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Options for Reforming The Tax System in Greece

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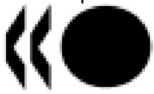

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by
Chiara Bronchi

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ABSTRACT/RÉSUMÉ

Options for reforming the tax system in Greece

For many years Greece has not made a systematic effort to redesign the whole tax system. Changes to taxation have been made in a piecemeal fashion, and many of them have led to a complex and non-transparent system, characterised by narrow bases and fairly high rates. There has also been a general lack of strong and uniform tax enforcement. Despite the considerable progress, in recent years, in broadening the tax base and improving tax compliance as well as administration, more needs to be done to enhance efficiency and equity and the overall performance of the tax system. To this end the government has indicated that it plans to introduce wide-ranging measures in 2002. The evidence, reviewed in this paper, suggests that the main priorities for reform should include: further improving transparency and reliability of the tax system including the abolition of the practice of tax amnesties and bank secrecy fo tax purposes; eliminating the strong bias in favour of the self-employed and unincorporated businesses; broadening the base and lowering the rate of the CIT further. Finally, the tax mix could be re-balanced by shifting the tax burden on labour to other types of income such as immovable property and indirect taxes levied by local government (*e.g.* user charges and fees), which are usually residence based and more difficult to evade.

JEL classification: H2
Keywords: taxation, tax policy, Greece

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Pendant de nombreuses années, la Grèce n’a mené aucune action systématique de refonte de l’ensemble de son système fiscal. De multiples modifications à caractère fragmentaire ont abouti à un système complexe et opaque, caractérisé par l’étroitesse des bases d’imposition et le niveau relativement élevé des taux. En outre, la réglementation fiscale n’a généralement pas été appliquée avec la vigueur et l’uniformité nécessaires. Malgré les grands progrès accomplis ces dernières années pour élargir les bases d’imposition et améliorer le respect des obligations fiscales et l’administration de l’impôt, de nouvelles mesures sont indispensables pour obtenir plus d’efficience, plus d’équité et un système fiscal globalement plus performant. Le gouvernement a fait savoir qu’il prévoyait de mettre en place à cet effet des mesures de grande ampleur en 2002. Ce document préconise pour la réforme les principales priorités suivantes : accroître encore la transparence et la fiabilité du système fiscal, notamment en mettant fin aux amnisties fiscales et au secret bancaire à des fins fiscales ; éliminer le biais très marqué en faveur du travail indépendant et des entreprises qui ne sont pas constituées en société ; encore élargir l’assiette de l’impôt sur les sociétés et abaisser son taux. Enfin, il faudrait rééquilibrer la fiscalité en transférant une partie de l’imposition des revenus du travail sur d’autres types de revenus comme ceux provenant de biens immobiliers et sur les impôts indirects perçus par les collectivités locales (sous la forme, par exemple, de redevances d’utilisation), la fraude étant dans ces deux cas plus difficile puisqu’on applique généralement le principe de la résidence.

Classification JEL : H2
Mots-clés : fiscalité, politique fiscale, Grèce

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OPTIONS FOR REFORMING THE TAX SYSTEM IN GREECE[1]

1. Until the mid-1980s, government spending was fairly low by international comparison, keeping tax pressure considerably below the OECD average. Subsequently, government expenditure accelerated sharply. The surge largely reflects the rapid expansion of the welfare state, the implementation of a sizeable public infrastructure programme, problems with streamlining the bloated central government administration, the rapid increase of interest payments on the public debt, substantial support to loss-making enterprises and transfers to cover operating deficits of public utilities. The rise in taxation did not keep pace with spending, resulting in a huge government deficit that peaked at 16 per cent of GDP in 1990. In the run-up to EMU membership, budget consolidation became a priority. This consolidation has been largely achieved by fast rising taxation while EU transfers have become an important source of revenue. The tax burden also rose in other EU countries, but the rise in Greece (10 per cent of GDP between 1990 and 2000) was the sharpest (Figure 1). Currently, total tax revenues amount to 40 per cent of GDP, which places Greece between the EU and the OECD averages. As elsewhere, social security contributions, personal income and consumption taxes account for the major part of revenues. By international comparison, though, the share of consumption taxes and social security contributions is high (together they account for more than 73 per cent of total tax revenues), while the share of direct taxes is well below average (Table 1).

(Figure 1. Total tax revenue in selected countries)

(Table 1. The structure of taxation by type of tax)

2. Contrary to many other OECD countries, there has not been a systematic effort to redesign the whole tax system. To this end, the government is planning a comprehensive tax reform that could be enacted in 2002. There were numerous changes to taxation in a piecemeal fashion. Many of them have led to a complex and non-transparent system, generous individual allowances and a web of preferential incentives for the business sector. There has also been a general lack of strong and uniform tax enforcement. These features hamper both efficiency and equity and, overall, the tax system has performed poorly in various respects. In recent years there has been considerable progress, however, in three areas. First, tax compliance has improved with a sizeable positive impact on revenues, reflecting the better enforcement of tax legislation. Second, there has been a broadening of the tax base by abolishing a number of tax expenditures and by taxing previously untaxed incomes such as income from interest, large

1. The author is an economist in the Policy Studies Branch of the Economics Department. This paper was originally produced for the *OECD Economic Survey* of Greece published in February 2001 under the authority of the Economic and Development Review Committee of the OECD. The author is indebted to Andrew Dean, Jørgen Elmeskøv, Michael Feiner, Val Koromzay, Chris Heady, Peter Hoeller, Paul Mylonas, Aristomène Varoudakis and other colleagues in the OECD Secretariat for valuable comments and drafting suggestions. Special thanks go to Anick Bouchouchi-Lotrous, Christine De la Maisonneuve and Chantal Nicq for technical support and to Anne Eggimann and Celia Rutkoski for secretarial assistance. The paper has benefited from discussions with Greek experts in the Ministry of Economics, in the Ministry of Finance, in the Central Bank of Greece, in the private sector, in the Centre of Planning and Economic Research (KEPE), in the Foundation for Economic and Industrial Research (IOBE) and the Athens University of Economics and Business.

immovable properties and stock exchange transactions. Third, a major effort is underway to modernise the administration of taxes. The first section of the chapter discusses the key forces shaping tax policy in Greece, followed by a section on the main features of the tax system and its major weaknesses. The third section outlines the main options for reform.

I. Forces shaping the system: past, present and future

Poor tax compliance

3. It is widely recognised that a high degree of social and political acceptance of the tax system reduces the disincentive to comply. The Greek tax system has not met with such acceptance, however, and this partly explains its long-standing poor performance (Mavraganis, 1994 and Agapitos *et al.*, 1995). Moreover, the self-employed and those working in the underground economy could avoid taxes more easily than employees and pensioners who have paid a disproportionately large share of taxes. The principles of horizontal and vertical equity[2] have been continually undermined, through an ever-increasing number of exemptions to certain social groups irrespective of their ability to pay.[3] Moreover, frequent tax amnesties have aggravated tax inequality and undermined the credibility of the tax system (as well as compliance incentives). All of this has encouraged tax evasion — estimated at around 7 per cent of GDP in 1995 — and tax avoidance (Agapitos *et al.,* 1995).

4. There are many factors that have hampered tax collection: an informal economy estimated to generate output equivalent to anything from 24 to 30 per cent of GDP (Schneider *et al.*, 2000) to more than 40 per cent (Agapitos *et al*., 1995); a workforce with a large share of self-employed; an inefficient tax administration; bank secrecy; the lack of a land register and, until recently, the lack of an appropriate infrastructure for cross-checking information between the different tax authorities. Moreover, taxpayers' compliance has also been discouraged because of the violation of the principle of legal certainty due to the continuous revisions and amendments of the Tax Acts,[4] the complexity of tax laws, the loopholes due to the numerous tax allowances and exemptions, and, finally, the extra burden of so-called "third-party" taxes that are extensively used to fund various institutions (*e.g.* the pension fund of the lawyers, engineers, and media workers).

5. Nevertheless, revenue developments in recent years have been encouraging, signalling that the recent changes to the tax system and the administration are proving effective. A series of tax simplification and tax control measures taken in recent years have led to an improvement in tax compliance, as indicated by the higher-than-expected income elasticity of many important taxes, such as the value-added tax (VAT), the corporate income tax (CIT) and the personal income tax (PIT). This accounts for the large tax revenue realisations as compared to the budgeted amounts in recent years. In particular the improvement in revenue collection reflects better compliance by companies with reporting standards (as many of them have been queuing to be listed on the Athens Stock Exchange (ASE), as well as efforts to enforce the tax law with the

2. The principle of horizontal equity implies that taxpayers with the same income and similar family situation should pay the same tax, while vertical equity implies that taxation should vary with different levels of income reflecting ability to pay.

3. According to estimates included in the 1995 Budget, tax exemptions amounted to nearly 11.6 per cent of total tax receipts in the same year.

4. The principle of legal certainty dictates that the tax system should not raise doubts among taxpayers with regard to the applicability of its provisions and that the scope and the content of tax laws should be unequivocal and simple.

creation of a special bureau of tax investigation (SDOE); improvements in tax administration have also played an important role.

Sharp tax hike in the last decade

6. In order to meet the rapid growth of public expenditure, tax revenues as a share of GDP have increased steeply over the last ten years and are now above the OECD average (Figure 1), even though recently there have also been selective cuts in excise taxes to help hit the inflation target associated with EMU membership. All taxes contributed in similar amounts to the overall increase. The rise in PIT receipts reflects inflation-driven increases (*i.e.* fiscal drag), increased tax compliance and enforcement, while consumption tax receipts were boosted by the introduction of the VAT system in 1987 and a subsequent broadening of its base, and better enforcement. Revenues from social security contributions and property taxes have also risen due to rate increases and the trend decline in the number of farmers[5] (Table 2). Overall, the sharp rise in tax revenues (Figure 2) has been the main factor in nearly closing the gap between revenues and expenditures — the latter, at 43 per cent of GDP, is currently below the EU, but above the OECD average — and ultimately fulfil the Maastricht fiscal criteria (Table 3).

(Table 2. Level and changes in general government tax revenues)

(Figure 2. Trends in general government expenditure and revenues)

(Table 3. General government expenditure in selected OECD countries)

Spending pressures will remain strong

7. In the medium and long term, the tax system will face increasing pressure from growing expenditure. A rapidly ageing population (the number of pensioners is expected to rise steeply after 2005), a pension scheme that is generous with respect to pension rights and largely unfunded, a large debt accumulated by loss-making public enterprises, and a likely decline of the sizeable transfers from the European Union after 2006 will impose pressures to raise taxes in the future (OECD, 2001*a*). These pressures come against the background of a public debt that is still among the highest in the OECD as a per cent of GDP. While stronger trend growth and future privatisations should counterbalance these pressures to some extent, hard decisions concerning future spending will be required. Moreover, the speed of convergence in per-capita income with the EU average could be affected by government spending and taxation decisions. While the international evidence is not conclusive and the issues involved extend well beyond tax distortions, high levels of government spending and taxation have often been found to be associated with slower economic growth (Box 1). With standards of living in Greece some 30 per cent lower than the EU average, the need to keep economic distortions and other impediments to growth to a minimum is of primary importance to achieve a rapid catch-up in living standards.

5. Traditionally, farmers do not pay social security contributions and property taxes. Their share in total employment has fallen from 35 per cent in the mid-1970s to 20 per cent in 1998.

Box 1. **Taxation and economic growth**

The direction of tax effects on the level and growth of income is not always clear. Taxation may, in fact, be beneficial for the economy if it provides the financial basis for the provision of public goods that improve average living standards and social welfare. More and better public goods and services can serve to increase the productivity of private fixed and human capital and hence increase economic growth, while government transfers reduce poverty and improve social cohesion. On the other hand, higher taxes increase distortions and may reduce saving, investment and work incentives and adverse effects on economic efficiency may grow disproportionately with the increase in the tax burden.

As the net effect of taxation on economic performance depends on the level and structure of taxation, and whether tax revenue is spent in a productive or unproductive way, the benefits and costs of taxation are difficult to disentangle empirically. Nevertheless, a number of studies have sought to do so. Leibfritz *et al.* (1997) examined the relationship between taxation and growth for a sample of OECD countries (not including Greece) and found that a 10 percentage point increase in the tax/GDP-ratio is accompanied by a 0.5 percentage point reduction in growth. This result is consistent with the earlier findings of King and Rebelo (1990), Barro (1991) and Plosser (1992). But several other studies, including Levine and Renelt (1992), Slemrod (1995) and Kneller *et al.* (1999) have found a non-significant or even positive correlation, leaving some researchers to suggest that there may be non-linearities implying a positive growth effect if taxes are increased from a low level and a negative growth effect if they are increased from a high level.

The decentralisation process has so far only touched spending

8. Since the early 1990s Greece has started a slow process of decentralising government competencies. So far this has largely related to spending powers with a view to improving public administration and the efficiency of public goods delivery, and at a better relationship between citizens and the State (OECD, 2001*b*), while decentralisation of taxing powers is virtually non-existent. This raises questions about the potential imbalances between spending and revenue-raising responsibilities at the sub-national government levels and whether bolder moves towards tax decentralisation would be desirable. At present, there are three levels of government (including the central government) with spending responsibilities that overlap. The risk is that weak co-ordination and overlapping competencies create excessive spending that is unchecked by the restraining influence that should arise when local authorities are obliged to raise taxes to finance these expenditures.

II. Main features of the tax system[6]

Tax administration and compliance: work in progress

9. Since the mid-1990s, the improvement of the structure and quality of tax administration has been high on the government's agenda. Policy has focused on reducing tax evasion by improving the tax administration's efficiency, transparency and exchange of information. For many years the tax administration has been fairly inefficient in determining the actual income of taxpayers and expensive to run.[7] At 1.4 per cent of net revenues collected,[8] the cost of collecting taxes is above the OECD average and

6. The features of the tax system are described in detail in Tables A1-A6 of the annex.

7. Prior to 1994, tax collection heavily relied on the notion of "assumed income", otherwise known as "objective criteria", based only on factors connected with expenses. For example, if a taxpayer owned a new car of 2000cc, an income of GRD 4 300 000 was assumed. Tax authorities had difficulties in assessing taxes and cross-checking tax data, penalties for tax evasion were trivial and no real estate register was in place.

rather high (Figure 3). In 1996, the Centre for Planning and Economic Research (Balfoussias, 2000*a*) carried out a study that estimated administrative costs in Greece (Table 4). PITs were particularly expensive to collect. This was due to the large number of self-employed, who provide their own assessment and are particularly difficult to monitor, but also more generally to the difficulties of complying with a personal tax system that is complex and non-transparent. The cumbersome "objective criteria" to assess the taxable income of the self-employed, based mainly on extensive cross-checking of living expenditures, are also responsible for the high administrative cost of the PIT.[9] The system has also worsened taxpayers' (traditionally deep) mistrust of the tax administration, which is likely to have weakened tax compliance. Tax arrears also represent a serious problem. In 1996 revenues collected from past unpaid liabilities amounted to about 3 per cent of total tax revenues.

(Figure 3. Tax administration costs in OECD countries)

(Table 4. Tax administration costs by type of tax)

10. Moreover, the management of taxes collected on behalf of third parties (third-party taxes) represent a considerable cost in terms of revenue raised. These levies constitute a grid of taxes, duties, charges, contributions and fees that have been enacted by the central government in favour of different authorities or private entities.[10] They are mostly collected directly by various agencies (*e.g.* banks, public utility companies, lawyers etc.), distributed to the final recipient and often escape registration in the state budget. An attempt towards their estimation was made in the 1996 budget, when the Ministry of Finance published a report listing more than 1 000 third-party taxes. However, their revenues were reported for only a third of the total. The Ministry of Finance reckons that third-party taxes are inefficient and expensive to collect (it has estimated that in 1999 some 2 per cent of total tax revenues were not recorded in the state budget) and is committed to examine the issue and to find a quick solution.

11. Since the mid-1990s, efforts to enforce compliance have intensified and modern tools have progressively been introduced by the tax authorities (Box 2). Perhaps the most important initiatives, included in the 1994 and 1995 budgets, were the foundation of the School of Training (SEYYO) and of the SDOE. By 1999, SEYYO had trained about 13 500 employees, issued two manuals on control and collection procedures for SDOE and the local tax collection authorities (DOY), and started training on the

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8. Net revenues collected are gross tax revenues less tax refunds plus social tax subsidies. In the case of Canada and the United States, a share of gross tax revenue finances some social programmes and this is netted out of tax revenues. To allow international comparisons, this share is added back to net tax revenues. In the other countries, these social programmes are directly financed out of the central budget or social funds (Lepine Report, 1999).

9. In 1994, the "objective criteria" system, in place since the 1970s, was somewhat streamlined to evaluate imputed income on the basis of certain criteria associated with the size and nature of the taxpayer's business. However, income is still mainly imputed on the basis of living expenses or acquisition of certain assets.

10. In October 1997, the European Commission decided to refer Greece to the Court of Justice because third-party taxes in the form of contributions to the lawyers' social fund were levied on lawyers' clients for a range of services, including the setting up of a company or increasing its capital. For an increase in a company's capital, the levy amounted to 0.5 per cent of the company's capital and this was in violation of the capital duty Directive (69/335/EEC). The Directive requires Member States to ensure that duty levied on capital raised for the formation of a company, or to increase a company's capital, may be no higher than 1 per cent and also stipulates that besides capital duty, Member States may not impose any other taxes or levies on raising company capital that have an equivalent effect, whatever their denomination may be. The Commission did not accept the argument of the Greek Government that the provisions in question were necessary to guarantee social protection for lawyers.

Box 2. **Main initiatives to improve tax administration and compliance in the 1990s**

The 1994 tax reform

- Revision of the "objective criteria". According to the revised system, the income of the self-employed (including farmers) is evaluated on the basis of certain criteria associated with the size and nature of the taxpayer's business. Taxation is based on the imputed income, if the latter is higher than the declared income.
- Lifting of bank secrecy upon the request of the tax authorities, in cases where the taxpayer paid the tax due by a personal check over GRD 1 000 000.
- Establishment of special bodies in the Ministry of Finance directed at combating tax evasion:
  - The Council of Fiscal Studies, with the task to submit proposals on issues of fiscal policy;
  - The Tax Data Bank, with the function to aid tax auditing;
  - The Special Legal Office of Taxation, with the aim to provide legal support to the tax authorities in tax litigation cases;
  - The Price Inspection Office with the task of gathering data on the prices of goods and services to control transfer-pricing practices.

The 1995 budget

- For the first time, a School of Personnel Training (SEYYO) for the employees of the Ministry of Finance was established. The School started operating in 1996. Its main objective is to identify and analyse educational needs and provide professional training to the employees of the Ministry of Finance, of the supervised Legal Entities, as well as to employees of the finance departments of other Ministries.
- The Special Bureau of Tax Investigation (SDOE) was established. Its main task is to carry out preventive audits and to signal infringements to the relevant tax inspectorates. It started operating in April 1997.

