

# Living and Working in Austria





**GES** stands for **Global Employer Services** – our Competence Center for companies and employees that deal with assignments abroad.

We are pleased to enclose our brochure with an overview of the services we offer relating to the assignment of employees abroad. We believe that professional support for the assignment of personnel abroad greatly improves efficiency.

The following explanations contain valuable expert information on the most important issues relating to taxation and social security for expatriates. We are also enclosing our Quick Facts that present recent information and figures for the respective calendar year in a concise format. We look forward to hearing from you and to working together.

Your Global Employer Service Team  
of Deloitte Austria

Gerhard Exel  
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# Our Services

## **Planning and Optimizing.**

The terms agreed in a contract for an assignment abroad may determine, for example, the social security law applicable to an expatriate during an assignment or if the issue of creating a permanent establishment may be regarded as negligible. Our consulting services are an opportunity for defining the ideal tax package for an employee that takes advantage of Austrian and foreign regulations such as those relating to deductible expenses for the upkeep of two households or the tax-exemption for moving costs. Clarifying employers' obligations (e.g. payroll deductions) lowers risk, while careful planning of assignment costs including any payroll-related ones increase savings. Take advantage of these options.

## **Compliance.**

One of our core competences is the elimination of risks by performing typical compliance tasks (e.g. tax returns, communication with authorities, orientation meetings for employees). Our aim is to give clients the comfort of knowing that all legal requirements have been met while taking advantage of any cost-saving potential. At the orientation meetings with employees, for example, they learn about the possible effect of keeping or giving up a (home) residence and the cooperation that Deloitte needs to prepare tax returns.

## **Coordination.**

Deloitte also takes care of all coordination tasks for any services offered in the country or abroad. Having one main contact person at Deloitte can save time, helps to avoid redundant work and thus ensures uniform quality and communication flows.

## **Web-Technologies.**

Careful planning makes it possible to effectively manage cross-border workflows and to guarantee the simple and secure exchange of data.

## **"Feel-good packages for expatriates".**

Selected services, optimized processes and our extensive experience translate into reliability and security for assignments abroad. This ensures that expatriates are able to dedicate their attention to their duties.

## **Broad Range of Consulting Services.**

Additionally, Deloitte offers support, help and solutions for a wide range of tax, legal and organizational problems. The scope of services include(s) the preparation of foreign assignment guidelines, assessment of employee stock option schemes, selection of employees (e.g. assessment centers) carried out by our department for human capital advisory and payroll health checks by our department for client payroll accounting. Recognized experts with extensive experience in their respective fields are employed to assure high-quality consulting services.



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# 1. Income tax

If an expatriate comes to Austria, a check must be conducted of whether – and if it is, to what extent – income earned in Austria is taxable as well as how to best deal with the tax situation.

Austrian tax law distinguishes between unlimited and limited tax liability. If a person is subject to taxation in Austria and this person's income is subject to taxation in another country as well, lead to mean double taxation. To avoid double taxation, Austria has entered into Double Taxation Treaties with about 80 countries. If Austria does not have a Double Taxation Treaty with a country, then double taxation can usually be avoided by special national measures.

## 1.1. Taxation of persons subject to unlimited tax liability in Austria

### Who is subject to unlimited tax liability in Austria?

Unlimited tax liability in Austria applies to persons who possess a place of abode in Austria under conditions that let assume that the said place of abode will be retained and used. It also applies if a person spends more than six months without interruption in Austria, i.e., if such person has his or her habitual place of residence in Austria.

Upon application, citizens of member states of the European Union may also be treated as subject to unlimited tax liability if of at least 90% their income is subject to Austrian income tax or if their other income does not exceed a certain amount.

### Individual taxation

The income of spouses and children are assessed and taxed separately.

### Taxable income

Persons subject to unlimited tax liability are subject to income tax liability for their worldwide income.

There are seven types of taxable income:

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

The total amount of taxable income is computed by adding the individual types of income (income after deduction of business expenses and income-related expenses) and then subtracting special expenses and extraordinary burdens.

### Form of collection

The assessment of the income tax (base) is generally computed on the income tax return submitted. A special form of income tax collection in the case of income from dependent employment is the withholding of taxes on wages (wage tax "LSt").

