

COUNTRY FILE

AUSTRIA

January 2007

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## A NETWORK OF PROFESSIONALS FOR EURO- COMPETITIVE ENTERPRISES

Professionals of enterprise affairs, creators of competitiveness, experts establishing economic relations between Italy and Central Europe in the perspective of global development.

Pasut & Partner is a highly specialized company that for more than 20 years has provided guidance, assistance and support to Italian enterprises in their international expansion towards the Central European and Balkan countries, availing itself of the competence and experience of its 32 subsidiaries engaged in the place and the sectors crucial for economy and future development.

Pasut & Partner is cooperating with numerous governmental agencies, industrial associations and Italian and foreign chambers of commerce. The president of the group is Alessandro Pasut, a graduate in commercial studies an expert in comparative taxation and international company management.

## AUSTRIA – GENERAL SHEET

|                                  |   |
|----------------------------------|---|
| <b>Capital</b>                   | Vienna  |
| <b>Other important cities</b>    | Graz, Linz, Salisburgo, Innsbruck, Klagenfurt, Villach  |
| <b>Population</b>                | 8 192 880 inhabitants   |
| <b>Density</b>                   | 97,70 ab/kmq  |
| <b>Religion</b>                  | 73,6% catholic, 4,7% protestant, 21,7% muslim and others  |
| <b>Form of government</b>        | Federal Republic  |
| <b>Last general election</b>     | July 2004   |
| <b>Currency</b>                  | Euro  |
| <b>Language</b>                  | German  |
| <b>Area</b>                      | 83.859 Km <sup>2</sup>  |
| <b>Climate</b>                   | 10.4 °C.  |
| <b>Unemployment rate</b>         | 4,7% (31/12/2006)   |
| <b>Major economic activities</b> | Forestry and wood industry, mining industries ( iron, crude oil, natural gas, lead, zinc rock.salt)tourism, mechanical and food trasformation industries, advanced tertiary (banking, insurance...) |
| <b>GDP per head</b>              | 26 324 Euro (2006 estimate)   |
| <b>Inflation rate</b>            | 1,5% (31/12/2006)   |
| <b>Roads [Km]</b>                | 133 718 Km  |
| <b>Railway [Km]</b>              | 6 011 km  |

## AUSTRIA – COMPANY SHEET PRIVATE COMPANY

| <b>TYPE OF COMPANY</b>                | <b>Unlimited Partnership<br/>O.H.G.</b>    | <b>Limited Partnership<br/>K.G.</b>                |
|---------------------------------------|--|--|
| <b>Incorporation</b>                  | Private authenticated contract             | Private authenticated contract                     |
| <b>Registration</b>                   | Commercial register -<br>Tax office        | Commercial register - Tax<br>office                |
| <b>Initial contribution</b>           | No minimum is required                     | No minimum is required                             |
| <b>Resident Partners</b>              | Minimum two, natural<br>and legal persons  | Minimum two  |
| <b>Managing Director</b>              | Compulsory                                 | Compulsory   |
| <b>Non-resident Managing Director</b> | Allowed                                    | Allowed  |
| <b>Bankruptcy provisions</b>          | Personal responsibility<br>of the partners | Personal responsibility of<br>the general partners |



## AUSTRIA – COMPANY SHEET LIMITED COMPANY

| TYPE OF COMPANY                 | Private Limited Company<br>G.m.b.H.  | Limited Company<br>A.G.  |
|---------------------------------|--|--|
| <b>Incorporation</b>            | Public deed  | Public deed  |
| <b>Registration</b>             |  |  |
| Competent Office                | Commercial register -<br>Tax office  | Commercial register -<br>Tax office  |
| <b>Stock Capital</b>            | 35.000 Euro  | 70.000 Euro<br>(Higher stock capital is<br>required for Insurance<br>Companies and<br>Investment Companies)  |
| <b>Initial<br/>contribution</b> | Each partner must pay<br>minimum ¼ of the<br>share or 70 Euro if paid<br>in cash. Contribution in<br>kind are allowed but an<br>initial assessment is<br>necessary if it is higher<br>then 50% of the initial<br>stock capital | Minimum 25% of the<br>issuing value of each<br>share (minimum 17.500<br>Euro)  |
| <b>Resident partner</b>         | Individual persons or<br>legal persons   | Minimum two natural or<br>legal persons, resident or<br>non resident   |
| <b>Managing<br/>Director</b>    | Shareholder or third<br>party. Limited duration.<br>Withdrawal of the<br>Managing Director at<br>any time, also in<br>absence of a cause   | Administrative body<br>composed of one or<br>more Managing<br>Directors ( managing<br>board). Appointed by<br>the Surveillance Board.<br>Maximum duration 5<br>years |