The 1997 and 1998 budgets

- The "TAXIS" integrated tax information system was approved. It aims to cover all the tax operations of DOYs and the central services.
- The CUSTOM computer system identifies potential VAT shortfalls. It was introduced in 1997, and expanded in 1999.
- New national and regional audit centres (ETHEK and PEKs) commenced operations in 1998.
- Introduction of tax identity numbers and a pension registry.
- A real estate tax was introduced together with a land registry to support collection of this tax.
- The frequency of the collection of taxes withheld at source (mainly of wage earners and pensioners) was accelerated from every quarter to every two months. This allows the central government to better monitor tax revenues.
- Provisions were made to facilitate the payment of overdue taxes to the government. In particular tax liabilities overdue by 17 September 1998 could be paid in up to 18 two-monthly instalments. A 35 per cent discount on the surcharge imposed on failed past payments was granted if the full amount was paid by 31 December 1998.

The 1999 budget

- Uniform certificates were introduced.
- Taxpayers registered with tax agencies that have permission to connect with TAXIS, are exempted from filing proof of tax payment (see main text). This piece of information can be requested via the TAXIS communication network.

new information system for the legal information data bank. The audits conducted by the SDOE are also having a positive effect on voluntary tax compliance and state revenue, at relatively low collection costs. Since its inception in April 1997, SDOE has discovered serious cases of tax evasion and smuggling representing tens of billions of drachmas. For the year 1999 alone, revenue from fines is estimated at GRD 49 billion, while during the same period taxpayers paid GRD 11 billion extra directly to the DOY to avoid further penalties.[11]

12. The 1997 budget paved the way for the development of a large and ambitious integrated tax information system: TAXIS (see annex). Several benefits are expected from the computerisation of the tax administration: directly accessible fiscal and financial information, uniform application of fiscal legislation, reduction in administration costs, accurate auditing, reliable and integral capture of primary data and improved revenue projections.[12] Moreover, once TAXIS is fully operational, it will be possible to cross-check related data with different tax agencies, and failure to file tax returns and cases of "unexplained revenues" will be detected more rapidly. TAXIS will also allow for pinpointing duplicate tax registration numbers and updating the Ministry of Finance's records of home addresses.[13]

13. Following the computerisation of the tax administration, the 1999 budget provided two important innovations. A standard multipurpose tax compliance certificate was introduced that will progressively replace the current multitude of individual certificates required, for example, every time an individual needs to obtain insurance or a bank credit. Meanwhile, taxpayers registered at tax offices that are connected to TAXIS were exempted from providing tax compliance certificates all together. Moreover, since the beginning of 2001, taxpayers are able to obtain tax information and tax return forms via the internet, periodical submission of VAT returns are possible electronically, and tax payments with a credit card are being tried out (the confederation of Greek banks, the Hellenic Bank Union, has agreed to accept the use of credit cards for tax payments as a pilot case). This should reduce the workload of local tax offices and save time for taxpayers. These initiatives go in the right direction as they reduce administration costs and improve tax compliance, though a satisfactory outcome depends also on the integrity of tax inspectors and more importantly on the perception of taxpayers that the tax system is becoming more predictable, transparent and equitable.

Narrowly based personal income taxes

Taxation of labour income

14. Both employees and the self-employed pay the PIT that applies a progressive schedule to all earned income, net of social security contributions and of deductible expenses. The schedule comprises six income brackets with rates ranging from 0 to 45 per cent. Tax brackets have recently been adjusted to

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11. The SDOE has an average annual budget of GRD 22 billion to cover: *a)* the cost of ordinary and extraordinary salaries for 1 300 employees (GRD 9 billion) and *b)* operating costs, such as rent, petrol, equipment for investigations etc. (GRD 13 billion). As a preventive audit department, the SDOE drafts an annual programme of audits for each regional directorate and category of audit. A total of 135 992 audits in all categories were scheduled for 1999. In November 1999, the Unit had already surpassed the target and carried out 146 336 audits (*i.e.* 112 audits per annum per employee).

12. Between mid-1998 (when TAXIS had become operational in the largest tax inspectorates) and the end of 1999, 2.9 million tax returns for different types of tax, other than personal and CIT, were filed and cleared by the computer tax information system.

13. Some taxpayers register with different local authorities in order to take advantage of tax refunds and benefits more than once.

partly correct for the significant fiscal drag in recent years, while the first bracket has been further broadened (Table 5). When measured as the difference between the marginal "all-in"[14] tax rate faced by a top wage earner and the marginal "all-in" tax rate for an average production worker (APW), the statutory progressivity of the Greek PIT is on the upper side if compared with other OECD countries (Figure 4). However, this crude measure of progressivity does not take into consideration the wide range of tax deductions to which taxpayers are entitled.[15] In principle, these should help to promote horizontal equity, but in practice they also reduce the progressivity of the PIT because larger allowances are available to the rich (Balfoussias, 2000*b*). This is combined with taxation of income from capital that is low by international comparison and considerably below the top rate levied on income from labour, as interest payments are subject to a lower rate, while equity income is tax exempt (Figure 5). Moreover, in some cases, the tax on interest can be avoided by round-tripping between banks.[16] All of this implies that there is little redistribution of income from the wealthiest to the poorest and is one factor that explains the very uneven distribution of after-tax income (Figure 6).[17]

(Table 5. Principal tax rates and bases for labour income)

(Figure 4. Progressivity of individual income tax systems)

(Figure 5. Highest "all-in" tax rates for top income earners)

(Figure 6. Income distribution)

15. In addition to the PIT, labour income is subject to social security contributions (Table 6). The aggregate contribution rates for wage earners, both statutory and including income tax deductibility, are among the highest in the OECD (Table 7).[18] While employees and employers together contribute above 44 per cent of gross wages to the social security system, small entrepreneurs and traders make a monthly lump-sum payment that ranges between 15 and 37 per cent of the gross earnings of an APW, farmers make no contribution, and finally other professionals have their contributions supplemented (if not replaced) by "third-party" taxes — essentially earmarked levies that are transferred to the relevant institution.[19] Thus, the self-employed contribute very little to the social security system (Figure 7). They tend to place themselves in low income classes to pay less, while being entitled to the same health service provision and

14. "All-in" rates include employee's social security contributions, surcharges and local taxes.

15. For example, taxpayers are entitled to deduct a small part of their expenses on goods and services, the rent for the main residence up to GRD 250 000, medical expenses up to GRD 12.5 million, etc. Further, a tax credit is granted for each dependent child, and other personal tax breaks are granted.

16. The tax on interest can be avoided by round tripping with banks in countries where non-residents are also tax exempt. For example, interest earned by a Greek investor may be remitted to an account in a UK bank and subsequently re-directed to an account in a Greek bank. In both countries the payment is deemed to be made to a non-resident investor and therefore it goes untaxed. Because of bank secrecy it is not possible to cross-check.

17. Pre-tax personal income is also unevenly distributed. According to Anastassakou *et al.* (1999) in 1994 the lowest two deciles earned 0.1 per cent of total pre-tax income and the top two deciles 54 per cent.

18. The social security system was described in detail in the 1997 *OECD Economic Survey* of Greece (OECD, 1997) and reform efforts since then were discussed in the 1998 *OECD Economic Survey* of Greece (OECD, 1998*a*) and in the 2001 *OECD Economic Survey* of Greece (OECD, 2001*a*).

19. For example, the lawyer's fund receives a percentage from all contracts, the doctors' fund 6.5 per cent of the wholesale price of pharmaceuticals (hence taxing other social security funds), engineers a percentage of public works, and journalists a percentage of television and radio advertising receipts.

broadly the same pensions as are employees in the same sector. This provides an incentive to be self-employed and helps explain why at present about 45 per cent of the employed are self-employed (Box 3).

(Table 6. Social and health insurance contributions)

(Table 7. Social security contributions of top income wage earners)

(Figure 7. Social security contributions by payer)

Box 3. The bias in favour of capital and self-employed income

Panel A of Figure 8 reports the total tax that would be paid by an individual (including the social security contributions of employees and the self-employed — but not those of the employer) depending upon the source and level of income. Thus, the first group of four bars indicates the differences in the average tax rate paid by an individual whose total income (from all sources) is equal to two-thirds of the annual wage of an average production worker depending upon whether revenues come from: wages alone; self-employment only; 65 per cent wages and 35 per cent equity income; and finally 100 per cent in the form of interest from bank deposits. The subsequent groups of histograms shows the same calculation at different levels of income. In each case, there is a significant difference in tax paid depending upon the source of income, with wage earners and the self-employed systematically paying most and individuals receiving their income from bank interest paying the least. Not shown, because no PIT is paid, is the case of someone receiving only equity income in the form of dividends and capital gains.

While Panel A of Figure 8 suggests that, at all income levels, those whose income is drawn from capital sources would pay the least and that a self-employed person pays more tax than an employee at least for income levels at or below an APW, in fact the chart tells only part of the story. Because employers pay high social security taxes and firms pay corporate income tax, the overall tax paid on labour and capital is higher. In Panel B of Figure 8 all of these factors are taken into consideration, illustrating that the total tax paid on the earnings of the self-employed is substantially lower than that of the employee at all levels of income. The difference stems principally from the lump-sum contribution that the self-employed make to the social security system. As their income rises, the salary portion that should generate social security contributions falls. The third column in each group of histograms in Panel B illustrates the impact on the overall average tax rate of imposing the same social security charges on the labour component of the total earnings of the self-employed as on the dependent workers, under the assumption that the labour component of the self-employed reflects that of national value added (*i.e.* 65 per cent). Clearly such a change would equalise the overall tax burden faced by employees and the self-employed, at least for low income levels. Finally, capital income is taxed below both employee and self-employed earnings over high income ranges. The gap between the overall tax on equity holdings and interest payments is surprisingly wide, though. Capital gains and dividends are indeed tax exempt in the hands of the individual shareholder, but they are taxed at the company level, while interest payments by banks are only subject to a 15 per cent final withholding tax.

(Figure 8. Average statutory tax rates by source of income)

16. The combination of PITs and social security contributions introduce a tax wedge between the cost of labour to the employer and the take-home pay of the employee. In 1999, the overall tax wedge for a single APW was just above 35 per cent.[20] Employers' and employees' contributions accounted together for almost the entire wedge (Figure 9), with the major part (51 per cent of the wedge) corresponding to the employer's contributions. The tax wedge is close to the OECD, and thus below the EU average.[21] During the 1990s the tax wedge increased by more than 3 percentage points. Concerning marginal tax wedges,

20. This number does not include the additional social security contributions for hazardous work.

21. Tax wedges do not include indirect taxes and are therefore biased to different degrees across countries.

which can help identify work disincentives, Greece is significantly below the EU average, with a marginal tax wedge for a single APW of 44 per cent in 1999. However, the total marginal tax wedge rises to above 54 per cent for a single person with 1.7 times APW earnings (Figure 10).

(Figure 9. Tax wedges on labour)

(Figure 10. Marginal tax wedges by family type and wage level)

17. Owing to the combination of untaxed unemployment benefits and high social security contributions that also apply at low income levels, households with primary part-time earnings and no secondary earnings, or with the principal earner unemployed for less then 12 months and the secondary earner in part-time employment, face a higher marginal tax rate than in most other OECD countries (Table 8). This indicates a strong disincentive for secondary earners to enter the labour market on a part-time basis. The incidence of legal part-time work is actually very low in Greece. Moreover, in connection with the relatively short periods required to qualify for a pension, a high tax wedge provides an incentive to work in the untaxed underground economy until a few years before retirement. This is of particular concern in Greece, because the size of the informal sector appears to be substantial. In the case of single-earner households, where part-time work is taken up after a long unemployment spell (Table 8, second column), the marginal effective tax rate (METR) is not very high, which makes labour market entry attractive and reduces the probability that these households are caught in an unemployment trap.[22]

(Table 8. Marginal effective tax rates on additional income)

Taxation of savings

18. The taxation of income from savings is uneven, with different forms of capital income taxed at substantially different rates. With the exception of rents from land and buildings and of income from private pension funds, which are subject to the PIT,[23] income from savings is taxed under a separate flat-rate regime at rates ranging between 0 and 15 per cent depending on the manner in which the income is invested and distributed (Table 9). Such gaps tend to affect the allocation of savings and firms' financing decisions.[24] Indeed, the gap between the overall tax burden on distributed earnings from equity holdings and interest payments is a case in point. This arises from two principal sources: *(i)* the PIT rate levied on different incomes from capital, and *(ii)* the extent to which these earnings are subject to CIT (directly or indirectly through deductions allowed for some kinds of distribution). As a result, depending on the manner in which a given GRD 100 earnings is distributed, it will be taxed anywhere between 10 and 64.25 per cent (Table 10). Capital that is paid in the form of interest is taxed at the lowest rate as it is fully deductible from the CIT base and only subject to a 15 or 10 per cent final withholding tax. Capital gains and dividends, which are not taxed at the level of the individual, are the next most favoured form of distribution.

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22. The maximum duration of full unemployment benefits is 12 months after which the unemployed receive only unemployment assistance. While the net replacement rate of unemployment benefits is around 50 per cent, the net replacement rate of unemployment assistance is only around 10 per cent.

23. Income distributed by public pension funds is also subject to the personal income tax.

24. Graham and Lemmon (1998) document that firms facing high corporate tax rates tend to have high levels of debt. This result confirms work by Schulman *et al.* (1996) for Canada and New Zealand as well as that of Desai (1997), who reports a positive cross-sectional correlation between debt and taxes across a sample of 51 countries. More recently, Graham (1999) found that an increase in corporate taxes has a positive effect on debt finance, while an increase of personal taxes on interest relative to equity income has a negative effect.

(Table 9. Principal tax rates and bases for personal investment income)

(Table 10. Taxation of capital income, by type of distribution)

19. A surprising feature of the system is that, when dividends are paid through a private pension fund the distribution is subject to a second round of taxation that can be as high as 64.25 per cent. This difference in rates creates an incentive to invest in equities directly rather than via a private pension fund and does not encourage long-term savings. Moreover, a 0.6 per cent tax is levied on stock market transactions,[25] whereas the proceeds from the sale of unlisted shares are subject to a 5 per cent special income tax.[26] This difference in rates distorts the allocation of capital across listed and unlisted companies.

20. Investment in residential housing also receives a preferential tax treatment: the imputed rent of an owner-occupied dwelling with a floor area up to 150 square metres is untaxed; mortgage interest is fully deductible for the taxpayer's principal home; for dwellings up to 120 square metres net gains from the sale of property are exempt; and finally the first GRD 69 million of the value of the dwelling is exempt from the central government real estate tax (FMAP). These tax incentives are partly reflected in a very high share of owner-occupied housing in the residential housing stock.[27] Given the low responsiveness of housing supply to demand — partly reflecting the scarcity of residential land near urban areas — tax incentives may have been capitalised to some extent into higher land prices and could divert capital from more productive investments. Moreover, tax advantages for owner-occupied housing are likely to lower the mobility of workers.

A principal role for consumption taxes

21. As noted above, consumption taxes are the major source of tax revenue (41 per cent of the total). VAT was introduced in 1987 with an initial standard rate of 16 per cent, and raised to 18 per cent in 1998, which is close to the EU average (Table 11). To contribute to the achievement of redistributive goals a reduced rate of 8 per cent applies to goods deemed to be necessities and a second lower rate of 4 per cent applies to goods of cultural nature (*i.e.* newspapers and books).[28] Thanks to the efforts of the tax administration to curb tax evasion, VAT collection has improved in the past few years and the elasticity of VAT revenues with respect to consumption has stood at close to 1.4. The effective VAT rate (the ratio of VAT revenue to consumption) and its productivity (measured as the ratio of the effective to the statutory rate) have also closed the gap with the EU average[29] (Table 11).

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25. Mainly to enhance tax revenue collections, in 1998 the government introduced a stamp duty on stock market transactions, which was raised from 0.3 to 0.6 per cent in September 1999. Thanks to the stock market boom, in 1999 tax revenues collected from this tax amounted to GRD 230.1 billion (around 0.6 per cent of GDP). In late spring 2000, this duty was lowered back to 0.3 per cent and expected revenues for the year 2000 amount to GRD 275 billion.

26. The Law 2753/1999 labelled the 5 per cent tax as an income tax by inserting it in the Income Tax Code under special income from business. However, it is de facto a transfer tax since it is levied on the value of a transaction, regardless of whether income arises from the transaction. Mavraganis (2000) provides a thorough description of the new tax regime for the sale of shares in Greece. Prior to 1999, a final withholding tax of 20 per cent was levied on any gain arising from the transfer of unlisted shares.

27. According to the Household Expenditure Survey carried out in 1999, the rate of owner-occupied housing was 80 per cent.

28. For the period 2000-02, the reduced rate of 8 per cent is also applied to some services that are considered labour-intensive: small services for repairing clothing and household linen, and domestic care services.

29. Estimates for 1999 show that the effective VAT rate was 10.9 per cent and its productivity 60.5 per cent.

(Table 11. Value-added taxes)

22. Apart from VAT, excise taxes are levied on petroleum products, alcoholic beverages, tobacco products as well as on cars, trucks and motorcycles. The minimum rates for these excise taxes have been harmonised at the EU level, and Greece has brought its rates into line with EU legislation[30] including road taxes on large vehicles brought into line with EU rules in January 2001.[31] Consumption taxes have recently played a role as a short-term instrument for controlling inflation in view of Greece's efforts to join EMU (OECD, 2000*a*). In order to secure entry between the autumn of 1998 and the end of 1999, the government introduced a series of indirect tax cuts to lower the CPI: excise taxes on petroleum products were cut twice (Table 12) as well as the special tax on the purchase of imported new and old cars. Indirect taxes by their nature have essentially transitory effects on inflation. While restraining inflation for a short period, they do not ensure the sustainability of low inflation — as demonstrated by the need for a new set of tax cuts in 1999 to compensate for the vanishing of the effects of the 1998 package. Moreover, such tax cuts adversely affect the fiscal accounts[32] and, in some cases, fuel consumption (for example car sales boomed following the rebate on the special consumer tax on the purchase of imported cars). Finally, cuts in energy taxes may be at variance with environmental concerns and objectives.

