Austria – The Tax Sharing System

Anton Matzinger[1]

1. Introduction

Austria's fiscal constitution differentiates between taxes whose revenue is allocated exclusively to one of the three tiers of government (federal, state[2] and local government) and taxes shared in between these governments. This latter type dominates the structure of the fiscal federal system.

Table 1: Tax revenue: exclusive and shared taxes, 2011

Type of taxes	Revenue, mio. €	Revenue, %
Exclusive federal gov. taxes	6,610	8,3
Shared federal gov. taxes	68,806	86,2
Länder/local gov. taxes	4,407	5,5
Sum	79,822	100,0

Statistik Austria, 2011

Tax sharing arrangements have developed gradually and become quite sophisticated, so that presently only a small group of experts is able to understand all the channels of fiscal equalisation and their intersections.

The first part of this article reviews the development of the tax sharing system. The second section describes the present features of that system and some important instruments of tax sharing, concentrating first on vertical and then on horizontal aspects of the various allocation formulas. The most important formula, a weighted population key, is given special consideration. Finally, the last section discusses some aspects of the political

[1] Federal Ministry of Finance, Austria. The views expressed are not necessarily those of the Ministry of Finance.
[2] State governments henceforth referred to as Länder.

economy of the present system and its consequences for developing the system towards more subnational tax autonomy, esp. of state (Länder) governments.

2. **Development**

In the late years of the Habsburg monarchy Länder and local governments financed themselves via piggy-back taxes on the then existing central government direct taxes (except income tax) and via taxes on alcoholic beverages. But there was already a trend to reduce tax autonomy and to replace autonomous revenues by central government transfers.

This development continued in the republic formed after the first World War, due to fears that subnational governments (SNGs) would use their taxing rights excessively and damage the ecomomy. Tax autonomy of SNGs, esp. of Länder, was replaced by a system of tax sharing with central government reponsibility for tax legislation and tax administration[3].
This system basically continued after the second World War. It already contained characteristics featuring prominently in the system today:

- Vertical tax sharing according to percentages, laid down in a law limited in time, (Finanzausgleichsgesetz – Intergovernmental Fiscal Relations Act - IFRA).
- Horizontal sharing of Länder was basically founded on population numbers, to a lesser extent on regional tax revenue. Local governments' share was determined basically according to a weighted population key.

The above system was based on an agreement of the relevant stakeholders - the central government (Federal Minister of Finance), Länder and political representatives of local governments. All further IFRAs followed that example: prior to the expiration of the respective IFRA (usually every 4- 6 years)

[3] Pfaundler, 28ff

negotiations of the representatives of all territorial governments take place to find a new consensual agreement on tax sharing and related intergovernmental fiscal issues.

Negotiations of the last 60 years were characterized by periodically emerging fiscal needs of the federal government and adaptations in favor of the federal budget, reversed some years later in favor of SNGs. Federal government then usually tried to compensate by increasing taxes, thereby creating windfall profits for SNGs since the allocation formulas usually were not altered on these occasions[4].

A tax reform in 1973 (implementation of VAT, income tax reform) further reduced remaining piggy back taxes of Länder in favour of higher tax shares of income taxes.

SNGs lobbied very energetically to get a share of newly introduced taxes (VAT 1973, Tax on Dividends[5] 1989, Energy Taxes 1997[6]). Additionally SNGs succededed in enlarging the pool of taxes shared among governments by adding former exclusive federal taxes to the tax sharing system (Corporate Tax, 1998, Insurance Tax, Tobacco Tax, Capital Transactions Tax, Energy Tax, Car Registration Tax[7], Gambling Concession Fee 2005) and introducing a unified vertical allocation formula instead of the former individually regulated formulas (all income taxes 1989, most shared taxes 2005[8], integrating former transfers into the tax sharing system 2008).

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[4] Hüttner et al., 54. An exception were the tax increases of 2001, allocated mostly to the federal budget due to consolidation necessities.
[5] Kapitalertragsteuer
[6] SNG's share was firstly constructed as transfer and later changed into a tax share.
[7] Normverbrauchsabgabe.
[8] Except Advertising Tax, Land Value Tax (on property awaiting development), Real Estate Transfer Tax, Casino Levy, Contribution to Housing Subsidies due to special allocation formulas favoring the government of the tax base.

Horizontal allocation was characterised by repeated discussions, esp. by local governments, of the weighted population key - an important element of the horizontal allocation formula. Debates during the past 15 years have focused especially on a reduction of this key.

