The latest legislative overhaul of the Greek taxation system

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In 2007 the Greek government continued to introduce measures in support of the reform of tax legislation.

On 1 January 2007 a new law came into force introducing considerable amendments to tax legislation and providing a simpler and more transparent tax regime. The new law aims to set out a more uniform manner for companies to record their transactions and maintain their books and records. In so doing, it simplifies and reduces administrative bureaucracy and relaxes the administrative requirements expected of businesses. In the past, such requirements usually resulted in penalties for non-compliance on entirely formalistic and procedural, rather than substantive, grounds. Such relaxation of companies' formalistic obligations is expected to reduce their operational costs. The new law further seeks to improve Greek public services and minimise any dysfunction in their performance which might arise from the use of new technologies or from the emergence of new forms of transactions. At the same time, measures are being taken to improve the manner in which the public sector processes tax information electronically.

Regarding income tax, some key amendments came into effect in 2007:

- For personal tax, the income tax scale's tax-free bracket was increased, the main tax bracket of 30% was extended (to €30,000 from the previous level of €23,000), and the tax rate will be gradually reduced over a period of three years to 29% in 2007, 27% in 2008 and 25% in 2009. The 40% tax bracket will also be gradually decreased for income between €30,000 and €75,000 to 39%, 37% and 35% in 2007, 2008 and 2009 respectively. The rate of 40% will be maintained for income in excess of €75,000. This reduction in personal income tax is designed to counterbalance the reduction of corporate tax rates from 35% to 25% that was completed earlier in 2007.

- Interest paid to Greek individuals and companies from foreign deposits and bond loans issued abroad is subject to a 10% tax at source. This tax does not extinguish tax liability for such income earned by *societes anonymes* and limited liability companies. Greek credit institutions ('paying agents') withhold income tax on remittances made to Greek beneficiaries upon payment or crediting of their bank account.

- Profits earned by businesses (maintaining double entry accounting books) from transactions in financial derivatives listed on Athens Derivatives Exchange or on any other organised exchange are exempt from income tax as long as they are recorded and remain in a special reserve. Such profits are taxed at the time of distribution or dissolution of the business, unless they are offset against losses that may be suffered in the future from similar transactions.

- Companies reducing their capital for the purpose of offsetting their losses cannot carry forward such tax losses that were set off against capital.

- The 0.15% tax imposed on Greek residents on the sale of shares listed on foreign stock exchanges has been abolished for foreign stock exchanges that have created a common electronic trading system with the Athens Stock Exchange, provided that a corresponding tax is paid abroad for the same transaction.

- Concerning tonnage tax for tax returns filed in 2007, the conversion of US dollars or British pounds into Euro will be made at the exchange rate of the time the tax return is filed and not at the time the tax is paid.

The tax regime of mutual funds and portfolio investment companies has also been amended. Under the new law, Greek mutual funds are taxed at a rate equal to 10% of the interest rate set by the European Central Bank increased by 0.25 of a point for bond funds, 0.5 of a point for mixed funds and one point for stock funds and real estate mutual funds. The tax is calculated on the semiannual average net asset value of the fund daily. Greek portfolio investment companies are also taxed at a rate equal to 10% of the interest rate set by the ECB increased by one point. Moreover, withholding tax on interest earned by mutual funds and portfolio investment companies has been abolished.

It should also be noted that 20% of the cost of the purchase of units in domestic stock and mixed mutual funds connected to life insurance policies and those that are connected with life insurance policies through internal variable capital, and up to €3,000 can be deducted from the Greek taxpayer’s income on the condition that three years have elapsed since the purchase.

Regarding indirect taxation, the new law provides that VAT-liable owners of shopping malls have the choice, under certain conditions, to rent space subject to VAT. The VAT paid on the rent could be offset against the lessee’s input VAT if the latter is also a VAT-liable enterprise. Lastly, stamp duty on house rentals, which was 3.6% in 2006 and was reduced to 1.8% in 2007, will be abolished as of 1 January 2008.

Regarding foreign companies acquiring ownership or other real rights on real estate in Greece, it should be noted that as of 1 January 2007 such companies are no longer considered entrepreneurs for Greek law purposes and therefore not all the provisions of the Code of Books and Records apply. In this manner, these companies are freed from the need to undertake book-keeping in Greece.

Greek law has also enacted legislation harmonising Greek domestic law with Council Directive 2005/19/EC of the Council of the European Union (amending Directive 90/434/EEC) on implementing a common system of taxation applicable to mergers, divisions, transfer of assets and exchanges of shares between companies of different member states. Interestingly, the common system of taxation now extends to include partial divisions, the transfer of a registered address and the conversion of branches into subsidiaries and that the tax regime applicable to *societes anonymes* also extends to limited liability companies.

Lastly, Greek law regarding state aid to private investments, which also includes tax incentives, was amended to be harmonised with the new Regional Aid Map (as approved by the European Commission) applicable in Greece for the period between 2007 and 2013.

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