Corporate taxes

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Overview

Greek tax law is extremely complicated, with many elements introduced to promote short-term policies or to alleviate specific economic problems. The law provides a framework, supplemented by ministerial decisions and interpretive circulars from tax offices. Although these last assume the force of law, they sometimes contradict the legislation they are supposed to clarify and thus are often challenged in the courts. The accounts of corporations and limited companies must be audited before they can be signed off, but because of a shortage of inspectors, there has been a delay of some two years for large companies and considerably longer for smaller ones.

Tax evasion is a major problem in Greece. Under the guidance of the Troika (representing the European Central Bank, the European Union and the International Monetary Fund), the government established five task-forces in 2010 to devise new tax-collection techniques, two of which focused on large corporations and high-net-worth individuals. There has been a concerted effort to collect arrears and to draw a line under past evasion. In September 2010 Law 3888/2010 provided for a so-called amnesty for businesses and individuals with unaudited assessments for 2000–09 prepared to come forward voluntarily to pay tax according to a schedule deemed to be below what they might otherwise have had to pay following an inspection. The scheme aimed to collect some €3.5bn from an estimated €30bn in arrears (of which about €12bn is thought to be collectible; the rest is owed by bankrupt companies or deceased individuals). Less than half that amount was garnered despite the government’s repeated extension of submission deadlines. Law 4002/2011 provided for legal entities and individuals having submitted insufficient or inaccurate returns for 2010 to file supplementary returns without any surcharge or penalty.

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An arbitration system for disputed assessments was introduced in March 2011 via Law 3942/2011. A committee of the Ministry of Finance deals with disputes exceeding €50,000 and a specialist Body of Tax Arbitrators for those exceeding €150,000; in certain instances, debtors will be allowed to net tax obligations against arrears owed to them by the state (debtors must have secured a final court decision as to the amounts they are owed). Banking secrecy has been lifted (under specific conditions), and Law 3942/2010 provided for the Internet publication of details of alleged worst offenders owing more than €150,000. (But the government backed down from this in October 2011 and made the list available only to MPs after 15-days' notice to the individuals.) Crimes related to arrears, evasion and non-remittance of VAT or other withholding taxes were deemed "continuous", and a criminal prosecution may be brought regardless of whether an appeal has been launched before an administrative court. A special prosecutor has been named to pursue tax crimes, and the maximum sentence for a felonious offense increased to 20 years from ten.

Bribery of tax officials is punished severely. Law 3900/2010 made changes to administrative-court proceedings in an effort to accelerate tax, customs and social-security cases. Nonetheless, the judicial process remains ponderous, and even misdemeanours can take up to seven years to get to court and three years to exhaust the appeals process. According to press reports, there is a backlog of 445,000 cases before administrative courts (first instance and appeals) of which 420,000 are tax cases.

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In May 2010 Law 3845/2010 applied a “crisis levy” on profitable companies with balance sheets closing between September 1st 2009 and August 31st 2010. The levy applied to companies at the following rates: with net profits before tax of €100,000 at rates of 4% on the first €300,000; 6% on the next €700,000; 8% on the next €4m; and 10% on net profits exceeding €5m, with the tax payable in 12 monthly installments starting on January 1st 2011.

A new tax bill is introduced each year to accompany the budget. A new bill is expected within October 2012 that would bring forth significant changes in relation to the taxation of individuals, entrepreneurs and companies.

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Corporate tax rates

The government of the Panhellenic Socialist Movement (Pasok; 2009–11) at first embraced the policy adopted (in 2008) by the previous New Democracy administration for cutting the standard rate of corporate income tax (25% at the time) by 1 percentage point a year, to reach 20% by 2014. Given the deepening recession and need to promote investment, however, the Pasok government abandoned this approach. It introduced Law 3943/2011 on March 31st 2011, thus immediately reducing the corporate tax rate to 20% (beginning with returns in 2012 for profits arising in 2011). Distributed profits paid as dividends are subject to further withholding tax. Law 3943/2011 reduced the rate to 25% (by exception to 21% for profits distributed in 2011) from a 40% rate introduced the previous April (Law 3842/2010). The 25% rate applies when dividends are paid to other companies in Greece and abroad; when paid to individuals, the dividend amount is aggregated with their other income and taxed at their personal income tax rate (see Taxes on interest and dividends).

For partnerships, the three general partners with the largest capital participation have 50% of the profits distributed in proportion to their participation, and it is taxed in their hands as business income. Other general partners pay 20% on their portion of profits, and the legal entity pays 25%. Law 3842/2010 exempted for three years the annual profits of up to €30,000 for enterprises and professional offices founded by entrepreneurs younger than age 35; however, the government announced in October 2011 that it was abolishing this provision, retroactively to January 1st 2011.

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Law firms and notaries are taxed at a flat rate of 25%, reflecting the fact that they are among the most notorious for tax evasion. Construction companies, equally notorious, are liable for a 3% withholding tax on all earnings that may be offset against their final tax liability, which is assessed on an assumed profit margin of 20% (up from 15%). A 20% withholding tax is supposed to apply to all professional transactions exceeding €300.

Mutual funds (unit trusts) pay tax on the annual average of a semi-annual evaluation of their investments and disposable funds at a rate equivalent to 10% of the European Central Bank's reference rate (1.5% at end-October 2010) plus an increment that reflects the specific category of mutual fund. Their management companies pay normal corporate tax rates on their income.

In accordance with Law 2778/1999 (as modified by Laws 2992/2002 and 3581/2007), real-estate investment companies (REICs) pay 0.3% on the average of a semi-annual appraisal of their investment portfolio, and corporate income tax equal to 10% of the European Central Bank's reference rate plus 1 percentage point, which represented a rate of 1.15% in October 2011. REICs are also exempt from a number of other taxes and duties; hence, their total tax liability is around 4%. This preferential rate was designed to promote their creation as a new asset class. Banks, which have been the main promoters of REICs, have used them as a tax shield.