|                                       |  |   |
|---------------------------------------|--|---|
| <b>Surveillance Board</b>             | <p>Appointed by Shareholders, it must have minimum 3 members. Meetings: minimum three times a year.</p> <p>It is compulsory if:</p> <ul style="list-style-type: none"> <li>- Stock capital higher than 70 000 Euro and more than 50 shareholders</li> <li>- More than 300 employees</li> </ul> <p>If the company is the holding or the mother company in a Group with more than 300 employees</p> <ul style="list-style-type: none"> <li>- If the company is shareholder of a KG and the two companies have more than 300 employees</li> </ul> | <p>Compulsory (3 to 30 members).</p> <p>Appointed by the General Meeting for maximum 4 years.</p> <p>Members are shareholders and they should represent at least 1/3 of the employees</p> |
| <b>Non-resident Managing Director</b> | Allowed  | Allowed   |
| <b>Meetings</b>                       | <p>It can deliberate on balance sheet approval and for appointing or revocation of the Directors. Written decision are allowed</p>   | <p>The General Meeting decides about all the matters regarding the economic and legal structure of the company. It cannot decide regarding the management of the company</p>              |



|                                    |   |   |
|------------------------------------|---|---|
| <b>Shareholders'<br/>liability</b> | It follows the rules of <i>Konkursordnung</i> (KO) and of <i>Ausgleichsordnung</i> (AO) | It follows the rules of <i>Konkursordnung</i> (KO) and of <i>Ausgleichsordnung</i> (AO) |
|------------------------------------|---|---|



## AUSTRIA – TAX SHEET

|                           |   |
|---------------------------|---|
| <b>Company income tax</b> | 25% ordinary rate<br>Yearly minimum amount: <ul style="list-style-type: none"><li>- Euro 1.750,00= GmbH</li><li>- Euro 3.500,00= AG</li></ul> |
|---------------------------|---|

|                       |  |
|-----------------------|--|
| <b>Property gain</b>  | <p>The property gains, realized by a resident tax payer (through the sale of movable, immovable, and participations) are taxed with the ordinary income tax.</p> <p>The property gains, realized by a resident natural person, regarding personal goods, are generally tax exempt.</p> <p>The property gains are taxed if realized within a determined term from the purchasing date (i.e. property gains realized through the sale of immovable good within 10 years from the purchasing date).</p> <p>The taxation of property gains realized by a natural or legal non resident person, about the participation in resident companies, is realized depending on the presence of a branch in Austria.</p> <p>In this situation the gain will be taxed with the ordinary rate.</p> <p>Without the presence of a company in Austria, the property gain will be taxed if realized through the sale of a qualified participation.</p> <p><b>QUALIFIED PARTICIPATION:</b> if during the 5 years before the sale, the tax payer has held, directly or indirectly, at least 1% of the stock capital.</p> <p><b>EXCEPTIONS:</b></p> <ul style="list-style-type: none"> <li>- Participations belonging to a company – the property gains realized through the sale of participations in non resident companies are taxed with the ordinary income tax, if the <i>participation exemption</i> cannot be applied</li> </ul> |
| <b>Property gains</b> | <p>Participation of private assets – the property gains, realized within a year from the purchasing date, are taxed according to the income tax</p>  |

|                            |  |
|----------------------------|--|
| Dividends                  | -25% Basic rate, through natural resident persons<br>-0% for resident companies with direct participation > 25%; if there are mother-daughter participations in U.E.                               |
| Interests                  | -25% Basic rate, for resident legal persons  |
| Royalties                  | 0% if paid to resident companies   |
| <b>Personal income tax</b> | 0% to 10 000 Euro<br>38,33% From 10 000 to 25 000<br>43,60% from 25 001 to 51 000<br>50% over 51 000   |
| <b>V.A.T.</b>              | 20 % basic rate; 10% food, book, medical services (basic VAT is 16% in Jungholz and Mittelberg regions)  |
| <b>Carry over losses</b>   | Ordinary losses: from 1991 can be carried over again without time limit. Since 2001 in force the 75% limit: the current or past can be compensated only in the limit of 75% of the current income. |

|                                      |   |
|--------------------------------------|---|
| <p><b>BENEFITS</b></p>               | <p>Austria guarantees to entrepreneurs, who create new firms in areas where the rate of unemployment is high, notable financing with tax benefits up to 75% of the investment, tax credits, extraordinary depreciation, funds for personnel training; Burgenland is an "Objective 1" region therefore there are further tax benefits provided by the EEC.</p> |
| <p><b>INVESTOR<br/>GUARANTEE</b></p> | <p>Since 1995, Austria has been a member of the EEC therefore there do not exist any limitations to company incorporation, to the purchasing of real property or the repatriation of capital or profits.</p>  |

