



*Hellenic Federation of Enterprises*

# All encompassing supertaxation in Greece. Can we still hope for growth? 2019 update.

With the cooperation of the  
Tax Committee of SEV

June 2019



# 1. Take home messages

From Les Miserables, by V. Hugo.

“This prosperity created at M. sur M. by Father Madeleine had, besides the visible signs which we have mentioned, another symptom which was nonetheless significant for not being visible. This never deceives. **When the population suffers, when work is lacking, when there is no commerce, the tax-payer resists imposts through penury, he exhausts and oversteps his respite, and the state expends a great deal of money in the charges for compelling and collection. When work is abundant, when the country is rich and happy, the taxes are paid easily and cost the state nothing. It may be said, that there is one infallible thermometer of the public misery and riches,—the cost of collecting the taxes.** In the course of seven years the expense of collecting the taxes had diminished three-fourths in the arrondissement of M. sur M., and this led to this arrondissement being frequently cited from all the rest by M. de Villèle, then Minister of Finance.”

Recent reports (European Commission report, Enhanced Surveillance, 27.2.2019 & IMF Post Program Monitoring Discussion) acknowledge that taxation in Greece has to be rationalized – Now that we all agree on it, lets act!

# Take home messages I

1. The combined impact of over-taxation, non-retributive taxes and uncertainty has degraded key parts of the tax base. It slowly but steadily continues to do so.
2. Over-taxation of private sector salaried labor was a problem before the crisis and shaped the qualitative aspects of the economy, with its defining weaknesses. Greece taxes work harshly, and thus work is scarce. Lets change this.
3. This is even more true today and it is still responsible for obvious large gaps in economic activity & government revenue, in spite of the obvious trends that reflect a decline in living standards.
4. We have now many other examples of counter-productive tax increases. Lets rationalize them.
5. Taxing success & innovation while punishing failure is compatible with lackluster growth. Lets change this!
6. Tax uncertainty is a cost to business BUT NOT a revenue for the state. Lets fix this!

# Take home messages II

1. Greece made significant progress with structural reforms, but still has many structural and institutional weaknesses.
2. Also, it now has overall high taxes.
3. As a result, it is now a unique case that combines weak institutions with high taxes. This is not tenable.
4. Other countries remain competitive with high taxes, but they are institutionally and structurally strong. Taxes are thus “retributive”.
5. To move back into a position that is compatible with growth targeted tax excesses have to be reduced and at the same time institutional qualities must be improved & structural reforms advanced even more.

SEV says: “The high taxes are not by themselves a problem. They become a problem when they are unreasonably high and, in addition, because of their very low retributiveness and the impact of uncertainty, itself often a result of poor institutional quality and governance inadequacy.

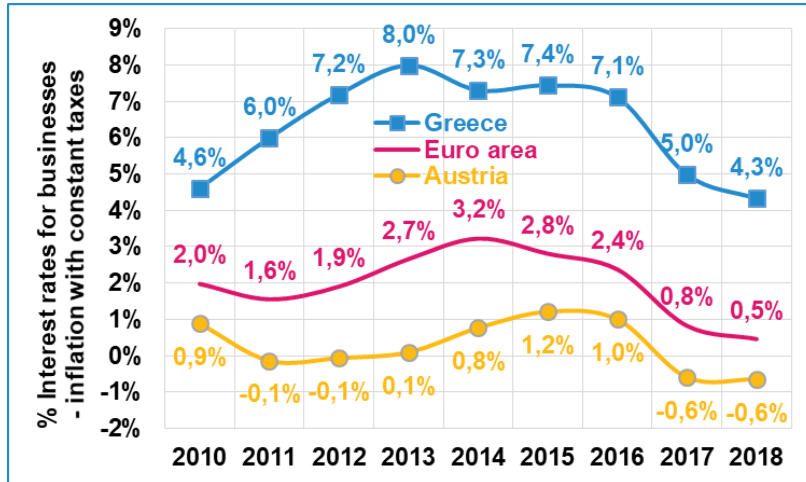
High, but reasonable, taxes should be reflected not only in corresponding social services, but also in the quality of government services, from licencing to the speed of justice.

**Rationalizing taxes will not suffice, well designed reforms in line with best practices have to advance at the same time.”**

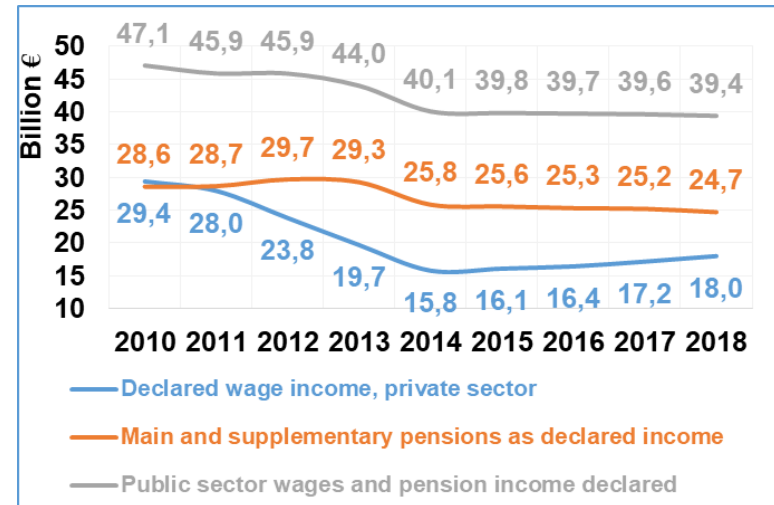
## **2. The combined effect of uncertainty along with high and very progressive taxation on the private sector wage bill**

# Aggressive taxation + uncertainty (ie limited access to finance) = erosion of core tax base

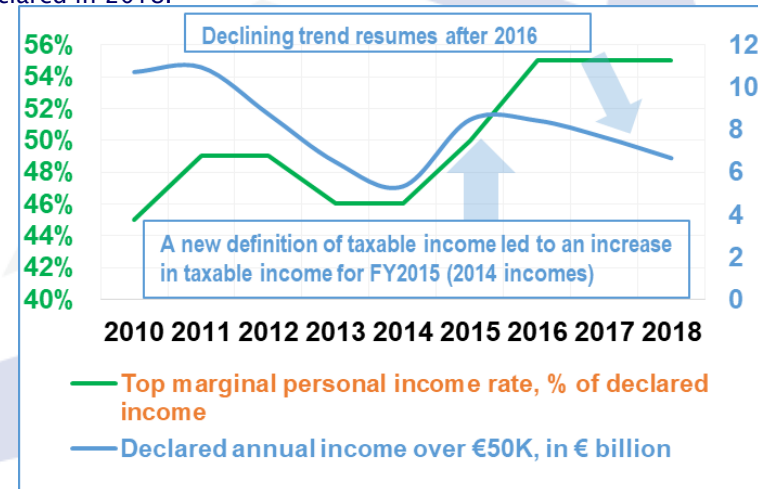
- Uncertainty and ever higher & more progressive taxes led to the fast decline of the higher incomes that are very important for government tax revenue in a very progressive tax system.
- In 2015 (when 2014 incomes were declared) a much broader definition of taxable income applied, increasing declared high incomes, but in 2016 the declining trend resumed.
- Therefore higher incomes and wage earners, and especially high wage earners, were relatively few in Greece even before the crisis.
- And this is true even more so now!



ECB for interest rates on business loans, Eurostat for HICP with constant taxes



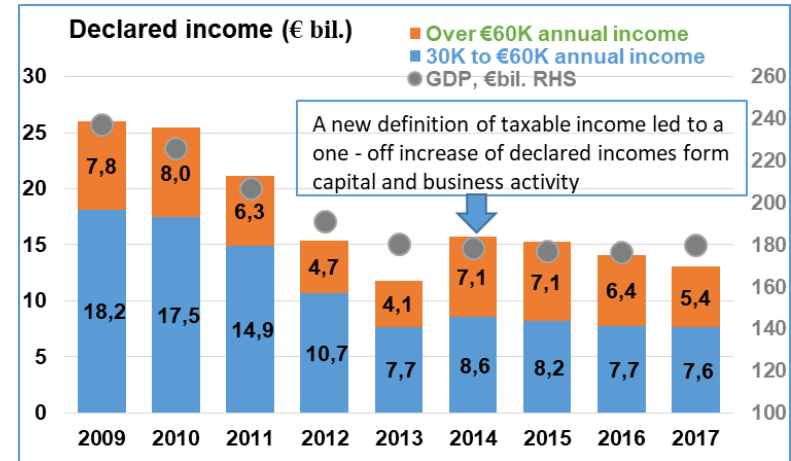
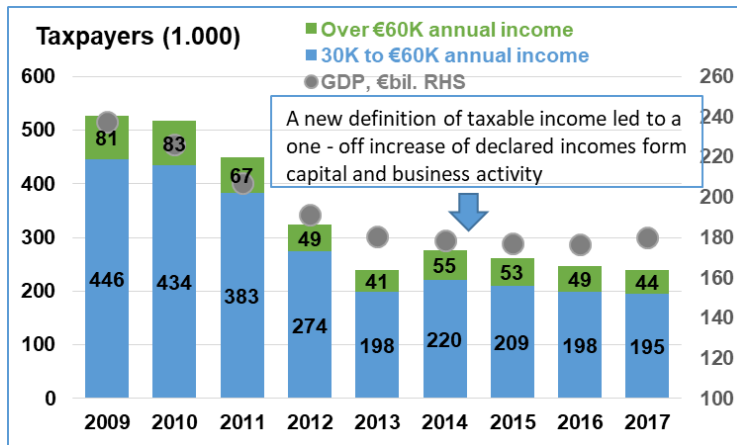
AADE 2012–2018 and GGDE 2010–11, annual statistical bulletin, data of last page per code of income declared. 2018 = incomes of 2017 declared in 2018.



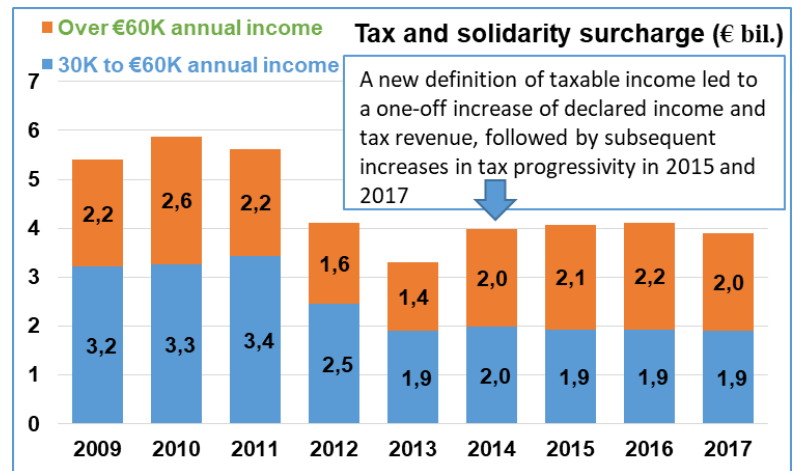
AADE 2012–2018 and GGDE 2010–11, annual statistical bulletin, OECD Taxing wages – Top statutory personal income tax rate and top marginal tax rates for employees. 2018 = incomes of 2017 declared in 2018.



# The relentless erosion of the most lucrative, for the state, part of the tax base.

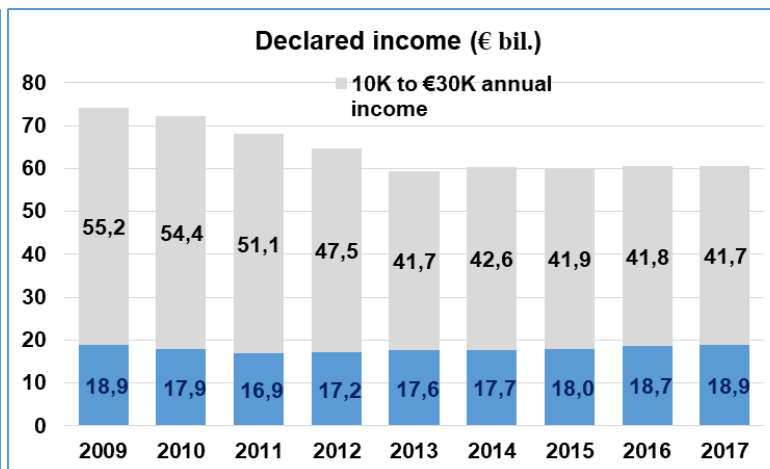
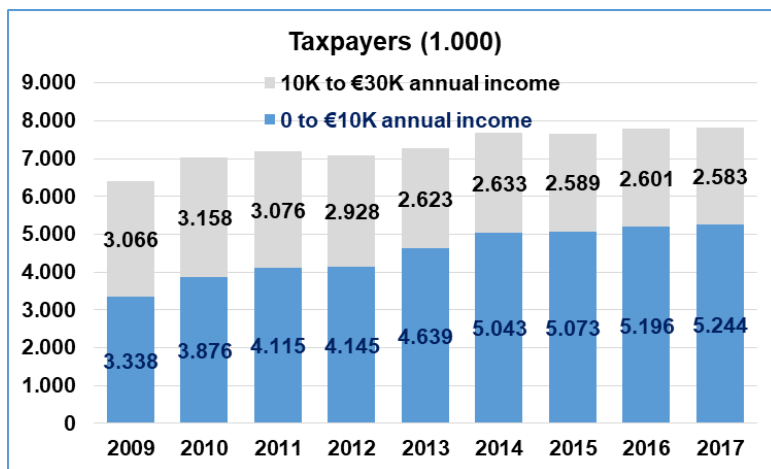


- Following the rapid fall during 2009–2013 (tax return filing years 2010–2014), the number of taxpayers, income and tax paid by individuals with over €30K annual declared income rebound in 2014 because of legislative changes.
- Most importantly, the gradual recovery of the country since 2014 has not stopped the erosion of the number and declared incomes of this, most lucrative for the state because of the very progressive tax system, income group.
- Continuous increases in the progressivity of the personal income tax stabilize in the short term the tax take from this group, but cannot reverse the long term trend.
- This income group still steadily declines, in spite of GDP stabilization & rebound!

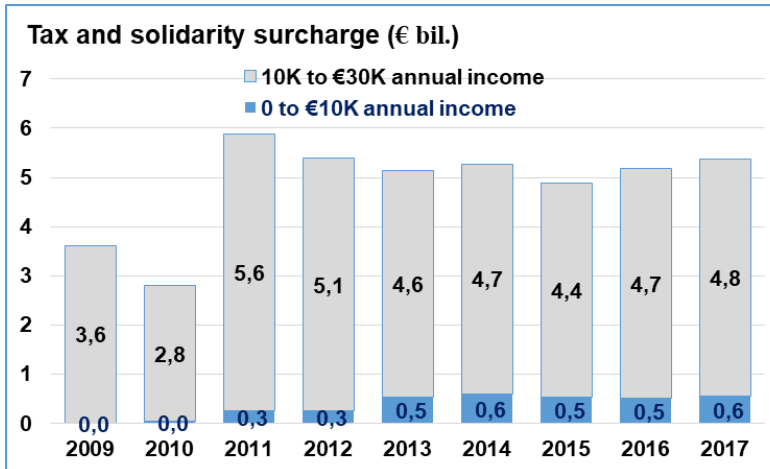


AADE 2012–2018 and GGDE 2010–11, annual statistical bulletin. Years in figures are years income was generated. It was submitted and the tax verified and paid in the subsequent year. Thus AADE 2018 data represents 2017 income in figure and the tax under 2017 was fully paid in 2018.

# The relentless swelling of the lower income brackets.



- Since 2009 the number of taxpayers with under €10K annual declared income increases steadily.
- Since the total declared income in this group remains broadly stable, as a result of a recent rebound, a continuous decline of the average per taxpayer income in this group emerges.
- The contribution to the tax take of the government by this group remains negligible – but for private sector employees one should not neglect to take into account the high social security contributions that are in effect a tax for their non-retributive part.

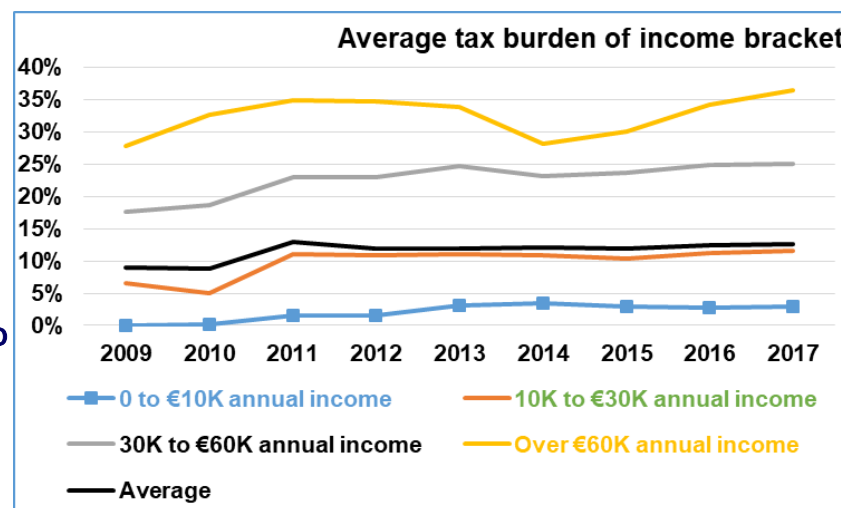


AADE 2012–2018 and GGDE 2010–11, annual statistical bulletin. Years in figures are years income was generated. It was submitted and the tax verified and paid in the subsequent year. Thus AADE 2018 data represents 2017 income in figure and the tax under 2017 was fully paid in 2018.

# The precarious few that pay the bill for everyone else.

income bracket, annual income in €	Taxpayers	income, € mil. *	Tax and surcharge, € mil. **	Taxpayers, % of total	income, € % of total *	Tax and surcharge, % of total **
-	840.762			9,4%	0,0%	0,0%
0-10.000	5.244.442	18.870	562	58,9%	25,6%	6,1%
10.000-30.000	2.583.077	41.695	4.811	29,0%	56,6%	51,9%
30.000-60.000	195.468	7.618	1.908	2,2%	10,3%	20,6%
60.000+	43.973	5.430	1.981	0,5%	7,4%	21,4%
<b>Total</b>	<b>8.907.722</b>	<b>73.613</b>	<b>9.262</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

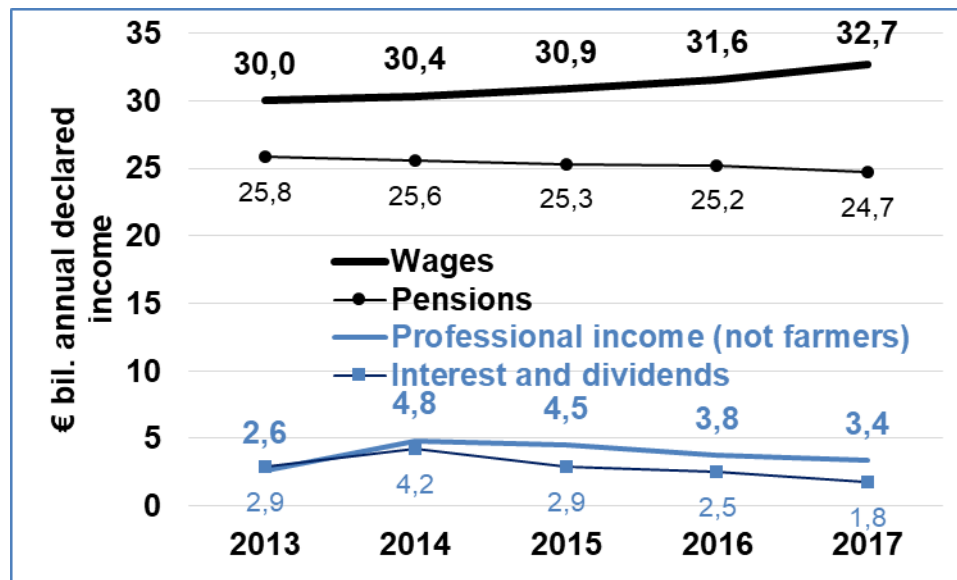
- The tax burden has increased for all income groups since 2009 (tax returns correspondingly filed in 2010).
- At the same time progressivity has increased, but as incomes have dropped steadily in some brackets the stable burden reflects the counteracting effect of these two forces.
- As the taxpayers have “migrated” massively to lower income brackets, this means that the disproportionate contribution of the higher income brackets to the personal income and solidarity surcharge take by the government has increased steadily (the 10,3%+7,4% =17,7% of declared incomes in the plus €30K bracket pay 20,6%+21,4%=42% of the tax and surcharge). We are talking here about less than 240.000 taxpayers (out of 8,9 million).



AADE 2012–2018 and GGDE 2010–11, annual statistical bulletin. Years in figures are years income was generated. It was submitted and the tax verified and paid in the subsequent year. Thus AADE 2018 data represents 2017 income in figure and the tax under 2017 was fully paid in 2018. \* without assumed incomes. \*\* Solidarity surcharge computed according to applicable law of year and according to AADE declared income.

