

# Political Challenges to Reform Taxation in Greece

Nikos Tatsos  
([ntatsos@panteion.gr](mailto:ntatsos@panteion.gr))

# The economy

- 2000- 2008 : Average GDP growth 4%
- 2009 : Public deficit over 15% of GDP
- Public debt almost 140% of GDP
- Access to financial markets closed - Financing of public debt not possible - Measures desperately needed
- May 2010 : EU/ECB/IMF Econ. Adjustment Program
  - 2010 : Primary deficit reduced almost 5% of GDP

# The economy (cont.)

However:

- Program bound to fail (IMF multiplier and other underlying assumptions wrong)
- Domestic demand reduced
- Output started to decline
- Unemployment rate to increase
- Confidence reduced (doubts about the program)
- Conditions for negative growth spiral
- Since then deep recession
- Both sides a share in the failure

# Main changes in Personal Income Tax

- 2010 : The €12,000 tax free deduction depends on invoices collected
- A system of refund for additional invoices
  - The system too generous
  - Many amendments since then
  - Doubts about net effect on tax evasion (- or +)
- Rate scales (for different sources of income) :
  - 2009, (Two) ,
  - 2010 (One),
  - 2013 (Three),
  - 2015 (One ?)

# Main Changes in Personal Income Tax (cont.)

- Structure of rate scale : Changed every year
- Abolishment of all tax allowances
- Imposition of an “extraordinary levy” (meant to be temporary)
  - 2009 : **Retroactively** to 2007 incomes > € 60,000
  - 2010 : To incomes > € 100,000
  - 2011- : To incomes > € 12,000
  - 2015 : Rate increases
  - Other changes in the tax base since 2009
  - 2016 - : To be incorporated in the rate scale
- Attempts to increase revenues self-defeated

# Capital Gains Tax

2008 : Introduced,

2010 : Abolished,

2012 : Reintroduced,

2013 - : Successive (temporary) postponements  
since then

## Taxation of Profits


- 2009, 2011 : Extraordinary levies
- 2013 : Corporate income tax rate increase from 20% to 26% (EU average 20,5%)
- 2015 : Further increase from 26% to 29%

Other major changes every year (Sometimes **retroactively**)

# Real Property Tax

- Up to 2008 : Progressive real property tax
- 2008 : Replaced by a flat rate tax (1%) on all real properties
- 2010 : Replaced by a progressive tax on large real property holdings
- 2011 : Imposition of an area based property tax on property holdings connected to electricity
- 2013 : a) Replacement of 2011 and 2010 taxes by a unified tax to all real properties, b) Progressive surcharge on property holdings > € 300,000

# Real property tax (cont.)

- Real property revenues increased by more than 600% (highest as % of GDP in the EU) at times of deep recession
- No official record of real property holdings (cadastre)
- Problems with the “fiscal cadastre” (self assessment)
- Out-of-date real property values  Overtaxation
- The momentum not the best one
- Negative distributional effects
- **A tax every Greek hates**



# Indirect taxes

- 2010-2013 : VAT rates raised three times (Standard rate in Greece, 23% - EU average, 21,5%)
- Rate increases : Standard rate by 22%, Reduced rates by 44%
- VAT base broadened
- Products and services transferred to higher rates
- VAT base decreased by 45 billion – VAT revenues decreased 24%
- 2015 : New increases in VAT
- Excise rates increased up to 1,471% - Revenues in 2015 lower than in 2008

# Tax Debt

- End 2009 : Tax debt €33 billion
- After 2009 measures to better target debt cases
- Pressure for additional revenue at times of recession and tough austerity measures
- Temporary revenue increases - Negative medium term effects – “Tax collection trap”
- Shifting of the growing problem to next administrations
- 2015 : Tax debt increased to €80 billion

# Tax Evasion

- Tax evasion driven by costs and benefits
- Benefits : high tax rates  $\longrightarrow$  high benefits  $\longrightarrow$  high tendency for tax evasion
- Tax rates very high in Greece (IMF) - Further increases during the economic crisis
- Cost side : a) Probability of being caught,  
b) Penalties imposed
- No replacement clause – Less tax auditors -Less experienced auditors - Less incentives
- Incompatibility among measures agreed

## Tax Revenues (million €)

<b>Taxes</b>	<b>2008</b>	<b>2014</b>	<b>% Change</b>
Personal income tax	10,816	8,224	-24,0
Corpor. income tax	4,211	2,806	-33,4
Property taxes	486	3,432	606,2
Other direct taxes	5,350	6,934	29,6
Value added tax	18,243	13,892	-23,9
Excise tax on energy	2,299	2,276	-1,0
Other indirect taxes	9,680	8,060	-16,7
<b>Total tax revenues</b>	<b>51,085</b>	<b>45,624</b>	<b>-10,7</b>

# The untouched areas of reform

- Subordinate government tax system – fiscal decentralization issues
- Taxes “on behalf of third parties”
  - Unknown and hidden in the chaotic legislation
  - At least 655 taxes & 1,011 beneficiaries (in 1995)
  - As if Greece having an official and an unofficial budget
  - Serious harmful effects on the economy
  - Political risk for reform high. No fast pay-offs

# Taxes on behalf of third parties :

## Distribution of revenues

<b>Social Security (S.S.) Fund</b>	<b>% of S.S. contributions</b>	<b>€ per beneficiary</b>
PPC staff welfare fund	183.2	3,018.8
TV staff insurance fund	849.5	20,626.0
Journalist sup. insurance fund	641.9	6,547.8
Heavy metal personnel fund	0.46	1.94
Chemists insurance fund	0.14	1.49
Health officers insur. fund	0.002	0.11

# The asymmetry of fiscal adjustment

- 77,0% of fiscal destabilization due to the expenditure side - 72,4% of the adjustment due to the revenue side
- Severe asymmetry - no counterbalanced measures
- Recessionary measures while in recession
- No lost lasting solutions - Short run benefits obstacles to enhancing efficiency measures
- Harmful distributional effects
- Negative connotation of “tax reform” to the public

# The lost opportunity for reform - Conditions for reform

- The economic crisis no sufficient condition for tax reform
- A good tax reform needs time and,
- Favorable reform momentum,
- Strong will for reform from all parties involved,
- Strong cohesion of the government,
- Persistence,
- Electorate mandate for reform or visible benefits very rapidly

**None of the above prerequisites was fulfilled  
in Greece**