## AUSTRIA – DIVIDENDS AND PARTICIPATION EXEMPTION

ordinary tax deduction to apply to dividends is 25%. No deduction must be applied in the following cases:

- if the share capital companies are both resident in Austria and the direct minimum participation is 25%
- in the presence of share capital mother-daughter companies within the EU

In the presence of treaties against double taxation, the percentage of the deduction to apply is between 0 and 25%; it varies according to the treaties and to the request of qualified participations.

"Participation Exemption": the following observation can be made:

1) National participation between share capital companies resident in Austria. According to Art. 10 of the law in the KStG corporate income tax, a total exemption of the income from participation is provided for; the company that distributes the dividends in however held to apply the deduction if the participations is less or equal to 25% (if can make a request for a successive reimbursement). The exemption of national participation of which art. 10 par. 1 KStG it is not valid in the case of sale and purchase of participation.

2) International Participations: for companies with participations in foreign share capital companies the exemption provides for a minimum participation of 10% and the satisfaction of certain requirements. For tax neutrality of international participations the rules are provided for in Art. 10 of the KStG law: "In determining the income, losses or other variations of value tied to international participations (excluding losses detected during the extinction process of foreign share capital) are not considered". The tax neutrality ceases should the passive subject declare not to want it and opts for the taxation. In this case the current management income (of any nature) continue to be exempt. Whilst the income from transfer become taxable and consequently also the losses from transfer fiscally recognised.



3) Foreign companies that do not have a company management or offices in Austria. Such subjects undergo taxation only for the part of income produced in Austria; the tax deduction applicable is equal to 25% if no inferior rate is provided for on the basis of the treaties against double taxation between the countries. Exemption for income from participation for income from participations is not available unless otherwise stated on the basis of a bilateral agreement between the countries.

4) Anti-evasion rules

If there exist such circumstances to suspect abuse or pursuit of tax evasion, exemption is not applicable

5) International agreements against double taxation.

If such agreements exist and prohibit a differentiated treatment of income from participation, the income from participation of foreign daughter companies are exempt, even if the circumstances provided for by the Austrian law (Art. 10 par. 2 KGSt) are not applied. The same rule applies if the agreement provides for an inferior participation rate to the one provided for by the Austrian law.



# AUSTRIA – RISK ASSESSMENT

## RISK ASSESSMENT

The growth remains moderately high with recovery of exports and the increase in the flow of tourists from the new EU member states. A progression of exports is forecast.



## AUSTRIA – STRUCTURAL, POLITICAL, TRADE AND FINANCIAL INDICATORS

| <b>Classification World Bank</b> | <b>2005</b> | <b>2006</b> |
|----------------------------------|-------------|-------------|
| <b>Development (%)</b>           | 2,3         | 3,2         |
| <b>Inflation (%)</b>             | 1,7         | 1,5         |
| <b>Unemployment rate (%)</b>     | 5,8         | 4,7         |

