



THE AUSTRIAN TAX SYSTEM

- Income Taxes on Corporations
- Income Taxes on Individuals
- Income Taxes on Non-Residents
- Other Significant Taxes
- Computation of Taxable Income



INCOME TAXES ON CORPORATIONS

Rates

The Austrian corporate tax rate is set uniformly at 34% of the taxable income or, in the case of limited liability to tax at 34% of the taxable income earned within Austria.

Example:

Profit before corporation tax:	€	1000
34% corporation tax	€	340
Net income (to be retained or distributed)	€	660

Local income taxes

Unlike in other EC countries, no Austrian trade tax exists.

Capital gains taxes

Capital gains are fully included in the taxable income and are taxed at the corporation income tax rate. As of 1989, capital gains on sales of shares in foreign companies are exempt from Austrian income taxes under certain circumstances.

Branch profit taxes

Branches of a foreign corporation are subject to corporation tax in Austria on their income earned in Austria. Losses may be carried forward without a time limit.

Foreign tax relief

In general, taxation of foreign income is based on the regulations for avoiding double taxation. A special tax relief is called “Schachtelbegünstigung” (international affiliation privilege = IAP). The Austrian IAP determines that no Austrian corporate income tax will be imposed on dividends and capital gains paid to an Austrian holding company, if certain requirements are fulfilled.



These requirements are:

- Direct investment of an Austrian corporation in a foreign corporation amounting to at least 10%
- The foreign corporation must be comparable to an Austrian corporation
- Minimum holding period of one year
- Abuse clause must not be met

Loss carried forward

Losses may be carried forward without a time limit. In each following profit year only 75% of the profit can be compensated.



INCOME TAX ON INDIVIDUALS

Rates

The income tax rates for an individual (married or unmarried with or without children) are:

Taxable income:

Over (€)	Not over (€)	Percentage on excess
0	3,640	0
3,640	7,270	21
7,270	21,800	31
21,800	50,870	41
50,870		50

Social security contributions are tax deductible items in Austria.

Several tax allowances exist, for example the tax allowance for employees (€ 54) and transport allowance for employees (€ 291).

The income tax payable by individuals on dividend distributions by Austrian companies is reduced to 25% of the dividend gross amount.

A payroll withholding tax is imposed on an individual's employment income. If the individual has other types of income, he or she is therefore required to file an income tax return. The employee's annual salary is divided into fourteen parts from which the tax is withheld at source. Christmas and vacation salaries are taxed at the favourable rate of 6%.

All individuals having their place of abode or their normal residence in Austria, or who stay in the Austrian territory for more than six months, are fully tax liable. All others are only partly liable.

Capital gains taxes

Capital gains of the sale of non-business property, including shares, are tax free if the property has been held for at least one year (10 years for real estate). Gains from the sale of a house or a flat are tax free if the house or the flat has been used as the main domicile for at least two years.

If an individual owns more than 1% of a company's shares, any capital gains on the sale of those shares is taxable.



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Foreign tax relief

Taxation of foreign income is in most cases specified in double taxation agreements.



INCOME TAXES ON NON-RESIDENTS

Tax liability

Individuals having neither their place of abode nor their normal residence in Austria are taxable only on the Austrian source income. Corporations having neither their site nor management in Austria are also taxable only on Austrian source income. “Other operating business expenses” and “allowable expenses” that are economically related to Austrian source income may be deducted.

Rates

The same tax rates apply to non-residents as to residents.

Withholding tax rates

Tax is withheld at a special rate of 20% on the following categories of income:

- Income from employment and directors’ fees
- Income derived from the practice of an art or sport, from commercial or technical advice, or from personell leasing
- Income received for the right to use copyrights, patents, plans, designs, know-how, licensing fees

Tax treaties

More than 40 taxation treaties with European and overseas countries are in force to avoid double taxation. Please contact us for further information and in the case of special questions.



OTHER SIGNIFICANT TAXES

Sales (Value added) tax

An Austrian customer must pay the net sales plus 20% value added tax, which is listed separately on the supplier's invoice.

The customer, in effect, pays the supplier's tax burden. The amount is thereafter deductible from the customer's own value added tax burden. Upon transferring these purchased goods to the next customer, the customer (now seller) lists 20% value added tax for that transaction on the invoice presented to the customer, and the process is repeated.

The ultimate retail consumer absorbs the final burden. Among others, exports and certain services for foreign customers are exempt from value added tax. Import transactions from non-EC countries are subject to an import turnover tax at the same rates as turnover tax.

Value added tax is reduced to 10% on certain products. This applies to basic foods and printed material, for example.

Inheritance and gift taxes

The tax varies from 2 to 60% depending upon the value of the inheritance or the gift and upon the relationship of the beneficiary to the deceased or the donor. An exemption of between € 110 and € 9,500 is provided, depending upon the degree of the relationship.

Austria has signed a treaty to avoid double taxation in the case of inheritance with several other countries (including the United States).

Related payroll taxes (social security)

In Austria, social security contributions include three types of insurance together with some other contributions to funds. All employees are compulsorily members of these insurances. The basis of assessment for the insurance contributions is the employee's monthly gross salary (or gross wage) up to € 3,270. Any income in excess of these limits is irrelevant for the purpose of the assessment for contributions. The employer is required to withhold the employee's part (17.65%) and to pay this amount together with his own share (21.65%)



Property tax

Property tax was abolished in 1989.

Land transfer tax

Real estate transactions are exempt from value added tax. On most transfers of land and buildings within Austria, the buyer is liable to pay a tax amounting to 3.5% of the sales price.

Capital transfer tax

The most significant part of the capital transfer tax is the tax imposed on the increase of capital. Tax of 1% is levied on the issue of share capital, on any increase of share capital and on capital contributions to a corporation.



COMPUTATION OF TAXABLE INCOME (MAIN ASPECTS)

Depreciation

Depreciation on buildings and other fixed assets is usually based on cost. The cost of production or acquisition of fixed assets must be spread over their useful lives. In general, depreciation is calculated on the straight line method. Extraordinary depreciation is allowed in case of abnormal use and for impending obsolescence.

Loss carried forward

Losses resulting from running a business which are determined in conformity with generally accepted accounting principles may be carried forward to an unlimited degree. This applies to local registered companies. For branches of foreign companies, losses may be carried forward in the same way if they have not been used in the foreign country.

The following restriction was implemented in 2001:

In each following profit year only 75% of the profit can be compensated. That means that 25% of the profit is subject to tax even in case of existing loss carried forward.

Transactions between related parties

Royalties, interest, management fees and similar charges paid to foreign related companies are generally deductible if considered reasonable. Any excessive payment or other monetary advantage given to an affiliated or parent company, whether in respect of sales or technical and management fees, may be considered to be a hidden contribution by the tax authorities.

Tax periods

The calendar year is the tax year. To file on a fiscal-year basis other than the calendar year, the permission of the tax authorities must be obtained.