Description

About 85% of general government tax revenues[9] stem from shared taxes. Tax policy and tax legislation remain at the federal level, tax collection is done by federal revenue offices. Exclusive taxes are a minor contribution at any level.

Austria's present system of tax sharing has evolved over time. It is very much path dependent as each new round of negotiations of intergovernmental fiscal relations starts from the existing arrangement, gradually developing it and adding new elements or altering old ones to serve the objectives of the respective partners and to find an over-all consensus. Due to brevity and clarity only systematically interesting details are discussed here.

Basically the federal tax sharing system has the following features: firstly, a vertical allocation, allocating tax shares to federal government, Länder and local governments as sectors. Next, a horizontal sharing at the level of Länder and at the Länderwise aggregated level of local governments (Oberverteilung – upper apportionment). A further allocation step follows at the resp. in-state local goverment level, (Unterverteilung – lower apportionement). Especially at this third allocation level special equalizing features are built in. The system sometimes is described as a vertical allocation with equalizing horizontal effects.

Sharing on each level happens via allocation formulas stipulated in the law (IFRA – FAG). Before using the formula some deductions are made at each level for (contributing to) financing common tasks of the affected governments.

[9] without social security contributions

All rules are based on agreements between the federal government, Länder and the two large municipal associations[10].

Vertical allocation

Vertical allocation starts from gross yield of taxes. That is the amount of revenue collected by the revenue offices and paid to the general account of the Federal Ministry of Finance (MoF). Then certain advance deductions follow, as contributions to agreed common tasks, most important (2011) to finance family allowances and similar expenditure (690 mio €), capital investments of hospitals (1.876 mio €), elderly care (100 mio. €), clean water supply and wastewater treatement (164 mio €) or to recompensate for past tax changes hitting esp. governments (279 mio €)

The remaining sums are shared according to agreed apportionment formulas fixed multiannually in law.

Three major developments influenced vertical allocation formulas over the last three decades[11]:

- Former exclusive federal taxes and transfers were added over time, enlarging the importance of the tax sharing system (Corporate Tax in 1998, Insurance Tax, Tobacco Tax, Capital Transfer Taxes, Energy Taxes, Standard Fuel Consumtion Vehicle Tax, Casino Licence Fee in 2005).
- Some exclusive local government taxes seen as outdated were abolished and replaced with higher shares, others added to the sharing base, thus reducing SNGs' already weak tax autonomy (abolished: Beverage Tax in 2000; Trade Tax On Capital Assets, 1984; added to sharing base: advertising tax in 2000)

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[10] Association of Austrian Cities and Towns (Städtebund), representing the larger, more urban local governments and the Association of Austrian Municipalities, combining more rural local governments.

[11] Details of the development in the preceding decades in: Bennett R.J.

- Former tax-individual allocation formulas were replaced by a standard formula, its base comprising in the end allmost all shared taxes.

These changes were targeted to preserve the fiscal positions before and after reform, but gave rise to different developments of revenue compared to the situation before. Only the abolishment of local government taxes changed the fiscal positions, as the federal government replaced missing revenue out of its own shares.

Table 2:

Shared taxes – allocation formulas – vertical allocation				
	Formula in %			Tax yield
	Federal gov.	Länder	Local Gov's	2011, bio. €
Shared taxes – standard formula	67,765	20,524	11,711	62.6
Shared taxes – special formulas:				
Advertising Tax	4,000	9,083	86,917	0.1
Real Estate Transfer Tax	4,000	-	96,000	0.8
Contribution to housing subsidies	19,450	80,550	-	0.8
Casino tax up to yield of 725.000 Euro	49,000	7,000	44,000	0.0
Casino Tax , yield above 725.000 Euro	61,000	20,000	19,000	0.5
Statistik Austria[12];	64,4			

[12] http://www.statistik.at/web_de/statistiken/oeffentliche_finanzen_und_steuern/oeffentliche_finanzen/gebarungen_der_oeffentlichen_rechtstraeger/index.html

Table 3:

Five shared taxes with the highest yields

Tax	Mio. €, 2012
VAT	24.602
Wage Tax	23.392
Corporate Tax	5.327

MoF, Vienna[13]

Table 4: Tax Shares 2011

2011	Federal Gov.	Länder	Vienna[14]	Local Governments	Sum
Bio. €	42.7	10.6	4.9	6.1	64.4
%	66.3	16.5	7.7	9.5	100

Statistik Austria[15];

Horizontal System

The horizontal system is often discussed among fiscal partners, due to divergent interests of urban and rural municipalies. Actual changes of the formulas usually are offset by additional federal means to avoid a loosing situation for municipalities as a result of the change (no loosers - only winners as political reform goal). Discussions center around one important element of the standard formula, the weighted population key, discussed in more detail below.