(Table 12. Taxation of petroleum products)

Scope for greater use of environmental taxes

23. Over the past decade or so, environmental elements incorporated in the tax system have had some effect in controlling environmental pressures from economic activity and in particular from the fast-growing transport, energy and tourism sectors. To promote the use of cleaner fuels, excise rates on transport fuel are differentiated between leaded and unleaded gasoline, taxing the former 6 percentage points higher than the latter. Similarly, all types of vehicles are taxed on the basis of the environmental technology fitted to them, dual fuel vehicles are tax exempt as is natural gas when used as vehicle engine fuel. Although Greece is moving towards taking externalities better into account, a study carried out by the OECD's Environmental Policy Committee shows a lot more could be done to curb the emission-intensity of strong growth in general and to improve air quality in urban areas in particular (OECD, 2000*b*). In 1997 SO_X emissions from large power plants, for example, exceeded by 12 per cent the 320 kiloton emission ceiling established by the EU directive. The taxation of lignite/coal, which is used to generate 66 per cent of the nation's electricity and is a large emission source for CO_2 and SO_X, does not reflect its carbon content and SO_X emissions. Moreover, fuels are not taxed according to CO_2 emissions.

30. In Greece, excise rates on petroleum products and tobacco products are at the lower end of the scale allowed under Community legislation, while the average excise rate on alcoholic beverages is close to that in the other EU Mediterranean countries.

31. The tax system for vehicles and motorcycles applied an extremely high rate of tax, especially on passenger vehicles. Although still not in line with the EU rules, this tax system was completely revised in November 1998. Specifically: the fiscal differentiation between new and second-hand vehicles was abolished; the tax now depends on the manufacturing year and the anti-pollution technology, as stipulated in Community directives; excise and the additional special registration fee were abolished and a new "registration fee" was introduced. The rate for this fee depends on the cubic capacity of the engine and the clean-technology of the vehicle, the tax base depends on the factory price and freightage, and insurance premiums actually paid. A new scale of write-off values for second-hand cars based on their age was also introduced. After the 1998 revisions and the tax cuts during the last quarters of 1999 and 2000, the combined vehicle and motorcycle tax have been in line with the EU rules.

32. The budgetary cost of cutting excise taxes on petroleum product and on cars amounted to 0.24 per cent of GDP in 1998 and to 0.6 per cent of GDP in 1999.

24. As with energy, water pricing is not very well geared towards internalising environmental externalities and reflecting its scarcity. Pressures on available water mainly result from increasing use for irrigation and, to a lesser extent, by households. While water and sewage charges have been sharply increased for household consumption in the early 1990s, most farmers are not charged either for the abstraction of irrigation water or for the significant pollution of ground and surface water resources caused by a generally intensive use of pesticides and fertilisers.[33] Waste water charges apply only to industries in areas equipped with waste water treatment plants, and a flat rate charge is calculated on the volume of effluent rather than on pollution or toxic load that provides no incentive for industry to adopt production processes that minimise effluents.

The corporate income tax: some move toward a more level playing field

25. The CIT is levied on the world-wide income (profit) from all activities of legal entities, including limited partnerships, and the domestic income earned by non-permanent establishments of foreign companies. Deductible business expenses include depreciation of physical capital, interest on liabilities, provisions for bad debts, wages and social security contributions. The standard CIT rate for non-listed companies has been reduced from 40 to 37.5 per cent from January 2001 and will be reduced again to 35 per cent from 2002, so that there will be no more tax discrimination between listed and unlisted companies. Also the discrimination between resident and non-resident companies is abolished from 2001 (Table 13). As elsewhere in Europe, though, Greece displays a fairly low effective rate of corporate taxation as a result of a wide range of tax incentives. Estimates suggest that over 1990-96, the effective CIT rate has been 12 percentage points below the statutory tax rate (Figure 11), which is just above the average tax subsidy provided in the European Union (Buijink *et al.*, 1999). There are a number of difficulties associated with such international comparisons, so that they need to be interpreted with care.[34]

(Table 13. Main legal entities and their incorporate income tax rate)

(Figure 11. Effective corporate taxation in the European Union)

26. Compared with other OECD countries, the tax system shows a less distortive treatment across physical assets, but a strong bias in favour of debt as a source of finance (Table 14). The tax system is neutral towards investment decisions and corporate financing if a given pre-tax flow of corporate profits produces the same after-tax income for final investors, whether the return takes the form of interest payments, dividends, or capital gains. This requires that the combination of corporate and personal taxes is equal across financing instruments and capital assets. The overall marginal effective tax wedge across corporate financing is relatively low in Greece, as is its standard deviation, which is a rough measure of non-neutrality.[35] This result is mainly driven by the low — by international comparison — overall rate on

33. Irrigation water supplied by individual projects, which represent about 60 per cent of the irrigated area, is not subject to charges. The remaining 40 per cent is supplied by community irrigation projects and water fees are paid to the Local Land Reclamation Board (TOEV), which charge GRD 30 000-70 000 a year per hectare served. The revenues from these charges cover only 60 per cent of total expenses.

34. These estimates are drawn from the consolidated financial statement data of a panel of 2 118 European Union, mainly listed, manufacturing companies -- excluding therefore important sectors such as insurance and financial services. As data are drawn from income statements published by the firms in the sample, cross-country differences in effective tax rates may also partly reflect differences in accounting practices.

35. The marginal effective tax wedge reflects the difference between the required pre-tax rate of return an investment has to earn in order to provide a personal investor with the same after tax return as a bank deposit earning a pre-tax 4 per cent real rate of interest. The estimates shown in Table 14 are based on the King-Fullerton methodology (Gordon and Tchilinguirian, 1998, and OECD, 1991). The results should be interpreted with caution since for some investment and financing decisions the results may not adequately

capital income and because dividends and capital gains are taxed equally. However, more than any other OECD country, Greece favours debt finance since corporate interest payments — as opposed to distributed profits — are deductible from the corporate tax base and taxed at a very low rate in the hands of the recipient.[36] With respect to investment, buildings are taxed at relatively low marginal rates, which is mainly due to a very short depreciation period.[37] Inventories are more heavily taxed (as indeed they are in most countries) because they do not benefit from any depreciation allowance.

(Table 14. Marginal effective tax wedges in manufacturing)

Wide range of tax incentives

27. Tax incentives can be used to correct perceived market failures faced by specific sectors or disadvantaged regions. In principle, they should be narrowly targeted. In Greece the major corporate tax incentives are provided on a regional and sectoral basis. They take the form of lower statutory rates and of partial or total exemption of the tax base. As shown in Table 13, lower corporate tax rates apply to companies listed on the ASE, to SMEs and collective investment institutions, while off-shore and shipping companies are tax exempt. Moreover, eligible companies are entitled — depending on the state of development of geographic areas[38] — to set aside 40 to 100 per cent tax-exempt reserves for productive investment.[39] Targeted sectors and activities include agriculture and marine culture, construction, commercial and manufacturing enterprises, energy conservation, R&D, investment in information technology, international trade, and foreign and shipping companies. That is, practically the whole spectrum of economic activities (see annex for detail).[40]

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reflect the effects of taxation on these incentives. For instance, special depreciation measures are not reflected in the calculations. Other simplifying assumptions are also applied, including: perfect competition, a rudimentary treatment of financial structures and the intermediation process, absence of uncertainty, perfect loss offsetting and capital irreversibility.

36. As explained above, Greece does not tax dividends and capital gains in the hands of the shareholder. Therefore, the overall rate on new equity and retained earnings is identical and equal to the CIT rate, whereas interest payments are deductible from the CIT base and only subject to the final withholding tax of 10 per cent. This implies that a new investment completely financed with debt requires a lower cost of capital than financed via new shares or retained earnings. The system would be completely neutral if the tax on interest payments were levied at the CIT rate. Alternatively, the system would be neutral if distributed income were deductible from the tax base of the CIT and taxed at the same rate as interest at the shareholder level.

37. According to a 1999 report by Baker and McKenzie, average true economic depreciation for buildings and machinery should be 53 and 11 years, respectively, while the average EU lifetime used for tax purposes is 25 years for buildings and seven years for machinery on a straight-line basis. In Greece, the depreciation period for machinery is close to the EU average (6.5 years) whereas for buildings it is between 8 and 20 years.

38. Generous corporate tax incentives, if not carefully monitored may generate large shifts of tax revenue across regions through plant and employment shifts, may distort competition and resource allocation, and contribute to lower levels of revenues as they open up multiple possibilities for non-compliance through tax avoidance and tax evasion.

39. Reserves may be formed from the annual profits declared for tax purposes. For commercial companies whose object of activity is the purchase and sale of tangible goods the above tax-exempt rate is 50 per cent for all geographic areas.

40. Although the Greek government does not produce a tax expenditure budget, and therefore no estimate of the CIT revenue forgone is available, tax authorities claim it is a high proportion of total CIT liabilities.

28. Offshore companies should be of particular concern to the Greek tax authorities.[41] Substantial tax and other incentives are offered to offices set up by foreign companies using Greece as an administrative centre to co-ordinate their business operations. No income or other taxes are imposed on the profits on operations conducted by so-called “Law 89 Offices”.[42] A recent report, following a systematic probe carried out by SDOE in a number of such companies, points out that their number is growing rapidly, particularly in the domains of real estate, import and intra-EU trade brokerage. It warns of a steep rise in revenue losses in the immediate future, if additional legislative provisions are not urgently introduced. In the real estate sector, for instance, 2 100 foreign offshore companies were detected that own just one large real estate property and engage in no other activity. The investigation focused on the 25 companies with the highest value of real estate property. It turned out that they were all owned by Greeks who bought land in various upmarket locations in southern Athens suburbs and Aegean islands.[43] Since the “Law 89 Offices” scheme, together with the special tax regime for shipping, may exacerbate tendencies of international tax base erosion, the OECD Committee on Fiscal Affairs, is currently examining them under the recently adopted Guidelines for Dealing with Harmful Preferential Tax Regimes in the OECD Member Countries.[44]

A bias in favour of unincorporated businesses

29. The tax system favours more generally the operation of unincorporated as opposed to incorporated firms. Panel A of Figure 12 shows the total effective tax rate paid by an owner-operated firm with value added equal to twice the lower boundary of the top PIT rate. As the share of the wage bill in pre-tax value-added rises from 0 to 100 per cent, the overall tax burden (including the taxation of labour) on the value-added of an incorporated business increases, whereas it remains constant for a non-incorporated firm that is treated for tax purposes in the same way as a general (or limited) partnership.[45] Panel B holds the share of wages constant at 65 per cent (the average share for the business sector as a whole) and shows the variation as income rises from the upper boundary of the lowest PIT

Under request of the Ministry of Finance, in 1996 the IOBE published a list of tax breaks available to companies and individuals in 1995. The list was very long indicating a clear need to estimate the revenue loss involved.

41. Kathimerini, “Offshore is too far from the tax man”, Athens, 4 April 2000.

42. Moreover, offshore engineering and civil construction companies benefit from a complete tax exemption, provided *(i)* their personnel is composed of at least four fifths Greek nationals in total and at least three fifths in each personnel category, *(ii)* they have deposited a special guarantee with a recognised bank in Greece, and *(iii)* they transfer a minimum amount of USD 50 000 annually to cover expenses.

43. Under Greek tax legislation, the owners of these companies would have had to pay an annual 7 per cent on the value of their properties, but tax under offshore statutes is negligible. Moreover, Greek property transfer tax is between 9 and13 per cent and inheritance tax varies between 0 and 60 per cent.

44. In May 1998 the OECD Committee on Fiscal Affairs published the Report on Harmful Tax Competition (OECD, 1998*b*). Luxembourg and Switzerland abstained from the adoption of the report in Council in April 1998. Following this, a Forum on Harmful Tax Practices was created. This set forth the Guidelines for Dealing with Harmful Preferential Regimes in Member Countries, and adopted a series of Recommendations for combating harmful tax practices. On 26 June 2000 the Forum issued a list of 47 preferential tax regimes in the OECD area that are potentially harmful (OECD, 2000*c*).

45. Unincorporated firms, including unlimited partnerships and up to 50 per cent of the share of total profit accruing to general partners in partnerships or limited liability companies are treated for tax purposes in the same way as the profits of the self-employed. In all of these cases, the salaries of the employees of the firm (other than that of the self-employed individual or the partners) is deducted from sales in determining the tax base.

bracket to eight times the lower boundary of the highest bracket. Panel A underlines that, except in the case where almost all of a firm's value-added derives from the employment of capital, the tax system offers a clear incentive not to incorporate, while in Panel B this incentive is shown to persist even at very high incomes. The difference in corporate tax rates for incorporated and partnerships together with the lower social security burden faced by the self-employed are the main reasons for the bias in favour of unincorporated businesses. The implications of such a system can be more far-reaching than just discriminating in favour of small-scale businesses. It is also an important factor hampering the profitability of corporations in labour-intensive industries, thus undermining their competitiveness and employment creation.[46]

(Figure 12. Average statutory tax rates on incorporated and unincorporated businesses)

Property taxation is low

30. Property taxation accounts for only 1.3 per cent of GDP in Greece. Stamp taxes on market transaction of movable property are the main source and, at 70 per cent of total property taxes, represent a relatively high share of GDP compared with other OECD countries (Figure 13). Other components include the central government inheritance and gift tax, and the central and local taxes on real estate values. Since their introduction in 1974, real estate taxes have been controversial and have developed into a complex and inefficient web of tax rates and generous allowances (Box 4). Moreover, the absence of a land registry makes taxation difficult.[47] Revenues from these taxes are only 0.14 per cent of total revenues with high collection costs, estimated at about 1.1 per cent of total tax administration costs in 1996 (Balfoussias, 2000*a*).

(Figure 13. Property taxation in OECD countries)

Box 4. **The taxation of real estate**

Real estate taxation was introduced in 1974 and then again abolished in 1980, reflecting the vocal protests of real estate owners and construction contractors, who considered it as a barrier to the development of the construction sector, which in previous decades had been the "powerhouse" for the country's development (Drakopoulos, 1999). The tax was reintroduced in 1982, but it was not enforced. In 1988, the tax was converted into a local tax levied by municipalities and communities, though, control of its collection remained in the hands of the state. In 1993 this tax was renamed "Fixed Property Rate" (TAP) and responsibility for collecting it came under the control of local authorities (TAP ranges between 0.25 and 0.35 per thousand of the value of a property). In 1997, the central government introduced an additional annual tax dubbed "Large Real Property Tax" (FMAP). It had been preceded, for the first time in Greece, by a full inventory of all real estate holdings, filed at tax offices by all citizens along with their income tax returns. Today, FMAP is only levied on the "privileged". All natural or legal entities that own real estate property in the country are liable to pay, provided they own property worth in excess of GRD 69 million (or GRD 138 million for couples, raised by an additional GRD 17.3 million for every child). Including these two annual property taxes, real estate owners in Greece are liable to pay up to 14 different taxes and levies (including government taxes on income) in relation to their property.

46. This may also be one of the reasons why in Greece 96 per cent of SMEs employ less than nine employees (EOMMEX, 2000).

47. Work on compiling a unified Land Register for Greece is in progress.

The tax system is very centralised

31. Local governments have very limited tax-raising power. In 1996, own taxes of sub-central governments accounted for only 0.4 per cent of total tax revenue with the majority of their revenue depending on the central government. Taxes collected locally are limited to the TAP real-estate tax on land and buildings and various locally-levied fees, such as those covering waste removal and the use of public land. Local authority finances largely depend on grants, which do not provide adequate incentives to contain spending. Although this has not been a problem so far — thanks to close monitoring by the central government (there is tight regulation on the local provision of health care, education and social services) — the current set-up may need to be reviewed, as the government is moving towards greater administrative and spending decentralisation.

III. Main options for reform

32. Although the details have not been disclosed, the government is planning a broad reform for 2002. Redesigning the tax system in a comprehensive and coherent way so as to support rapid and sustainable growth should indeed be a policy priority. Since the mid-1970's numerous changes to taxation have taken place in a piecemeal fashion. Many of them have led to a complex and non-transparent tax system, including generous individual allowances, and a web of preferential incentives for the business sector. These features hamper both efficiency and equity and, overall, the tax system has performed poorly. There has also been a general lack of strong and uniform tax enforcement, even though the government has already made commendable progress in recent years. Tax reform should cover a broad range of measures that aim to broaden the base and lower the rates. This would not only lower growth-restraining distortions but also reduce inequities and tax evasion incentives. In this context, the tax system cannot be looked at in isolation. Future expenditure pressures and the high debt to GDP ratio are also of concern, for Greece that has just joined the EMU. At present, because of the high debt level, Greece cannot afford to lower the overall tax burden if primary expenditure is not pruned at the same time. It is thus important that public expenditure reform be seriously considered along with tax reform.

33. Future pressures to raise more revenues to meet higher expenditure — especially in view of the likely decline of EU transfers and rising ageing-related spending — could be challenging because of the erosion of highly-mobile tax bases. Capital taxes are already proving to be difficult to rely upon due to the high mobility of their base and the current lack of a consistent exchange of information across countries. The rapid growth of e-commerce may also contribute to weaken the tax base as it relies heavily on consumption taxes. Although concerns over these issues are shared by the majority of OECD member countries and by a wider international community that is co-operating to find common solutions for the future, some of the pressure will need to be met by taxing less mobile bases more heavily. Main tax reform options involve: *(i)* The further improvement of transparency and reliability of the tax system, with priority given to a lower frequency of tax changes, the abolition of the practice of tax amnesties and bank secrecy; *(ii)* Making the taxation of labour more equitable and less onerous. This can be done by shifting the tax burden to other types of income such as immovable property,[48] which is taxed very little, and indirect taxes levied by local government (*e.g.* user charges and fees), which are usually residence based and difficult to evade. Higher social security contributions of the self-employed, higher environmental taxes, reduction of corporate tax incentives and improved tax compliance can also help to finance a reduction of labour income taxes; *(iii)* Broadening the base and lowering the rate of the CIT further. This can be achieved by taxing savings instruments and corporations in a more neutral way and streamlining investment tax incentives. This section sets out the main options for reforming the tax system, which are summarised in Box 5.

48. At the same time the way of taxing immovable property should be rationalised.

Make the tax system transparent and reliable

34. Greece faces important challenges in terms of applying tax laws even-handedly while raising compliance. One way to foster greater acceptance is to make the tax system more solid and transparent. Every year taxpayers and tax administrators struggle to comply with numerous revisions and amendments to the tax legislation. It can thus be difficult for businesses and citizens to identify the full requirements of the law. In order to reduce the extent of uncertainty and raise the predictability of the tax system's administration, clearer rules should be introduced guiding the tax administration. Moreover, the large number of inefficient and expensive third-party taxes should be registered, re-assessed and progressively phased out. Finally, the practice of offering periodical tax amnesties should be abandoned to remove the perception of taxpayers, and in particular of the large group of the self-employed, that the probability of being investigated for infringements of the tax law is low.

35. Successful steps to raise tax compliance have been taken in recent years and have been reflected in higher revenues. However, tax evasion is still deemed to be very high and the government needs to pursue its current efforts vigorously to prove its determination in enhancing tax enforcement. Further steps that might be taken to improve tax enforcement and also redress the fairness of the tax system would also include: *(i)* phasing out bank secrecy for tax purposes; *(ii)* speeding up the creation of a fully-fledged land and property register to improve cross-checking; *(iii)* putting in place cross-checking of PIT returns filed by taxpayers and tax withheld on interest income (this is technically feasible thanks to TAXIS but not implemented as yet).

