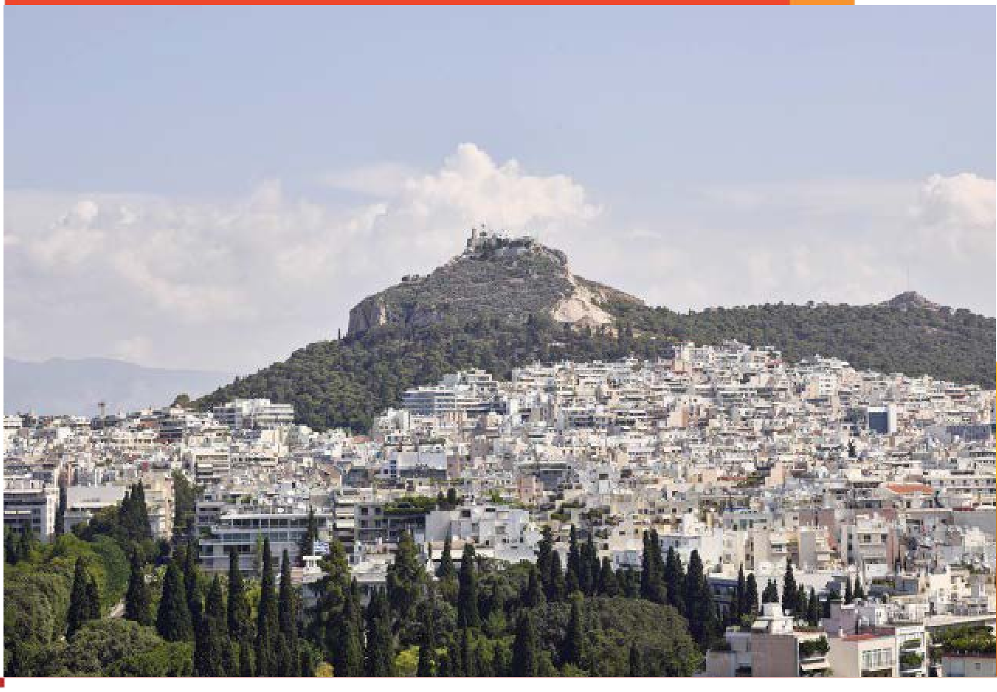
www.pwc.gr

Greek real estate taxation: a brief summary

May 2018



pwc

In Greece real estate property has always constituted a key source of taxation. This trend has increased the last few years under the pressure of the fiscal austerity program and the urgent need to boost the country's fiscal revenues.

The following sections aim to summarise the key taxes applicable and the main tax considerations arising from the acquisition, ownership and exploitation, as well as disposal of real estate property in Greece, with emphasis on investment property, in the broadest possible sense. It is noteworthy, however, that one of the key characteristics of Greek real estate taxation is that tax rules are in many instances similar both for small private residential ownerships, and for large investment projects. However, this report is mainly focused on investment-type properties typically held by corporate vehicles, and aims to highlight the key relevant tax areas.

Before proceeding with this analysis, the following table outlines the key real estate taxes in a nutshell; number of taxes notwithstanding, we do believe that proper structuring has in several cases successfully assisted investors in treading the difficult Greek fiscal path.

