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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

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Subject: Real Estate Property tax (ENFIA) - time of recording

Reference: Your letter Γ1-1401 of 08/12/2015

Dear Ms. Stavropoulou,

Thank you for the letter requesting Eurostat opinion on the time of recording of the Real Estate Property tax (ENFIA). After examining your request, please find below Eurostat's view on the time of recording to be followed for this tax in annual and quarterly accounts.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The Real Estate Property tax (ENFIA) was introduced by Law 4223/2013 from year 2014 and for each subsequent year. The tax is levied on real estate located in Greece owned on 1st January each year by natural and legal persons and legal entities of any kind.

The ENFIA tax has been recorded in national accounts as other taxes on production (D.29), as it is a current tax on the owners of immovable property, which, in national accounts terms, are considered to be leasing the property (either to tenants or to themselves through imputed rentals – own account production of housing services).

According to the initial law, the tax is collected during the period from the month following the assessment of the tax until December of the reference year. Although ENFIA in each year is not a result of a separate legislation, every year there is a special provision describing the mechanism for collecting the tax and for setting the tax rates.

Following the above, for the ENFIA tax of the year 2014, there was a special provision in August 2014 specifying that ENFIA of 2014 will be paid until February 2015 (and not until December 2014, as should have resulted from the original law). Similarly, for the ENFIA tax of the year 2015, there was a special provision in August 2015 specifying that the first

instalment would be paid from October 2015 and the last instalment would be paid until February 2016.

In practice, in 2014 and 2015, the tax has actually been collected from September/ October of each year. Notwithstanding legal deadlines, although the last instalment for year T is foreseen to be paid until February of year T+1, in practice, non-negligible amounts have been collected also in the following months of year T+1. For instance, an amount of around EUR 150 mn related to the ENFIA tax for the year 2014 was collected between the months of March and July of the year 2015.

In the context of the recording of this tax in national accounts, the first issue which needs to be clarified is the correct time of recording, and more specifically whether to follow a time-adjusted-cash method with a time lag of T+2 months or whether the time lag could be extended for more than two months, so as to accrue back to year T all further amounts collected in T+1 but related to the tax of year T (in practice, fully applying the accrual principle). In its analysis, ELSTAT has proposed the first option.

The second issue to be clarified is the approach to be followed in the quarterly accounts for the recording of ENFIA tax. ELSTAT has proposed to spread the annual amount of the tax equally among the quarters. This approach proposed by ELSTAT for the quarterly accounts implies that in the accounts of Q1, Q2 and Q3, an estimation by GAO would be used instead of the time-adjusted-cash method, as following the option proposed by ELSTAT for the annual accounts, the final figure for the annual tax would be available only in March of year T+1.

2. METHODOLOGICAL ANALYSIS

2.1 Recording in the annual accounts

The legislative interventions for 2014 and 2015 determine from a legal point of view a time lag of two months (January and February) for the receipts of year T. In this respect, it seems reasonable to consider a time-adjusted-cash method with a two month time lag and to treat amounts received after February of year T+1 on a cash basis (thus imputing them in year T+1 and not in year T). Such time of recording would be in line with the general rule followed in Greece for other taxes recorded as D.29.

Although certain amounts for late payment related to the ENFIA tax of year T are collected after February of year T+1, the amounts collected after the legal deadline of February are generally small and represent a minor percentage of the collection of the total tax.

Besides, it should be noted that late payments often occur after the legal deadline also for other taxes and that this is not a reason for extending the time lag of the TAC method or for accruing amounts back to the reference year.

Finally, with a time lag of two months, the amount of ENFIA tax for year T will be known with certainty at the time of the EDP Notification of March T+1, avoiding the revisions that could occur if instalments paid after February T+1 would be accrued back to year T (and potential imputations based on estimations of instalments to be paid after February of year T+1 in relation to year T).

2.2 Recording in the quarterly accounts

According to the rules developed by the GFS TF, the general rule for recording land and property taxes on a quarterly basis is that the annual amounts are accrued to the four quarters of the reference year, aligning with the amount recorded in the annual accounts. Normally, it means that the amounts are distributed over the 4 quarters equally.

However, if the tax is payable in lump sum payments for a global amount which is unknown at the end of the first quarter of the year to which the tax will relate, it is acceptable not to accrue to the four quarters. Rather the tax is recorded in the quarter when it is due for payment.

It is the view of Eurostat that the calculation for the ENFIA tax is specific for each year, and that it depends on different rates and parameters, which are not known beforehand and which are established in special provisions enacted during the year (in 2014 and 2015, the special provisions were enacted in August). It would seem that the liability for the tax payer would be uncertain in terms of amount until the amounts are assessed (normally around September).

In Eurostat's view, the ENFIA tax cannot be assimilated to property taxes that have an annual tax base and are collected unevenly during the year. Rather, the ENFIA tax could be assimilated to a series of one-off taxes.

The option of spreading the annual amount of the tax equally among the quarters based on an estimation would imply that a time-adjusted-cash method would not be applied for the quarterly accounts, meaning that the time of recording used would not be consistent between the annual and quarterly accounts.

For all these reasons, Eurostat would rather favour a quarterly time of recording for this tax only at the moment the tax is assessed. This would imply, depending on the year, that amounts are recorded only from the third (if instalments start in September) or fourth quarter (if instalments start in October) in each year. The instalments paid in January and February of T+1 should be accrued back to the fourth quarter of year T. Similarly to the recording for the annual accounts, the amounts paid after February of year T+1 should be recorded on a cash basis. This approach would be consistent with the time-adjusted-cash method recommended for the annual accounts.

3. CONCLUSION

Based on the above analysis, Eurostat considers that:

- The time of recording followed for the ENFIA tax for the years 2014 and onwards should be based on a time-adjusted-cash method with a time lag of two months. Amounts received after February of T+1 should be recorded on a cash basis and should not be accrued back to year T. This coincides with the treatment proposed by ELSTAT.
- The quarterly time of recording should be based on the moment the amounts are assessed. This would lead to the recording of amounts exclusively from the third or fourth quarter of each year. The instalments paid in January and February of T+1 should be accrued back to the fourth quarter of year T and the amounts paid after February of year T+1 should be recorded on a cash basis. This approach is preferred to the treatment proposed by ELSTAT, based on spreading equally among the quarters the annual amount of the tax.

The above treatment should be applied from 2014 onwards. Therefore, the data transmitted in the annual and quarterly accounts in September 2015 should be revised accordingly.

4. PROCEDURE

This preliminary view of Eurostat is based on the information provided by the Greek authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information currently available and the assumptions made above, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States on its website. In case you have objections to the publication of this specific case, we would appreciate if you would let Eurostat know *before 10 January 2015*.

Yours sincerely,

(e-Signed)

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Director