Analyses

Bank Austria
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TAX CHANGES IN AUSTRIA

Slow steps towards a sustainable future

SLOW STEPS TOWARDS A SUSTAINABLE FUTURE

Effects of the tax measures (full implementation 2024)

in EUR mn	Savings or additional revenue	Additional expenditure or reduced revenue	Budget effect	Cyclical effect in % of GDP 2024
Reduction of income tax rate from 35% to 30% (from July 1, 2022)		1,100	1,100	0.16
Reduction of income tax rate from 42% to 40% (from July 1, 2023)		1,100	1,100	0.16
Increase in family bonus		500	500	0.07
Reduction in health insurance contributions		750	750	0.12
Climate compensation payment		1,890	1,890	0.31
Eco-subsidies		500	500	0.08
Reduction of corporate income tax to 23%		700	700	0.10
CO_2 pricing	1,890		-1,890	-0.29
Total	1,890	6,540	4,650	0.72

Source: UniCredit Research

- Tax reform from mid-2022 brings total relief of EUR 18 bn by 2025
- The focus is on a reduction in income tax rates and the start of CO_2 pricing
- Full implementation from 2024 will result in annual tax relief of around EUR 4.5bn or 1 percent of GDP
- Strong economic growth should ensure smooth financing, so we do not change our budget and debt forecast

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as of October 2021

Following pandemic-related standstill, the Austrian government presented, on the 3rd of October 2021, its plans for tax changes in the coming years. These are essentially in line with the key points contained in the government program. Due to the financial impact of the pandemic, the measures are to be implemented gradually. Below, we outline the key points of the overall package, which according to the government, will provide tax relief totaling EUR 18 bn in the period leading up to 2025.

Tax relief totaling EUR 18 bn euros by 2025

The announced tax measures do not contain any major surprises. Totaling around EUR 2.2 bn per year, a reduction in the second and third tax-rate brackets should bring noticeable relief to taxpayers. This will return part of the additional burden of cold progression - the automatic increase of the tax burden by reaching higher tariff brackets through nominal (not necessarily real) income increase - since the last reduction. In addition to an increase in the family bonus and additional child allowances, an important social policy measure is being implemented in lower income segments with a reduction in health-insurance contributions. In addition, the possibility of employee participation is to be expanded. Contrary to recent international trends, the reduction in corporate income tax will be very muted and will relieve the tax burden on companies by around EUR 700 mn. With the announced tax measures, however, Austria is primarily embarking on a greening of its tax system, even if steering effects can hardly be expected for the time being due to the low price of CO_2 emissions, at least initially. However, support measures, also financed within the framework of the EU's recovery plan, will provide additional important impetus for a sustainable economy.

Focus on tariff reduction of second and third income tax brackets, reduction of corporate income tax rate and the start of CO_2 pricing

The volume of tax changes mentioned by the government (of EUR 18 bn) relates to the entire period up to and including 2025. If the tax changes are fully implemented in 2024, this will result in tax relief of just over EUR 4.5 bn, or 1 percent of GDP, compared with the status quo. Given the strong and rapid recovery of Austria's economy from the pandemic, the budgetary starting position for 2022 and subsequent years will be more favorable than expected in the officially adopted budget plan for 2021. Following a budget deficit of 8.3 percent for 2020, we expect a shortfall of only 6.5 percent of GDP for 2021. Despite the tax changes, persistently good economic development and expected additional revenue from, among other things, a reversal of the pandemic-related VAT-cut in the tourism sector should allow for a further reduction in the budget deficit, especially as these measures should additionally trigger a positive cyclical effect equivalent to 0.7 percent of GDP, according to our calculations.

No change in our budget and debt forecasts due to the tax changes

Therefore, we are not changing our forecast for the budget balance in 2022 to 2024 (-3.0 percent in 2022, -2.0 percent in 2023 and -1.5 percent in 2024). We have also included measures of this magnitude in our economic forecast for 2022; so no adjustment is necessary.

Chart 1: Tax revenues
(average monthly revenues, 2015=100)

