GMS Flash Alert

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Greece - New Tax Legislation Brings Important Changes

New Greek tax legislation has been ratified by Parliament with several changes in store for Greek tax rules, concerning, among other things, residency, the alternative taxation method, tax treatment of benefits-in-kind, and the income tax tables.[1]

For further details, see "Tax – Breaking News" (December 2019), published by the KPMG International member firm in Greece.

WHY THIS MATTERS

One of the key proposals in this legislation concerns the change in the definition of residency. Tightening up and modernising the rules around tax residency where individuals are concerned would give global mobility managers and employees moving into and out of Greece greater clarity and certainty around how an individual's tax residence in Greece would be determined. This would facilitate better planning around travel to and from Greece and periods of work in Greece and outside Greece. This would also help with budgeting and planning around tax costs tied to international assignments.

High net-worth individuals interested in retiring, working, and/or living in Greece may find new rules more appealing and may help facilitate their decisions around investing in Greece in return for transferring their tax residence to Greece.

For assignments to Greece where assignees are subject to Greek taxation and for assignees working outside Greece but who are still subject to Greek taxation, international assignment cost projections and budgeting should reflect the tax changes (taxation of various benefits-in-kind and changes to the tax tables as described below) once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

Tax Residency

- Regarding the criteria for the determination of an individual's tax residence status, the reference to 'social ties' is erased, since based on the OECD Model Tax Convention's explanatory notes, social ties are included in the notion of 'personal ties'.

- It is clarified that an individual who is present in Greece for a period exceeding the 183 days «cumulatively» (and not continuously as is currently the case) during any 12-month period is a Greek tax resident as of his first day of presence in Greece.

- A new paragraph was added based on which a ministerial decision shall determine, amongst others, the procedures for the amendment of a taxpayer's tax residency status, as well as any other details regarding the implementation of the respective provisions.

The above provisions are in force from the bill's publication date.

High-Net-Worth Individual Regime

- In an effort to attract high-net-worth individuals, an "alternative taxation" of foreign-source income earned by individuals (and/or their relatives) who transfer their tax residence to Greece is introduced if the following conditions are cumulatively met:

    a) The individual was not a Greek tax resident for the seven out of eight years preceding the transfer of his tax residence to Greece.

    b) The individual can prove that she or her relatives or a legal entity in which she holds the majority of the shares, invests in real estate or moveable assets or shares of legal entities based in Greece. The amount of the investment should not be lower than EUR 500,000 and must be completed within a period of three years.

    Condition (b) is not required in case of an individual who has obtained a residence permit due to investment activity in Greece (based on article 16 of Law 4251/2014).

- In particular, individuals who will utilize the alternative taxation method should pay a lump-sum tax of EUR 100,000 on an annual basis, regardless of the level of their foreign-source income. In cases where a relative utilizes these respective provisions, they should pay a lump-sum tax of EUR 20,000 on an annual basis. Utilization of these provisions cannot exceed a period of 15 tax years.

- The Greek-source income of individuals subject to the alternative taxation method should be reported in the annual income tax return and taxed according to its classification, while their foreign-source income is not subject to reporting and is taxed based on the lump-sum tax.

- It is worth mentioning that settlement of the annual lump-sum tax satisfies any further tax liability for the individual on his foreign source income, while any tax paid abroad is not offset against any Greek tax liabilities. Furthermore, this individual is exempt from inheritance and donations tax on any foreign assets.

- The required categories of investments, their retention period in Greece, the application process, as well as any other details required for the implementation of the law's respective provisions shall be determined by ministerial decisions.

The above provisions are in force from the bill's publication date.

Tax Year

The taxpayer's uncollected accrued salaries collected as of 2014 onwards are subject to tax based on the year to which they correspond.

The above provisions are in force from the bill's publication date.

Benefits-in-Kind

All paragraphs regarding benefits-in-kind are re-stated; so there is nothing new. However, some provisions have been clarified.