# Evolution of income by key source.

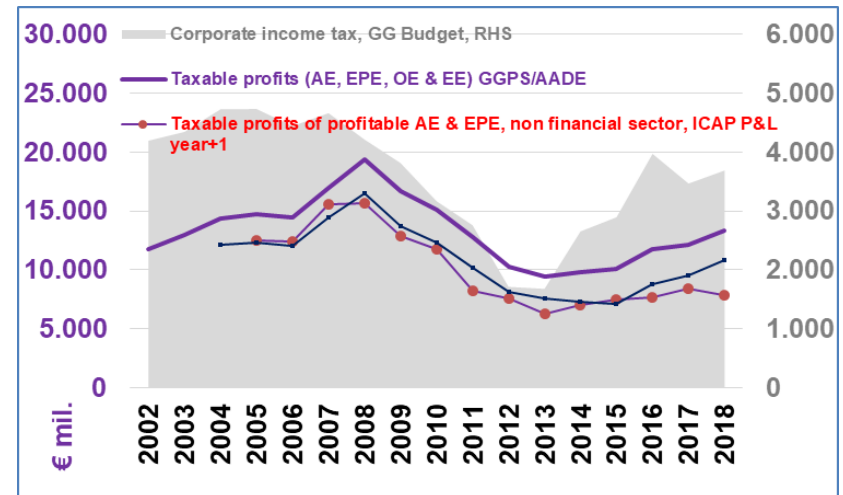
- Wage income, as a declared aggregate, steadily increases. This is per se a positive development and reflects the steady rebound of the job market, even if it mostly happens at low wages.
- At the same time, the successive pension reforms depress the related income in spite of the steady ageing of the society.
- With the exception of the one-off increase in calendar year 2014 (when the new tax law applied fully with the publication of all circulars etc) declared income from dividends and interest (domestic and foreign) steadily falls, due also to the fall of interest rates on deposits though.



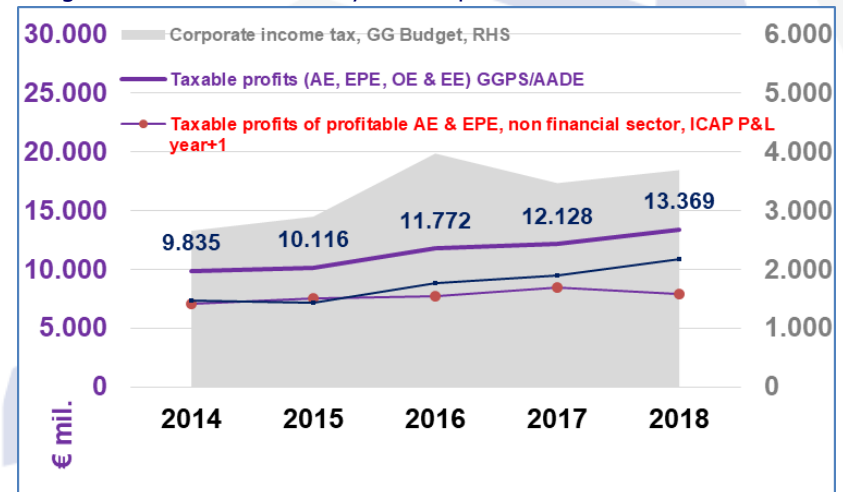
AADE 2014–2018, annual statistical bulletin. Years in figures are years income was generated. It was submitted and the tax verified and paid in the subsequent year. Thus AADE 2018 data represents 2017 income in figure and the tax under 2017 was fully paid in 2018. Data only since 2013 when coding system was renewed and thus is compatible for all years.

# Taxation on corporates and other business

- Since the through of 2012–2013, taxable profits have been increasing steadily, helped by a significant expansion of the definition of taxable business income in 2014.
- Budgeted tax income peaked subsequently, but this upturn according to the annual budget of the GG seems to be losing strength.
- Taxable income of corporates though rebounds steadily according to tax data. A dip in 2018 probably is due to the fact that it is first wave data, with full data from ICAP expected in July (all calendar year 2017 P&L published up to 12/2018 and collected till summer 2019 by ICAP).

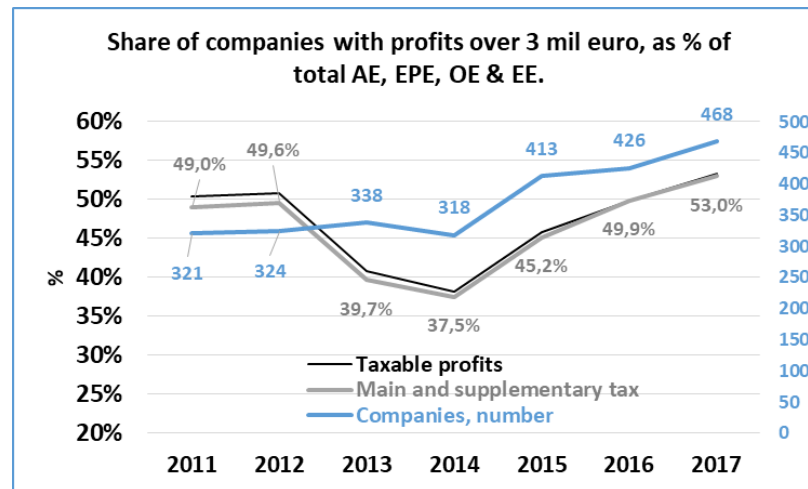
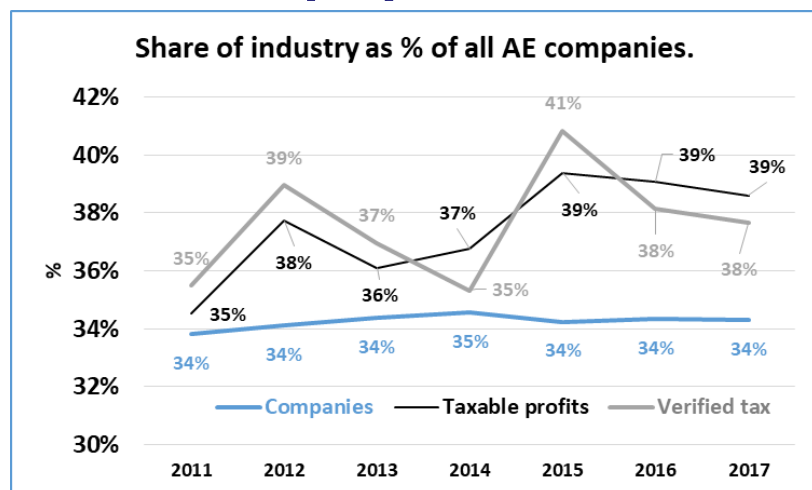


AADE 2012–2017 and GGDE 2010–11, annual statistical bulletin, 2018 = incomes of 2017 declared in 2018. Greek Government annual Budget. ICAP 2017 calendar year P&L published till end 2018.



AADE 2014–2018, annual statistical bulletin. 2017 = incomes of 2016 declared in 2017. Greek Government annual Budget. ICAP 2017 calendar year P&L published till end 2018.

# Corporate income tax: Here also, the few that pay a lot.



- A very small fraction of all corporations and partnerships (AE, EPE, OE & EE) – a few hundred from a total of over 200.000 – pay about half the tax verified for all such companies.
- Industry contributes about 40% of taxable income and corporate income taxes, among the AE form of companies.

P&L year (tax filed +1)	2011	2012	2013	2014	2015	2016	2017
Mil euro	<b>Taxable profits</b>						
Total no of companies	10.249	9.440	9.835	10.116	11.772	12.128	13.369
Corporations	8.148	7.622	7.317	7.102	8.802	9.496	10.853
With profits over 3 mil euro	5.168	4.802	4.013	3.858	5.387	6.041	7.132
Mil euro	<b>Main and supplementary tax</b>						
Total no of companies	2.141	1.969	2.646	2.670	3.419	3.511	3.899
% of profits	20,9%	20,9%	26,9%	26,4%	29,0%	29,0%	29,2%
Corporations	1.680	1.567	1.945	1.841	2.576	2.752	3.173
With profits over 3 mil euro	1.048	977	1.049	1.002	1.545	1.752	2.068
Number	<b>Number of companies</b>						
Total no of companies	213.423	203.443	198.060	246.749	251.417	257.452	255.018
Corporations	72.189	68.026	70.479	73.759	81.071	82.061	84.452
With profits over 3 mil euro	321	324	338	318	413	426	468

AADE 2012–2017, annual statistical bulletin., 2017 = incomes of 2017 declared in 2018.



# Tax revenue structure in the euro area and Greece

% of GDP (2017)	Euro area	Greece	Δ		Euro area	Greece	Δ
<b>Direct taxes</b>	<b>13,1%</b>	<b>10,1%</b>	<b>-3,0%</b>	<b>Selected breakdown by economic function</b>			
Personal income tax	9,2%	6,2%	-3,0%	Taxes on income from labor	20,9%	16,0%	-4,9%
Corporate income tax (GR 2016)	2,7%	2,5%	-0,2%	Recurrent taxes on property	1,3%	2,7%	1,3%
				Non recurrent taxes on property	1,1%	0,6%	-0,5%
<b>Social Security Contributions</b>	<b>14,1%</b>	<b>11,5%</b>	<b>-2,5%</b>				
<b>Indirect taxes</b>	<b>13,2%</b>	<b>17,3%</b>	<b>4,1%</b>				
VAT	6,9%	8,1%	1,3%				
Taxes on tobacco and alcohol	0,7%	1,4%	0,7%				
Taxes on energy	1,8%	3,2%	1,3%				
<b>Direct and indirect taxes and SSCs</b>	<b>40,3%</b>	<b>38,9%</b>	<b>-1,4%</b>				
<b>Revenue of General Government 2017 (AMECO)</b>	<b>46,1%</b>	<b>48,1%</b>	<b>2,0%</b>				

EC Taxation trends in the EU. Revenue for General Government according to AMECO includes beyond tax income also other income, indicatively including sale of services say from SOEs, revenue from government property etc.

- Relatively low tax revenue associated with labor, average tax revenue stemming from corporate income tax and VAT. Relatively high tax revenue from specific consumption taxes and from recurrent taxes on property.
- These are the result of taxing heavily the few employed and few companies. Also, the high consumption to GDP ratio means proportionally the take, as a share of GDP, from consumption taxes is not high after all.

**3. Where is the missing tax revenue? It is not only tax evasion – it is also the tax base that is missing because of the high and progressive taxation of private sector salaried labor.**

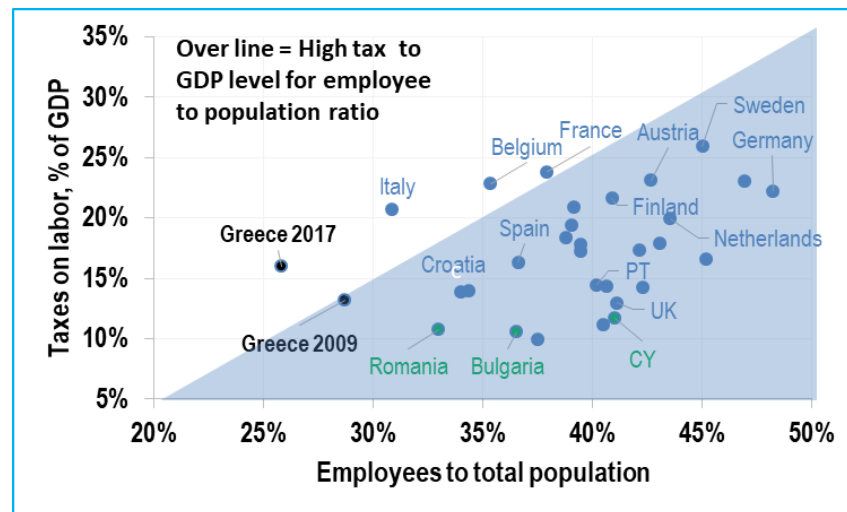
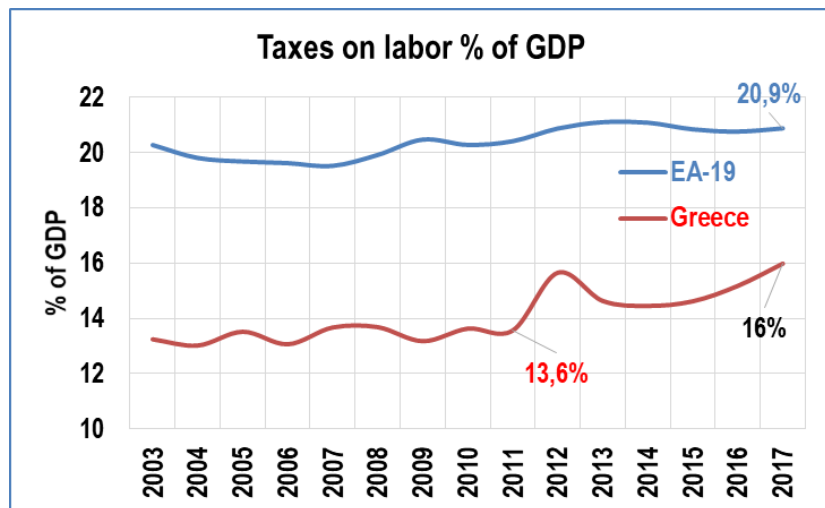
**The “tax revenues are low because taxes are high” paradox.**



## The aim of the next slides:

- Show that tax evasion is not the only problem: Greece has relatively low revenue from income tax on labor, income tax from labor plus social security contributions (SSCs) and SSCs separately, but this is largely due to the small share of the population that does have a job.
- Show that per employed person the tax and SSC revenue of the state is relatively high.
- The very progressive taxes imply that this is even more true for the (very few) high income employees. But at the same time, low income employees pay high and non retributive SSCs. So there Greece has disincentives for private sector salaried employment at all levels.

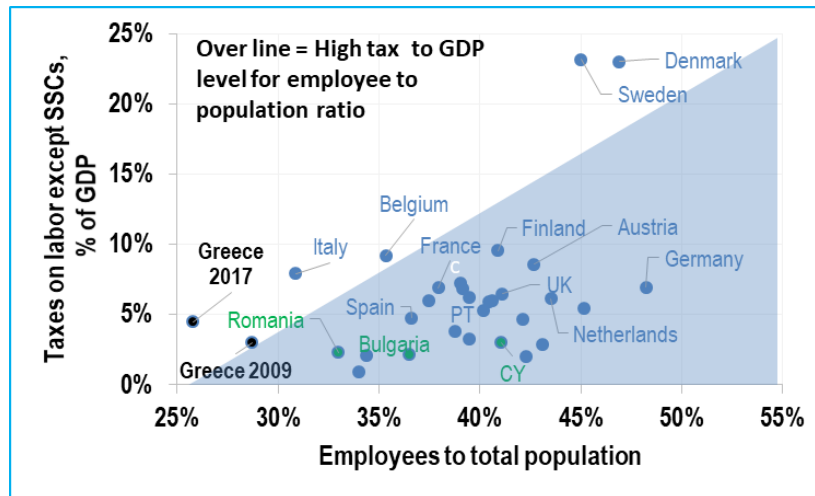
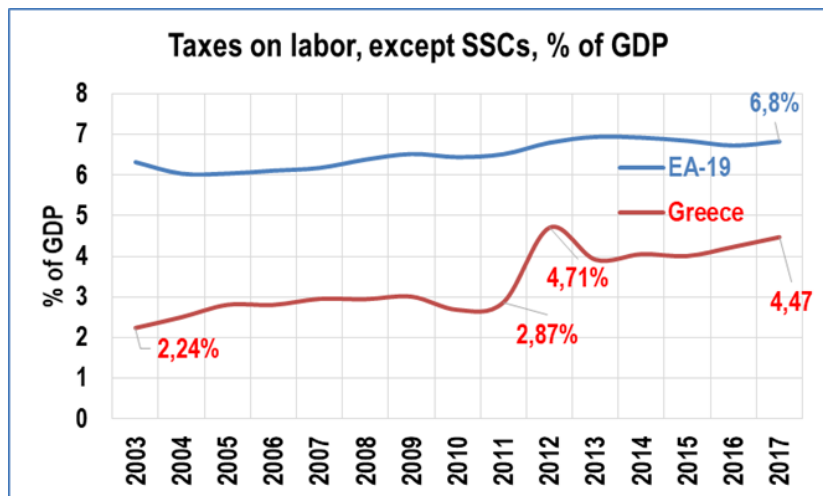
# The taxes on labor (income tax on labor plus SSCs) deficit



EC Taxation trends in the EU, AMECO for employee and population data. 2017. Taxes on labor, [according to the taxation trends in EU methodology](#), refer to taxes on salaried labor and include corresponding SSCs and subsidies. They do not include taxes from pension income.

- In spite of ever rising and progressive personal income taxes and high SSCs, revenue from taxes on labor remains stubbornly modest, and about 6–7% of GDP below the euro area average.
- This used to be of the same magnitude as the government revenue deficit vs EU averages before the crisis!

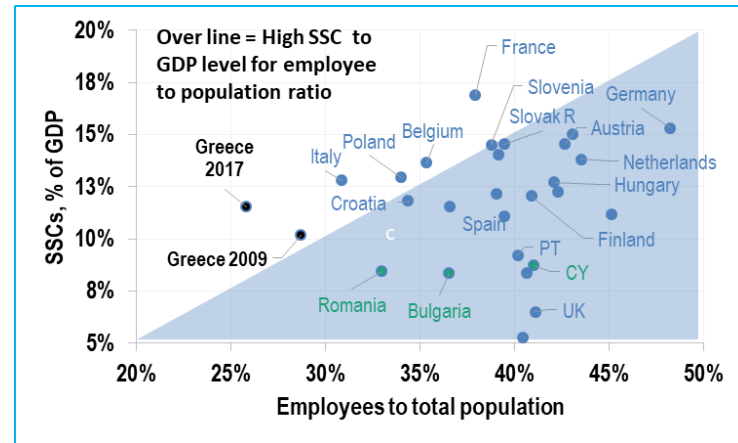
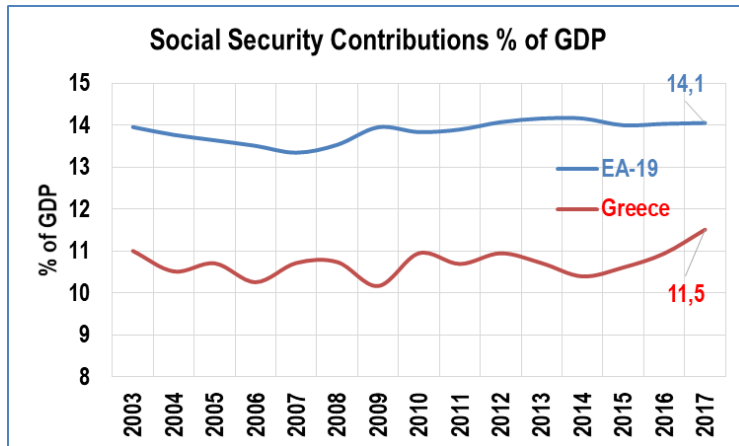
# The personal income tax on labor deficit



EC Taxation trends in the EU, AMECO for employee and population data. 2017. Taxes on labor, [according to the taxation trends in EU methodology](#), refer to taxes on salaried labor only, and include SSCs that have been deducted here, and all other taxes and subsidies. Also, they do not include taxes from pension income.

- In spite of the ever rising progressivity of personal income taxes on salaried labor (private and public sector), revenue remains stubbornly modest, and about 3% of GDP below the EA average. Thus about half of the deficit of revenue from taxes on labor is explained.
- At the same time the few employees of the country pay on average high taxes at the individual level.
- High progressivity means that the very few high income earners pay proportionally even more.

# The social security contribution (SSC) deficit



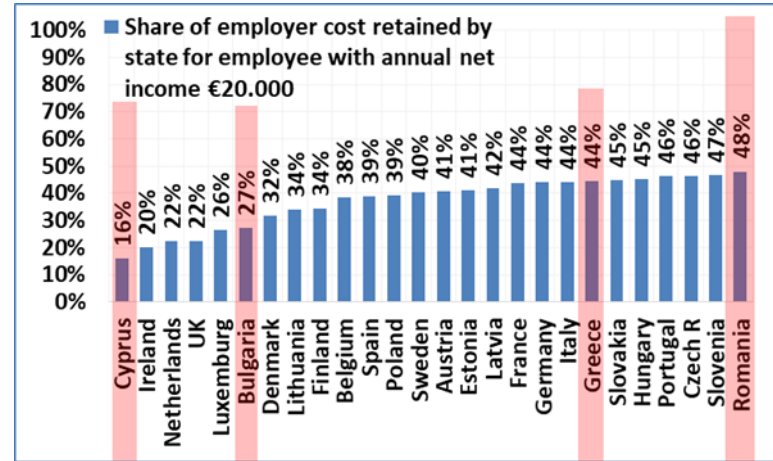
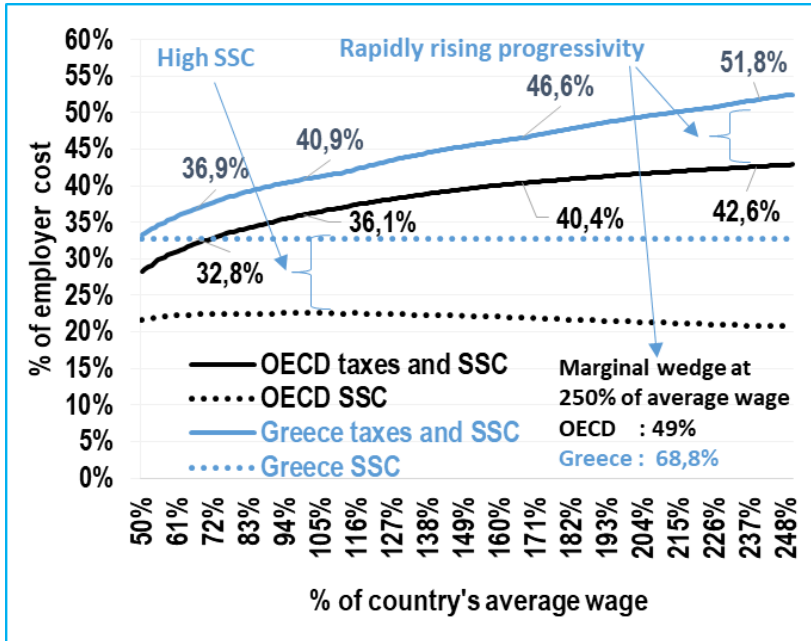
EC Taxation trends in the EU, AMECO for employee and population data. 2017. [According to the taxation trends in EU methodology](#) SSCs correspond to labor income and the SSCs corresponding to self-employment have been added to taxes on income from capital with the rationale that self-employment is indeed an entrepreneurial activity with risk. Also, they do not include SSCs levied on pension income, but add imputed SSCs that are high in Greece at least till the reform introduced from 2017 leads to their ultimate decline.