## AUSTRIA – DOUBLE TAXATION TREATIES

| Country               | Dividends (**) (%) | Interests (*) (%) | Royalties (%)         |
|-----------------------|--------------------|-------------------|-----------------------|
| Argentina             | 15                 | 12,5              | 15                    |
| Armenia               | 15/5 <sup>3</sup>  | 0/10 <sup>4</sup> | 5                     |
| Australia             | 15                 | 10                | 10                    |
| Azerbaijan            | 15/10 <sup>5</sup> | 10                | 5/10 <sup>6</sup>     |
| Belgium               | 15                 | 15                | 0/10 <sup>7</sup>     |
| Belize                | 15/5               | 0                 | 0                     |
| Belarus               | 15/5               | 5                 | 5                     |
| Brazil                | 15                 | 15                | 10/15/25 <sup>8</sup> |
| Bulgaria              | 0                  | 0                 | 0                     |
| Canada                | 15/5 <sup>3</sup>  | 10                | 0/10 <sup>9</sup>     |
| China                 | 10/7               | 10                | 10                    |
| Cyprus                | 10                 | 0                 | 0                     |
| Korea                 | 15/5               | 10                | 2/10 <sup>12</sup>    |
| Croatia               | 15/0 <sup>3</sup>  | 5                 | 0                     |
| Denmark               | 10                 | 0                 | 0/10 <sup>7</sup>     |
| Egypt                 | 10                 | 0                 | 0/20 <sup>11</sup>    |
| United Arab Emirates  | 0                  | 0                 | 0                     |
| Estonia               | 15/5               | 10                | 5/10 <sup>12</sup>    |
| The Philippines       | 25/10 <sup>3</sup> | 15                | 15                    |
| Finland               | 10/0 <sup>3</sup>  | 0                 | 5                     |
| France                | 15/0 <sup>3</sup>  | 0                 | 0                     |
| Georgia <sup>14</sup> | 0                  | 0                 | 0                     |
| Germany               | 15/5 <sup>3</sup>  | 0                 | 0                     |
| Japan                 | 20/10 <sup>7</sup> | 10                | 10                    |
| Greece                | <sup>16</sup>      | <sup>16</sup>     | 0/10 <sup>7</sup>     |
| India                 | 10                 | 10                | 10                    |
| Indonesia             | 15/10              | 10                | 10                    |
| Iran                  | 10/5               | 0/5 <sup>4</sup>  | 5                     |



| <b>Country</b>              | <b>Dividends<br/>(**) (%)</b> | <b>Interests (*)<br/>(%)</b> | <b>Royalties<br/>(%)</b> |
|-----------------------------|-------------------------------|------------------------------|--------------------------|
| Ireland                     | 10                            | 0                            | 0/10 <sup>7</sup>        |
| Faroe Islands <sup>13</sup> | 10                            | 0                            | 0/10 <sup>7</sup>        |
| Israel                      | 25                            | 15                           | 10                       |
| Italy                       | 15                            | 10                           | 0/10 <sup>7</sup>        |
| Kazakhstan <sup>29</sup>    | 15/5 <sup>3</sup>             | 10                           | 10                       |
| Kuwait                      | 0                             | 0                            | 10                       |
| Kyrgyzstan                  | 15/5                          | 10                           | 10                       |
| Liechtenstein               | 15                            | 10                           | 5/10 <sup>17</sup>       |
| Lithuania                   | 15/5                          | 10                           | 5/10 <sup>12</sup>       |
| Luxembourg <sup>18</sup>    | 15/5                          | 0                            | 0/10 <sup>7</sup>        |
| Malaysia                    | 10/5                          | 15                           | 10/15 <sup>19</sup>      |
| Malta                       | 15                            | 5                            | 0/10 <sup>20</sup>       |
| Mexico                      | 10/5 <sup>3</sup>             | 0/10 <sup>21</sup>           | 10                       |
| Moldova                     | 15/5                          | 5                            | 5                        |
| Mongolia                    | 10/5 <sup>3</sup>             | 10                           | 5/10 <sup>22</sup>       |
| Nepal                       | 15/5/10 <sup>23</sup>         | 10/15 <sup>4</sup>           | 15                       |
| Norway                      | 15/5                          | 0                            | 0                        |
| The Netherlands             | 15/5                          | 0                            | 0/10 <sup>7</sup>        |
| Pakistan                    | 10 <sup>16</sup>              | 16                           | 20                       |
| Poland                      | 15/5 <sup>3</sup>             | 0/5 <sup>4</sup>             | 5                        |
| Portugal                    | 15                            | 10                           | 5/10 <sup>7</sup>        |
| Republic of San Marino      | 15/0                          | 0                            | 0                        |
| Czech Republic              | 10                            | 0                            | 0/5 <sup>10</sup>        |
| Slovak Republic             | 10                            | 0                            | 0/5 <sup>11</sup>        |
| Romania                     | 15                            | 10                           | 10                       |
| Russia                      | 15/5 <sup>25</sup>            | 0                            | 0                        |
| Slovenia                    | 15/5                          | 5                            | 0/10 <sup>27</sup>       |
| Singapore                   | 10/0 <sup>3</sup>             | 0/5 <sup>26</sup>            | 5                        |
| Spain                       | 15/10 <sup>7</sup>            | 5                            | 5                        |
| United States               | 15/5 <sup>3</sup>             | 0                            | 0/10 <sup>11</sup>       |
| South Africa                | 15/5                          | 0                            | 0                        |
| Sweden                      | 10/5                          | 0                            | 0/10 <sup>7</sup>        |



