



Hellenic Federation of Enterprises

Policy Proposals to Encourage Productive Investments



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Current economic policy does not fulfill the conditions for a swift mobilization of investments in Greece given that:

- It struggles to be competitive in the international investment environment
- It fails to effectively contribute to the return to growth, which is as urgent as ever
- It blocks attempts by Greek enterprises to become more internationally competitive
- It is one of the main reasons for Greece's inability to attract medium and large scale investments and it inhibits the prospects for the productive enlargement of enterprises in Greece.

Achieving high rates of growth and creating many steady jobs in the following years can only be achieved through the production of internationally tradeable goods, the dynamic promotion of value adding activities, exports, research, technological development and innovation.

Investments are the binding factor and the necessary prerequisite for all these things. But investments are directly affected by the business environment, the tax system, access to finance, and legal certainty. In Greece, they are also liked to sovereign risk. SEV – Hellenic Federation of Enterprises has calculated that covering the disinvestment of recent years will require at least €100 billion in new investments.

Restarting the Greek economy and the return to growth requires the completion of a wide range of groundbreaking policies and approaches. Accelerating this process with a new model for investment incentives and a counterbalance to overtaxation is urgently needed. If we want to encourage productive activities which create added value, financial gains, new jobs and more public revenues, then we also need to overhaul our productive paradigm.

SEV, in cooperation with a team of experts, has formulated a series of proposals which constitute a radically different approach for the encouragement of medium and large scale investments. Through mostly financially neutral (or even occasionally positive) interventions we propose to mobilise productive investments of all shapes and sizes and gradually shift the production paradigm.

Time is running out. Past approaches have reached their limits. At the same time, European experience is full of radical and innovative interventions which marked a turning point and signaled productive restarts. SEV's proposal is an attempt at such an intervention; an intervention that will allow us to look into the future with increased confidence and prospects for prosperity.

Theodore Fessas
SEV Chairman

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PART A:

EXECUTIVE SUMMARY



1. Executive Summary

The urgency to encourage investments

Greece's productive infrastructure has declined dramatically in recent years. A prime example is the 50% reduction in capital investments, compared to the pre-crisis period which shows that the net invested capital for the entire private sector is negative. A phenomenon of negative net investment capital has also been observed in other countries during a financial crisis (Italy: -45%, Cyprus: -1.6%, Portugal: -12%), however only for a limited time. Greece, today represents an extreme example of disinvestment, with net (post depreciations) capital investments for 2014 at -8.3% of GDP.

Increasing local demand is, in itself, a half-way measure, and not a growth driver. What Greece needs, is large-scale investment initiatives, which are extrovert and innovative in character, and which will have a significant positive impact on net employment. According to SEV - Hellenic Federation of Enterprises' conservative estimates, in order to counterbalance current disinvestment, the Greek economy requires an investment shock, of around €100 billion by 2020. Current investments are not even sufficient to conserve assets. The -€12 billion negative investment (net fixed capital formation, 2014 data) hampers any possibility of stable growth of production. Also, EU Structural and Investment Funds amount to around €15 billion (NSRF 2014-2020, excluding fisheries). It therefore becomes clear that public funds do not suffice to cover the investment gap.

It is necessary to encourage medium and large scale private investments through proactive and "smart" policies which speed up recovery and create new jobs

Traditional investment promotion instruments (such as the Investment Laws) are increasingly outdated, while results from existing tax incentives have been limited. In their place, what is required is a deep overhaul of tax policy, and a new investment promotion approach in two directions:

- **Dynamic and proactive encouragement of entrepreneurial activities that create added value through productive investments.** Due to their scale, these activities will spearhead economic regeneration.
- **Proactive policies to encourage Research, Development, Technology and Innovation activities.** Such investments are slow burners by their nature and rely on the capitalization of knowledge.

SEV suggests a radically different, game-changing approach to investment policy. It is an approach which encourages job creation through smart taxation and incentives, and which departs from the conventional approach of the quantitative distribution of tax-burden according to income. This approach will create a virtuous circle through the utilization, reinvestment and multiplication of both public and private funds, through incentives and the removal of disincentives. It is a fiscally neutral proposal (i.e. without a negative fiscal impact) and aims to mobilise financially efficient medium and large scale investments in industrial sectors and value added services. We propose proactive policies rather than increasing the tax burden which, has little impact on public revenues but threatens the future of businesses. The proposal goes hand in hand with the creation of added value, new jobs, exports, business excellence and the promotion of productive networks around organized enterprises.

The main pillars of SEV's proposal:

1. Horizontal encouragement of medium and large scale private investments.

By turning away from inefficient grants and towards a virtuous growth cycle through (a) simple but effective tax incentives that reward productive investments which lead to profits and new jobs (and hence, additional taxes and social security contributions), (b) transforming these profits into further investments. SEV's aim is to mobilise investments through a "super-amortisation" (depreciation rate) e.g. of 200% of capital expenditures (capex) in addition to reduced tax rates (e.g. 20%) when profits are reinvested.

2. Flagship investments in technology, infrastructure, environment, industry, manufacturing, etc., to create positive externalities with large multiplier effects and new job creation.

The proposal suggests fixed, competitive tax rates for 10 years. For example, we could have a corporate tax rate of 20% for investments exceeding €100 million (capex) and for investments that create more than 1000 new jobs.

3. Horizontal encouragement of investments in growth drivers

- **Establishment in Greece of business centres (logistics, shared services, R&D, etc)** by maintaining fixed margins for 15 years and tax relief of 50% for new jobs. To date, Greece has not been an attractive destination. Spearheaded by tax predictability, the proposal aims to attract such international business activities. Maintaining stable margins over 15 years and reducing tax burden by 50% for new jobs, encourages the exploitation of the country's comparative advantages (location, highly educated human capital, EU membership etc.).

- **Investment in research, technological development and innovation.** Through horizontal, proactive tax policies, strong incentives are provided for transforming R&D activities into competitive products and new jobs. The proposal includes signifi-

cant discounts for R&D&I investments which could elevate the effective tax benefit for businesses from 8.7% to 35%. Broadening R&D definitions as per European practices is also needed. Furthermore, in order to encourage patents, the effective tax rate for revenues stemming from innovation (patent box) should be set at under 10%. Such initiatives will help Greece become vastly more attractive as an innovation destination.

- **Rationalisation of the losses carryover.** Many Greek companies accrue losses and will continue to do so until the reversal of the current fiscal environment. SEV proposes the transformation of taxation into an instrument for growth by increasing the carryover capacity from 5 to 12 years and for up to 70% of profits. Such taxation instruments facilitate the recapture of competitiveness and the return to growth.

4. Remove counterincentives to improve investment environment

- **Completion of pending tax audits through mechanisms at least as effective as the "tax certificate".** Based on the results of its implementation for 2011, public revenues could increase by as much as €700-800m/annum, in addition to improved tax compliance by 94% of businesses. According to Accounting and Auditing Oversight Board - ELTE research, for the years 2011-2014, compliance of businesses increased significantly (to around 92%), as did tax revenues (by around €400 m/annum) from the enlarged taxation basis (€1.46 billion).

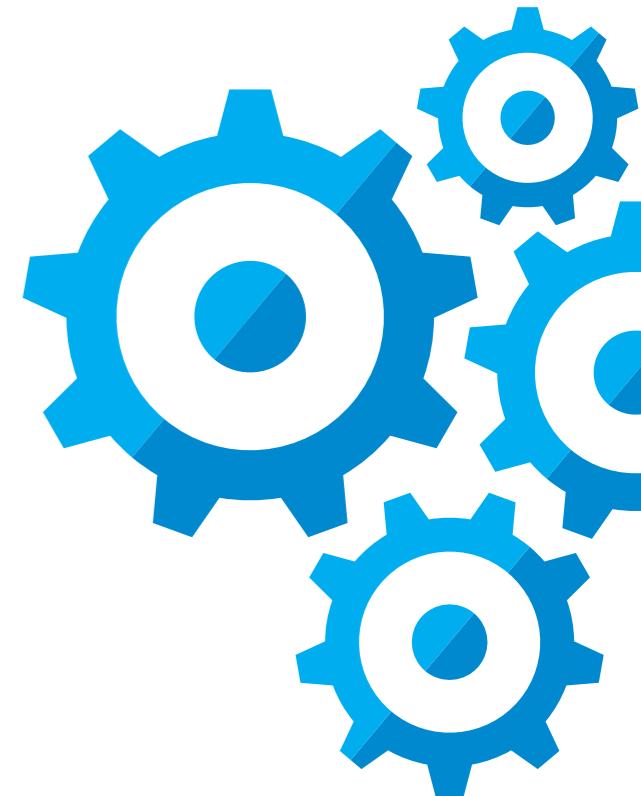
- **Creation of regional committees** for the resolution of tax disputes and unresolved tax cases. In addition to significantly relieving the congested courts, the measure could increase public revenues by as much as €200m.

- **Abolishment of extraordinary and indirect taxes on production.** Review of excise duties on energy products for industrial use, alignment with mini-

imum levels foreseen by the relevant EU Directive, and abolition of the excise duty on natural gas for electricity production.

5. Fast and transparent procedures for all stages of investments either through inspections conducted by external certified experts or through the transformation of spending inspections into tax audits.

6. Effective coordination of public funding through the creation of an independent coordination mechanism and the utilization of various recyclable financing instruments (risk mitigation loans, guarantees, factoring, co-investments, export credit insurance, microfinance, etc.), mainly for Small and Medium Enterprises.



PART B: INTRODUCTION

2. The Problem

Greece's growth model during the last few decades was based on boosting domestic demand and consumption to the detriment of exports and productive investments. The result was a shrinking of domestic production. The lack of a stable investment environment, combined with the country's doubtful macroeconomic prospects, has also led to a negative investment climate, unable not only to attract foreign investment, but also to retain existing investment.

In consequence, today Greece presents a picture of extreme disinvestment. This dramatic development is best summarized by the >50% decline in capital assets' creation compared to the pre-crisis period. As a result, the entire private economy has negative net capital stock.