- In Greece SSC revenue is relatively low, but at the same time those that pay are proportionally the fewest in the EU. This in spite of including high imputed SSCs that in 2016 were still computed on the basis of the relative generosity of the public sector pension plans.
- The high and non-retributive SSCs burden in particular lower income earners.
- Still, even so SSC revenue remains about 3% of GDP below EA average, explaining the other half of the deficit of revenue from taxes on labor.

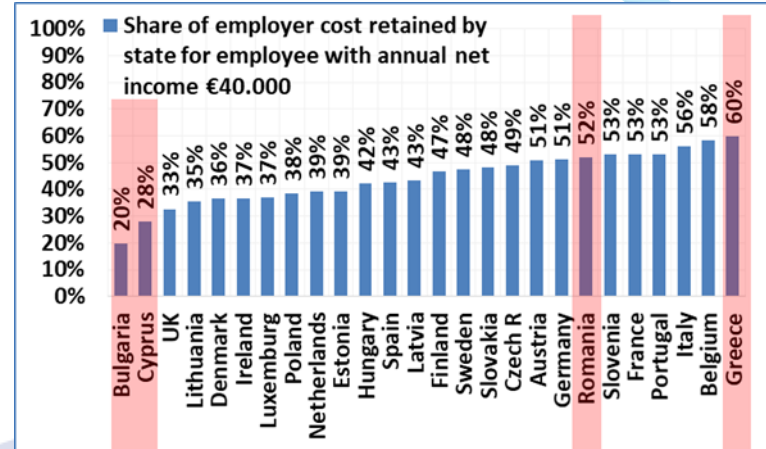
## Possible explanations

- The taxable income is there, but evades taxes (The explanation everybody gives).
- The taxable income simply is not there, because high taxes and institutional weaknesses do not allow it to grow (the explanation almost nobody offers).
- A combination of both (the realistic answer, as the preceding and subsequent analysis shows that the second explanation does have solid support in the data).

# Wage tax wedge: High & very progressive



Move from over the average to the edge = high tax and contribution plus the highest progressivity in Europe!



OECD Taxing Wages 2018 data.

Taxes in Europe database and SEV computation for some of OECD countries for some income levels and Bulgaria, Romania, Cyprus. The Greek government announced a reduction of the solidarity surcharge on May 8<sup>th</sup> 2019. If legislated, this reduction would improve the ranking of Greece for an salary earner with net annual earnings €20K by 3 positions, and reduce the wedge by 1 pp without changing the ranking for the case of annual earnings of €40K.

OECD Taxing Wages 2019 data.

High “from €0” and very progressive tax wedge in Greece. A root cause to many structural weaknesses!

**Note the high social security contributions in Greece that raise the tax wedge for private sector salaried low earners in spite of the generous tax rebate.**

**The recent announcement of a reduction of the solidarity surcharge moves the tax wedge for an employee with net annual earnings of €20K to slightly above average, while for higher incomes Greece remains a “top taxer”.**

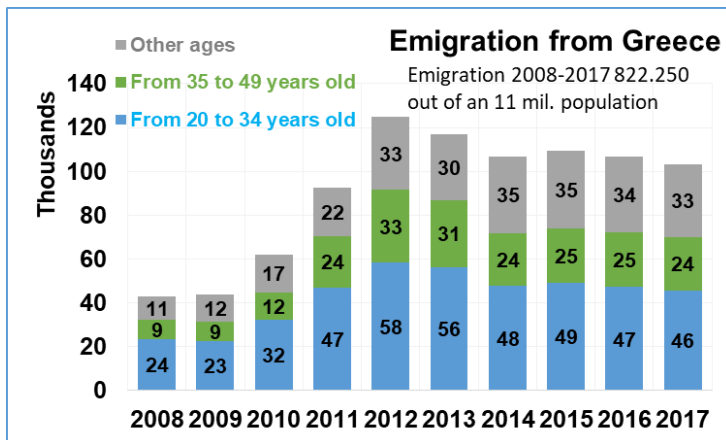
# Tax credit/allowance: In Greece, a missed opportunity to support families & elderly.

€/annual	Allowance				Credit				
	Yearly	Child 1	Child 2	Old age	Yearly	Child 1	Child 2	Pensioner low	Pensioner high
Germany	9.168	3.810	3.810						
Belgium	8.860	1.610	2.540	3.220					
Spain	5.550	3.400	2.400					1.150	
Hungary	1.296	2.596							
Latvia	2.760	2.760	2.760						
Slovenia	3.303	2.437	212					2.437	
Bulgaria		102	102						
Austria	11.000					494	175	400	764
Luxemburg						923	923		
Greece					1.900	50	50		
Czech					974	596	761		
Portuga;					250	600	600	525	
Netherlands					2.477			1.596	

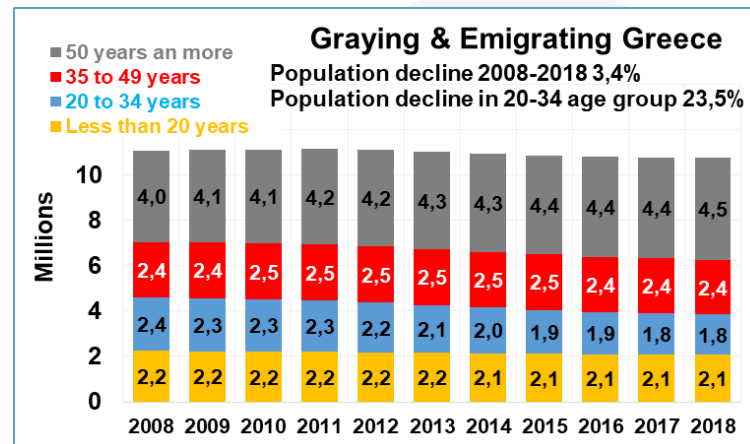
Greece has a pressing problem of a) brain drain, b) population ageing. In spite of this, the tax allowance is not used to address these problems. The tax allowance is generous for all, paltry for children and unchanged for the elderly. Other countries pair a lower unconditional allowance /credit:

1. **With substantial allowances / credits for children.**
2. **With an increased allowance / credit for the elderly.**

2019, Taxes in Europe database.



Eurostat.



Eurostat.



# High, progressive, rates and low revenue. How come?

Because of the high and progressive wedge: Few employees and even fewer at higher incomes.

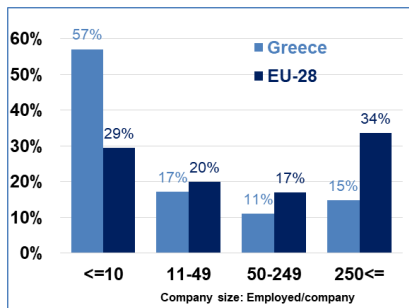
Before the crisis high taxes for private sector employees were combined with weak enforcement among SMEs and self employed.

This created a “barrier to growth”: Companies stayed small, large companies and their employees were relatively rare in Greece and self-employment was widespread as this allowed partial tax evasion that “rationalized” the high and progressive taxes on labor.

As a result the tax base, especially among better paid private sector salaried labor, remained narrow.

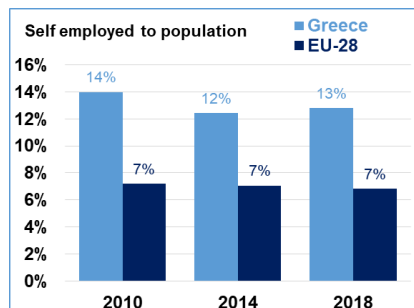
Employment share per company size.

SBA Factsheet 2018 (2017 data)



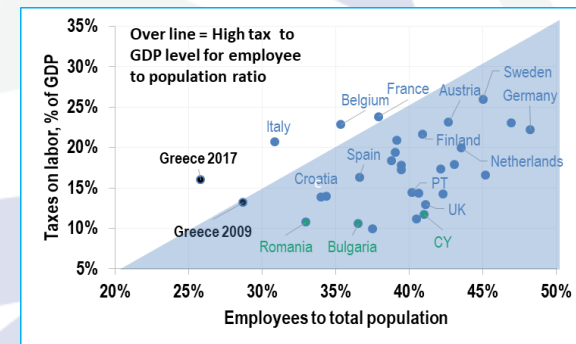
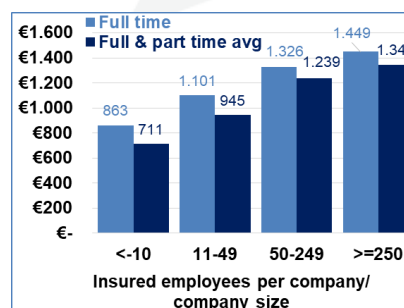
Self employed to population.

AMECO



Monthly gross wages per company size.

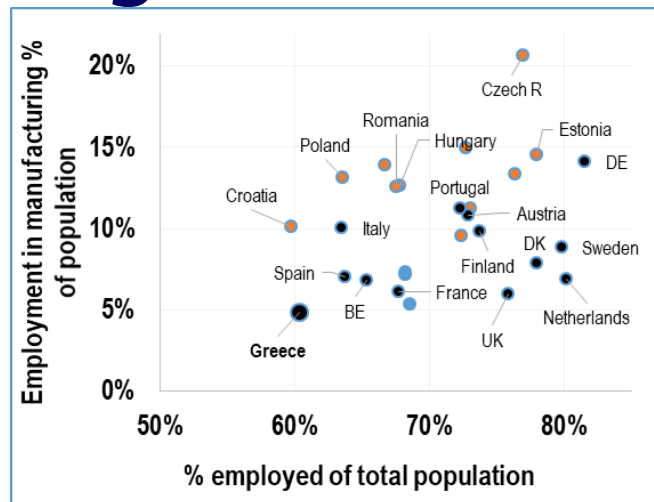
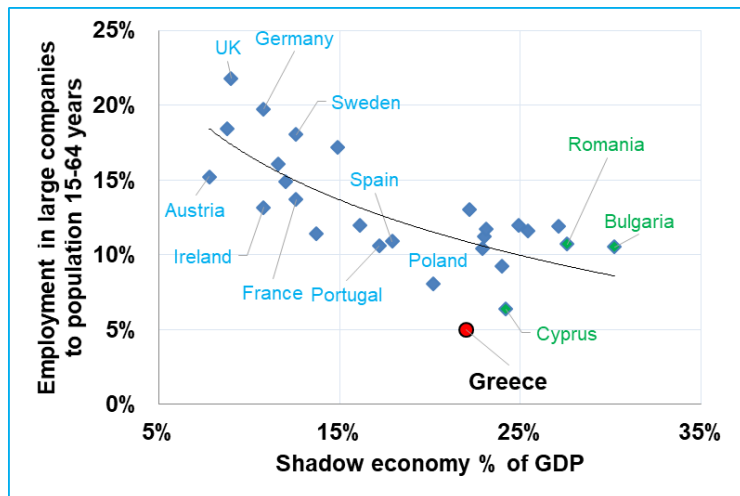
With employee SSC. Dec 2017. IKA/EFKA



EC Taxation Trends in Europe, 2017, and employment to population, AMECO 2017.



# Shadow economy, tax evasion and the missing revenue – I

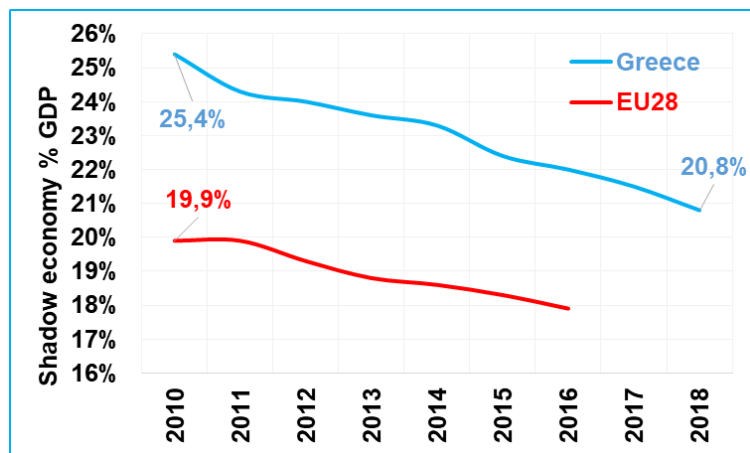


SBA 2017 data for employment per company size, Eurostat 2017 for population, Schneider for shadow economy 2016 data.

Eurostat, 2017, Orange former socialist countries, blue Malta and Cyprus

- Before the crisis in Greece we had already relatively few large companies, and “their employees and the related tax base” were missing.
- SMEs and self-employed have a higher propensity to evade taxes everywhere. In Greece the missing large companies and their employees reduced the average size of the economy and made the economy overall more compatible with tax evasion.
- This does not mean that high wealth tax evasion does not exist and is not a problem.
- **But the “missing part” is the real problem, as also shown by the low employment to population ratio and the weak manufacturing base – because manufacturing companies tend to be larger, depend more on salaried employment and on value chains that also depend on salaried labor.**

# Shadow economy, tax evasion and the missing revenue – II



Schneider & Boockmann IAW & JKU for shadow economy. 2016 & 2018 data.

- Today parts of the shadow economy are brought into the light. This is a result of measures like e-payments and the more efficient functioning of the (independent) tax authorities.
- But we also have the faster contraction of private incomes vs public sector wages and pension income (see earlier slides).
- In addition a part of the private sector gets locked in the black economy even while the private sector shrinks fast. These are professionals that owe to the authorities and the banks and thus keep no more money in their bank accounts, stay in a house whose mortgage they no longer service, and often have taken their retreat but still work in a cash-only “black economy”.
- Thus we can observe two trends that are not contradictory: The shadow economy as a percent declines but at the same time we also have a radicalization of the newly emerging “favela economy” that forms a trap for part of the private economy.
- This “favela economy” trap forbids any aspiration to grow & acquire better organization, facts that are related with compliance with tax and other laws but also higher competitiveness. 26

# The migration towards lower incomes during the crisis

€ million or %	2010	2015	2018	%Δ15/10	Δ15/10	%Δ18/10	Δ18/10
Annual income bracket	<b>All income</b>						
€0 to 10.000	18.867,2	17.748,3	18.869,6	-6%	- 1.118,8	0%	2,4
€10 to 30.000	55.152,5	42.573,8	41.694,8	-23%	- 12.578,7	-24%	- 13.457,7
€30.000 to 60.000	18.165,7	8.600,4	7.618,0	-53%	- 9.565,3	-58%	- 10.547,7
Over €60.000	7.832,6	7.090,0	5.430,0	-9%	- 742,6	-31%	- 2.402,5
<b>Total</b>	<b>100.017,9</b>	<b>76.012,5</b>	<b>73.612,5</b>	<b>-24%</b>	<b>-24.005,4</b>	<b>-26%</b>	<b>- 26.405,4</b>
Annual income bracket	<b>Wage and pension income</b>						
€0 to 10.000	13.116,4	14.163,0	15.444,3	8%	1.046,6	18%	2.327,9
€10 to 30.000	45.436,3	36.403,3	36.555,8	-20%	- 9.033,0	-20%	- 8.880,5
€30.000 to 60.000	13.921,6	5.514,6	5.519,5	-60%	- 8.407,0	-60%	- 8.402,1
Over €60.000	4.330,6	2.896,8	2.883,7	-33%	- 1.433,8	-33%	- 1.446,9
<b>Total</b>	<b>76.804,9</b>	<b>58.977,7</b>	<b>60.403,3</b>	<b>-23%</b>	<b>-17.827,2</b>	<b>-21%</b>	<b>- 16.401,6</b>
Annual income bracket	<b>Income tax and solidarity tax</b>						
€0 to 10.000	12,8	606,7	561,5	4623%	593,9	4271%	548,7
€10 to 30.000	3605,8	4657,1	4811,2	29%	1.051,3	33%	1.205,4
€30.000 to 60.000	3215,6	1987,6	1908,4	-38%	- 1.228,0	-41%	- 1.307,2
Over €60.000	2180,9	1998,8	1981,3	-8%	- 182,1	-9%	- 199,6
<b>Total</b>	<b>9015,1</b>	<b>9250,2</b>	<b>9262,5</b>	<b>3%</b>	<b>235,1</b>	<b>3%</b>	<b>247,4</b>

AADE & GSIS, Annual bulletin of statistical data, law on solidarity surcharge (law 3833/10, as applicable in 2015 & current law). Definition of taxable income has been broadened and first applied on 2014 income that was taxed in 2015 (column 2015 here. 2018 in table reflects income earned in 2017 and declared in 2018.

- A large decline in declared incomes, and especially upper middle class income and higher high wage & pension income. This decline accelerated further in the 2015–18 period!
- The increase in rates manage just to compensate for the large decline of incomes of the upper middle class, leaving essentially the tax take unaltered.
- For the wealthy, a smaller percentage decline in incomes, along with the increase in rates, led to a small increase in taxes paid by 2018.
- Incomes at the bottom are more stable, as many taxpayers migrated to these income brackets from higher incomes and almost all new jobs are generated there.

# The migration towards lower incomes during the crisis

1.000 taxpayers or %	2010	2015	2018	%Δ15/10	Δ15/10	%Δ18/10	Δ18/10
Annual income bracket	Taxpayers *						
€0 to 10.000	3.338	5.043	5.244	51%	1.705,8	57%	1.906,8
€10 to 30.000	3.066	2.633	2.583	-14%	- 433,2	-16%	- 482,6
€30.000 to 60.000	446	220	195	-51%	- 225,2	-56%	- 250,1
Over €60.000	81	55	44	-32%	- 25,8	-46%	- 36,9
<b>Total</b>	6.930	7.951	8.067	15%	1.021,7	16%	1.137,2

AADE & GSIS, Annual bulletin of statistical data. \* taxpayers with positive income. Registered taxpayers with zero income have been excluded. 2018 in table reflects taxpayers that earned income in 2017 and filed tax returns in 2018.

- A large decline in the, already relatively few, individuals that paid the majority of the personal income tax. High income earners declined further during 2018 (2017 incomes).
- Surely, tax enforcement has become more efficient under the independent AADE, but at the same time tax evasion at all levels persists. But the decline of incomes is also a fact, and the number of high income earners declined further during 2017.
- As the tax base moves to lower levels, policymakers are forced to target lower incomes to replenish tax revenue, ie with the reform of the tax return that basically exempted incomes of up to 180% of the poverty level from any income tax and with a reliance on social security contributions (that burden disproportionately to taxes low income wage earners).
- This reduction has been, correctly, matched with a subsidy for children, but this subsidy has to be much more generous and linked, for higher incomes, with a tax rebate. Thus, beyond a “low income parental safety net” the planned reduction in the tax rebate should be linked with an increased tax rebate/credit for working families and the very elderly, as is common a number of core EU countries.

# Who pays what share of income tax – Do the high income Greeks pay taxes?

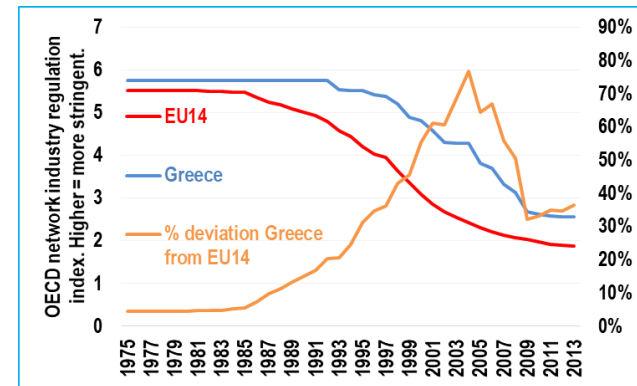
% share of total	2010	2015	2018	2010	2015	2018	2010	2015	2018
Annual income bracket	Taxpayers *			Income			Income tax & solidarity charge		
€0 to 10.000	48,2%	63,4%	65,0%	18,9%	23,3%	25,6%	0,1%	6,6%	6,1%
€10 to 30.000	44,2%	33,1%	32,0%	55,1%	56,0%	56,6%	40,0%	50,3%	51,9%
€30.000 to 60.000	6,4%	2,8%	2,4%	18,2%	11,3%	10,3%	35,7%	21,5%	20,6%
Over €60.000	1,2%	0,7%	0,5%	7,8%	9,3%	7,4%	24,2%	21,6%	21,4%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

AADE & GSIS, Annual bulletin of statistical data, law on solidarity surcharge (law 3833/10 & current law). Definition of taxable income has been broadened in the meantime. \* taxpayers with positive income. Registered taxpayers with zero income have been excluded. 2018 reflects income earned in 2017 and declared in 2018.