| Country                    | Dividends<br>(**) (%) | Interests (*)<br>(%) | Royalties<br>(%)    |
|----------------------------|-----------------------|----------------------|---------------------|
| Switzerland                | 15/0 <sup>28</sup>    | 0                    | 5                   |
| Thailand                   | 10 <sup>16</sup>      | 25                   | 15                  |
| Tajikistan <sup>14</sup>   | 0                     | 0                    | 0                   |
| Tunisia                    | 20/10                 | 10                   | 10/15 <sup>20</sup> |
| Turkey                     | 35/25                 | 15                   | 10                  |
| Turkmenistan <sup>14</sup> | 0                     | 0                    | 0                   |
| Ukraine                    | 10/5 <sup>3</sup>     | 2/5 <sup>4</sup>     | 0/5 <sup>22</sup>   |
| Hungary                    | 10                    | 0                    | 0                   |
| United Kingdom             | 15/5                  | 0                    | 0/10 <sup>7</sup>   |
| Uzbekistan                 | 15/5 <sup>3</sup>     | 10                   | 5                   |

\* Many treaties provide exemptions for some kind of interests: interests paid to the Government, to local authorities, to Central Bank and Bank abroad about credits on sales. Here exemptions are not considered.

\*\* Generally a participation of 25% is required for the lower rates.

3) The rate is applied if the beneficiary hold at least 10% of the stock capital or of the votation rights in the Austrian company.

4) the lower rate applies on interests on bank loans.

5) The rates are applied if the participation is of at least 25%. 10% rate is applied if the participation is higher than 100.000 USD and the 5% rate is applied if the participation is higher than USD 250.000.

6) The lower rate is applied on the royalties on know how and patents with durations within three years.

7) 10% rate is applied if the beneficiary held a participation higher than 50% of the stock capital of the company.

8) 10% rate is applied on royalties on copyright (films are excluded); 25% rate is applied on trade marks;

9) The lower rate is applied on royalties on copyright (films are excluded), software, patents and know how.

10) The lower rate is applied on royalties on copyright (films are included).



- 11) The higher rate is applied on royalties on films.
- 12) The lower rate is applied on machineries in leasing.
- 13) Extension of the Treaty Denmark – Austria (1961), as changed by 1970 Protocol.
- 14) Treaty concluded between Austria and ex URSS.
- 15) The zero rate is applied if the Georgian company holds at least 50% of the stock capital of the Austrian company and the value of the participation is higher than 2 million Euro. The 5% rate is applied if the Georgian company holds at least 10% of the stock capital of the Austrian company and the value of the participation is higher than 100.000.
- 16) The internal rate is applied; no reductions are provided on the basis of the Treaty.
- 17) The 5% rate is applied if the company in Liechtenstein has manufacturing plants in the country and royalties are paid directly or through the patent holder in Liechtenstein.
- 18) This Treaty is not applied to the Holdings in Luxembourg that are tax exempt.
- 19) The higher rate is applied to copyrights on films, artistic and literary works.
- 20) The lower rate is applied to royalties on copyright (films are excluded).
- 21) The lower rate is applied on interests paid to Public Entities.
- 22) The lower rate is applied to copyrights on scientific works, patents, brands and know how. The higher rate is applied to copyrights on artistic works, films are included.
- 23) 5% rate is applied if the Nepalese company control directly at least 25% of the stock capital of the Austrian company; 10% is applied if the company control only 10% of the stock capital of the Austrian company.
- 24) The 0 rate is applied if and until Austria, according to its internal law, applies the withholding tax on interests paid to Romanian.
- 25) The rate is applied if the Russian company holds directly at least 10% of the Austrian company corporate assets and if the value of participation is higher than 100.000 USD.
- 26) The 0% rate is applied on interests paid by an Austrian Bank to a Bank in Singapore.
- 27) 10% rate is applied if the Slovenian company holds directly at least 25% of the stock capital of the Austrian company.
- 28) This rate is applied if the Swiss company holds directly at least 20% of the stock capital of the



Austrian company.

29) The Treaty has entered in force from 1st January 2007.