In March 2011 the European Commission published a draft directive on a common consolidated corporate tax base (CCCTB), which would let groups operating within the EU calculate taxable profits according a single set of rules. Companies would be able to file a single consolidated tax return with taxable profits shared out to the individual companies on the basis of a formula based on such criteria as assets, payroll and sales. There would be common rules on deductibility of interest and depreciation; transfer-pricing issues would be neutralised. National tax rates would still apply to each in-country operation, and entry into the scheme would be voluntary. The proposal was awaiting further action by the European Parliament and Council in

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Corporate taxation, 2011

Net profit per profit-and-loss statement	500,000
Add: non-deductible expenses (provisions, fines, etc)	50,000
Deduct: appropriation to tax-free reserves	100,000
Total deductions	100,000
Taxable income with additions and deductions	450,000
Corporate income tax at 20%	90,000
Minus tax withheld	6,000
Total tax paid	84,000

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Taxable income defined

Corporations (AEs), limited companies (EPEs) and branches are taxed on total annual profits before distribution of dividends, fees to directors, bonuses and profits to employees. Resident corporations (Greek and foreign corporations operating and managed in Greece) and limited companies are taxed on net income earned in Greece and abroad. Greece unilaterally grants credit to residents for foreign income tax paid up to the amount of Greek tax payable on the foreign income. This may be modified under a double-taxation treaty between Greece and the foreign company's home country. Net income is calculated by deducting expenses from gross income. This is adjusted for non-deductible expenses, tax-free income and other income subject to special regulations with termination of tax liability (such as interest income subject to withholding tax).

Non-resident companies are taxed on income arising from Greek sources only. A resident or permanent establishment is defined as one that maintains shops, offices, warehouses or manufacturing facilities in Greece; keeps inventories of merchandise for their own account from which they fill orders; transacts business or offers services through a representative in the country; renders technical or research services there, even without a representative; or conducts other common business activities. Participation in the capital of a Greek limited-liability company or corporation confers permanent-establishment status (that is, residence), but mere ownership of publicly traded shares does not constitute residence.

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Value-added tax (VAT; referred to in Greek as foros prostithemenis axias—FPA) is payable by all individuals, legal entities and associations of persons with residence or professional premises in Greece. Any professional, partnership or company providing goods and services generating revenue in excess of €10,000 must register with the tax authorities. Non-residents that make taxable supplies of goods or services in Greece also have to register. Law 3763/2009 amended the legal framework on the definition of the place of supply of services and the refund procedure for input VAT for crossborder transactions. The rules are complex and professional advice should be taken regarding this matter.

AEs and EPEs must produce annual financial statements, including a balance sheet, a profit-and-loss account, a statement of appropriation of profits and notes to the financial statements. Listed companies must also publish quarterly financials (including cashflow statements) and, in certain instances, unlisted companies must publish quarterly profit-and-loss statements. There are detailed rules about filing and publication. Foreign branches must file annual financial statements and summaries of their activities in Greece with the Secretariat of Trade and Commerce of the Ministry of Development, Competitiveness and Shipping; they do not have to publish profit-and-loss accounts since their income is consolidated in head-office accounts. Foreign credit and financial institutions must publish audited financial information. If the tax authorities find that transactions between a local subsidiary and a foreign parent are not carried out at arm's length, profits can be adjusted under transfer-pricing rules. Corporations with listed shares or securities must use International Financial Reporting Standards (IFRS). A corporation whose accounts are consolidated with a corporation that employs IFRS must also do so if it contributes more than 5% to consolidated turnover, assets or results (after minorities). For other AE or EPE companies, IFRS is optional. Otherwise, Greek Generally Accepted Accounting Principles (GAAP) apply.

For AEs and EPEs, corporate tax must be prepaid up to 80% of the tax obligation in the current year (100% for banks and the branches of foreign banks and 55% for partnerships). This amount is then netted against obligations in the succeeding year. Payment schedules are complex and have been considerably tightened, even before the 2010 EU/IMF Memorandum of Understanding. Professional advice should be sought in this regard.

To promote transparency in tax matters, companies in the following fields must have registered shares: banking, insurance, leasing, venture capital, factoring and forfaiting, utilities, telecommunications, defence, health and education. In addition, any company with procurement contracts worth more than €2.9m with the state, such as construction and information-technology companies, also must have registered shares.

Ministerial Decision (POL 1159/2011 supplementing Laws 3842/2010 and 3942/2011) provides that AE and EPE will be able to finalise their future tax obligations by filing online with the General Secretariat of Information Systems at the Ministry of Finance a tax certificate issued by an accredited auditor without waiting for a Ministry of Finance inspection. The tax certificates consist of two parts: a tax compliance report stating that no violations of tax law have occurred, and a detailed information appendix that includes a dossier of transfer-pricing information, among other things. The company receives a comfort letter from the tax authorities saying that, unless it is inspected within 18 months, its tax obligations are considered to be satisfied by the compliance certificate. State inspectors will continue to audit a random sample of 9% of firms, and an inspection will be mandatory of any company that does not participate in the prior audit scheme. A negative compliance report or one with reservations will also mandate an inspection.

The private auditor and the audit firm are jointly liable for compensation of the state in the event an inspection discovers undisclosed tax liabilities arising from omissions; administrative and penal sanctions apply if this is the result of a wilful act.

A ministerial decision is issued annually, listing deductible and non-deductible expenses. The list of deductibles is binding on tax auditors but is not exhaustive. Allowable deductions usually include ordinary business expenses such as directors' fees; bonuses to managers and directors; interest payments; repair and maintenance of leasehold properties; and management fees, like franchise and royalty payments. Salaries and any other amounts received by the partners in an EPE are tax deductible, subject to a 35% withholding tax and satisfaction of social-security obligations. Salaries and remuneration of partners in general partnerships (OEs) or limited partnerships (EEs) are not deductible. Law 3842/2010 stipulated that payroll expenses would be deductible only if paid through a business bank account or by cheques cleared via such accounts (however this provision has not been actually implemented yet). Purchases of raw materials, intermediates and merchandise for subsequent sale will not be deductible if invoices are not provided by the supplier but through a company whose sole purpose is to provide invoicing.

