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COMMITTEE ON CO-OPERATION
IN MUNICIPAL AND REGIONAL MATTERS

MEANS WHEREBY GOVERNMENTS CAN
ADAPT THE FINANCIAL STRUCTURES
OF LOCAL AND REGIONAL AUTHORITIES



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Apportionment of tax revenue and
grants between public authorities

Reply by the Austrian delegation

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1. INTRODUCTORY REMARKS REGARDING THE AUSTRIAN FINANCIAL EQUALISATION SYSTEM

Austrian financial equalisation law, which is based on the Financial Constitution Act of 1948, is governed by the principle of an inter-related fiscal economy. Public taxes with the highest yield are regarded as common taxes ("assigned taxes"), which means that each territorial unit qualifies for a share of the relevant tax revenue. In addition, the federal, regional and local authorities are empowered to levy their own taxes, which vary widely, however, in extent and yield. Vienna occupies a place apart, as it is both a "Land" and a municipal authority. Consequently, Vienna draws revenue from regional taxes, local taxes and from shares in the proceeds of common state taxes.

The fiscal apportionment system is supplemented by various other types of financial transfer between the territorial authorities.

Financial equalisation is founded mainly on the relevant Act. This Financial Equalisation Act is a federal act which is valid for a period of six years. The terms of the Financial Equalisation Act are worked out and agreed in negotiations between the federal, regional and local authorities.

Apart from financial equalisation, there are important regulations governing the apportionment of revenue in the public sector, in particular for covering expenditure on hospitals, housing development and the provision of water supply and sewage disposal plants (Water Management Fund).

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2. ANSWER TO QUESTION A : THE PRINCIPAL LOCAL AND REGIONAL AUTHORITY TAXES ("GEMEINDEN" AND "LANDER")

A distinction must be made between the rates and taxes collected by the local and regional authorities (whose representatives have at least some say in deciding whether and to to what extent these taxes shall be levied) and shares in the proceeds of common state taxes (levied by the federal authorities and apportioned among federal, regional and local authorities according to scales stipulated in the Financial Equalisation Act).

Tax receipts of local authorities (excluding Vienna), regional authorities (excluding Vienna) and Vienna, for the years 1960 and 1973

	Share of common tax revenue in 1,000 Sch.		Own tax revenue in 1,000 Sch.		Total tax revenue in 1,000 Sch.	
	1960	1973	1960	1973	1960	1973
Gemeinden (excluding Vienna)	1,591.495	9,716.261	2,314.286	7,079.560	3,905.781	16,795.821
Länder (excluding Vienna)	2,937.233	13,658.892	149.300	589.365	3,086.533	14,248.257
Vienna	1,991.168	7,651.808	1,361.033	3,360.298	2,253.201	11,012.106

2.1 Local authority taxes

a. Commercial tax based on yield and capital gains

Category : Taxes on income and profits;

Tax base : income and profits of business undertakings.

Rate of assessment : Pre-1959 - 300
1959 Financial Equalisation Act - 180
1967 Financial Equalisation Act - 150

Utilisation : Provision is made in the Financial Equalisation Act for a uniform rate of assessment : rating authorities are free to decide only whether to levy the tax; as a rule, this tax is collected.

Comment : Viewed over a given period of time, there has been a decline in the rate of assessment, with a consequent reduction in the importance of this tax, which is sensitive to economic cyclical fluctuations and to local, sectorial and other influences.

Yield in 1,000 Sch. :

	1960	1973
Gemeinden (excluding Vienna)	966.307	2,685.741
Vienna	551.603	1,088.205

b. Payroll tax

Category : Tax on employers, based on payroll or manpower.

Tax base : Total wages paid to workers of firms situated in the local authority area.

Tax rate : A maximum of 2% of the payroll; this rate has remained constant.

Utilisation : The local authority is free to determine the rate of tax, up to a maximum ceiling; as a rule, the full rate is applied.

Yield in 1,000 Sch. :

	1960	1973
Gemeinden (excluding Vienna)	406.046	1,780.481
Vienna	306.901	895.261

c. Tax on beverages and ice cream

Category : Taxes on goods and services

Tax base : Consumption of drinks and ices (excluding milk, and until 1953, beer).

Tax rate : As a rule, 10% of the retail price. The rate has long remained constant.

Utilisation : Local authority enjoys the right to fix the rate of taxation and to decide whether to impose the tax; the maximum amounts are normally applied.

Yield in 1,000 Sch. :

	1960	1973
Gemeinden (excluding Vienna)	277.351	932.491
Vienna	126.661	262.703

d. Land tax relating to agricultural and forestry undertakings and landed properties

Category : Taxes on property.

Tax base : Land value assessment of ground occupied by agricultural and forestry undertakings, and other landed properties.

Assessment rate : A maximum of 500% (agriculture and forestry)
(Up to 1972, 400%)
420% (other land).