Redistribute the tax burden

36. Overall, the Greek tax burden is not very high by international comparison, but its distribution appears to be more uneven than in the majority of OECD countries. There are various options for widening a number of tax bases and reducing some of the higher and more distortive tax rates, thus re-balancing the overall tax mix and eliminating anomalies. Specifically, there is an opportunity to broaden the base of the PIT (Greece derives the smallest share of total revenue from this source) and of the CIT, and to increase revenues collected from real-estate property, while at the same time lowering social security contributions. A re-balancing of revenue sources could be engineered so as to improve the fairness of the tax system.

Box 5. **Synopsis of options for reforming the tax system**

Enhance tax administration and tax compliance

- *Refrain from making numerous revisions to the tax legislation.* This would make the tax system simpler to deal with and more certain.
- *Tax changes should be communicated in a clear and transparent way.* This would help businesses and individuals to identify the full requirements of the law.
- *Third-party taxes should be registered, re-assessed and phased out*, to improve transparency and equity.
- *The practice of tax amnesties should be abandoned.* This should limit the incentive to infringe the tax law.
- *Introduce a tax-expenditure budget.* This should help to evaluate the effectiveness of the numerous tax breaks in place.
- *Phase out bank secrecy for tax purposes.* This would allow to cross-check personal taxable income with withheld tax on interest income and other sources of information on taxpayers assets – including the land and real estate register.
- *Replace the "objective criteria" system for assessing taxable personal income with straightforward accounting rules* by taking appropriate steps to broaden the PIT base and improve tax compliance incentives, while taking advantage of enhanced possibilities for cross-checking provided by TAXIS.

Make the personal income tax fairer

- *Evaluate tax-expenditure and streamline tax allowances to broaden the tax base and reduce distortions.* Tax base broadening would permit lower tax rates and a less progressive PIT rate structure. This in turn could result into a more equitable system and would help to improve compliance.
- *Harmonise the overall tax rates on capital income and bring interest income taxation in line with other capital income taxes.* This would enhance tax neutrality towards corporate financing. It would yield extra revenue that might help to reduce the corporate tax rate and also to tax labour income more lightly.
- *Phase out tax incentives to housing.* This would improve the allocation of savings and reduce the pressure on house prices.

Make the CIT more neutral

- *Phase out the lower rate for small-scale businesses.* It would remove the bias in favour of unincorporated businesses and improve the competitiveness and employment creation of corporations in labour-intensive industries.
- *Limit the wide range of tax incentive to a strict minimum.* They should be replaced by a more transparent tax scheme that targets only the areas where market failure is evident.
- *Review the regimes for shipping companies and offshore companies.* Reforms of these regimes should be designed to reduce the opportunities for tax-planning at the national and international levels.

Rebalance the tax-mix

- *Reduce the tax burden on labour.* To finance revenue shortfalls, the priority should be given to expenditure cuts. As a second best, a switch to higher social security contributions of the self-employed, environmentally related taxes and immovable property taxes could be envisaged.
- *Eliminate the bias in favour of the self-employed.* The lump-sum contribution of the self-employed earners to the social security system introduces a serious bias in favour of this work form. Social security charges should be levied as a proportional share of the net earnings of the self-employed.
- *Tax emissions according to their environmental costs.* For instance, energy taxation geared to reflect carbon content and greenhouse emissions would provide the right market signals to consumers and producers for abatement.

Strengthen local government finances

- *Increase sub-national governments' revenue-raising power* by allowing them more flexibility in setting property taxes and by relying more on environmentally related charges and user fees, rather than on transfers from central government. Greater tax decentralisation would give a better incentive to local authorities to grow their tax base and to be more responsive to the concerns of local voters.
- *Streamline property taxes.* The implementation of the National Land Registry should be accelerated. This should provide an accurate record of all the real estates in the country and market valuation of land and buildings. The taxation of property could then be based on the real value of the assets.

37. The government should also introduce a tax expenditure budget and undertake an in depth examination of tax expenditures focusing on their effectiveness in achieving the desired outcomes. While such a comprehensive examination has not been carried out here, principally because of the lack of recent data, it appears that the wide variety of tax breaks (*e.g.* unfocused individual tax allowances and credits and business tax incentives) only partly succeed in achieving their objectives, while requiring substantial public resources.[49]

Broaden the income tax base

38. Reducing the number of tax deductions would broaden the PIT base and improve fairness and efficiency. Since the value of any given deduction rises with the marginal tax rate, all tax allowances provided under the PIT system should be re-assessed and possibly eliminated. The wide zero-rated band of the PIT, together with the recently announced reduction in social security contributions (see below), should

49. For example, Balfoussias (2000*b*) has estimated that in 1995 the tax expenditure linked to the PIT was 1.14 times the actual revenues collected from this tax.

be sufficient to keep a high share of low income earners out of the income tax net, as at present, but in a more simple and efficient manner. Moreover, tax base broadening would allow lower PIT rates, which could in turn help to reduce incentives for tax evasion. The rather strong progressivity of the tax schedule for higher income groups is also a factor likely to weaken tax compliance — especially for the self-employed who are not subject to withholding taxes.

39. Given the large number of self-employed workers (45 per cent of total employment), it would be advisable to accelerate the phasing out of the imputation system for the self-employed and replace it with a straightforward accounting assessment of taxable income. The objective criteria system for the self-employed has been in place since the 1970s. In late 1999, the government announced its intention of gradually phasing it out, but the budget for 2000 proposed only minor changes. Promoting self-employment assessment and reliable book-keeping through tax credits could be an option. The "blue-return" system in Japan[50] has had some success in encouraging the self-employed to keep regular books. This would prevent the tax liability of the small self-employed from being systematically biased downwards and it would facilitate tax auditing. Nonetheless, this should go alongside other initiatives to broaden the tax base and improve cross-checking.

40. The benefits of broadening the PIT base could be enhanced by the broadening of the capital income tax base, thus creating room to tax labour income more lightly. Such a move should be accompanied by measures to remove the non-neutral way of taxing capital income. At the moment, returns to capital distributed in the form of interest payments are taxed at much lower rates than other sources of capital income resulting in a bias in favour of this form of savings. A solution that would preserve the advantages of the current system's reliance on easy-to-administer withholding taxes might be envisaged. One option, which has been applied in some OECD countries (for instance, in Norway and Finland), would equalise the overall tax rate on capital income. This can be achieved by setting the withholding tax on interest income equal to the CIT rate, which could then be reduced substantially (possibly close to about 25-30 per cent) to prevent capital flight.[51] In this way, all three forms of income from capital (*i.e.* dividends, interest and capital gains) would be taxed at the same rate.[52] Dividends and interest distributed from pension funds and collective investment institutions should also be subject to the same overall tax rate. Although other options exist, they would tend to be more difficult to administer.[53]

41. Finally, the generosity of the tax-breaks for owner-occupied dwellings should be reconsidered. A phasing out of tax incentives to owner-occupied housing would help remove underlying distortions in the allocation of savings. Priority should be given to the progressive elimination of mortgage interest and

50. The main objective of the blue return is to encourage small and medium-sized businesses to keep a minimum set of accounting records. To promote the system, significant tax advantages are offered to corporations and individuals opting for the blue return. See OECD (1999*c*) for more details.

51. The extent to which a lower rate would be feasible will depend on the relative importance of the offsetting revenue impacts of a higher tax rate on interest income and the lower CIT rate.

52. The first two are taxed at the corporate level, while interest payments (which are deductible from the firm's tax base) are taxed in the hands of recipients with a flat tax rate identical to the CIT rate.

53. An alternative solution would subject all income (both capital and labour earnings) to the same progressive income tax schedule and offering tax credits to individuals for the amount of taxes withheld at the firm level. While perhaps technically superior, this would be much more difficult to administer. In contrast to the current scheme where firms do not need to report the total amount of income distributed, under this revised scheme both they and the government would have to record such information for each individual recipient.

rental deductions. Together with raising revenues, this could provide an impetus to the development of the rental housing market and take away some of the pressure on house prices especially in urban areas.[54]

Lower social security contributions and change the system for the self-employed

42. With the intent to raise income of the lowest paid workers, the government has recently announced that employees receiving minimum wages will be exempt from social security charges. However, the whole Greek payroll system should be revisited in tandem with a pension reform. At present, the employer and employee combined social contribution rate for a skilled worker is around 50 per cent and the labour cost of an APW is 1.3 times his gross salary. To reduce the adverse labour-demand effects that high payroll taxes are likely to generate, these should be lowered. At the same time, social security charges on self-employed taxpayers should be levied as a proportional share of the net earnings (or at least its labour component). In addition to improving the functioning of the labour market, such a reform would go a long way towards reducing the present bias in favour of self-employment as well as the incentive to work in the underground economy. At the same time, horizontal equity would be improved.

Consider taxing pollutants according to their environmental costs

43. Taxing pollutants should provide the right market signals to consumers and producers for abatement. In this respect, the taxation of lignite/coal, heavily employed in energy production, could be geared to reflect carbon content and greenhouse gas emissions. Moreover, clean air policy should be more comprehensive. Actions should include taxing all fuels according to CO_2 emissions. Also water charges should be based on pollutant load and toxicity to provide incentives for industry and agriculture to adopt production processes that minimise effluents.

Focus business tax incentives and reform special regimes

44. The wide range of tax incentives given to the business sector should be reduced and streamlined. Tax incentives distort market signals, which leads to sub-optimal outcomes for the economy as a whole. Moreover, incentives complicate tax administration and tax laws, increase compliance costs and pave the way for unintended loopholes, abuse and evasion. Above all, tax incentives are difficult to target. A poorly targeted tax instrument gives rise to a waste of resources, while an inadequate dosage may be ineffective. Tax incentives should be limited to a strict minimum and only be provided in areas where there is evidence that market failures may lead to under-investment. Such areas may include R&D, environmental protection and training.[55] Also the generosity of the regional tax incentives should be reconsidered. Fiscal depreciation of capital assets, in particular buildings, should also be re-assessed to reflect the true economic depreciation of physical assets. The additional revenues that would arise from such a reform could be used to harmonise CIT rates at a lower rate. This would reduce the bias in favour of unincorporated businesses, and level the playing field for large businesses.

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54. On average, real estate prices have doubled over the past decade and in certain areas of Athens they have risen more.

55. For instance, the incentives to SMEs in Greece do not seem to be particularly well targeted since SMEs have always represented a high percentage of firms. This is an indication that not all of them operate in sectors that are subject to market failures.

45. The presence of a separate regime for shipping companies and offshore companies is a feature of the Greek corporate tax system. Differences in tax treatment may produce incentives for tax-planning by companies or investors that are in a position to choose between these regimes. This results in an inefficient allocation of capital, while also heightening the risk of revenue losses. The existence of these regimes could also have an effect outside Greece by diverting capital from more productive investments elsewhere in the world and by eroding the tax base of other countries. Possible reform of these regimes should take account of both domestic and international concerns.

Improve local government finances

46. In addition to raising revenue, the taxation of property may serve several purposes such as redistributing income and wealth or capturing part of the windfall gains from excess demand for land. To create a solid tax base, the rapid implementation of a National Land Registry with an accurate record of all real estate in the country and market valuation of land and buildings would be desirable. The taxation of property could then be based on the real value of the assets. The rise in revenues that would follow could in part be off-set by a cut in transaction taxes (for instance, the elimination of third party taxes such as fees to the Lawyers' Fund for drafting contracts). Moreover, since local governments rely on property taxes as the main independent source of revenues, their revenue-raising power would rise and narrow the gap with their spending powers. This would also make sub-national governments more responsive to voters. Taxing powers of local governments could also be improved by relying more on the "polluter pays" principle (*e.g.* for example for wastewater). Better pricing should go hand in hand with the simplification of administrative procedures (*e.g.* to grant wastewater discharge permits) and better enforcement at the local level.

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Table 1. **The structure of taxation by type of tax**

1998

	Corporate income taxes	Individual income tax	Unallocable taxes on income, profits and capital gains	Social security and payroll taxes	Consumption taxes[1]	Other taxes, including property taxes
	Per cent of total tax revenue					
United States	9.0	40.5	0.0	23.7	16.2	10.6
Japan	13.3	18.8	0.0	38.4	18.8	10.8
Germany	4.4	25.0	0.0	40.4	27.4	2.8
France	5.9	17.4	0.0	38.5	26.6	11.6
Italy	7.0	25.0	0.6	29.5	27.4	10.4
United Kingdom	11.0	27.5	0.0	17.6	32.6	11.3
Canada	10.0	37.8	0.8	15.8	24.7	11.0
Greece[2]	**6.4**	**13.2**	**3.4**	**32.2**	**41.0**	**3.8**
Ireland	10.7	30.9	0.0	13.8	38.7	6.0
Portugal	11.6	17.1	0.2	25.5	41.3	4.3
Spain	7.3	20.8	0.1	35.2	29.4	7.2
OECD countries, unweighted average	8.8	27.1	0.5	25.9	30.7	7.0
OECD countries, weighted average	8.8	29.1	1.0	27.8	24.0	9.2
EU countries, umweighted average	8.5	25.5	0.5	28.9	30.4	6.1
EU countries, weighted average	7.1	23.9	0.2	32.5	28.8	7.5

1. Consumption taxes equal total taxes on goods and services less "profits of fiscal monopolies" and "other taxes".

2. 1997 data.

Source: OECD (1999*a*).

Table 2. **Level and changes of general government tax revenues**[1]
Per cent of GDP

	Level	Change between				Level
	1980	1980-85	1985-90	1990-95	1995-99	2000[2]
Tax revenues	**25.2**	**4.6**	**0.0**	**3.8**	**5.5**	**40.0**
Personal income tax	3.6	0.6	-0.2	0.7	1.9	6.5
Social security	9.5	2.4	-0.3	1.2	1.1	13.8
Corporate income taxes	1.5	0.2	0.1	1.2	1.3	4.3
Consumption taxes	10.7	1.4	0.4	0.8	1.3	15.4

1. Changes are calculated from three-year moving averages centered at the end points of each sub-period.
2. Estimates.

Source: Ministry of National Economy and OECD.

Table 3. **General government expenditure in selected OECD countries**

As a percentage of nominal GDP

	1990	1995	2000[1]
United States	33.6	32.9	29.5
Japan	31.3	35.6	38.4
Germany	43.8	46.3	45.1
France	49.6	53.5	50.9
Italy	53.1	52.3	47.3
United Kingdom	41.8	44.4	39.4
Canada	46.7	46.3	39.3
Greece	**47.8**	**46.6**	**43.4**
Ireland	37.8	36.4	30.2
Portugal	40.6	44.5	46.3
Spain	39.7	42.5	37.9
OECD countries, unweighted average	43.5	44.8	41.4
OECD countries, weighted average	38.2	39.6	37.3
EU countries, weighted average	46.7	48.8	45.3

1. Estimates

Source: OECD Economic Outlook 67, June 2000.

Table 4. **Tax administration costs by type of tax**
1996

Type of tax	Labour resources used by tax administration	Cost for each GRD 1000 collected	Index based on relative cost
	Per cent of total		Per cent of total
Direct taxes	***37.8***	***15.8***	***115.7***
Personal income	27.5	21.9	160.2
Corporate income	7.1	11.0	80.5
Other	3.2	42.4	310.2
Social security contributions	***3.3***	***18.5***	***135.2***
Wealth	***10.6***	***109.1***	***798***
Indirect taxes	***37.7***	***9.3***	***68.1***
VAT	28.5	10.7	78.3
Excise	9.2	4.7	34.4
Other	10.4	18.6	135.8
Tax arrears	***8.3***	***37.5***	***274.3***
Direct	6.4	34.2	250.2
Indirect	1.9	55.2	403.8
Third-party taxes	***2.3***	***102.6***	***750***
Direct	1.0	394.6	2886
Indirect	1.3	64.6	472.5
Total	**100.0**	**13.7**	**100**

Source : Balfoussias (2000*a*) and OECD.

Table 5. **Principal tax rates and bases for labour income**

Tax rates	Taxable income for each tax rate in 1998 (GRD)	Accumulated income as a share of APW[1] annual income	Taxable income for each tax rate in 2000[2] (GRD)	Accumulated income as a per cent of APW annual income
	Business and professional income net of deductible expenses			
0	1 055 000	0.3	2 000 000	0.6
5	1 582 500	0.8	710 000	0.8
15	1 582 500	1.3	1 625 000	1.3
30	3 165 000	2.3	3 245 000	2.2
40	8 440 000	4.9	8 655 000	4.7
	15 825 000		16 235 000	
45	In excess of 15 825 000		In excess of 16 235 000	
	Wage income and occupational pensions			
0	1 355 000	0.4	2 300 000	0.7
5	1 282 500	0.8	410 000	0.8
15	1 582 500	1.3	1 625 000	1.3
30	3 165 000	2.3	3 245 000	2.2
40	8 440 000	4.9	8 655 000	4.7
	15 825 000		16 235 000	
45	In excess of 15 825 000		In excess of 16 235 000	

1. Average production worker (APW) in manufacturing, single, no children.
2. In 2001, the top rate will fall to 42.5 per cent. All tax brackets will be adjusted by 5 per cent. The zero rate bracket will be increased by GRD 100 000.

Source: Ministry of Finance and OECD.

Table 6. **Social and health insurance contributions**

2000

Wage earners	Employee	Employer	Total
IKA contribution rates [1]			
Social insurance			
Benefits in kind and in cash	2.55	5.10	7.65
Pension	6.67	13.33	20
Heavy and health hazardous work	2.2	1.4	3.60
Occupational risk	0	1	1
Sub-total	11.42	20.83	32.25
Supplementary insurance	3	3	6
Sub-total	14.42	23.83	38.25
Supplementary insurance for heavy and health hazardous work	1.25	0.75	2.00
Sub-total	15.67	24.58	40.25
Contribution rates concerning other organisations (OAED-Unemployment, Family benefits, etc. Worker's Housing Organisation, Worker's Foundation)	3.68	6.53	10.21
Total	**19.35**	**31.11**	**50.46**

Self-employed

Most self-employed people must make a monthly lump sum contribution to TEVE (Social Insurance Institution for Professionals and Craftsmen). This monthly payment ranges from GRD 42 000 (GDR 27 400 for pension contributions and 14 600 for sickness contributions) to GRD 105 400 (87 000 for pension contributions and 18 400 for sickness contributions). The payments are deductible from the personal income tax base.

1. IKA: pension fund of private sector wage earners. The contribution base is gross wages. A monthly ceiling of GRD 588 000 applies to wage earners who joined IKA prior to 1 January 1993.