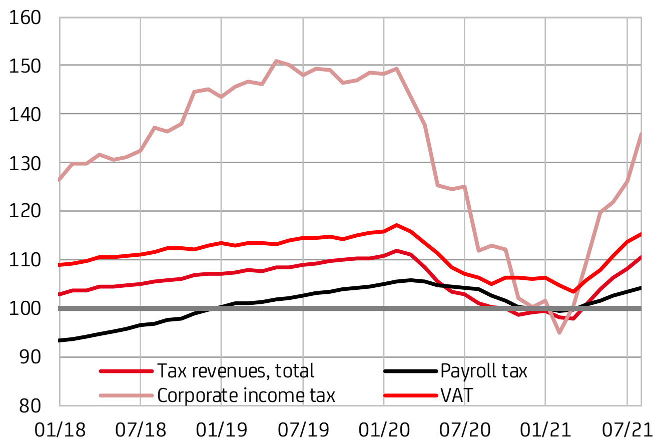
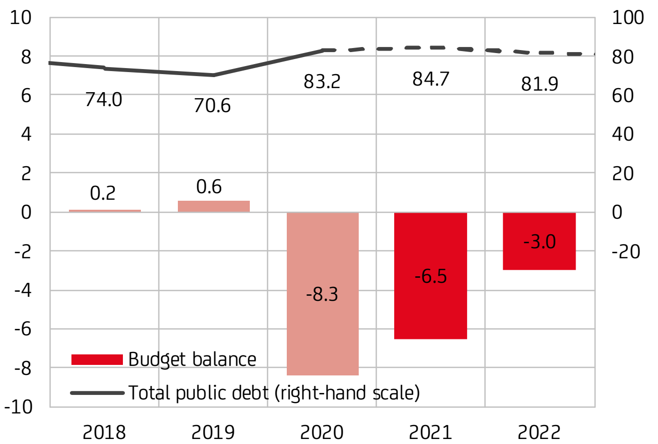


Chart 2: Public households
(in % of GDP)



Source: BMF, Statistik Austria, UniCredit Research

Here are the measures in detail:

1. **Changes to the tax brackets in the wage and income tax:** Following the reduction of the entry-level tax rate from an income of EUR 11,000 per year from 25 percent to 20 percent (since beginning of 2020), the tax rate for income from EUR 18,000 to EUR 31,000 will be reduced from 35 percent to 30 percent (from 1 July 2022), and the tax rate for income from EUR 31,000 to EUR 60,000 will be reduced from 42 percent to 40 percent (from 1 July 2023). The higher tax rates of 48 percent for income from EUR 60,000 to EUR 90,000 and 50 percent for income above EUR 90,000 and 55 percent for income above EUR 1 mn will remain unaffected.

   Lowering the rate bracket from 35 percent to 30 percent as of 1 July 2022 will result in budget revenue shortfalls of about EUR 550 mn in 2022 and of EUR 1.1 bn per year starting in 2023. Lowering the rate bracket from 42 percent to 40 percent as of 1 July 2023 will also result in revenue shortfalls of about EUR 550 mn for 2023 and of EUR 1.1 bn starting in 2024, or a total of EUR 2.2 bn from 2024. Total revenue from payroll tax on the income of employees amounted to EUR 28.5 bn before the start of the 2019 pandemic, and revenue from income tax amounted to another EUR 4.9 bn.
2. **Increase in the "family bonus":** Family bonus plus, a tax deduction that can be claimed when family allowance for children is received, will be increased from a maximum of EUR 125 per month (EUR 1,500 per year) to EUR 166.70 (EUR 2,000 per year) per child. The alternative child allowance for sole earners with income that is too low will be raised from EUR 250 to EUR 400. The increase in the family bonus will lead to additional spending of around EUR 500 mn per year.
3. **Reduction in health-insurance contributions for lower incomes:** For incomes of up to EUR 2,500 gross per month, the health-insurance contribution (of 7.65 percent) will be reduced by 1.7 percentage points from 2022. This will result in a decrease in revenue of around EUR 800 mn per year.
4. **Reduction in corporate income tax:** The corporate income-tax rate will be reduced from its current 25 percent to 24 percent (2023) and 23 percent (2024). Corporate income-tax revenue amounted to EUR 9.4 bn before the start of the 2019 pandemic. According to the ZEW, the effective tax burden (when deductions are considered) in Austria is 23.1 percent (ZEW, 2020), which is above the EU average of 19.4 percent but already below that of Austria's major trading-partner countries: Germany, France, Italy and the US. The reduction is expected to relieve the burden on companies by around EUR 350 mn per year, i.e. a total of up to EUR 700 mn from 2024 onwards, if the profit situation remains unchanged.
5. **CO_2 pricing:** From 1 July 2022, a price of EUR 30 per ton of CO_2 will be levied when fossil energy (fuels, heating oil and gas) is marketed. This price will be raised to EUR 35 in 2023, EUR 45 in 2024 and EUR 55 from 2025. For fuels, this initially means an increase in price per liter of around EUR 0.10 cents, which is unlikely to trigger any steering effects. The additional revenue, of initially EUR 1.4 bn per year is to be distributed to the population in the form of a climate compensation payment of at least EUR 100 per person (under 18s will receive EUR 50). In addition, there will be a regional extra compensation payment of up to a further EUR 100 on top of this. The exact amount will depend on place of residence, e.g. if public transport infrastructure is good and you don't need private traffic and so you can avoid the higher CO_2 levy, the compensation payment will be smaller. Subsidies of around EUR 180 mn will be made available to promote the phasing out of oil and gas. Another EUR 180 mn is to be made available for tax incentives for boiler replacement and renovation. In addition, another EUR 80 mn is earmarked for low-income households. And thermal refurbishment in multi-story residential buildings will also be subsidized with a total of EUR 60 mn.

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