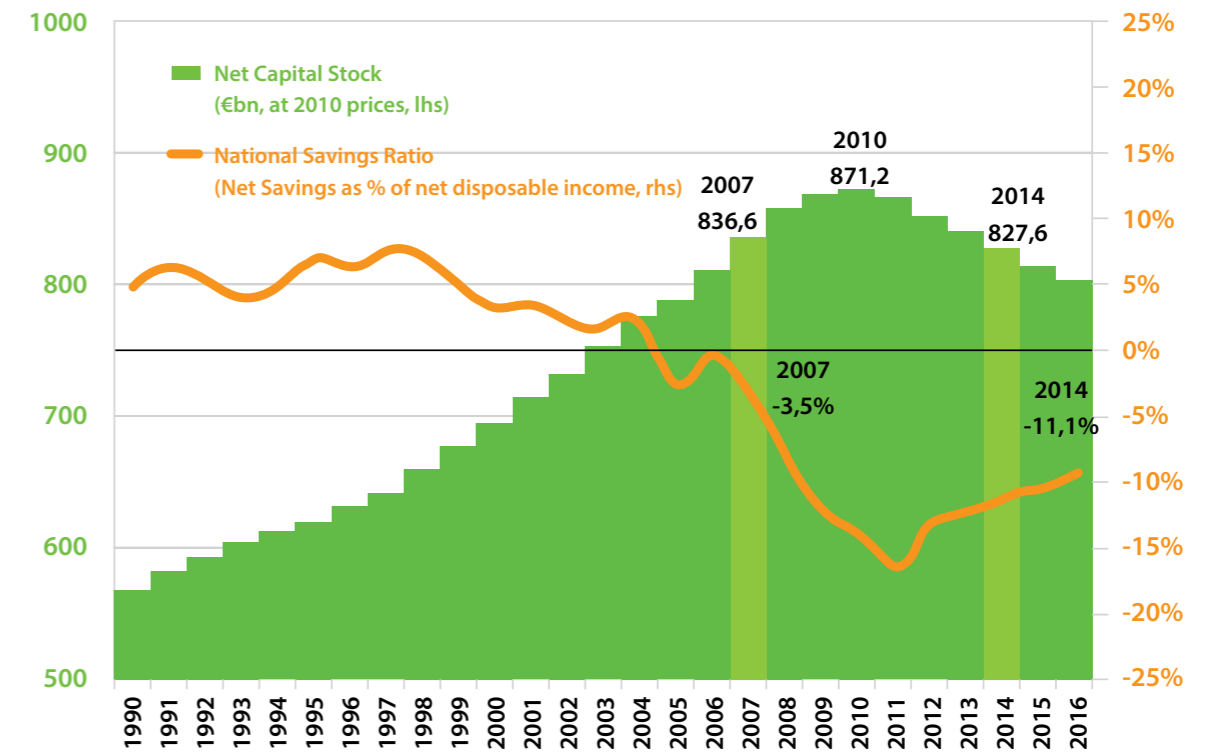
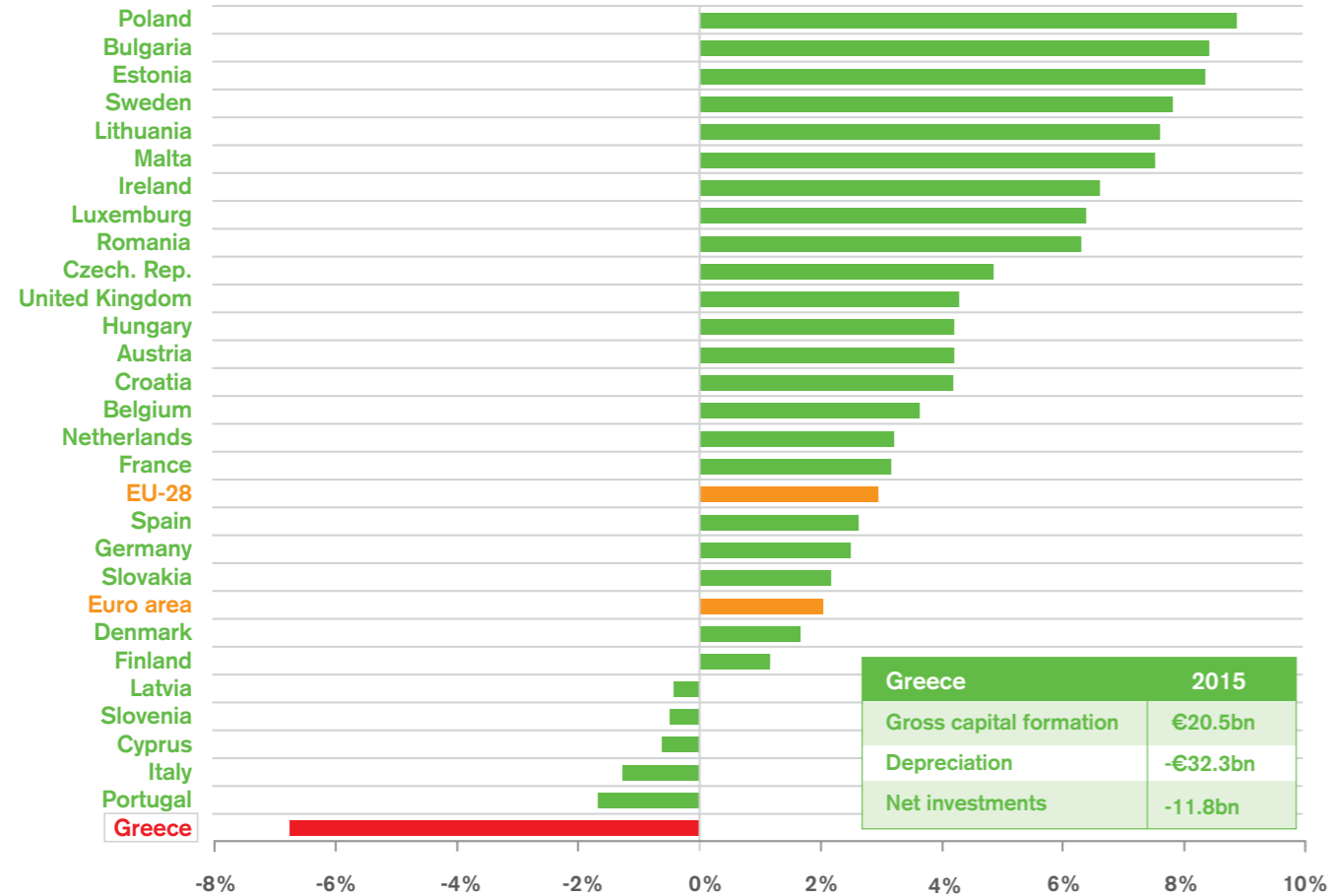


Figure 1: Disinvestment in Greece (Ameco, ELSTAT) – Revised Figures 6/2016

Current Investments do not even suffice to preserve capital equipment. With approximately -12 billion euro (negative) net investments annually the prospects of production recovery are hindered further¹.



Greece 2015	
Gross capital formation	€20.5bn
Depreciation	-€32.3bn
Net investments	-11.8bn

Figure 2: Investments minus depreciation as % of GDP (Ameco 2014) – Revised Figures 6/2016

Such a phenomenon of negative net investment capital (fixed capital formation) has also been observed in other countries during a financial crisis (e.g. Italy: -45%, Cyprus: -1.6%, Portugal: -12%), however only for a limited time. At the same time, neighbouring countries, like Egypt, Bulgaria and Turkey, are increasingly competitive in attracting FDI, through low tax rates and incentives for establishment.

Country	Capital Stock/GDP 2014
Latvia	1,0
Slovakia	1,7
Lithuania	1,9
Malta	2,0
Poland	2,0
Luxemburg	2,1
Slovenia	2,1
Romania	2,2
Hungary	2,2
USA	2,4
Denmark	2,5
UK	2,5
Ireland	2,6
Bulgaria	2,6
Croatia	2,6
Belgium	2,7
Cyprus	2,8
Germany	2,9
Netherlands	2,9
Estonia	2,9
Czech. Rep.	3,0
EU-28	3,0
Finland	3,1
Portugal	3,1
France	3,1
Italy	3,3
Austria	3,6
Sweden	3,6
Spain	3,7
GREECE	4,4

In Greece, the economy's introverted nature has led to low added value investments while net capital reserves are almost 5 times GDP, when the EU average is consistently around 3% (Figure 3).

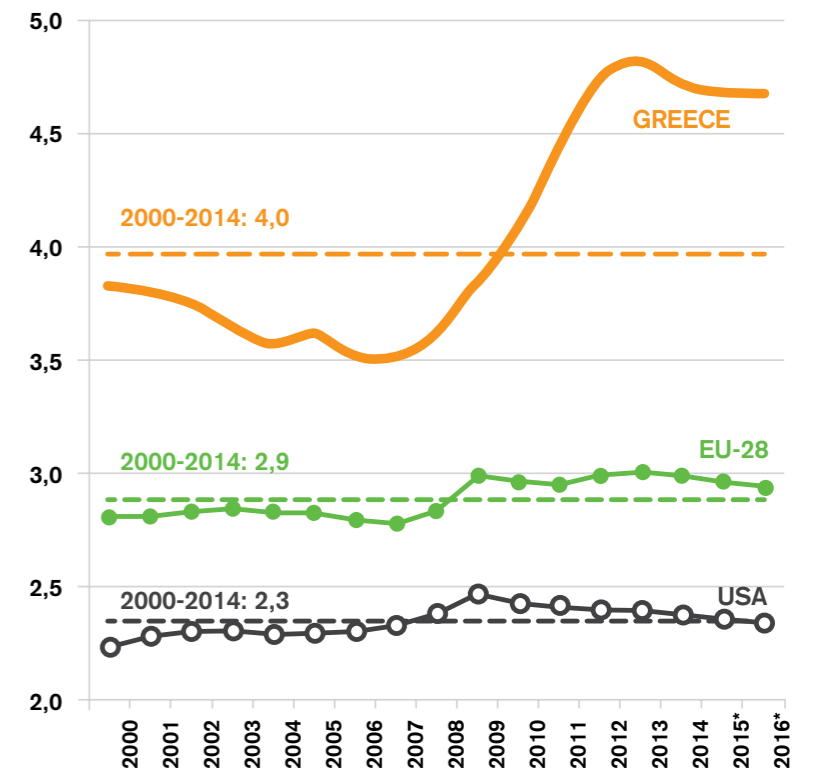


Figure 3: Net capital formation as % of GDP (Ameco, 2014) – Revised Figures 6/2016

¹ Further analysis, in SEV's weekly economic bulletin, 24/9/15

The urgency of activating investments has never been greater. Boosting internal demand is neither sufficient nor a driver for growth. Greece has experienced investment mobilisation difficulties in the past (Figure 4), even before the crisis. Today however, these problems have worsened significantly with respect to: (a) the business environment and bureaucracy, (b) the unstable legal environment, inability to predict tax expenses, unforeseen changes and significant delays in judicial decisions, (c) the lack of modern infrastructure, especially in transportation and the environment, (d) the still rigid labor market despite recent improvements.

be ineffective at attracting productive investments when compared to the rest of the EU. In 2014, the gap widened to five percentage points.

Greece also has some advantages in attracting investments. They include the high educational level of the labor force, privatisations, infrastructure development through PPPs, the need to restructure Greek businesses hit by the crisis, etc. However, these are not enough to mobilize the needed investments. A necessary condition is the existence of a fertile investment environment which will welcome medium and large size investments.

On top of these problems, the financial crisis has also added significant sovereign risk, which raises investments' financial costs. As a result, Greece continues to

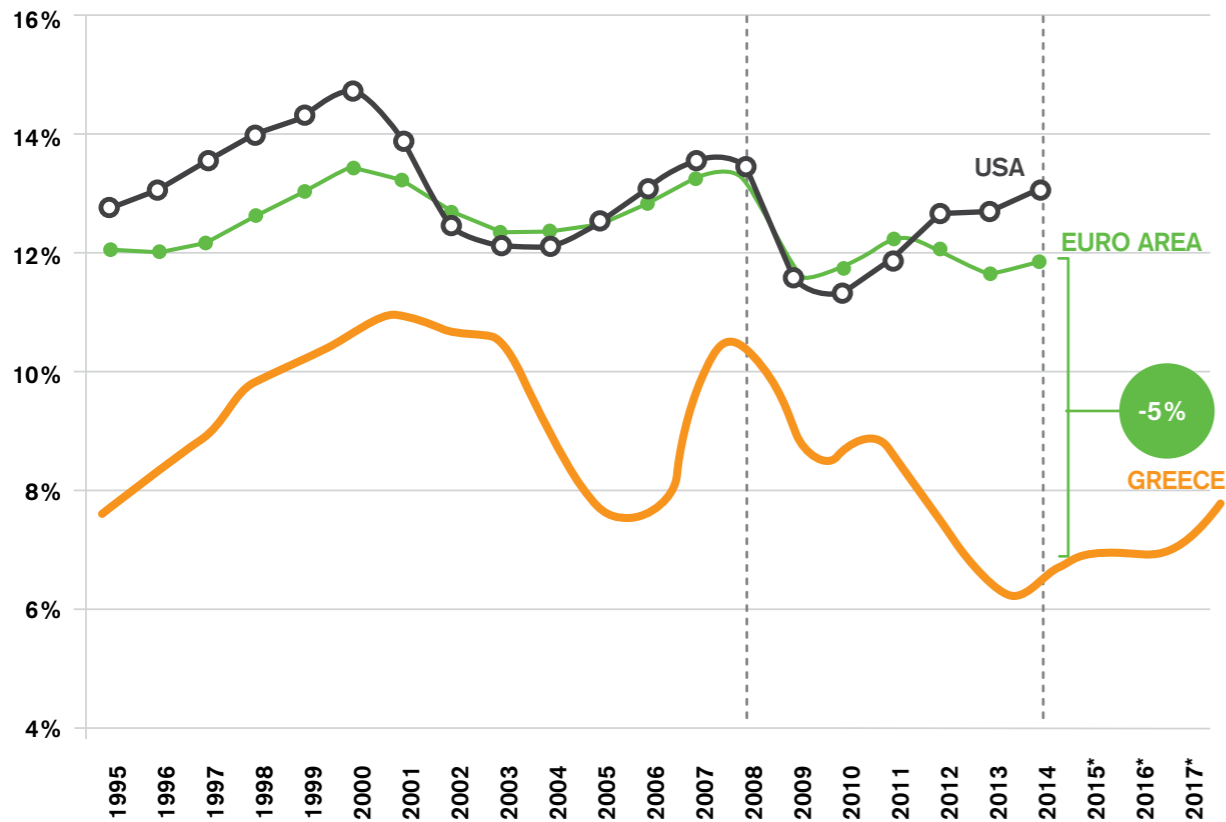


Figure 4: Private investments (excluding housing) as % of GDP (Ameco, ELSTAT, 2014) – Revised Figures 6/2016



