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Living and Working in Austria

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We are pleased to present you in our folder „Living and Working in Austria“ some of the key tax and social security issues for expatriates and foreign entrepreneurs in Austria. For questions and further information please do not hesitate to contact us.

Income tax in Austria

Any person who maintains their principal residence in Austria is liable to pay taxes on all income derived from both foreign and domestic sources.

In order to avoid double taxation, Austria has concluded double-taxation agreements with all its neighbouring countries and EU/EEA countries. Taxes are paid in the country of principal residence, irrespective of the country in which the income has been earned.

In Austria, employers are principally responsible for remitting income tax to the fiscal authorities. Income taxes and social security contributions of each employee derived from their employment are deducted at source by the employer and paid directly to the Austrian fiscal authorities or to the responsible social security institution. Self-employed persons are themselves responsible for payment of taxes and social security contributions.

Unlimited tax liability

Term

Persons subject to unlimited tax liability have permanent residence or habitual residence in Austria. Persons also have their habitual residence if they consistently spend more than 6 months in Austria. Unlimited means that all domestic and foreign income, i.e. the entire world income, is subject to income tax in Austria.

Types of income

There are seven types of taxable income in Austria:

- Income from agriculture and forestry
- Income from self-employment
- Income from trade or business enterprise
- Income from employment
- Income from investments
- Income from renting and leasing
- Other income

Income is the total amount of these seven types of income after deduction of business expenses and income-related expenses; though losses of one source of income may be offset against gains from any other. Depending on the personal circumstances of the taxpayer, further special expenses, extraordinary expenses and children's allowances are deductible from the total amount of taxable income (see below).

Loss recovery

Losses from a tax-related activities are taken into account. As a rule, losses reduce positive income derived from other income sources of the same year (called „loss relief“). The Income Tax Act, however, provides certain restrictions on loss relief. Thus, such losses as those from speculative transactions or investment losses may be offset only against gains derived from the same income type.

If losses incurred from the first three types of income cannot be fully compensated with positive income of the same year, they can be „carried forward“, i.e. they are deductible in future years. However, only 75% of current profits can be offset with losses carried forward from previous years.

Special expenses

Special expenses are not directly related to the source of income but concern the private life of the taxpayer.

Special expenses include:

- Insurance premium for life insurance, accident or supplementary health insurance
- Expenses for housing and refurbishing
- Expenses for certain capital investments, such as new shares
- Contributions to church up to maximum of € 200
- Private donations to eligible recipients
- Tax consulting fees
- Loss carry forward

Extraordinary expenses

The extraordinary expenses include for example:

- Costs of illness
- Expenses in connection with handicaps
- Costs of damage caused by natural disasters (floods, fire)
- Expenses in connection with the care of children (generally up to the age of 10; e.g. costs of a kindergarten)

The deduction of extraordinary expenses is subject to certain conditions.

Income tax rate

Austria has a progressive tax schedule. Therefore, high income is taxed disproportionately higher than lower. Thus, the first € 11,000 are tax free, but the first Euro of income above € 60,000 is taxed at 50% rate.

Income in Euro	Marginal Tax Rate
up to 11,000	0%
11,000 to 25,000	36.5%
25,000 to 60,000	43.2143%
over 60,000	50%

Where appropriate the following tax deductions apply:

- Tax credit for sole income earners
- Tax credit for single parents
- Tax credit for children
- Tax credit for support payments
- Tax credit for travel expenses
- Tax credit for employees
- Tax credit for cross-border commuters
- Tax credit for retirees

Tax deductions amount from € 50 to € 700 p.a. Tax credit for children is paid – upon request – together with the family allowance by the Tax Office.

Form of collection

The income tax return is filed with the Tax Office. The income tax is fixed by decree. A special form of income tax collection in the case of income from employment is the withholding of taxes on wages. The taxes are deducted from salary by the employer and forwarded to the Tax Office.

Limited tax liability

Persons subject to limited tax liability have neither permanent residence nor habitual residence in Austria. The tax liability is limited to certain income in Austria.

The income tax is to be calculated either on the basis of the individual income tax return or the withholding tax rate of 20% of revenue excluding expenses applies.

If the income-related expenses is taken into consideration, the withholding tax rate amounts to 35% if the taxpayer as an individual or 25% if the taxpayer is a legal person.

When calculating taxable income, a lump sum of € 9,000 is added to the income to ensure that the lower tax rates of progressive taxation cannot be used disproportionately by foreign citizens.

Deductions are generally not considered. Tax credits for employees, retirees and travel are deducted only for income from employment.

Extraordinary burdens are not deductible.

Operating expenditure will be considered only as far as it relates to domestic income.

Special expenses under certain circumstances can reduce taxable income.

Agreements for the Avoidance of Double Taxation

Double taxation occurs when:

- The taxpayers are acting outside their country of residence
- The taxpayers have two or more countries of residence

In both cases there is an overlap between the tax claims and multiple taxation of the same sources of income. To avoid double taxation, Austria has entered into Double Taxation Treaties with about 80 countries.

In Double Taxation Agreements the following issues are regulated:

- Which country has the right to tax the worldwide income?
- What income may be taxed in another state?
- Which methods can be used to avoid double taxation?

Extras for expatriates

Expatriates are skilled professionals sent abroad temporarily usually for one to three years, by their companies.

