

FLASHLIGHT ON GREECE

2013

This flashlight paper describes some key taxation and other factors which are relevant on setting up business in Greece.

1. The choice of legal forms:

- a. **Societe Anonyme (SA):** A limited liability company with either bearer or registered shares. Minimum capital requirements of € 60,000. Incorporation expenses about € 3,000. The accounts must be published and filed with the Ministry of Commerce. Statutory audit requirements as per EU directives. (Any two of the following three factors: Turnover over € 5.00 m, total assets over €2.50m and over 50 people staff). A one person company can be formed.
- b. **Limited liability company (EPE):** This is a limited partnership and the capital is consisting of share parts. Minimum capital requirements is € 4,500. There is an administrator instead of the board of directors and incorporation expenses are about €1,500. EPE is governed by its articles and memorandum of association and its accounts must be published. Statutory audit requirements as per EU directives. A single partner can control this form of incorporation.
- c. **Private Capitalised Company(IKE):** This is a kind of limited partnership and the capital is consisting of share parts. Minimum capital requirements is € 1.00. There is an administrator instead of the board of directors and incorporation expenses are about € 1.000. IKE is governed by its articles and memorandum of association and its accounts must be published. Statutory audit requirements as per EU directives. A single partner can control this form of incorporation. It is very similar to EPE with the difference that is not obliged to the formalities governing the EPE, it is a more flexible to administer form of company.
- d. **Partnerships (OE or EE):** The agreement between the partners must be filed with the court of first instance. Set up expenses about €1,000. The partners can be either equally liable as per their capital contribution (OE) or one partner can have unlimited liability and the rest of the partners no liability (EE).

- e. **Branch:** The parent company can set up a branch office in Greece and the expenses involved are as for those of a SA (a) above. The branch must keep the same set of accounting records as that of an SA and must file branch accounts and those of the parent company with the Ministry of Commerce.
- f. **Ownership of the incorporated entity:** Ownership of the subsidiary company need not be 100%. Ownership percentage, direct or indirect control and type of incorporation to be chosen depend on the parent's company perception of the subsidiary's role. The tax position of the various schemes available is explained below.

2. Corporate Taxation:

- a. **Corporate Income Tax:** All Greek corporations (SA , EPE , IKE , OE & EE) are subjected to Greek income tax and capital gains on a worldwide basis. Branches of foreign companies are subjected to Greek income tax and capital gains tax only on their Greek activities. The permanent establishment rule applies.
- b. **Depreciation / Capital Allowances:** By rule, in Greece , the depreciation rates prescribed by the Greek Tax Code on the straight line method are used. Anyone who wishes to use greater rates of depreciation can do so provided the difference arising from the overcharge is added back to taxable profits (or reduction of taxable losses). Land is the only item, which is not depreciated. Capital expenditure up to €1,500 can be depreciated 100%, in the year of acquisition as from 1.1.2013. The following is an indicative list of the more common depreciation rates applicable:

ASSET	RATE (%)
Buildings and construction	4
Office equipment, f&f (except software and pc's)	10
Software and computer equipment	20
Motor vehicles	10/12

2.1 Corporate rates and taxes:

- a) **Societe Anonyme (SA , EPE, IKE):** The rate of corporate tax is 26% for 2013 on the taxable profits irrespective of whether the shares are registered or bearer respectively. An additional 3% tax is imposed on gross real estate income (rent , subleasing, self – use, allowed to be used for free) which cannot exceed the amount of standard tax. By law the accounting reference period ends either on December 31 or June 30. Exceptionally a different year-end date can be approved provided there are sufficient reasons for this (i.e. parent company year-end). The

first accounting reference period can be extended up to a maximum of 24 months.

- b) Other corporations (OE, EE): Up to € 50,000 of the taxable profits the rate is 26% and there after are taxed at the rate of 33% . There is no other tax on profits distributed.
- c) Branches: Branches are assessed on their taxable profits with the same provisions as for an S.A.

On filing the annual corporation tax return, a tax advance for the following year amounting to 80% of the current's year amount is calculated. Previous year tax advance paid and other tax withholdings paid in the current tax year are deducted from the 80% advance payment. Corporation tax is paid in 8 monthly installments the first with the filing of the income tax return.

Tax losses can be carried forward for a 5 year period.

2.2 Dividend payments:

Dividend distributions as from 1.1.2014 are taxed at the rate of 10% and tax liability is exhausted. There is no tax withholding if a double treaty provides so and also if tax relief is available under the EU Parent - Subsidiary Directive (90/435/EEC – EU holding company has more than 10% participation in the Greek subsidiary for at least two consecutive years).

Dividends received by Greek parent companies from subsidiaries established in other EU member states (has more than 10% participation in the EU subsidiary for at least two consecutive years) are exempt from tax at the shareholder level to the extent that they are registered under a tax free reserve account. If these dividends are subsequently distributed or capitalized a 10% tax is applicable.

Directors fees and salaries / Administrators salaries:

Directors' fees are subjected to 40% tax born by the company and are treated as dividends , ie are included with the tax payers total taxable income. Directors' salaries as well as administrators salaries are taxed at one off tax of 35% after deducting from gross salary the social security contributions. This rule does not apply to directors / administrators who are not shareholders or partners in the respective corporations. They are taxed under PAYE.

2.3 Debt to Equity Ratios:

Thin capitalization rules apply to the deduction of interest on loans if the debt to equity ratio exceeds 3:1.

For loans from abroad interest is paid after applying a small withholding tax, usually 5% to 15%, depending on the terms of the double tax treaty. (as from 1.7.2013 no tax withholding is applicable within the EU) This withholding tax may be recovered by the parent company. All procedures are carried out through the company's bankers. The tax authorities may not approve exceptionally high rates of interest.