[13] https://www.bmf.gv.at/budget/finanzbeziehungen-zu-laendern-und-gemeinden/besteuerungsrechte-und-abgabenertraege.html

[14] Vienna is both: Land and local government. In Austrian stastistics it therefore often is treated as an entity of ist own.

[15] http://www.statistik.at/web_de/statistiken/oeffentliche_finanzen_und_steuern/oeffentliche_finanzen/gebarungen_der_oeffentlichen_rechtstraeger/index.html

Horizontal Tax Sharing – Länder Tier

The revenue share of both the Länder and municipalities (grouped within each Land) are distributed by the federal government to the individual Länder. As in vertical allocation a standard horizontal formula is used for all vertical standard shared taxes. It combines various factors:

- Demographic criteria: allocation is based on the number of inhabitants of a Land or municipality , in a special form as weighted population key.
- Fixed percentages: they often represent former local or regional revenue, fixed at some historical percentage, f.e. to compensate the loss of former tax autonomy (fixed share for former beverage tax revenue, or former local advertisement taxes). These shares are static and do not reflect changes of the tax base over time, resulting in concerns over their constitutionality[16].
- Actual local or regional revenue: minor shared taxes are shared mainly by relying on local tax revenue.

In the outcome population-based factors dominate the system.

Table 4: Allocation formulas – horizontal sharing – Länder Tier 2010

	Länder share, %	**Local gov. share, %**
Population	63,3	14,7
Weighted population key	-	52,8
Fixed percentages	36,6	23,1
Actual local/regional revenue	0,1	9,4

MoF[17]

[16] In 2010 the Constitutional Court declared one such fixed allocation formula, used to compensate municipalities for former autonomous beverage tax revenue as null and void, due to not taking into account changing tax bases.

[17] https://service.bmf.gv.at/BUDGET/budgets/2013/beilagen/Zahlungsstroeme_Beschluss_2013.pdf

Horizontal Tax Sharing – Local Tier

Länder now allocate the local share of revenues to individual municipalities. They have some discretion doing so:

- Gemeinde-Bedarfszuweisung – Special needs grant for local governments. Länder have the discretion to allocate 12,7 % of local government's tax share and set themselves criteria for apportionment. To some extent these grants are used to support local governments in financial distress. The rest is used mainly for infrastructure investment projects of local governments. Since they are not determined by federal law, allocation of these means is very flexible.
- The remaining amount of local governments' share is allocated to local governments by Länder according to rules in the federal law. This is the most intricate part of tax sharing. Again there are various apportionment formulas for tax sharing within the local government tier:

Table 5: Allocation formulas -horizontal sharing – local tier 2010

Formula	% of local gov tax share
Special needs grant for LG	12,5 [18]
Weighted population key	73,8
Fixed keys	6,1
Fiscal capacity	4,1
other	3,5

Caveat: for individual local governments Länder regulations on municipal fee for Länder budgets still to take into account (see below)!
https://service.bmf.gv.at/BUDGET/budgets/2013/beilagen/Zahlungsstroeme_Beschluss_2013.pdf

[18] Statistical difference.

Weighted Population Key

The Austrian weighted population key as factor for horizontal tax sharing at the local government level is based on the idea of diseconomies of scale. According to Brecht's law[19], public costs per head increase with population numbers (density). Ceteris paribus, this entails higher fiscal needs of larger local governments. Austria's tax sharing system tries to compensate for this need with higher tax shares per head for larger local governments.

The system is based on size ranges of local governments. According to the size range a local government belongs to, its number of inhabitants is multiplicated with a weight, resulting in so-called weighted population numbers. Allocation of tax shares in relation to these weighted numbers gives a higher proportion to larger local governments and therefore more tax shares. For example, the capital of Austria, Vienna, has a population of around 20% of Austria's inhabitants, with the weighted number at 25%, resulting in higher tax shares, at the expense of smaller local governments.

