

## Greek Tax Facts

<b>Introduction</b>	Taxation in Greece occurs at national and municipal levels and is administered by the Ministry of Finance.
<b>Tax Year</b>	1 <sup>st</sup> January – 31 <sup>st</sup> December
<b>Assessment Basis</b>	<p>Greek residents are taxed on their worldwide income. Individuals do not have to file a tax return if their annual income is less than €3,000, unless under certain conditions such as the purchase of real estate or cars etc, or have income from rentals exceeding €600 and certain other sources. In addition, salaried individuals with an annual income of less than €6,000 do not have to file a tax return except under certain circumstance defined by law.</p> <p>Married couples must file a joint return; however, their incomes are assessed separately for taxation purposes.</p>
<b>Income Tax</b>	<p>Taxable income is classified under various categories namely employment, land and buildings, investments, commerce, agriculture and professions. These income sources are added together before allowances and deductions are taken into account in order to derive total taxable income. From 2005 any housing allowances and other allowances, such as benefits in kind, must be included in the calculation of taxable income. There are a considerable number of deductions and allowances available and these change frequently, but generally include compulsory social security payments and loan interest for loans stipulated until December 31st, 2002 (for the acquisition of a principal primary residence in Greece) which are deducted from income, as well as 20% of the annual rental amount received for a principal primary residence in Greece, loan interest for loans taken after January 1<sup>st</sup>, 2003 (in order to acquire a principal primary residence in Greece) and medical expenses which are deducted from the tax amount. For the 20% deduction restrictions and ceilings apply, for example the maximum tax relief for rent received for a principal primary residence in 2007 is €240.</p> <p>Taxable income is subject to progressive tax rates and a tax free allowance is available, the amount of which depends on whether the individual is salaried or pensioner (€12,000), or self employed (€10,500). This tax free allowance is increased in respect of dependent children by €1,000 for one child, €2,000 for two children, €10,000 for three plus an additional €1,000 for each extra child.</p> <p>Only Greek tax residents or EU residents earning more than 90% of their worldwide income in Greece are eligible for the above reliefs.</p> <p>Tax rates range from 29% on income in excess of €12,001 to 40% on income in excess of €75,001, and tax is withheld from salary by the employer where applicable.</p> <p>The Greek tax authorities operate a system of "objective criteria" whereby an individual's ownership of certain "luxury goods", a secondary residence, boats, planes or swimming pool for example, implies a certain level of income. Based upon the "objective criteria" the tax authorities calculate an imputed level of income and if this exceeds by 20% the declared actual income the authorities will tax the individual accordingly.</p>
<b>Taxation of Investment Income</b>	<p>Dividends paid to shareholders by Greek companies and distributions from Greek mutual funds are not taxed as the underlying profits have already been taxed in the name of the distributing company. This includes distributions from European mutual funds. There is no further tax liability on an individual.</p> <p>Dividends from foreign or European equity holdings are subject to a withholding tax at the rate of 20%. These dividends are to be declared on an individual's annual tax return and taxed at the highest marginal rate with a credit available for the withholding tax already paid. The European Commission issued a 'reasoned opinion' to Greece in October 2006 requesting that the country abolish this withholding tax considering it to be discriminatory relative to the treatment of dividends from Greek companies. It is understood that the EC has now referred the case to the European Court of Justice but no formal statement has been made.</p> <p>Interest on deposits held in Greek banks is subject to a 10% withholding tax. Interest on government treasury bills or bonds issued after 1998 is subject to 10% withholding tax. There is no further tax liability.</p> <p>Interest earned by non-residents on Greek government bonds after January 1<sup>st</sup> 1999 is exempt from income tax in Greece.</p>

### Tax on Property Rental Income

Income from real estate is included in the taxable income calculation and taxed at the progressive income tax rates. There is an exemption in respect of the imputed income arising from residence of a self owned house.

The net taxable income derived from real estate is determined after deduction for depreciation and costs such as insurance and maintenance.

Real estate income is subject to a separate additional tax of 1.5% of the gross amount of rental income, which is raised to 3% if the surface area of the property is greater than 300m<sup>2</sup>.

Rental income is subject to stamp duty at a rate of 3.6%. Stamp duty for the rent of residence (principal primary or other) and obtained by a Greek tax resident, is currently applicable at the rate of 1.8%. This will be abolished as of January 1<sup>st</sup> 2008.

### Wealth Taxes

Wealth taxes are restricted to property tax – see below.

### Capital Gains Tax

There is no capital gains taxation on the disposal of shares in Greece. Instead, the disposal of shares is subject to a transfer tax applied to the total value of the shares sold. The sale of non-listed shares is subject to a 5% tax on the transfer value. Reduced rates of 1.2% and 2.4% apply to transfers between relatives depending on the proximity of the relation. If the owner of the non-listed shares is a non-Greek national/dominant but is considered as a Greek tax resident any Double Tax Treaty provisions in place should prevail. Listed shares (on any market) are subject to a transfer duty of 0.15%.

CGT on Property Transfers is discussed in more detail in the section below.

### Inheritance and Gift Tax

Tax is due on transfer at death or by way of gift or parental provision. It is applicable on any asset located in Greece and to foreign located assets belonging to a Greek national or a foreign national domiciled in Greece.

A zero rate band on which no tax is payable is in place and set at €95,000. Above this inheritance tax rates range from 5% to 20%, depending on the proximity of the family relationship. There are three classes, each with its own sliding scale, with closer relatives taxed less heavily than the other categories.

The maximum rate is charged to non-relatives on the value of estates exceeding €265,000,

The value of the asset for taxation purposes is its market value at the time of the transfer, unless it is immovable property. Immovable property can be subject to the 'objective evaluation' system in some regions. The objective evaluation system is based on a ministerial decision about the value of a property based on age, location size etc.