Source : Ministry of Labour and Social Security.

Table 7. **Social security contributions of top income wage earners**
1998

Country	Employee's contributions		Employer's contributions	
	Statutory rate[1]	Net rate	Statutory rate	Net rate
United States	1.5	1.5	1.5	0.9
Japan	12.8	cap	27.7	13.9
Germany[2]	20.5	cap	20.5	Cap
France[2]	0.9	0.3	20.2	12.5
Italy[2]	10.2	5.4	39.9	25.2
United Kingdom	10.0	cap	12.2	8.5
Canada	6.5	cap	7.7	Cap
Greece[2]	**15.9**	**8.7**	**28.0**	**16.8**
Ireland	2.0	2.0	12	Cap
Portugal[2]	11.0	6.6	23.7	15.4
Spain[2]	6.4	Cap	31.8	cap

Note: Date as of 1 January 1998.
1. The net rate differs from the statutory rate when employee's contributions are deductible from the personal income tax or when employer's contributions are deductible from the corporate income tax. Where a ceiling applies to all contributions, the legal rate indicates the contribution rate just before the cap applies.
2. Rates may vary according to certain circumstances (*e.g.* seniority, type of job and social security fund).

Source: OECD and Kypris and Mavraganis (2000).

Table 8. **Marginal effective tax rates on additional income**[1]
1997

Principal earner	Part-time employed[2]	Part-time employed after five years of unemployment	Unemployed	Unemployed
Secondary earner	Non-employed	Non-employed	Employed[3] full-time	Employed part-time without benefit entitlements
United States	102	102	20	0
Japan	133	133	10	7
Germany	115	115	31	19
France	69	133	29	30
Italy	84	84	37	19
United Kingdom	93	93	60	55
Canada	105	131	34	29
Greece	**104**	**58**	**66**	**118**
Ireland	83	60	20	38
Portugal	174	174	14	11
Spain	77	159	23	19

1. Marginal effective tax rate (METR) = 1 - (net income in work - net income out of work)/change in gross family income. In columns 1 and 2 the METR is calculated for the principal earner when moving from unemployment to part-time employment, while in columns 3 and 4 the METR is calculated for the second earner.
2. Part-time employment corresponds to 16 hours or two days each week, and total earnings are 40 per cent of the APW level of earnings.
3. Earnings from full-time employment correspond to APW earnings.

Source: OECD (1999*b*).

Table 9. **Principal tax rates and bases for personal investment income**
2000[1]

	Tax base	Tax rates
Income from capital	Interest income from Greek government bonds, treasury bills and corporate bonds	10
	Interest income from deposit and postal saving accounts	15
	Dividends from resident companies	exempt
	Capital gains[2]	exempt
	Dividends and interest paid by a pension fund:	
	• if the payment does not exceed GRD 600 000 *per annum*	5
	• if the payment exceeds GRD 600 000 *per annum*	10
	• if the payment exceeds GRD 1 400 000 *per annum*	15
Income from immovable property	Gains from the sale of immovable property	exempt
	Imputed rent for owner-occupied dwellings up to 150 sqm and up to two children (for every extra child the exempt amount increases by 20 sqm.)	exempt
	The market value of the imputed rent in excess of 150 sqm.	3.5

1. Rates in place on 1 January 2000.
2. Listed shares are subject to a 0.6 per cent transfer tax, while capital gains arising from unlisted shares are subject to a 5 per cent tax on the actual sales price.

Source : Ministry of Finance.

Table 10. **Taxation of capital income by type of distribution**

2000[1]

	Dividends					Interest payments	
	Direct	Indirect[2]	Mutual fund	Pension fund	Capital gains	Bank deposits	Government and corporate bonds
Corporate income tax[3]	35	35	35	35	35	0	0
Initial distribution withholding tax	0	0	0	0	0	15	10
Subsequent distribution withholding tax	n.a.	0	0	15	n.a.	n.a.	n.a.
Personal income tax	n.a.	n.a.	n.a.	45[4]	n.a.	n.a.	n.a.
"All in tax" rates[5]	35	35	35	64.3	35	15	10

Note: n.a. - Not applicable

1. Rates in place on 1 January 2000.
2. Dividends flow through different companies before reaching the final shareholder.
3. As a per cent of pre-tax profit of a listed company (excluding interest payments).
4. Top rate of the personal income tax.
5. As a per cent of pre-tax profit under the assumption that all profit is distributed.

Source : OECD.

Table 11. **Value-added taxes**

Panel A. VAT in international comparison, 1998

	Value added tax revenue, per cent of GDP	Standard rate[1,] per cent	Effective VAT rate[2], per cent	Effective rate, in per cent of standard rate
		A	B	B/A
Japan	2.6	5.0	3.7	73.7
Germany	6.6	16.0	9.4	59.0
France	7.7	20.6	10.9	53.0
Italy	6.1	20.0	8.5	42.7
United Kingdom	6.7	17.5	8.8	50.1
Canada	2.6	7.0	3.4	49.2
Greece[3]	**8.2**	**18.0**	**9.5**	**53.0**
Ireland	7.2	21.0	12.2	58.2
Portugal	8.2	17.0	10.5	61.5
Spain	5.7	16.0	8.0	49.7
OECD average[4]	6.7	17.7	9.7	56.3
G6 average	5.4	14.4	7.5	54.6
EU average[4]	7.2	19.4	10.5	54.2

Panel B. Effective VAT rate in per cent of standard rate

	1990	1995	1998
Japan	68.2	73.0	73.7
Germany	63.8	63.4	59.0
France	61.1	50.4	53.0
Italy	41.7	42.2	42.7
United Kingdom	53.1	50.6	50.1
Canada	46.2	44.4	49.2
Greece[3]	**50.6**	**48.7**	**53.0**
Ireland	43.6	51.9	58.2
Portugal	46.0	59.0	61.5
Spain	60.1	44.8	49.7
OECD average[4]	53.5	52.8	55.0
G6 average	55.7	54.0	54.6

1. Position as of 1 January 1998.
2. Effective VAT rate is VAT revenue divided by base (*i.e.* consumption exclusive of VAT).
3. For 1998, VAT revenues are from national accounts.
4. Simple average over available countries.

Source: OECD (1999*a* and 1999*d*).

Table 12. **Taxation of petroleum products**

In euro per kilolitre

Date	Leaded petrol	Unleaded petrol	Diesel for engines	Diesel for heating[1]
Minimum community rate	€337	€287	€245	€18
24 September 1998 to 4 August 1999	354.64	306.96		
31 December 1998			247.35	
15 October 1998 to 30 April 1999[2]				59.6
5 August 1999 to 30 June 2000	339.74	292.06		
15 October 1999 to 28 April 2000				18.18

1. Winter period.
2. An excise rate of 83 000 GRD/kilolitre applied from 1 May 1999 to 14 September 1999.

Source : Ministry of Finance.

Table 13. **Main legal entities and their corporate income tax rate**

Legal form	2000	2001	2002
Resident corporations (AEs) whose shares are not quoted on the Athens Stock Exchange (ASE)	40	37.5	35
Banks	40	37.5	35
Non-resident companies[1]	40	35	35
AEs listed on the ASE (excluding banks)	35	35	35
Limited liability companies	35	35	35
Co-operatives and joint ventures	35	35	35
General and limited partnerships and civil law associations[2]	25	25	25
Mutual funds and portfolio investment companies[3]	15	15	15
Offshore companies under Law 89 offices	exempt	Exempt	exempt
Greek shipping companies	exempt	Exempt	exempt

1. As of 1 January 2001, non-resident companies will be subject to the same regime as resident companies.
2. The tax rate for general and limited partnerships and civil law associations was reduced from 35 to 30 per cent for the 1999 tax year, and from 30 to 25 per cent for the year 2000.
3. Except for income related to Greek Government bonds that are taxed at 10 per cent. In addition, these entities are liable to tax on their average value of their investments and their disposable funds at a rate of 0.3 per cent.

Source : Ministry of Finance and Kypris and Mavraganis (2000).

Table 14. **Marginal effective tax wedges in manufacturing** [1]

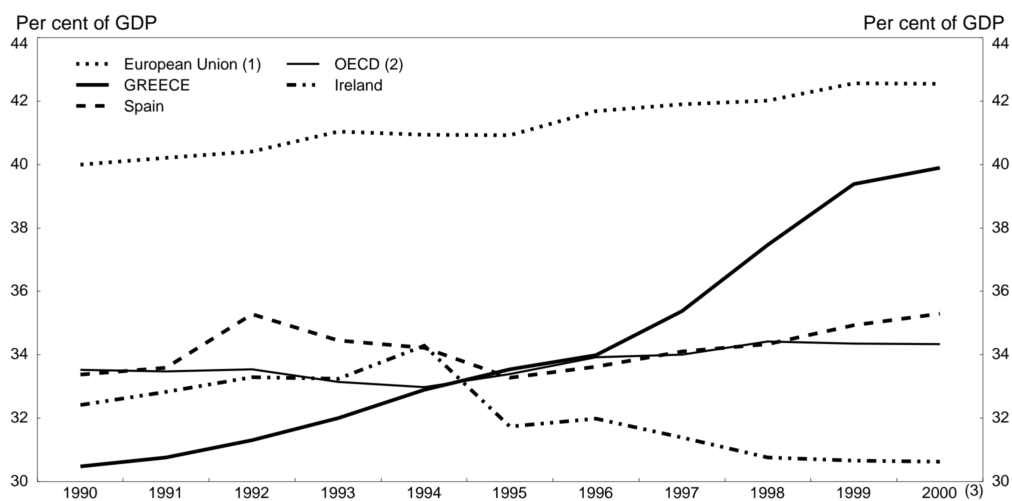
1999, percentages

	Sources of financing[2]				Type of assets[3]				Overall	
	Retained earnings	New equity	Debt	Standard deviation	Machinery	Building	Inventories	Standard deviation	Average[4]	Standard deviation
United States	1.66	4.79	1.42	1.54	1.48	2.50	2.04	0.42	1.89	1.17
Japan	3.30	5.50	-0.09	2.30	1.41	3.74	2.64	0.95	2.33	1.77
Germany	0.89	2.53	1.28	0.70	1.05	1.50	1.11	0.20	1.19	0.54
France	3.58	7.72	0.67	2.89	2.25	3.45	4.02	0.74	2.98	2.14
Italy	1.27	1.27	0.39	0.41	0.72	1.18	1.23	0.23	0.96	0.34
United Kingdom	2.88	2.40	1.55	0.55	1.99	2.31	3.30	0.56	2.37	0.57
Canada	4.48	5.63	1.98	1.52	2.74	4.21	5.33	1.06	3.72	1.31
Greece	**0.92**	**0.92**	**-0.58**	**0.71**	**0.15**	**0.34**	**1.03**	**0.38**	**0.40**	**0.57**
Ireland	1.52	4.12	0.69	1.46	1.15	1.45	2.32	0.49	1.49	1.12
Portugal	1.13	2.50	-0.25	1.12	0.48	0.94	1.26	0.32	0.78	0.83
Spain	3.20	2.23	1.65	0.64	2.36	2.72	2.81	0.20	2.56	0.49
OECD unweighted average	1.81	2.81	1.01	0.74	1.25	1.78	2.33	0.44	1.63	0.61

1. These indicators show the degree to which the personal and corporate tax systems scale up (or down) the real pre-tax rate of return that must be earned on an investment, given that the household can earn a 4 per cent real rate of return on a demand deposit. Wealth taxes are excluded. See OECD (1991) for a discussion of this methodology. Calculations are based on an inflation rate of 2 per cent.
2. The weighted average uses the following weights: machinery 50 per cent, buildings 28 per cent, inventories 22 per cent.
3. The weighted average uses the following weights: retained earnings 55 per cent, new equity 10 per cent, debt 35 per cent.
4. The weighted average uses weights indicated in footnotes 2 and 3.

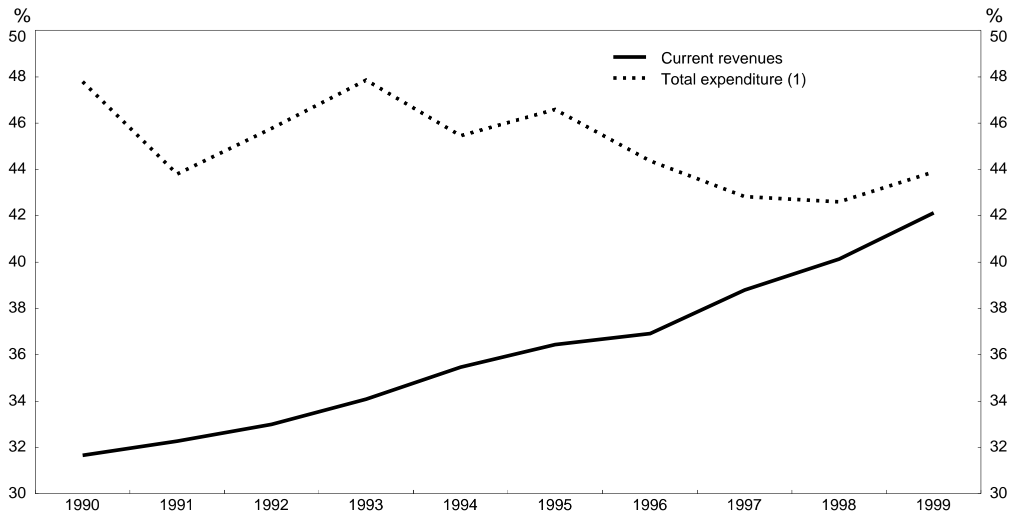
Source : OECD.

Figure 1. Total tax revenue in selected countries



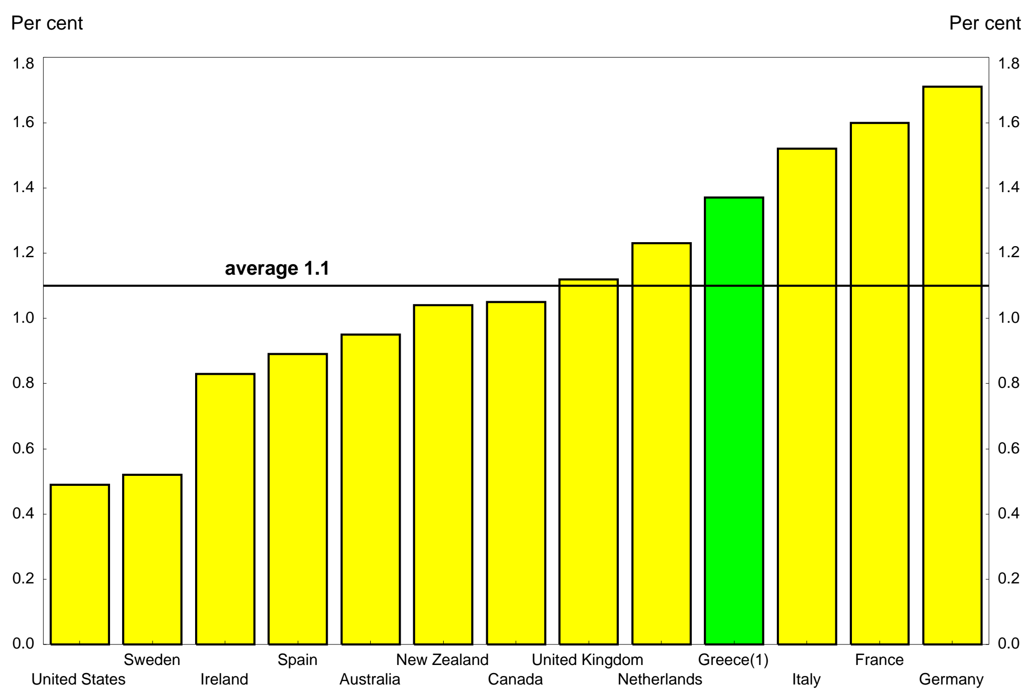
1. GDP weighted average, excluding Portugal.
2. GDP weighted average for 20 countries.
3. Estimates.
Source: OECD National Accounts.

Figure 2. Trends in general government expenditure and revenues
As a percentage of GDP



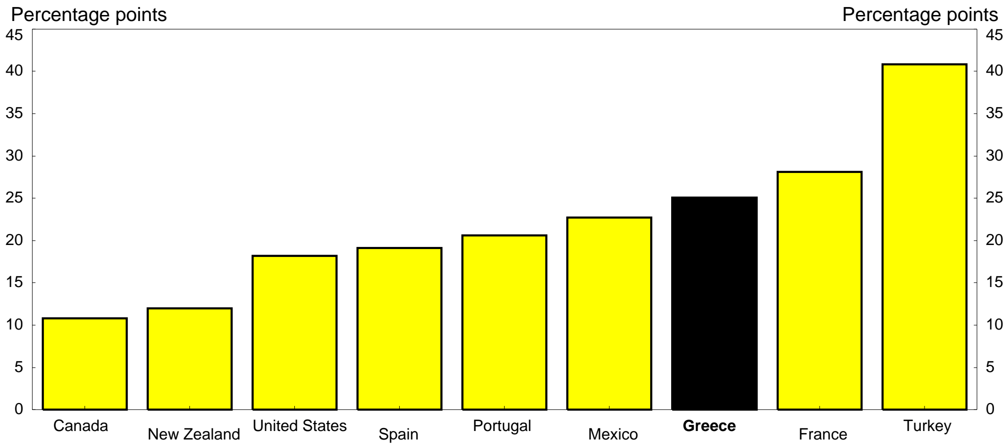
1. Includes net capital transfers.
Source: Ministry of National Economy.

Figure 3. Tax administration costs in OECD countries
1997, administrative costs/net tax revenues



Note: Net tax revenues includes taxes and social contributions; for France, Germany, Italy, Spain and United Kingdom: taxes only.
1. 1996.
Sources: Lepine Report (1999), Balfoussias (2000a).