3. Private investment is the only way forward

The urgent investment mobilization required until 2020 is estimated at €100 billion. In contrast, the new state aid funds of NSRF do not exceed €15 billion (excluding fisheries) while the national program for public investments is very limited. The question therefore arises on how to finance investment and recovery. Modern risk financing instruments such as JEREMIE funds have granted approximately €100 million to approximately 1500 businesses (until 2014) but these figures are negligible compared to the economy's financing needs. With respect to public investments through the Investment Law instruments (state aid), also systematically used throughout the EU, it is widely believed that in the last 20 years they have not achieved the desired results. A total of ~760 investments and ~5.700 employment positions per annum (1982-2010) were co-funded through such laws. In an economy of approximately 1 million businesses and a work-force of 4.5 million, these figures cannot be considered satisfying. According to an analysis by Grant Thornton (10/2014), Investment Law aid does not appear to contribute decisively to growth, or to job creation (just 8% of new jobs during 1994-2004, as per Ministry of Development data). It is also quite costly. As per preliminary estimates by G. Petrakos², despite increasing granted aid (at 42% as

opposed to 34% in 1982) there is a decline in job creation and investments but a huge increase in the average cost per new job position (€362,000). Grant Thornton reaches similar conclusions.

It is necessary to encourage medium and large scale private investments through pro-active and "smart" policies which speed up recovery and create new jobs

Encouraging them is a major challenge and the key question that must be addressed in formulating a strategy for rapidly attracting investment. Such a strategy needs also to include the abolishment of disincentives as well as measures that would ensure productive investments. Investments should become the primary goal and an instrument for economic recovery. This is especially true if investments are geared towards the production of internationally competitive goods and services. Such investments directly impact economic growth, create jobs and provide for long-term, sustainable growth.

State-aid laws	Investment plans	Budget (€)	Grants (€)	New jobs	Grants / Jobs	Budget / Jobs	Grants / Budget
L.1262/82	12.062	2.281.654.836 €	785.493.063 €	92.799	8.464 €	24.587 €	34,4%
L.1892/90	4.891	3.732.854.770 €	1.454.156.201 €	39.676	36.651 €	94.083 €	39,0%
L.2601/98	2.319	2.556.984.522 €	847.614.123 €	19.239	44.057 €	132.906 €	33,1%
L.3299/04	2.085	3.077.551.695 €	1.308.177.956 €	8.492	154.048 €	362.406 €	42,5%
Total	21.357	11.649.045.823	4.359.441.343	160.206	27.436 €	72.436 €	37,7%

Figure 5: The impact of previous investment (state aid) laws

² Assessment of impact of incentives laws of period 1982-2009 on growth, G. Petrakos, University of Thessaly, (ex) General Secretary of Investment and Development

4. A strategy to encourage investments

Restarting investments in Greece, whether for the creation of high value-added products & services, the creation of new jobs, or the encouragement of extroversion, business excellence and productive ecosystems around organized businesses, etc., requires **deep tax reform and a new approach to taxation**. SEV recommends a radically different approach for attracting investment through "smart" taxation. The game-changing concept goes beyond current taxation practices of distributing taxes according to income and percentages, and allows a virtuous circle of reinvestment and multiplication of investment funds, whether private or public. In conjunction with removing disincentives, the challenge is twofold:

- **Dynamic and proactive encouragement of entrepreneurial activities that create added value through productive investments.** Due to their scale, these activities will spearhead economic regeneration.
- **Proactive policies to encourage research, development, technology and innovation activities.** Such investments are slow burners by their nature and rely on the capitalization of knowledge.

Instead of increasing corporate taxation, which is ineffective for public revenues and risky for the future of enterprises, SEV proposes an investment strategy based on the following pillars:

1. Encouragement of financially efficient investments of medium and larger scale, in productive sectors and value-added services. Offering tax breaks for new CAPEX investments and new jobs encourages the transformation of profits into further investments and creates a virtuous growth circle.

2. Encouragement of large / strategic investments through competitive and predictable taxation. Particular support for large scale CAPEX investments and new job creation.

3. Encouragement of investments in growth accelerators through tax incentives. Growth accelerators include the establishment of shared services centers, increasing R&D, patents and innovation, and the rationalization of tax losses carryover. Through a dynamic approach and with increased predictability (i.e. tax reliefs, stable margins, etc.), taxation can be transformed into a lever for growth.

4. Removing disincentives and reversing the investment climate, mainly through:

- Accelerating the resolution of tax disputes through regional committees with wider mandates for resolving pending tax cases. In addition to relieving courts' and tax authorities' workload, this will also create public revenues of €150-200m.
- The reduction of unaudited corporate tax returns through the use of mechanisms as least as effective as the Tax Certificate. The latter has already helped increase public revenues by €680-880 million annually and has raised tax compliance to 94%.
- The abolishment of extraordinary and indirect taxes in production.

5. Faster and transparent procedures for investments (audit, verification, etc.). This can be achieved, either through external auditors, or by converting spending inspections into tax inspections.

6. Effective coordination of public financing through the creation of an independent coordination mechanism. In addition, recyclable financial instruments (i.e. loans for risk mitigation, guarantees, factoring, co-investments, insurance of export credit, micro financing, etc.), mainly for SMEs.

Complementary to the measures above, SEV also proposes:

- **Alignment** of Greek tax practices with EU and neighboring countries'. This will improve international competitiveness, attract Foreign Direct Investments (FDI), and make Greece a significant investment destination.
- Development of **simple, predictable and easily implemented investment** incentives which will be designed to mitigate any potentially negative impact on public finances.
- **Rational use** of public EU & National Funds in order to avoid yet another "generation of lost state aid" and, instead, create the healthy entrepreneurship that will return these funds to the public purse.

5. Tax Reform

A typical example of inefficient tax practices is the excessive excise duty on energy. Today, it stands at 10 times the EU average and significantly impacts the competitiveness of Greek industry. It has also had negative financial results as the €150m increase in public revenues was less than the €170m lost public revenue following the loss of 18.500 jobs in industry, as a result of decreased international competitiveness. Overtaxation of labor and excessive property ownership taxes has also been extremely detrimental. The excessive taxation of "high" incomes which contribute the most to public revenues, has led to their significant reduction (over 30% in 2008-2012)³. This reduction was due to the intensity of the recession caused by overtaxation and the migration of the most capable of the workforce.

In contrast, a "smart" tax policy should allow the real exploitation, reinvestment and multiplication of the EU & National Funds that contribute to public revenues.

Also, as state aid (grants, subsidies) is extremely limited, almost all of the proposed tax incentives aim to reward private investment initiatives. The proposals' key elements are the activation of existing tax legislation and the introduction of new horizontal tax measures. The aim is to create new jobs and activate private investments with legislative interventions in the following cases (figure 5):

Investments in capitalization of knowledge	<p>Encouragement of scientific and technology research (article 22A of Law 4172/2013)</p> <p>Encouragement of patents and innovation (article 71, Law 3842/2010)</p> <p>Encouragement of shared service centers (Law 89/1967)</p>
Investments for a productive restart across the board	<p>Tax losses carry forward (article 27, Law 4172/2013)</p> <p>Encouragement and strengthening of medium and large scale investments</p> <p>Encouragement of Anchor investments (N.3894/2010)</p>

Interventions are designed (Figure 6) either as horizontal measures in order to comply with EU State Aid regulations or as incentives falling within the purview of the EU General Block Exemption Regulation 651/2014.

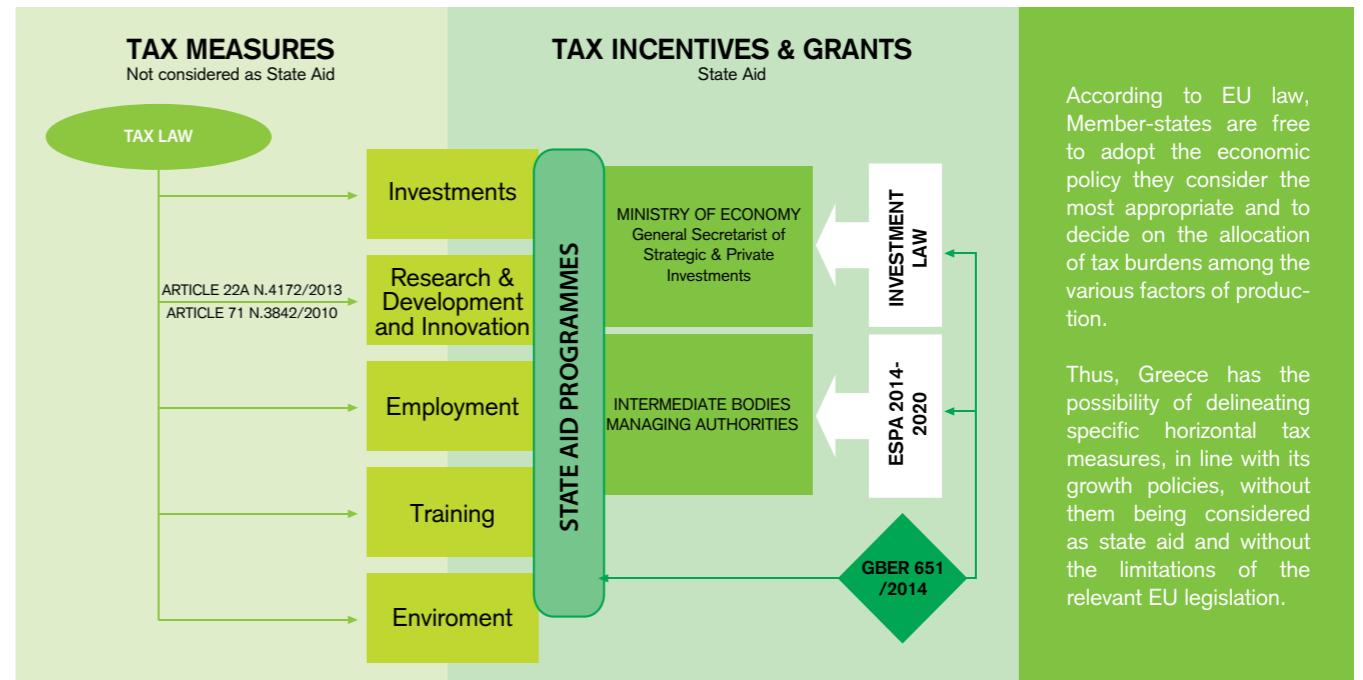


Figure 6: State aid incentives and horizontal tax measures

³ Tassos Giannitsis, Stavros Zografakis, Greece: solidarity and adjustment in times of crisis, 2015, IMK

PART C:

POLICY RECOMMENDATIONS

6. Horizontal encouragement for medium and large scale investments

The situation in other countries

The aim is to boost investments in fixed assets which are linked to productive activities and are prerequisite for the creation of new jobs. Support may either take the form of recognition of depreciation for tax purposes on fixed assets on which the company has invested with more favourable rates or tax credits. The final amount can be determined as a percentage of the investment cost.