In an effort to crack down on tax avoidance via offshore companies established in tax havens, Law 3842/2010 made non-deductible the cost of any goods or services provided to Greek corporations by companies established in "targeted entities" (basically offshore centres as identified by the OECD), or countries with favourable tax regimes (that is, lower than in Greece, such as Bulgaria and Cyprus) that are included in a list of "un-co-operative jurisdictions" issued annually by the Greek Ministry of Finance. The legislation stipulated that this applies not only to the purchase of goods and services but also to the following: interest or other income from bond loans, claims, deposits and guarantees; any type of royalties, rentals and leasing payments; or any kind of compensation remuneration to managers or members of boards of directors. The law also introduced tax on the profits realised (or refused to recognise losses generated) through sale and re-sale of goods between a Greek enterprise and a targeted entity when the goods did not leave the country. Moreover, interest paid to targeted entities is no longer deductible. All of the above restrictions may not apply provided that the party paying the respective fees/expenses proves that these were paid within the context of normal business activities and do not conclude in tax evasion (as modified with Law 3943/2011).

In accordance with Law 3756/2009, royalties and service fees supported by written contracts and invoices are deductible in the year actually paid without prior approval of the Ministry of Finance—as long as the fees do not exceed 5% of expenses. If the fees are payable by trading companies (for trademarks or trading methods), these must not have been included in the sale price. The deductible rates should not exceed the average rates by companies of the same group in other countries. Law 3756/2009 also abolished the pre-approval of management fees

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Companies can write off start-up expenses and the cost to acquire real property in one year or in equal installments over five years. Leasehold additions and improvements may be amortised over the term of the lease. Leased real property is deductible up to the value of the buildings but not to the value of the underlying and surrounding land. Leasing companies may depreciate expenses incurred in acquiring real property over the period of the leasing contract. Sale and leaseback has become increasingly popular following the abolition of property-transfer tax on properties covered by such contracts.

Provisions for bad debts are tax deductible up to 0.5% of annual sales (after deducting discounts and returns and special consumption taxes); this does not apply to the debts of the state, municipalities or public enterprises. Companies in the fields of telecommunications and other network-utility industries such as water and gas may deduct up to 1%. Such provisions are limited to 30% of trade receivables at any one time. The balance of the provisions is reviewed every five years and any unused balance is transferred to the profit-and-loss account in the following year and becomes subject to tax. There are special rules for provisions for the bad debts of banks, leasing companies, and factoring and forfaiting companies.

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Research and development expenses are fully deductible. Car expenses are partially deductible under a schedule related to engine size. Loan interest is deductible in the year in which it arises. Premiums on group life insurance policies (provided they pay a taxable lump sum at term) may be deducted up to €1,500 per employee per year. There is a long list of allowable expenses for employees including staff-training costs, seminars/meetings; provision of crèches (day-care) and kindergartens, uniforms, bonuses for exceptional performance on university courses undertaken while on the job; 50% of mobile-phone expenses; travel expenses in foreign countries; and domestic hotel and rental costs when an employee is working more than 100 km from home. Some of these may be eliminated under the tax regime being developed for the years after 2012.

Losses may be carried forward for five years. Carry-backs are not permitted. (The carry-forward period drops to three years for companies keeping B-category books.)

Companies that have merged in accordance with Legislative Decree 1297/1972 may defer income tax on gains arising from revaluation of assets at the time of the merger until dissolution of the company and distribution of the gains.

Companies benefitting from tax relief under Law 3908/2011, the New Investment Law, may use up to one-third of their allowance in the first year and two-thirds in the second; otherwise the allowance may be deducted over ten years for start-ups and eight years for established businesses. The amount is based on the company's net profits and must be consigned to a tax-free reserve and recorded in a special account in the enterprise's books.

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Depreciation

Depreciation has been compulsory since 1997. Fixed assets worth less than €1,200 and computer hardware and software may be expensed in the year first used. Start-up or pre-operating expenses or expenses for the acquisition of real property may be deducted in one year or in equal installments over a period not to exceed five years. Buildings are depreciated via the straight-line method at 2–12%, depending on their use. For other assets, depreciation is taken on a straight-line basis according to acquisition value (plus any improvements but minus incentive grants). New machinery and equipment acquired by industrial, handicraft or mining businesses may also use the declining-balance method, for which the rates are three times those for the straight-line method. Presidential Decree (PD) 299/2003 stipulated that assets may be written down at 1–35% over 5–20 years. Law 3296/2004 allows companies to select “any steady rate” between the maximum and the minimum but says that they must stick to it thereafter. If a business does not charge depreciation in a given period, it loses its right to deduct the corresponding amount in future. If in an accounting year, the net book value of an asset after depreciation is less than 10% of the acquisition cost, the asset can be fully depreciated in that accounting year.

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Leasing of equipment and machinery (which the lessee acquires at the end of the contract) is popular among small and medium-sized enterprises because it lets them depreciate the items over the contract's duration (Law 2367/1995). The minimum term is three years; the average is four. Leasing of buildings is also popular because depreciation is allowed over as few as 12 years, compared with the standard 20 years. The 12-year regime is exceptional, however, and leasing companies more often write contracts for 15 years. Only buildings may be depreciated, not land. Leasehold improvements must be deducted in equal amounts over the life of the lease unless PD 299/2003 provides for higher rates.

Companies that have begun to report under International Financial Reporting Standards may deduct expenses for non-tangible assets such as investments in scientific research.

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Capital taxes

There is a 1% tax on capital accumulation, including for the formation of companies and joint ventures and capital increases by existing companies. Companies transferring their headquarters to Greece from an EU member-state or a third country are exempt from this if they would not have been subject to such a tax in their home country.

There is also a 0.1% levy on the capital of start-up companies, which goes to finance the Competition Commission.

