



US Tax Reform

(„Tax Cuts and Jobs Act“)

What does it mean for Austrian enterprises?

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5.3.2018, Wirtschaftskammer Österreich

Austrian direct investments in the US market (1)

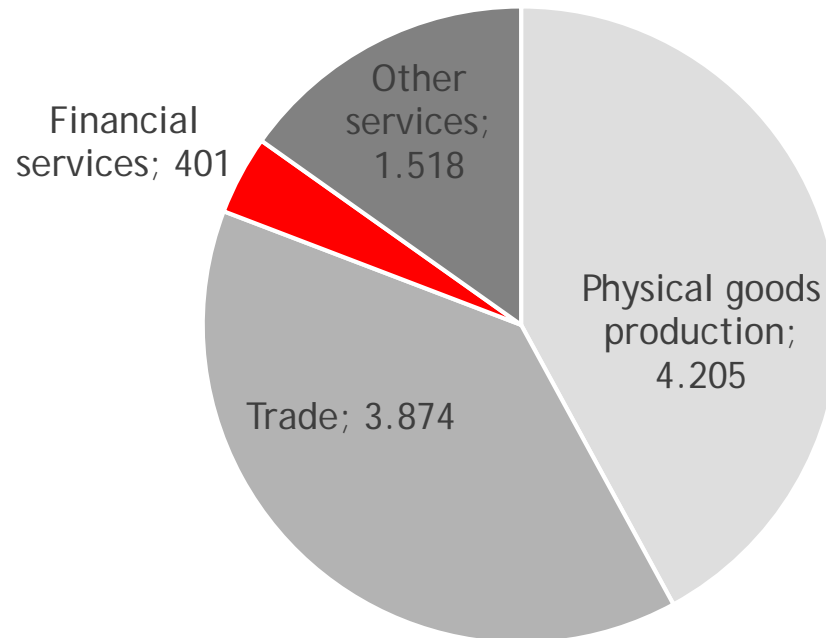
- Austrian outward stock of FDI in the US increased from 4,725 billion EUR in 2010 to 9,666 billion EUR in 2016
- Some Austrian controlled foreign companies (CFCs) act from other European countries (Luxemburg, Suisse) - estimated US investment volume is a total of 12 billion EUR. Reasons for US investments manifold (market seeking, resource seeking, efficiency seeking, strategic asset seeking etc.)

Austrian direct investments in the US market (2)

- 670 Austrian subsidiaries in the US
- 200 of them in the production of goods
- 50.000 jobs generated by Austrian controlled companies in the US (OeNB, as of 2015)
- Total turnover 33 billion EUR (OeNB, as of 2015)
- Austrian Top Companies in the US market: Schoeller Bleckmann, Red Bull, Plansee, Rosenbauer, Miba, Andritz, Voest Alpine, Palfinger, Blum, Alpla, Hoerbiger, Agrana, VAI Siemens, Swarovski, Engel, Wienerberger, Tyrolit, Kapsch, Teufelberger, Plasser & Theurer, AVL, Doka, Boehler Uddeholm, Fronius, Glock, Constantio, Mondi, Greiner ...
- Many of them are market-leaders or at the top 5
- ... but major share of Austrian companies has a US turnover less than 500 million USD (compare BEAT threshold)

Austrian direct investments in the US market (3)

Austrian investment share at foreign enterprises
in the US (million EUR)



Austrian goods and services exports to and imports from the US market

- Trade of goods 2016: Imports 3.180 million EUR and exports 9.453 million EUR - 2nd most important export market after Germany
- Trade of services 2016: Imports 1.587 million EUR and exports 1.791 million EUR - 6th most important export market

Austrian Services Exports to US (2016)	Million EUR	% of total
Rewarded finishing	105	6%
Transport and courier services	310	17%
Tourism	390	22%
Financial Services	90	5%
Patents, licenses, Franchise	158	9%
Telecom-, computer- und information services	279	16%
Business related services	430	24%
Others	29	2%
Total	1.791	100%

US Tax Reform - a first guess of the impact (1)

- Austrian companies could benefit indirectly/directly from the US tax reform:
 - Reduction of the corporate tax rate from 35 % to 21 %
 - Immediate depreciation of some investments
 - Toll tax (full exemption for foreign dividends derived from non-portfolio shareholding)
 - Repatriation „toll charge“: low taxed foreign profits and assets when repatriated to US
 - All in all slightly more growth friendly environment

US Tax Reform - a first guess of the impact (2)

- WTO regulation and DTA (Double Tax Agreements) possibly effected
 - BEAAT (Base Erosion Anti-Abuse Tax) - minimum tax on US corporations that make „base erosion payments“ to related foreign persons (generally 25 % relatedness threshold) (possibly discrimination according to WTO law - services agreement)
 - GILTI (Global Intangible Low Taxed Income) - tax on CFCs net income above a routine return with a 50 % deduction and 80 % foreign tax credit
 - FDII - deduction in dependence of exports possibly against WTO law (could be qualified as subsidy)

US Tax Reform - a first guess of the impact (3)

- Both taxes (BEAAT & GILTI) target profits of subsidiaries from US parent companies in European low tax jurisdictions - Austrian companies are hardly affected
- Legal uncertainties with respect to double taxation treaty AT-US
- (increased) complexity of tax laws in general (state tax implications)

First thoughts of Austrian Enterprises and Tax Advisers/Lawyers on the US tax reform

- Feedback is positive in general (most of the branch managers are not yet well-informed about the details)
- Wait-and-see attitude due to high complexity
- For smaller enterprises (profit lower than USD 50.000) with tax rate of 15% and big companies loosing some possibilities of depreciation → marginal tax increase
- Drawbacks: subsidiaries with high losses - losses going forward from 2018 limited to 80% of income, BEAAT
- Positive aspects predominate (medium and long-term benefits)
- Main reasons for the decision to invest at the US market are not tax conditions (US is no tax heaven)

European perspective (1)

- EU and US have strongly benefited from their open economic relationship in the past
- EU & US generate 46% of worldwide GDP (IMF) and exchange of goods represents 44% of global trade (WTO) in 2016
- Large European enterprises (Daimler, BMW) announced billions of extra profits due to tax claims

European perspective (2)

- ... on the one hand ... US tax reform creates a certain pressure on European economies with particularly favourable tax regimes
- ... on the other hand ... US tax regime has become more competitive vis-à-vis European tax regimes - effective CIT in Austria has risen over the past years

**„Europa träumt von der Steuerfestung –
Trump handelt“**

Die Welt, 2.12.2017

<https://www.welt.de/debatte/kommentare/article171197433/Europa-traeumt-von-der-Steuerfestung-Trump-handelt.html>

European perspective (3)

- How to react?
 - EU should attract foreign direct investment by creating better tax environment
 - EU should not raise barriers to the USA - tax / trade war harms both parties
 - Attractive tax regime is particularly important for small, export-oriented national economies like Austria

Thank you for your attention!

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Sources

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