An analysis by PwC shows indicative examples in other countries:

- **France:** Offers temporary tax incentive according to which, from April 15, 2015 until April 14, 2016, companies investing in fixed assets may claim additional tax depreciations up to 40% on top of the acquisition value of these fixed assets.
- **Portugal:** Provision for deducting part of the investment's value from income tax; Specifically: (a) 25% income tax deduction when total investment value is up to € 5 million and (b) 10% income tax deduction when total investment value exceeds € 5 million.
- **Croatia:** Provision for reducing tax for up to 10 years. The percentage of the reduction depends on the total investment value. It can be as much as 100% for investments exceeding € 3 million.
- **Romania:** Profits that are reinvested for the purchase of new equipment and relate to the period from July 1 2014 until December 31 2016 are exempt from income tax. Sole provision is that said equipment will be used by the taxpayer for a period of more than half of its useful life and that this period will not exceed 5 years. This is a temporary measure.

- **Spain:** Provisions allowed the possibility of exemption of 10% of taxable profits provided they were reinvested. This measure expired in 1.1.2015.

Objective

The central objective is the creation of a virtuous growth cycle which (a) constantly rewards profits, ergo public revenue from taxation, (b) transformation of these profits into productive investments (c) generation of additional profits, i.e. new tax revenues and new jobs. With this proposal we can reward returns on investment and incentivise for even greater profitability (and tax revenue). It can also reduce current or future investment and replace the use of inefficient grants.

Proposed measures

As the aim is to mobilise investments throughout the economy, the proposed tax measure should be provided to companies which make productive investments (CAPEX) and do not receive any other State aid. The tax measure is horizontal (and hence may be exempt from state aid limitations) and is available to all companies operating in Greece, regardless of the region and business activities. This horizontal tax measure has the following characteristics:

1. Its duration is limited. The aim is for businesses to use it in the midst of the financial crisis and disinvestment environment. The measure can be in force for the period 2016-2022.
2. It enables the super-depreciation of new assets up to an additional 100% (200% in total). This is incorporated in the assets' annual depreciation table (balance sheet). Their useful life remains unchanged.

3. It defines a “new productive investment” as the creation of new, completed, productive assets registered in a company’s fixed assets registry during the period in which the measure is in force.
4. Benefits from the measure are calculated as per the current tax rate. With the current rate of 29%, the 200% super-depreciation creates an additional benefit of 29% on the acquisition value of the new assets. The incentive is equal to a reduction of the tax rate on profits. As productive investments eventually generate more profits (and public revenue), the measure engenders contributory benefits.
5. All new productive investments can benefit from this measure and no prior approval is required as the company assumes all investment risks.
6. When calculating depreciations, super-depreciation is available for all fixed assets, and for all fiscal years required under tax law until their full depreciation. The resulting amount from the super deduction may be deducted from a company’s gross profits and may either reduce its taxable profits, or increase its deferred tax losses.
7. Any loss resulting from the super deduction is unlimitedly carried forward to be offset against profits in future fiscal years. As a result, the measure is effective even for newly established businesses as well as for businesses which are unable to offset losses within the legally foreseen five-year period.
8. The resulting tax benefit should not restrict the beneficiary from either capitalising or distributing its profits.
9. Compliance to the above will be ascertained by certified auditors, chartered accountants and/or tax authorities.

Complementary provisions may include:

10. Use of **accelerated depreciations** as an alternative for not yet fully depreciated assets from previous investments.
11. For the period 2016-2022, a **reduced tax rate** (20%) can apply when profits are reinvested, provided that this equipment will be used for more than half of its useful life. According to a PwC analysis, similar measures can be found in Romania (100% reduction), Spain (10% reduction) and France (non - application of 3% dividends tax).
12. **Notional interest deduction on the capital invested or the licenses issued by the companies.** This refers to cases where financing is based on equity contributed by the shareholders. This measure consists in recognizing a notional interest as a deductible expenditure. The interest rate of cash pooling loans to non-financial entities shall be used as a notional interest rate, as indicated in the Bank of Greece’s statistical bulletin of financial circumstances, which mentions Article 23 (a) of the current ITC (we indicatively note that, in September 2015, that rate was 6.02%). Moreover, as this interest is notional, shareholders will not be liable to tax. According to a PwC’s analysis, a similar incentive is provided by Belgium (2.63% -3.13%), Cyprus (government bonds + 3%), Austria etc.
13. **Financial investment instruments exempted from withheld taxes.** This refers to lending as a financing instrument, whereby the incentive facilitates recourse to loans for investment purposes. It is crucial to attract international investments; the measure strengthens economic growth and lifts the “penalisation” of financing through foreign capital. Interest paid by the borrowing company to the lending one is exempt from withheld tax. In addition, such loans may be also exempt from indirect taxes (e.g. stamp duty).

14. **Amortisation of surplus value** resulting from the conversion or acquisition of foreign companies (goodwill amortisation). This incentive aims at boosting conversions and thus creating strong companies through the acquisition of domestic and foreign production units. Furthermore, it improves chances of acquiring foreign companies, and thus contributes to the internationalisation of Greek enterprises with a strong presence abroad. This measure provides the opportunity to recognize goodwill amortisation for tax purposes. According to a PwC analysis, Spain recognizes goodwill amortization for tax purposes at a rate that cannot exceed 5% per year (under domestic law for participation in foreign companies having been acquired before December 21, 2007). The European Court of Justice twice ruled in 2012 that this kind of incentive is not considered as illegal state aid.

Restrictions on State Aid

Compatibility tests with s State aid rules are required, especially if the above measures focus on selected activities.

Expected results

Businesses will transform taxes into new productive investments in order to maximize the future returns of said investments. In addition, the measure acts as a significant disincentive to disinvestments, since the unlimited carrying forward of tax benefits to offset future losses creates incentives to maintain and strengthen existing investments. Finally, investments create new jobs both during the investment phase and during its productive operation. It is estimated that a new job is created for every €200.000 that is productively invested.

7. Strengthening medium and large scale investments

The situation in other countries

Please see Annex I for incentives provided in certain EU countries. The description is based on an analysis by Grant Thornton.

Proposed incentives

The replacement of grants which are inefficient is central to the proposed investment approach. If however, limited aid is provided for investments (complementary to measures described in section 6), it could be funded via returnable advance payments. This solution goes between traditional subsidies, or tax relief, and equity funding. Depending on the availability of EU & National Funds, this practice could be adopted for the financing of industrial and innovation projects characterized by slower maturity. As this constitutes state aid (once terms differ from the markets’) it would require either compliance with the EU General Block Exemption Regulation 651/2014 or request for exemption.

Practice has shown that returnable advance payments can be 3 to 5 times the amount of the respective subsidy and cover the part of the investment usually covered by bank loans. Unlike subsidies which are paid upon completion of various parts of an investment (hence, the need to receive advance payments with high interest rates and to submit letters of guarantee), returnable advance payments are only paid once or in a few installments and facilitate cash flow.

The accounting treatment of the returnable advance payment is similar to a debenture loan, i.e. it becomes part of the company’s capital structure as a liability (quasi equity or long term debt).

8. Encouragement of Anchor Investments

Existing legal framework

The framework for Fast Track Strategic Investments (Law 3894/2010), which includes high technology and innovation projects, provides the opportunity for a special tax regime for strategic investments, following approval by Parliament.

In practice this incentive remains dormant since no approved Strategic Investment projects have made use of the provisions. At the same time, although the Fast Track Framework is supposed to accelerate licensing procedures, investments have not advanced with particularly speed.

The situation in other countries

According to study by Deloitte, growing economies like Israel, Turkey, Poland and Russia have declared specific geographic areas which benefit from special tax provisions for significant investments. Indicatively:

Country	Area declaration	Special tax incentives
Israel	Priority Area A	Reduced tax rate of 9% vs normal tax rate of 25%. For large multinationals which invest at least 23 million euro in R&D and employ at least 250 employers, the reduced tax rate is 5%.
Poland	Special Economic Zones (SEZ)	For R&D centers there is a tax relief equal to 50% of the expenditure (CAPEX and personnel) incurred within the first two years of establishment and operation.
Turkey	Technology Development Zones (TDZ)	Profits generated by software development and R&D are tax free (income tax and dividends) until 2023. During the same period, software sales are exempt from VAT and personnel income for developing software and research (including support staff – up to 10% of total staff) is exempt from income tax.
Russia	Special Economic Zones (SEZ)	Technology and innovation companies enjoy a tax rate of 0% vs the normal rate of 20%, tax exemption on buildings and VAT, and reduced social security contributions at 14%.

Objective

Apart from the obvious fiscal effects, taxation is also an important ingredient of a country's competitiveness profile. In that respect, the proposal's main objective is to establish Greece as an important destination for anchor investments, through a **stable tax environment** and the reduction of bureaucracy.

Proposed measures

Anchor investments are investments which generate positive externalities and have large multiplier effects which go beyond typical positive investment results.

Selecting anchor investments should be based on such positive externalities and should include:

- Investments in industry, manufacturing, technology.
- Investments which generate large added value and new jobs.
- Large infrastructure and environmental projects.
- Investments aimed at reducing unemployment.
- Investments from internationally renowned investors.

SEV suggests providing incentives for the implementation and operation of anchor investments regardless of the region of operation. Indicatively such incentives are:

1. Provision for a gradual discount of existing corporate income tax rate, in accordance with the invested capital.

Invested Capital (CAPEX in Euro)	Tax rate discount	Effective tax rate
Up to 50 million	0%	29%
50 to 100 million	20%	23,2%
Over 100 million	30%	20,3%

2. Provision for a gradual discount of existing corporate income tax rate, in accordance with jobs that are created or maintained in each financial year.

Annual headcount in FTEs	Tax rate discount	Effective tax rate
Up to 250	0%	29%
250 to 1000	20%	23,2%
over 1000	30%	20,3%

3. Tax rate discounts may be aggregated. This way, the maximum tax rate discount for an anchor investment will occur for invested capital exceeding €100 million, which will employ over 1000 FTEs per year. In this situation, the tax rate discount will be 60% and the **effective tax rate will be 11.6%**.

4. The tax incentives will be provided for **the first 10 years** following approval.

5. Part of the approval process for discounts will include ensuring compliance with state aid legislation.

6. Compliance to the above terms will be ascertained by certified auditors, chartered accountants and / or tax authorities.

Expected results

Encouraging anchor investments will directly mobilise investors, accelerate strategic investments and attract large scale foreign direct investments (FDI) to Greece.

9. Horizontal incentives for Shared Services Centers (SSCs)

Existing legal framework

Law 89/1967 as amended by law 3427/2005 allows foreign companies to set up offices in Greece in order to provide, to their head office or other foreign affiliated companies, the following exclusively listed services:

- Consulting
- Centralized accounting support
- Quality control of production, products, processes and services
- Drafting of studies, designs and contracts
- Advertising and marketing
- Data processing
- Receipt and supply of information
- Research & Development

The tax benefits stem from the consistent calculation of taxable profits (cost-plus).

Current situation

The above tax incentive however is not consistently beneficial across all industry sectors as major multinational enterprises do not use it. The current regime is not flexible, it limits the activities that can be carried out, it does not allow the issuing of tax records to non-related parties, and the cost plus tax basis is not determined based on transfer pricing rules. In addition, Greek multinational companies cannot make use of it and are thus forced to set up SSCs abroad.