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Treatment of capital gains

Law 2065/1992 makes capital gains from the sale of tangible assets taxable as regular business income. Businesses must revalue their real-property assets every four years, and the surplus (in excess of €880) is taxed at a rate of 2% on land and 8% on buildings. The revaluation is calculated by multiplying the acquisition value, plus the value of additions and improvements according to coefficients established by the Ministry of Finance: 1.2–1.4 for land and 1.15–1.35 for buildings, depending upon the year of acquisition. The surplus must be capitalised within two years. Companies may not offset the tax against tax arising from other income. The present four-year period began on January 1st 2009 and will end on December 31st 2012. The tax does not apply to companies using International Financial Reporting Standards (IFRS), which have to mark to market the value of their property holdings (including land and buildings) and revalue according to the fair value recorded in their books on December 31st 2004. The surplus is liable for tax and cannot be capitalised as goodwill. Real property held via financial leases is not subject to revaluation, a tax-loophole much favoured by real-estate investment companies (REICs).

Tax treatment varies for gains from the sale of intangible assets. Capital gains (or losses) form part of ordinary business income and are taxed accordingly. Advance tax of 20% is payable on the sale of an entire business (including goodwill) or from the transfer of a participation in a limited-liability company, units in a partnership, participation in a joint venture (JV)—except a construction JV—or the waiver of a right to participate in the capital increase of a limited-liability company (EPE) or a partnership. A similar advance payment must be made on transfers of other business rights, such as patents or industrial-property rights, but excluding mining rights. The gain is included in the income of the entity for the determination of taxable profits, with a credit for the advance tax paid.

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Tax applies on the capital gain (not the sale price) resulting from the transfer to relatives of all (or part) of a limited-liability company, partnership or individual enterprise. The tax is charged at 5% for relatives of first degree to the transferor, and at 10% for those of second degree. Transfers to a spouse or children (on retirement) are not subject to the capital gains tax unless the business owns real property; a tax of 5% then applies on the objective value of the property—this is an administratively determined value assigned by the tax authorities.

Several pieces of legislation were introduced over 2008–10 to tax capital gains on stock-exchange transactions, and each was superseded by a new law before it could take effect. The last (Law 3943/2011) treats profits or losses on any shares acquired from January 1st 2013 according to the general provisions of tax law, with losses deductible from profits and the net income and taxed at applicable rates. Capital gains were taxed in the hands of the seller at 0.15% during the first quarter of 2011 and then at 0.2% from April onwards that year. The tax is withheld by the Athens Exchange (Athex) and is paid to the exchequer as a lump sum each month. (Sellers of shares on foreign exchanges must declare the gain to their tax office within the first 15 days of the succeeding month.)

For the purpose of double-tax treaties, the sale of listed shares is considered business income, and the profit is exempt from Greek tax if the holder does not have tax-residence status. This is true also for foreign mutual funds and investment trusts. Gains from the sale of shares of listed shipping companies (incorporated under Law 27/1975) also are exempt.

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The capital gain from the sale of shares not listed on the Athex or a recognised international exchange is subject to general income tax provisions for both businesses and individuals. In addition, there is a special 5% transaction tax (borne by the seller), which applies on the higher of the contractual sale price (or the deemed price determined by a special formula), with a right to offset the tax against the capital gain. The 5% tax does not apply if the seller is resident in a country with a double-taxation treaty and does not have a permanent establishment in Greece.

The introduction of IFRS has affected the treatment of capital gains for banks. Previously, total unrealised capital losses were recognised in equity, but unrealised capital gains did not affect either equity or the profit-and-loss account. Under IFRS, all holdings have to be marked to market, and unrealised gains or losses in the trading portfolio must be recognised in equity and reported in the profit-and-loss account under net trading income.

Dividends distributed by portfolio investment companies (Law 3371/2008) and REICs (Law 2778/1999) were exempt from withholding tax under Law 3697/2008. REICs are also exempt from capital gains tax on the sale of properties built before January 1st 2006 (Law 3581/2007).

Venture-capital companies do not pay capital gains if the amounts realised are not distributed.

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Taxes on interest and dividends

Withholding tax of 10% is deducted from interest on deposits with banks operating in Greece or abroad. There is an exemption for the foreign-exchange deposits of non-Greek residents. Deposits made by individuals who are non-residents of Greece but citizens of the ten EU currencies that are not members of the European economic and monetary union (EMU) also escape the tax, since they are considered foreign-currency deposits. It is expected that this rate will be increased to 15% with the new tax law.

If a bank is the recipient of the interest, tax is not withheld since the payments are considered business income. Double-tax treaties may change these rates.

Tax on the interest paid to affiliates in an EU country is being phased out in stages until it reaches zero in 2013, to comply with the EU's Council Directive 2003/49/EC on interest and royalties (see Taxes on royalties and fees). Law 3842/2010 increased the withholding tax on interest payments to foreign enterprises without a permanent establishment in Greece (except for interest on bank and sovereign bonds) to 40%, unless a double-tax treaty provides otherwise.

Law 3943/2011 (gazetted on March 31st 2011) reduced to 25% the withholding tax on dividends from the 40% rate introduced by Law 3842/2010 that was supposed to have taken effect from January 1st 2011. (For profits distributed from 2011 earnings, and for that year only, the rate is 21%.) The 25% rate will apply when dividends are paid by corporations (AEs) and limited-liability companies (EPEs) to other such companies domestic and foreign, including those paid by a foreign branch to its head office or other permanent establishment abroad.

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There is a tax credit for dividends received from other domestic AEs and EPEs to be set off against future distributions. Dividends received by Greek AEs and EPEs from their subsidiaries elsewhere in the EU (if the company has had a participation of at least 10% in the company for at least two years) are exempt from corporate income tax if they are consigned to a tax-free reserve. This provision does not apply to dividends that Greek companies receive from their subsidiaries in third countries. A 40% rate of withholding tax continues to apply to investment income other than from dividends earned by foreign entities with no permanent establishment. Rates may be modified by double-taxation agreements.

Taxes that have been withheld at source following the transfer of a business either in its entirety or through shares, quotas or parts or the transfer of rights are subtracted from the advance payment against the succeeding year's tax. These provisions apply to all financial statements prepared from end-2010.

