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The Fiscal Equalisation System in Austria

The general government sector in Austria comprises four sub-sectors: federal government, 9 state governments, 2.359 local governments and social security institutions (not included in the system of fiscal equalization). According to constitutional law, the federal and the 9 Länder governments are autonomous with respect to administration and legislation. An important exception to the administration by Länder authorities is the fiscal administration: Austria's revenue offices are managed by the federal level. The municipalities (Gemeinden) are also autonomous and have the right to self-government (supervised by the Länder, e.g. local budgets).

Fiscal Equalization

The constitutional background of the intragovernmental fiscal relations is given by the Fiscal Constitutional Law (*Finanz-Verfassungsgesetz 1948*) setting the principles for a simple act of Parliament: The Fiscal Equalization Law (*Finanzausgleichsgesetz*) details the rules of tax sharing, intragovernmental transfers and cost bearing between the Federation, the Länder and the municipalities. There is no horizontal equalization regulated by the Federation, nevertheless the system contains some elements with horizontal effects. The FEL is a "sunset-law" usually in force for only a few years after which it is replaced by new regulations (present duration 4 years). Before the federal government submits the draft of a new FEL to the federal parliament negotiations between the federal minister of finance and representatives of the Länder and the local governments usually take place. As a general rule, consensus is found. Additionally, Länder and municipalities are entitled to sue at the Constitutional Court in case of any discrimination or unfair treatment.

Tax Sharing

The first step of fiscal equalization in the respective FEL is tax sharing. The Federation can legislate for a certain tax if it is at least partially entitled to the tax revenue. If there is no federal share of revenue, legislation remains with the Länder. Municipalities can only regulate local taxes if they are entitled to it by either the federal or Länder law. Tax administration remains mostly at the federal level. Appr. 95 % of all revenue is levied by federal revenue offices, municipalities levy more than 4 % and Länder less than 1 % of the total revenue.

Distribution of Revenue

The FEL determines the distribution of revenue deriving from so called shared taxes. The revenue share for both the Länder and municipalities (grouped together by Land) are distributed by the federal government to the individual Länder. This procedure is guided by two main criteria:

- tax revenue criteria: allocation is based on regional or local revenue of a tax
- demographic criteria: allocation is based on the number of inhabitants of a Land or municipality

The Länder now allocate the local share of revenues to the individual municipalities as follows:

- various criteria such as financial requirements, demographic criteria and a special demographic criteria referred to as the "scaled population multiplier": This index multiplies the simple population figure by a scale factor, the latter being based on population categories: The scaled population multiplier favors larger municipalities. The idea underlying the positive bias is the assumption that larger municipalities have disproportionately larger financial requirements (Brecht's Law).
- allocation criteria decided on by the distributing Land

Intergovernmental Transfers

Intragovernmental transfers mark the second step of fiscal equalization. They exist as quota allocation funds or as grants to cover special needs or purposes. Examples are:

- transfers to equalize the average revenue of Länder and municipalities (paid by the federal government, horizontal effect)
- transfers for housing development, environmental purposes and infrastructure

- transfers from the federal natural disasters fund

Natural Disaster Fund

This fund was established to finance preventive measures against natural disasters and to cover incurred losses caused by natural disasters. The fund is financed by certain percentages of the revenue of the following taxes: income tax, wage tax, tax on capital yields and corporation tax. In 2005 expenditures amounted to 299,8 m. Euros.

Austria's geography consists of a very mountainous western and a flat eastern. Therefore the fund can equalise asymmetric shocks: whereas in the west the risk of avalanches prevails, the eastern part is more imperiled by floods.