Finally, in the context of deliberations for a reform of the composition of tax revenues, the upcoming negotiations on federal fiscal relations should examine options for strengthening the autonomy of the Länder and municipalities in raising own revenues to finance public goods and services in their area of competence.

At the same time, the public authorities should press ahead with structural reforms to raise administrative efficiency and restrain expenditure growth in major areas: most importantly, a fundamental overhaul of fiscal federalism, the curtailing of subsidies, better management of public hospitals and measures to raise the effective retirement age may go a long way in creating the fiscal scope necessary for alleviating the overall tax burden. All in all, a fundamental and forward-looking debate on the tasks to be fulfilled by the public sector and the implicit need for the overall amount and kinds of revenues (also in a federal perspective) is still waiting to be held.

4. Summary and outlook

The tax reform 2015-16 is a first step towards a more growth- and employment-friendly design of the public revenue structure. Further moves, taking a long-term perspective, with the aim of strengthening the sustainability of the tax structure while facilitating a revenue-neutral shift in the tax composition should follow. Reforms of the tax system are to be linked with a fundamental debate on the tasks to be fulfilled by the public sector and with efforts at raising administrative efficiency, in order to create the necessary budgetary leeway for lowering the overall tax burden in the medium term.

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