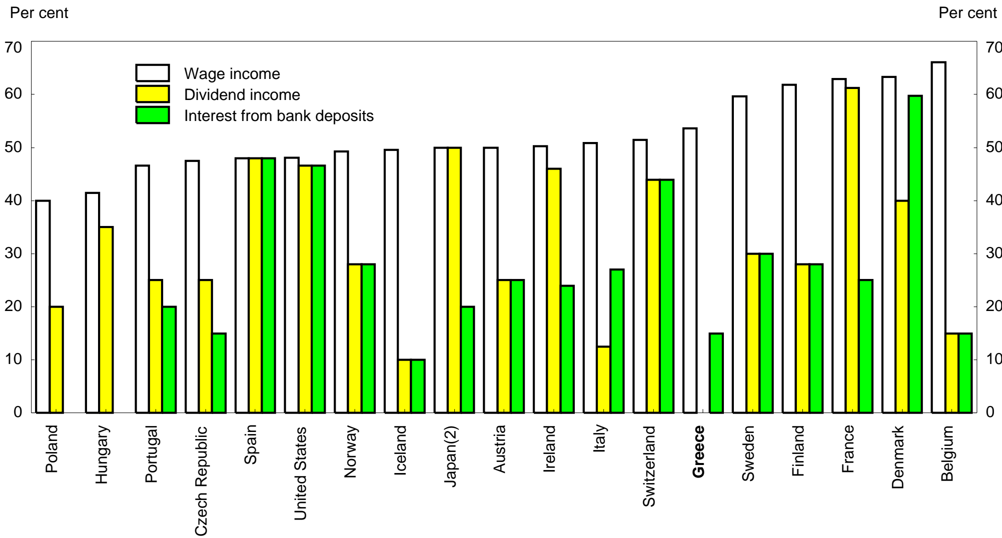
Figure 4. Progressivity of individual income tax systems
in selected OECD countries (1), 1999



1. Progressivity is measured as the difference between the marginal 'all-in' tax rate faced by a top wage earner and the marginal 'all-in' tax rate for an average production worker. 'All-in' rates include employee's social security contributions, surcharges and local taxes when applicable.

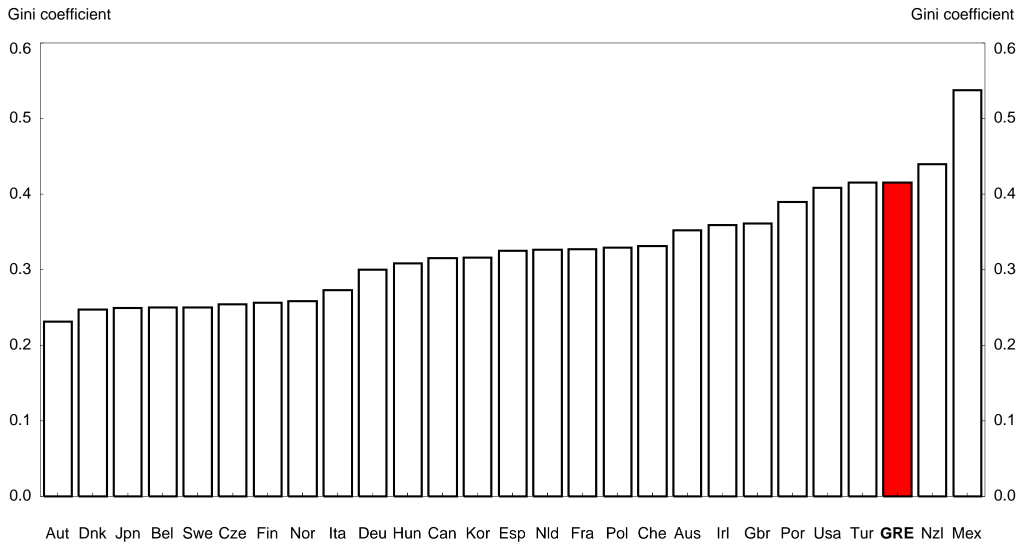
Source: OECD (2000a).

Figure 5. Highest "all-in" tax rates for top income earners (1)
1999



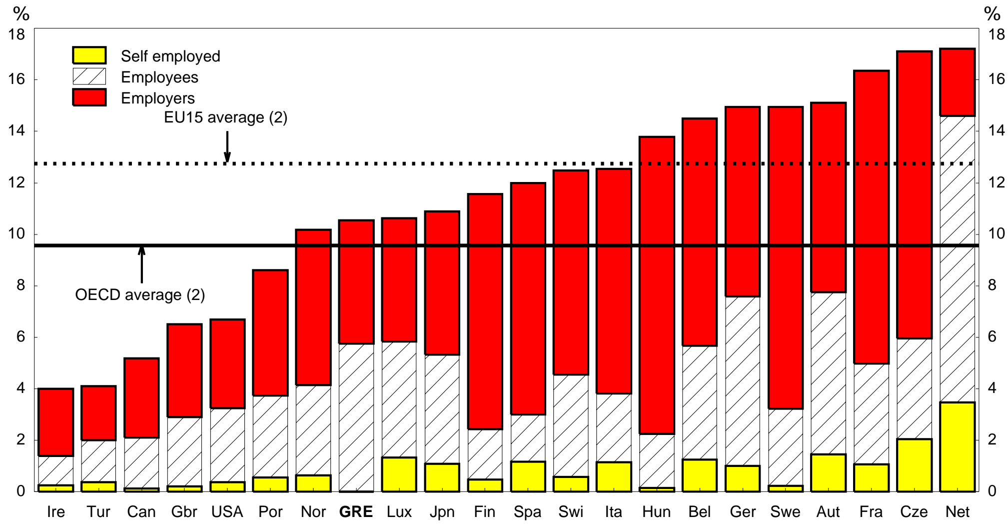
1. "All-in" rates include central and sub-central government taxes as well as social security contributions when these are not capped. Countries are ranked by ascending wage income tax rate.
2. Tax on dividends depends on the size of payment. Tax credit is not included.
Source: OECD.

Figure 6. Income distribution



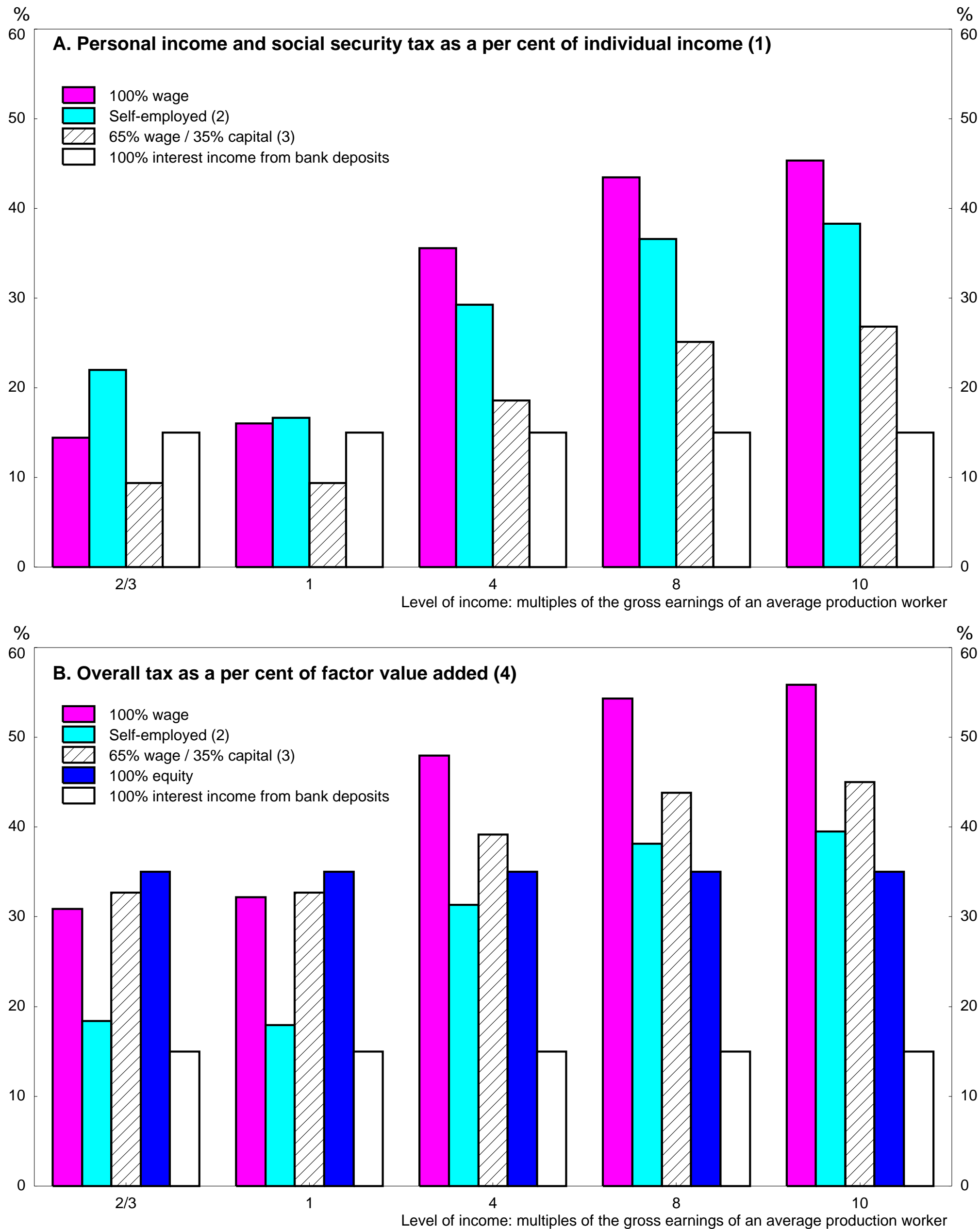
1. The Gini coefficient is a measure of income inequality: the higher the coefficient, the wider the income distribution. Gini coefficients are for 1997 or nearest year available.
Source: Anastassakou et al.; REIS (2000) ; World Bank, World Development Indicators (2000).

Figure 7. Social security contributions by payer
As a percentage of GDP, 1998 (1)



1. 1997 for Greece and Netherlands.
2. GDP weighted average.
Source: OECD (1999a).

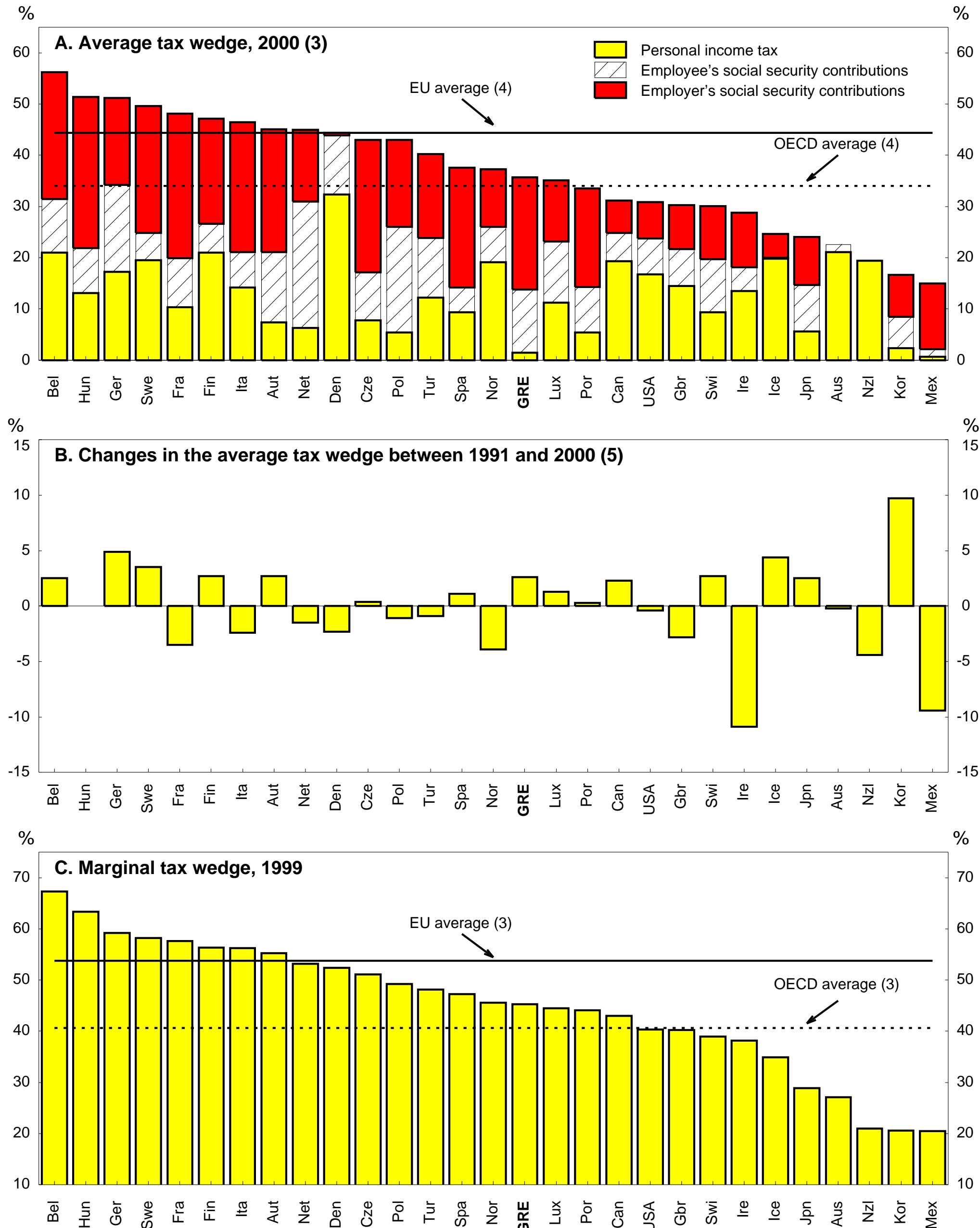
Figure 8. Average statutory tax rates by source of income
2000



1. Personal income tax, final withholding taxes on capital income and social security contributions paid by employees and and the self-employed.
2. It is assumed that the self-employed pay the minimum social security lump-sum.
3. Income from capital is composed of dividends and capital gains.
4. As in 1. plus employers' social security contributions and corporate income tax at 35 per cent rate.

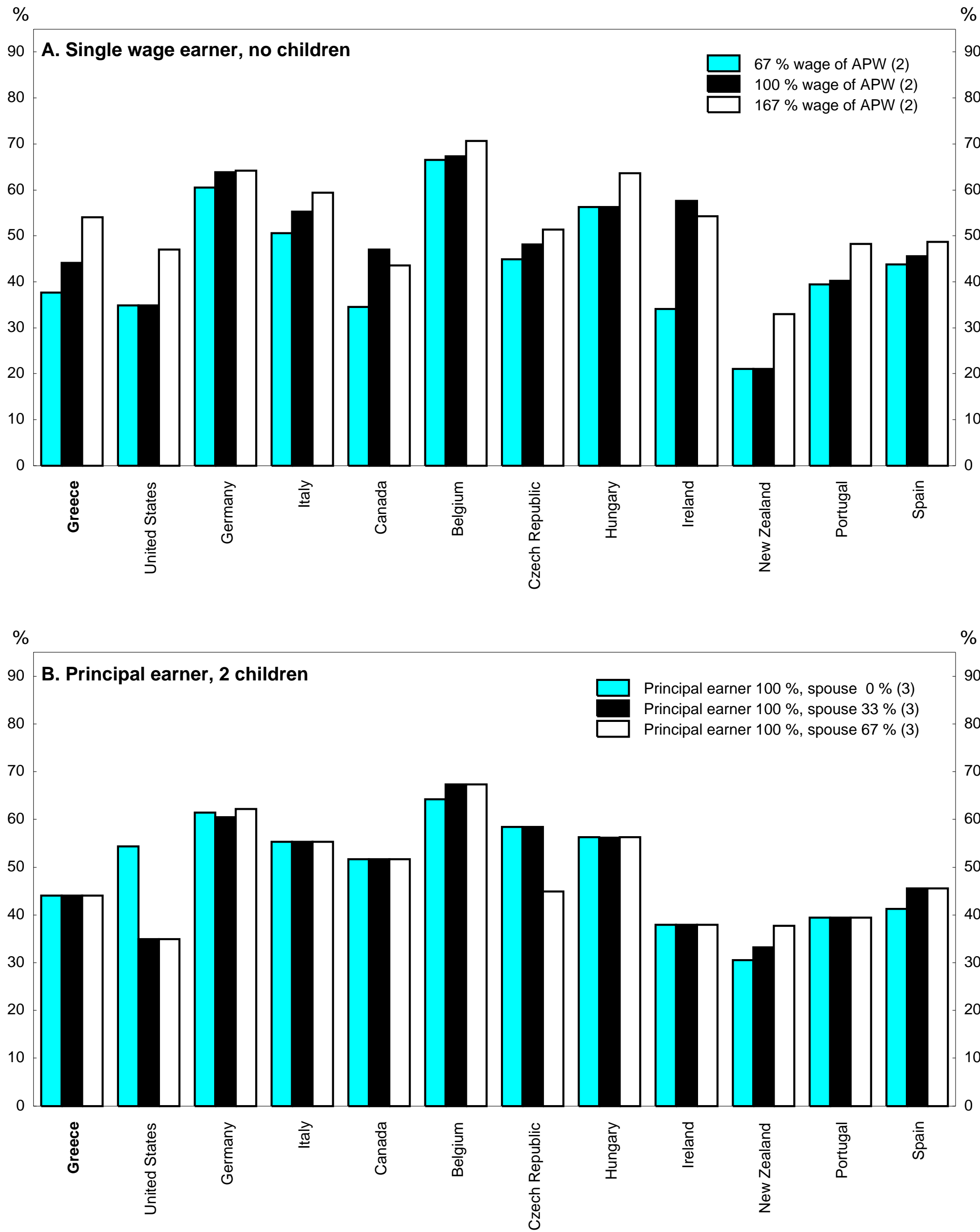
Source: OECD.

Figure 9. Tax wedges on labour (1)
As a percentage of gross labour costs (2)



1. For a single individual at the income level of the average production worker.
2. Gross wage plus employers' contributions.
3. Data for 2000 are based on estimated wage levels of the average production worker.
4. Weighted using 1995 GDP and purchasing power parities.
5. The first year refers to 1991 or the earliest year available. To be consistent with the 1991 data, the 2000 data for Austria excludes payroll taxes.
Source: OECD (2001c).

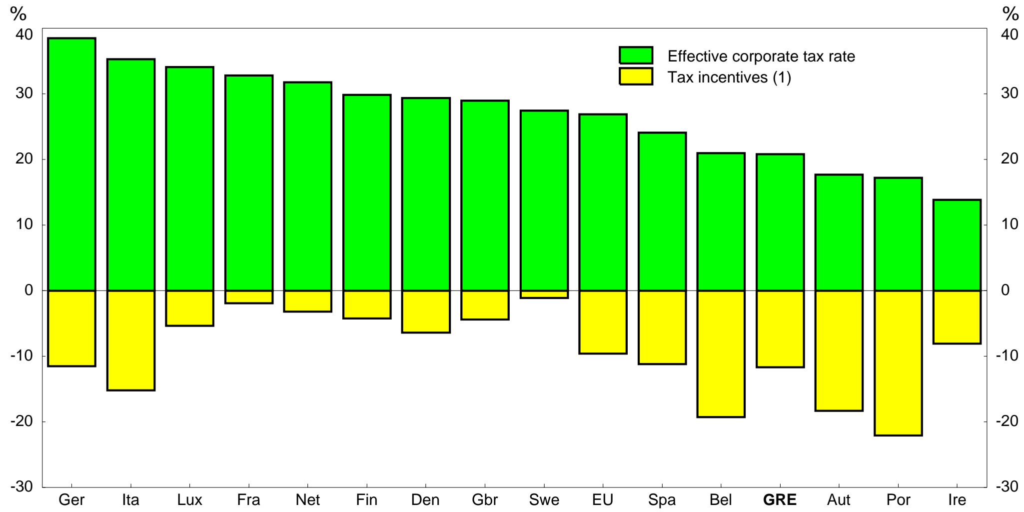
Figure 10. Marginal tax wedges by family type and wage level (1)
1999



1. Marginal tax rates covering employee's and employer's social security contributions and personal income tax with respect to a change in gross labour compensation.
2. APW: Average production worker in manufacturing.
3. Refers to the proportion of an APW's wage.

