

New Property Tax Developments in Greece

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Property tax barriers are being addressed by the government

The legal and tax framework in Greece have for many years kept the Greek property market from developing to its full potential. A heavy tax system combined with a plethora of legal bureaucracy “turned off” many investors as the infrastructure hid various substantial taxes, costs and significant delays. As a result the property market has suffered for decades.

Luckily, the problem has finally been addressed by the government. In recent years a series of decisions have been taken towards what seems to be the right direction. The first major change was the re-establishment of capital gains tax for transfers involving properties acquired on or after January 1st 2006. This was the first positive step as it balanced the burden of tax from the buyer (which could go as high as 11% of the property’s valuation price for Attica properties) to a mere 1% while also attaching a progressive 0 to 20% tax to the seller’s capital gains (who was not taxed at all during a sale). Another tax reform that has had an indirect yet significant effect to the property market is the gradual reduction in corporate tax from 35% in 2004 to 25% in 2007.

Valuation Price

The past as well as the current changes are of course based on the objective or valuation price of the property. Greece has a complicated system for the valuation of property but has been the only standard for the government to be able to control the amount of tax to be levied. Traditionally, valuation prices have varied from the actual purchase or market price by as much as 100%. This of course is the reason that transfer taxes were so high since the actual selling price of property could not be monitored. Through the establishment of a gradual rising of these values (varied by area) the objective values have closed the gap from the market values thereby increasing control and making a change to the tax regime an absolutely necessary next step.

The new tax changes

In mid-December the government proceeded to yet another series of changes that promise to help in gradually rejuvenating the sector. This streamlining process is aimed to yield market growth via legal and tax simplification. These include the following two major

changes that are likely to affect the largest part of the population involved in the property market:

1. Inheritance and parental grant tax reductions down to 1%

A major thorn not only for Greeks in Greece but also for Greeks living abroad has been the inheritance and parental grant tax system. These varied from 5 to 30% depending on various factors including the number of children or siblings involved in the transaction. The complex calculation method and heavy tax has been reduced to a mere 1% flat tax based on the property value tax system for the portion of the value above 95,000 EUR for relatives of the first-degree and 20,000 for relatives of the second degree. For example, in an inheritance from parent to child for a property valued at 100,000 EUR, the inheritor is only liable for the tax exceeding 95,000 EUR. Therefore he/she will be taxed 50 EUR (1% of 5,000 EUR).

2. Changes in tax for the acquisition of a first home

The new changes have also favored an already positive tax option for individuals acquiring property as their first home. The previous system allowed for the levying of tax only for the portion of values above 85,000 EUR of the property's valuation price. The new tax takes this a step further to allowing the free-tax bracket to be based on square footage rather than value. Therefore, any individual that purchases a property less than 200 sq. meters (approximately 2000 sq. feet) as a first home does not have to pay any tax on that property. This change is significant as few homes in Greece, especially those purchased by first-time buyers, are larger than 200 sq. meters. However it will produce some odds results in certain unique cases.

For example, an individual may purchase a first home for 1,000,000 EUR but pay no tax so long as the property is smaller than 200 sq. meters in surface area. However, an individual that purchases a 300 sq. meter home for 100,000 EUR will pay tax, but only on the portion of the surface area that exceeds the 200 sq. meter point.

Impact of the new regime

Greece currently holds one of the highest rates of ownership in Europe (approximately 80%). Greeks have always viewed property as a favorable vehicle for investment albeit conservative by many standards, the market has at least proven itself to be stable. With the new tax regime the government is certainly aiding liquidity in the market which will no doubt also help maintain what is considered to be a high mortgage level growth.

These changes however are not without a blemish. As mentioned above the government has also made significant increases to

the valuation prices, in some areas higher than 35% of the current values. Obviously this will affect the final tax paid by all investors; however, the negative effects of the rise in objective values is still remarkably less than the benefits to be derived from the new tax drops.

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