The situation in other countries

Deloitte analysis (figure 7) shows a growing tendency towards SSCs by multinational corporations in countries like Bulgaria, Poland and Romania. According to various analyses, the development of SSCs in basic European jurisdictions during the years 2005-2012 has led to Foreign Direct Investments in the range of €5 billion and has created approximately 100.000 new employment positions.

The SSC structure was developed as a result of multinational groups' requirement to reduce their operating costs. SSCs centralize certain functions such as procurement, order management, IT, human EU & National Funds thus achieving economies of scale. SSCs have become increasingly popular as evidenced by the fact that tens of multinational corporations have set up a great number of SSC in Europe.

The development of SSC directly creates a significant number of employment positions without disturbing local communities since most SSC are investments related to the service industry. In addition, in certain cases the development of SSC creates **significant multiplier effects**, such as:

- **Development of supply / order / transport SSCs** which would improve Greece's position as an international logistics hub. It could also potentially create demand for financing instruments and thus also help develop the financial sector in Greece.
- **Development of research and development SSCs** which would improve Greece's position as an international research and development centre. It may also help create international demand for scientists which in turn may lead to the creation of innovative enterprises in Greece (spin-offs, spillovers –Chinese model).
- **Development of accounting services SSCs** which would create local demand for information and communication infrastructure (ICT data centers) developed according to international standards. World class infrastructure will attract international companies to develop SSC relying on such infrastructure in Greece.

New jobs vs. new SSC, 2005-2012

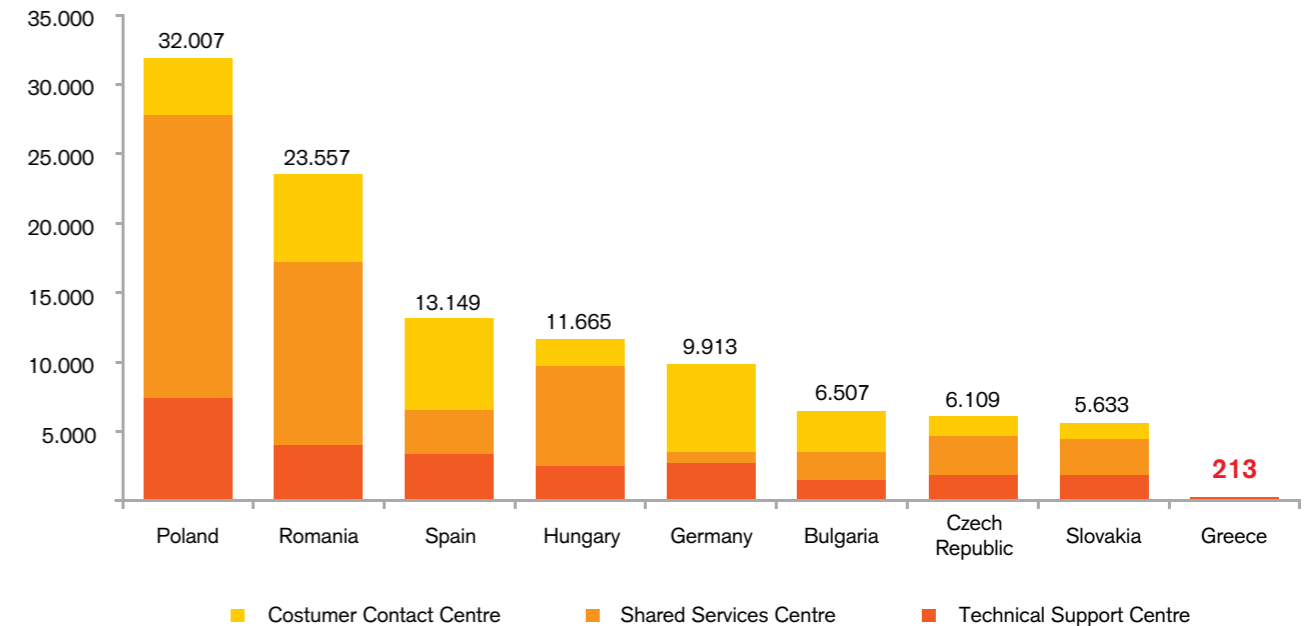


Figure 7: Job creation due to the development of shared services centres

Objective

Greece has not yet proven to be an internationally attractive location for SSCs. By placing tax predictability at the forefront, the proposal aims to attract such international business activities in order to dynamically exploit the country's comparative advantages (location, education and training level, EU membership, etc.)

Proposed measures

The proposed measures aim at improvements that balance the high risks.

1. Retain the agreed mark profit margins over on costs **for at least 15 years.**

2. Automatically apply **scalable tax discounts** based on the number of employees in the company. Companies that employ more than 300 people should enjoy a 50% reduction in the standard corporate income tax rate, **i.e. their effective tax rate should be 14.5%.**

3. Additional support services to be added to what an SSC can provide without restrictions and based on particular needs.

4. Services should also be allowed to be provided to related enterprises established in Greece (thus benefiting Greek multinationals)

⁴ The FDI markets database includes new investments or significant additions / extensions of already existing investments. It does not include mergers or acquisitions. It includes investments that have been announced or have commenced their operation. Data as regards an investment is the one applicable at the time of announcement or commencement of operations.



5. Express provision that a foreign company setting up an SSC in Greece **will not be considered** a resident of Greece for tax purposes.
6. Executives who move to Greece to work for an SSC should enjoy **reduced individual income** tax rate at 20% and reduced social security contribution rates also at 20%. Foreign citizens should only be taxed on their income sourced in Greece.
7. Create **a mechanism for attracting** multinational groups to set up SSC in Greece. Each group will be contacted on an individual basis in order to propose the creation of SSC.

Expected results

Accelerated attraction of higher added value supply chain activities (therefore with a higher GDP contribution) and new jobs requiring technical skills.

Greek multinational corporations will consider setting up SSC in Greece, and if they do then new jobs will be created leading to increased public revenues from taxes and social security contributions.

Foreign multinational corporations will view Greece as a potential SSC location (e.g. logistics/business hubs). Provided Greece becomes more attractive, new, productive jobs will be created which will also directly contribute to public revenue from taxes and social security contributions.

Depending on the type of SSC which will be created, we can expect significant multiplier benefits and spill-over effects on various industry sectors.

10. Horizontal Encouragement of Scientific and Technological Research

Current situation

According to recent public data (www.diavglgia.gov.gr) in 2013, only 39 enterprises submitted research & technology expenditure. The total budget was € 70,946,817.44, and the maximum permitted tax benefit was € 5.533.851.76. In 2014, the number was 41. The under-utilisation of this R&D incentive reflects:

1. Limited profitability in combination with the time-constrained tax loss carryforward. This leads to delays in tax benefits since there are no immediate tax obligations for taxpayers.
2. The narrow band of eligible expenditure as, in 2014, eligibility was decided based on a Ministerial Decision dating back to 1987.
3. The low percentage of tax relief. When combined with existing documentation requirements of the General Secretariat of Research and Technology, it actually acts as a disincentive

The situation in other countries

According to a recent study from Deloitte⁵ (figure 8) many countries provide super-deductions for R&D expenditures. Greece is ranked last with respect to the super-deduction percentage (130%), and second from the end regarding the effective tax relief rate (subsidy rate equivalent) for eligible R&D expenditure (8.7%).

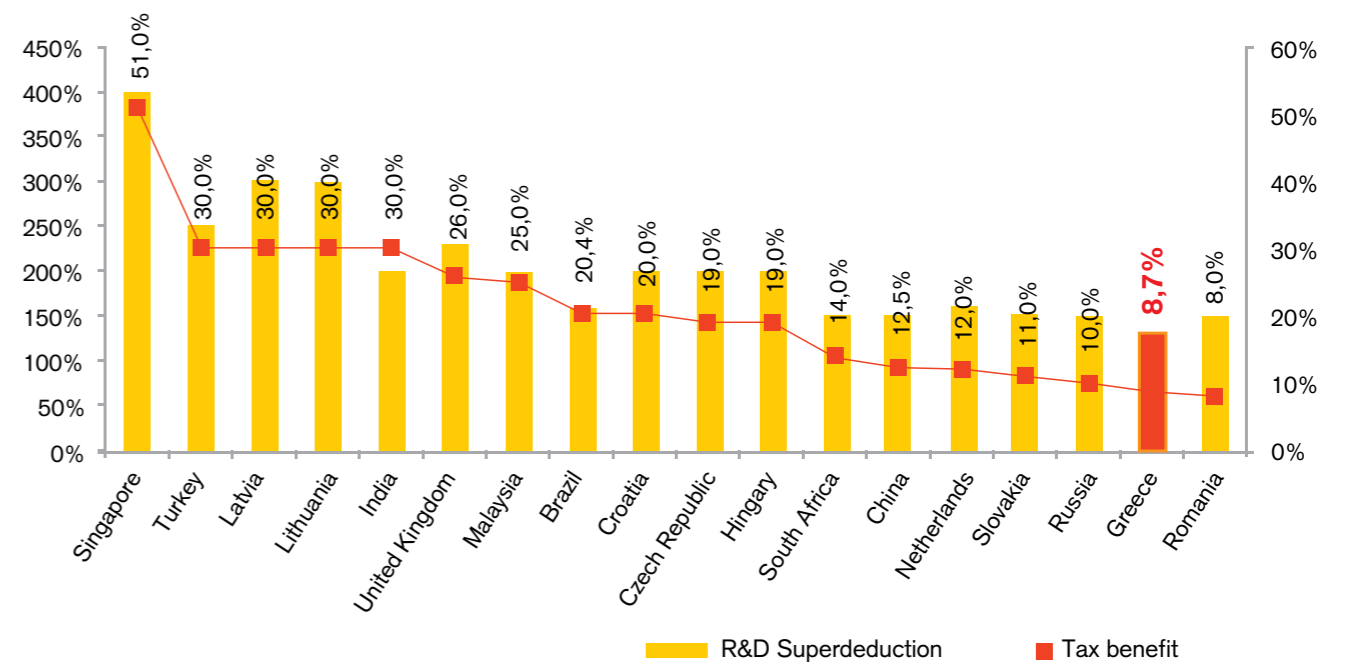


Figure 8: Super-deductions and tax benefits

Objective

The proposal aims to reverse the limited scientific and technology research activity in the private sector. Through a proactive approach to taxation, Greece can approach European averages and strong incentives can be provided for R&D activities for increasing goods and services which are internationally tradeable and have higher added value. Through such incentives Greece can become a significantly more attractive destination for private sector R&D.

Proposed measures

The proposal focuses on issues which require very limited legislative changes:

1. Immediate issue of the foreseen Presidential Decree defining eligible R&D expenditures as per the Frascati Manual⁶, as it is applied in most EU countries and as foreseen in the legislation.

2. Strengthening incentives, so that Greece can approach the leading countries in EU rankings and effectively compete with them.
3. It is proposed to separate scientific and technology research expenditures into Industrial (Applied) Research and, Experimental Development (modification of article 22A of Law 4172/2013). In addition the companies' size must be determined so that the super-deduction limits foreseen in EU General Block Exemption Regulation 651/2014 can be set as follows:

Large Enterprises

- Industrial Research: 270% (state aid intensity 49.3%, GBER maximum 50%)
- Experimental Development: 185% (state aid intensity 24.56%, GBER maximum 25%)
- Feasibility Studies: 270% (state aid intensity 49.3%, GBER maximum 50%)

Medium Enterprises

- Industrial Research: 305% (state aid intensity 59.45%, GBER maximum 60%)
- Experimental Development: 220% (state aid intensity 34.8%, GBER maximum 35%)
- Feasibility Studies: 305% (state aid intensity 59.45%, GBER maximum 60%)

Small Enterprises

- Industrial Research: 340% (state aid intensity 69.6%, GBER maximum 70%)
- Experimental Development: 255% (state aid intensity 44.95%, GBER maximum 45%)
- Feasibility Studies: 340% (state aid intensity 69.6%, GBER maximum 70%).

