

Stanislav Matusevski

### **Austrian private business sector compared to other EU countries.**

Regulatory Climate, capital requirements, foreign trade policies, and low taxes are the factors determining a country's business environment. From an outside perspective, understanding the functioning of a market is crucial in order to set up business relationships. Throughout the research I will show that it is easier to maintain a private business in Austria compared to other EU countries focusing on the societal and cultural differences as well as market readiness using parameters such as legislation, tax and insurance policies.

### **Introduction**

Austria, a considerably small country in central Europe, consisting of nearly 8 million people, offers export opportunities and an investment market for international companies. Due to the large German market, which is ten times bigger than that of Austria, it tends to be overlooked by outside investors. Despite this, Austrian government has sought to increase attractiveness of Austria through economic reforms and by playing up Austria's historical and economical ties to the surrounding region.

Austria has a well-established industrial base, a fully modern banking, transportation, services, and commercial facilities. In recent years, due to the annexation of Eastern European countries to the EU, Austria is facing growing competition from its Eastern neighbors. Nonetheless, the Austrian economy has profited enormously from its ties to the expanding markets in Central and Eastern Europe.

## **Austrian Business Culture**

Business culture and etiquette in Austria are similar to the western world. Generally, the dress code is suit-and-tie, and the visitor will be offered something to drink during the meeting (usually coffee, juice or mineral water) - this offer should be graciously accepted.

When introducing yourself, you are expected to shake hands and state your full name. Austrians do not use their first names in their professional life. The privilege of calling someone by their first name is granted only to close friends, relatives, and colleagues who have known each other for a long period of time. To address your business partner with his first name is not appropriate until the topic of first names is expressly mentioned and agreed upon. This is often done over a glass of wine. This may take a week or a year or in many cases may never happen.

Austrians are very formal in their nature. Not surprisingly, Austrians made a very widespread use of titles. Be they in the form of a university degree, a position in a firm or government, titles are always used. Titles are mentioned on business cards and correspondence, and it is expected that you address the person with his or her title both in written and oral communications

## **Establishing business**

To establish a business in Austria would mean going through the beurocratic maze. Austrian government is aware of that, and showed efforts to reduce the paperwork involved. While there is no significant change in this area, some regions have set up one-stop shops for entrepreneurs, which help to eliminate some red tape in the process of setting up business.

Most business activities are regulated and require you apply separately for a business license and for registration in the commercial registry. On top of that, most of the time when you want to operate a business, an evidence of proficiency must be presented. You have to take an examination and pass it, or present evidence of prior experience in the field. For those businesses that do not require proof of proficiency, the business license is granted automatically upon registration of the business.

### **Multinationals Select Austria**

Austria is becoming a place for the headquarters of many international companies. World known companies, such as Eli Lilly, Hewlett-Packard, Siemens, BASF, Henkel, Boehringer Ingelheim, Beiersdorf have expressed confidence in Austria as a business location targeting the CEE region. According to the Boston Consulting Group, approximately 300 multinationals have established their Eastern European headquarters in Austria, including 28 Fortune 500 firms. All in all, 1000 international firms coordinate their Eastern Europe business operations from Austria. Same consulting agency has conducted a research in an effort to determine success factors that make Austria such an attractive place for foreign companies.

First of all, position of Austria in Europe: It's proximity to heavily targeted Eastern European markets cannot be matched by any other country. Four Eastern nations are direct neighbors, and Warsaw, Prague, and Budapest are at most an hour away by plane. Great telecommunications and logistical infrastructures enable the fastest possible movement of goods and information. Austria's banks and management consultants traditionally claim far-reaching contacts and competencies in the Eastern European business community.

Among other factors, productivity must be mentioned. Austria is among the most productive nations in the world. Expertise in Eastern European languages is widely available. Austria is stable: The rarity of strikes and the high level of personal security and legal certainty ensure a stable environment for secure business activities in uncertain markets. Austria offers attractive tax provisions for holding companies. And finally, quality of life: Vienna is among the world's most popular business destinations for managers. Helmut Rankl has best described Austrian success in the European Union:

Austria's success factors include not only highly qualified workers but also high levels of morale and productivity. EU enlargement and the nation's traditional business ties to the new member nations provide further reasons for the choice of Austria as a production site.

