



# European Construction Sector Observatory

## Policy measure fact sheet

### Austria

#### “Craftsmen bonus”

#### Thematic Objective 3

February 2017

<b>Implementing body:</b>	Austrian Economic Chambers – Department for Crafts and Trade
<b>Key features &amp; objectives:</b>	An application-based programme, processed by building societies (“Bausparkassen”), to incentivise private individuals to carry out modernisation and maintenance works by authorised construction companies or workers, thereby avoiding that works are done informally.
<b>Implementation date:</b>	2014-2016 (ongoing)
<b>Targeted beneficiaries:</b>	Private households; craftsmen or craft enterprises providing renovation, modernisation and maintenance services to private households.
<b>Targeted sub-sectors:</b>	Construction services; Craft / handicraft
<b>Budget (EUR):</b>	2014: EUR 10 million 2015: EUR 20 million 2016: EUR 20 million

### In a nutshell

Austria is a leading European exponent of sustainable construction. The Austrian government actively supports the development of new eco-friendly housing and energy related renovations in existing buildings. A good example is the thermal renovation voucher programme (“Sanierungschecks”) which was introduced in 2009 to increase the environmental performance of buildings. Notwithstanding a recent shift in focus to innovative technologies and a decrease in available funds for 2016, the initiative was a vital means of demonstrating the high impact that public support programmes for sustainable housing can have on the growth of business activity and tax income.

Accounting for approximately 39%, the construction sector holds the largest share of the shadow economy in Austria<sup>1</sup>. A total of 8.33 billion is estimated to have circulated in 2015<sup>2</sup>. Therefore, the Austrian government is targeting the sector with specific measures to decrease the share of informal works and ease the

transition of undeclared construction services by professionals into the formal economy. Recent examples include the obligatory use of cash registers to record financial transactions and the obligatory issuing of cash receipts<sup>3</sup>. The government is adopting these measures despite Austria having one of the smallest informal sectors of OECD countries already<sup>4</sup>.

The craftsmen bonus (“Handwerkerbonus”) introduced in 2014 tackles both aspects. It incentivises modernisation and maintenance works in private households and, more importantly, encourages construction work to be done through the formal economy, rather than on the black market. The application-based bonus programme provides private individuals with a 20% reimbursement of the cost of construction works across a range of occupational fields.

### General description

The craftsmen bonus had been demanded for some years before its introduction in 2014. In Germany, a similar scheme was developed in 2008 to stimulate business in the craft and trade sector and to combat high informality of renovation and modernisation works. The craftsmen bonus has thus used the German scheme – equally titled “Handwerkerbonus” – as an orientation point.

The craftsmen bonus is applicable to services provided through licensed construction enterprises concerning renovation, modernisation and maintenance of private housing in Austria. The scheme covers up to 20% of the labour and travel costs (no material costs) of a maximum of EUR 3,000 (excluding VAT). The subsidy cannot therefore exceed EUR 600 per year for each person or household per year. The works also need to be performed within a reference period of 1.5 years, i.e. between July 2014 and December 2015 for the 2015 year. The following type of works is supported:

- Renovation / insulation of roofs and facades as well plumbing work;

- Replacement of windows and doors;
- Electrical, gas and water installations;
- Rehabilitation of sanitary facilities;
- Replacement of floor coverings (e.g. carpeting, parquet, tiles);
- Renewal of wallpaper;
- Paint work;
- Installation of walls and floor tiles;
- Work on built-in furnaces including their replacement (e.g. built-in kitchen);
- Maintenance, insofar as this is not legally required by the authorities (e.g.: maintenance of heating systems).

Consequently, the subsidy is developed for works to be conducted by a series of different craftsmen. Among others, this includes builders, floor layers, roofers, facade and building cleaners, gas and sanitary engineering, painters, etc.<sup>5</sup>.