Table 6: Weighted Population Key, formula

Local government population	Weighted key	+ additional amount
Up to 9.000	1 3/5	
9.001 - 10.000	1 3/5	+ [2/3 * (P minus 9.000)]
10.001 – 18.000	1 2/3	
18.001 – 20.000	1 2/3	+ [3 1/3 * (P minus18.000)]
20.001 – 45.000	2	
45.001 – 50.000	2	+ [3 1/3 * (P minus 45.000)]
above 50.000	2 1/3	

P: Population of resp. local government

Matzinger, Anton; 2008

[19] http://wirtschaftslexikon.gabler.de/Archiv/5375/brechtsches-gesetz-v10.html

Table 7: Population and weighted population, Landeswise, 2013

	Population	Population in %	Weighted population	Weighted population in %
Niederösterreich	1.614.693	19,218097	2.718.466,806	17,295618
Burgenland	285.685	3,400227	466.326,895	2,966897
Oberösterreich	1.413.762	16,826614	2.498.503,085	15,896149
Salzburg	529.066	6,296950	968.773,109	6,163595
Steiermark	1.208.575	14,384476	2.157.755,567	13,728222
Kärnten	556.173	6,619578	1.020.669,468	6,493774
Tirol	709.319	8,442324	1.234.463,085	7,853986
Vorarlberg	370.440	4,408982	652.841,647	4,153554
Wien	1.714.227	20,402752	3.999.863,000	25,448205
Summe	**8.401.940**	**100,000000**	**15.717.662,662**	**100,000000**

https://www.bmf.gv.at/budget/finanzbeziehungen-zu-laendern-und-gemeinden/unterlagen-zum-finanzausgleich.html

Rural, smaller municipalities struggle against this system. Although they have not succeedded in abolishing it until now, they made their point politically and were able to reduce the spread and the size ranges considerably, last time in 2008, when the present law was negotiated. Nevertheless, larger local governments did not loose their tax shares: federal government kept their income share stable out of its own budget.

The system was modified some years ago: local governments with changing, usually growing, populations benefited heavily if they crossed the threshold of the size range, as they got more money per head for their whole poplation, not only for the part above the threshold. Contrary with shrinking populations.

Restriction to weighting only population numbers above the threshold was politically not feasible, as larger local governments would have lost the tax shares below the threshold. Reform took another way: smoothing the thresholds by giving an additional amount per head to local governments in a zone of 10% below the threshold.

The relevant population numbers are calculated on a per annum base by Statistik Austria.

Other Factors

- Fixed keys have been mentioned already at the Länder tier of the sharing process. The reasons for them apply also at the local level sharing process, though they are used to a lesser degree.
- Fiscal capacity formula: Austria’s tax sharing system has equalising effects, using population numbers in various stages and forms. Nevertheless, some local governments still are fiscaly needy. To compensate these local governments a special apportionment formula takes place:

  Its basic feature is a comparison of assymetrically defined fiscal capacities, one of them a wild-card for fiscal need. The base is the statewide average per head of 72% of the possible maximum revenue of (local) real estate tax and 39% of actual Kommunalsteuer, a local payroll tax.

- Multiplied with the effective population number this gives fiscal capacity,
- multiplied with the weighted population number this gives fiscal need.

30% of the difference of these two indicators is paid out of the common municipal tax share pool as an advance payment to these „needy" local governments.

In effect all but the richest local governments (with high real estate - and Kommunal tax revenue) get such payments due to the assymetric definition – though usually modest amounts are concerned. Nevertheless this allocation formula is an important support of financially weak local governments, though fortunately their numbers are small and the support only needs a fraction of the local government tax share pool.

- Other formulas are used to a lesser extent, f.e. tax base criteria or fixed amounts introduced to compensate local governments for increases of the tax burden affecting individual local governments more than others. Such factors are have accidental character, due to problems of day-to-day politics. Usually after some years they are somehow integrated into the system.

In a final step, the tax shares acc. to the federal rules described above are modified by Länder regulations. A part of the tax sharing system is the

- Landesumlage – Levy for Länder budgets: By constitution Länder are entitled to levy a fee from local governmets for their own budgets20.

[20] Länder are additionally entitled to regulate cost contributions of local governments to responsibilities of the Land itself or of groups of local governments. These regulations take place outside of traditional tax sharing, though often relying on fiscal capacity indicators and undoubtely modifiying fiscal federal outcomes. They modify the federal system of tax sharing and transfers sometimes considerably. Mostly they are used for financing hospitals (in favor of Land) or school districts, or social care districts.

Federal law restricts this fee to a maximum of 7,6 % of the portion on shared taxes of local governments länderwise.

Most Länder use that possibility to improve their budgets, just Tyrol and Upper Austria don't use it to full extent. Only the Land Niederösterreich abolished the levy entirely.