Tax Description	Rate	Tax Base	Comments
Corporate Income Tax	29%	Normal taxable profits of company, including gains from sale and rental income	To be noted that the said rate may be reduced to 26% as from FY19 subject to the Greek State meeting several conditions (Law 4472/2017).
Dividend WHT	15%	Dividends distributed by Greek companies	
Real Estate Transfer Tax	3.09%	On the higher between market and objective value of real estate property	Normally, the transfer cost is increased by various incidental transfer costs (such as land registry, notarial fees) – however, such costs do not apply when shares in a real estate rich company are transferred
VAT	24%	Transfer value for "new buildings" (subject to certain caveats)	This is a tax that applies to new buildings; where VAT applies there is no Real Estate Transfer Tax.
Uniform Real Estate Property Tax (ENFIA)	0,0037-11,25 €/sq. (principal tax)	By multiplying the square meters of the land by the principal tax and other coefficients affecting the value of the property	Imposed on an annual basis. Moreover, a supplementary tax is calculated for legal entities holding real estate property in Greece at a standard rate of 5.5‰ on the total tax value of the subject property rights. For companies, which self- use the property for the exercise of their commercial activity the supplementary tax is reduced to 1‰. For individuals the supplementary tax is imposed at a progressive tax rate ranging from 0,1% to 1,15% and provides for a tax free amount of 200.000 € of the total value of property rights subject to EN.F.I.A., excluding the value of plots outside urban planning (agricultural plots) for year 2018.
TAP (municipal duty)	0,025% - 0,035%	Objective (i.e. minimum tax value) of real estate property	Municipal duty charged through electricity bills
Special 15% tax	15%	Objective (i.e. minimum tax value) of real estate property	Normally is imposed only on cases of inadequate disclosure of ultimate individual owners of the real estate property

Taxes on acquisition

VAT

A 24% VAT applies on the sale of new buildings in Greece by persons subject to VAT. The taxable value is the price that the taxable person received or is deemed to receive or is anticipated to receive, increased by any additional provision connected with the abovementioned transaction. Certain minimum values may apply depending on the case.

In particular, a supply of real estate subject to VAT is considered to be the transfer for consideration of ownership or rights in rem of buildings or part of buildings and the land on which they stand, before their first occupation. The above transaction is taxable only when the following conditions are fulfilled:

- The person who transfers is a taxable person, or anyone who carries out, on an occasional basis, the aforementioned transaction on condition that he opts for the standard VAT regime;
- The construction licence is issued after January 1, 2006

The tax liability arises and the VAT is due in a lump sum payment at the time of signature of the final contract.

Real estate transfer tax

Any transfer of real estate which is not subject to VAT is subject to Real Estate Transfer Tax. The real Estate Transfer Tax rate applicable is 3% on the higher between market and objective value of real estate property. The “objective value” is a tax value per property calculated based on a number of pre-determined criteria.

Such cost is further increased by fees such as municipal tax (3% of the amount of Real Estate Transfer Tax), notarial, land registration, legal which may still account for a percentage (between approx. 1-2%) of the transaction value. However, for large investment properties, it is not uncommon that transfers are carried out by way of a share deal, which is, unlike other countries, not subject to any real estate transfer tax in Greece.

Taxes on operation

Income taxation

Rental income earned by individuals and companies is subject to Greek income tax. For individuals, the tax is computed according to a progressive tax scale which reaches up to 45%.

In addition to the income tax due, rental income is also subject to a solidarity contribution which is computed according to a progressive tax scale up to 10%. The solidarity contribution is imposed on the total of the income realised by the individual.

Rental income is part of the normally taxable income of any corporation. Corporate tax rate is currently 29%, while a 15% dividend WHT applies; foreign investors owning Greek companies through an EU-based company may benefit from the Parent – Subsidiary Directive exemption in which case no dividend WHT would apply.

Greek companies are allowed to perform tax deductible depreciation on the buildings’ (but not land) acquisition cost. The rate is currently set (for properties acquired after 1.1.2013) to 4% for buildings in general. Moreover, interest that finances real estate acquisition is in general deductible; however, Greek thin-capitalisation rules restrict interest deductions exceeding 30% of a company’s tax adjusted EBITDA. However, no such restriction applies if the total annual net interest expense of the subject company is below EUR 3m. Thus, leveraging a Greek real estate company may typically significantly reduce local income tax exposure.

Stamp duty

Rentals (with the exception of residential properties) are subject to a 3,6% stamp duty. However, further to the introduction of VAT election for professional leases (see below), lease contracts subject to VAT will be exempt from stamp duty.

This may constitute a significant incentive for owners to make the election and impose VAT on rentals.

VAT

As of 2013, owners are permitted to make an election and subject professional lease contracts to VAT at the standard 24% rate.