Amounts Exceeding EUR 300: It is clarified that only the amount over EUR 300 annually (amounts up to EUR 300 now considered a tax-free limit) is considered as a benefit-in-kind includible in the income of the recipient.

Company Cars: The taxable base of company cars is being recalculated by introducing a new progressive scale which takes into consideration the Retail Price Before Taxes of the vehicle. Furthermore, the tax-exempt ceiling, applicable only to cars provided for business purposes (so-called "tool cars") is being increased from EUR 12,000 to EUR 17,000.

Loans: Benefits-in-kind in the form of loans are redefined. The new definition sets the difference between the interest paid by the employee and the average market interest rate, as the amount of benefit regardless of whether a written agreement exists or not. Furthermore, the phrase 'the advance payment of more than three months' salaries is considered as a loan' is eliminated from the tax law.

Stock Options: A new stock options tax framework is introduced, whereby if the shares that are acquired upon exercise are retained for a period exceeding 24 months – or 36 months under certain conditions – income from the sale of the shares is taxed as capital gains at a flat-tax rate of 15 percent, or 5 percent for shares of newly-established companies and if certain conditions are cumulatively met. It is worth mentioning that share plans in general (e.g., grant of free shares, etc.) do not appear to be covered by this provision.

The above provisions are applicable to income earned in tax years after 1 January 2020.

Employment Income Exemptions

The following are exempt from the calculation of employment and pension income:

- Reimbursement of the **Public Means of Transport monthly or yearly card purchases**;

- The purchase price of granted **company cars with zero or low emissions** (up to 50 CO2/km) and with Retail Price Before Taxes up to EUR 40,000, at any time during the tax year;

- The benefit-in-kind in the form of **shares, provided to an employee or partner or shareholder** by a legal entity, regardless of whether the employment relationship continues, if such shares are acquired upon exercise and are only transferred after 24 or 36 months (under certain conditions) following their acquisition date.

The above provisions are applicable to income earned in tax years after 1 January 2020.

Tax Rates

As previously reported, the income tax and social solidarity contributions progressive rates were to be amended as of 1 January 2020, depending on the taxpayer's level of income in accordance with the Article 12 L. 4472/2017. (See Tables 1 and 2 in our earlier report.) These measures have now been reversed and no change will take place.

A new income scale and tax rates for employment, pension and business income is introduced:

Income scale (EUR)	Tax rate (%)
0 – 10,000	9%
10,001 – 20,000	22%
20,001 – 30,000	28%
30,001 – 40,000	36%
40,001 and higher	44%

Previously, the tax table was as follows:

Income scale (EUR)	Tax rate (%)
0 – 20,000	22%
20,001 – 30,000	29%
30,001 – 40,000	37%
40,001 and higher	45%

At the same time, the **available tax credit based on the number of dependents** is redefined as follows:

Taxpayer's dependents	Tax credit (EUR)
0	777
1	810
2	900
3	1,120
4	1,340
For each additional dependent child	+220

The amount of tax credit is reduced by EUR 20 (instead of EUR 10 currently in force) for every additional EUR 1,000 of income exceeding the threshold of EUR 12,000 (instead of the threshold of EUR 20,000, which is currently in force). This provision does not apply to taxpayers with five or more dependent children.

A new paragraph is added to the law based on which employees, pensioners, freelancers, and other independent earners should incur expenses by using electronic means of payment within the European Union or the European Economic Area equal to 30 percent of their actual income, with a maximum expense ceiling of EUR 20,000. A penalty of 22 percent on the difference between the required versus the amount actually spent, will arise.

Other Measures

- Changes to donations tax credit.

FOOTNOTE:

1 You can find this new tax law 4646/2019 named "Φορολογική Μεταρρύθμιση με αναπτυξιακή διάσταση για την Ελλάδα του αύριο" on the website (in Greek) of the National Printing House.

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