Withholding tax of 10% applies to the interest earned from Greek or foreign bonds or Treasury bills and Greek or foreign corporate bonds. Exemptions may apply. For instance, Treasury bills of up to one year and zero-coupon bonds of up to two years are purchased net of the yield, which is subject to tax. Treasury bonds with a maturity of two years or more are tax free if the initial owner (the private individual or legal entity that purchases them from primary dealers) holds them to term. (Law 3746/2009 extended this exemption to non-residents).

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The withholding tax on the interest accrued is payable on the bonds of the Greek, or a foreign, state if disposed of before maturity. The withholding tax exhausts the tax obligation of Greek tax-resident individuals. For Greek tax-resident legal entities, however, *the proceeds are also taxed as investment income. For non-Greek resident individuals or legal entities, the interest income is tax free (Law 2789/2000).*

Interest arising from covered bonds issued by banks under Law 3601/2007 is subject to the same rules as those governing Treasury paper. The income from repos based on sovereign bonds also has been categorised as interest.

No tax is withheld on dividends distributed by portfolio-investment companies (Law 3371/2008), real-estate investment companies (Law 2778/99) and Greek shipping companies (Law 27/1975).

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Taxes on royalties and fees

Royalties and service fees payable to resident companies are not subject to withholding tax. Law 3842/2010 increased withholding tax to 25% on royalties paid to foreign licensers without a permanent residence in Greece. Legislation passed in 2005 (Law 3312/2005) harmonised Greek tax law with the EU's Council Directive 2003/49/EC on interest and royalties. It will eventually exempt from withholding tax royalties (and interest) paid by either a Greek corporation (AE) or the Greek branch of an EU company to a company or a branch of the same group established in another member state. The company paying and the company receiving royalties and/or interest must participate by 25% in the share capital of the other or vice versa, or a third company must participate by 25% in the share capital of both. The exemption phases in over eight years, to 2013; the rate applicable for 2010–13 is 5%, unless a double-taxation treaty provides for more-advantageous treatment.

Law 3842/2010 increased to 25% the withholding tax on payments to non-resident companies and individuals for services rendered in Greece, unless a double-tax treaty provides otherwise. A comparable rate applies to fees for studies, designs, research and scientific advice and also for supervision and consulting services for construction projects.

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Franchise income is taxable at 20%. It is also considered a service and subject to value-added tax at 23%. When the company acquiring such revenue is a corporation or limited company, the profit is subject to the general rate.

Withholding taxes also apply to the following:

·directors’ fees, founders’ shares, preferential shares and salaries of corporate board members, at 35% (there is also stamp duty of 1% and a charge of 20% in favour of the agricultural pension organisation (OGA);

· fees paid by legal entities to commission agents, at 15%;

· fees of independent professionals (like doctors or engineers), at 20%; and

· indemnity payments for early termination of a business lease, at 20%.

As of January 1st 2012 a 25% tax is withheld from after-tax profits on fees to board members of an AE and the remuneration of administrators of limited companies (EPEs). If the fees paid to AE board **members are paid from untaxed profits or are considered employment** income, the withholding rate will be 20% or 35%, depending on the nature of the income (professional, investment or commercial). The rate is subject to a 1.2% stamp duty (except for employment income) and exhausts the income tax liability.

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Double-tax treaties

A new double-tax treaty was signed with Bosnia but had not entered into force by October 2012. Negotiations for new or revised treaties have also been continuing with Algeria, Australia, Indonesia, Kazakhstan, Mauritius, Singapore and Thailand.

Withholding tax rates under double-tax treaties (%)

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Withholding tax rates under double-tax treaties (%)

Residence of recipient	Dividends	Interest	Royalties	Residence of recipient	Dividends	Interest	Royalties
Albania	5	5	5	Malta	5/10	8	8
Armenia	10	10	5	Mexico	10	0/10	10
Austria	5/15	8	7	Moldova	5/15	10	8
Azerbaijan	8	8	8	Morocco	5/10	0/10	10
Belgium	5/15	5/15	5	Netherlands	38	8/10	5/7
Bulgaria	10	10	10	Norway	40	10	10
Canada	5/15	0/10	10	Poland	b	10	10
China	5/15	0/10	10	Portugal	15	15	10
Hungary	45	10	0/10	Sweden	b	10	5

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Withholding tax rates under double-tax treaties (%)

Residence of recipient	Dividends	Interest	Royalties	Residence of recipient	Dividends	Interest	Royalties
Croatia	5/10	10	10	Qatar	5	0/5	5
Cyprus	25	10	0/5	Romania	45	10	5/7
Czech Republic	b	10	0/10	Russia	5/10	7	7
Denmark	38	8	5	Saudi Arabia	5	5	10
Egypt	10	15	15	Serbia	5/15	10	10
Estonia	5/10	0/10	5/10	Slovakia	b	10	0/10
Finland	47	10	0/10	Slovenia	10	10	10
France	b	10	5	South Africa	5/15	0/8	5/7
Georgia	8	8	5	South Korea	5/15	8	10
Germany	25	10	0	Spain	5/10	0/8	6

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Withholding tax rates under double-tax treaties (%)

Residence of recipient	Dividends	Interest	Royalties	Residence of recipient	Dividends	Interest	Royalties
Iceland	5/15	0/8	10	Switzerland	35	10	5
India	b	b	b	Turkey	15	0/12	10
Ireland	5/15	5	5	Tunisia	35	15	12
Israel	b	10	10	Ukraine	5/10	0/10	10
Italy	15	0/10	0/5	United Kingdom	b	0	0
Kuwait	0/5	0/5	15	United States	b	0	0/20
Latvia	5/10	0/10	5/10	Uzbekistan	8	10	8
Lithuania	5/15	0/10	5/10	Non-treaty states	0/21/25	5/40	5/25

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(a) The information represented is based on signed ratified treaties only. Where two rates are given, there are separate rates provided for in the treaty; one or the other applies depending on the nature of the payment or recipient (government/non-government, size of shareholding, etc). Taxpayers should either consult the treaty or take professional advice on which rate applies. (b) Non-treaty rates apply.

