SETE

Proposals about necessary tax reforms

SETE's proposals about necessary tax reforms considered to be of strategic importance for improving the competitiveness of Greek tourism (October 2013)

Immediate tax reforms

A. VAT on catering services should be kept at 13%. Given that All Inclusive holiday deals for 2014 have already been signed and invoiced with VAT on catering at 13%, any thoughts about raising VAT to 23% would have a particularly negative impact on the market and would reinforce the image that Greece is a highly unstable country that cannot be taken seriously. In all events VAT revenues from August onwards have been particularly encouraging, as we expected. That is not just because of the price reduction which will primarily become clear from 2014 onwards, but also because the incentive not to issue receipts, coupled with the increase in the number of audits, is lower with VAT at 13% compared to 23%. Reducing VAT at marinas to 13% would also significantly bolster yachting tourism and increase public revenues. VAT on coastal shipping should be reduced to 6.5%.

B. The property transfer tax should be immediately repealed. Given that a goodwill tax of 15% has been introduced, the property transfer tax in effect constitutes double taxation. In addition, demand for properties and sales are so low that the 11% rate of tax in effect completely prevents any transactions from taking place. This tax is a major barrier to growth even in sectors such as tourism where transactions could take place and properties (like hotels) not in use could be developed (especially since no investor wants to buy problematic companies with non-transparent debts and problems, and land to go with them). The sale of holiday homes or other types of residences to foreigners, which is another sector of great importance, would also benefit significantly. We estimate that the number of hotel properties which are not in use or operating below capacity account for 50,000 beds. If developed they could generate investments of € 3 billion. Holiday homes could generate € 1.5 billion a year.

C. VAT on holiday homes should be reduced to 6.5%. According to the McKinsey study, this move, coupled with other incentives (such as a 5-year residence permit), could generate

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revenues of € 2.4 billion a year up to 2021. It would also provide a solution to the issue of the rapid refund of VAT on tourism investments (specific studies and a proposal on this matter will follow).

D. The tax certificate must be reintroduced from 2014 onwards. Law 4172/2013 (Government Gazette 167/23.7.2013) mentions nothing about this matter, indicating a return to the old system. The tax certificate should also apply to accounting periods before 2011 that have not yet been audited by the authorities. The reduced ability to 'do deals', the increased speed of handling cases (up to 3-4 years faster) and an increase in revenues were important positive benefits from the procedure adopted in 2011 and 2012.

E. Article 24. The depreciation rates used for hotels/buildings, equipment and rental cars should be returned to previous levels (6% instead of 4% for hotels, 20% instead of 10% for equipment and 20% instead of 16% for hire cars). Hotels, equipment and rental cars suffer more wear and tear than similar buildings or private vehicles because of higher levels of use. Even more irrational is that although Article 28(1)(g) of Law 4110/2013 states that the new reduced rates apply to fixed assets acquired from 1.1.2013 onwards, Article 38(5)(c) of the more recently enacted Law 4141/2013, replaced that provision stating that the depreciation rates apply to expenditure incurred in accounting periods commencing from 1.1.2013 onwards. Moreover, Circular No. ΠΟΛ 1216/24.9.2013 makes it clear that "the reduced depreciation rates (which have been finalised and are applicable from 1.1.2013 onwards in accordance with Article 3(22) and Article 28 of Law 4110/23.1.2013, which are set out below) apply to depreciation recorded on all fixed assets of businesses irrespective of the time at which those fixed assets were acquired, whether acquired before 1.1.2013 or after that date". In other words we are taken back to the time of acquisition, which is clearly unconstitutional. "Wily" provisions of this sort destroy investor confidence in Greece. This is a mindset that needs to change.

F. The berthing and sailing fee for pleasure craft and small boats over 12 m long must not exceed € 100 per m and there should be a 50% discount for professional craft. Given that our competitors, and Turkey in particular, have developed very competitive tax regimes, we have lost 7-8,000 vessels over recent years due to the wrong moves we have made.

G. Articles 27 & 54: The period over which losses can be carried forward must be extended from 5 years to 10 years. The provision that losses cannot be carried forward if the shareholder line-up changes by more than 33%, unless the taxable person proves that the transaction was entered into for purely business reasons must be removed. Article 54 allows losses to be carried

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forward in any case of merger or spin off, but it needs to be made clear that the rules laid down in Law 2166/1993 on the exemption from all taxes, duties, contributions and levies payable to the State or third parties, including any property transfer tax, continue to apply. Generally speaking, removing counter-incentives to acquisitions and mergers would stimulate investments, bolster public revenues from companies entering into such arrangements, promote faster settlement and help banks recoup their loans.

H. Article 49: The rule that refuses to recognise interest as a deductible expense if and when it exceeds 25% of EBITDA should be repealed. It is simply irrational, unless it relates to interest on loans between affiliated companies.

I. The concept of "Group" needs to be defined for tax purposes.

Medium-term tax reforms

A. Tax rates need to be reduced to a uniform rate of 15%.

B. Even more important than the level of tax, is that any investor making an investment over a low minimum must have the peace of mind that the tax regime (VAT, tax rates, depreciation rules, etc.) for the specific investment cannot be changed to his detriment for at least a decade, which is the time required for the investment to be amortised. Ideally this should be done by revising the constitution; this is a radical, yet necessary solution to address the problem of the unreliable, unstable tax regime in Greece.

C. Given that Greece's future is intimately bound up with tourism, it is essential to attract High Net Worth Individuals (HNIs), and to provide special tax incentives, such as rights of residence or citizenship for productive investments of at least € 1 million.

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