4. Compliance to the above terms will be ascertained by certified auditors, chartered accountants and / or tax authorities.

Expected results

With the full incorporation of the Frascati Manual into Greek legislation as the reference point for determining the eligibility of research expenditure, Greece will have the same framework with rest of the EU. Reductions in the costs of research will stimulate sectors of the Greek economy that do applied research. They are sectors which develop new goods and services through new knowledge creation and include:

- The pharmaceutical industry, including clinical trial (phases 1, 2 and 3)
- Manufacturing, producing higher added value and complex products
- The ICT sector, producing innovative software and equipment
- The agro-food sector, developing innovation in food products

Cost reductions in research activities are expected to positively impact the Greek economy in several ways:

- **Improvement of the competitiveness of enterprises** with significant R&D activity by reducing the cost of their products / services and potentially increasing exports.
- **Increase of R&D activities in enterprises**, through tax benefits for increased R&D expenditures. This may lead to:
 - o New private sector R&D jobs, with potential increases in public revenues and social contributions.
 - o Increases in the innovation content of goods & services, leading to improved international positioning and possible increases in exports.
- **Attraction of companies from abroad to create R&D centers in Greece**, new R&D jobs, and potential gains in public revenues and social contributions)
- **Companies not normally active in R&D may find it attractive to do so with clear benefits** for R&D jobs, public revenues and social contributions.
- **International examples measuring the impact of such incentives:**
 - o United Kingdom: for every percentage point of R&D tax relief there is an increase in R&D expenditure by the private sector ranging 1.53 up to 2.35 percentage points.
 - o Canada: for every percentage point of R&D tax relief, there is an 11% gain.

11. Horizontal encouragement of patents and innovation

Existing legal framework

Article 71 of Law 3842/2010 allows tax deferral for profits originating from the exploitation of an international patent during the first 3 years of exploitation. These constitute a tax-free reserve and are calculated according to corporate tax returns. The tax-free reserve is subject to taxation when dividends are paid, it is capitalized or withdrawn.

Current situation

According to recent public data (www.diafgeia.gov.gr) since the initial application of the measure, until the end of 2015, only 11 products, all from a single pharmaceutical company have been approved. One request from a manufacturing company has been rejected. Only pharmaceutical products have benefitted thus far. The average time for approval is 16 months.

The situation in other countries

According to a recent study by Deloitte (figure 9), Greece is lagging considerably with respect to both the nature and scope of the incentive. In most countries the incentives embrace all Intellectual Property (IP) and innovation activities, and not only patents.

Objective

Aim is to reverse the limited production and exploitation of innovation and IP, and to provide incentives for their more intense exploitation as a way to improve competitiveness and create new jobs. The proposal suggests a “smart” tax approach with strong incentives, which will align Greece with the successful European practices. This incentive improves Greece’s attraction as an investment destination for sectors focusing on growth through intellectual property.

Proposed measures

Proposals focus on the following:

1. Strengthening the incentive, instead of deferred taxation, establishment of specific tax credits without time or other constraints. For Greece to become competitive, the effective tax rate for income from innovation should be set at under 10%.
2. Expanding eligibility and innovations, including all forms of Intellectual Property not currently protected by standard patents (e.g. software, trademarks). In compliance with the OECD BEPS framework, eligible IP would require continuous R&D expenditure for its maintenance and development.
3. The effective tax rate for innovation should be in place for the entire period that the innovation produces incomes. The GSRT is the competent authority which could be tasked with providing the necessary certification towards tax authorities.
4. Compliance to the above terms will be ascertained by certified auditors, chartered accountants and / or tax authorities.

Expected results

As the framework for incentivizing patents is lacking in Greece, there are not many significant IP exploitation examples. Even when IP is developed in Greece, the legal and tax framework mean that it soon moves abroad. By including innovation in the incentive, Greece’s legal framework will be aligned with that of advanced EU countries like France and the Netherlands. Decreasing costs of innovation and patents will boost significant sectors which rely on IP etc. These include:

- The **pharmaceutical industry**, for new drug development and patents’ exploitation of.
- The **ICT sector**, for software
- The **manufacturing industry**, for the exploitation of IP in complex, high added-value products.

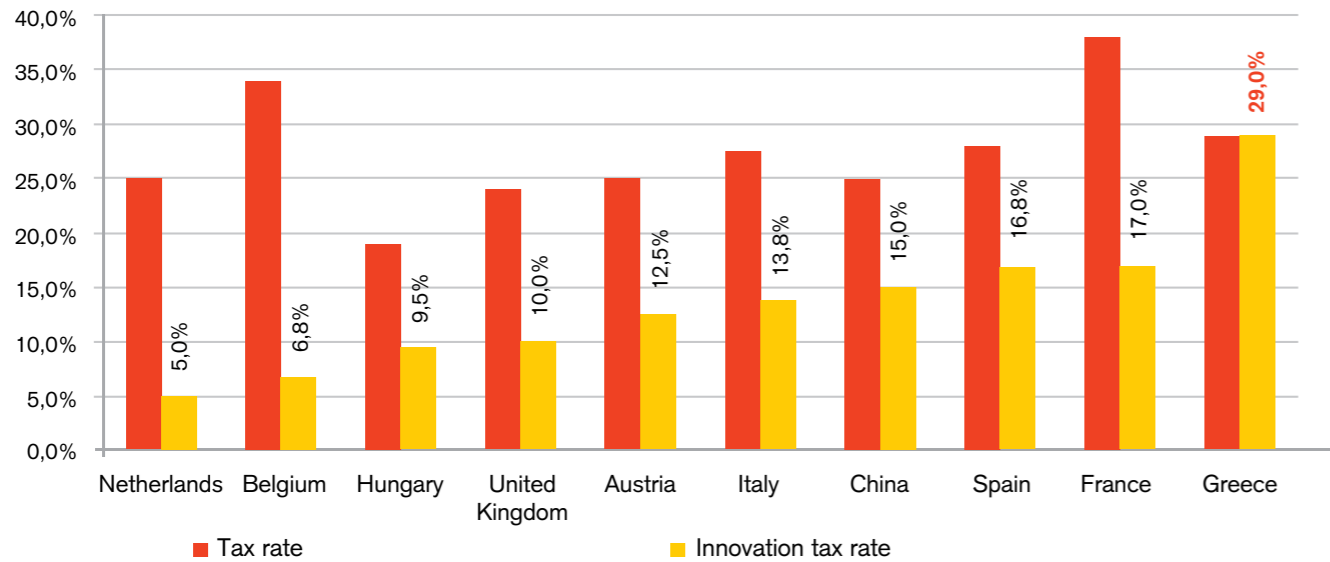


Figure 9: Tax rates and Innovation tax rates

The transformation of the existing incentive from a tax deferral to a significant tax credit, will allow enterprises which produce innovative products and services to reduce the real cost of these products and to generate a positive impact to the Greek economy:

- **Improvement of the competitiveness of enterprises** significantly active in the development and exploitation of innovative products and services. By increasing profit margins, it may also increase propensity to make productive investments. Also, it may lead to new productive jobs and an increase in public revenue (new income taxes and new social contributions).
- **Development of innovative goods & services** by enterprises and, use of tax benefits to increase innovation expenditure. This may result in:
 - o New jobs in research, development and innovation.
 - o Increasing the innovation content of goods & services, improving their international position and increasing exports.

- **Attracting international enterprises** for the transfer of IP and innovation results to Greece and subsequent productive investments, as a way to create new productive jobs in research, development and innovation. Positive effects to public revenue (new income taxes and new social contributions) will follow.
- **Mobilising enterprises' for innovation and subsequent job creation.**

12. Losses carry forward

This proposal can be combined with any of the other measures/incentive.

Existing legal framework

Greek income tax legislation (article 27, L. 4172/2013) provides for the carryforward of tax losses for each fiscal year in order to offset such losses with profits in future fiscal years. Today, the right to carryforward tax losses:

- **Is time-constrained** to the next five (5) fiscal years, while the carryback of losses is not permitted,
- **Is forfeited in case there is a change of more than 33%** in the ownership structure (share capital or voting rights), unless the change can be justified solely on commercial or business grounds and does not aim at tax avoidance or evasion. The right to carry forward tax losses is forfeited for the fiscal year during which the change took place and for the previous 5 years.
- **Does not include losses incurred abroad.** Such losses may only offset income from EU or EEA sources provided such income is not tax exempt on the basis of an agreement for the avoidance of double taxation.
- **Does not affect the right to loss carryforward in the case of mergers or demergers** in accordance with article 54 of the Greek Income Tax Code (L. 4172/2013).

In addition, with respect to Group Taxation, Greek tax legislation does not provide for a group taxation regime or any provision for the carryforward of losses between related domestic enterprises within the same group. In addition, there are no group taxation rules either for groups comprised of only domestic companies or for groups operating abroad.

Current situation

In 2015 and after six years of economic recession which has dramatically affected the Greek business community, six out of ten listed companies reported losses. Reversing this situation (with profit making companies closing the gap with the loss-making ones) will require time.

The ICAP Databank database includes a registry of 14.223 companies (excluding bank and insurance companies) and their balance sheets for the last two tax years. Out of these companies, 2.923 are industrial, 4.160 trade goods, 4.462 provide services. 1.494 and 1.184 companies are active in tourism and construction respectively. As regards the distinction between profit and loss making companies, from the 14.223 registered companies:

- 8.431 companies (59.3%) report profits of approximately 6.065 million euro
- 5.792 companies (40.7%) report losses of approximately 6.707 million euro.

The situation in other countries

Losses carryforward

An examination of tax legislation in more than twenty countries (figure 10) in relation to the treatment of tax losses shows that all the countries allow the carryforward of tax losses, although some may impose certain conditions. More specifically:

- Many countries have no time constraint on the carryforward of tax losses for utilization in future years. When time constraints are in place, they range from 5 to 12 years.
- Italy, Hungary, Portugal and Poland allow the carryforward of tax losses but limit the amount of losses that can offset future profits to a certain percentage of such profits.

- As regards the deductibility of losses incurred abroad, most countries hesitate to allow it by setting preconditions and limitations. Few countries accept deductions of foreign branches' losses and losses from foreign sources in general.

Group taxation regimes

Most EU countries have adopted group taxation regimes but these regimes vary significantly as to their main characteristics. Group taxation regimes can be divided into four main categories (Deloitte analysis):

1. The **tax consolidation model** is adopted in most European countries (France, Portugal, Spain, Italy, Luxembourg etc.). Tax losses of one group company can offset profits of other group companies.
2. The **“Organschaft”** model which, adopted by Germany, allows offsetting tax losses of companies within a group.
3. The **“group relief system”**, adopted by the UK, allows offsetting tax losses within a group of companies.
4. The **“group contributions system”**, adopted in Scandinavian countries (e.g. Sweden, Norway), effectively allows offsetting one company's operating losses against another's operating profits through group contributions, which are tax deductible for the contributor and taxable for the recipient.

Proposed measures

- All accumulated tax losses should be able to be used from a tax perspective in order to contribute to business growth by allowing the offsetting of carried forward tax losses **without any time constraints** or at least with constraints similar to Portugal's (12 year carryforward for 70% of profits), instead of the currently applicable 5 years.
- **Abolition of the provision** which prohibits losses' carry-over following a change in ownership by more than 33%.

- Tax losses incurred abroad should be able to offset profits made abroad **regardless of origin** (i.e. not only EU/EEA profits) on condition that an active double taxation avoidance agreement with the country of origin is in place.

It will eventually become necessary to create a Group taxation regime which will allow Greek profit-making companies, to benefit from tax losses at group level, and eventually, be strengthened through growth supporting taxation.

Expected results

Through the gradual adoption of these proposals, it will become possible to support business growth even in pressing economic environment mainly by:

- **Encouraging loss-making** enterprise to takes steps towards growth and reinvestment
- **Improving the competitiveness** of Greek enterprises.

