IPTI Xtracts

Property Tax and Assessment News from Around the World

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Last chance to declare 'forgotten' square metres in Greek property tax declarations

Greece's Interior Minister Takis Theodorikakos extended the deadline for correcting discrepancies between building coverage declared to municipalities and that declared on the E9 tax form for property.

Home owners have until 30 September to ensure that they are aligned with the laws on declaring property.

Mr Theodorikakos spoke to SKAI television, stating that this was the last chance to add any 'forgotten' square metres to the E9 declaration without having to face fines or retroactive fees. He added that there have been 1,650,000 applications of more than 35 million undeclared square metres submitted so far in Greece.

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"These citizens have saved hundreds of millions of euros in fines and fees over the last five years. The state and local government, on the other hand, will henceforth collect roughly 80 million euros more each year," he said.

Proposals to Lure Foreigners to Greece Highlight Need to Reform Property Taxes

High-net-worth individuals are being identified by tax policymakers these days in various ways. While Portugal recently approved a 10 percent tax on foreign pension income, putting an end to the tax-free regime for foreigners approved during the financial crisis, Greece is looking into attracting foreigners with tax reductions.

In order to transfer their tax residency to Greece, foreigners are required to make a minimum real estate investment of €500,000. To attract high-net-worth individuals, Greek policymakers are looking into reducing the unified property tax (ENFIA) by raising the threshold from €250,000 to €300,000 or €350,000.

Greece is one of the European countries that relies significantly on property taxes. In 2018, all property taxes (including both real property taxes and other property taxes) raised 7.9 percent of Greece's total tax revenue. For European OECD countries, property tax revenue accounted for only 4.6 percent.

Property tax can be an efficient way of raising revenue, especially taxes on real property. This is because real property is not easily hidden from tax authorities and often has sufficient benchmarks for valuation purposes.

However, Greece's real property tax system is extremely complex. The tax has two layers: a principal tax and a supplementary tax. The principal tax on buildings and land is determined by multiplying the square meters by the principal tax and certain coefficients affecting the value of the property.

On top of this principal tax, a supplementary tax applies. Companies will pay an additional 0.55 percent tax on the total value of the property. A reduced rate of 0.11 percent is applied if the property is used for the business' activity.

For individuals, the supplementary tax is a progressive tax that applies on top of the €200,000 established threshold, with a progressive tax rate ranging from 0.1 percent to 1.15 percent.

Apart from the complexity of the multi-layered system, the tax creates a high burden on capital. Although the real property tax burden in countries like Austria, Czech Republic, Luxemburg, or Switzerland represents less than 0.1 percent of the private capital stock, the tax collection in Greece reaches 1.1 percent of the country's private capital stock. Greece also is among eight countries, from the 27 OECD European countries, that doesn't allow businesses to deduct property tax from the corporate taxable income. All these measures increase the cost of capital and could drive businesses to invest in more business-friendly jurisdictions.

The high burden, the complexity, the fact that the property tax is levied not only on the value of the land itself but also on the buildings constructed on it, and being a non-deductible tax, put Greece at a disadvantage when compared with other OECD countries. Greece ranks 33rd out of 36 countries in terms of the Real Property Taxes in our International Tax Competitiveness Index 2019. All this shows that property taxes in Greece should be a target for reform, even before considering the impact on foreigners, particularly in light of Greece's standing relative to other European OECD countries.

Cutting the property tax is not the only measure that Greece has considered to entice foreigners to relocate. A 7 percent income tax for foreign pensioners who move their tax residence to Greece has also been proposed. The 7 percent flat rate would apply to all income including rent or dividends, instead of the local progressive tax rates that could reach up to 45 percent. Additionally, a tax exemption was approved for property transferred to Greece when foreigners relocate to the country. The property is exempt from VAT and registration tax, as long as the person has been a non-resident for the two years prior to the transfer.