Utilisation : Local authorities are free to decide on the rating (subject to a ceiling); as a rule, the full rate is applied.

Comment : The yield from this source is stagnant and depends on land value estimates which are revised at intervals of ten years.

Yield in 1,000 Sch. :

	1960	1973
Gemeinden (excluding Vienna)	431.352	855.352
Vienna	140.604	257.756

2.2 Regional authority taxes (Länder)

The taxes collected by the Länder themselves are insignificant. The total yield amounts to (in 1,000 Sch.) :

	1960	1973
Länder (excluding Vienna)	149.300	589.365

The main receipts derive from administrative taxes, hunting and fishing dues, advertising fees, tourist taxes (in part) and fire-protection taxes.

The levying of taxes by the regional authorities is not based primarily on fiscal grounds, but is justified by those of law and order and historical traditions.

2.3 Share in the proceeds of common federal taxes

Under the terms of the Financial Equalisation Act, regional and local authorities are allocated a share of the major taxes levied by the federal authorities (income tax, turnover tax, taxation on mineral oil, beer, other alcoholic beverages, etc). The proceeds of the principal common federal taxes are allocated in the following proportions (expressed as percentages) :

	Bund	Länder	Gemeinden
Assessed income tax	43	30	27
Payroll tax	59	23	18
Turnover tax	69.3	18.3	12.4
Beer tax	17	57	26
Mineral oil tax	2	74	24
Tax on alcoholic beverages	40	30	30

The local authorities of a particular Land each receive a sum described as their 'share of state revenue' which is allocated among the individual local authorities primarily according to the "graduated population scale" (1).

Amount of shares (in 1,000 Sch.) :

	1960	1973
Gemeinden (excluding Vienna)	1,591.495	9,716.261
Vienna	1,991.168	7,651.808
Länder (excluding Vienna)	2,937.233	13,658.892

(1). See under 6 (reforms).

The long-term trend reflects a growing importance of state allocated shares, assuming as those to an increasingly large proportion of the total tax receipts of local and regional authorities. As these allocations are composed of a variety of taxes, they are less subject to economic cyclical fluctuations.

3. ANSWER TO QUESTION B : LIST OF TAXES WITH LOW YIELD

3.1 Low-yield taxes levied by local authorities

These include :

- taxes for the use of public communal land and the airspace above it (users' dues);
- tax on announcements;
- administrative taxes;
- dog licences.

The amount yielded is consistently far below 1% of the sum total of local rates and taxes and shares from state tax revenues. The levying of these taxes may be justified on the following grounds :

- administrative measures (in return for various administrative services);
- contributions having the nature of fees;
- historical reasons.

3.2 Low-yield taxes collected by the Länder

All the regional taxes fall into this category (see under 2.2 above).

4. ANSWER TO QUESTION C : SPECIFIC AND BLOCK GRANTS TO LOCAL AUTHORITIES - Grants received and paid by Gemeinden and Länder

4.1 Grants paid by local authorities - tax levied and redistributed by the Länder authorities ("Landesumlage") :

This constitutes a participation by the Länder in the share of federal tax revenue received by the Gemeinden; it consists of a transfer payment by the local authorities to the regional authorities of tax-analogous non-specific funds; the ceiling for this tax levied by the Länder is prescribed by the Financial Equalisation Act (the current rate is a maximum 12.5% of the local authority share of state tax revenue), and as a rule the full rate is applied; in the relevant regional laws, provision is made for re-distributing the tax among the individual local authorities according to a (fictitious) ratio of financial potential.

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<u>Yield in 1,000 Sch. :</u>	1960	1973
	296,841	1,257,633

Efforts are being made to abolish this regional authority tax, owing to its incompatibility with the system.

4.2 Grants received by local authorities

4.2.1 Allocations to cover needs

These are distributed to local authorities by the Land and should be regarded only hypothetically as financial grants, since the funds needed for this expenditure come out of the local authorities' share of common tax revenue. By allotting these specific grants, however, the regional authorities are, at least to some extent, controlling expenditure, since the funds are employed, at the suggestion of the local authorities themselves, not only to balance their budget and provide aid in cases of special emergency, but also to promote investments in local infrastructure schemes. These allocations therefore largely consist of investment subsidies.

Allocations to cover local authority needs (in 1,000 Sch.) :

1960	1973
284,256	1,311,695

4.2.2 Block grants and specific subsidies from federal and regional authorities to local authorities

In addition to a few minor grants (operational, non-specific) to offset losses in revenue caused by tax exemptions, the federal and regional authorities allocate various specific subsidies and grants. A distinction must be made between fixed subsidies and those which are granted out of appropriations in the federal budget. Specific subsidies are earmarked for particular purposes and correspond to a service which the receiving authority is expected to provide. It is not possible to establish the break-down of specific subsidies between operational expenditure and capital investments, but it is probable that more than 50% are used for capital investments. Grants and subsidies are allocated to cover the deficits in respect of theatres, orchestras, hospitals and sponsoring environmental protection schemes (above all refuse disposal plants), local public transport, the tourist industry and compulsory school building.