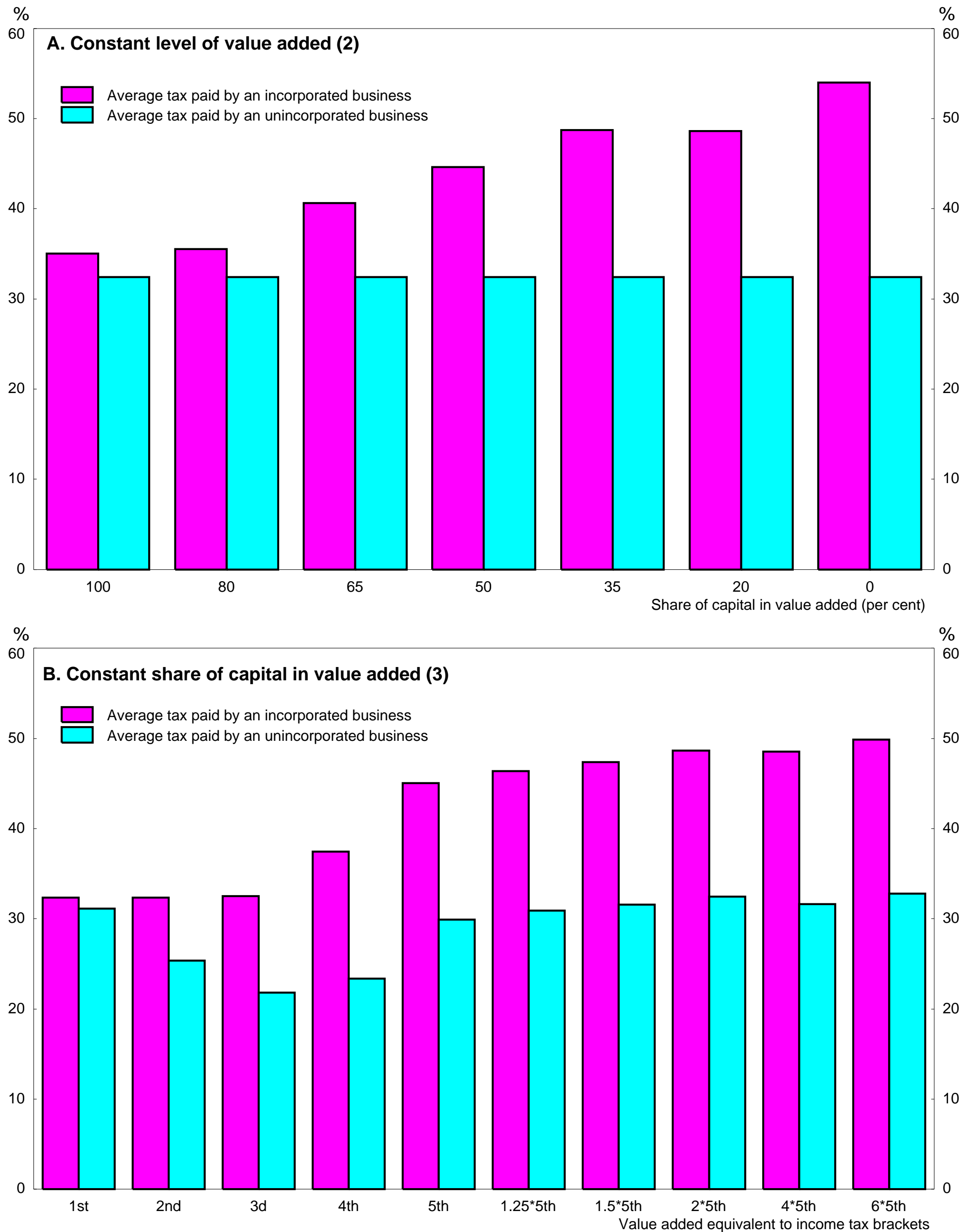
Source: OECD (2000a).

Figure 11. Effective corporate taxation in the European Union
Average 1990-96



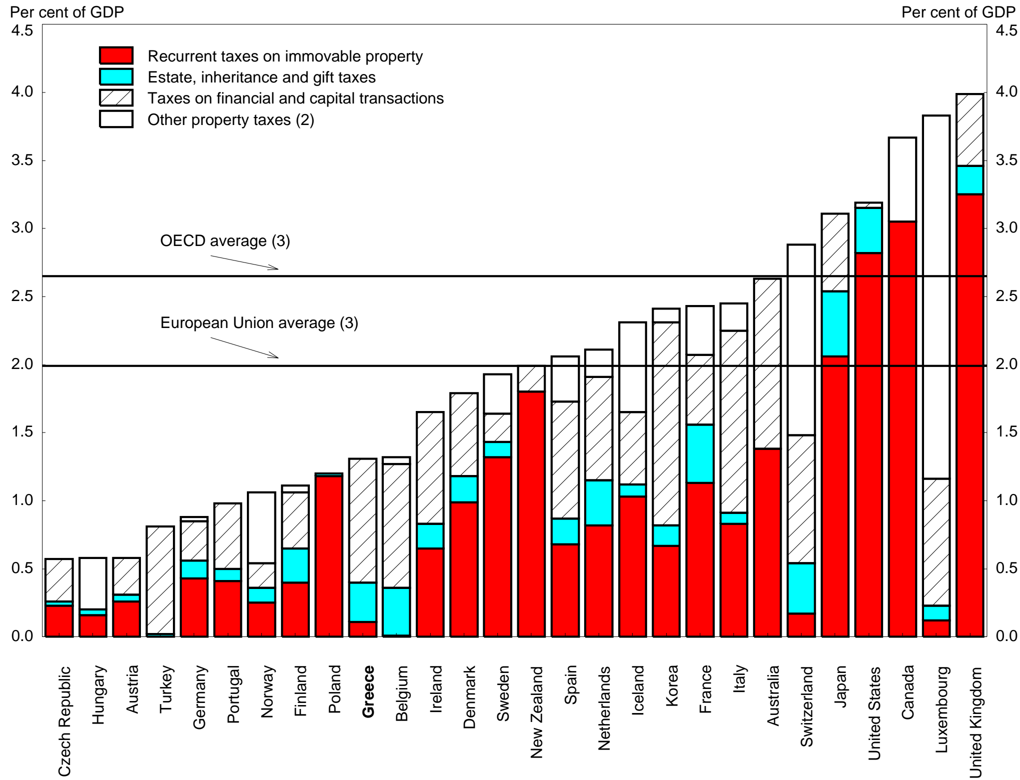
1. Difference between the effective corporate tax rate and the statutory corporate tax rate.
Source: Buijink et al. (1999).

Figure 12. Average statutory tax rates on incorporated and unincorporated businesses(1)
2000



1. Average statutory tax rates include: corporate and personal income taxes, and employer and employee social security contributions.
2. Value added equal twice the lower boundary of the top personal income tax rate.
3. Share of capital and labour are 35 per cent and 65 per cent, respectively.
Source: OECD.

Figure 13. Property taxation in OECD countries
1998 (1)



1. 1997 data for Greece.
2. Includes recurrent taxes on net wealth and some non-recurrent taxes on property (for instance land development permission charges).
3. GDP weighted.

Source: OECD (1999a).

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GLOSSARY OF ACRONYMS AND TERMS

AE	Corporation
APW	Average Production Worker
ASE	Athens Stock Exchange
CIT	Corporate Income Tax
CPI	Consumer Price Index
DOY	Local tax collection authorities
EMU	Economic and Monetary Union
FMAP	Central government real estate tax
GDP	Gross Domestic Product
GRD	Greek drachma
IOBE	Foundation for Economic and Industrial Research
IKA	Social Insurance Institute
KEPE	Centre for Planning and Economic Research
METR	Marginal Effective Tax Rate
PIT	Personal Income Tax
PPP	Purchasing Power Parities
SDOE	Special bureau of tax investigation
SEYYO	School of training for tax administrators
SME	Small or medium-sized enterprise
TAP	Local real estate tax
TAXIS	Integrated tax information system
TEVE	Social Insurance Institution for Professionals and Craftsmen
VAT	Value-added tax

ANNEX[56]

1. Detail on the Greek tax system as of 1 January 2000

Table A1. **Taxes levied on corporate income: standard regime**

Nature of the tax

- Resident companies are liable to national corporate income tax (*Foros eisodimatos nomikon prosopon*).
- In practice, a company is resident if it is incorporated under Greek law. The location of the place of effective management in Greece also constitutes residence.
- A company is taxable on world-wide profits.
- Income and capital gains are generally taxed as ordinary income. Capital gains derived from the sale of business assets are normally included in taxable income.

Exemptions, credits and allowances

- The following entities are totally exempt from income tax:
  - the state, including certain special funds;
  - all local authorities;
  - offshore companies under *Law 89 offices* (see below);
  - Greek shipping companies with Greek flag.
- Greece has an exemption system. Dividends distributed from after-tax profits of resident companies to resident individual and corporate shareholders are not subject to further taxation in the hands of the recipient.
- A 20 per cent withholding tax is levied on foreign source dividends if the payment is effected in Greece. This tax is credited against the final income tax liability of the recipient.
- Gains from the sale of shares listed on the Athens Stock Exchange are exempt if distributed or capitalised, or if they are entered into a special reserve to offset future losses from the sale of shares, both listed or unlisted and from the valuation of shares and bonds.
- A provision for bad and doubtful debts may be deducted up to 0.5 per cent of turnover from the supply of goods or services or 1 per cent of sales on credit of certain commonly consumed goods. The bad debt deduction cannot exceed 35 per cent of trade receivable. Special bad debt provision rules apply to banks.
- Depreciation of business assets is taken on a straight-line basis on acquisition cost of the asset. The rates of annual depreciation are:

Description	Rate (%)
Office equipment	20
Automobiles	15
Trucks	20
Machinery	15
Buildings	8 or 20 years
Goodwill	up to 5
Patents/Know how	over useful life

56. *Source*: Ministry of Finance and Kypris and Mavraganis (2000).

Table A1. **Taxes levied on corporate income: standard regime** *(continued)*

Exemptions, credits and allowances

- Unilaterally, Greece grants residents an ordinary foreign tax credit for income tax paid abroad. The credit is limited to the amount of Greek tax attributable to such income.
- Where a tax treaty applies, the taxpayer may, in general, choose the most advantageous between the unilateral and the treaty relief.
- Losses may be carried forward and set off against profits for the next five years. Loss carry-backs are not permitted. In the case of a merger, losses of absorbed companies are not transferred for tax purposes to the company that continues the business and are not carried forward.
- After 1 January 1998 machinery and technical production equipment acquired by industrial, handicraft and mining and quarrying companies, may be depreciated either with the straight-line or the declining-balance method.
- Additional depreciation was abolished by Law 2601/1998 for investments made after 14 April 1998.
- Capital gains realised on the sale of fixed depreciable assets such as plants and machinery are exempt from tax if placed in a special reserve to be used for the acquisition of replacement assets within two years of the sale. The replacement assets are not depreciable to the extent they are financed using the reserve.
- Inter-company dividends are exempt from the corporate income tax at the share holder level and from any withholding tax.

Rates

- For income year 2000, the rate of corporate income tax is 40 per cent for resident corporations (AEs) whose shares are not quoted on the Athens Stock Exchange (ASE). The same rate applies to banks and non-resident companies. The rate is 35 per cent for AEs listed in the ASE (excluding banks), limited liability companies, co-operatives, civil law associations and joint ventures, and 25 per cent for general and limited partnerships. Up to 50 per cent of the share of profits held by individual partners in a partnerships or limited liability company are subject to personal income taxation. This amount is deducted from the entity's profits.
- The income of the mutual funds and portfolio investment companies is subject to a rate of 15 per cent. In addition, these entities are liable to a tax on the average value of their investments and their disposable funds at a rate of 0.3 per cent.
- The proceeds (actual sales price) from the sale of a business, branch, share in a partnership, a limited liability company, a joint-venture, joint ownership and from the sale of unlisted companies are subject to a 5 per cent "special tax on business income".
- Interest from government bonds, treasury bills and corporate bonds are subject to a final tax of 10 per cent, while interest from bank deposits and bonds issued by banks and insurance companies are subject to a final tax of 15 per cent.
- A surtax of 3 per cent is imposed on income earned by companies from immovable property.

Table A2. **Taxes levied on corporate income: special tax incentives**

Greece grants a wide range of incentives. The incentives are available both to Greek investors and to foreign investors participating in Greek enterprises. Only tax incentives are presented below.

1. Tax allowances under the previous incentive Law 1892/1990

Manufacturing and handicraft companies located in Area A (according to Law 1892/1990) that make investments by 31 December 2004 for the modernisation of their production equipment are entitled to exclude from taxation and enter into a tax-free reserve an amount equal to 60 per cent of the cost of the investment. The annual allocations are limited to 60 per cent of profits.

2. Tax-free interest on loans in foreign currency

The measure applies to interest on long-term loans or credits provided by Greek or foreign banks or the branches of foreign banks in Greece or investment banks to industrial and mining companies for productive investment, provided the capital lent is brought in from abroad solely for that purpose.

3. Tax exemptions under Law 2601/1998

Qualifying enterprises making qualifying investments may claim a reduction in their taxable profits. For purposes of incentive measures, Greece is divided into four territorial areas (A-D).

Area A:

The prefectures of Attica and Thessaloniki, except the parts included in the other areas.

Area B:

The industrial zone of ETBA, the province of Langadas and the part west of the Axios river which belongs to the prefecture of Thessaloniki, the province of Troizinia belonging to the prefecture of Attica, as well as the prefectures and areas not belonging to areas A, C and D.

Area B:

The industrial zone of ETBA, the province of Langadas and the part west of the Axios river which belongs to the prefecture of Thessaloniki, the province of Troizinia belonging to the prefecture of Attica, as well as the prefectures and areas not belonging to areas A, C and D.

Area C:

The prefectures and areas where the working population is declining or unemployment increases, including the Lavreotiki zone but excluding the prefectures of Attica and Thessaloniki and the prefectures or part of prefectures belonging to area D. These areas are specified by a ministerial decision which is issued every two years and cannot be amended prior to the expiry of the two-year period.

Area D:

The prefectures of Xanthi, Rodopi and Evros, the industrial zones of ETBA in the geographical and administrative area of Epirus, the islands with a population less than 3 100 inhabitants according to the 1991 registration, islands belonging to the geographical and administrative area of the Northern Aegean Sea (prefectures of Lesvos, Chios, Samos), the island of Thassos, the prefectures of Dedocanese (except the area of the town of Rhodes) and the border areas of the various prefectures of the mainland up to a distance of 20 kilometres from the state border and the municipalities or communities whose local boundaries are intersected by the zone of 20 kilometres.

Areas not expressly mentioned in the above regions A, B and D will enjoy the incentives applicable to region C until 31 December 2000.

The law provides for tax exemptions that vary from 40 per cent to 100 per cent of the acquisition cost of the relevant asset depending on the nature of the investment and the region in which it takes place. The following table indicates the ordinary rates with exceptions provided for specific cases:

Region	Tax exemption of the value of the investment (per cent)
A	-
B	40
C	70
D	100

The tax-free profit which is recorded in a reserve account is taken from the profits of the financial year in which the investment took place unless these profits are not sufficient. In such case, the amounts are taken from the future ten financial years. With regard to investments and/or leasing projects which are spread over more than one financial year, the reserve may be created from the profits of each financial year based on the investment expenses incurred in that year or the rent paid upon the condition that the investment of the leasing project will be completed within five years.

After the completion of an investment which has enjoyed a tax exemption, an application must be filed with the appropriate tax authorities so that a tax audit of the investment can take place.

The tax exemptions are provisional and the exempt profits will be taxed if certain events specifically provided by Law 2601/1998 occur.

Table A2. **Taxes levied on corporate income: special tax incentives** (*continued*)

4. Tonnage tax

Profits derived by Greek companies from the operation of ships registered under the Greek flag are subject to a special tonnage tax which satisfies the income tax obligation of the shipowner and shareholder with respect to such income. The exemption applies to income from operating a ship, profit on the sale thereof, and receipt of insurance claims. The tax is assessed on the basis of the capacity and the age of the vessel. Exemptions from or a reduction in tax are granted in certain circumstances, such as where the ship was built or repaired in Greece. Furthermore, the shipping industry enjoys more favourable terms in financing and certain incentives are granted for the modernisation and development of shipyards.

5. Offshore offices

Substantial tax and other incentives are offered to offices set up by foreign companies using Greece as an administrative centre to co-ordinate their business operations. These are called Law 89 Offices. The main relief granted is that no income or other taxes are imposed on the profits of offshore operations.

6. Offshore engineering and civil construction companies

Offshore engineering and civil construction companies benefit from a complete tax exemption, provided *i)* their personnel is composed of at least four fifths Greek nationals in total and at least three fifths in each personnel category, *ii)* they have deposited a special guarantee with a recognised bank in Greece and *iii)* they transfer a minimum amount of US$ 50 000 annually to cover expenses, especially for Greek companies.

7. Rate freeze for foreign investment

Under Law 2687/1953, foreign investors are secured against any increase in the rates of income tax on undistributed profits during the first ten years from the establishment of the company. In addition, there is a reduction of, or a total exemption from, customs duties and other levies on the import of machinery, spare parts, etc. as well as from municipal taxes and levies imposed by harbour authorities. The incentive also applies for the first ten years.

8. Incentives for mergers

Law 1297/1972 applies to mergers and transformations effected until 31 December 2000. The incentives provided by this law take the form of exemptions from various taxes and duties, *e.g.* exemption from stamp duty, exemptions from real estate transfer tax and the deferral of income tax on gains arising from the revaluation of assets at the time of the merger until the dissolution of the company or the distribution of gains.

These benefits apply provided the company resulting from the merger will have a paid-up capital of at least GRD 100 million in the case of an AE, or at least GRD 50 million in the case of an EPE, and in most cases, that 75 per cent of the AE's shares or the EPE's parts will not be transferable for the first five years following the merger. The restrictions on transferability does not apply to mergers of AEs.