Taxes on Austrian dividends and on interest from cash deposits with Austrian credit institutions are generally collected in the form of withholding taxes retained at source (capital gains tax "KESt"). Capital gains are subject to final taxation and need not be declared in the income tax return.



### **Income-related expenses**

An employee incurs income-related expenses in the form of expenses or expenditures that are due to one's occupation. They are therefore directly connected to the work performed by the employee. These expenses include, for example, the costs of maintaining two households if the requirements are met, the costs of home leaves, costs of work-related travel and mandatory (foreign) social security contributions.

### **Special expenses**

Special expenses are listed exhaustively in the law and are deducted – partly depending on the amount of income – from the total income. These expenses are not related to earnings activities, but are rather part of private living costs.

Examples of special expenses are:

- Insurance premiums for life insurance, accident or supplementary health insurance, insurance premiums for supplementary pension insurance
- Expenses for housing and refurbishing expenses
- Expenses for purchasing profit-sharing certificates and for the initial purchase of new shares
- Annuities and regular burdens due to special obligations
- Contributions to recognized confessional and religious organizations
- Costs of tax advisory services
- Donations to certain tacking and research institutions, as well as to umbrella organizations promoting handicapped sports
- Donations to humanitarian institutions (charitable organizations, development aid or catastrophe aid organizations)

### **Extraordinary burdens**

The deduction of expenses as extraordinary burdens is possible under the following conditions:

- The expenses must constitute a final burden on the taxpayer thus reducing assets.
- The burden must be extraordinary, i.e., the taxpayer must incur greater expenses than most other taxpayers with similar income levels and family status.
- The extraordinary burden must be inevitable. The condition of being inevitable is recognized if the taxpayer is, in fact, not able to avoid the burden for actual, legal or moral reasons.
- The expenses must considerably burden the economic viability of the taxpayer. This shall be deemed the case if the expenses exceed a certain percentage of income (= reasonable additional burden).
- These expenses may not be expenses for business operations, income-related expenses or special expenses.

Examples for the deduction of exceptional burdens are costs of illness, higher expenses in connection with handicaps, remedy of damages caused by natural disasters and – for expatriates very often of interest – the education costs for children attending schools abroad.

Since 2009 costs for child care up to a certain amount per child / per year (until the end of the calendar year the child completes the age of ten) can be considered as extraordinary burdens.



### **Special conditions for expatriates**

Up to 35% of the taxable income (from dependent employment) of expatriates may be paid out tax-free. The requirements for this to apply are: the employer must reimburse certain expenses, the employee must not have lived in Austria for the past 10 years, the employee has been assigned by a foreign employer to Austria to work at a group company, and the assignment is not planned for a duration exceeding five years. Furthermore, the foreign family place of residence must be retained for the duration of the assignment.

The following expenses – related to the assignment – may be deducted directly from the taxable income under the conditions mentioned above and within the prescribed limits – before applying the wage tax rates:

- Costs of moving
- Costs of maintaining two households
- Costs of education of children
- Home leaves

If the special rules for expatriates are not applicable, the taxpayer may still enjoy tax reliefs. It is possible to reduce the income tax burden through filing an income tax return if proof of the exceptional burden due to the employment is presented.

### **Income tax rates and tax credits**

The respective applicable income tax rate is applied to the total amount of taxable income arrived according to the criteria above. Austrian income tax rates are progressive.

The rules for the taxation rates grant tax deductions to certain groups of persons, i.e., tax reliefs. If the respective requirements are met, the following tax deductions apply:

- Tax credit for sole income earners
- Tax credit for single parents
- Tax credit for support payments
- Tax credit for travel expenses
- Tax credit for employees
- Tax credit for cross-border commuters
- Tax credit for old age pensioners

The so-called “credit for dependent children” is not deducted but is paid out – upon request – together with the family allowance by the Tax Office.

Since 2009 a children-related tax exemption can be claimed in the tax return in case certain conditions are met.

## **1.2. Taxation of persons subject to limited tax liability in Austria**

### **Which types of income are subject to limited tax liability?**

Tax liability applies to the so-called domestic income. Liability does not depend on home residence of a person but follows the territorial principle. The focus is on the (domestic) income of a person subject to limited tax liability; personal circumstances are secondary.