A study of the trend reveals that the federal and regional authority grants to local authorities have been expanded to cover additional projects eligible for assistance.

Grants and subsidies (in 1,000 Sch.) :

	1960	1973
Gemeinden (excluding Vienna)	257.786	370.193
Vienna	243.058	2,008.103 (2)

Here, it may be added that, on application from local authorities, the Water Management Fund (Federal Fund) offers loans at much reduced rates of interest (2%) for promoting investment for water supply and sewage disposal schemes.

4.3 Grants provided by the Länder

In addition to grants for special needs, the regional authorities ("Länder") accord financial grants-in-aid to local authorities for investment in individual infrastructure projects. These grants are provided partly out of their own resources and partly out of funds allocated by the federal authorities for redistribution to the local authorities, in the utilisation of which the Länder exercise controlling and co-ordinating functions.

4.4 Grants received by the regional authorities

4.4.1 Per capita equalisation grant

This is paid by the federal authorities in the form of a current, non-specific subsidy to less prosperous Länder and serves partly to offset disparities between their resources and those of economically strong regions.

<u>In 1,000 Sch.</u>	:	1960	:	178.956
		1973	:	423.887

4.4.2 Tax levied by the Länder on the local authorities (Landesumlage)

See under 4.1 above.

4.4.3 Specific subsidies from the federal authorities

These are granted in the form of current subsidies. The list of local authority requirements has been extended in the course of time and includes subsidies for:

- assistance to economically underdeveloped areas;
- general aid to stimulate the economy, in particular the tourist industry;
- the development of nature conservation, environmental protection, civil defence and sport;

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(2) Including 1,579.928 as part of the housing development aid granted by the federal government to the "Land" of Vienna. See also the details under 4.4.3.

- special aid to cover deficits in respect of hospitals.

It is not possible to ascertain to what extent these sums may be regarded as capital transfers.

Attention is drawn to the fact that, under the Housing Development Act of 1968, the regional authorities are now responsible for the development of house building, for which purpose, the allotted funds are transferred by the federal to the regional authorities.

In 1,000 Sch.	:	1960	:	344.199
		1973	:	4,206.295

5. ANSWER TO QUESTION D : TREATMENT OF REGIONAL AND LOCAL AUTHORITIES FOR VAT PURPOSES

The Turnover Tax Act of 1972 introduced the Value Added Tax as the new form of turnover tax in Austria from 1973 onwards. In the sphere where they enjoy discretionary powers (non-commercial activities), the regional and local authorities are treated as ultimate consumers, i.e. the full rate is applied without deduction of preliminary tax.

In the commercial sphere (business undertakings operating continuously on a profit-making basis), the local authorities and to a smaller extent the regional authorities are in most cases liable for the reduced rate of VAT (8%) with full deduction of previous tax. In this way, an effort has been made to cancel out the turnover tax. Whether this has been successful will become apparent only after a lengthy period of observation.

6. ANSWER TO QUESTION E : THE MAIN FEATURES OF PROPOSED FINANCIAL EQUALISATION REFORMS

The current Financial Equalisation Act will remain in force until the end of 1978. Subsequent legislation in this field will be the outcome of far-reaching reforms. In particular, the allocation of funds will be geared much more closely to the tasks of the individual territorial units, primarily in order to alleviate financial difficulties arising from local authority structures.

The most important instrument of intermunicipal financial equalisation, the graded population scale, has been subjected to criticism. The funds accruing to each individual local authority are apportioned according to the graded population scale, which is determined by multiplying the actual population figure by a variety of factors to produce a fictitious population figure. The multiplying factor for local authorities is as follows.:

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Up to 1,000 inhabitants	1 1/6
Between 1,001 and 10,000 inhabitants.. ..	1 1/3
Between 10,001 and 20,000 inhabitants ..	1 2/3
Between 20,001 and 50,000 inhabitants (including free boroughs with a maximum of 50,000 inhabitants)	2
Over 50,000 inhabitants plus the city of Vienna	2 1/3

There is a move to reduce the rate of progression, which would entail a greater redistribution of funds from the larger to the smaller local authorities (which is not quite the same as rich and poor authorities), as well as efforts to maintain the present system based on the graded population scale and even expand it by introducing a new level of local authority with more than 100,000 inhabitants.

The expansion of the subsidisation system favoured by the federal government has been coolly received by the local authorities, who prefer a boost in their general tax revenue - whether from their share of common tax receipts from the state or an increase in local levies - because of its current and non-specific nature. Other questions still pending are the proposed abolition of the regional authority tax and the introduction of an equalisation grant to offset the lower tax receipts of authorities with numerous commuters.