- Greek taxpayers with over €30.000 annual income (just 2,9% of registered taxpayers with a positive income, from 3,3% in 2015 and 7,6% in 2010), have 17,7% of all declared incomes (20,61% of total in 2015 and 26% in 2010) and pay 42,1% of all personal income tax and the solidarity surcharge (43,1% in 2015 and 59,9% in 2010). **Note that the taxes paid fall more rapidly than incomes in this bracket exactly because of the high progressivity of the tax rates. The unfortunate trends are strongest in the €30–60.000 (upper middle class) bracket. So especially the upper middle class pays a lot of taxes and at the same time has a very large decline of pre tax incomes – a process that is very costly for the state given the hyperprogressivity of the tax system!**
- Those with an income from zero to below €10.000 (65% of registered taxpayers with a positive income, up from 48,2% in 2010) pay much more than in 2010 (6,1% of total instead of 0,1%), mainly because of the taxation of “assumed incomes” from houses and cars, and the reduction of the tax exemption for self employed. Another factor increasing the income, and taxes, in this bracket is the continuing migration of incomes into this bracket (25,6% of total instead of 18,9% in 2010). **So, yes the poorer pay more taxes than in 2010, but the comparison takes place with the zero basis of 2010 and the absolute number is low, reflecting again the very high progressivity of the system.**
- The €10.–30.000 bracket now has fewer taxpayers (32% of total from 44,2% share of taxpayers with a positive income), their share of income has stayed broadly constant but they pay more taxes (51,9% of total from 40%).

# “But other countries have also high taxes”

- In many cases they face significant social and economic challenges (France, Italy).
- In most cases the state offers much better services, from education and licensing to speed of justice, in return for these taxes.
- These countries generally advanced structural reforms in the past decades, in which reforms in Greece lagged.
- It is the combination of high taxes and poor government services, weak rule of law and regulatory hysteresis that is so detrimental to growth in Greece.
- And it has been shown how the few employees pay per individual high taxes and SSCs.



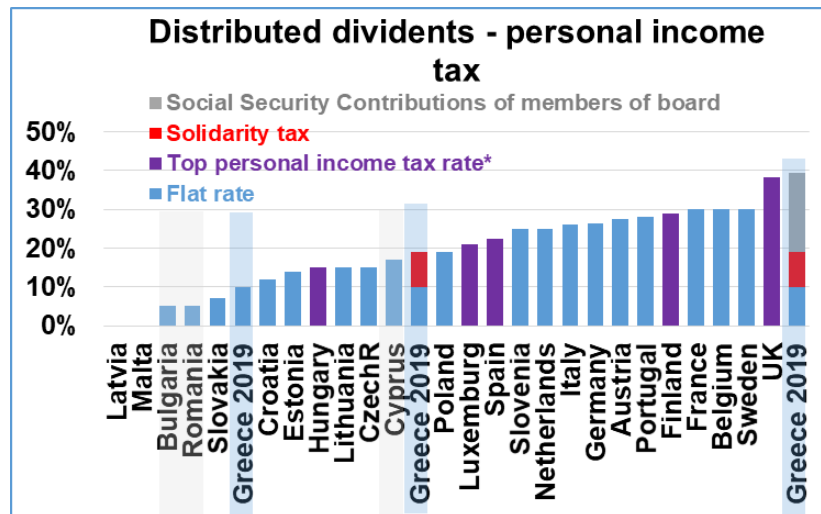
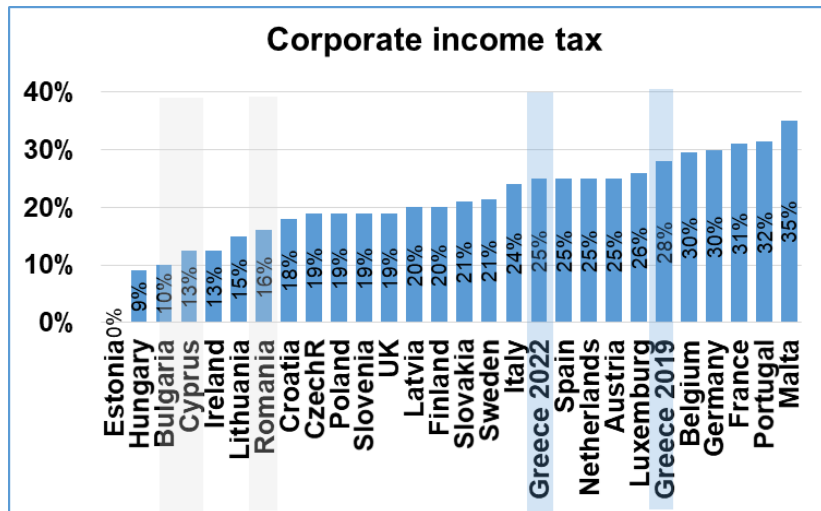
OECD regulation of network industries index

## 4. High taxes everywhere

- Corporate income tax and dividends
- Excise tax on electricity for energy intensive industrial users– remaining issues
- Taxes on communications
- VAT
- VAT on domestic air travel and coastal shipping
- VAT on accommodation
- Excise tax on fuels
- Excise tax on alcoholic beverages & tobacco
- Excise taxes & VAT on beer
- Excise tax on coffee and wine
- Stamp duty
- Property taxes



# Taxation of corporate income and personal income tax on dividends



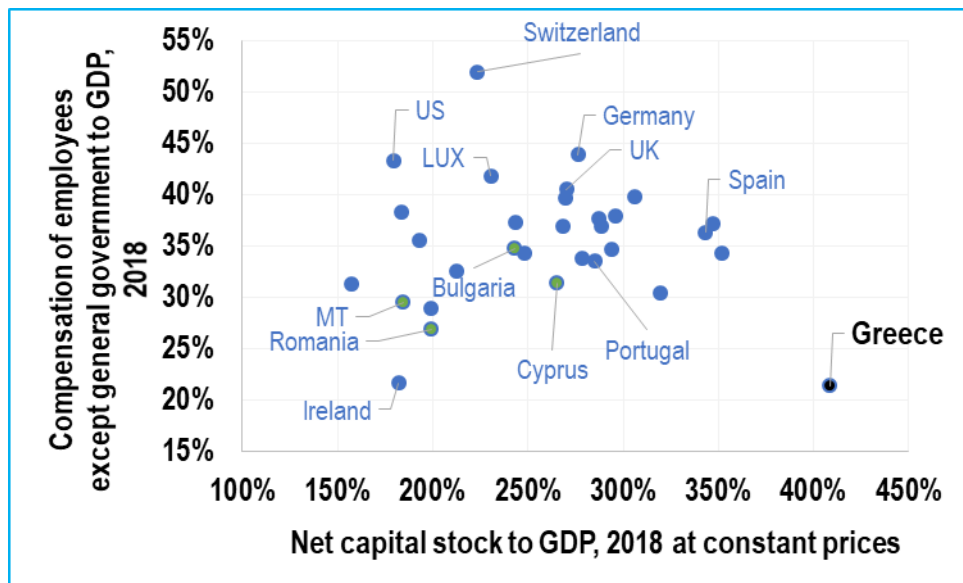
2018 Taxes in Europe Database, PwC, Deloitte, KPMG, OECD. Greece 2019 & 2022 as currently legislated. The gradual reduction of the legislated reduction of the CIT rate in Greece by 2022 is conditional on full implementation, and non-reversal, of the legislated reduction.

2018. Taxes in Europe Database, PwC, Deloitte, KPMG. Greece 2019 with & without (recently reduced) social security contributions. \* Includes rebates for distributed dividends if applicable. Greece with solidarity surcharge 9% (top rate is 10%), which can coincide with full SSC for a board member and shareholder with over 3% and who has not exhausted the SSC ceiling. The Greek government announced a reduction of the solidarity surcharge on May 8<sup>th</sup> 2019. If legislated, this reduction would improve the ranking of Greece for an shareholder without social security contributions by one position, and reduce the rate but not the ranking with a shareholder burdened by SSCs.

Corporate income tax (CIT) was after 2015 on the high side, and is expected to move by 2022 to simply above average. Dividends, after the reduction applicable from 2019, are taxed competitively when compared to the “tax neighborhood” countries like Bulgaria, Romania and Cyprus. But in the case of a member of the board with over 3% stake, social security contributions (SSCs) are added and in the case the solidarity surcharge of 9% still applies as an announced reduction to 8% has not been legislated yet (annual income over €65.000 and till €220.000). Thus the total sum of taxes and SSCs can still reach 67% of pre tax pre distribution profit (65% after 2022), which constitutes a non-competitive tax performance.

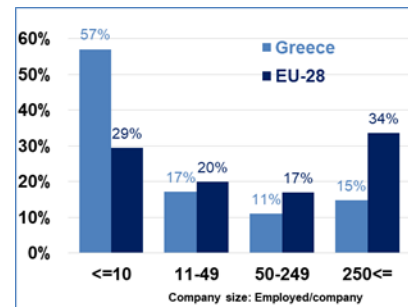


# Corporate income tax – capital intensity as a result of the over-taxation of labor

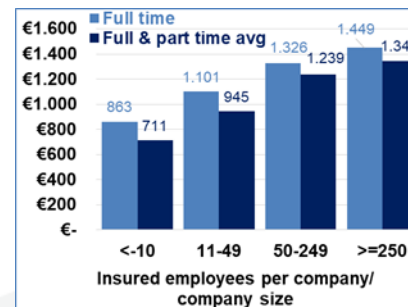


EC AMECO database

- In Greece the corporate wage bill (in line with small size of average company and correspondingly lower wages) is low and capital the stock to GDP ratio (including dwellings and irrespectively of productivity of capital) is high.
- This is normal for countries that burden companies heavily with regulations and tax heavily and progressively labor.
- Greece stands out as it does so in an extreme way, and until recently offered domestically an unfair tax advantages to self-employment, over salaried private sector employment.

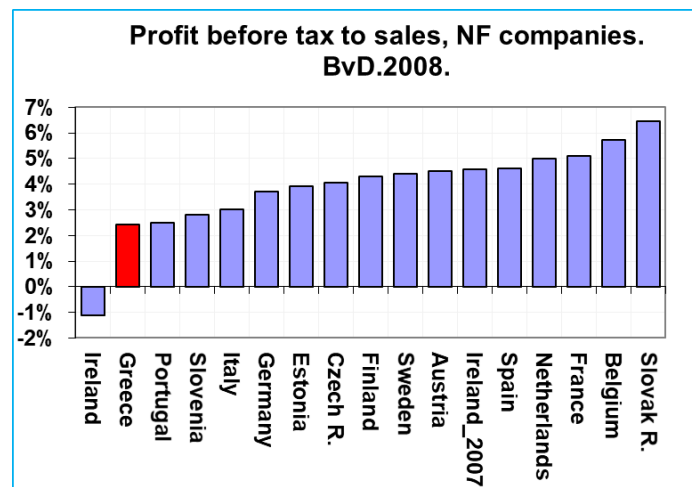
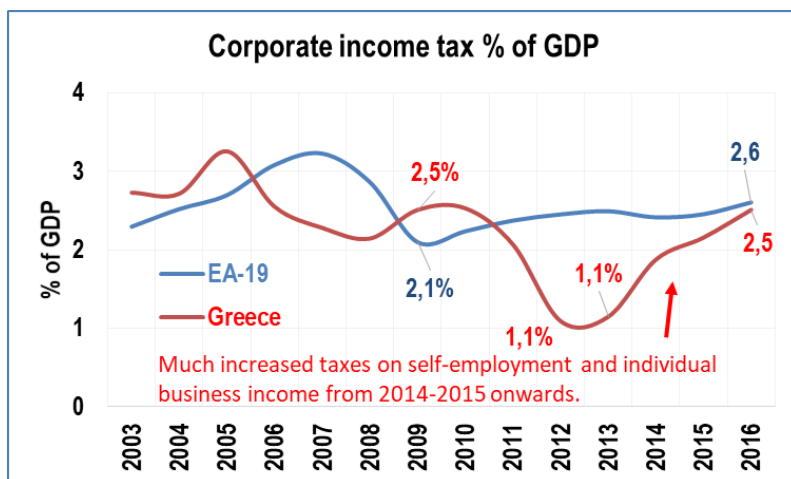


Employment share per company size.  
SBA Factsheet 2017 data



Monthly gross wages per company size.  
With employee SSC.  
Dec 2017. IKA/EFKA (private sector salaried employment)

# Corporate income tax – capital intensity as a result of the over-taxation of labor



EC: Taxation trends in the EU. Includes taxes and SSCs on self-employment. Much broader definition of business income at individual level and higher taxation of self-employed starting from 2014-2015

Bureau Van Dijk data, limited liability companies and partnerships or equivalent. 2008 pre crisis year for Greece, but not Ireland and thus 2007 also offered for Ireland.

- The intensive use of capital but also the low non-wage competitiveness, ie from bureaucracy and tax uncertainty, kept corporate profitability low even before the crisis.
- Low profitability is best proven from balance sheet data (ie BvD) and not national accounts and data that also include gross operating surplus of (the numerous) self-employed and corresponding taxes (as does Nat. Accounts & EC taxation trends data).
- EC taxation trends data “hides” the paucity of corporate activity because of the inclusion of taxes on self employment, the evolution of tax rates and the changes in the definition of taxable income from business activity.

# Depreciation regimes and loss carry forward

- After 2013 (as reiterated by law 4172/2013) the depreciation regime in Greece has become very inflexible.
- Before 2013 companies could depreciate machinery between 4 and 10 years, according to straight line and declining method.
- Not any more – now it is only 10 years and straight line. In addition, there is possibility to argue towards the tax authorities that an asset depreciates faster (or slower) than at the 10% annual rate and according to the straight-line method.
- In addition, loss-carry forward is limited to 5 years.
- Greece thus is the only EU country with such a restrictive depreciation regime AND such a sparing loss-carry forward regime.
- This places Greek companies with fast depreciating assets (ie high-tech) or that invest in expensive assets that start to create a profit 2-4 years after the investment at a clear and substantial disadvantage vs other European companies.
- Recent proposals to improve the depreciation regime with incentives for strategic investments a) are not general enough in the sense that not all investment benefits from them, b) are an important step, but will not be complete if the loss carry forward remains so sparing.
- Further, new announcements (8/5/2019) to increase depreciation to 150% of the value of assets as industrial equipment and ICT equipment certainly helps, but does not address the issue of a) inflexibility and b) limited loss carry forward.

Depreciation rules: Other fixed immovable assets (e.g. machinery)						Loss carry forward	Loss carry backward
	Straight line	Declining balance	Other	Years	Typical rate	Years	Years
Greece	√			10	10,0%	5	
Cyprus	√			5	20,0%	5	
Croatia	√			4	25,0%	5	
Hungary	√			3,03	33,0%	5	
Bulgaria			√	4	30,0%	5	
Finland		√			25,0%	10	
Italy	√			20	5,0%	∞	
Austria	√			10	10,0%	∞	
France	√			10	10,0%	∞	
Ireland	√			8	12,5%	∞	
Malta	√			5	20,0%	∞	
Slovenia	√			5	20,0%	∞	
Belgium	√			Asset expected life		∞	
Germany	√			Asset expected life		∞	
Denmark		√			15,0%	∞	
UK			Capital allowance		18,0%	∞	
Slovak R	√	√		8	12,5%	4	
Czech R	√	√		10		5	
Portugal	√		√	4	25,0%	5	12(SME)
Poland	√	√	√	4	25,0%	5	
Netherlands	√	√	√	5	20,0%	6	-1
Luxemburg	√	√		14	7,0%	17	
Sweden	√	√		5	20,0%	∞	
Spain	√	√	√	8	12,0%	∞	
Lithuania	√	√	√	3	33,0%	∞	
Latvia	Only distributed profits are taxed					*	
Estonia	Only distributed profits are taxed					N/A	

Depreciation regime and loss carry forward. ∞ = no time limit. (Taxes in Europe Database TEDB European Commission, 9/2018, Greek lawsN4172/13, art. 24&27 as in force). \* limited to the use of 15% of losses and up to 50% of taxes for each year profits are distributed during the next 5 years. Similar picture for “Movable (tangible) assets (e.g. cars, furniture, work equipment)”.

# Group taxation

- Beyond still high headline tax rates, a limited period for loss carry forward and an unattractive depreciation regime especially for machinery Greece is among a minority of EU countries that do not allow under any circumstances group taxation.
- The few other EU countries that deny groups the ability to pool the profits and losses of group members before they are taxed, even if this applies only to domestic members of the group, and that limit loss carry forward to a short time period (up to 5 years) a) all tax profits at lower rates and b) in almost all cases offer a much more attractive depreciation regime.

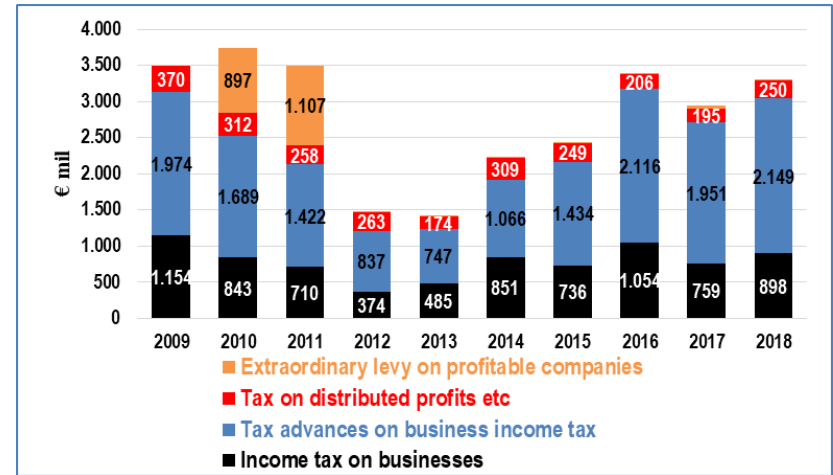
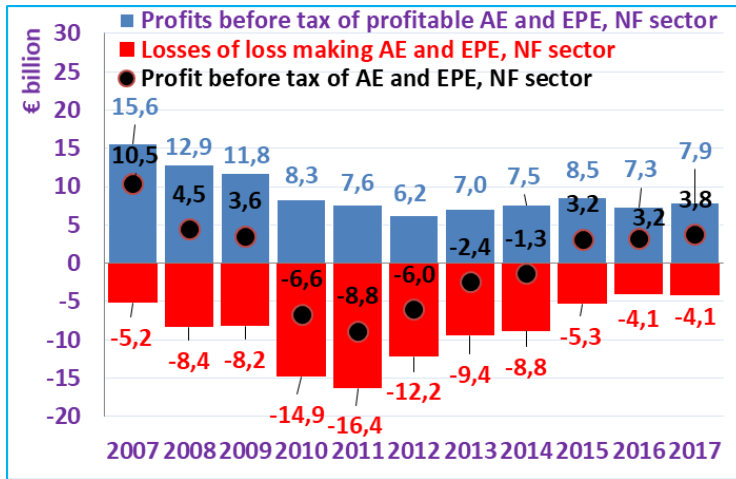
	Group taxation available	Specific anti-avoidance provision	Loss carry forward, years	Typical depreciation rate, machinery	Tax rate on profits
Greece	No	Yes	5	10%	28%
Czech R	No	Yes	5	10%	19%
Slovak R	No	Yes	4	13%	21%
Cyprus	No	Yes	5	20%	13%
Croatia	No	Yes	5	25%	18%
Bulgaria	No	Yes	5	30%	10%
Ireland	No	Yes	∞	12,5%	12,5%
Lithuania	No	Yes	∞	33,0%	15,0%
Malta	No	Yes	∞	20,0%	35,0%
Slovenia	No	Yes	∞	20,0%	19,0%
Estonia	No	Yes	N/A	N/A	N/A
Latvia	No	Yes	N/A	N/A	N/A
UK	No	Yes	∞	18,0%	19,0%
Romania	No	Yes	7		16%
Italy	Yes	Yes	∞	5,0%	24,0%
Luxemburg	Yes	Yes	17	7,0%	26,0%
Austria	Yes	Yes	∞	10,0%	25,0%
France	Yes	Yes	∞	10,0%	31,0%
Spain	Yes	No	∞	12,0%	25,0%
Denmark	Yes	Yes	∞	15,0%	22,0%
Netherlands	Yes	Yes	6	20,0%	25,0%
Sweden	Yes	Yes	∞	20,0%	21,4%
Finland	Yes	Yes	10	25,0%	20,0%
Portugal	Yes	Yes	5	25,0%	31,5%
Poland	Yes	Yes	5	25,0%	19,0%
Hungary	Yes	No	5	33,0%	9,0%
Belgium	Yes	Yes	∞	Asset expected life	29,6%
Germany	Yes	Yes	∞	Asset expected life	29,9%

Availability of group taxation, regardless if it refers only to domestic subsidiaries or also to foreign subsidiaries. (Taxes in Europe Database TEDB European Commission, N/A in case only distributed profits are taxed. Asset expected life in case detailed tables and/ or flexible adjustment takes place.

# Excesses of the tax framework that burden officers

- Officers are fully and jointly liable for company arrears – without any need to prove bad faith or negligence which goes against EU case law. Automatic pressing of penal charges also follow above a certain threshold. This discourages officers from staffing turnaround cases, especially as they do not have the ability to file for personal bankruptcy when burdened with the full liability of the company and on top they stand to be excluded from professional activity once they cannot obtain any more the “certificate of no bankruptcy”.
- Following audits, even if a tax discrepancy emerges due to out-of accounts verification, penal charges are pressed against officers automatically above a certain limit, even if it is a negligible fraction of the company’s turnover and tax payments.
- The state freezes automatically personal assets of the officers that are fully and jointly liable even if its claims against the company are already fully secured through company assets. This is the case especially when the company disputes a tax in court, and has settled the case by paying up front the 50% and gradually paying off the rest.