	Carryforward capability	Time constraint	Past fiscal years	Losses abroad	Group tax losses
Austria	YES	NO	NO	Under circumstances	YES
Belgium	YES	NO	NO	Under circumstances	NO
Bulgaria	YES	5 years	NO	only for income from same source	NO
France	YES	NO	YES	YES	YES
Germany	YES	NO	NO	Under circumstances	YES
Switzerland	YES	7 years	NO	Under circumstances	NO
United Kingdom	YES	Indefinite Under circumstances	NO	Under circumstances	NO
Ireland	YES	Under circumstances	NO	only for income from same source	Alternative NO
Spain	YES	NO	NO	YES	YES
Italy	YES	NO (for 80% of profits)	NO	Under circumstances	YES
Croatia	YES	5 years	NO	Under circumstances	NO
Cyprus	YES	5 years	NO	YES	NO
Luxemburg	YES	NO	NO	YES	Alternative YES
Malta	YES	NO	NO	YES	NO
Norway	YES	NO	NO	Under circumstances	NO
Netherlands	YES	9 years	1 year	Under circumstances	Alternative YES
Hungary	YES	5 years (50% of profits)	Under circumstances	Under circumstances	NO
Poland	YES	5 years (50% of profits)	NO	Under circumstances	YES
Portugal	YES	12 years (70% of profits)	NO	Under circumstances	YES
Sweden	YES	NO	Under circumstances	NO	NO
Czech Republic	YES	5 years	NO	NO	Alternative NO

Figure 10: Analysis on losses carry forward

PART D:

DISINCENTIVES & PROCEDURES



13. Removing disincentives

Objective

The most important obstacle in attracting new investments as well as expanding existing ones is the **lack of tax programming along with the accumulation of pending** tax obligations. This is due to the large number of unaudited Financial Years in combination with the huge number of cases pending at the Administrative Courts and the relevant Committees at the Ministry of Finance.

SEV's proposal aims to directly improve the investment environment through the removal of tax related disincentives.

Proposed measures

The following disincentives have to be eliminated:

- Tax audit of all unaudited FYs. The completion of all audits will require two financial years (2016 and 2017). The measure is expected to positively impact public finances directly. Public revenue is expected to be around €800 million.
- Reduction of pending tax cases before the revenue service and the courts. In conjunction with the tax audits of unaudited FYs, appointing regional committees with increased competences is necessary in order to resolve pending cases. These committees are expected to generate direct revenues of around €150million.
- Tax predictability. Although the fiscal situation does not permit radical decreases in taxation, it is still possible to ensure a predictable taxation environment through three steps:
 - i. Provision for a decrease of tax rates by 2%/year for the following 10 years
 - ii. Fixed tax rates for the following 10 years
 - iii. Any future changes in tax rules and rates should

follow prior announcements and commit to not being less favourable than existing regimes.

Further complimentary suggestions:

- **Reduction of social insurance contributions & employers' social insurance contributions.** Currently, at 41%, Greece has the highest rates among its main competitors in the OECD and the EU (which average respectively 28% and 26%).
- **Institutionalization of tax audit techniques** and guarantees that tax audits will be completed by the end of each fiscal year. This will ensure prompt collection of public revenue and preclude the accumulation of unaudited FYs and pending cases.
- **Institutionalization of the term "productivity" of expenses.** Productivity of expenses is a real concern for companies and audit departments of the Ministry of Finance. It is the main cause of the huge number of pending cases and the main obstacle for the creation of a favorable investment environment.
- **Tax stability and legal certainty for investments.** Institutionally ensuring the duration of applicable tax rates and excluding extraordinary contributions is necessary for a stable taxation environment. In addition, it refers to utilizing the provisions set by Law 2687/1953.
- **Improvement of the business environment** with respect to licensing, spatial planning issues, environmental protection, market operation and supervision, simplification of planning regulations in industrial areas, determining industrial concentration areas, recycling, etc.
- **Competitiveness of the markets.** Apart from the Energy market, labor markets, services, transportation and all markets related to the production process should be open and competitive.
- **Strengthening measures** and audits in order to combat unfair competition.
- **Revision of EU General Block Exemption Regulation 651/2014** based on recent GDP data.

14. Effective mechanisms to reduce unaudited FYs

The situation with audits today

In Greece, tax authorities must audit companies' tax books and records before the State's statute of limitation period has elapsed. The general statute of limitations for income tax and indirect taxes is five years starting from the end of the Financial Year (FY) that the taxes in question were due.

Tax auditors usually suggest a surcharge on a company's declared taxable profits through additional accounting differences based on their **interpretation of the legal provisions**. This even occurs when through the strict implementation of tax provisions, a surcharge should not emerge. Pursuant to data by KPMG, there are several cases when tax authorities reject spent amounts which are not deemed productive expenses (a situation mostly based on the tax auditor's point of view) or because they are not accompanied by the relevant supporting documentation.

The lack of a clear and objective framework is also evidenced in decisions by the **Council of State** in cases where audited companies successfully challenged their cases (e.g. Council of State decisions 3214/1982, 3735/1988, 2993/1991, 2581/1994, 1227/1995, 4118/1997, 2033/2012). The Council of State decisions were either subsequently accepted by the Ministry of Finance or the Income Tax Code was amended in order to legalize the tax auditors' point of view.

Clearly, the aforementioned audit procedure conducted by tax authorities does not provide companies with the opportunity to finalize their tax obligations. Consequently, companies remain unaudited until tax authorities do so many years after the end of each FY. Indicatively, this may be seen in statutory auditors' reports attached under companies' financial statements in which the unaudited years of every company and the non-finalization of the relevant tax obligations are mentioned.

The Tax Compliance Certificate has solved the problem.

What is currently available

According to KPMG analysis⁷, the **Tax Compliance Certificate** was based on the provision of article 82 para. 5 of the now abolished Income Tax Code, L. 2238/1994, as amended by articles 17 para. 3 of L. 3842/2010 and 21 para. 10 of L. 3943/2011 as well as Ministerial Circular POL 1159/2011. It was applicable for company balance sheets for accounting years ending after 30th June 2011.

After the adoption of the new Income Tax Code (L. 4172/2013) and Tax Procedural Code (L. 4174/2013), L. 2238/1994 and the Tax Compliance Certificate were abolished. However, Tax Procedural Code (L. 4174/2013) was amended; thus, article 65A states that the Tax Compliance Certificate will be applicable for accounting years starting before January 1st 2016. **In other words, the Tax Compliance Certificate is abolished for accounting years starting after 1/1/2016.**

The Tax Compliance Certificate is an important innovation for audits. Companies may finalize their tax obligations through the submission of tax compliance reports by the statutory auditors and audit firms to the website of the Ministry of Finance without waiting for tax authorities to perform an audit many years after the end of each FY. A similar audit procedure by statutory auditors is applicable in many European countries. Random checks are performed to confirm the conclusions of the statutory auditors.

Benefits from the Tax Compliance Certificate

A KPMG analysis, regarding Tax Compliance Certificates for FYs 2011-2014, gathered the following information:

- 26 audit firms submitted **4.668** Tax Compliance Certificates with an annual turnover of €193 billion and a **compliance rate of 92%**.
- During this period, due to the financial crisis, the accounting losses of the audited entities increased by **more than 400%**, while the respective income tax paid fell by only 31%.

- The tax base was expanded by €1.46 billion and generated additional direct tax revenue of approximately **€400 million annually**. Similar amounts were generated in the following years.
- **Stamp duty receipts increased** by 27% (from €56.2 million in 2010 to €71.5 million in 2011).
- **€90 million was pre-confirmed as due** through the Tax Compliance Certificates in cases where the audited companies were not compliant.
- Observations (about potential discrepancies) in the respective audit reports amounted to €165 million (plus fines and surcharges) in addition to non-quantified observations which may generate further taxes.
- **An efficiency benchmark** for previous unaudited FYs was set.
- **A compliance benchmark** for future FYs was set.

It follows that there was a significant increase in both the compliance rate of audited companies and in the collected taxes. An additional benefit of the Tax Certificate stemmed from the prompt collection of taxes instead of the increase in unaudited FYs which would decrease revenue. Past practices which attempted to limit the number of unaudited FYs and collect more taxes, included "final closures" by the Ministry of Finance. These closures replaced audits, and were a source of injustice against compliant taxpayers. In addition, they often failed to achieve the expected results.

Objective

In this period of personnel shortages in tax administration services, during which the application of cross-checking instruments has not been completed, and there is a pressing need to directly collect revenue, a **reliable and effective auditing mechanism** is required. SEV's proposal aims at the swift completion of all unaudited FYs for the benefit of both businesses and the public purse. This can be achieved through mechanisms that are complementary to tax authorities (such

as the tax certificate) until completion of their necessary reorganization.

Proposed measures

SEV proposes the use of mechanisms which are at least as effective as the Tax Compliance Certificate. Expected benefits may rise to >€600 million.

In order to achieve this goal, L. 4174/2013 should be amended. Specifically, the following amendment is proposed:

Article 72 para. 39 of L. 4174/2013 (Tax Procedural Code) is replaced as follows: "Article 65A provisions enter into force for FYs starting on the 1st of January 2014. Entities which fall under the provisions of article 65A may assign to a statutory auditor or an audit firm, the issuance of an annual certificate with regards to previous unaudited FYs for which the limitation period has not lapsed before the law's entry into force. The tax areas of the respective FYs shall be examined according to Decision 1159/2011 of the Ministry of Finance."

Expected results

Statutory tax audit covers specific tax areas determined by a special audit program in combination with the framework set by the International Standard on Assurance Engagements (ISO) 3000 "Assurance Engagements other than Audits or Reviews of Financial Information history". In other words, they perform audits based on instructions, and on behalf, of the tax authorities.

Furthermore, according to the provisions of Article 26 of L. 4174/2013, the Tax Authority may perform regular audits to companies already audited by statutory auditors. Therefore, the Tax Compliance Certificate mechanism does not clash with the Tax Authority's authority. In the event that a company does not employ statutory auditors to examine its financial management and tax compliance even though it is bound to do so, this company should be promptly audited by the competent auditing services of the Ministry of Finance. Apart from their administrative or penal sanctions im-

posed for improper fulfillment of their duties, auditors and audit firms are jointly held liable (limited liability) for compensating the State in cases where the State has suffered losses but there is absence of intent on their part, according to article 29 of L. 3693/2008. If future audits lead to further charges regarding the tax areas of the compliance program, a fine ranging between €10.000 and €100.000 is imposed on the auditor or the audit firm.

15. Inclusion, control and certification processes

Objective

This proposal focusses on significantly simplifying procedures for inclusion, control and certification processes for investments while also ensuring full compliance with the rules. This can be achieved through the use of **certified external mechanisms** working complementary to the public authority but following the same rules.

Proposed measures

With regards to procedures concerning investment support through incentives, the following amendments are proposed which will accelerate the process at many levels:

- **Abolishment of necessity to submit full portfolio for investment support. Instead,** a simple announcement describing the investment should suffice. Expenses will be audited (e.g. through Tax Compliance Certificate) without further administrative involvement.
- **Abolishment of investment implementation monitoring** concerning ready-made equipment (e.g. machinery, vehicles, appliances etc.). Monitoring should be replaced by tax audits of supporting documentation.
- Monitoring implementation and completion of other investments (e.g. construction, buildings etc.) should

be carried out by **external experts** (or banks) without further administrative involvement.

