



## GREECE - May 2018

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### **New property tax rates to be introduced over three years**

The Finance Ministry is processing a plan for the gradual application of the new "objective values" (property rates used for tax purposes) so as to spread the extra burden on property owners over three years.

This way millions of owners won't have to pay a massively increased bill for their Single Property Tax (ENFIA) bill this August as the country prepares for its exit from the bailout program, but instead just a third of the additional tax due.

However, the creditors have not yet approved this plan, and that is not going to happen before early June, when they get the final data on the ENFIA test calculation based on the new rates.

### **Real estate owners brace for new levies**

The new objective values (property rates used for tax purposes) to be announced in mid-June will only be the starter for property owners, as it is expected that the main course will be particularly hard to digest when it comes in 2019.

The post-program tax shock for hundreds of thousands of owners will include a change in the property transfer tax rates, the activation of the capital gains tax on transfers (suspended till end-2018), the launch of the automatic system for updating the objective values, and the inclusion of arable land and plots outside town planning in the sum of assets that incur the supplementary property tax.

Worse, the government is also considering the introduction of a new property ownership tax that would be based on the entire set of assets that each owner possesses.

The activation of the automatic mechanism for updating the taxable rates will revive the long-frozen issue of estimating the prices of farms and plots outside town planning zones. The total value of those real estate assets is estimated at 110-130 billion euros, and for now they do not count toward the supplementary tax, while incurring particularly low Single Property Tax (ENFIA) rates.

### **Finance Ministry considers phasing in property tax rise in two stages**

The Finance Ministry is examining new strategies regarding the new "objective values" (property rates used for tax purposes), as the plan for two separate sets of values for each property appears to be a nonstarter, while the country's creditors are pushing for an automatic mechanism to revise the rates.

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The revised bailout agreement describes the alignment of objective values with market prices and the creation of a permanent unit within the ministry to constantly update the zone rates as prior actions.

However, Athens will propose to the creditors that the property-related taxes and levies be adjusted gradually to the new objective values, with a lower increase rate for all 21 taxes just for this year, and a further revision of the tax rates next year to match the rise in objective values where applicable.

Sources say that the plan that foresaw the use of two sets of objective values – with one set for the calculation of the Single Property Tax (ENFIA) and another for property transfers – has been abandoned due to the legal problems it would create.

The ministry is leaning toward the phasing in of the increased taxable values: For example, in an area with a current zone rate of 1,600 euros per square meter and a revised objective value of 2,000 euros/sq.m. this year's property taxes would be based on a moderate increase to 1,800 euros/sq.m. before being brought into line with the full increase next year.

The ministerial decision is likely to state in detail the extent of the increase of the objective values to apply this year and next, although all this still requires the approval of the creditors, who are yet to receive the data showing whether the ENFIA target of 3.2 billion euros will be achieved this year.

The test calculation with the sum of the new zone rates across Greece has not yet taken place. Tax administration officials say this will have to come after the full examination of the new objective values by the ministry's competent agencies and after the political leadership has issued specific guidelines on what it wants the tax administration to do.

Officials add that if the 2019 test calculation – with the increased zone rates – leads to an ENFIA result of 3.6 billion euros or more, the political leadership would raise the tax-free threshold of the supplementary tax (imposed on large property owners) from 200,000 to 250,000 euros.

### **Property zone rates are set for yet another delay**

Less than three weeks before the deadline, almost a third of the country still doesn't have adjusted "objective values" (property rates used for tax purposes), and the reason for that is that the task force set up at the Finance Ministry has identified major differences in the zone rate recommendations submitted by independent surveyors, a problem that the creditors' technical staff have also been involved in trying to solve.

The task force and the technical experts of the country's international creditors have been exchanging emails in an effort to determine the zone rates to be exempted from the adjustment process – where there are extreme discrepancies of more than 50 percent between recommendations for the same area – so as to create an algorithm that will produce the zone rates for the entire country.

This procedure is proving too complicated to be completed for all property zones in Greece in time. According to sources, there are 3,000 zones out of a total 10,000 across the country that show major differences in rates, sometimes up to 60 percent.

It is also a particularly bureaucratic process, as after the decisions of the task force in cooperation with the creditors' experts, the proposed zone rates will be submitted to the ministry's second-level committee, which will approve or modify the original recommendations. Then, once that committee has completed its work, the political leadership of the ministry will have to green-light the new rates.

The date set for the announcement of the new objective values, June 1, is now being disputed by committee members, but the arrival of the heads of the creditors' representatives next week may well offer some solutions for wrapping up the new objective values, while they may even grant an extension to the deadline for the completion of the project, which is one of the dozens of prior actions required for the conclusion of the bailout program. Still, ministry officials argue that the involvement of the creditors will lead to the speedier publication of the new objective values.

### **New objective values to be issued in June, with many ENFIA hikes**

Greece's 7 million property owners will find out next month what the new taxable rates in their area will be, ahead of receiving their Single Property Tax (ENFIA) pay notices in the last few days of August.

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The recently formed committee tasked with processing the zone rates recommended by property surveyors has not yet completed its work, which has led to further delays in the announcement of the new so-called “objective values” (property rates used for tax purposes) – and possibly to the dismay of the country’s creditors who are to send their chief representatives to Athens next week.

Kathimerini understands that, following the adjustment, the losers will be the owners of properties with current zone rates ranging from 750 to 1,500 euros per square meter. In those areas ENFIA will rise between 3.5 and 21.6 percent, and in a handful of cases the increase will amount to 62 percent from last year.

In any case the new objective values will change the map of the property market – which will not benefit from the changes – as well as the taxation landscape, as the rate adjustments closer to market prices will generate a domino effect of changes in some 20 taxes and levies imposed on property.

Sources say that the Finance Ministry committee is comparing the recommendations of surveyors with data from the Bank of Greece and the Property Transfer Register to establish whether there are any major differences. As committee members admit, they “have given up” on some 1,500-2,000 zones and have forwarded the data to the ministry’s second-level committee for it to make the definitive decisions.

The same sources add that before the new objective values are published, there will be some virtual ENFIA calculations to ensure the amount demanded reaches the target of 3.2 billion euros – the amount property owners are asked to pay every year, with an average of 2.65 billion eventually being collected.

Data show that several areas in the center of Athens will have higher ENFIA dues this year. In districts such as Metaxourgeio, Mets, Koukaki, Petralona, Pangrati and Kerameikos, the zone rates will grow significantly, according to the recommendations submitted to the ministry. A smaller increase (from 3.5 percent) is expected in less fashionable areas, such as Drapetsona in Piraeus.

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