To be eligible for a refund, there are additional conditions to be met:

- The performing companies must have a corresponding trade authorization;
- The services have to be paid to the craftsman's account by bank transfer;
- Eligible labour and travel costs must be listed separately in the final invoice;
- Only natural persons (not legal persons) can apply for funding;
- Several invoices of at least EUR 200 net for labour can be combined for reimbursement per funding application;
- For administrative reasons, the minimum value of an invoice for work carried out cannot be lower than EUR 200 per person;
- Grants are awarded on a "first-come-first-served" basis until the available funds are exhausted.

Initiated by the Austrian Economic Chambers, the Craftsmen Bonus is coordinated by the Finance Ministry and managed in co-operation with Kommunalkredit Public Consulting GmbH (KPC). Applications for funding are directed by email, mail, fax or in person to one of the building societies including their local partners. Operating on a "first come, first served" basis, the scheme is based on reimbursement. In practice, this means reimbursement can only occur once the works and payment per bank transfer have been completed.

The craftsmen bonus had an initial funding of EUR 10 million, which was quickly exhausted in 2014, due to its popularity. The scheme was extended twice on a 12-month basis and achieved EUR 20 million annual funding in 2015 and 2016. Despite being extended, the Ministry of Finance has expressed doubts about the economic benefit of the scheme by questioning its potential to stimulate growth and employment of the sector. Apart from the Ministry of Finance, the other ministries, in particular the Ministry of the Economy, have been strongly advocating further extensions to the programme.

## Achieved or expected results

Two studies have been carried out to assess the results of the craftsmen bonus scheme<sup>6</sup>. The Federal Economic Chambers commissioned a market study in 2015 to assess the scheme from the perspective of craft enterprises. The study included some enterprises that benefited from the support programme and others that did not. Then, in early 2016, the Johannes Kepler University Linz was commissioned by the Austrian government to conduct an economic analysis of the scheme.

On average, approximately 14% of the total costs were covered by the craftsmen bonus, indicating that many households opted to exceed the EUR 3,000 threshold.

**Table 1: Distribution of craftsmen bonus subsidies per federal state in 2014<sup>7</sup>**

Federal state	Number of applications	Total of works (in millions)	Funded
Burgenland	1,546 (6.46%)	4.3	643.44
Kärnten	1,577 (6.59%)	4.34	645.83
Niederösterreich	6,304 (26.34%)	17.73	2,600
Oberösterreich	5,111 (21.35%)	13.7	2,040
Salzburg	1,478 (14.54%)	4.14	601.72
Steiermark	4,176 (1.67%)	11.48	1,670
Tirol	1,204 (5.03%)	3.45	508.30
Vorarlberg	853 (3.56%)	2.59	361.90
Wien	1,688 (7.05%)	4.21	637.70
<b>Total Austria</b>	<b>23,947 (100%)</b>	<b>65.99</b>	<b>9.70</b>

Source: Schneider, F. (2016). *Economic Analysis of craftsmen bonus*.

The study by Johannes Kepler University distinguishes between the programmes at three different levels: (1) income generated through additional tax and social security contributions; (2) windfall effects as a result of incentivising work by the formal economy and (3) economic value-chain effects, explained as follows.

The findings of the economic study show that the Craftsmen Bonus is beneficial for the Austrian economy as a result of tax and social security income. In 2014, investments of EUR 9.71 million by the Austrian government produced a net gain of EUR 33.2 million in state income, i.e. every 1 EUR spent on the programme has produced triple investment returns (leverage of 1:3), excluding the movement of profits from the informal to the formal economy.

The Craftsmen Bonus is also generating a significant windfall effect. According to a simulation exercise carried out in the analysis commissioned by the Austrian government, a reduction of 24% in 'off-the-books' renovation work would result in tax income and net benefits for the Austrian Ministry of Finance<sup>8</sup>. A 30% or

50% shift from the informal to the formal economy would achieve a net benefit of approximately EUR 3.5 million or EUR 11.7 million respectively. The scenario assumes that the craftsmen bonus will lead to a growth in works in the formal economy and a similar decrease in work being done in the informal economy.

