Taxes in the Austrian Hungarian Empire

„Taxes and divorce acts, the first double taxation convention in history?

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Largest Dimension

Charges in the medieval period

- Feudal System
  - Landowner had the privilege to collect charges from dependents
  - Tenth of the harvest for example
  - Concept applied in rural areas
  - Note: Serfdom was proliferated in many areas of the Empire
  - Nobility charged exit tax on those contemplating to leave
    - Tax base: Value of Ox, cart and the beauty of the spouse
  - Land reform 1848: Even mitigated forms of serfdom were abolished
- Urban areas
  - Customs duties, or equivalent measures were in place
  - Excise taxes
    - Duke Rudolf IV introduced “accise” on beer and wine in Vienna to raise funds for St. Stephens Cathedral

Further steps

- 18th Century
  - Empress Maria Theresia (1740 – 1780)
    - launched a cadastre all over the empire. Measurement was carried out by local magistrates, village judges or jury members. Officers audited the process.
  - Emperor Joseph II (1780 – 1790),
    - Enacted cadastral tax system. Land owners were obliged to file tax returns in which they had to declare income deriving from the land, like any form of harvesting, livestock farming, forestry or fishpond cultivation. Land used for grain farming was categorized along the types wheat, corn, barley and oat. The task was to establish a property tax based on the potential income deriving from the land. The cadastre enveloped 207.370 square kilometres, in the regions of Bohemia, Moravia, Silesia, Galicia, Austria including Carniola, Gorizia, Gradiska. Taxing rights in Hungary remained to be conferred to the Hungarian nobility.
  - Emperor Leopold II (1790 – 1792)
    - Nobility and the representatives of the Roman Catholic Church urged the Emperor to lift the burden so the latter abolished the tax.

Further steps

- Implementation of an income tax for businesses
  - Tax Act 1812
    - enacted tax schedules for certain businesses, but categories were lacking sufficient definitions. Subject of taxation was the income deriving from the business. For the calculation of the tax individual circumstances of the owner were disregarded. Martial status or how many people lived in a household did not matter.
    - Calculation of the tax base included, equity and the number of employees, or under certain circumstances authorities estimated the potential income instead of filing a tax return.
    - The tax amount ranged from 2 to 1.500 guilders. One guilder is 234 gram of pure silver (today: about 96 EURO = 85 BP).
  - Property Tax Act 1817
    - Cadastral income estimated by the authority.

Influence of William Pitt the Younger

- Income Tax Act 1849
  - While prior to 1849 taxes were imposed on objects like land or businesses, individuals became the subject of taxation from 1849 on. William Pitt's accomplishment to introduce the very first general income tax on individuals worldwide influenced other administration all over Europe to use this pattern for funding state systems (Tax Act from January 9th 1799). All those attempts to raise significant funds have in common that almost every government in Europe ran short of money due to enormous expenses caused by wars against Napoleon. So finally one may say Napoleon fuelled the achievements of a modern tax system.
  - Prussia undertook the attempt to introduce a comparable law 1808. But unlike the United Kingdom the Prussian administration failed to push such an important change in the tax system through. One of the reasons was the attempt to have tax payers ought to file tax returns without any further enforcement in place.
  - 1820 Prussia launched an income tax system again, however a more primitive one by classifying people into 4 categories of social status which should reflect their ability to pay taxes and affordability.

Income Tax Act 1849

- Income Tax Act 1849
  - With the imperial patent from October 1849 (OJ 439/1849), the Austrian emperor enacted an income tax for individuals, limited geographically for the "Kronländer" solely, meaning not for Hungary.
    - Taxable income was divided into three categories
      - the one deriving from businesses, including mining and those of lease agreements of fully fledged businesses (e.g. lease of an inn)
      - Income deriving from any kind of services, if such income is not subject of taxation of category I, including wages and salaries, and pension income.
      - Interest income deriving from borrowing and other securities.
    - Exemptions
      - Category I: Artists, tutors, transport of goods and persons
      - Category II: Income of military, catholic order devoted to health care and education, associations of charity.
      - Category II: Interests deriving from bearer instruments

Income Tax Act 1849

- Tax assessment
  - Category I: tax payers were ought to file tax returns
    - Income statement included the average income of the business of the previous three years. If the business commenced less than three years, the average of the existing activity. Start ups had to file estimates.
    - Expenses precluded to be deducted: redemption of equity, any interest expense, wages and salaries for the owner his spouse and children which enjoyed alimony as set out in the civil law code.
  - Category II: Employers, or potentially principals had to notify the income
    - Employers and potentially principals were obliged to withhold taxes and remit it to the authorities.
  - Category III: tax payers had to file tax returns under certain circumstances
    - Tax returns had to be filed in cases of private loans.
    - Business lenders had to assess the income tax on paid interest and had the borrower confirm the amount. Then they were obliged to send a notice to the tax commission, which then released an official payment request to the principal.

Income Tax Act 1849

- Tax rate
  - Category I and III: 5 percent of the income
  - Category II: Progressive tariff applied commencing at 1 percent of the tax base between 600 – 1.000 guilders.
  - For the next 1000 to 3.000 one percent more per 1.000, so the tax for the third 1.000 was 3 percent. For the further 1.000 and any bracket of 1.000 one percent more. A cap of 10 percent granted a ceiling.
- Challenging tax assessments
  - Any tax payer got the right to challenge an assessment addressing the duty to pay taxes or the amount of the tax.
  - Appeal authority was a commission established by the administration of the territory (Länder) in which the taxable person was resident.
  - Launching an appeal did not constitute a suspension of the duty to pay the tax.

Further developments

- Tax Act 1896
  - By virtue of the law from October 25th 1896 all of the previous laws were repealed and a new comprehensive – to a certain extent – modern income and corporation tax code were enacted, which was in force until the German occupation (accession) of Austria.
  - Businesses were taxable subjects irrespective whether operated by individuals or corporate entities.
  - The tax rates started at about 1.5% and peaked at about 7 percent, due to a unusual formula.
  - Tax rates for individuals started 0.6 percent and peaked at about 5 percent, again an unusual formula was in place.

Divorce Agreement Austria - Hungary

- Austrian – Hungarian Settlement
  - First agreement on double taxation
    - Agreement from January 7th 1870 (OJ 90/1871).
      - Included agreement about the railway companies
      - Banks and insurance companies
      - Any manufacturers and “quasi – manufacturers”
    - Which operated in both parts, either in Austria or in Hungary
    - Apportionment of the tax base according to the territorial linkage
    - Responsible authority is the one in which the company has its registered seat
    - Each Ministry of Finance has to notify any result to the counterpart Ministry
    - On request of each of the contracting governments any tax due should be collected by those tax administrations in which the company had its registered seat.

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Other remarkable agreements and laws in place

- First double convention treaty between the Austrian – Hungarian Empire
  - Treaty concluded with Prussia
    - Treaty from 1899 (OJ 118/1900)
    - Similar income tax concepts in place
    - Relies on the resident principle of individuals
    - Source country taxation on income from immovable property and permanent establishment
    - Interest income and pension payments are subject of the Austrian withholding tax irrespective of a potential taxing right of Prussia.
- Austrian code of fundamental rights from 1867
  - The code is still in force and contains the prohibition of exit taxes, historically imposed by land owners on the value of goods taken by departing serfs
  - Charges are allowed to be imposed in case of reciprocity
  - Question is, whether ordinary exit taxes as understood in modern tax laws are embraced by this norm.

End

Thank you for your attention