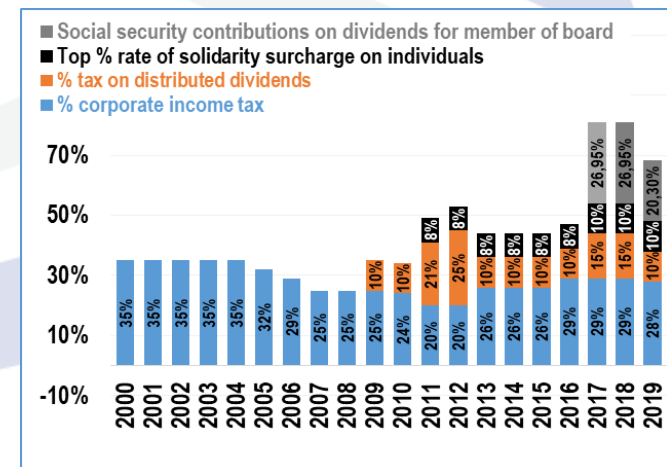
# Corporate income tax – Increases in tax advances, not a growth of the tax base supports increased tax revenue



Ministry of Finance, Data from monthly budget execution bulletins that is gross of returns. Annual budgets for tax revenue that is net of tax returns data not any more available after 2017. Calendar year.

Published annual accounts, ICAP database. AE & EPE are all limited liability companies and partnerships (AE & ETE & IKE). NF sector: non financial sector. 2018 first wave data, second wave is expected to add up to 20% to the number of companies, but they are usually small loss making companies and add less than 5% to total sales. Year of P&L statement, full accounts published in year+1.

- Losses of loss making Greek companies are normalizing, but the (taxable) profits of profitable companies recover only slowly.
- Tax revenue increases at the same time as a result of expanded definitions of taxable income, increased rates and increases in tax advances for the next year.
- The very high tax rates formed a disincentive to seek profits – no surprise profits did not grow!
- Tax on dividends reduced to 10% from 2019, after 2 years at 15%, and on profits set to decline to 25% by 2022, below the 26% set in 2013 but above the 2012 20%.

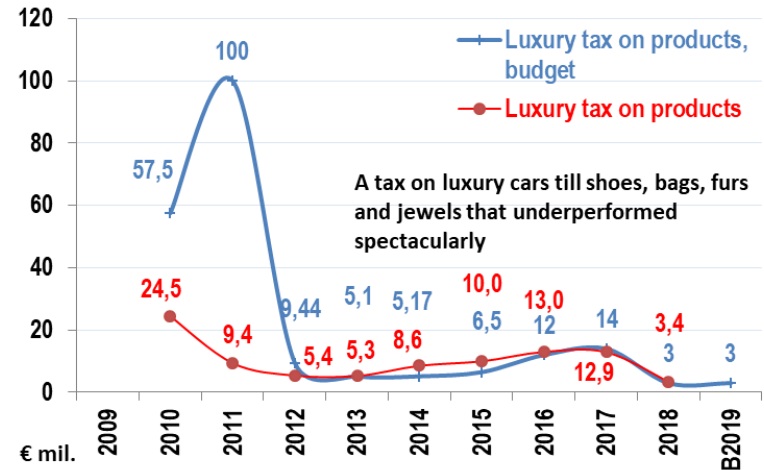


OECD Tax Database, Law 4172/12, Law 4472/17, Law 4387/16, Law 4334/15, Law 3986/11, Law 4578/2018. Calendar year.



# Consumption and excise taxes

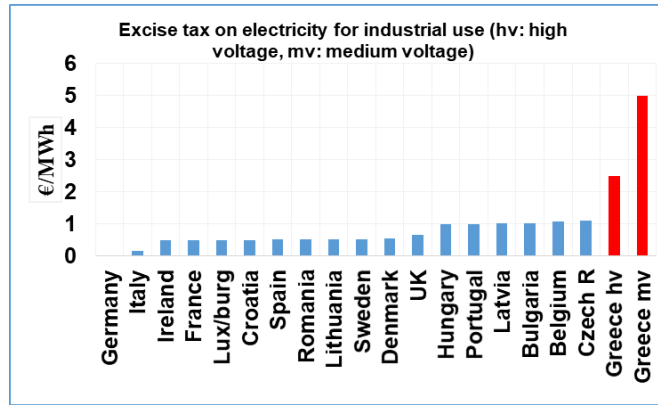
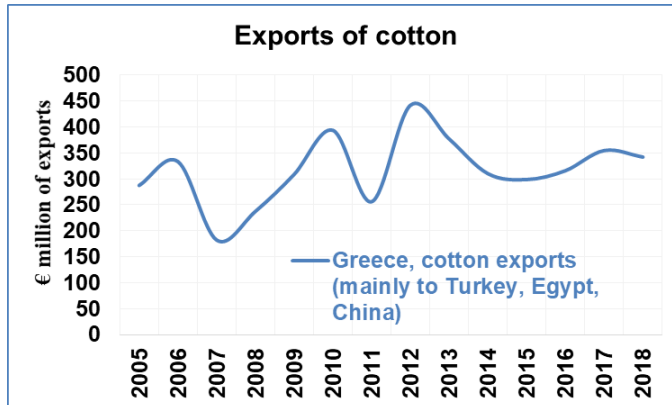
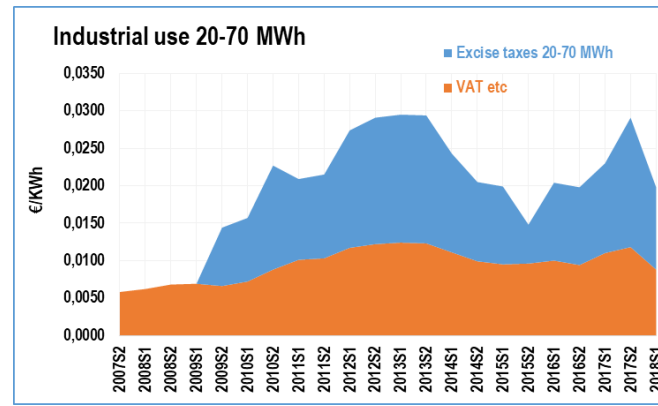
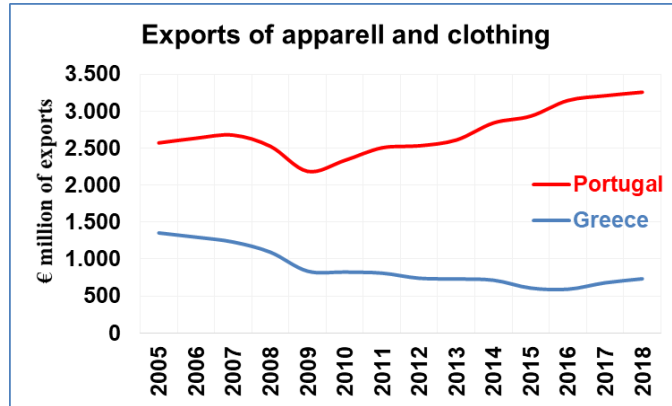
- Greece is now a top taxer in every dimension.
- This has contributed to an accelerated erosion of the tax base in many markets.
- Key taxes on inputs (eg on energy for manufacturing SMEs, communications) flank the issues of the taxation of labor and form a detrimental to growth combination.
- In other markets the combination of high taxes and weak policing of illicit markets has been a boon for smugglers.



**A spectacular failure: The 2010 luxury tax on luxury cars, private airplanes, diamonds, leather bags and shoes, silks, watches and other “luxury” items.**

Source: Ministry of Finance, annual budgets, Law3833/2010 art. 17 and amendmends. From 1/6/2016 the tax on cars is abolished, leading to the fall in the projected 2018 revenue. A 30% reduction for domestically produced luxury and “luxury” goods sold to the domestic market applies.

Energy for industry: In spite of progress in reducing taxes on energy for industrial use especially after their steep increase in 2009, some issues remain. An example is the energy intensive textiles industry that is still classified in a way that faces a high excise tax on electricity.

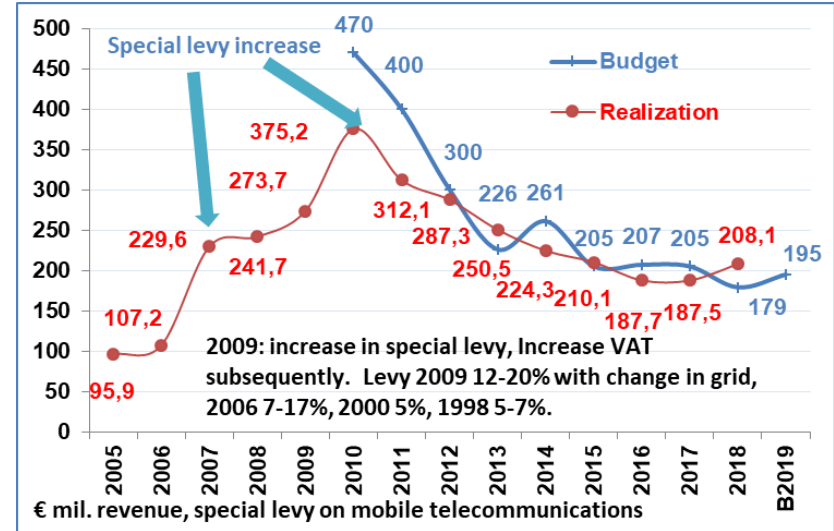
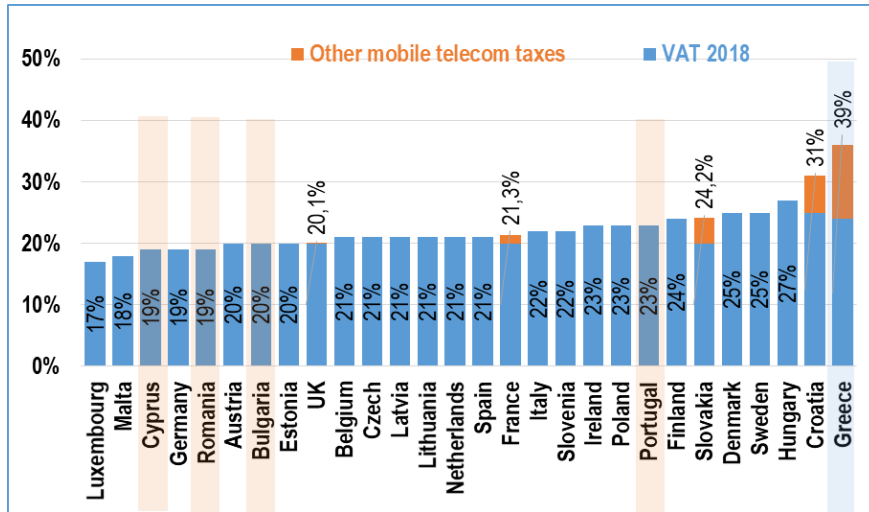


Eurostat data, Excise Taxes in the EU

- The price of energy for industrial use remains well above that of EU and non-EU competitors as the market has not been fully deregulated and numerous distortions remain.
- The introduction of initially high excise taxes on energy hurt especially energy intensive producers, like textiles (subject to the higher tax).
- Manufacturing and exports of apparel and clothing plummeted, even while Greece exports raw cotton (a rarity for an EU country) – **note the paradox!**
- While various excesses of the excise tax on energy for industrial use were rectified, the high excise tax for those high energy intensity industries that are still classified as “medium voltage electricity consumers” remains (€5/MWh). This creates a problem to sectors like textiles and numerous manufacturing SMEs.

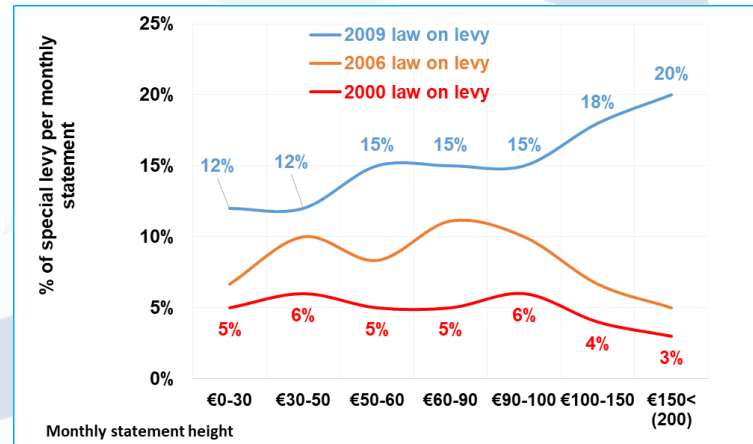


# Taxes on communications: The highest in the EU, and a barrier to digital growth that costs billions in lost revenue to the state!



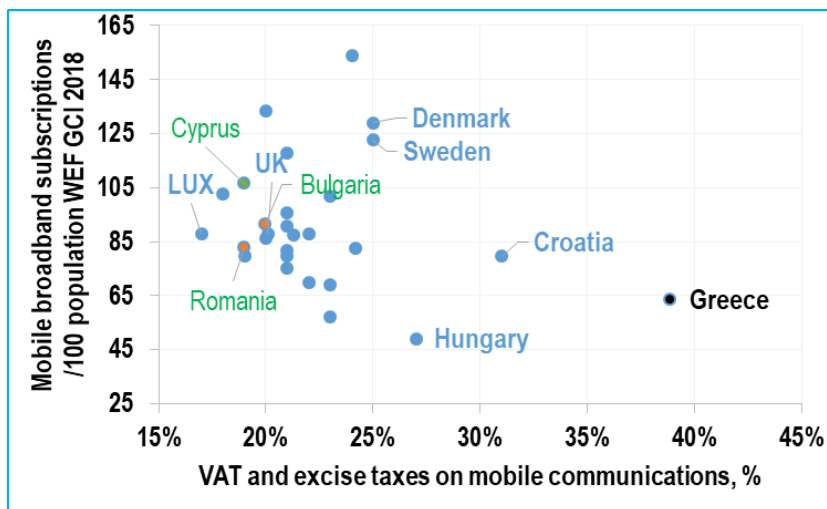
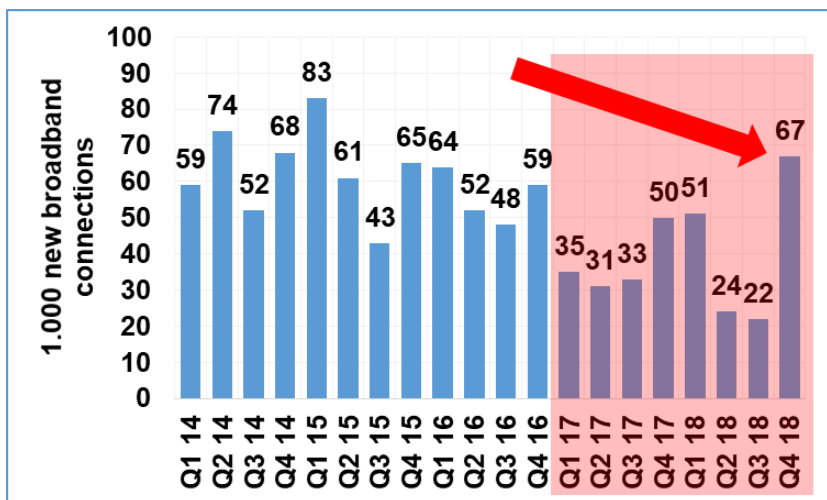
Source: 2018, Taxes in Europe database for VAT rates, EEKT (Greek Mobile Operators Association, Ministry of finance, annual budgets

- The increased and now very progressive levy, on top of the high VAT, has compressed service turnover and growth prospects for voice & data beyond the impact of the crisis.
- In 2016 the sector also paid €37 mil in different levies to the regulatory authority and € 233 mil in VAT.
- In 2008 (before the 2009 increase) the levy offered a tax revenue €242 mil. In 2017 this has shrunk to €187,5 mil. before rebounding slightly in 2018. as digital services use has stagnated and become concentrated to lower value services that avoid the very progressive levy.



The computation of the 2000, 2006 and 2009 levy follows from the levy formula on mobile communications and discussions with EEKT. It shows how in 2009 the tax became progressive.

# Taxes on communications: The new levy on fixed line communications & the risk of digital isolation.

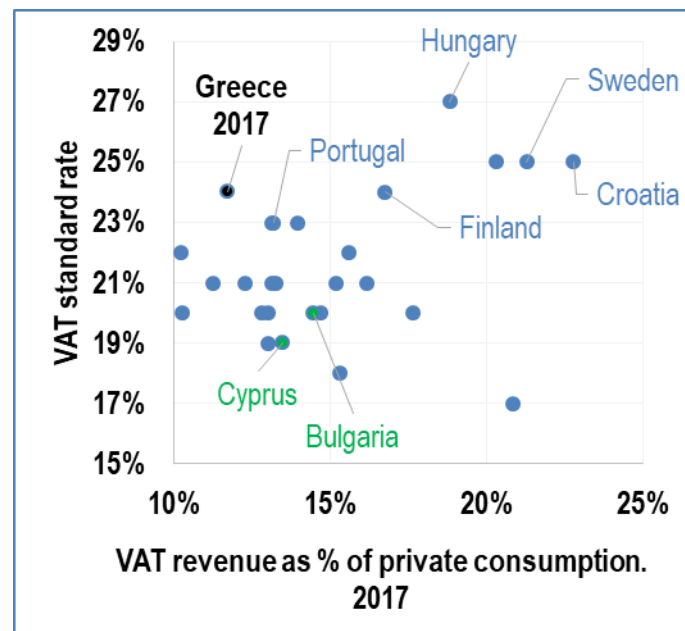
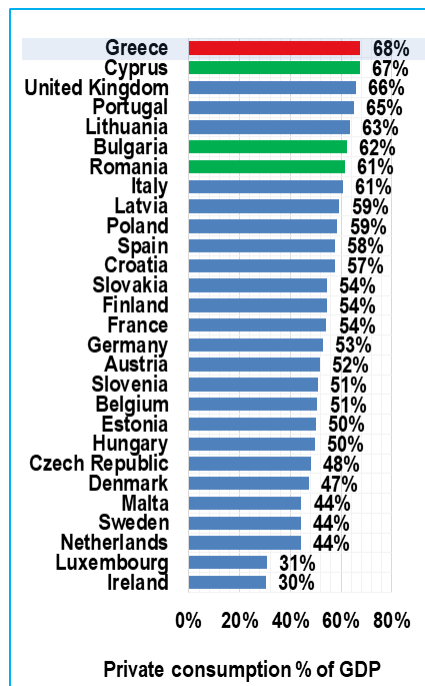
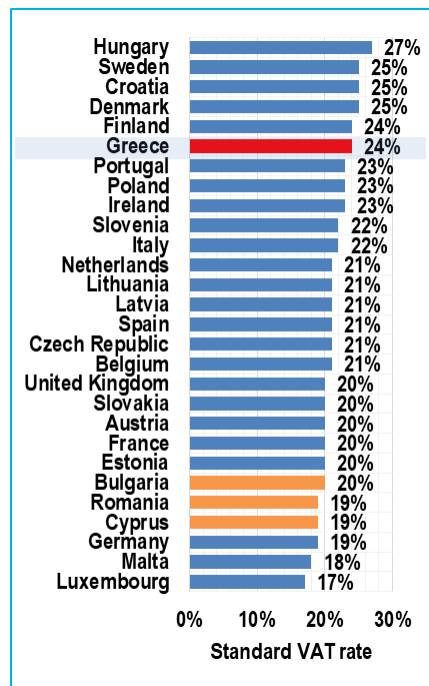


Source: [OTE quarterly reports](#), law on fixed line communication levy.

Source: Data for 2018. Taxes in Europe database for VAT rates, EEKT (Greek Mobile Operators Association, Ministry of finance, annual budgets, Greek laws on levy on mobile communications). WEF GCI 2018/2019 for mobile broadband connections

- The introduction of the levy led to a visible reduction in new broadband connections.
- Levy revenue was 2017 €49,6 mil and for 2018 €62,5 mil in this inelastic market with slow base erosion.
- Greece is a digital laggard (28<sup>th</sup> of 29 EU countries in DESI index). Given that now cross border roaming is largely free of charge in the European Union, standing out by having the highest indirect taxes (well over 40 cent per euro for contract customers) creates additional risks and undermines the competitiveness of Greek economy in the EU.