**Table 2: Scenarios with different profit-making effects as a result of the craftsmen bonus (2014)<sup>9</sup>**

<b>Financial volume of black work (in % of submitted bills)</b>	<b>€36.6 (22.6%)</b>	<b>€40 (24%)</b>	<b>€50 (30%)</b>	<b>€80.5 (50%)</b>
Estimated shift in profit from informal to formal economy	77.4%	76%	70%	50%
Off the books volume in labour services	14.929	16.312	20.390	32.828
Corporate and VAT tax	2.986	3.262	4.078	6.566
Income tax incl. social security	6.718	7.340	9.176	14.773
<b>Sum of tax income</b>	<b>9.704</b>	<b>10.602</b>	<b>13.254</b>	<b>21.339</b>
Costs of craftsmen bonus	9.710	9.710	9.710	9.710
<b>Net effect for finance ministry in EUR</b>	<b>-0.006</b>	<b>+0.892</b>	<b>+3.544</b>	<b>+11.69</b>
<b>Net effect for finance ministry as % of income</b>	<b>-0.06</b>	<b>9.20</b>	<b>36.5</b>	<b>120.4</b>

Source: Schneider, F. (2016). *Economic Analysis of craftsmen bonus*

A reduction in non-legitimate work could also be beneficial for the Austrian economy by triggering additional growth in the economic value-chain. Estimations indicate that around 50% of transferred funds from the black market to official accounting books, flow into the Austrian economy. According to estimates by the Johannes Kepler University, an extra EUR 500 million in the economy would result in: EUR 674 million in GDP growth; 6,374 additional or sustained jobs; and an increase of EUR 411 million in total income<sup>10</sup>.

## Perspectives and lessons learned

From the **perspective of the Austrian Economics Chamber**, the craftsmen bonus is a good example of how public incentives in the field of construction can encourage work in the formal economy, to the detriment of the informal economy, resulting in net benefits for the Austrian economy. This effect is due to augmented revenues as a result of more business activity, as well as tax income.

Despite the prolongation of the scheme and a doubling of resources since introduction, the Federal Economic Chambers of Austria hopes that the funds will be further scaled up in the future<sup>11</sup>. The funds made available in recent years, and the fact that they were quickly exhausted, demonstrate a strong interest in the scheme.

A key factor in lowering the quantity of works carried out on the black market has been increasing consumer awareness. Many households only change to the formal sector after having had an unpleasant experience on the black market, e.g. no warranty or damage compensation in case the works were done incorrectly. Meanwhile, the societal dimension of reduced benefits as a result of informal works is often not taken into account by private consumers. Enhanced awareness in terms of “what can go wrong” and greater awareness of societal benefits have the potential to change consumer behaviour in the long run. Public incentives such as the Craftsmen Bonus are necessary measures that can have an impact in the short and medium term.

From the **perspective of craft enterprises**, including beneficiaries and enterprises not participating in the programme, the craftsmen bonus is assessed positively<sup>12</sup>. The programme is considered to be vital for industry and attractive for customers. Surveyed businesses broadly support the extension of the scheme, arguing that it is helping them to compete with businesses operating on the black market.

Programme beneficiaries confirm that the Craftsmen Bonus has had a positive impact on business turnover and employment. Approximately 20% consider the scheme to have had a high impact on their turnover. 55% consider its impact as moderate. Over half of the surveyed respondents conclude that the craftsmen bonus has improved their overall business. Regarding employment, every eighth company sees a rather high impact and a further third a small impact of the programme on employment.

In terms of lessons learned, surveyed beneficiaries point to the need for further improvements, including a more efficient application process and greater financial resources.

From the **perspective of the Austrian Finance Ministry** – the only party that has expressed doubts about extending the scheme – the advantages of the Craftsmen Bonus are not as obvious as portrayed in the evaluation commissioned by the Austrian Economic Chambers. This is due to findings from the official study commissioned by the government, but which remain unpublished and are therefore inaccessible to the public.