### **Distribution and Sales Channels**

Austria has a well-established distribution and sales channels, including direct marketing methods, catalog and e-commerce channels, traditional wholesale distribution and retailing, franchising, joint ventures and other licensing agreements.

Austria consists of five marketing or distribution areas. Vienna and vicinity: The most populous part of Austria, business and government center. Pre-alpine provinces: Styria, Lower Austria, and Upper Austria. Most industrial and agricultural production takes place here. Alpine provinces: Carinthia, Tyrol, and Salzburg. This area relies heavily on tourism. Vorarlberg: Nearby the Swiss border, this province has a small, but wealthy population. Burgenland: The less developed part of the country, lying in the eastern flatlands of Austria.

Many Austrian firms distribute to the neighboring markets of Central and Eastern Europe at the wholesale level, and some Austrian retail chains are beginning to build networks in those countries as well. In the same way, German and international retail giants have been building a presence in Austria over the last several years.

### **Establishing business: branch or subsidiary?**

When establishing a business in Austria, one must decide on the structure of the business. Austrian Tax and Corporate Law offer various ways of setting up a business. A branch office and a Legal Subsidiary are two most common legal structures chosen by foreign investors. The following comparison is provided to help understand differences between two legal structures, and help match it to the individual needs.

A limited liability company (GmbH) is a corporate entity under Austrian law. And under corporate entity status it carries independent status irrespective of whether it is controlled by foreign shareholders or not. There are some restrictions though. The minimum share capital must amount € 35,000. Half of this stated amount has to be paid in cash. The process of establishing a subsidiary in the form of a limited liability company is considered to be relatively quick, approximately 3-4 weeks. The costs are low, 10 percent of the shared capital.

Unlike subsidiary, a branch is not a legal entity, but a local establishment for a foreign enterprise, which does not have any legal existence separate from its parent company. Like a corporation a new branch of a non resident foreign company has to be registered in the commercial register. The registration of a branch takes slightly longer than setting up a “GmbH”. Establishing a branch will require slightly higher investments than forming a subsidiary. This is due to the fact that branches are established a lot less frequently than subsidiaries. Austrian

branches have to file the annual accounts of its parent enterprise with the Austrian court. The annual accounts have to be translated in to German language. The managing director of a branch must be resident in Austria except the head office is resident in the EU. The managing director of a subsidiary has not necessarily to be an Austrian resident.

There is no difference between a branch office and a subsidiary when doing business with third parties. Both are considered as taxable persons and entitled for VAT recovery. Though, sales between a subsidiary and her foreign mother company may be levied with Austrian VAT, sales between the branch and the head office are never subject to VAT.

Subsidiaries are subject to unlimited corporation tax, which means that profits are taxed at a rate of 25%. A lump sum of € 1,750, minimum corporation tax, has to be paid even in a loss situation. This payment is treated as a prepayment and will be deducted from future tax burdens.

A branch is subject to limited tax liability. This means that only income attributable to the Austrian office is taxable with 25%. A lump sum of € 1,750, minimum corporation tax, has to be paid even in a loss situation. This payment is treated as a prepayment and will be deducted from future tax burdens. Transfers of profit from the branch to the head office are not subject to withholding tax. Interest and royalty payments from the branch to the head office are none deductible items for Austrian tax reasons. There are some limitations on the loss carry forward for branches: Only losses which are caused by the Austrian branch office can be carried forward. This “Austrian branch” loss has to be compensated with the total foreign profit of the head office. The remaining loss may be carried forward and compensated with future Austrian branch profits.

Most of the investors decide to set up a “GmbH” to run their business in Austria, therefore a branch office is slightly more expensive to set up and run because it is not the “usual” way to do business in Austria. Besides a branch must file the annual accounts of the foreign enterprise with the Austrian court in German language which will produce additional costs.