Taxes on ownership

Uniform Real Estate Property Tax ("ENFIA")

The ENFIA takes the form of a principal tax per real estate property and a supplementary tax on the total value of the real estate property. More specifically, the UREPT is imposed on property rights (e.g. full/bare ownership, usufruct rights) on real estate property located in Greece which are owned by individuals or legal entities or other entities as at 1st January of each year, irrespective of potential amendments taking place during the year and of the transfer of ownership title.

The principal tax on buildings is calculated by multiplying the square meters of the building by the principal tax ranging from 2-13€/sq. and other coefficients affecting the value of the property (e.g. location, use, flour of the property).

The principal tax on land is calculated by multiplying the square meters of the land by the principal tax ranging from 0,0037-11,25 €/sq. and other coefficients affecting the value of the property (e.g. location, use of the property).

Moreover, for companies the supplementary tax is calculated at a standard rate of 5.5‰ on the total tax value of the subject property rights. This rate is reduced to 1‰ in relation to properties that are self-used by the entity for its commercial/business activity subject to ENFIA. The supplementary tax on individuals is imposed at a progressive tax rate ranging from 0,1% to 1,15% and provides for a tax free amount of 200.000 € of the total value of property rights subject to EN.F.I.A., excluding the value of plots outside urban planning (agricultural plots) for year 2018.

As at May 2018 a large project is currently underway whereby Greek tax authorities are re-assessing the tax value (objective values) of real estate properties across Greece. One finalised (expected within 2018), there may be also some changes in the applicable tax rates).

Municipal Real estate duty – Telos Akinitis Periousias (TAP)

Real estate ownership is further subject to a real estate duty, currently calculated in a range of 0.025% to 0.035% on the objective value of the real estate property; such is defined according to the "area prices" and the "age coefficient" applicable on the respective property, depending on the area where the real estate property is situated.

Certain exemptions are granted from TAP in the following cases:

- Buildings under construction, for a seven-year period following the granting of the construction licence, or until they are rented or in any other way used prior to the lapse of such a seven-year period.
- The commonly-used sections of residential buildings.
- Buildings characterised as historical monuments.

TAP burdens the owner of the real estate, and is included for payment in the electricity bills, unless such bill is issued in the name of the tenant of the real estate, in which case TAP is paid by the latter and is deducted through the agreed monthly rental. This duty is a municipal duty.

Apart from TAP, there are several other municipal duties that may be imposed based on activity, region and other factors (e.g. duties on the right to use communal space, some special hotel duties)

Tax on electrified spaces

Based on the provisions of article 10 of L. 1080/1980, the municipalities may levy a tax on real estate connected to the grid, the collection of which is effected through the electricity bill and is calculated by multiplying the real estate's square meters by a rate determined by the municipal or community council ranging between 0,018 –0,073 €. The said rate can be increased every year up to 20%.

Special tax on real estate property (SRET)

Designed to deter Greek taxpayers from avoiding disclosure of their real estate property through use of offshore vehicles, this is a tax that applies to all companies owning real estate in Greece, unless they can fall into one of the exemptions that aim to single out the non-disclosure cases. If no exemption can be achieved, the company must pay an annual 15% tax on the objective value of the property.

Key exemptions include:

- Companies with registered shares all the way up to an individual, provided that the companies are resident in Greece or in another country (with the exception of certain non-cooperative states – see below) and the ultimate individual shareholders maintain a Greek tax registration number.
- Companies owned by banks and institutional investors, without having the obligation to disclose their ownership up to the individual, provided that the latter are not established in countries defined as non-cooperative states and are supervised by a recognised supervisory authority of the respective state. Non-cooperative states, as determined in Article 65 of the Greek Income Tax Code, are non EU Member States that have not concluded agreements of administrative assistance in the tax sector with Greece or with twelve other states at least and are enumerated in an annual Ministerial Decision.
- Shipping or ship owner companies that have established offices in Greece for the property they use or lease to other shipping companies exclusively as offices or warehouses.
- Companies with shares listed on an organised exchange.
- Companies which exercise commercial, manufacturing or industrial, activity in Greece, provided that during the relevant fiscal year the gross revenue from this activity is higher than the gross revenue from the real estate property they own (by virtue of the provisions of article 15, par. 2, case b', subpar. 1 of L. 3091/2002); If said legal entities, irrespective of the country of their establishment, construct premises to use exclusively for the exercise of their commercial, manufacturing or industrial activity (self-use), an exemption from the SRET is provided for a period of seven years commencing upon the filing of all the necessary documentation for the issuance of the building permit
- Legal entities which pursue charitable, cultural, religious and educational aims, for the buildings used for such purposes, as well as for empty buildings or property they exploit, provided that any gains arising are made available for the above mentioned purposes.
- Insurance funds or social security organisations as well as companies of collective investments in real estate and regulated funds supervised by a competent authority of their registered seat, except for those whose registered seat is in non-cooperative states.
- Companies whose registered shares or parts belong to a national or foreign institution, which seeks charitable purposes in Greece, for the buildings used for such purposes.