# VAT: High rates and consumption = now average revenue

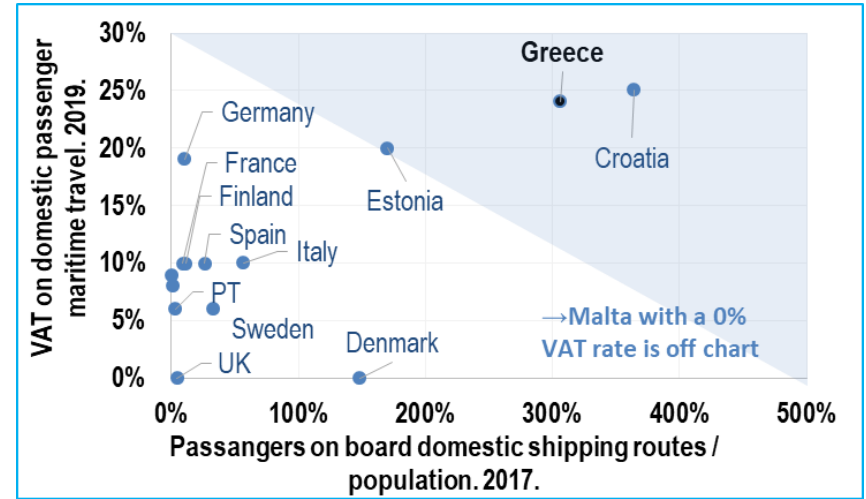
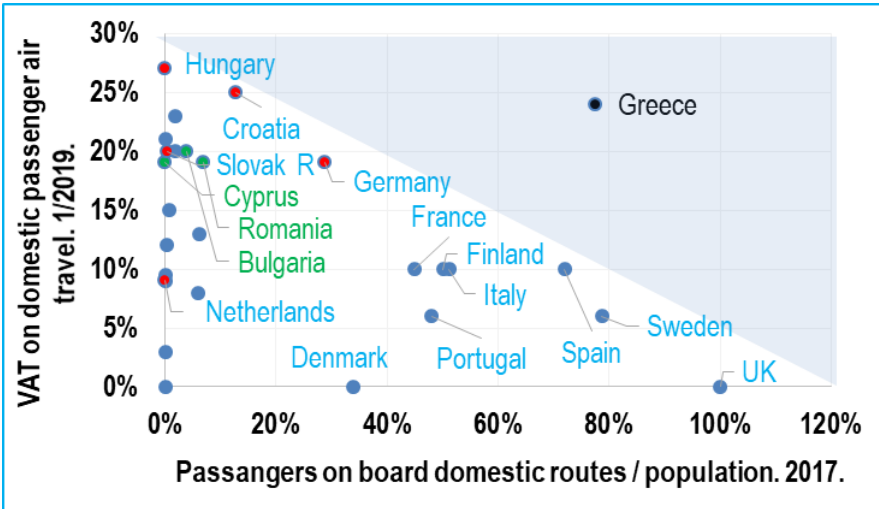


Source: [VAT rates in the EU](#), Jan 2019. AMECO for private sector consumption and GDP 2018, VAT revenue as % of GDP, private consumption and rates for 2017, Taxation trends in the EU; AMECO; Taxes in Europe database.

Greece has one of the highest VAT rates and a very high private consumption share of GDP, but only an average tax revenue from VAT as % of GDP.

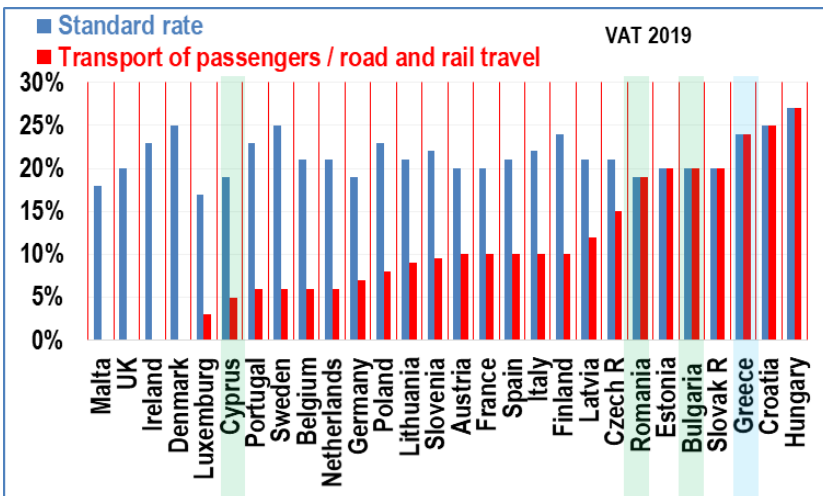
This suggests a VAT gap, that partly was due to exemptions but also is surely due to the prevalence of the SME-intensive shadow economy.

# VAT on domestic passenger travel



Source: Taxes in Europe database and / or [VAT rates in the EU, Jan 2019](#), for VAT rates. Eurostat for population and passengers on board domestic air travel routes. The latter also includes passengers that have purchased tickets as a transit part of international travel, and thus are taxed in their home country at the rate of international air travel, but this does not discount the ability of the metric to capture the importance of domestic air travel for a country.

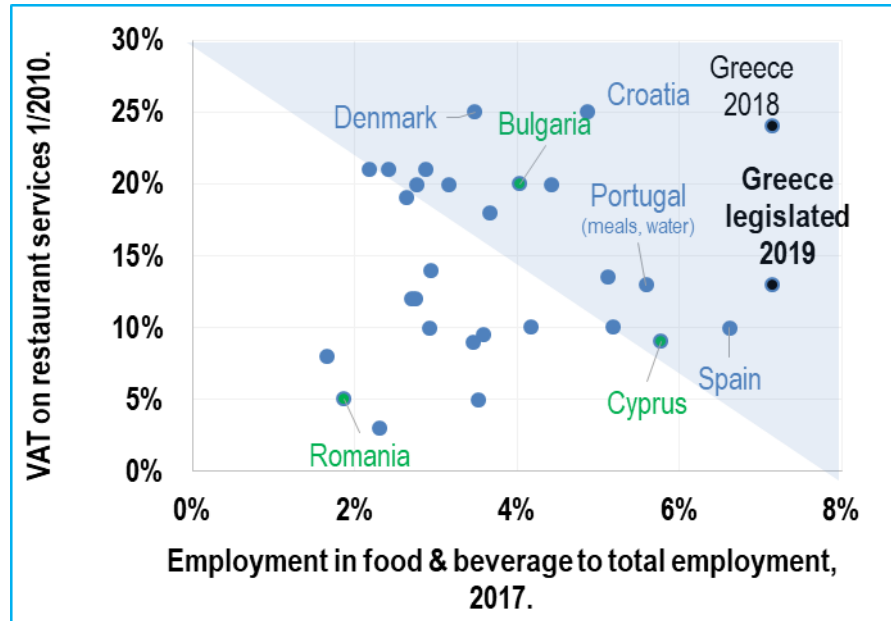
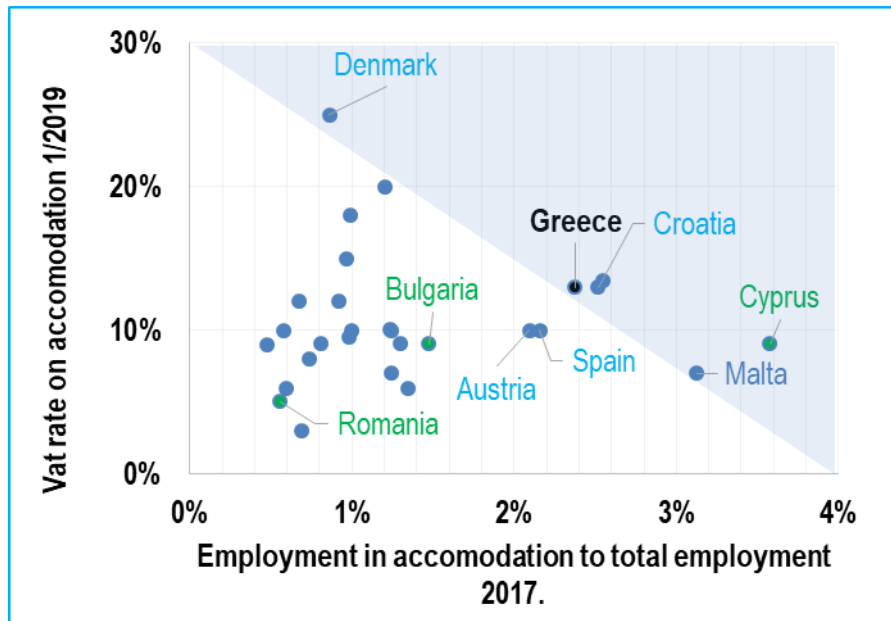
Source: Taxes in Europe database and / or [VAT rates in the EU, Jan 2019](#), for VAT rates. Eurostat for population and passengers on board domestic maritime travel routes. Excludes cruise ships. Increase to from 10% to 23% Law 4334/15 and to 24% Law 4389/16. Croatia mainly short distance travel.



Source: Taxes in Europe database and / or [VAT rates in the EU, Jan 2019](#), for VAT rates.

- Most countries have a low or zero VAT on domestic passenger travel.
- But a few countries like Greece now have imposed high VAT rates.
- This is the case in spite of the fact that no other country that heavily depends on domestic air routes or coastal shipping taxes (in Croatia routes are mostly very short coastal routes) so highly domestic air and sea passenger travel.
- Greece has a high VAT on domestic passenger land (road & rail) travel, one of relatively few countries EU to do so.

# VAT on accommodation and restaurant services

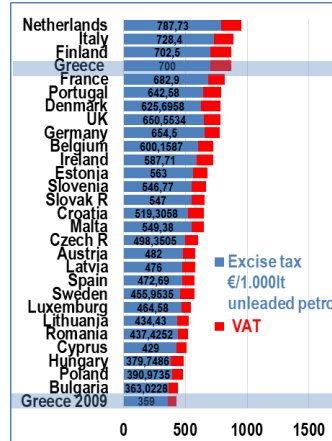
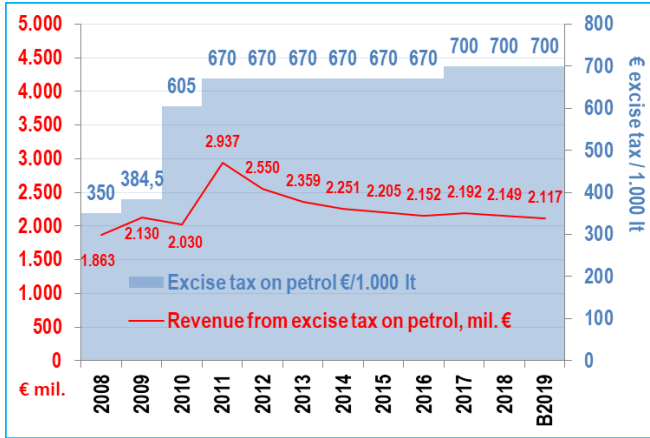


Source: [VAT rates in the EU](#), Eurostat for employment in accommodation, food & beverage and total employment 15y+. Accommodation includes hotels, holiday short stay accommodation, camping grounds and vehicle and trailer parks. **Greece 2019 depicts reduced VAT rate on food and board announced on 8/5/2019 and legislated in May 2019.**

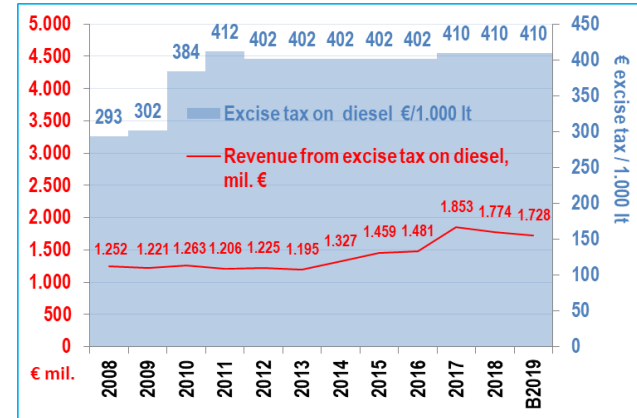
- Greece still has a reduced rate on accommodation.
- But even this reduced rate is high when compared to other countries and since January 2018 the additional overnight tax of €0,5–4/night applies.
- And it is rare to have such a high rate for countries in which accommodation is a relatively important contributor to employment.
- The same, to an even larger extent, is true for restaurant services, and to some extent will remain so even when the recently announced reduction of VAT on food and board is implemented.

# Excise taxes on fuels: super-doubled taxes, same revenue.

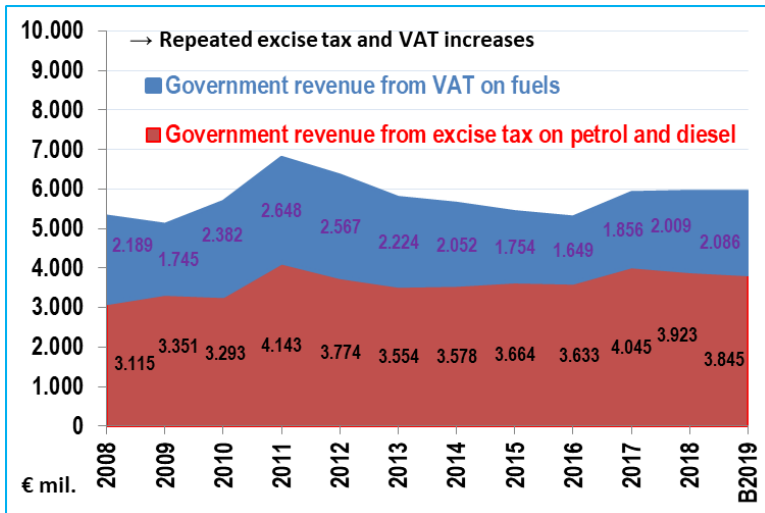
**A. A doubling in the excise tax on petrol led to a negligible increase in tax revenue on a downward trend**



**B. Revenue from the excise tax on automotive diesel inched upwards only when automotive diesel use was allowed and unlawful activity related to heating oil trading was finally discouraged**



**C. But overall excise tax and VAT revenue is stagnant if one excludes impact of the more effective discouragement of unlawful activity**



Source: Excise Taxes in the EU, Ministry of Finance, detailed general government budget data

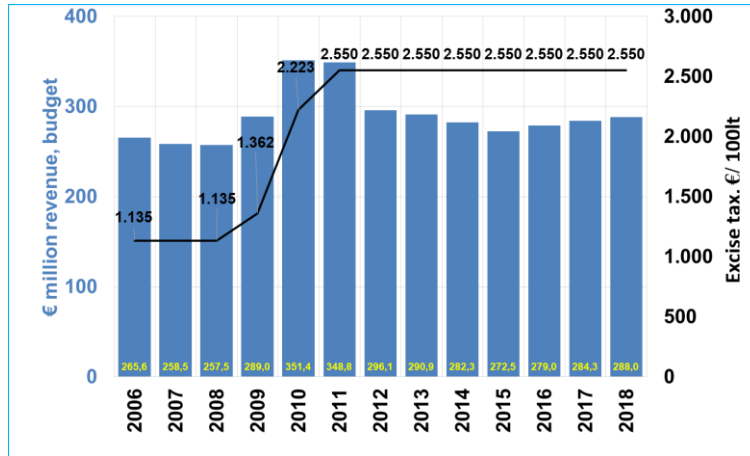
**D. Tax increase, steady revenue and decline in use**

- Despite repeated excise tax and VAT increases (doubling of excise tax for petrol, 40% for increase in diesel and increase of VAT from 19% to 24% since 2008) steady tax revenue.
- Only noticeable impact, of the abolition of a flagrant loophole that encouraged unlawful activities in the area of automotive diesel (2017), but a downward trend still follows.
- Thus the increase in rates and decline in demand led to a stagnation of tax revenue. The decline in demand represents a social cost in reduced transport and a shift to often ecologically disastrous heating methods (fireplaces fed with processed wood leftovers etc).
- On the way government income from legal economic activity and employment in the sector also decreased.

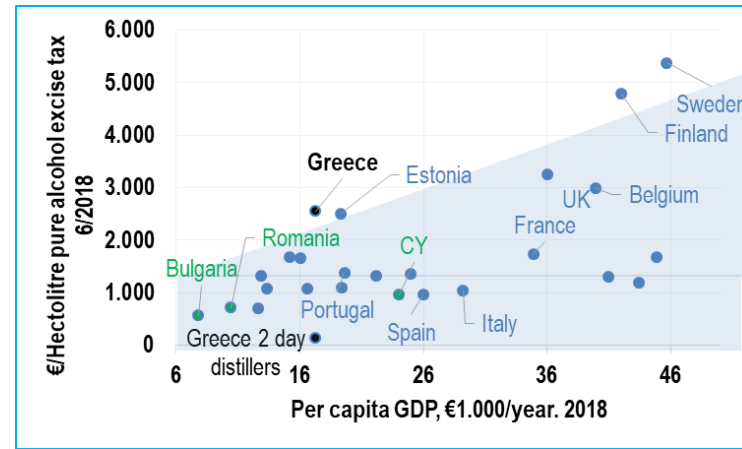


# Excise taxes on alcoholic beverages. A-B-C-D.

## A. Increase taxes



## B. Among the highest in the EU & the highest per capita GDP

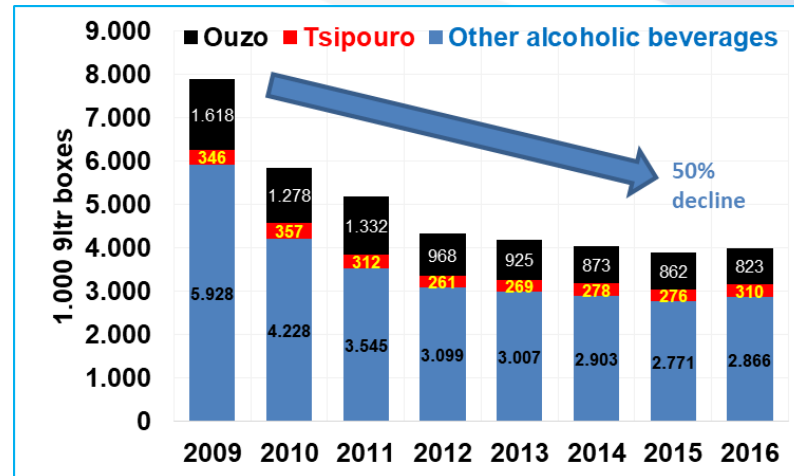


Greece 2 day = 2 day distillers for tsipouro

## C. Maintain loopholes

- Despite the excise taxes increase, a loophole exists for two-day distillers.
- The state increased taxes, but not the effectiveness of anti-smuggling authorities.
- Thus, a flourishing contraband market for illegal bulk distillate (tsipouro) has emerged, cannibalizing the taxed, legal market for local distillates, e.g. tsipouro and ouzo.
- This has accelerated the decline in the legal market along with the impact of the crisis & the tax increases ...
- and led to lost revenue for the state & the legal market.

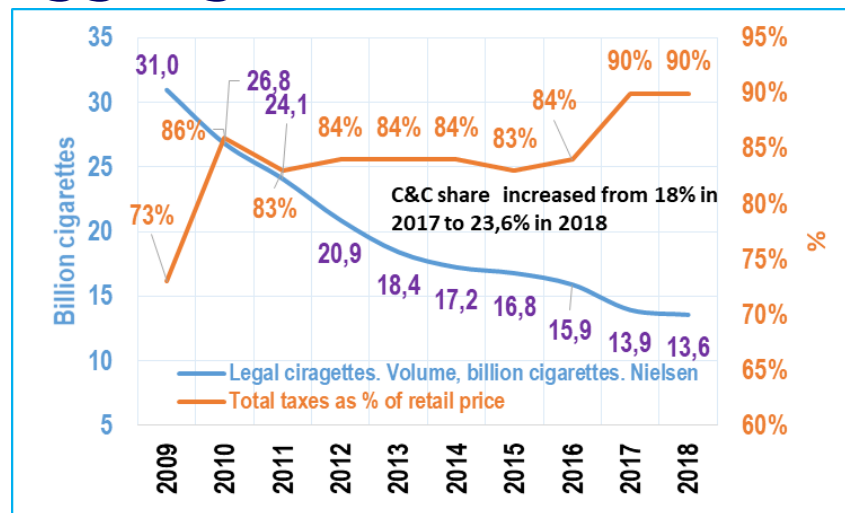
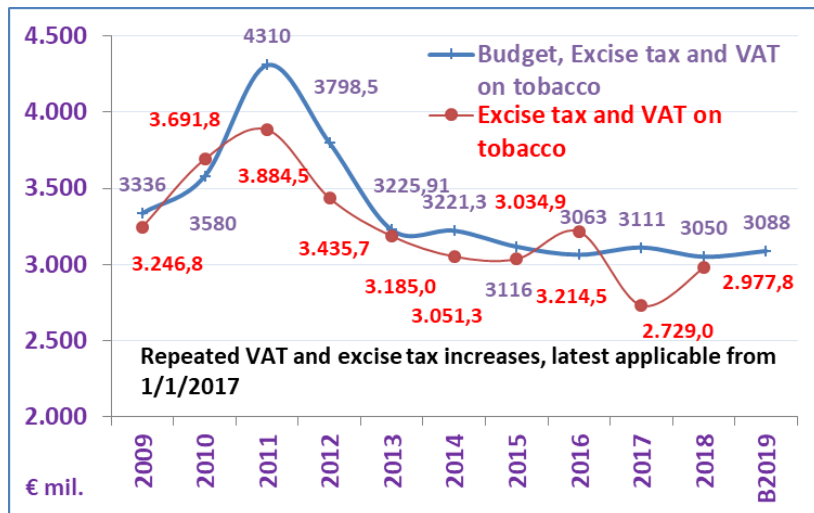
## D. Watch legal market collapse



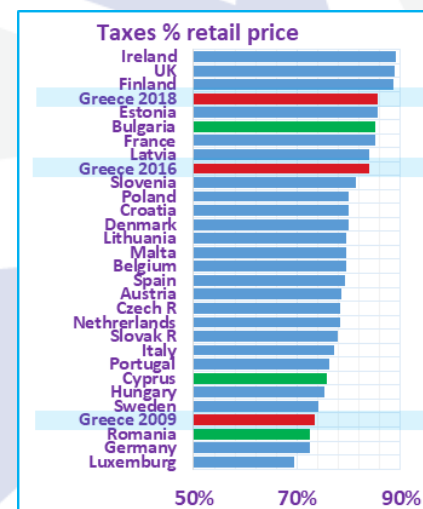
Source: Excise Taxes in the EU, Greek laws, Ministry of Finance, detailed budget data, IOVE, Hellenic Association of Drinks Distributors (ENEAP)



# Taxes on tobacco: another example of the combined effect of increasing taxes along with lax anti-smuggling enforcement.