### **Pricing**

High cost of labor, small size of the market, extensive agricultural subsidies, and high taxes result in high prices in Austria. When compared to European Union, Austrian prices are among highest. Mandatory health insurance and pension fund contributions for employees add to the costs of the labor. The value-added tax (VAT), which is 20 percent, is charged at point of sale. Other types of taxes are levied on fuel, alcohol, cigarettes, and other items. When pricing products for sale in Austria, these costs should be taken into account.

### **Tax**

In Austria only the corporation tax and no other taxes on the profit exist (e.g. a trade tax). Furthermore Austria has a modern group taxation system which allows to clear profit and loss of the group members. Even foreign entities can be part of this system. Individuals who maintain their residence or habitual abode in Austria are subject to the Austrian income tax. They are liable to an unlimited tax liability and have to declare all domestic and foreign income. Otherwise individuals are subject to limited tax liability for Austrian source income.

Income tax concerns the yearly income of an individual. Yearly income is the income an individual earns within a calendar year from seven types of income stated in the income tax act. For employees the Austrian income tax act has a special tax relief. As the yearly income of an

employee is divided in 14 portions and paid in 12 regular payments plus a vacation bonus in May and a Christmas bonus in November, the vacation bonus and the Christmas bonus are taxed with only 6%. Expatriates coming to Austria enjoy a special tax regime if they meet the conditions of the Austrian Expatriate regulations. These Expatriate regulations offer tax relief for housing, home leaves and children's provisions.

The Austrian corporate tax rate is set uniformly at 25% of the taxable income or, in the case of limited liability to tax at 25% of the taxable income earned within Austria. The corporation tax concerns the limited liability company (GmbH), the stock corporation (AG) and branches of foreign companies.

The income tax rates for an individual (married or unmarried with or without children) are: none for those who earn up to 10,000. Persons who earn from 10,000 to 25,000 pay 38.33% in taxes. Those who earn from 25,000 to 51,000 must leave 43.60%. 50% in taxes are paid by those who earn more than 51,000.

The income tax payable by individuals on dividend distributions by Austrian companies is reduced to 25% of the dividend gross amount.

A payroll withholding tax is imposed on an individual's employment income. If the individual has other types of income, he or she is therefore required to file an income tax return. The employee's annual salary is divided into fourteen parts from which the tax is withheld at source. Christmas and vacation salaries are taxed at the favourable rate of 6%.

All individuals having their place of abode or their normal residence in Austria, or who stay in the Austrian territory for more than six months, are fully tax liable. All others are only partly liable.



Individuals having neither their place of abode nor their normal residence in Austria are taxable only on the Austrian source income. Corporations having neither their site nor management in Austria are also taxable only on Austrian source income. “Other operating business expenses” and “allowable expenses” that are economically related to Austrian source income may be deducted. The same tax rates apply to non-residents as to residents.

An Austrian customer must pay the net sales plus 20% value added tax, which is listed separately on the supplier’s invoice. The customer, in effect, pays the supplier’s tax burden. The amount is thereafter deductible from the customer’s own value added tax burden. Upon transferring these purchased goods to the next customer, the customer (now seller) lists 20% value added tax for that transaction on the invoice presented to the customer, and the process is repeated. The ultimate retail consumer absorbs the final burden. Among others, exports and certain services for foreign customers are exempt from value added tax. Import transactions from non-EC countries are subject to an import turnover tax at the same rates as turnover tax. Value added tax is reduced to 10% on certain products. This applies to basic foods and printed material, for example.

The tax varies from 2 to 60% depending upon the value of the inheritance or the gift and upon the relationship of the beneficiary to the deceased or the donor. An exemption of between € 110 and € 9,500 is provided, depending upon the degree of the relationship.

Austria has signed a treaty to avoid double taxation in the case of inheritance with several other countries.