The special real estate tax is not designed to capture international and notably institutional investors, but in light of the far-reaching effects of the law, this is an issue that should always be carefully considered when structuring a real estate investment. It should also be noted that the Greek tax authorities tend to strictly apply documentation requirement in support of the above mentioned exemptions.

Taxes on exit

Gains from sale of real estate property are treated as part of the company's taxable profits and taxed at the normal income tax rate. However, the most common exit structure is again the share deal. In such deals, the extent to which buyers negotiate a reduction for latent capital gains tax really depends on the circumstances.

As the share deal is the most common exit structure, it should be noted that the transfer of non-listed shares in Greek companies by Greek entities is subject to a 29% income tax rate.

On the other hand, non-Greek legal entities that do not maintain a permanent establishment in Greece, as well as individuals that are tax resident in countries with which Greece has concluded a Double Tax Treaty are not subject to any Greek capital gains tax when selling shares in a Greek or foreign company that owns real estate property in Greece.

Plans to introduce a 15% capital gains tax on sale of real estate property (including shares in real estate-rich companies) has been deferred several times, although it is currently not clear if such tax will eventually be introduced.

Real Estate Investment Companies

The Greek REIC law was introduced in December 1999 by L. 2778/1999. The initial version of the law was poorly adapted to the needs of the market, and no REICs were established. The Greek REIT law was amended a few years later. A further second amendment to the law, which lifts a number of restrictions (e.g., increases limitations on leverage, allows investments in real estate SPVs rather than only direct ownership of properties) has led to the establishment of more REICs, whilst the relevant market is still growing.

Considerable tax exemptions are the key advantage of the Greek REIC regime. Main exemptions are:

- Exemption from Real Estate Transfer Tax on acquisition of real estate property.
- Exemption from income tax (although substituted by an annual tax of approximately 0,7% over gross assets).
- The transfer of non-listed shares to a REIC is exempt from capital gain tax.
- Dividends distributed by a REIC are exempt from income tax.

REICs are not a flexible legal form, as they are subject to a number of regulatory restrictions, as well as an obligation to list their shares within 2 + 2 years from establishment. However, there is a growing interest and market for such type of institutional investors in real estate property.

Closing

The above is by no means a full and complete outline of all possible tax issues that may arise in Greece. Special cases or arrangements, such as sale and leaseback contracts, complex financing arrangements, use of hedging instruments, may call for particular attention. That said, it is fair to say that investment through a well-leveraged Greek company owned in its turn by a parent in an appropriate EU jurisdiction is a very common structure for inbound real estate investments, and constitutes a good basis for structuring such investments within a difficult and, alas, ever changing tax environment.

How PwC can help

PwC provides a number of real estate related services in Greece, including, among others:

- Tax advisory services
- Legal and tax due diligence on real estate property acquisition
- Financial, legal and tax due diligence on corporate vehicles
- Legal and tax support on acquisition contracts
- Local company establishment and ongoing accounting, tax compliance and secretarial services
- Individual tax compliance services
- Tax computations, including calculation of objective value and ENFIA cost

Contact

Vassilis Vizas
Tax Partner, PwC Greece
+30 210 6874019
vassilios.vizas@gr.pwc.com