2.4 Modus Operanti:

By incorporating a Greek company or a branch, both are subjected to Greek Income tax (Permanent Establishment Rule). For a branch office that do not carry out business activities in Greece no tax applies under L 89/67. However, prior approval is needed and there are certain provisions regulating the existence of such an office.

2.5 The Arms Length Principle:

The arms length principle applies to all transactions made between a Greek company / branch and its foreign affiliates. It is wise to be ready at all times to satisfy the tax authorities on pricing policies involving both ways of trading. For management fees and royalties above the rates accepted by the tax authorities special approval by the Ministry of Finance is required. Companies with inter group transactions, over and above the limits of the transactions as specified by the ministry of finance, are required to file a return for all intergroup transactions and also the method used to account for these transactions. They are also obliged to have a documentary file proving the method used.

3. Employment:

3.1 Assignment of staff:

Short term employment of foreign personnel by a Greek company / foreign branch is possible. However, work permit is needed for non-EU residents and social security contributions are accounted for. For long-term employment they are treated as Greek citizens. The assignment of staff by the parent company to its subsidiary / branch is possible provided the relevant agreement signed by the two companies is filed with the Greek Tax Authorities. On remittance of the money abroad a withholding tax is applied. The total cost is a tax-deductible expense for the Greek entity.

3.2 Pay As You Earn (PAYE):

For long-term employment the PAYE is applicable for all kind of compensation such as salaries, benefits, bonus, etc. This applies to either loan out personnel or circular, temporary employment personnel.

3.3 National Insurance (N.I.):

N.I. is due on the amount paid by both the employer and the employee. It is separately accounted and paid to the respective social security fund. For other EU nationals exceptions may be given for a limited period of time provided they can prove that they are registered at home.

3.4 Rates of Tax and National Insurance:

The rates of income tax and national insurance are changed virtually every year. Also the various tax allowances change accordingly and the final tax bill on an individual varies similarly.

The present tax scale is as follows:

Income Band (€)	Tax Withholding %	Tax band (€)	Cumulative Income (€)	Cumulative tax (€)
25.000	22	5.500	25.000	5.500
17.000	32	5.440	42.000	10.940
Over and above	42



The present N.I./ contributions are about 28% for the employer and 16.5% for the employee on their gross salary.

4. Indirect Taxes:

4.1 Value Added Tax (V.A.T.):

V.A.T. levied on all sales of goods and services within Greece and the EU. V.A.T. applies to all importations of goods and services from non-EU countries at the point of entry into Greece. The majority of goods and services are subjected to the 23% rate. Some goods and services are subjected to 13% or 10%. Some are exempted (e.g. education and medical services).

4.2 Import Duty:

Import duty is levied on all importations from non-EU countries. The rate of duty depends on the classification of the goods within the GATT tariff. This tax is paid at the point of entry and for the rest of the EU is a free zone. It should be noted that V.A.T. is charged over and above the customs duties.

4.3 Stamp duty on private loans

There is a 1.2% , 2.4 % or 3.6% stamp duty on private loans depending on the transaction..

4.4 Property transfer taxes

Real estate transfer taxes are imposed on transfer of property at the rate of 8% up to € 20,000 and 10% over the threshold of the € 20,000. Also a 3% municipality tax is paid on the amount of the transfer tax assessed. When VAT (23%) is due on the supply of new buildings the above taxes are not levied.

4.5 Real property taxes

Real property tax is levied annually on property located in Greece at 1st January each year. Flat tax rate of 0.1% on self-used property and 0.6% on other real property apply to companies. (for corporations owning property in Greece and seated at tax heavens the rate is 15%). A special real estate duty is payable to the municipal authorities at rates ranging between 0.025% and 0.035%. There is also a special duty imposed on the electricity bills which is to be abolished in 2014.

4.6 Capital gains

Capital gains derived from disposals of fixed assets are treated as business income and are subjected to income tax at the corporate rate.

Gains derived from transfer of business –related rights are taxed up front at the rate of 20%. This tax is also considered as a prepayment of the annual income tax.

Gains derived from the transfer of business (not listed) as going concern or partial sale of shares are also taxed up front at a rate of 20%. This tax is also considered as a prepayment of the annual income tax. As from 1.1.2014 the same rule will apply for capital gains from the sale of listed companies shares.

5. Personal Taxation

5.1 Basis

Individuals domiciled in Greece are taxed on their worldwide income. Those not domiciled in Greece are subject to tax only on Greek source income.

5.2 Residence

An individual is resident in Greece if resides in Greece or has a habitual abode in the country. An abode will be regarded as 'habitual' if the taxpayer stays in Greece more than 183 days within a calendar year.

5.3 Filing status

Married persons file a joint return, but each spouse is taxed separately on his/her portion of the income.

5.4 Real property taxes

An annual real property tax is imposed on any property right in Greece and is levied on 1st January each year after the deduction of the tax free amount of € 200,000. The tax rates range from 0.2% to 1.00%. For property values over 5 million euro the rate is 2.00%.

Also a special duty is imposed on the electricity bills which will be abandoned as from 1.1.2014.

6. Accounting Rules:

International Accounting Standards (IAS) are mandatory for all listed companies as from 1.1.2005. Optional use is allowed. IAS will be mandatory for all companies in due time.

Disclaimer:

Because of the need for brevity these notes are not in any way exhaustive. Before acting or refraining from actions on any information contained therein, your local KRESTON International member, PRIME AUDIT LTD should be consulted. No responsibility can be accepted for any loss occasioned by use of these papers.

Athens, October 2013.