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Intercompany charges

Businesses may deduct expenses for services provided by other companies in the same group for administrative support, organisation and reorganisation but not if provided via a “targeted entity” (countries with favorable tax regimes that are included annually in a list of “un-co-operative jurisdictions” by the Greek Ministry of Finance). Expenses are also deductible if provided by third parties for general interests (like consultancy advice) up to 5% of respective company expenses. This applies to Greek and foreign companies.

Machinery and equipment rents paid by a local subsidiary of a non-resident corporation face a withholding tax of 25% unless they are covered by a double-taxation treaty.

Intra-group royalties, service charges and overheads used to be subject to prior vetting and approval by a special committee when sums exceed certain limits. Law 3756/2009 removed the requirement for pre-approval if the payment obligation is covered by a written contract, an invoice and proof that tax has been paid. For fees covering trademarks, distribution methods and similar royalties, they must not have been included in the sale price. Ministerial decisions govern the necessary documentation, and intra-group transactions must be reported annually to the Ministry of Development, Competitiveness and Shipping (YPAAN). The deductible rates should not exceed the average of rates paid by companies of the same group in other countries. New rules on thin capitalisation provide that interest on loans or credits paid to related enterprises may be deducted only if the ratio of the loans or credits to the net assets of the enterprise does not exceed 3:1 (this also applies to bond loans and to loans from third companies that are guaranteed by affiliated companies). Accrued interest exceeding this ratio is not deductible.

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Law 3728/2008 introduced new rules for auditing all intercompany transactions between groups of companies with a foreign parent (including foreign companies operating in Greece as a branch) or groups of companies with a Greek parent, designed to prevent transfer pricing. (Law 3842/2010 tightened the provisions across the board.) All inter-group transactions (for sale-purchase of goods or the supply of services) are to be conducted in accordance with the OECD's arm's-length principle—that is, similar terms must apply to transactions between affiliated companies as if they had taken place between unrelated parties under similar market conditions. If the tax authorities decide transactions are not at arm's length, the difference will be added to the gross profits of the company that either charged the lower or paid the greater amount. The enterprise whose gross profits are inflated through such an adjustment will face an additional penalty of 20% (formerly 10%) of the difference over and above any additional taxes or fines on the reassessed income. Law 3842/2010 harmonised provisions regarding transactions between domestic enterprises with those between a domestic and a foreign company. Transfer-pricing provisions now also apply to rental payments for movable or immovable property. Groups are exempt if the annual contracts between affiliated companies (one of which is not Greek) are less than €100,000 a year (previously €200,000). The €200.000 threshold applies for transactions between Greek group entities.

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Turnover, sales and excise taxes

Value-added tax (VAT; in Greek, foros prostithemenis axias—FPA) was introduced in Greece in 1987, ten years later than elsewhere in the EU, with a derogation of another decade for full application. The VAT code was implemented by Law 2859/2000. The legislation was harmonised with the EU's Council Directive 2003/96/EC by Law 3336/2005, and with Council Directive 1977/388/EEC by Law 3783/2009. The latter provides for common crossborder rules on the assessment of VAT and provides that the place of supply is ordinarily where the recipient has his business establishment. The reverse-charge mechanism has been expanded, thus significantly limiting situations where the acquisition of a VAT number in another member state is required. Taxable persons now submit applications for refunds in their state of establishment, and the state of establishment forwards them to the member state that is entitled to the refund. Investors should seek professional advice.

Since the start of the global financial crisis of 2008 and 2009, the government has twice passed legislation to increase VAT rates (Laws 3833/2010 and 3842/ 2010). The standard rate has been increased to 23% from 19%. Rates also have increased for essentials such as food (to 13% from 9%) and for so-called cultural goods such as books, newspapers and theatre tickets (to 6.5% from 4.5%). Pharmaceuticals also qualify for the preferential 6.5% rate. Exemptions for medical and other professional services have been abolished. Many anomalies have arisen from the constant juggling of rates, particularly for those applicable to products from the hospitality and tourism industries. The standard rate has always applied to alcoholic beverages, but in 2011 it was applied to soft drinks as well. Since 2006 VAT has been charged at the highest rate on the first sale of new commercial properties and second homes, which has been a major factor contributing to a five-year slump in the construction industry.

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Excise duties and special consumption taxes on tobacco and alcohol rose by as much as 70% for some products in 2010, along with steep increases in those for automotive fuels. The government resisted harmonising rates for road and heating diesel. But under its new medium-term fiscal strategy agreed with the Troika (the European Central Bank, the European Union and the International Monetary Fund) in mid-2011, this is set to happen from October 2012, coupled with a programme of heating subsidies in the coldest parts of the country. The tax increases, on top of wage and pension cuts, have contributed greatly to the decline in private consumption in Greece.

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Other taxes

Most stamp duties have been abolished. The principal ones remaining are on commercial property rentals (3.6%); commercial-loan agreements if the lender is not a bank (2.4%); private-loan agreements (2.4–3.6%, depending on the nature of the parties); and cash-withdrawal facilities (1.2%).

Property taxes are calculated according to “objective values”. These are administratively determined by committees within the Ministry of Finance, which assign a worth to a property based on factors such as its age, locale and condition along with any improvements made. Historically, these have been 20–40% below market values, but they provide a basis for the calculation of transfer taxes, which circumvents underreporting of actual prices. Since October 2009, the government has implemented a number of reforms on real-property taxes. These included replacing a modest duty (ETAK) with a real-property tax system (FMAP) at progressively higher rates; abolishing capital gains and transaction taxes; but also restoring a tax on property transfers (FMK).