## **Trade Barriers**

When Austria became a member of the EU on January 1, 1995, about two-thirds of existing tariffs were lowered or eliminated, while about one-third was raised. Over half of all products from non-EU countries enter without any tariff. The average EU tariff level for manufactured goods is relatively low at 3.5%, but some goods are taxed at a higher rate. For example, passenger cars and office machines have duties of about 10%. For certain kinds of shoes and special motor vehicles, the rate may be up to 18%.

Some goods are subject to tariff-rate quotas, whereby after a certain quantity of the good has entered the EU at a low or zero duty rate, the rate is increased. These are primarily goods determined to be useful to the European economy only in certain quantities, generally raw materials or parts. The most important tariff quotas for manufactured goods are on chemicals and electronics. Both are administered on a first-come, first-served licensing basis. The Austrian importer can get information about the extent to which the quota has been filled through the Customs Office Suben, which has an on-line connection to Brussels, as well as through the Main Customs Offices of the Ministry of Finance.

## **Import License Requirements**

The European Union, and therefore Austria, requires import licenses for a number of products, first and foremost for agricultural produce and products. This holds for all originating countries. Special rules apply for imports of particular products and countries, such as shoes from China. European Union import quotas are managed through the granting of import licenses to qualified firms. In general, an Austrian importer must possess an export license from the supplier country, and then obtain permission to import from the Austrian authorities.

The import of war materiel requires a license and individual approval of each shipment. The licensing authority responsible for these products is the Austrian Ministry of the Interior.

### **Trade Law**

According to Austrian trade law, in order to be able to make a trade, you must have a license. Trade licenses are issued by the trade authority, be it district administration, or municipal authority.

A trade is considered to be one of commercial nature. Trades can be practiced independently, on a regular basis and for financial gains. If you practice an activity for your own account and at your own risk, this activity is considered independent. In contrast, if an activity takes longer time to carry out or it will be repeated, it is deemed regular.

Depending on the activity performed, different types of trade entitlements are issued. If you are performing a manual work activity, you will need a license in a licensed trade, manual work. For example, a person making automobile repair would need a motor-vehicle engineering license, if making furniture, a carpenter license would be required. Examples provided are simple, however, it might not be so easy to identify which license is needed. In these cases one must find out which trade entitlement is required. Some occupations are believed not to be trades. In this case you must apply to the Founder Service in your province, where you will receive a professional answer on whether your assumption is correct. It is important to do so, because as a trader, you have different rights and obligations. Doctors, notaries public, farmers are examples of occupations which are not governed by Commercial Code. There also exist “new independent” trades, such as physiotherapist, lecturers. Those are also precluded from the Commercial Code’s scope of applicability.

## **Qualifying certificate**

In order to obtain a qualifying certificate one must pass some classic tests, such as master's certificate examination, the qualifying examination. Attending vocational training schools, such as HTL, HAK, combined with practical work, may enable you to get a certificate. Qualifying certificates are valid for only one person, and you are not allowed to transfer it. To be able to get a qualifying certificate, you must meet some requirements. But, in case you do not meet the requirements, there are other ways to become independent. You must be 18 or older if you want to obtain a certificate. You must also be a citizen of the European Union or an EEA signatory state or other state with which an international treaty has been signed or you have a residence title which entitles you to practice the independent trade you desire.

You also must reside in Austria. Residence in Austria is not required if enforcement of administrative penalties is assured in the trade holder's home country by virtue of a treaty, or if your managing director under trade law is appointed who resides in Austria. Such a managing director need not be resident in Austria if he is a citizen of an EU member state or a signatory state of the EEA or if enforcement of administrative penalties is assured in the managing director's home country by virtue of a treaty; however, the managing director must be in a position to work in the business accordingly.

There are no grounds for disqualifying you e.g. convictions on grounds of fiscal law felonies, court convictions, rejection of an insolvency petition due to sufficient cost coverage.

## **Political Issues Affecting the Business Climate**

Austria has shaped its foreign policy on the basis of neutrality for 40 years. After EU accession in 1995, this concept was redefined with a focus on solidarity within the evolving

European security architecture. Austria joined the Partnership for Peace in 1995. There is an ongoing debate within the country about NATO membership as an option for the future.