Policy changes to attract foreigners are not without benefits, but the Greek government should carefully weigh the costs of the tax incentives against opportunities to implement broader tax reforms in Greece. A policy to attract foreigners can be valuable, but if Greek citizens do not also reap the benefits of reforms, the government risks attracting foreigners while not making Greece an attractive place for Greeks to work, raise families, invest, and build their own businesses.

While reforming the property tax in Greece is a good way of attracting foreigners, Greece shouldn´t miss the opportunity for implementing a greater reform of the property tax that would spur investment and economic activity. In order to reshuffle this intricate property tax, a first step would be to reduce its complexity by eliminating the supplementary tax. Second, the tax paid should be deductible against corporate taxable income. Third, applying the property tax solely on the value of the land would favor renovations and any kind of property improvement, lure in capital investment, and eventually increase productivity and economic growth.

Although a property tax reform that follows these suggestions will impact revenues, policymakers can still focus on improving the structure of the property tax without undercutting the revenue potential of the tax. A more efficient property tax system in Greece is a better objective than just focusing on incentives for foreigners to change their tax residence.

Taxes in Greece

Each country's tax code is a multifaceted system with many moving parts, and Greece is no exception. The first step towards understanding the Greece tax code is knowing the basics.

How does the Greece tax code rank? Below, we have highlighted a number of tax rates, ranks, and measures detailing the U.S. income tax, business tax, consumption tax, property tax, and international tax systems.

International Tax Competitiveness Index

The Tax Foundation' s International Tax Competitiveness Index (ITCI) measures the degree to which the 36 OECD countries' tax systems promote competitiveness through low tax burdens on business investment and neutrality through a well-structured tax code. The ITCI considers more than 40 variables across five categories: Corporate Taxes, Individual Taxes, Consumption Taxes, Property Taxes, and International Tax Rules.

The ITCI attempts to display not only which countries provide the best tax environment for investment but also the best tax environment for workers and businesses.

The Greek Tax System Ranks 30th in the OECD

Sources of Revenue in Greece

Countries raise tax revenue through a mix of individual income taxes, corporate income taxes, social insurance taxes, taxes on goods and services, and property taxes. The mix of tax policies can influence how distortionary or neutral a tax system is. Taxes on income can create more economic harm than taxes on consumption and property. However, the extent to which an individual country relies on any of these taxes can differ substantially.

Corporate Taxation in Greece

The corporate income tax is a tax on the profits of corporations. All OECD countries levy a tax on corporate profits, but the rates and bases vary widely from country to country. Corporate income taxes are the most harmful tax for economic growth, but countries can mitigate those harms with lower corporate tax rates and generous capital allowances.

Capital allowances directly impact business incentives for new investments. In most countries, businesses are generally not allowed to immediately deduct the cost of capital investments. Instead, they are required to deduct these costs over several years, increasing the tax burden on new investments. This can be measured by calculating the percent of the present value cost that a business can deduct over the life of an asset. Countries with more generous capital allowances have tax systems that are more supportive to business investment, which underpins economic growth.

Individual Taxation in Greece

Individual taxes are one of the most prevalent means of raising revenue to fund government across the OECD. Individual income taxes are levied on an individual's or household's income to fund general government operations. These taxes are typically progressive, meaning that the rate at which an individual's income is taxed increases as the individual earns more income.

In addition, countries have payroll taxes. These typically flat-rate taxes are levied on wage income in addition to a country's general individual income tax. However, revenue from these taxes is typically allocated specifically toward social insurance programs such as unemployment insurance, government pension programs, and health insurance.

High marginal income tax rates impact decisions to work and reduce the efficiency with which governments can raise revenue from their individual tax systems.

Capital gains and dividend income—if not included in the individual income tax—are typically taxed at a flat rate.