Law 2166/1993 provides for a simpler procedure for the transformation of business (transformations, absorptions, mergers, splitting, contributions). The main tax benefits of this law are as follows:

- no revaluation gains are recognised, since assets and liabilities are transferred to the new company at the book values confirmed either by a certified auditor or by the tax authorities; and
- exemptions from real estate transfer tax, stamp duty and other taxes imposed on contracts and, in most cases, capital concentration tax (capital duty).

The application of Law 2166/1993 is subject to the following two conditions:

- the businesses being transformed must maintain double-entry accounting books and have published financial statements for a period of at least 12 months; and
- the company resulting from the merger must have a paid-up capital of at least GRD 100 million in the case of an AE or at least GRD 50 million in the case of an EPE.

9. Relief in the Aegean islands

Companies resident in any Aegean island with a population of less than 3 100 are granted the following relief until 31 December 2005:

- the corporate income tax is decreased by 40 per cent (the 40 per cent rate is reduced to 24 per cent and the 35 per cent tax to 21 per cent); and
- real estate transfer tax is decreased by 40 per cent.

Table A3. **Taxes levied on household and other business income**

Nature of the tax

Personal income tax

- The income tax (foros eisodimatos physikon prosopon) is levied on world-wide income of resident individuals. Taxable income is classified into six categories: rental, investment, employment, agricultural, business and professional.
- Income from each source is separately computed and individuals are subject to tax on the aggregate income from all categories. Losses from one category are offset against income from other categories. Losses arising from sources of income outside Greece can only be offset against income arising outside Greece. Losses from industrial or agricultural activities which are not absorbed by other income in any particular year may be carried forward to be offset against the income of the five years immediately following.
- Married couples are subject to tax separately on their own income but are required to file a joint tax return.

Stamp Duty Tax on Salaried Income

- All wages are subject to stamp duty of 1.2% which is borne equally by the employee and employer (*i.e.* 0.6% each).

Imputed Versus Actual Income

The legal provisions designed to prevent tax evasion specify that individuals are taxed on the higher of either their declared income or certain minimum income imputed from their business and professional sources. Income is also imputed on the basis of living expenditure or acquisition of certain assets. The main factors considered in imputing income from living expenses or acquisitions are: engine size of owned motor vehicles, cost of maintaining household staff, amount of any loans granted by the individual to companies in which there is a participation, purchase of a business or acquisition of partnership parts or shares in an AE company, purchase or construction of real estate, cost of operating pleasure boats, rental paid for a summer home exceeding 120 square meters in size, etc. Income thus imputed will constitute an individual's taxable income if it is more than 20% higher than declared income. That is unless there is evidence that the difference between the imputed income and the declared income is covered by borrowings or from savings that have been taxed or exempted from tax in the past or from gifts which have been subject to or exempted from donations tax, from income taxed abroad and imported to Greece, etc.

Rates and tax brackets

Tax brackets for business and professional income net of deductible expenses		Tax rates	Tax brackets for wage income and occupational pensions	
First	2 000 000	0	First	2 300 000
Second	710 000	5	Second	410 000
Third	1 625 000	15	Third	1 625 500
Fourth	3 245 000	30	Forth	3 245 000
Fifth	8 655 000	40	Fifth	8 655 000
above GRD	16 235 000	45	above GRD	16 235 000

Rents from land and buildings are also subject to a surtax of 1.5 per cent, increased to 3 per cent for residential buildings with a floor area greater than 300 sqm. However this tax cannot exceed the tax imposed on the taxpayer's total taxable income.

Table A3. **Taxes levied on household and other business income** *(continued)*

Allowances, credits and exemptions

- The obligatory employee portion of social security contributions and the stamp duty on employment income are deductible from the tax base.
- Expenses acquired for business income purposes are generally deductible from the tax base.
- A rent deduction equal to 40 per cent of the annual rent paid for the taxpayer's principal residence up to GRD 250 000 per year.
- Life insurance premiums are deductible at a rate of 40 per cent and up to GRD 250 000 per year.
- Medical expenses of the taxpayer and his dependants are fully deductible up to a declared income of GRD 10 million. For income between GRD 10 and 15 million, expenses can be deducted up to GRD 10 million plus 50 per cent of expenses between GRD 10 and 15 million Medical expenses in excess of GRD 15 million cannot be deducted.
- Donations to the state, municipalities and certain other local institutions (religious, philanthropic, educational, etc.) are tax deductible. All other donations are deductible up to a maximum of GRD 1 million. Above this limit the donor must pay a flat tax rate of 10 per cent.
- Additional deductions are available where the taxpayer and/or his dependants are disabled. The amount of alimony and child support paid under a court order or under terms of a formal agreement is not deductible from income. Alimony received by the spouse forms part of the taxable income of the recipient.
- A rent deduction of 40 per cent up to the amount of GRD 250 000 for the accommodation of children attending courses in approved schools (universities, etc.) in Greece.
- A deduction of 40 per cent up to the amount of GRD 250 000 paid for each child for home tuition.
- Interest paid on mortgages provided by banks or other credit institutions for the acquisition of the taxpayer's primary residence is fully tax deductible. This deduction is also available where insurance companies provide the mortgage to their employees.
- A tax credit for each dependent child can be credited against PIT liability. The credit increases with the number of children.

No. of Children	Tax credit per child (GRD)
1	30 000
2	35 000
3	50 000
4	60 000
5	70 000
6	80 000

- In addition to the expenses listed above, there is a further 30 per cent deduction of all other family purchases of goods and services, except for those relating to food, beverages, fuel, water charges, sewage service, power, insurance, circulation tax and expenses which are used to assess deemed income (*i.e.* car purchases etc.). This deduction cannot exceed GRD 300 000 for both spouses and is apportioned between the two spouses in accordance with their level of income. The tax saving itself cannot exceed 15 per cent of the total value of the deduction as assigned to each spouse.

Table A3. **Taxes levied on household and other business income** *(continued)*

Investment Income	
Income from immovable property	**Income from movable property**
– For owner-occupied dwellings, an amount equal to the imputed income arising from the ownership of up to 150 square meters of residence may be deducted from the imputed rental income arising from owner occupied use. – Net gains from the sale of immovable property are exempt. – Rental income is subject to the personal income.	– Interest income from Greek government bonds, treasury bills and corporate bonds are taxed at a final withholding tax of 10 per cent; – Interest payments on deposits and postal saving accounts are subject to a final withholding tax of 15 per cent; – Dividends distributed from resident companies are exempt; – Net capital gains from domestic and foreign shares are exempt; – Dividends and interest paid by a pension fund: if the payment does not exceed GRD 600 000 *per annum*, the rate is 5 per cent; if the payment exceeds GRD 600 000 *per annum*, the rate is 10 per cent; if the payment exceeds GRD 1.4 million *per annum*, the rate becomes 15 per cent.

Other taxes related to movable income

A 0.6 per cent transfer tax is imposed on the sales price of shares listed in the Athens Stock Exchange or on a foreign stock exchange market.

A special tax of 5 per cent is levied on the actual sales price of unlisted shares.

Table A4. **Social security contributions**

<table>
<tr><th>National insurance premiums</th><th>Employers' social security contributions</th></tr>
<tr><td colspan="2" align="center">Nature of the tax</td></tr>
<tr><td>– The taxable base is gross income. Social security payments are deductible from the personal income tax base</td><td>– Contributions are levied on gross wages and are deductible from the corporate income tax base.</td></tr>
<tr><td colspan="2" align="center">Exemptions, credits and allowances</td></tr>
<tr><td colspan="2" align="center">A monthly ceiling of GRD 588 000 applies to wage earners who joined IKA prior to 1st January 1993.</td></tr>
<tr><td colspan="2" align="center">Rates</td></tr>
<tr><td>Employees
Employees' social security contributions are payable at a rate of 14.42 per cent. A supplementary insurance at a rate of 1.25 per cent applies for heavy and health hazardous work (TEAM). Contribution rates concerning other organisations (OAED-Unemployment, Family benefits, etc. Worker's Housing Organisation, Worker's Foundation) may reach up to 3.68 per cent.
Self-employed
They must make a monthly lump-sum contribution to TEVE (Social Insurance Institution for Professionals and Craftsmen). This monthly payment ranges from GRD 42 000 (GRD 27 400 for pension contributions and GRD 14 600 for sickness contributions) to GRD 105 400 (GRD 87 000 for pension contributions and GRD 18 400 for sickness contributions). TEVE contributions are according to income classes that are set by the taxpayers themselves.</td><td>Employers' social security contributions are payable at a rate of 23.83 per cent. A supplementary insurance at a rate of 0.75 per cent applies for TEAM. Contribution rates concerning other organisations (OAED-Unemployment, Family benefits, etc. Worker's Housing Organisation, Worker's Foundation) may reach up to 6.53 per cent.</td></tr>
</table>

Table A5. **Taxes levied on consumption**

Value-added tax	*Excise duties*
Nature of the tax	
– Registered businesses, selling taxable goods and services in Greece, the state and municipalities with respect to transactions which can also be performed in the private sector, and importers as well as intra-community acquisitions are liable to value added tax *(Foros prostithemenis axias)*. – The taxable base is the consideration received for sales of taxable goods and services, excluding the VAT itself, and value at importation including import duties. – Trade firms with an annual turnover in excess of GRD 1.8 million and service suppliers with an annual turnover in excess of GRD 600 000 must register in the VAT system; smaller businesses pay VAT only on their inputs. As compared with other OECD countries, this threshold is about average.	– The tax is levied under a value-added system up to the wholesale level. On imports, the tax administrator (customs authority) in accordance with the Customs Act assesses the tax. The customs authority also calculates the customs duties.
Exemptions, credits and allowances	
– Exemptions allowed by the EU Sixth Directive on VAT law can be qualified into two categories: exemptions without credit for input tax and exemptions (exempted) with credit for input tax (zero-rated). – They exist (without credit for input tax) for charity, cultural services, education, financial services, insurance, lottery and gambling, medical and dental care, public postal services, property letting, supply of land and buildings, broadcasting, legal services, public cemetery, burial and funeral services and sporting events.	– Zero-rated: wine and other fermented beverages.
Rates	
– The VAT rate is 18 per cent. – A reduced rate of 8 per cent applies to goods deemed to be necessities, such as fresh food products, pharmaceuticals, transportation, electricity, natural gas, inputs of agriculture and some services (*e.g.* hotels, restaurants, coffee shops, writers, composers, artists and services of doctors and dentists). – A reduced rate of 4 per cent applies to newspapers, periodicals, books and theatre tickets. – For the Dodecanese and Eastern Aegean islands, the above rates are reduced to 13, 6 and 3 per cent respectively.	See excise rates table below.

Category[1]	per	GRD
Beer	hectolitre per degree Plato	384
Alcoholic beverages	hectolitre of absolute alcohol	298 414
Mineral oils	per 1 000 litres of product at 15 C	8 300-114 000
Unleaded petrol	per 1 000 litres	98 000
Oil for heating purposes	tonne	4 500
Ad valorem excise	rate	
Tobacco	26–59	

1. Selected products; list is not exhaustive.

Table A6. **Central and local taxes on property**

Nature of the tax

Stamp duty

- A stamp tax is levied on stock market transactions the rate of which was raised from 0.3 to 0.6 per cent in September 1999.
- A stamp tax is levied on the transfer of immovable property at rates between 9 and 13 per cent.
- Real estate tax
- The central government real estate tax (*FMAP*) and the local real estate tax (*TAP*) are imposed annually on the value of land and buildings.
- Both businesses and individuals are liable to property taxes.
- The *FMAP* is not deductible for corporate income tax purposes, whereas the *TAP* is.

Net wealth tax

- No net wealth tax is imposed in Greece.
- Inheritance and gifts
- The person receiving the inheritance or gift is liable for the tax thereon.
- The inheritance tax is due with respect to all movable and immovable property located in Greece regardless of the nationality or residence of the deceased/donor. Movable property outside Greece is also subject to the tax if the deceased/donor was a national or resident of Greece at the time of death.
- In case of estates the inheritance and gift tax are computed on the fair market value of the share received by each beneficiary/donor.

Exemptions, credits and allowances

- Immovable property situated abroad is exempt from property taxation.
- Farmland, forests and buildings owned and used by companies in their business are exempt from FMAP. A further exemption from FMAP is granted to hotel owners, equal to 50 per cent of the value of the land on which the hotel buildings have been constructed. The first GRD 69 million of the value of land and buildings of an enterprise is exempt from FMAP. So is the first GRD 69 million of the value of land and buildings for each spouse. An additional exemption of GRD 17 250 000 is granted for each young child.
- No exemption is granted for the TAP.
- An exemption applies with respect to inheritances received by Greek charitable organisations or on movable property abroad that belonged to a Greek national who had been resident in a foreign country for at least ten years.
- Any foreign inheritance tax paid on movable property abroad may be deducted from the inheritance tax due in Greece on the same property. No such relief is available with respect to the gift tax.

Rates

- The FMAP rate on property of enterprises is 0.7 per cent.
- The FMAP rate on property of individuals is as follows:

Value (GRD million)	per cent
First 50	0.3
Next 50	0.4
Next 50	0.5
Next 100	0.6
Next 100	0.7

- The TAP rate is set by local councils and varies between 0.025 per cent and 0.035 per cent of the assessed value of the property. This rate applies to both businesses and individuals.
- The inheritance and gift tax rates are determined on the basis of the proximity of relationships between the deceased/donor and the beneficiary/donor. The following tax rates apply to property received as inheritance or gift by Category I (spouse, children or parents):

Taxable share (GRD ‘000)	per cent
First 5 175	0
Next 10 500	5
Next 45 000	15
Over 60 495	25

2. The integrated TAX information system

The integrated tax information system, known as TAXIS was designed to cater for the following needs:

- The need for a data base at both the local level (tax inspectorates) and central level (Treasury information processing centre). This allows the tax inspectorates to retain operational independence as most work can be carried out locally. However, data also need to be available at the central level in order to carry out certain horizontal processing routines (cross-checking etc.) and for reasons of system security;
- the need for the tax inspectorates to be able to continue to operate in the event that extraneous factors cause the central system to break down;
- the need for a uniform, user-friendly environment;
- the need to manage large quantities of data.

TAXIS includes 18 sub-routines (see below) that are gradually being installed in tax inspectorates throughout the country. During the present transitional stage:

- the full system has been installed in 175 tax inspectorates;
- the REGISTER sub-routine alone has been installed in 56 tax inspectorates.

It now covers:

- 98 per cent of taxpayers; and
- 92 per cent of revenue/expenditure transactions.

By the end of 2000, the installation of TAXIS will be completed in 231 tax inspectorates, while it will be in progress in the remaining 70 tax inspectorates.

Sub-routines and main operations

1. Administration of register of taxpayers

The system is based on this register. It ensures that each taxpayer has a single tax registration number. It is used to manage taxpayers' personal details and their relationships with other taxpayers. It also stores details on legal persons, background information, information on representatives, branches, holdings, main and secondary activities etc.

2. Value-added tax (VAT)

VAT collection is supported by automated procedures for receiving, entering and verifying interim and final returns. It monitors intra-Community transactions (deliveries, purchases) for the purpose of the VIES system and immediately identifies taxpayers who have not filed a return. It also manages imposition of the relevant fines and monitors the post-audit results of this form of taxation.

3. Code of Books and Records

This records data on inspections of compulsory and optional books and records for every undertaking, automatically checks tax and insurance liabilities prior to inspection, maintains data on assets confiscated and administers the assessment of fines levied either by the tax inspectorate or by external audit agencies (SDOE).

4. Revenue — revenue accounts

Financial information on individuals in correspondence with tax inspectorates is automatically monitored both analytically and cumulatively. Provided that they have been entered, all taxpayers' liabilities *vis-à-vis* individual tax inspectorates can be located centrally. Daily, monthly and annual accounts are generated automatically. Once the system is fully operational, any tax inspectorate will be able to generate a tax liability statement, not just the local tax inspectorate.

5. Expenditure — expenditure accounts

This manages government payments to private individuals. Payrolls and pay slips are monitored and a file of payment documentation and a register of salaried employees are kept in each tax inspectorate.

6. Litigation

This monitors legal action by tax inspectorates and identifies the government's main debtors. It manages all compulsory and precautionary administrative enforcement measures, together with outstanding debt arrangements.

7. Records — electronic files

These record incoming and outgoing correspondence with tax inspectorates. The cost is entered and the value of registered letters calculated. Applications from private individuals are monitored in order to ensure that they are answered promptly.

8. Income tax (natural and legal persons)

This provides local and central support for receiving, entering, clearing and assessing the results of income tax returns filed by natural and legal persons and for managing other withholding taxes declared.

9. Wealth tax

All returns for the purpose of inheritance tax, child benefit tax, gift tax and conveyance tax are administered. The clearance and assessment of the results of these returns are monitored, as are the post-audit results.

10. Vehicle tax

A register of vehicles and works machinery is kept and ownership is monitored. It also supports the administration of the vehicle tax and the assessment, collection and deletion of related fines.

11. Other taxes

This supports procedures for receiving, clearing and assessing other indirect and special taxes, with the exception of VAT. Other taxes include stamp duty, Greek Agricultural Insurance Agency tax, excise, special duty on tobacco products, duty on alcohol, banking tax, insurance tax etc.

12. Cross-checking data on taxpayers

This includes the central procedure for classifying and correlating data on taxpayers obtained either from outside sources or from information supplied to various tax inspectorates and various sub-routines. The results of this procedure are sent to the relevant tax inspectorates via this sub-routine for further tax evasion controls.

13. Taxpayer's profile

This presents an overall profile of the taxpayer's activities to all the tax inspectorates and all the sub-routines which keep information on the taxpayer. This offers a flexible system for calling up available information on individual taxpayers without the need to consult all the sub-routines in order to find the same pooled information.

14. Taxpayer audits

This administers all the information available so that audits can be completed quickly and efficiently on the basis of annual auditing criteria or special criteria for each tax inspectorate. Trends in audit results and the return on the cases audited are also monitored.

15. Property valuation

A survey data base is managed centrally and can be accessed by every tax inspectorate. This allows all the information on objective property prices throughout the country to be set, changed, added or recovered and provides a service to the public by generating the rental value of property automatically and determining the minimum taxable income. It is also used as the basis for determining tax in the wealth tax sub-routine.

16. Inspections and audits by tax inspectorates

This manages information from all sub-routines on ordinary and extraordinary annual audits by tax inspectorates. Annual and periodic productivity statistics are provided, together with comparative per cent changes in efficiency based on annual parameters.

17. Work sequences

This sub-routine defines user roles and correlates them with user sub-routine access rights. It also monitors how the system applications work together and communicate.

18. Large property tax

This supports the receipt, registration and clearance of the relevant returns and the procedure for assessing and collecting the tax owed.

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