- **Acceleration and simplification of procedures for supported investments** by keeping separate registries. The audits should be conducted by statutory auditors, mechanisms such as the tax compliance certificate or/and the tax authorities. In order to ensure that investments (of all categories) are actually made, the respective accounting standards and techniques which bind tax auditors should be respected.
- Completion of an audit is immediately followed by receipt of aid. Random checks could also be applied.
- **Ensuring that each portfolio is up to date at every step of the way is crucial, particularly with respect to deadlines.**

16. Coordination of public funding

SMEs, being the basic beneficiaries of co-financed schemes, receive funding through multiple sources and instruments (e.g. grants, guarantees, credits etc.). In order to be more effective, it is necessary to improve the coordination of all mechanisms distributing public funds. A coordination mechanism must be able to combine an executive role in investment fund allocation, the establishment of uniform financial support rules, as well as the creation of specialised (sectoral) investment programs (figure 11).

European experience shows that establishing a separate financial institution (e.g. a development bank) is not necessary if funding is allocated according to market rules. In any case, revolving funding constitutes a much more efficient way of supporting businesses and complements tax incentives. Revolving funding tools are simple to design and can cover wide areas. They can also be combined, both with each other, as well as with direct grants and incentives. Indicatively we propose:

- **Risk-sharing loans** for working capital, reserves,

equipment upgrade, development of new activities, mergers/acquisitions, fixed assets etc.

- **Guarantees** to banks for businesses covering an important part of investment risk (e.g. >70%)
- **Factoring** especially for export-oriented investments by subsidizing part of the discount rate (1% - 50%)
- **Co-investment funding** for more mature investments, extension of activities, production growth
- **Export credit insurance** through the Export Credit Insurance Organization
- **Instruments for supporting start-ups and micro-entrepreneurship**, such as VC funds, pre-seed funds, microfinance etc. This relates mostly to investments below €300.000.

Governance

In order for the coordination mechanism to be effective, one needs to ensure its administrative independence, the impartiality of investment decisions, and the existence of specialized staff from the private sector. It is also crucially important to ensure it has the ability and investment know-how based on international rules for financial transparency and purely financial decision-making criteria. In addition, it should be subject to solvency and risk-management rules (Basel rules, stress tests etc.) as well as rules for information and internal control concerning financial institutions (under the authority of the Bank of Greece and within the Eurozone framework).

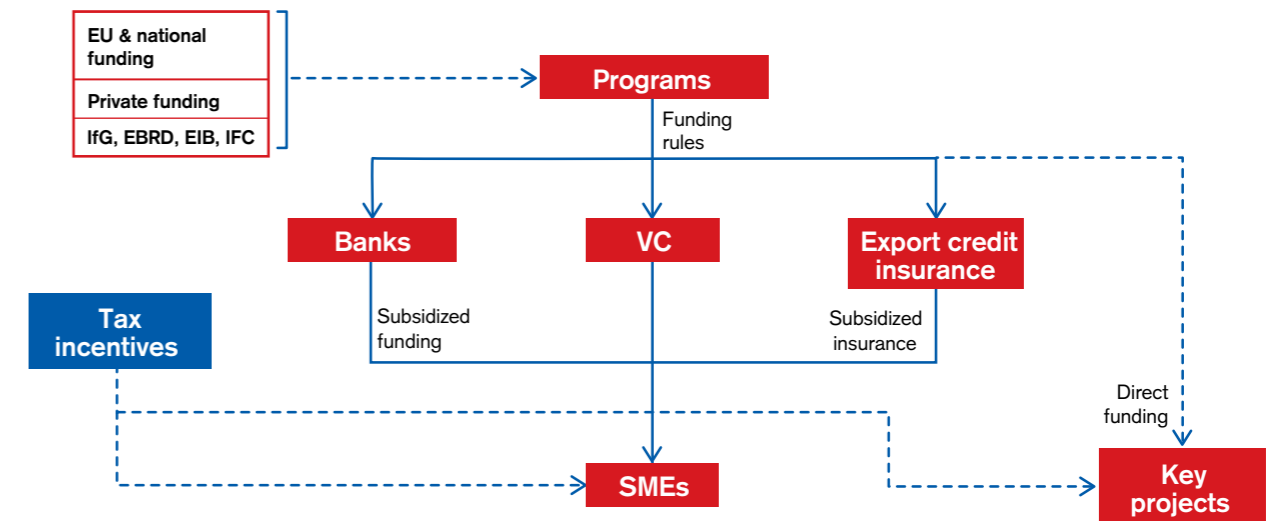


Figure 11: Effective coordination of public funding

17. Compliance with State Aid Rules

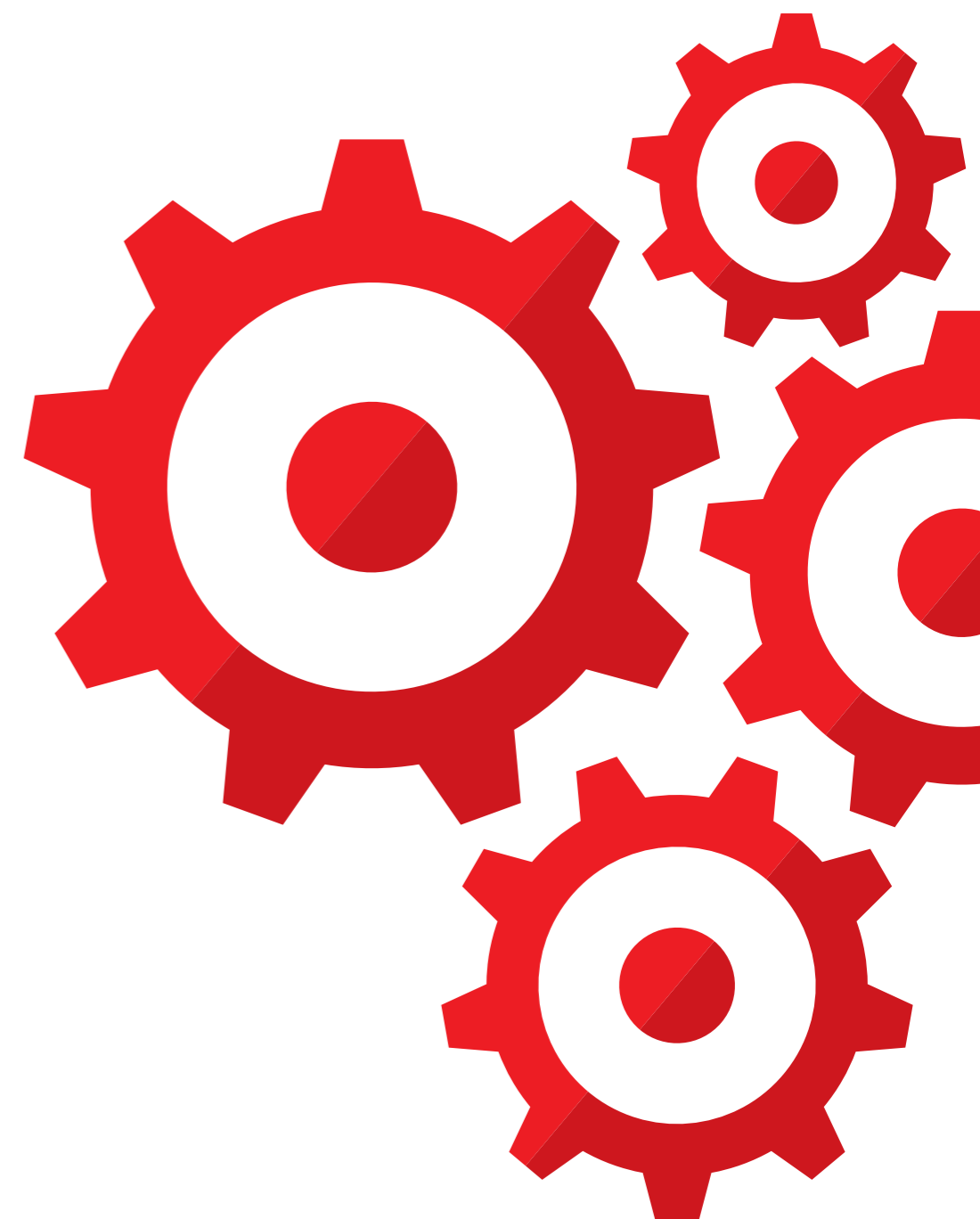
Investment promotion is based on the following main pillars:

- Horizontal tax measures (proposals 6, 9, 10, 11 and 12), applied without distinction, and incorporated in the tax legislation. They are linked to tax practices and general economic policy objectives.
- Horizontal tax incentives falling within the purview of EU General Block Exemption Regulation 651/2014 (proposal 7, and certain aspects of proposal 6). These are measures that concern specific regions, industrial sectors, business sizes, etc.
- Targeted measures which will require further exemptions. These incentives should be notified to DG Competition and need to be exempted on the basis of paragraph 3 of Article 107 of the EU Treaty. Public authorities should assist in the submission of the request. It is a practice which has been used extensively by several EU countries. Most recent examples include Hungary and the Czech Republic.

Such a request usually contains:

- The specific economic sector / geographical area where the economic disturbance exists, backed by documented evidence (for paragraph 3.b of Article 107 of the EU Treaty). Usually, a general request for exemption without a specific application case (defined spatially and / or by sector) is not positively assessed. Therefore, the business community and the public administration must cooperate in identifying and selecting the activities and regions for which an exemption of the state aid rules is required and will be sought.
- The specific measure which will remedy the economic disturbance (e.g. incentive, deviation) and the degree of the exemption (e.g. pari passu, private investor principle, one time - last time)

- Detailed presentation justifying the suitability of the proposal and accompanied by cost / benefit analysis.
- The encouragement of anchor investments (proposal 8) will require an assessment for compliance to state aid rules. In most cases a request for exemption will be required.



18. Annex

State-aid incentives (selected EU15 cases)

Country	Funding				Tax Relief			Social Contributions		Tax Concession - Credit
	Capital	Employment	Education	Interest	VAT	Customs	Corporate Tax	Employer	Employee	
Austria	10%-50%		25%-40%	Ad hoc			10% for R&D			
Belgium	Following file review	Following file review		Following file review			Following file review			
France	7,5%-35%	<€15,000/job					<100% for the 2 first years			Discount per region, investment type
Germany	<40%	50%	100%	Ad hoc						
Denmark	Following file review	Following file review		Following file review			Following file review			
United Kingdom			<€5,000				10%			
Ireland	<€10M	Ad hoc	Covers basic expenses, wages and salary costs, trips				30% with potential for additional 11% under specific preconditions			
Italy	25%-40%			Ad hoc			Ad hoc			
Portugal	25%-70%	€5.533/year per employee (12*461.14)				100%	10%-50%	75-100% for <3 years		100% exemption of property acquisition tax
Sweden	Ad hoc based on size, type, region	120-198K in 3 years	30%-40%					Ad hoc ~ size, type, region		
Finland	15-30% (for SMEs)									

Source: Grant Thornton

State-aid incentives (selected EU members and Turkey)

Country	Funding				Tax Relief			Social Contributions		Tax Concession - Credit
	Capital	Employment	Education	Interest	VAT	Customs	Corporate Tax	Employer	Employee	
Bulgaria	<50% for agricultural activities		50%		100% for 2 years	100%	100% for regions with unemployment >25%	100%		100% exemption of property acquisition tax
Croatia	10-20% for new jobs	25%, 50% or 100% (for more than 100, 300 or 500 persons respectively)	10%-30%			100%	100%			20%
Hungary	20%-35%	<€3M (depending on number and region)					80% for 14 years			Ad hoc <100%
Poland	<50% (for investments >€10M >€0.5M when new jobs are being created)						Tax free profits <19% of the subsidized capital <10 years			100% property tax exemption
Romania					100%	100%	50% for R&D			
Slovakia	15%-25%	€ 4-14,6K					10%-50%			40%-60%
Turkey				3%-7%	100% (VAT 18%)	100% (Tax 2%)	50%-90%	100% of the minimum wage (\$102/month)	100% of the minimum wage (\$73/month)	Full concession
Czech Republic	265%	100-300K CZK	25%-50% according to unemployment rate/region				100% for new companies (<10 years)			100% tax exemptions for <5 years

* Machinery and equipment

Source: Grant Thornton

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