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Despite difficulties collecting its previous emergency levies on property (see Corporate taxes, Overview), the government introduced another one in October 2011. The levy was initially to apply only until 2012; however, it was extended until 2015 and looks to become permanent. Reflecting the problems with collection, it is to be applied on all residential and commercial buildings connected to the electricity grid and must be paid via electricity bills—with disconnection of services if it is not paid. The taxable charge is €3–16 per square meter, depending upon the objective value of the property (with a concessionary rate of €0.5 per square meter for the disabled and the unemployed) multiplied by a coefficient of 1–1.25% depending on the age of the building. The owner of the property is liable for the tax and the lessee may deduct it from rents. Industrial premises (but not warehouses) and outbuildings for animal husbandry are exempt, as are buildings owned by the state, municipal and communal authorities, municipal enterprises, the church (exclusively for places of worship) and charitable foundations.

Local governments apply an annual levy of 0.025–0.035% on land and buildings (TAP), based on the objective value of the land and buildings to support the costs of cleaning and lighting. There are also municipal charges on advertisements, car-rental companies, the use of public places, hotels, bars, restaurants and places of amusement.

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Personal taxes

Overview

Successive governments have tried to create a public tax consciousness, but widespread evasion persists, and bureaucratic rigidities have offered little assistance. For example, rules prohibit public-sector workers from taking outside employment, which effectively discourages them from legally declaring fees earned from second jobs used to compensate for relatively low wages. If persons on a state pension declare earnings, these are supposed to be deducted from their pension entitlement. Such rigidities thus contribute to an unrecorded economy that is estimated at 25–30% of GDP, according to a joint report from A.T. Kearney, Johannes Kepler Universitat Linz and Visa Europe (2005 data). This also partly reflects extensive self-employment in Greece (farmers, entrepreneurs, shopkeepers, tradesmen and professionals), which the OECD estimates at more than 40% of all taxpayers.

There has been a continuing effort to digitise the tax-collection system. An Internet network, TAXISnet, has been overlaid on the Taxation Integrated Information System (TAXIS)—software that is used for tax administration. The Ministry of Finance now provides its tax forms and guides electronically to those with Internet access. It is mandatory for merchants and self-employed persons to use the TAXISnet to file their value-added tax returns. The ministry's General Secretariat for Information Systems (GSIS) conducts cross-checks of returns with digital data from other sources—among others, the state-owned electricity company whose records show the size of properties.

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Income is self-declared (usually through an accountant). Returns must also include a statement of assets. The tax authorities may impute income and assess additional tax based on criteria setting out assumptions on the cost and maintenance of assets. Via Law 3842/2010, the government imposes a steeply progressive tax rate, which has reduced allowances and increased the use of imputation to address under-reporting.

As with corporations, a “crisis levy” applies since August 2011 on personal income tax, beginning with the 2011 return on 2010 earnings. Styled as an extraordinary solidarity contribution for the unemployed, the tax applies at 1% on incomes of €12,001–20,000; 2% on incomes of €20,001–50,000; 3% on incomes of €50,001–100,000; and 4% on incomes exceeding €100,000.

To capture income that had left the country without having been first declared, the Ministry of Finance introduced a scheme whereby untaxed funds invested abroad (such as bank accounts or foreign insurance contracts) could be declared and made liable for tax at a concessionary rate of 5% (if remitted to Greece) or 8% if they continued to be held abroad. The “amnesty”, which was supposed to apply only in 2010 had little response; it was extended than to September 2011 at a rate of 8%, whether the funds were repatriated or remained abroad.

The government has promised to introduce a new tax system within October 2012.

Persons residing in Greece are taxed on their worldwide income. Those not residing in the country pay tax only on their Greek income. In March 2011, via New Tax Law 3943/2011, residence was defined as spending 183 days in the country in any calendar year. Courts had previously accepted residence as being in that country in which the person is primarily and permanently established. Relief is available for non-residents from countries with double-taxation treaties with Greece.

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Determination of taxable income

Taxable income is classified under six source categories: earnings from employment, real property, investments, business, professions and agriculture. Net income, for both legal entities and individuals, is determined by subtracting allowable deductions from each category and aggregating the results.

Employee withholding tax. Employers must withhold tax according to the new tax scale introduced in Law 3842/2010 (see table below) from salaries, wages and other forms of remuneration (overtime, bonuses, allowances and redundancy payments) for full- and part-time employees. (Employers must remit the tax within the first 20 days of March, May, July, September, November and January. Companies employing more than 50 workers must remit the tax monthly.) The amount is netted against the sum of all net income in other categories. Individuals must file returns by March 1st covering the fiscal year ending the previous December 31st. (This can be extended until May if declared income includes income from abroad or income earned in Greece by non-residents.) On the basis of the return, a tax assessment is issued. Tax may be paid in three installments, but there is a 1.5% discount if paid as a lump sum. Individuals must make a 55% pre-payment of the next year's tax based on the amount in the current year's assessment, which is then netted against the tax owed in the succeeding year.

Law 3842/2010, passed in April 2010, provides extensive measures for taxation of income in kind. Cash bonuses paid to bank executives (until end-2013) will be taxed at rates of up to 90%. A bonus of up to 10% on income (wages and overtime) of up to €60,000 (that is, €6,000) will be taxed as regular income. Higher bonuses up to €20,000 will be taxed at 50%; up to €40,000 at 60%; up to €60,000 at 70%; up to €80,000 at 80%; and exceeding €80,001 at 90%.

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Investment income is generally subject to withholding taxes, which are taken into account when arriving at final tax liability. The proceeds of profit sharing are also treated as investment income. Law 3943/2011 added dividends, which are now paid to individuals net of the 25% tax withheld by company that distributed them (final tax). The provision does not apply to dividends received from corporations (AEs) and limited-liability companies (EPEs) based abroad. The foreign withholding tax then applies unless covered by a lower rate under a double-taxation treaty. If the dividend income is paid abroad and remains abroad, the recipient is supposed to self-account for the earnings in a supplementary return filed within a month of the dividend having been paid or credited abroad.

Assessment. An individual's return must include details of assets such as primary and secondary residences (owned, rented or occupied under a concession free of charge), cars, private-school tuition and fees, household staff, yachts, helicopters, aircraft and swimming pools. The tax authorities apply coefficients that make assumptions about the level of income needed to acquire and maintain such assets. The income associated with these criteria is aggregated. If it exceeds by 20% the amount declared in the return, it is added to taxable income—unless the taxpayer can prove that the difference either came from sources exempt from tax or was covered by savings or borrowings.