Up to 35% of taxable income from employment can be paid tax-free by the employer. The following requirements must be met:

- Expatriate has not been living in Austria for the last 10 years
- Expatriate has been assigned by his foreign company
- Planned duration of assignment does not exceed five years
- Foreign family residence has to be maintained for the duration of the assignment

The following expenses can be deducted from taxable income:

- Costs of moving
- Costs of the second household
- Education costs for children
- Travelling home

When calculating the remuneration abroad, expatriates enter with their employers into agreements like “Tax Protection Agreement” (compensation of additional taxes) and “Tax Equalization Agreement” (general tax equalization). The purpose of both agreements is to compensate the difference in the tax burden between home and host country.

Social Security in Austria

The social security law is based on the territorial principle. This means that employed persons should be insured at their place of work.

The Austrian Social Security System

In Austria, following mandatory insurance are provided:

- Health insurance
- Accident insurance
- Pension insurance
- Unemployment insurance
- Employee welfare fund

Insurance Contributions

Contributors are the mandatory insured employees and their employers. Each pays approximately half the contributions. Self-employed persons are also subject to mandatory insurance, but they do not pay contributions for unemployment insurance.

The basis for contributions is basically the total income up to the maximum of € 4,200 per month (14 times) for employees and € 4,900 per month (12 times) for self-employed persons (value 2011). Passive income, such as rental and leasing income as well as investment income, is not subject to social insurance.

Health Insurance

The compulsory health insurance arises when the monthly income exceeds the marginal income of € 374.02 (value 2011).

Relatives who have their habitual residence in Austria but no income, are entitled to be co-insured. Relatives are the spouse and children (including adopted children and foster children). For people who have childcare years, the co-insurance is free.

For persons with marginal income and students voluntary insurance is possible.

Benefits of Compulsory Health Insurance

The benefits of compulsory health insurance are standardized. There are benefits in kind and cash benefits.

The **benefits in kind** are used for early detection of diseases and the promotion and maintenance of general health, especially by screening tests and vaccinations. In the case of a disease, health insurance provides medical treatment, medicines, medical aids, dental care, hospital care and medical care at home.

A most important **cash benefit** is sick pay, which compensates partly for lost income during illness.

Private Health Insurance

Additional to compulsory health insurance, private health insurance can also be obtained. Unlike compulsory health insurance, its benefits are dependent on the individual insurance company and insurance premiums.

Benefits of private health insurance (depending on price):

- Free choice of doctor and hospital
- Status of private patients at doctors and hospitals (optimal treatment as no budget restrictions)
- Reimbursement of costs for dentures
- Single room
- Reimbursement of costs for alternative medicine and psychotherapy
- Health insurance outside the home country
- Higher reimbursement rates for medicines, aids and eyeglasses.

Extras for expatriates

In the case of assignment of employees abroad, dual or multiple social security contributions may occur if the domestic insurance is not to be interrupted.

The avoidance of multiple insurance is assured by EU Regulations (applicable to the EU/EEA countries and Switzerland) and bilateral agreements with third countries.

The **EU Regulations** allow in many cases that expatriates remain in the social security system of their home country.

The **EHIC** – European Health Insurance Card (e-card) entitles holders to all necessary medical benefits during a stay in the territory of a member state.

Austria has concluded **bilateral agreements** with several non-EU/EEA countries. These agreements provide that claims during an insured period for which contributions have been paid in a country, are recognized in another country that is party to the agreement. Some agreements also cover other risks such as illness, accident, unemployment or family benefits.

Residence and Work Permits in Austria

Residence Of Non-EU/EEA Citizens

Non-EU/EEA citizens wishing to stay in Austria longer than six months need a residence permit.

There are following types of residence permits:

- Residence permits (temporary residence)
- Family members (temporary residence)
- Permanent resident - EC (permanent residence)
- Permanent residence - family member (permanent residence)
- Stay permit (temporary fixed-term stay)

Stay permits are required for a particular purpose (e.g. employment).

Temporary permits are generally issued for a period of twelve months. There are some exceptions, for example, as a key employee or a family member of a key employee a temporary residence permit for 18 months may be issued. Temporary permits are renewable.

The application must be made with the Austrian representation authority abroad (embassy, consulate).

Conditions for the granting of residence permits:

- Sufficient funds to cover the costs of living
- Health insurance
- Accommodation
- Employment

There is an annual quota system.

Residence of EEA and Swiss Citizens

EEA or Swiss citizens enjoy visa-free entry and have the right of residence for a period of three months. When they stay longer than three months they must apply within four months after arriving in Austria for documentation confirming their right of legal residency.

Work in Austria

Non-EU citizens, and currently also citizens of Bulgaria and Romania need to be employed in Austria a residence permit which does not exclude employment; additionally approval from the Austrian Labour Market Administration (AMS) is required.

Exceptions may be granted for example for key employees, workers in agriculture and tourism.

There are the following types of permits:

- **Employment Permit (Beschäftigungsbewilligung)**
Employment permit is usually granted for one year and is linked to a request from an employer.
- **Work Permit (Arbeitserlaubnis)**
Work Permit is not linked to any particular employer and allows working in the federal state of Austria for which the permit was issued. Work permit is valid for two years and may be renewed for two years.
- **Certificate of Exemption (Befreiungsschein)**
Certificate of Exemption is not linked to any particular employer and entitles employee to work in every federal state of Austria. The exemption certificate is valid for five years and renewable.

Publisher: STANROS Steuerberatung e.U. | www.stanros.at

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