

TAX BRIEFING: Monthly Insight

Tax Developments in Greece: Changes to Corporate Tax, Income Tax, Shipping Taxation, VAT and Real Estate Tax

Following the Euro Summit Statement issued in Brussels on 12th July 2015, the Greek Parliament enacted Law 4334/2015 on 15th July 2015 entitled "Urgent Regulations for the Negotiation and Conclusion of an Agreement with the European Stability Mechanism (ESM)".

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A. Law 4334/ 16.07.2015 as Amended and Supplemented by Law 4336/ 14.08.2015

The above legislation, as interpreted by Ministerial Circulars POL. 1160/17.07.2015 and 1174/05.08.2015 and amended and supplemented by Law 4336/ 14.08.2015, includes the following tax provisions:

I. VAT Regime

A reduced VAT rate applies only to the following limited categories of goods and services described in Annex III of the VAT Code, with clarifications on the new rates provided by Ministerial Circulars POL. 1160/17.7.2015, 1168/29.7.2015 and POL. 1188/26.8.2015:

- VAT at a rate of 6% will apply to drugs and vaccines for medicine, books, newspapers, magazines and theater tickets;
- VAT at a rate of 13% will apply to basic goods, such as non-processed food (including meat and certain meat preparations), water and water delivery, pharmaceutical products, instruments and appliances for medicinal purposes or for persons with disabilities, electricity, natural gas, district heating, homecare and, from 1st October 2015 onwards, on hotel and other similar accommodation.

- c. The delivery of goods or provision of services other than the above are subject to the standard VAT rate (23%), unless exempted under Article 22 of the VAT Code.
- d. In the case of the Aegean islands, a preferential regime of 4%, 9% and 16% VAT in respect of a., b. and c. above respectively applies, which will be gradually abolished as follows:
 - i. from 1st October 2015 in the developed touristic islands with the highest income per capita;
 - ii. from 1st June 2016 in the less developed islands; and
 - iii. from 1st January 2017 in the remaining islands.
- e. With the exception of pre-school education, the provision of educational services as well as any related delivery of goods and provision of services is subject to VAT at a rate of 23%, unless provided by public organizations. Exemption from VAT is provided only if certain conditions are met, for example in the case of private or tutorial schools which do not systematically aim to make profit, where any profit is not distributed but assigned to the improvement or continuance of the provided services, administration and management provide their services on voluntary basis, the fees are lower than those charged for similar activities by businesses that are subject to VAT and the exemption from VAT is not likely to cause distortion of competition. **On the 2nd of September 2015, the Government committed to repeal the imposition of VAT on educational services. However, on the same day, rather than suspending VAT on educational services, the caretaker Government extended the time period within which the private schools and colleges have to change their VAT status with the tax authorities from "VAT exempted" to "VAT ordinary regime". Consequently, private schools and colleges are not under an obligation to charge VAT for their services until 16th October 2015.**
- f. Banks are obliged to withhold the VAT and pay it directly to the Greek State within 5 days from the relevant payment in case of transactions:
 - i. between entrepreneurs exceeding €3,000; and
 - ii. between entrepreneurs and individuals exceeding €1,500 (transactions under i. and ii. above being mandatorily paid through bank accounts, credit or debit cards or bank cheques).

No clarifications have been provided to date in relation to the date of application of the new provision, so it is inactive for the moment.

2. Increase of Corporate Income Tax and Advance Tax

The corporate income tax rate for legal persons and entities keeping double entry books, as well as for non-profit legal persons,

including any associations (*somateia*) or foundations keeping single-entry books, is increased to 29% as of 1st January 2015.

For the tax year starting on 1st January 2015, the advance tax for individuals acquiring income from a business activity, as well as for partnerships, non-profit legal persons, including any associations (*somateia*) or foundations, civil law associations, civil law companies or holding companies and joint ventures of partnerships, is increased from 55% to 75% and from 1st January 2016 onwards to 100%. The advance tax for corporations and all other legal persons or entities is increased from 80% to 100% from 1st January 2014 onwards. Ministerial Circular POL. 1159/17.7.2015 clarified that the payment of income tax by legal persons and entities within the tax year starting 1st January 2014 can be made in 5 (instead of 8) equal installments.

3. Increase of the Special Solidarity Contribution

The Special Solidarity Contribution is increased for income exceeding €30,000, applicable for income acquired from 1st January 2015 onwards and in the case of payroll, from 16th July 2015 onwards. The following bands apply:

Total net income (in €)	Tax rate
12,001 - 20,000	0.7%
20,001 - 30,000	1.4%
30,001 - 50,000	2%
50,001 - 100,000	4%
100,001 - 500,000	6%
> 500,001	8%

4. Increase of Luxury Tax

For income declared from the 2015 tax year onwards, the luxury tax rate is increased from 10% to 13% for passenger cars exceeding 2,500 cc, airplanes, helicopters, gliders, swimming pools and is also imposed on private boats (*yachts*) exceeding 5 meters (with the exception of sailboats and boats manufactured in Greece exclusively from wood according to the Greek maritime tradition).

5. Tax on Insurance Premiums

With the exception of life and fire insurance premiums, which continue to be taxed at a rate of 4% and 20% respectively, the tax rate on all other insurance premiums is increased from 10% to 15%. The only exemption from the tax on insurance premiums applies to life insurance contracts with a duration of at least 10 years.

