



Austria: Distributive Effects of Social Insurance Contributions, Income Tax and Monetary Social Benefits on the Household Level

by Michael Fuchs and Christine Lietz

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¹Incomes from this micro household data relate to 2003. By using policy regulations for 2005 and special uprating factors within the tax/benefit model, analyses were carried out for the year 2005.

The following results are part of a completed research project funded by the “Jubiläumsfonds” of the Austrian National Bank (project no. 11294). For the analyses, we used the European Tax/Benefit Micro-simulation Model EUROMOD adapted on the basis of the most recently available micro household data for Austria at the time of research (EU-SILC 2004 provided by Statistics Austria)¹. With this model it is possible to analyse distributive effects on the level of households, which is the decisive level for the income distribution. Compared with that, for instance statistics on income taxes only inform about the distribution on the individual level.

Results: considerable redistribution from the top to the bottom income groups

In a European comparison Austria shows above-average levels of both taxation and social expenditures. When focussing on social insurance contributions and income taxes on the taxation side, it appears that in particular social insurance contributions with 14.4% of the Gross Domestic Product (GDP)² are relatively high whereas taxes on incomes and profits with 12.0% of GDP³ are in the range of the European average. Among social expenditures, monetary social benefits dominate and amount to about 20% of GDP⁴ meaning that they are also above-average in a European comparison (2005 values).

²OECD-Europe 2004: 10.9%.

³OECD-Europe 2004: 12.5%.

⁴EU-25 2003: 18.1%.

⁵The Gini-Coefficient is a measure of the (in)equality of the income distribution and takes values between 0 and 1 (0: absolutely equal income distribution; 1: one person/household disposes of all available income).

The analyses show that the high levels of taxation and social expenditures not only result in a redistribution from the left- into the right-hand pocket of residents but also that the vertical redistribution from the top to the bottom income groups through social insurance contributions, income tax and monetary social benefits in sum reaches a sizeable dimension. Measured on the basis of weighted household income, the Gini-Coefficient⁵ for gross market income amounts to 0.34 in comparison to 0.24 for the disposable net income, meaning that they are essentially more equally distributed (Table 1). Based on simulations, in 2005 the bottom quintile (the lowest 20%) of persons ranked according to their weighted net household income paid 6% of all social insurance contributions and 1% of total income tax and profited from 32% of all monetary social benefits. On the other hand, the upper quintile (the highest 20%) paid 38% of all social insurance contributions and 61% of total income tax, whereas 12% of all monetary social benefits were to the benefit of this quintile. The bottom quintile thus receives a considerably higher share of transfers than what would correspond to its payment of social insurance contributions and income tax, and in the top quintile this relation is inverse (Table 2).

Between 1998 and 2003, because of the “Family Package 1999/2000” (increase of family allowance and child tax credit) and the introduction of the universal childcare benefit in 2002 (which replaced the former allowance for parental leave), the redistributive effect of monetary social benefits has been increased. Similarly, between 2003 and 2005, the tax reform 2004/5 led to a slightly stronger redistributive impact of income taxes. With regard to social insurance contributions, during the period 1998 to 2005 there were practically no changes in their redistributive effect.

Conclusions

In sum, the size of the redistributive impact from high to low income classes by social insurance contributions, income taxes and monetary social transfers is considerable. Cash benefits have the highest redistributive impact of the three instruments under investigation, although the redistributive impact of income taxes is also substantial. Social security contributions – owing to the upper contribution limit – even have a slightly regressive impact.

However, there is still a comparatively high poverty rate among vulnerable groups like single elderly, single parents and couples with three or more children. This means that it is still necessary to put combating poverty and social exclusion at the centre of political efforts: The effect of the tax reform 2004/5 has already been more than compensated by the fiscal drag. There is a high non-take-up of monetary social assistance (read more in one of the next policy briefs), which is at least partly due to the problematic design and implementation of the programme (a new basic security benefit is scheduled for 2009). Family benefits are not ‘indexed’, that is, they do not rise with inflation or income growth and consequently, fall proportionally short of other incomes⁶. Finally, in recent months poor people were most affected by the relatively high inflation, which is even higher for goods of daily living, which play an important role in relation to their total consumption.

⁶In the case of single parents and couples with three or more children state transfers, in particular family benefits, make up for a relatively high share of their total income. However, this has to be put into context: in Austria cash benefits for families were significantly increased until 2003 and are quite generous in an international comparison.

Further Reading

Fuchs M., Lietz Ch., Effects of Changes in Tax/Benefit Policies in Austria 2003-2005, in: Czech Sociological Review 3/07, 611-636.

Fuchs M., Lietz Ch., Effects of Changes in Tax/Benefit Policies in Austria 1998-2005, EUROMOD Working Paper No. 3/07.

Table 1
Distributive effects of social insurance (SI) contributions, income tax and monetary social benefits (household level), 2005

	Gini-Coefficient
Gross market income	0.34
Gross market income minus SI-Contributions	0.34
Gross market income minus SI-Contributions minus income tax	0.29
Gross market income minus SI-Contributions minus income tax plus monetary social benefits (=disposable net household income)	0.24

Table 2
Share of paid social insurance contributions and income tax as well as received monetary social benefits per income-quintile (household level), 2005

Persons ranked by weighted household net income	Social insurance contributions	Income tax	Monetary social benefits
bottom quintile (20%)	6%	1%	32%
Quintile 2	13%	6%	22%
Quintile 3	18%	12%	19%
Quintile 4	25%	20%	15%
upper quintile (20%)	38%	61%	12%
Sum	100%	100%	100%

Notes on the Tables

Social insurance contributions exclude employer's contributions that are not relevant for the household income. The analysis is based on the assumption that there is 100% take-up of monetary social benefits (under actual take-up rates the Gini-Coefficient of disposable net household income is 0.25; only in Sweden, Denmark, Bulgaria and Slovenia income is more equally distributed). With the exception of the pension top-up, pensions are not counted as monetary social benefits but rather as market income.

The Gini coefficients in Table 1 as well as the income quintiles in Table 2 relate to equivalised (weighted) household income. Equivalisation means that returns of scale in larger households have been regarded. For example, a two-person household as a rule has less than double the costs for heating of a single-person household. Therefore, the number of persons in a household is weighted: first adult person: 1; every further adult person: 0.5; children below 14 years of age: 0.3. Hence, a household with two adults and one child with a monthly household income of € 2.000 after division by the person weights would have an equivalent income of € 1.111 (=2.000/1,8).



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