Austrian leaders emphasize the unique role the country still plays as a link between West and East and in shaping the preconditions of EU enlargement. Austria is active in the United Nations and in UN peacekeeping efforts including SFOR and KFOR. Having taken over the chair in the Organization for Security and Cooperation in Europe (OSCE) for the year 2000, Austria plays a high profile role in peace initiatives for Chechnya and Kosovo. It attaches great importance to participation in the Organization for Economic Cooperation and Development (OECD) and other international economic organizations.

Vienna is the headquarters of important international organizations like the International Atomic Energy Agency (IAEA), the UN Industrial Development Organization (UNIDO), the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), the International Institute for Applied Systems Analysis (IIASA), the Organization for Petroleum Exporting Countries (OPEC), the Wassenaar Arrangement (WA), and a branch office of the European Patent Office (EPO).

### **The Civil Society**

The Austrian political-economic system is characterized by the co-operation of the so-called “Social Partners”. They comprise the Labor Unions, the Labor Chamber, the Economic Chamber and the Agriculture Chamber. These influential quasi-public chambers to which membership is mandatory for all occupational groups and businesses, try to resolve all social and economic conflicts that may arise before they result in more serious unrest. Thus, there have been virtually no strikes in Austria during the past 30 years. However, the Social Partnership has been criticized as being a rather undemocratic “shadow” government, particularly by the

Freedom Party. Due to the composition of the new government, the Social Partnership is undergoing its most serious crisis since it was established 50 years ago. Social and economic decision making is being gradually shifted away from the social partners to the government.

Politics sometimes intrudes on business decisions. Larger Austrian firms are often associated with one of the major political parties, and purchasing by government entities and state-owned companies was be highly political under previous governments. The new government says that one of its priorities is to reduce political influence in this field. Non-governmental organizations (NGO's) are becoming more and more influential in many political fields in Austria, ranging from the environment and consumer protection to human rights issues.

Austria maintains a constant exchange of business representatives, students, cultural groups and tourists with the countries of Central and Eastern Europe. The Austrian government and various Austrian organizations, including business and labor, provide assistance and training to support constructive changes in this region.

### **Political System**

Austria is a parliamentary democracy. The Chancellor is the Head of Government and the President is the Head of State. The President – who is elected every 6 years directly by the people – appoints the Chancellor who then selects his government. The Federal Assembly (Parliament) is composed of two houses – the National Council or the lower house, and the Federal Council or upper house. Virtually all legislative authority is concentrated in the National Council whose 183 members are elected according to a system of proportional representation and party affiliation, including a threshold of 4 percent for each party. Elections must be held every four years. The next elections are scheduled for the fall 2003. The National Council may dissolve itself before the end of four years by a simple majority vote, or the Federal President

may dissolve it on the recommendation of the Chancellor. The Federal Council consists of 64 members elected by the legislatures of the nine provinces. It is virtually restricted to reviewing legislation passed by the National Council.

The highest courts of Austria's independent judiciary are the Constitutional Court, which has jurisdiction over constitutional matters; the Administrative Court, which handles bureaucratic disputes; and the Supreme Court, for civil and criminal cases. Cases initiated in the Administrative and Supreme Courts can be appealed to the Constitutional Court. Justices of all three courts are appointed by the president for specific terms.

Austria is a federalist country in which the nine Laender (provinces) have a considerable share of political and administrative power, including welfare and environmental matters, and ownership of land. Although most authority, including police, still rests with the federal government, the provinces are responsible for the implementation of the majority of federal laws and the supervision of local administrations. The provinces are headed by governors elected by the provincial legislatures. They meet regularly in the informal governors' conference, which formulates recommendations for federal legislation concerning the provinces. Austria's EU accession has sparked off a debate on redistribution of legislative powers between the EU bodies, the federal government and the provinces.