### **Possibility of deductions, income tax rates and tax credits**

There are fewer deductions and reliefs applicable to income from dependent employment than in the case of persons subject to unlimited tax liability. However proven income-related costs and specific tax deductions may be claimed. Special expenses may reduce the taxation base under certain conditions. Extraordinary burdens are not considered.

In order to calculate the income tax a certain amount determined in the income tax act is added to the taxable income.

## **1.3. Treaties to avoid double taxation**

### **How does the situation of double taxation occur?**

- A taxpayer is subject to tax liability for his or her worldwide income in one country (country of residence). This person earns income in another country (source country) for which the source country also claims taxation rights.
- The taxpayer maintains places of residence in two (or more) states. Due to these circumstances, both states simultaneously claim the right to tax the worldwide income of such person.

Double taxation treaties are therefore only of relevance in the case of a taxation conflict between two states who are party to such double taxation treaties.

Double taxation treaties help to clarify the following cases:

- Which state has the right to tax worldwide income?
- On which incomes can another state legitimately claim taxes?
- Which methods can be used to avoid double taxation?

#### 1.4. Tax Protection/Tax Equalization/Hypotax Agreements

To avoid insecurity for employees regarding due taxes or expected to fall due during his or her assignment, entering into agreements like the "Tax Protection Agreement" or "Tax Equalization Agreement" are common practice.

The aim is to take measures to enable the employee to concentrate on his or her acted task. Dealing with foreign taxation systems and the interpretation of the respective applicable double taxation agreement is time consuming. Often, the status of an employee should not be worse or better than that of colleagues who continue to work in the home-country.

##### **Tax Protection**

##### **(= compensation of additional taxes)**

This type of agreement states that an employee will be compensated for foreign taxes by the employer, if the taxes exceed the hypothetical domestic taxes. An employee would profit from lower foreign (effective) taxes.

##### **Tax Equalization**

##### **(= general tax equalization)**

In this case, a parallel tax calculation is made for the employee according to the taxation rules of the home state. The calculated hypothetical tax burden is the burden of the employee. An employer would profit from lower foreign (effective) taxes.

##### **Hypotax**

As this is not a real tax for which there are statutory rules of calculation and which are fixed by official notices, clear rules are very important for the hypothetical (tax) calculation. A clear definition is important that states which income is included (e.g. private income, spouse income, losses) and to which degree of preciseness and quality the calculation of the hypotax should be done (e.g. consideration of income-related expenses, special expenses).



## 2. Social Security

National and international law are based on the territorial principle – gainfully employed persons should be insured at the respective place of work. This means that in Austria, all gainfully employed persons are generally subject to pay social security contributions – national law applies.

This is in contrast to the so-called worldwide principle – if a covered person briefly travels abroad for his or her employer, the domestic insurance coverage should not be interrupted.

The application of both principles can result in double or multiple social security obligations. Coordination is currently based on the following regimes:

- EU Regulations – applicable to EU/EEA states and Switzerland
- Bilateral agreements with third countries

A check follows the sequence below:

- Is the assignment to an EEA country (including Switzerland)?
- Is the assignment to a state with which Austria has an agreement on social insurance?
- Is the assignment to another state?

### 2.1. The Austrian Social Security System

Austria has long-standing and extensive security legislation. The system defines mandatory health, accident, pension and unemployment insurance.

#### Health Insurance

Medical treatment, hospital care, medication, dental treatment, etc. are usually covered by the public health insurance organizations. Allowances in connection with childbirth are granted to insured persons under certain conditions. The insured person must pay cost-coverage charges for the e-card, prescriptions, vaccinations, etc. Dependents of insured persons – spouses and children – can be insured free of charge together with the insured person under certain conditions.

#### e-card

The front side of the e-card authorizes the insured person to use the services of doctors and medical institutions under contract by the statutory health insurance organizations within the country. Upon presentation of the e-card to the doctor, medical services, if covered by the insurance, may be used without requiring upfront payment of the costs.

#### Accident insurance

The contributions are used for insurance coverage for accidents (work accidents and work-related illness). Benefits in the form of pensions are paid out in the case of disability or handicaps.

#### Old age pension

The social security contributions are used to finance the old-age pensions. If covered persons can furnish proof of a specified number of insurance months upon retirement age, pension payments to them or their eligible dependents commence.

#### Unemployment insurance

The contributions are used for unemployment benefits. Unemployment benefits are paid if – in addition to other requirements – the insured person can prove having paid into the unemployment insurance scheme for a certain number of months.