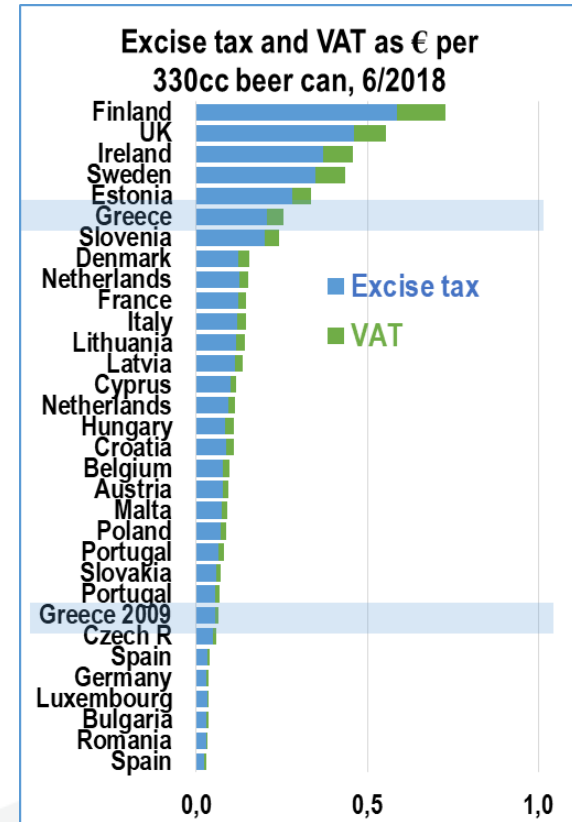
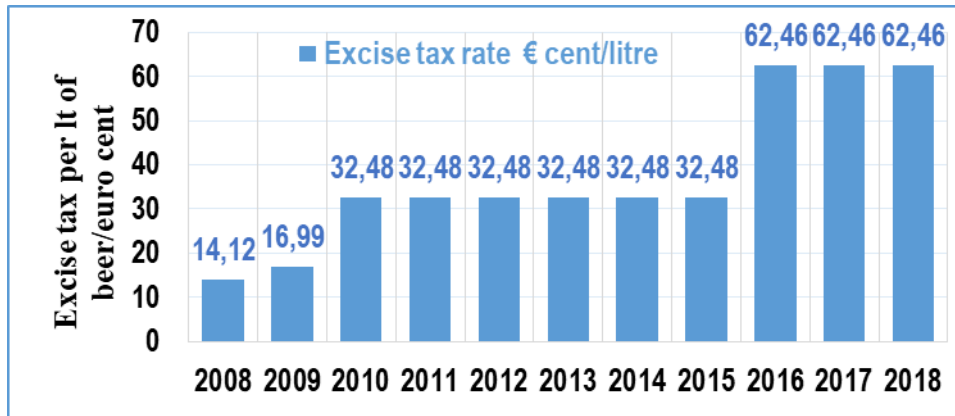
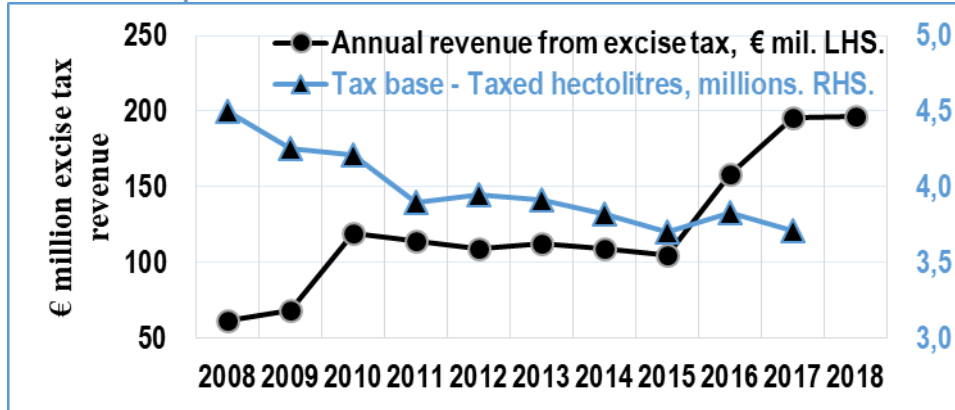


- Tax increases led to a fall in the consumption of legal cigarettes. The latest increase (2017) was pre-announced, thus leading to a one-off expectation driven increase of tax revenue from tobacco in 2016, and an subsequent drop in 2017. Tax revenue stabilized in 2018, but at levels below the pre-tax increase period!
- This is mostly because of an accelerated move towards contraband and counterfeit (C&C) products.
- Greece was in 2017 among the top 3 countries with the highest C&C incidence in the EU, and following the last tax increase it increased even further reaching 23,6% from 18% which corresponds to €690 lost tax revenue for the state.



Source: [Excise Taxes in the EU](#), Ministry of Finance, detailed budget data, [KPMG Project SUN](#), [2018 Stella](#). For budget execution of 2018, given that the 2019 budget no longer offers detailed data for the past years (ie 2018 and 2017) General Purses Office (ΓΑΚ) data has been used with an adjustment to the fact that it is data net of tax returns, while the data of the budget is gross of tax returns. The adjustment is less than 3%.

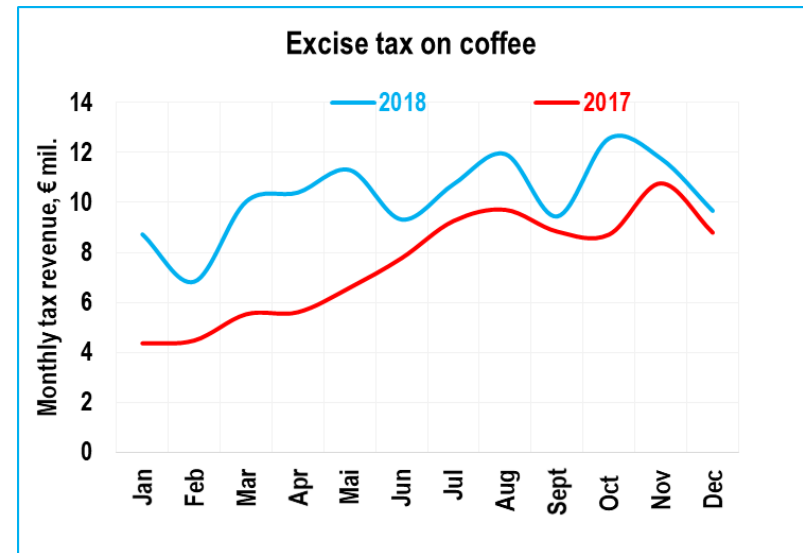
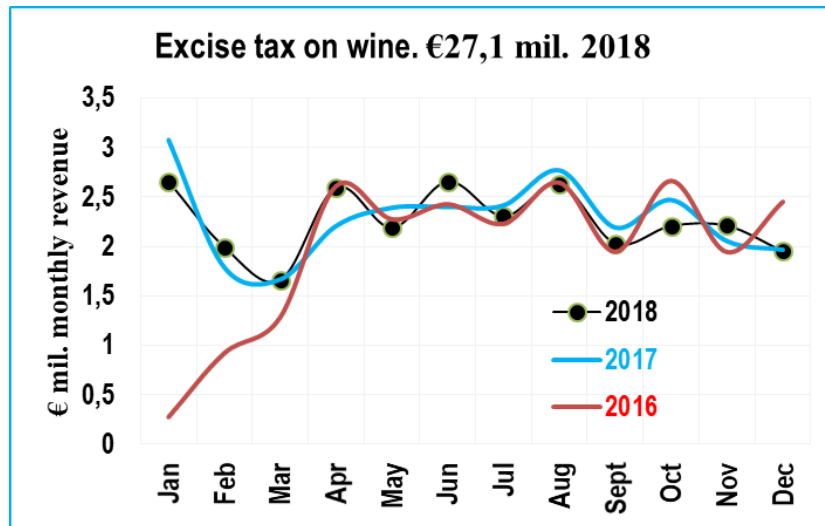
# High taxes on beer: The domestic tax base is now on a solid downward trend.



Source: [Excise Taxes in the EU](#), Greek laws on General Chemical State Laboratory & stamp tax, Ministry of Finance, detailed budget data, data from Greek breweries.

- Excise & VAT has very high contribution in consumer price (>50%).
- Greece, with a large and increasing per capita income gap vs the euro area average, now has among the highest taxes on beer.
- Consumption (ie the primary tax base) is shrinking clearly and steadily, along with the tax-paying economic activity in all the value chain of the sector.
- Brewers absorbed significant part of the taxes.

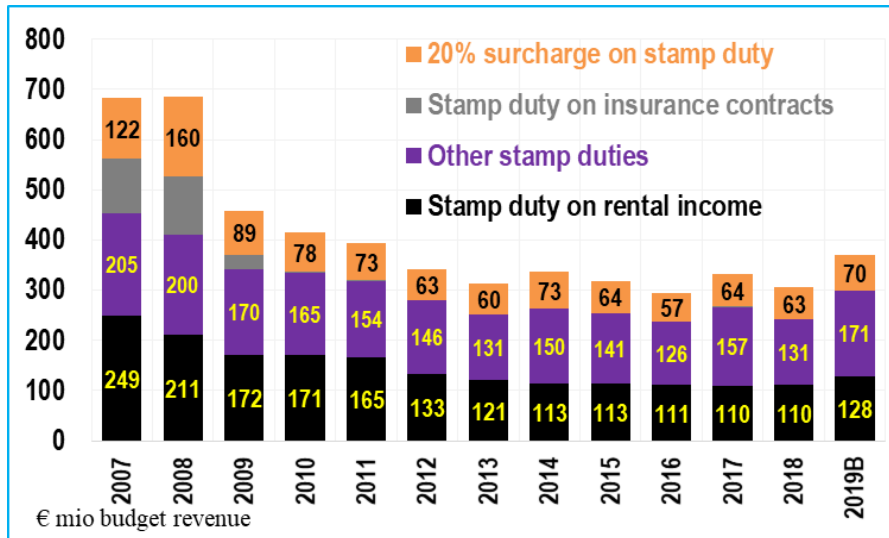
# Excise tax on coffee and wine



Ministry of Finance, detailed budget data. Applies since 1/1/2017 for coffee, and since 1/1/2016 for wine.

- **The tax on wine** has underperformed spectacularly (max €30 mil annual revenue instead of the initially estimated €110 mil, €55 mil. after a swift draft law amendment), pushed small producers towards a black market for wine (!) and punished thrice organized producers, once through the onerous to pay tax, twice through unfair competition and finally through the tax itself. Its recent abolition does not undo its legacy which is that a network for wine smuggling has now been set up and is operating throughout the country.
- **The tax on coffee** (budgeted annual revenue €62 mil, realization €90 mil. for 2017, €122,7 for 2018) is a rare case that has exceeded planned tax revenue, at least for now. But it has also encouraged a gradual emergence of a market for contraband coffee (!). The tax, ignoring its distortive structure regarding sub-categories (very few EU countries have a similar tax). It also results in disproportionate price increases for cheaper coffee, which hurts harder poor households as prices increase and demand drops, and introduces bureaucracy that is especially onerous for SMEs.

# Stamp duty



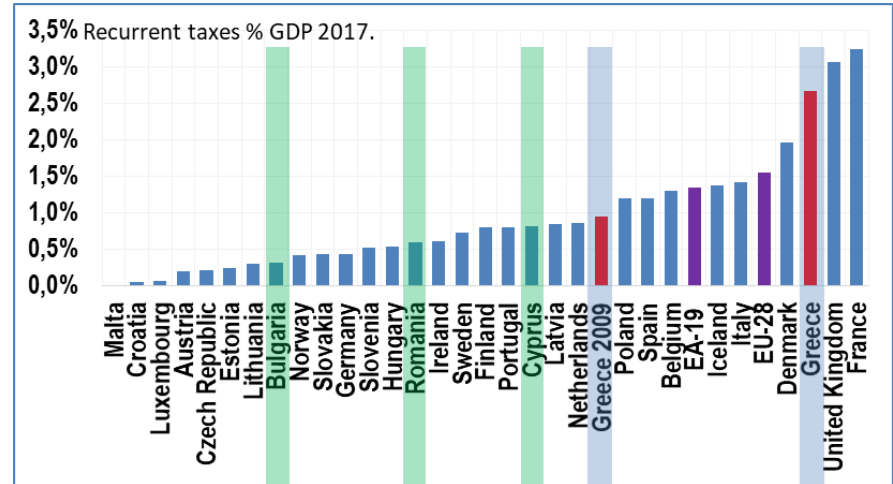
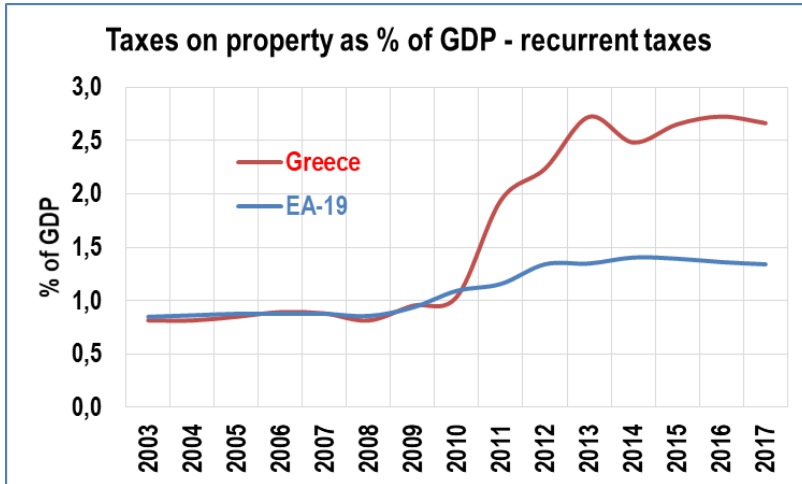
Ministry of Finance, detailed budget data. 2018.

- **The stamp duty is an old tax (dating to 1930 Stamp Duty Code).**
- **It is not a modern tax and it is distortive:** It works like a sales tax, that was replaced by the less distortive in design VAT, which means it adds layers of costs along value chains. It is complicated to administer and often is enforced in patchy ways, leading to an uneven playing field.
- **It is the source of tax uncertainty:** In the context of vague and unstable tax law interpretation, stamp duty has been a benchmark of retroactive implementation of taxation triggering recent court decisions that defend the 5 year stature of limitations.
- It burdens access to finance through non-bank finance like company to company loans and various types of leasing and undermines innovation in company to company contracts because of the possibility that they may be deemed subject to the tax. It is now even levied on restructured loans, in spite of the fact that loans per se are exempt!
- It thus further burdens the restructuring of companies – eg Greece is one of only 4 EU countries that still levy a tax (1%) on the raising of capital (Law 1676/1986, art 17&18).

# Property taxes – a case of critical and as yet underestimated collateral damage of supertaxation

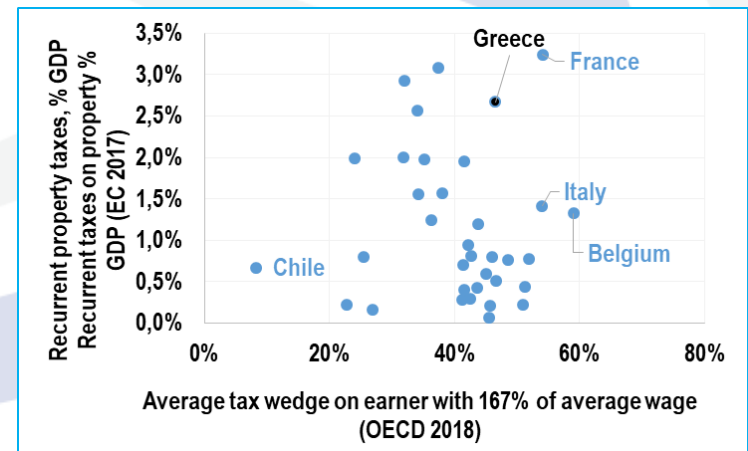
- Rise of recurrent taxes “from zero to hero”.
- Collapse of transaction taxes.
- Trend of tax base erosion, in spite of artificially inflated taxable values, as people give up property and reject their inheritances – a fact that leads to a gradual proliferation of empty buildings in city centers and to deserted properties in the countryside.
- Given the weak enforcement of contracts in the weak-rule of law country of Greece, the loss of commercial interest in property implies that the favorite collateral is no more with severe consequences for the valuation of NPL portfolios and the issuance of new credit.

# Recurrent property taxes

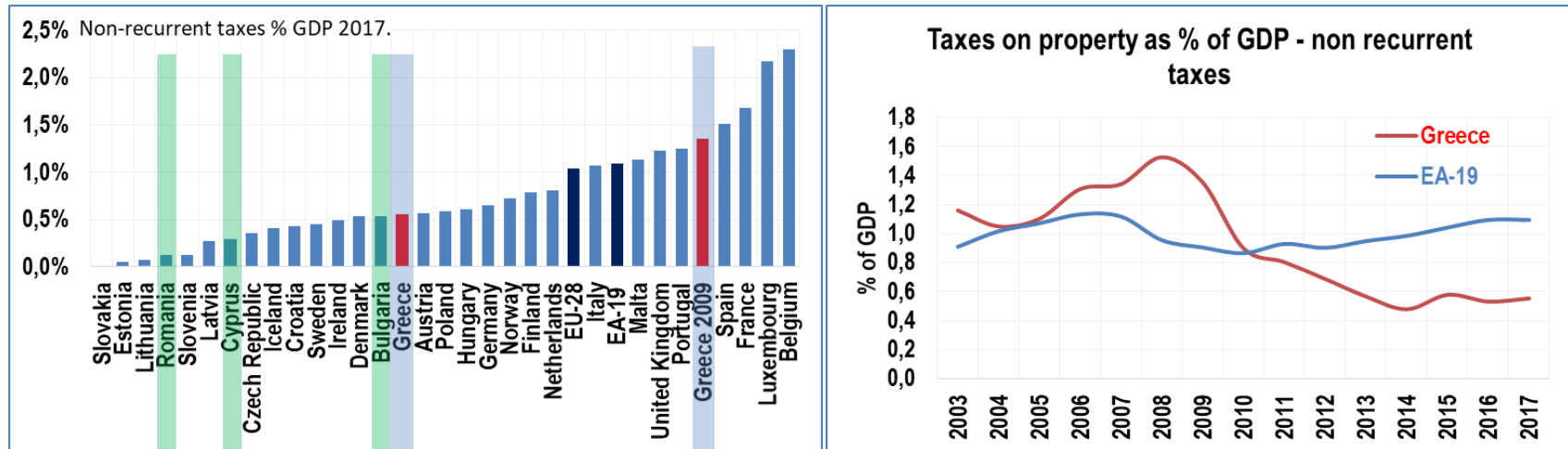


EC Taxation trends in the EU. OECD tax database. Ministry of Finance, detailed annual budget data.

- Before the crisis recurrent taxes were actually close to the EU average, as a result of numerous smaller taxes payable to the municipalities etc and a “rich tax”.
- With the rapid increase of taxes on property ownership Greece has become one of the countries with the highest tax revenue from recurrent property taxes.
- **It is in addition now a rare case that taxes highly both employment and property.**



# Non-recurrent property taxes

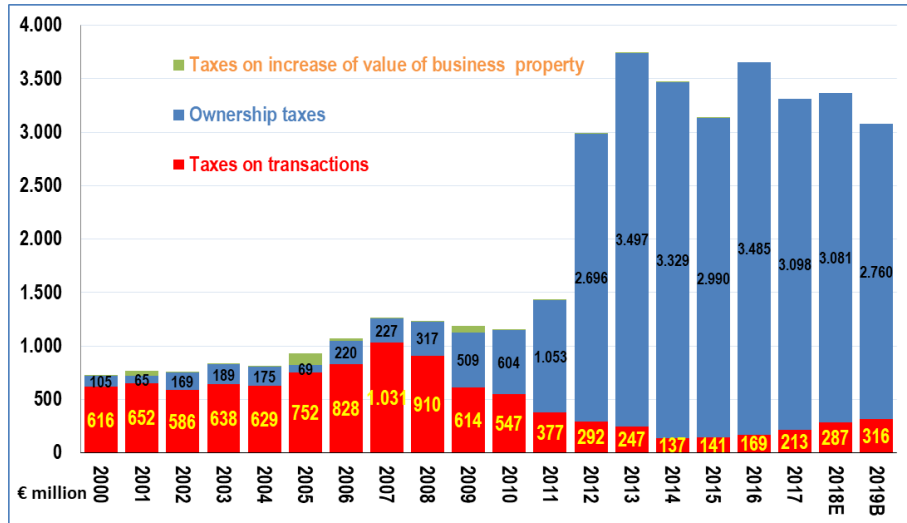
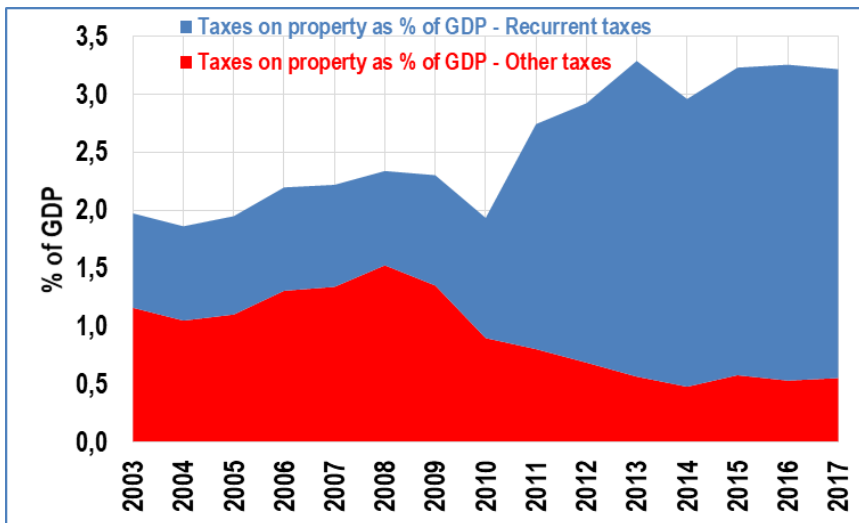


EC Taxation trends in the EU. OECD tax database. Ministry of Finance, detailed annual budget data.