According to the data available in the press, this study observes a decline in the number of employees since the introduction of the Craftsmen Bonus. While a total of 248,100 employees were registered in the industry in 2012, the number fell to 247,100 in 2013. In the two subsequent years of support, the total figure fell even further: to 246,800 in 2014 and finally to 245,600 in 2015.

How exactly the study has come to these conclusions has not been revealed to the public.

From the **perspective of the Austrian Chamber of Labour**, the craftsmen bonus has been received rather sceptically. According to the Chamber the initiative belongs to the so called “proactive measures” which are characterised by strong windfall effects, while lacking contributions to socio-political progress and producing neglectful impacts on employment<sup>13</sup>. The Chamber did not approve of the similar scheme adopted previously in Germany – equally titled craftsmen bonus – describing it as useless leading to a tax deficit of €100 million<sup>14</sup>.

## Endnotes

- <sup>1</sup> <https://kurier.at/wirtschaft/pfusch-steigt-2015-weiter-oesterreich-aber-eu-weit-am-bravsten/111.889.681>
- <sup>2</sup> Ibid.
- <sup>3</sup> Austrian Economics Chamber (WKO):  
<https://www.wko.at/Content.Node/Service/Steuern/Weitere-Steuern-und-Abgaben/Verfahren---Pflichten-im-oesterr--Steuerrecht/Registrierkassen--und-Belegerteilungspflicht.html>
- <sup>4</sup> Schneider, F. (2015). Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2015: Different Developments.  
<http://www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf>
- <sup>5</sup> For a full overview of professions eligible for funding, see [https://www.wko.at/Content.Node/wir/oe/WKO-FactSheet\\_Handwerkerbonus.pdf](https://www.wko.at/Content.Node/wir/oe/WKO-FactSheet_Handwerkerbonus.pdf)
- <sup>6</sup> See Market Institut (2015). Der Handwerkerbonus aus dem Blickwinkel der betroffenen Unternehmen Kurz-Zusammenfassung der wichtigsten Kernergebnisse. Commissioned by Federal Austrian Chambers; Schneider, F. (2016). Volkswirtschaftliche Analyse über die potentiellen Auswirkungen des Handwerkerbonus auf den Pfusch/die Schattenwirtschaft und neueste Befragungsergebnisse vom Jänner/Februar 2016. Commissioned by the Austrian Government.
- <sup>7</sup> Schneider, F. (2016). Volkswirtschaftliche Analyse über die potentiellen Auswirkungen des Handwerkerbonus auf den Pfusch/die Schattenwirtschaft und neueste Befragungsergebnisse vom Jänner/Februar 2016. Commissioned by the Austrian Government.  
[http://www.econ.jku.at/%5Cmembers%5CSchneider%5Cfiles%5Cpublications%5C2016%5CHandwerkerbonus\\_Befragung\\_2016.pdf](http://www.econ.jku.at/%5Cmembers%5CSchneider%5Cfiles%5Cpublications%5C2016%5CHandwerkerbonus_Befragung_2016.pdf)
- <sup>8</sup> Ibid
- <sup>9</sup> Ibid
- <sup>10</sup> Ibid
- <sup>11</sup> Telephone interview with Mr Paul Grohmann at the Federal Economics Chamber, Department of Trade and Crafts. Interview held on 25<sup>th</sup> November 2016.
- <sup>12</sup> Market Institut (2015). Der Handwerkerbonus aus dem Blickwinkel der betroffenen Unternehmen Kurz-Zusammenfassung der wichtigsten Kernergebnisse. Commissioned by Federal Austrian Chambers.
- <sup>13</sup> [https://media.arbeiterkammer.at/PDF/AK\\_Budgetanalyse\\_2014-2018.pdf](https://media.arbeiterkammer.at/PDF/AK_Budgetanalyse_2014-2018.pdf)
- <sup>14</sup> [https://media.arbeiterkammer.at/PDF/Einschaetzung\\_des\\_Regierungsubereinkommens.pdf](https://media.arbeiterkammer.at/PDF/Einschaetzung_des_Regierungsubereinkommens.pdf)