Länder usually have a land–specific apportionment formula for the burden of this levy, relying on fiscal capacity, which is defined similarly as in the federal allocation formulas: tax revenue from real estate tax, based on a normative tax rate of 72% of the possible maximum revenue of real estate tax and 39% of actual Kommunalsteuer, a pay rolltax. The burden for the individual local government might be much higher than 7.6% of its individual tax share!

Political Economy of Tax Sharing

Austria's tax sharing system of course is part of the legal and political culture of the nation. From a legal point of view the system is heavily centralized, as federal laws regulate most features of tax sharing, leaving only occasional and intentional room for specific Länder rules. But the political culture influences intergovernmental fiscal relations and of course tax sharing – not always towards efficiency. The most striking features are:

- Austria is a consensus oriented society. The example of social partnership and complex bargaining processes necessary to find agreements are deeply rooted even in political opponents. Therefore it is not only federal government deciding on tax sharing (and intergovernmental fiscal relations), but all relevant stake-holders come together and negotiate until agreement is found. On the one hand this ensures continuity, stability and wide political acceptance of the system, on the other hand there are efficiency reducing effects.

- Reforms are difficult to agree, usually federal government has to „buy" reforms, by compensating loosers or even not-winners. This system fosters political horse trading strategies. It led to a system so complex, that only a handful of specialists are able to see through all its consequences.

- Tax sharing dominates intergovernmental fiscal relations. Subnational governments lack tax autonomy and ensuing accountability, esp. at Länder level.

Table 8: Revenue levied by government tiers, 2010**:**

	Fed. Gov	**Länder**	**Vienna**	**Local govs**
Revenue levied, mio. €,	70.993	265	1.124	2.783
Revenue levied, %	94.45%	0.35%	1.50%	3.70%
After tax sharing[21]	64.53%	13.54%	7.63%	11.19%
After transfers	56.45%	21.83%	8.89%	9.72%

https://service.bmf.gv.at/BUDGET/budgets/2013/beilagen/Zahlungsstroeme_Beschluss_2013.pdf

Länder issues:

Tax sharing:

The system of tax sharing is well beloved among Länder politicians. There are various reasons for its popularity:

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[21] Additionally: 3.11% to EU-budget.

As a lobby group for shared interests ministerpresidents of Länder have developed as a political factor to be counted with. Their influence not only comes from their constitutionally important function, but also from their political leverage: as heads of regional parties they have clout over federal party organisations, these being dependent on Länder parties' political and financial support.

Additionally, decisions on canditatures for parliament are decided mostly on Landesparty level[22]. It is not unheard of ministerpresidents to speak of "my representatives". Ministers in federal government too need strong political backing to keep their job in the midst of fierce party-internal competition.

Due to this political clout Länder are able to secure their financial interests, without necessarily needing formal instruments. Besides, having once lost the „power to tax" Länder now lack the „will to tax". It seems more comfortable to focus on services and leaving tax matters to federal government, given enough influence to secure the necessary means for Länder decision makers' political goals.

Tax Autonomy:

This opaque subnational financing system has obvious efficiency reducing effects. There is no transparency for the voter/tax payer with regard to the connection between tax burden and local services. Voting with the feet or yardstick competition is not a political factor to take into account. Tax competition to reduce the tax burden does not take place given the non-existing tax autonomy of Länder. It even is unimaginable to some politicians to have different local/regional tax burdens across Länder borders[23]. Tax

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[22] In the parliamentary elections 2008 only 34 out of 183 representatives were elected acc. to federal party organisations porposals.

[23] F.e. Die Presse, 27.3.2013 http://diepresse.com/home/politik/innenpolitik/1357228/Die-Laender-lassen-sich-ihre-Autonomie-nicht-anknacksen

competition only is viewed as an unfair tax competition affordable exclusively to wealthy Länder and creating a race to the bottom.

In fact the possibilitiy of more competition concerning the mix of local/regional taxes/services seems to be the most importantreason why Länder heavily resist each proposal to increase tax autonomy, though official denial relies on tax administration points.

Tax autonomy for Länder is a constant proposal of the MoF in negotiations with Länder, but it is not promoted very eagerly[24]. Basically discussions include some minor taxes with easily regional allocatable tax bases[25] and piggy back taxes on the existing income and wage tax (reducing federal tax rates). Resistance of the tax administration, fearing higher administration burdens for itself and for tax payers, hamper a forceful reform position of MoF.

International organisations and literature[26] in Austria demand reforms towards more tax autonomy. But against the immobile political attidude of the Länder these voices remain weak. Nevertheless MoF has commissioned five studies to prepare a reform of intergovernmental fiscal relations, among them a feasibility study on tax autonomy[27]. The theme again is on the agenda.