The authorities also impute income if assets acquired during a year are 20% higher than declared income. The list of assets has included capital invested in companies, bonds and shareholdings (except Treasury paper and shares listed on the Athens Exchange), buildings (except a primary residence smaller than 200 square metres) and cash deposits by partners or owners in their companies.

Law 3091/2002 doubled the imputed income on owner-occupied real property larger than 200 sq meters (formerly 150 sq meters) and on secondary residences larger than 150 sq meters (formerly 100 sq meters). Occupying real property free of charge (for example, owners allowing family members to use vacant property without paying rent) also gives rise to taxable imputed income for the owner of the real property, at 3.5–5% of the objective value of the property.

Taxpayers may appeal against assessments. To do so, however, they must pay 50% of the tax due in advance.

Rental income tax. A surcharge of 1.5% applies on gross income derived from the leasing of land and buildings; this rises to 3% if the real property exceeds 300 sq metres and is used for residential purposes. Tax on the rental income of legal entities is 3%.

Proof of source of funds. Some 60,000 taxpayers in public positions must demonstrate the source of their funds for the acquisition of immovable property to prove that these have been properly taxed. Acceptable sources of funds in the proof-of-source exercise include bank interest, capital accumulated out of taxed or tax-exempt income of prior years, sale of assets, import of foreign exchange, loans, gifts and lottery winnings.

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Allowances change frequently. Law 3842/2010 abolished many expenses that had previously been deductible when computing tax free income and turned them instead into credits against tax owed. Life, health and personal insurance premiums no longer qualify for deduction from total income but constitute tax credits (subject to certain conditions). This also applies to donations in cash made to the state and to churches and for sponsorship, lawyer's fees and "green" building expenses. Mandatory social-insurance contributions to some funds (but not all) were also transformed into tax credits. Law 3842/2010 abolished a tax credit of 40% of interest paid on loans to acquire a residence.

Non-residents taxed on income earned in Greece are not entitled to such deductions. Residents receiving income from abroad can claim credit for foreign taxes paid up to the amount of Greek tax payable on such income.

Personal taxation, 2011 tax year

Income tax on individual net income is calculated according to the tax scale below (as it stands on October 2012, a new scale is expected however). It represents the tax burden of a resident alien taxpayer with a spouse (without taxable income) and two dependent children. The calculation below assumes that the individual is considered a Greek tax resident or EU tax resident earning at least 90% of his or her income in Greece.

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Taxable income(€)	Tax on full bracket(€)	Tax on excess (%)
0-5,000 (a)	0	0
5,001-12,000	700	10
12,001-16,000	720	18
16,001-26,000	2,500	25
26,001-40,000	4,900	35
40,001-60,000	7,600	38
60,001-100,000	16,000	40
100,001 and above	-	45

Tax computation (€)		**Tax on excess (%)**
Salary		80,000
Interest on government bonds		600
Interest on bank deposits		600
Total gross income		81,200
Less: Interest on government bonds, bank deposits		(1,200)
Adjusted gross income		80,000
Less: social-security payments (b)		(5,618)
Taxable income		74,382
Corresponding tax		21,752

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Taxable income(€)	Tax on full bracket(€)	Tax on excess (%)
Less (maximum tax credits)		
Medical expenses		(3,000)
Main-residence rentals		(100)
Amount for private lessons (c)		(200)
Total income tax liability		18,452

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(a) As from January 1st 2011 the tax-free threshold for taxpayers with children was increased by €2,000 for each of the first two children, and by €3,000 for each child exceeding two. Non-residents are taxed at 10% on income in this bracket, unless they are EU residents who earn at least 90% of their total income in Greece. (b) This assumes that the individual has been insured under a social-security system since prior to January 1st 1993 (when a new pension scheme was introduced) and that the maximum monthly salary subject to social-security contributions is €2,432.25 for 2011 (subject to regular periodic modification). (c) The amount of €100 is per child.

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Personal tax rates

The Greek government introduced a steeply progressive personal tax system in April 2010 via Law 3842/2010. This system allowed for rates of 18–32% on incomes of less than €32,000, with rates rising steeply (36–45%) on incomes exceeding this amount. Moreover, the law abolished all types of specially taxed income for salaried employees (such as civil servants, members of municipal and community councils, civil-aviation flying personnel and athletes).

In an effort to get businesses and traders to issue receipts and individuals to expect them, the government made access to the full tax-free allowance (currently at €5.000) dependent upon the collection of a proportion of receipts. Failure to reach the amount stipulated meant that the difference between the shortfall and the €5,000 threshold became subject to tax at a rate of 10%.

When filing taxes, a married couple submits joint returns, but tax is calculated separately on the income of each spouse. A net loss of one may not offset the net income of the other. The husband must file the form and declare his wife's income. The income of a child younger than age 18 is treated as the income of the parent having the higher income or custody of the child. The child must file his or her own return if there is sufficient taxable income from employment, inherited assets or a pension.

Foreign residents pay tax at a rate of 10% on the first €5.000 of taxable income, except for EU residents earning more than 90% of their income in Greece.

Capital taxes

Real-property tax (FMAP) works as a progressive tax system with rates of 0.1–1% on a property's objective value, based on coefficients set by district in a range from €500 per sq metre to €5,000 plus. (For years 2010–12, however, the rate is 2% for taxable properties worth more than €5m.) The government reduced the tax-free threshold in October 2011, from €400,000 to €200,000.

Inheritances and gifts attract a transfer tax based on the value of the property received. The tax is based on a graduated scale of rates, which increases as the value of the property increases. The rates also depend upon the familial relationship between the recipient and the deceased or donor. Lower rates apply to closer family members than to distant relations or unrelated persons. Close family members also have a higher tax-free bracket and broader brackets with lower rates than distant relatives or unrelated persons. Rates range across the degree of relationships from zero to 40%. A tax return must be filed immediately following the publication of the will or receipt of the bequest or within six months if the deceased died intestate

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