

Tax - Breaking News

May 2016



Consistent with our commitment to provide current information on tax issues, we summarize below the most important tax amendments introduced LAST NIGHT by Law 4387/2016 (Government Gazette A 85/12.05.2016) on “Unified Social Security System – insurance and pension system reform – Income tax and gambling games regulations” and, Law 4386/2016 (Government Gazette A 83/11.05.2016) amending the treatment of research and development (R&D) expenses.

Law 4387/2016

Individual Income Tax

Income tax rates

- The new tax scale on salaries and/or pension income (hereinafter income):

Income bracket in EUR	Rate %
0 – 20 000	22%
20 001 – 30 000	29%
30 001 – 40 000	37%
40 001 and higher	45%

- The tax credit on income up to EUR 20 000 is set as follows:
 - EUR 1 900 for taxpayers without children
 - EUR 1 950 for taxpayers with one child
 - EUR 2 000 for taxpayers with two children,
 - EUR 2 100 for taxpayers with three children.
- Where the income exceeds EUR 20 000, the amount of the tax credit is reduced by EUR 10 (instead of 100 as it was initially stipulated) per EUR 1 000 income. The amount of EUR 10 seems strange but it is what is published in the Government Gazette.

- The above tax scale is also applicable to the net taxable profits of individual entrepreneurs and freelancers. However such individuals are not eligible for the tax credits applicable to pensioners and employees.
- The above tax scale and tax credits are also applicable to individual farmers. The previous 13% special tax regime is abolished.
- In case of a taxpayer earning income from pension, employment and farming activity, the applicable tax credit is calculated on the aggregate income reported. However, where a taxpayer earns income from other sources, the tax credit will be calculated only on the income from pensions, employment and/or farming.

Taxation of dividends

- The tax rate on dividends is increased from 10% to 15%.

Since the law provides that the new rate applies retroactively from 1 January 2016, clarification is expected concerning the tax treatment of dividends that may have already been distributed with a 10% withholding.

Taxation of rental income

- Rental income is taxed at the following tax rates/brackets:
 - 15% (increased from 11%) for income up to EUR 12 000;
 - 35% (increased from 33%) for income from EUR 12 001 and up to EUR 35 000, and
 - 45% (new rate/bracket) for income exceeding EUR 35 000.

Special Solidarity Contribution

- The special solidarity contribution is incorporated into the Income Tax Code and applies on all taxable income (i.e. earned taxable income, investment income, i.e. dividends, interest etc). The new progressive scale is as follows:

Aggregated Income in EUR	Rate %
0 – 12 000	0%
12 001 – 20 000	2,2%
20 001 – 30 000	5,00%
30 001 – 40 000	6,50%
40 001 – 65 000	7,50%
65 001 – 220 000	9,00%
220 001 and higher	10,00%

Corporate income tax

- The income tax rate applying to business profits earned by partnerships, cooperatives, joint ventures etc. who maintain single entry accounting books changes to a flat rate of 29%. It is noted that in accordance with the provisions of Law 4334/2015 the effective corporate income tax rate for legal entities (such as SAs, EPE) is 29% and this rate applies for profits arising in fiscal years commencing on or after 1 January 2015.

All of the above amendments are applicable on income earned as of 1 January 2016 onwards. Specifically, the withholding (but not the ultimate liability) of the newly introduced scale of special solidarity contribution on pension and employment income becomes effective upon publication of the law in the Government Gazette.

Taxation of gaming gains

- The special duty of EUR 0.05 per column imposed on OPAP SA games is abolished retroactively to the time of its initial introduction.

Law 4386/2016

Research and Development (R&D) Expenses

The provisions regarding R&D expenses were amended as follows:

- R&D expenses which are tax deductible from gross business income in the year they are incurred increased by 30%, explicitly now include depreciation of the necessary machinery and equipment used for the purposes of research and development performance.
- The tax depreciation rate for equipment and machinery used for research and development purposes is set at 40% per financial year.

It is noted that there is ambiguity regarding the application of the new provisions regarding R&D expenses whose deduction has already commenced in previous years since the amendments come into force on the date of publication of the law in the Government Gazette in the absence of a specific provision concerning their effective date. Finally, the criteria of the specific research and development expenses will be determined by a Joint Ministerial Decision.

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This Newsletter aims to provide the reader with general information on the above-mentioned matters. No action should be taken without first obtaining professional advice specifically relating to the factual circumstances of each case.

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