Various exemptions exist based on the type of transfer being made or if the donee is a spouse, an underage child or is handicapped.

### Regional and Municipa Taxes

A number of individual taxes and duties are paid to the local authorities, the rates of which are determined by the local authority. Such taxes may be paid to the local authority directly or indirectly, e.g. through electricity bills. The tax authorities are in the process of simplifying these taxes into fewer individual levies.

### Property Taxes

A tax is payable by all persons owning property valued at 1st January each year in excess of €243,600 (married persons €487,200), extra allowances exist according to the number of dependent children living in the property. The tax is calculated on the objective value of the property (minus the cost of improvements or extensions) on a graduated scale at rates of 0.354%-0.944%

**Property Transfer Tax** From 1<sup>st</sup> January 2006 properties with a construction licence issued after that date which are being sold for the first time on or after 1<sup>st</sup> January 2006 are subject to Value Added Tax (VAT) of 19%.

Real estate transfer tax is imposed on land or used property for the first transfer after January 1<sup>st</sup> 2006 and on new property with a construction licence prior to January 2006. Such a tax is based on the higher of the contract price and objective value of the property. The rates are 7% for the first €15,000 and 9% thereafter. These rates are increased to 9% and 11% respectively in areas covered by a fire station.

Additionally real estate transfer tax is imposed on the acquisition of new buildings (construction licence after January 1<sup>st</sup>, 2006) in cases where the building constitutes the principal primary Greek residence.

Any subsequent transfers of property (further to the first transfer noted above) are subject to Capital Gains Tax (CGT) and to a further transfer duty (TD) of 1% of the value of the property being transferred. The rate of CGT depends on the numbers of years the property is held and ranges between 5% and 20%.

An additional tax in favour of the municipality is levied at a rate of 3% calculated on the amount of the standard real estate transfer tax payable. The rates are reduced for permanent residents of islands with less than 3,100 inhabitants or if the purchase relates to a principal primary residence by a Greek natural, EU citizen and citizens of Turkey, Russia and Albania who are of Greek origin.

#### **Stamp Duty**

Stamp duty is payable on transactions and dealings not subject to sales tax or property transfer tax. There are various transactions subject to stamp duty and all are subject to a specified rate and basis of assessment (see above).

#### **Social Security Contributions**

Employers are generally liable to pay 28.06% of an employee's earnings, whilst employees are subject to a rate of 16% of earnings. For employees who were insured prior to 1993 the charges only apply to earnings up to €2,315 per month (effective 1<sup>st</sup> January 2007). For those insured after 1<sup>st</sup> January 1993 the ceiling is €5,279.57 (effective 1<sup>st</sup> January 2007).

#### **Sales Tax**

VAT of 19% is generally added to the sale price of goods and services. Some goods are subject to lower rates of 9% and 4.5% depending on their nature, whilst others are zero rated or exempt. VAT rates are reduced by 30% for some goods and services in certain regions of Greece such as some of the Aegean islands (i.e. losing-line islands) and borderlands.

## Taxation of Expatriates Living in Greece

Subject to relevant tax treaty provisions, income tax is payable by all individuals earning income in Greece, regardless of citizenship or place of permanent residence. Permanent residents are taxed on their worldwide income. There is no clear definition of "residency" in Greek tax law, Individuals residing in Greece indicating intent to remain permanently are considered as Greek tax residents.

Greece has concluded treaties for the avoidance of double taxation with over 40 countries.

There is no special tax regime for expatriates, although relief may be obtained from payment of social security contributions if suitable certification is obtained from the individual's home state and submitted to the Greek social security authorities.

## Taxation of 'Non-Residents' Living in Greece

Non-tax residents are taxable only on their income from Greek sources or related to Greek duties, at the same graduated tax rates applicable to tax residents. However, non-residents are not entitled to any of the deductions and allowances that may be claimed by residents, unless they are EU residents who earn at least 90% of their income in Greece. Where there is no entitlement to allowances tax is calculated at 5% on the first bracket of the tax scale.

Non-resident aliens are taxed on salary earned for work performed in Greece, regardless of where payment is made and regardless of where it is remitted. They are not taxed on compensation relating to services performed outside Greece.

Double taxation treaties cover the taxation of the local income of expatriates working in Greece. In order to qualify for treaty treatment, the expatriate must be a permanent resident of a treaty country and must not remain in Greece for more than 183 days during any taxable year; or the expatriate must be employed by or render their services to an individual or legal entity of the treaty country where they maintains their permanent residency. Particular treaties may contain other conditions.

## Expatriate Financial Planning

While, as a whole, the Greek tax regime for non-residents is less onerous than the regime for Residents, with only Greek sourced income and gains being subject to tax, an expatriate should take care over whether they attain resident status in Greece.

In addition, if you are an expatriate currently living in or considering moving to Greece, you should review your finances with a suitably qualified financial advisor. In particular, if you are about to move to Greece, you should plan and review your finances before making the move. You may wish to consider offshore investments, including offshore life products, in order to manage your tax liability and/or control when tax charges are made, as well as considering options available to you for estate planning.

Whilst the specific benefits of an offshore life product will depend upon your individual circumstances they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries.
- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products often feature a strong range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk. Offshore products also offer access to household name fund managers, including many international and specialist fund managers.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

***Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.***

*This document has been prepared on behalf of the members of the Association of International Life Offices ("AIILO") and relies on information and technical analysis provided by third party professionally qualified tax advisers. Whilst AIILO has used its best endeavours in selecting its advisers to ensure the accuracy of the information contained in this document, AIILO cannot be held responsible for any errors and omissions.*

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