Local Government Issues:

Tax autonomy:

Local governments don't like taxing either, but at least they use their powers and would be ready to take on more responsibilities. Unfortunately Austrian local government structure is quite inefficient. More than 2.350 local

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[24] Some Länder (Vorarlberg, Tirol) seem to have changed their argumentastion and would accept corporate tax, which definitly is not an example of an optimal regional tax (f.e. LH Wallner in: Die Presse, 22.2.2013 http://diepresse.com/home/politik/innenpolitik/1348124/Gesamtschule-Sollten-uns-nicht-verschliessen

[25] F.e.: Land value tax on property awaiting development, contribution to housing subsidies,

26 F.e.: Pitlik et. al. 2012, Bröthaler et.al. 2011;

27 https://www.bmf.gv.at/budget/finanzbeziehungen-zu-laendern-und-gemeinden/studien-zur-reform-des-finanzausgleichs.html

governments in a country of 8,4 mio. inhabitants result, on the average, in very small local governments. As far as services are concerned, Länder administrations take on a lot of responsibilities, provided in unitary countries often by local governments. But, as far as tax autonomy is concerned, optimal local taxes are rare and to some extent already used by local governments. Additionally, some important local taxes were abolished or taken on by federal government, due to EU-entry (local beverage tax) or to relieve tax or administration pressure on the economy (trade tax on capital assets, advertisement tax).

Tax Sharing:
The special needs grant for local governments gives Länder a lot of possibilities to intervene. These means (12,7 % of the local tax share) are allocated according to Länder government decisions. This gives room for log-rolling, securing local support for the respective ruling Länder parties. Coalition governments in Länder tend to split the available amount in two parts, subsequently allocated by the resp. regional party member of government to same party local governments.

Additionally local governments complain about the levy for Länder budgets and about ever increasing cost contributions for Länder or other local governments responsibilities. These burdens are not shared proportional to population, but by various fiscal capacity indicators. Especially larger local governments argue that due to these indicators their advantage, gained by the weighted population key, is being taken away. In 2012 municipalities at least reached an agreement with Länder on a moratorium for future increases.

However, it also is to be mentioned that these instruments together with the constitutional supervision of local governments by Länder secure usually sustainable local government budget policies. As a sector, local governments always have the best budgetary outcomes, often even a small surplus. Länder use their power over local governments reponsibly in this respect.

Local governments are hampered in promoting their interests due to contrasting interests: small, rural municipalties are represented by the Austrian Association of Municipalities, larger more urban municipalities by the Austrian Association of Cities and Towns. They have opposing views concerning the weighted population key. Small local governments campaigned against it, using the slogan: „Each citizen should be of equal worth to the (federal) government," meaning a population-proportional tax sharing system. They succeeded in reducing the band width of the key.

Larger municipalties tried to develop a weapon against this campaign and found it in the concept of „responsibility-oriented financing (aufgabenorientierte Gemeindefinanzierung)" for local governments. According to their position larger municipalities deliver a lot of services to surrounding populations and therefore need more money, money they presently get via the weighted population key.

The idea struck and presently all stake holders are in favour of responsibility orientation. The problem is that all parties mean different things, all of which ends up as more monies for the respective government.

To shed more light on the consequences of such a new system MoF commissioned among the above mentioned 5 studies one with a special focus on a new system for financing local governments[28]. The study proposes replacing the weighted population system by proportional allocation, using the remaining revenue for basically two transfers: one to equalize fiscal capacities and one to take into account all sorts of different responsibilities (fiscal need).

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[28] All studies are published at the homepage of MoF: https://www.bmf.gv.at/budget/finanzbeziehungen-zu-laendern-und-gemeinden/studien-zur-reform-des-finanzausgleichs.html

Fine tuning is done with some special transfers tailored to special situations. This proposal will be presented in the next round of negotiations on intergovernmental fiscal relations (2014). However, given all of the contradicting expectations discussions will be difficult.

Outlook

The present federal law on intergovernmental fiscal relations will end in 2014. Due to its importance the tax sharing system will be on the agenda. There are important developments that could provide an important reform impulse, contrasted by persistent factors that favor the status quo. What influence will succeed?

I dare an answer: both!

Bold and quick reforms are not the Austrian way. Neither is it stagnacy. A follow up of incremental reform steps, adding up over time to considerable changes and – hopefully - improvements, is the most likely outcome.

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