

# GMS Flash Alert



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## Greece - More Details on Tax-Free Amount for Expenses, 5% Withholding Tax

Recently the Greek tax authorities published Circular 1147<sup>1</sup>, providing clarifications on amendments to the tax legislation contained in Bill 4549/2018 (now Law 4549/2018). Of particular note is the special 5-percent withholding tax which has been introduced and applies to the net remuneration of employees paid on a “daily wage” basis and who provide services for a fixed period shorter than one year. We reported on this and some of the other amendments in GMS [Flash Alert 2018-104](#) (3 August 2018).

The amendments contained in our previous [report](#) will apply from 1 January 2018 (but, according to the Law and Circular, from 14 June 2018, for the 5-percent withholding tax).

As a reminder, in GMS [Flash Alert 2017-073](#) (21 April 2017), we reported on Greece’s Law 4446/2016, which amended the country’s tax system providing for: (i) a person’s tax-exempt income to be linked to the minimal value of spending he or she undertakes via electronic means; (ii) the postponement of capital gains tax on real estate sales (which was further extended up to 31 December 2018 according to Law 4509/2017); and (iii) modifications to the taxable benefit-in-kind related to company cars.<sup>2</sup>

In this GMS *Flash Alert*, we provide additional details about the 5-percent withholding and the tax-free income linked to the minimum value of expenses a taxpayer incurs.

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### WHY THIS MATTERS

The method of assessing individual income tax has changed significantly in Greece, taking into account an individual’s expenses via electronic means to determine his or her tax-free income before a tax liability arises. Moreover, the 5-percent withholding tax is intended to help ensure that at least a minimal amount of tax is captured from those that get paid on a daily-wage basis.

These measures could impact a taxpayer by raising or lowering his or her tax burden depending on the particular facts and circumstances.

## Tax-Free Amount Related to Expenses (refer to GMS [Flash Alert 2017-073](#), 21 April 2017)

As of 1 January 2017, what is deemed tax-free income is linked to a minimum value of expenses that a taxpayer incurs (provided that payment is effected by electronic means) depending on the individuals' level of income. Tax-free income has been linked to a minimum value of expenses as a means of combatting tax evasion in Greece, especially in light of the level of non-reported cash transactions. Electronic payments include using any debit, credit, or other kind of charge cards, e-banking, etc. (where no cash payments are involved) to pay for a good or service.

Electronic payments are defined by reference to the means of payment and are not limited to online purchases.

To promote this manner of payment, a "discount" on tax is given as an incentive. A progressive scale applies for the determination of the income tax reduction related to these electronic transactions. In particular, the levels of expenses that must be effected via electronic payment in order to secure the tax reduction are as follows:

- spending by electronic means of 10 percent of income for annual incomes up to EUR 10,000;
- 15 percent of income for incomes from EUR 10,000.01 up to EUR 30,000;
- 20 percent of income for incomes exceeding EUR 30,000, with a maximum value (ceiling) of spending of EUR 34,000, regardless of income level.

In case taxpayers do not achieve the spending levels above-noted, a tax of 22 percent is imposed on the difference between the amount "required" (noted above) and the amount declared.

Medical expenses paid via electronic means are taken into account for the calculation of the tax.

## 5-Percent Withholding Tax on Wage Earners (refer to GMS [Flash Alert 2018-104](#), 3 August 2018)

A special withholding tax of 5 percent is introduced on net remuneration for employees:

- who are paid on a "daily wage" basis; and
- who provide services for a fixed period shorter than one year.

This also applies to tour guides who are subject to the provisions of article 37 L.1545/1985.

The new provision **entered into force as of 14 June 2018** (the Law's publication date in the Government Gazette).

## FOOTNOTES:

1 To see the Circular (in Greek), click [here](#).

2 Law 4446/2016 (Government Gazette A 240/22.12.2016) on "Bankruptcy Code, Administrative Justice, Duties - Fees, Voluntary disclosure of undeclared income, Electronic transactions, Amendments of Law 4270/2014 and other provisions."

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**The information contained in this newsletter was submitted by the KPMG International member firm in Greece.**

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