### **Freedom of Establishment and Service**

You are free to establish business in every other EEA/EU member state according to the EEA Treaty. Freedom of service provides you with the option of conducting your business in other member states. Freedom of establishment means that any member of EEA/EU state is treated like an Austrian when trying to perform a trade. However, a qualifying certificate must be obtained which will comply with the Austrian trade law. In case when other EEA/EU citizen

does not have qualification according to Austrian trade law, yet possesses the credentials necessary for acknowledgement, the Federal Ministry of Labour and Commerce must acknowledge qualification by way of a ruling.

### **Business Premises Law**

For almost any type of business you would need to have business premises. Business premises are defined as a locally fixed installation serving a business activity. According to the Commercial Code, such business premises require license. This is not necessary if your business premises have no negative effect on the protective interests set out in the Commercial Code (as is the case with office-only operations, for example). Before building business premises you must obtain a legally effective ruling, which will authorize you to do so.

Commercial business premises include: workshops, retail outlets, restaurants, hotels, garages, parking areas. They may only be constructed or operated when authorized if, due to the use of machinery and equipment, their method of operation, configuration, etc., could jeopardize life and health, annoy the neighbors, impede traffic safety and flow, cause detriment to the quality of the waters or to specific public establishments (churches, schools, hospitals).

### **Business Insurance**

Any type of business bears its own risks. One should always research the insurance market, and buy insurance which suits one's individual needs. Letting someone sell you an insurance policy may not be the best alternative.

Before an insurance plan can be purchased, risks that company faces need to be identified. This is done by pinpointing and listing all the risks which could arise in your firm.



After identifying risks they must be assessed. Not all insurable risks should actually be insured. It depends on how you assess them. These can be disastrous risks, major risks, minor risks. Disaster risk is when loss is so great that it could mean closing down the company. Major risk are considered when the company will continue to exist in a case of claim, although its targeted objectives cannot be achieved. When the company's targeted objectives are jeopardized in a case of claim, it is considered standard risk. Minor risk is when the company's targeted objectives are not jeopardized; usually, only petty losses are involved in this case.

Once you have identified and assessed your firm's risks, consider the options available for avoiding them. Preventing risks might be one option. For example one may change manufacturing procedures, remove a hazardous product from your sales line, etc. Reducing risks is another option. Provide fire extinguishers, store goods outdoors, make external back-up copies of data, provide safety helmets are examples of risk reduction. Lastly, shifting risks the most effective way of risk management. Purchasing insurance is a way of shifting risks.

You can obtain insurance in a number of ways. Although full-time and part-time insurance company employees are the principal contacts, there are also independent insurance brokers, consultants and insurance agents. In general, they work together with several insurance companies, requesting different quotes and selecting the best one. Usually, insurance brokers' services are free, since they are paid commission fees by the insurance companies. A fee is payable for consultation only (and for taking out insurance with other persons or companies).

You should look at the various kinds of insurance available with greater or lesser scrutiny, depending on your company's type. Property insurance: These policies cover material losses connected with buildings, merchandise, installations, data carriers, and the like, including

in particular fire damage, burglary, theft, damage due to storms, tap water, and breakdowns of machinery, electrical appliances and computers. Financial loss insurance: These policies cover losses of revenue and additional costs incurred due to damage. Examples include policies covering business liability, legal protection and interruption of operations. Personal insurance: These policies cover persons who are a company's owner, shareholders and employees. You may also take out insurance from private companies apart from and/or in addition to the statutory compulsory social insurance plans.

### **Conclusion**

Austria is a small, well-developed country in the heart of Europe. As a modern country it shows favorable business environment conditions for companies from all over the world. But there are some characteristics that differentiate Austria from its neighbors from EU. First of all, it's proximity to many business centers in Europe such as Prague, Warsaw, and Budapest. It serves as a gateway to the Eastern Europe market and thanks to this very important attribute many multi-national companies establish their headquarters in Vienna. It's stable economy and favorable conditions, such as political conditions, tax, and regulatory climate make it a top choice when choosing a place in Europe where one may want to expand or establish business. Austria is a country with an auspicious past and a bright future. Perfectly located to take advantage of the development and enlargement of the EU, the country has the human capital and highly developed infrastructure needed to act as bridge between Western and Eastern Europe.

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