- Before the crisis non-recurrent taxes, mainly taxes from transaction on property, were decently high, close to the EU average.
- The supertaxation of property and a number of other serious policy mistakes contributed to the intensity of the collapse of the market and the large decline of revenue from property transactions.



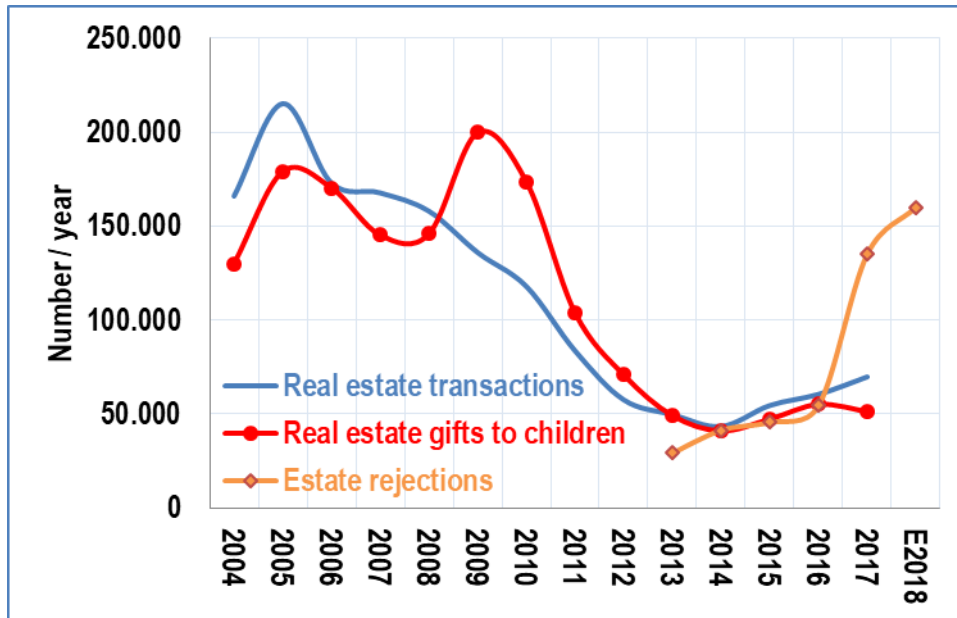
# Tax base erosion in property? It can happen!



EC Taxation trends in the EU. OECD tax database. Ministry of Finance, detailed annual budget data.

- The biggest excesses of the recurrent supertax, that contrary to any notion of rule of law still is imposed on artificially inflated taxable values for most owners, simply compensate for the loss of revenue from real estate transactions that followed the collapse of the market.
- Note that till the onset of the crisis nominal transaction taxes were 11% of the transaction value, but effectively the tax was paid on half to 1/3 of the transaction value, thus the current transaction taxes of 3% now are the about the same level, under the assumption that today transaction prices are truthfully declared in most cases and that an ill-advised and ill-conceived capital gains tax will keep being postponed.

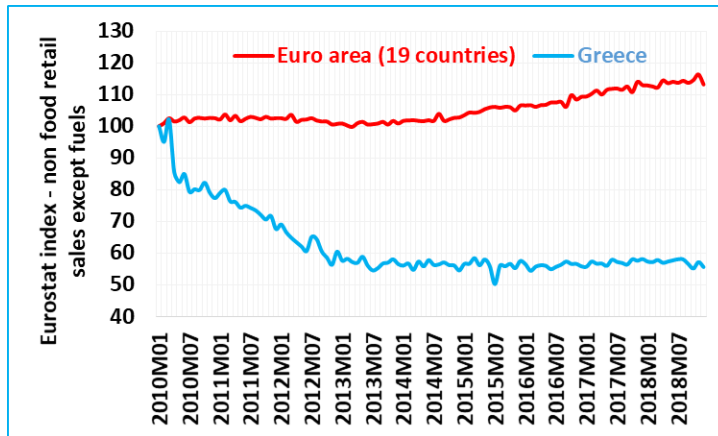
The importance of the property in Greece and property taxes – moving from an unwillingness to buy to active & massive abandoning of property.



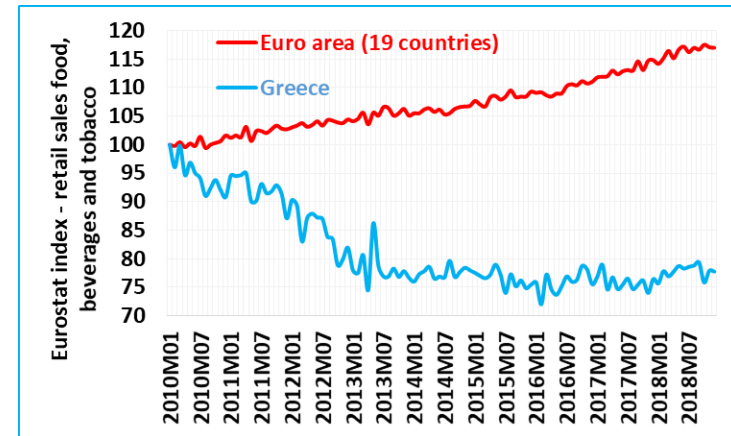
ELSTAT justice data till 2017, estimate based on press reports.

- As owners reject estates and abandon properties, gradually the base of taxable property erodes, even as taxable valuations are kept artificially inflated.
- As contract enforcement is weak in Greece, traditionally real estate used to provide the bulk of collateral. No more, with direct consequences on the evolution of NPLs and the bankability of new companies.

# 5. Over-taxation, retail trends and living standards

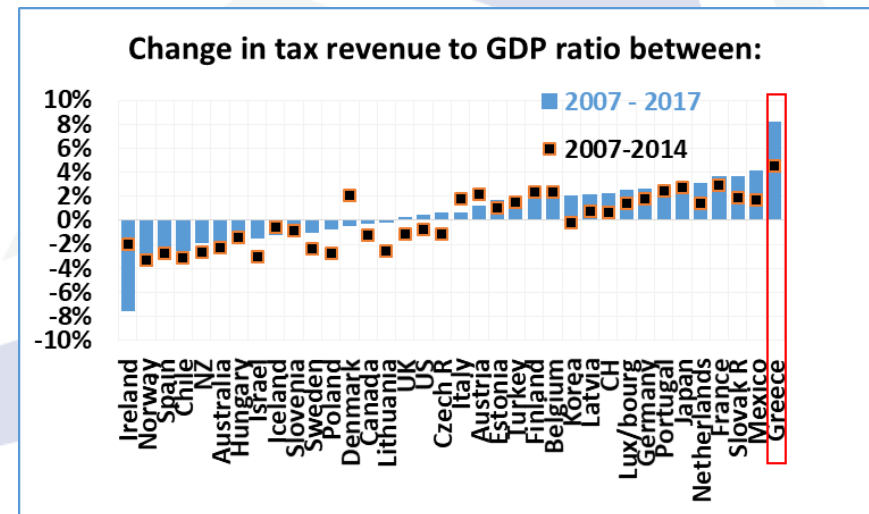


Eurostat, Jan. 2010 = 100.



Eurostat, Jan. 2010=100.

- As a result of uncertainty and consequent loss of jobs and income, decreased access to finance and rapidly increasing taxation (as a percentage of GDP the increase doubled once more during 2014–2017), consumption declined (as an absolute level, not as a % of GDP).
- Non-food and food retail sales reflect this decline, and the failure so far to recover.
- In the end these trends reflect a decline in living standards, both in absolute numbers and vs European peers.



OECD tax revenue statistics 1965–2017

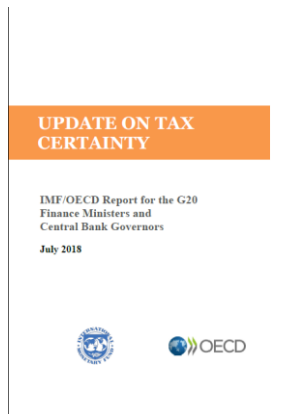
## 6. Taxing innovation and success, punishing failure = lackluster growth.

### Tax innovation & success

- High & progressive tax wedge on wages, stock options and profit distribution to employees.
- High corporate taxes and high cash advances for next-years taxes when profits grow.
- High taxes on distributed dividends.
- Only 5 years to offset losses from innovative startups with future profits & inability to recoup paid taxes (eg VAT) in the case of write downs.
- Administrative uncertainty regarding deductibility of R&D expenses – proposed tax break for income from patents and framework for patent agents is a small positive step.
- General uncertainty regarding deductibility of expenses & consistency of tax audits and now automatic penal charges to company officers when an audit disagrees with deducted expenses.
- Expensive to set up and run legal shell that offers limited liability & transferrable shares.
- Unconditional breaches of limited liability for shareholders and officers versus debts of company towards state.
- Administrative cap on ability to reward researchers that participate in start-ups and commercialization of their research.

### Punishing failure

- In case of pre-bankruptcy write downs, the creditor does not get reimbursed for taxes paid on the invoice that is written down (eg VAT, income tax).
- Uncertain tax treatment of write downs for debtor, as they can be taxed as income.
- Uneven participation of state in write downs, which unfairly puts all of burden on private creditors in all restructuring agreements except those made in the context of the “out of court business debt write down process” recently legislated.
- Creditors have limited control over appointment of bankruptcy trustee and he, in turn, is burdened by slow procedures that destroy value.
- Officers of a failed company automatically and personally become liable with all their property and income for the debts of the failed company vs the state, even if they were not negligent and acted in good faith.
- In addition, they are never released from these debts & thus condemned to professional inactivity for the rest of their lives.
- Release from honest bankruptcy vs private debts entails lifetime exclusion from many professions.



- 2017 OCED–IMF survey for the G–20 & 2018 update stresses how important tax certainty is.
- It regards a) rates and often more importantly b) application of tax law, technical details of the laws, administrative practices.
- It is an important cost for businesses but not a revenue for the state!

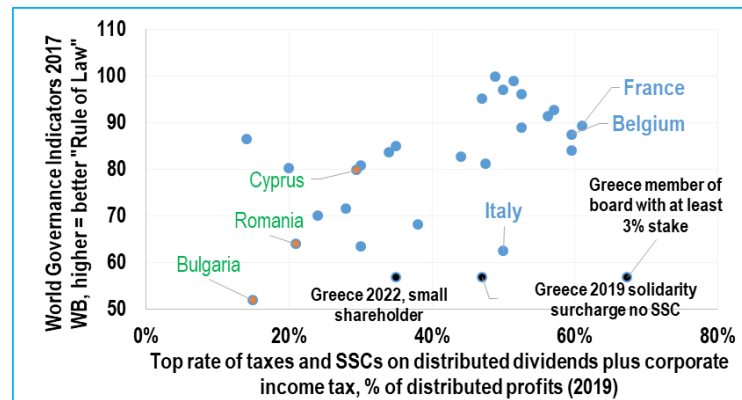
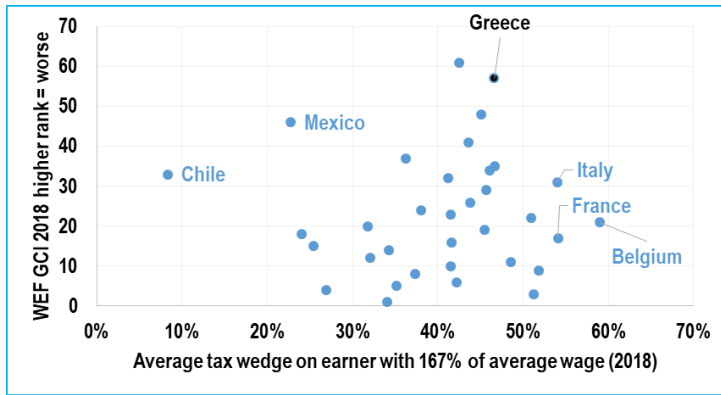
## 7. Tax uncertainty

Examples of tax uncertainty from Greece:

- Suddenly, in the past years audits that interpret differently retroactively changing or vague laws led to indiscriminate penal charges against officers of companies. Only recently a circular appears to have resolved the issue.
- Stature of limitations is vague and constantly changing in Greece and only court decisions have recently contributed to some clarity (latest example a decision on stamp duty).
- Implementation of EU law is often only achieved after onerously going through all court levels (eg tertiary court decision on VAT that has been prepaid on claims that are then written down).
- The tax authorities selectively disregard tertiary court case law.
- For multinationals, double taxation tends to become the new norm!
- Repeated rate changes.

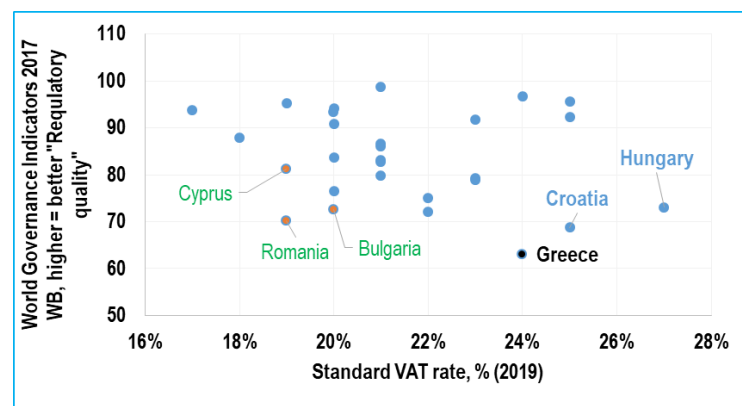
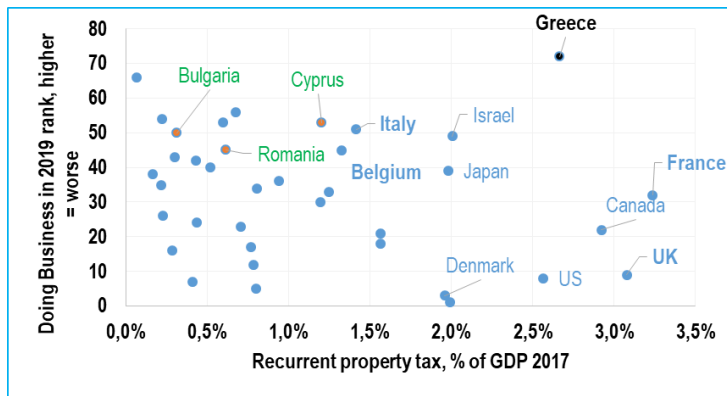
# 8. What does all this mean ?

↑  
Worse



↓  
Worse

↑  
Worse



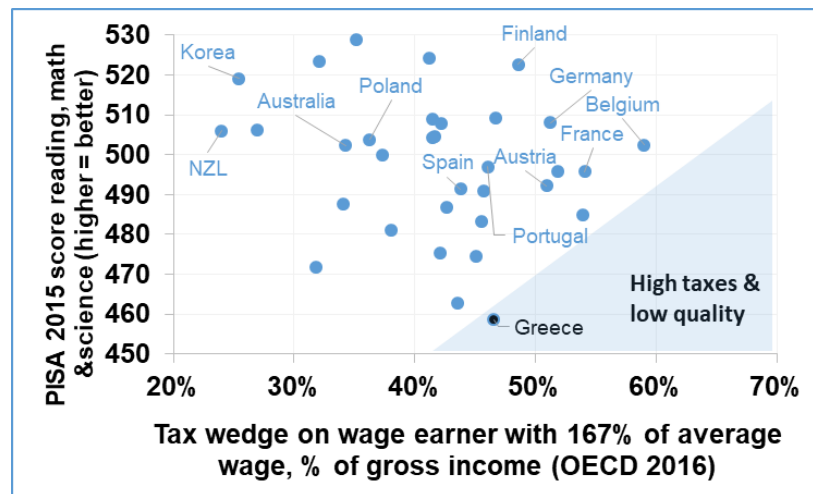
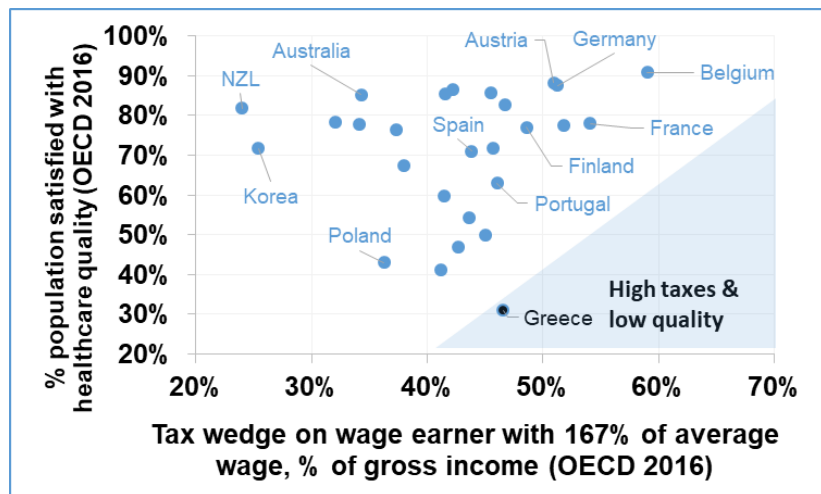
↓  
Worse

→ High taxes

- Greece now is in a unique position. It is a relatively low, for EU and OECD standards, institutional maturity country that taxes very aggressively and progressively innovation, income from labor & investment, property ownership, consumption, key services and energy for industrial use among many other things.
- Other high tax countries do not have high taxes in all the dimensions at the same time, at least have a high level of industrialization and wealth and often face significant social challenges.
- **We have to openly discuss the fact that this probably is not viable.**

OECD 2018 data. Taxation Trends in the EU, EC, 2017 data, Taxes in Europe database, WEF GCI 2018, WB GGI 2017, DoingBusiness in 2019.

# High taxes on work, low quality of health and education services in return.



OECD Taxing wages 2016 for employee with 167% average wage (net annual earnings about €24K). PISA 2015, Government at a Glance 2017, Chapter: Citizen satisfaction with public services and institutions. Average wage in Greece is relatively low (and so is wage at 167% of average wage) exactly because of the high progressiveness of the tax wedge.

- In spite of high and very progressive taxes on wage earners, satisfaction with public health services is the lowest in the OECD.
- In spite of high and very progressive taxes on wage earners, schoolchildren in Greece receive an education that leads to low, for an OECD country, performance.



# Conclusions – A

- Greece is a country of medium institutional maturity.
- But it has among the highest taxes almost everywhere.
- Especially in the case of private sector salaried labor, 1) low incomes are burdened by excessive and non-retributive social security contributions and 2) internationally mobile higher incomes are burdened by a very progressive and high income tax & solidarity surcharge.
- Key inputs, key services and consumption in sectors that are important for the economy are also subject to very high taxes.

**Key message is that to move back into a position that is compatible with sustainable growth:**

- Targeted tax excesses have to be reduced &
- Institutional qualities must be improved / structural reforms must continue / quality of public services rendered in exchange for taxes must improve

# Conclusions – B

## Short recap

High taxes are not by themselves the problem.

But the fact that Greece:

1. Has among the highest taxes in the EU.
2. This is the case with labor, innovation, investment, property, key sectors and happens in an SME environment that easily shifts to the shadow economy.
3. Does not offer commensurate government services, access to finance and regulatory clarity and stability.

**IS A PROBLEM which we have to acknowledge and discuss.**

# Conclusions – C

- Before the crisis Europe emphasized “convergence in incomes”.
- With the crisis it shifted attention to “respect of fiscal rules and stricter supervision of financial institutions”, even if this was, and is, to be enforced in a procyclical way (eg Greece today).
- Before and during the crisis coordination of structural policies in member states remained at below optimum levels.
- The institutional ability of member states to implement quality reforms was and is very uneven.
- There still is no satisfactory strategy to engineer a “convergence” in these critical institutions among member states. **This is an European, not only Greek problem – ie we should look for a way to make Greece and other countries more efficient reformers.**
- In the proposals regarding further steps towards completing the Economic and Monetary Union support for agreed reforms and technical assistance especially with respect to administrative capacity and the business environment are foreseen – as a means to address this issue and support “real convergence”. **This part is of very high importance therefore and we need to focus on it.**

## SEV members are the key corporate leaders in Greece

- **Sectors:** Energy, transport, manufacturing, pharma, metals, food, financial, constructions, technology, chemicals, wholesale, services etc
- **Registry:** 3,500 corporates, including members of 43 sectoral & regional associations.

## SEV direct members account for 50% of the business activity