#### Payment of contributions

In the case of an employment, the costs of the mandatory social security are shared between the employee and the employer. The employer and the employee contributions are paid monthly by the employer.

### 2.2. EU Regulations

The provisions of the European Convention on Social Security regulates in which country mandatory social insurance applies for the EEA area and which services can be used as well as the mutual recognition of claims and insured periods. The main principle of the Convention is the principle of single coverage, i.e., an employee is generally insured only once according to the law of one member state.

The “new” regulation (EC) 883/2004 is in force from May 01, 2010. Please note that this regulation is so far not applicable for Switzerland, Norway, Iceland and Liechtenstein. For these countries the “old” regulation (EEC) 1408/71 is still applicable.

Exceptions to the principle of territoriality permit an employee to remain within his or her existing security system in many cases if they are sent abroad for limited periods to one or several EU/EEA states or Switzerland.

#### **EHIC – European Health Insurance Card**

The e-card (back = European Health Insurance Card) serves as entitlement for all services (medical treatment, hospital care, medication) that may become medically essential during a stay in the territory of a member state, taking into account the type of services and the probable duration of the stay.

### **2.3. Bilateral Social Insurance Agreements**

Austria has agreements with several third countries in the field of social security. These agreements usually accord that claims and insurance periods for which contributions have been paid in one country are accepted in another country that is party to the agreement. Some agreements cover other risks as well such as illness, accidents, unemployment and family benefits.

Many bilateral agreements also state exceptions that deviate from the principle of territoriality. In the case of an assignment abroad, it is possible to continue to be insured in the home country for a certain number of years.



# 3. Work Permits and Residence Permits

## 3.1. Restricted work permit, work permit and unrestricted work permit

Non-EU citizens and at present citizens from the so-called "New EU countries" (except for Malta and Cyprus) need a permit to work in Austria that has to be issued by the Labour Market Administration. A number of conditions must be met and a system of quotas applies.

Examples for exceptions granted are:

- Managers
- Key employees
- Employees in agriculture
- Employees in tourism

The restricted work permit is granted for one year. The employment is tied to the employer submitting the application.

A work permit is granted for two years if certain proven periods are complied with; work is permitted only within a certain region.

An unrestricted work permit is valid for five years. Employment is permitted throughout all of Austria and the employee is not tied to any specific employer.

These permits may be prolonged upon application.

## 3.2. Residence permit or permanent residence permit

To reside in Austria, citizens of other countries need a visa for short stays or a special permit if the stay is to last longer. The regulations applicable to the diverse states vary. Citizens of EEA countries and Switzerland are exempt from these regulations.

Citizens who need a visa for shorter stays (usually 3 months), must apply for a visa with a maximum period of validity of up to six months with an Austrian consulate abroad.

Any stays for longer periods require an application for a residence permit or a permanent residence permit. The application must be made with an Austrian consulate abroad (in special cases the application may be made in the country).

A processing period of up to three months is usually required.

The conditions for approval of an application include:

- Proof of sufficient funds to cover the costs of living
- Proof of employment in the country
- Proof of suitable housing in Austria
- Proof of insurance protection for illness and accidents

Furthermore, there is a system of annual quotas.



## 4. About Austria



**Population: 8 million**  
**Total area: 83,871 km<sup>2</sup>**  
**Language: German**  
**Currency: EUR**

Austria has nine federal states. The capital is Vienna. The country has been a member of the United Nations since 1955 and of the European Union since 1995.

Austria is a federal, parliamentary democratic republic. The head of state is the president who is elected for a term of six years directly by the people. The head of the government is the Chancellor. The Austrian parliament consists of the National Assembly (Nationalrat) and the Federal Council (Bundesrat).

### Holidays:

New Year's Day 1st January  
Epiphany 6th January  
Easter Monday (Easter Sunday + 1 day)  
Public holiday (International Workers' Day) 1st May  
Ascension Day (Easter Sunday + 39 days)  
Whit Monday (Easter Sunday + 50 days)  
Corpus Christi (Easter Sunday + 60 days)  
Assumption 15th August  
National holiday 26th October  
All Saints' Day 1st November  
Immaculate Conception 8th December  
Christmas Day 25th December  
St. Stephen's Day 26th December

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