Consumption Taxes in Greece

Consumption taxes are charged on goods and services and can take various forms. In the OECD and most of the world, the value-added tax (VAT) is the most common consumption tax. Most consumption taxes either do not tax intermediate business inputs or provide a credit for taxes already paid on inputs, which avoids the problem of tax pyramiding, whereby the same final good or service is taxed multiple times in the production process. The exclusion of business inputs makes a consumption tax one of the most economically efficient means of raising tax revenue.

However, many countries fail to define their tax base correctly. To minimize distortions, all final consumption should be taxed at the same standard rate. However, countries often exempt too many goods and services from taxation or tax them at reduced rates, which requires them to levy higher standard rates to raise sufficient revenue. Some countries also fail to properly exempt business inputs. For example, states in the United States often levy sales taxes on machinery and equipment.

Property Taxes in Greece

Property taxes apply to assets of an individual or a business. Estate and inheritance taxes, for example, are due upon the death of an individual and the passing of his or her estate to an heir, respectively. Taxes on real property, on the other hand, are paid at set intervals—often annually—on the value of taxable property such as land and houses.

Many property taxes are highly distortive and add significant complexity to the life of a taxpayer or business. Estate and inheritance taxes create disincentives against additional work and saving, which damages productivity and output. Financial transaction taxes increase the cost of capital, which limits the flow of investment capital to its most efficient allocations. Taxes on wealth limit the capital available in the economy, which damages long-term economic growth and innovation.

Sound tax policy minimizes economic distortions. With the exception of taxes on land, most property taxes increase economic distortions and have long-term negative effects on an economy and its productivity.

International Taxes in Greece

In an increasingly globalized economy, businesses often expand beyond the borders of their home countries to reach customers around the world. As a result, countries need to define rules determining how, or if, corporate income earned in foreign countries is taxed. International tax rules deal with the systems and regulations that countries apply to those business activities.

Tax treaties align many tax laws between two countries and attempt to reduce double taxation, particularly by reducing or eliminating withholding taxes between the countries. Countries with a greater number of partners in their tax treaty network have more attractive tax regimes for foreign investment and are more competitive than countries with fewer treaties.

Greece plans to make buying property for foreigners easier

New incentives for foreigners with means to live in Greece – leaving out many in the Diaspora who can't afford the terms of programs such as Golden Visas and moving their tax base, is being considered by the New Democracy government.

Tax consultants contacted by Kathimerini, said there has been an increase in interest in buying homes in the country, especially from those in cold northern European countries.

The government, eager to get the economy going again to offset the damage of the coronavirus pandemic, wants to make it cheaper for people to relocate to Greece through a range of attractive measures. But some are sceptical about the taxes, especially the hated ENFIA property tax surcharge imposed during the bailout years – the 362 billion euros ($383.9 billion) in rescue packages ended Aug. 20, 2018 but the tax is still there.

Among the thoughts, the paper said, is to raise the tax-free ceiling on the supplementary tax included in ENFIA so as to bring the total property tax down to levels closer to European Union levels. The ceiling is 250,000 euros ($294,823.35) and may be increased to as much as 350,000 euros ($412,752.55) and the supplementary tax will be abolished once ENFIA comes under the jurisdiction of municipal authorities as of 2022.

Earlier the government said it would offer European pensioners a flat tax of 7% no matter their income – it's 28% to 44% for Greeks – if the foreigners moved their tax base to Greece as a condition. To qualify, the pensioner cannot have been a tax resident of Greece in the previous five years before the relocation and must be relocating from a country that has a dual taxation agreement with Greece.

ENFIA to be paid as of September

The calculation of this year's Single Property Tax (ENFIA) dues, which will be the same as last year's but paid in six tranches instead of five, will begin in early September. Therefore the first monthly installment will be due by September 30 and the last by February 26, 2021. Property owners will only be able to access their pay notices as of mid-September.

After the completion of tax declaration submissions, the Independent Authority for Public Revenue will start cross-checking taxpayers' property data with the declarations submitted so as to identify those who fulfill the income and real estate criteria for paying half of the tax this year or be exempted altogether.