B. Law 4336/ 14.08.2015

The new Law ratifies the draft financial assistance facility agreement between Greece and the ESM and introduces various provisions on income tax, real estate tax, the taxation of shipping and VAT (in relation to VAT please see above Law 4334/ 16.07.2015 as amended by Law 4336/ 14.08.2015). It also includes the commitment of Greece to introduce further tax reforms for the implementation of the financing agreement. The main points of this legislation can be summarized as follows:

1. Income Tax

Apart from the amendments in Law 4334/ 16.07.2015 (please see above), Law 4336/ 14.08.2015 includes the following income tax provisions:

- a. Expenses paid to an individual or a legal person or entity that, upon the issuance of the records of the transaction or upon realization of the transaction, are tax residents of a non-cooperative State (within the meaning of Article 65 of the Greek Income Tax Code), are non-deductible unless it is evidenced that they relate to real and ordinary transactions and that they have not been realized for the purpose of tax evasion or tax avoidance. Article 21, Par. 1 of Law 4321/2015 introducing the obligation to pay 26% income tax on such expenses is repealed.
- b. From the 2015 tax year onwards, the 2% discount applicable in the case of a one-off payment of corporate and individual income tax is abolished.

2. Real Estate Tax

- a. A discount of 20% on the unified real estate tax (*EN.F.I.A.*) for residential and commercial properties not connected to the electricity grid during the previous year and held by individuals residing in Greece, will continue to apply in 2015.
- b. The supplementary real estate tax, applicable for properties exceeding €300,000 in value, is also imposed on hotel units owned and in use by individual hotel businesses.

3. Shipping

- a. From 1st January 2015 onwards, the following vessels flying EU and EEA flags, other than Greek flags, are subject to tonnage tax, which exhausts the liability to income tax of ship-owners and ship-owning companies on income acquired from the related activity (unless a double taxation agreement or a maritime agreement provides otherwise):
 - i. professional leisure boats and day trip boats that are subject to the provisions of Law 4256/2014 on tourist ships;

- ii. passenger ships, ferries and cargo vessels providing transport services in Greece in accordance with the provisions of Article I of Law 2932/2001; and
- iii. other ships providing transport services in Greece as well as ships up to 500 tons providing international transport services flying flags EU and EEA flags, other than Greek flags.

The same exemption from income tax applies to shareholders or partners of ship-owning companies (up to the level of individuals) for income acquired in the form of net profit distribution or dividends.

- b. The rates of tonnage tax and special contribution imposed in accordance with Articles 6 and 10 of Law 27/1975 (first category ships) will increase annually by 4% for the years 2016 to 2020. The same annual increase applies to the special contribution imposed according to the provisions of Article 4 of Law 29/1975 on Greek-owned vessels flying a foreign flag which are affiliated for insurance purposes with the Navy Retirement Fund (NAT).
- c. The annual contribution imposed by Article 43 of Law 4111/2013 on companies falling within the definition of Article 25 of Law 27/1975, in other words offices or branches of foreign businesses of any type or form, engaging exclusively in the charter, insurance, settlement of cargo damage, brokerage for the sale or construction or charter or insurance of ships flying a Greek or foreign flag, with tonnage exceeding 500 tons in total, with the exception of coastal passenger ships and cargo ships used in domestic waterways, as well as agencies of ship-owning companies and businesses that engage in the same activities, is extended for 4 years, until 2019.

The rates for the period 2016-2019 are the following:

Annual amount of foreign exchange (amounts in US\$) imported and converted to €	Rate
Up to 200,000	7%
200,001 - 400,000	6%
Exceeding	5%

4. Commitments of the Greek Government

The Greek Government has made various commitments, which include a commitment to proceed with the introduction of the following tax policy and tax administration reforms by 2016:

a. Income Tax

- i. From 2016 onwards, the Special Solidarity Contribution will be reformed and integrated into the Income Tax Code;
- ii. the tax framework for collective investment vehicles and

their participants will be reviewed in accordance with the Income Tax Code and EU best practices;

- iii. the tax rate for income from the renting of real estate will be increased to 15% for annual income up to €12,000 and to 35% for annual income exceeding €12,000;
- iv. the special tax treatment of maritime business will be gradually abolished, with the temporary voluntary contribution of the maritime community extended until 2018;
- v. the withholding tax imposed on technical services will be reviewed; and
- vi. the Income Tax Code provisions on mergers and acquisitions and reserve accounts will be modernized.

b. Real Estate Tax

From January 2017, real estate "objective" values (the minimum tax value deriving from application of a formula of the Ministry of Finance), will be brought in line with market values. The unified real estate property (*EN.F.I.A.*) rates will be adjusted accordingly, if deemed necessary.

c. Tax Evasion

- i. New criminal law provisions will be introduced on tax evasion

and fraud with a view to, among other issues, modernizing and expanding the definition of tax fraud and tax evasion to all taxes;

- ii. provisions will be introduced to enable tracking of non-declared deposits through bank transactions effected in banking institutions in Greece or abroad;
- iii. a voluntary disclosure program will be adopted with appropriate sanctions and incentives, but without granting a tax amnesty;
- iv. requests will be filed with EU Member States to acquire information on the ownership and acquisition of property assets by Greek citizens;
- v. a Wealth Register will be introduced;
- vi. a database will be created for monitoring balance sheets of parent and subsidiary businesses in order to improve risk analysis criteria for transfer pricing; and
- vii. by September 2015, the tax authorities will sign the Ministerial Circular expanding the indirect bank transaction registry to include a 10 year history of transactions.

d. Tax Amnesty - Settlement Regime

The Greek Government will not provide any tax amnesty or any further debt settlement regime.