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Greek Tax Scandal Distracts From a Collection Shortfall

By LIZ ALDERMAN and RACHEL DONADIO

The tax scandal that reignited in Greece over the holidays had all the makings of a grade-B drama. A former finance minister, George Papaconstantinou, was accused of scrubbing his relatives' names from a CD containing the identities of thousands of possible Greek tax dodgers. Within hours, his chief political rival tossed him from their party.

Mr. Papaconstantinou, in turn, hinted darkly that he was the victim of a plot masking malfeasance at higher levels.

While the firestorm may have made for political theater of a sort, it has diverted attention from a much bigger problem: Greece, its foreign lenders say, has fallen woefully short of its tax collection targets and is still not moving hard enough to tackle widespread tax evasion — long tolerated, particularly among the country's richest citizens.

Greek officials agreed to the targets as part of an international lending pact last year, but there is no penalty for missing them. In recent weeks, however, two reports by Greece's foreign lenders have found that Athens pulled in less than half of the additional tax income that it expected last year and performed fewer than half of the expected audits.

One report said that Athens had brought in a little less than $1.3 billion in additional taxes of the $2.6 billion it had hoped to collect in 2012. Only 88 major taxpayers, including corporations, were the subject of full-scope audits, well below a target of 300, the report said, while just 467 audits of high-wealth individuals were completed, compared with a goal of 1,300.

The fragile, three-party coalition government of Prime Minister Antonis Samaras continues to vow it will crack down on corruption and tax evasion, but a blunt assessment last month by a task force of Greece's foreign lenders said, "These changes have not yet been reflected in results in terms of improved tax inspection and collection." Analysts say the failure to pursue tax evaders aggressively is deepening social tensions. "It's a weak government with very difficult work to do, and this is very, very bad for the morale of the people," said Nikos Xydakis, a political columnist for Kathimerini, a daily newspaper. "This year will be hell for the middle-class people. And the rich people are untouchable. This is very bad."

In a separate report, the European Union and the International Monetary Fund said they were concerned that the "authorities are falling idle and that the drive to fight tax evasion by the very wealthy and the free professions is at risk of weakening."

The report added that total unpaid taxes amounted to nearly $70 billion, about 25 percent of Greece's gross domestic product. But only about 15 percent to 20 percent of the amount is actually collectible, either because the statute of limitations has run out or the scofflaws do not have the money.

It pressed Greece to focus on the cases most likely to produce real revenues, especially in vocations where tax evasion has become pernicious. "Doctors and lawyers are a good place to start," it said.

Critics, especially the leftist party Syriza, which leads in opinion polls, say the government has not done enough to stop corruption because its members are tied to the country's business elite and do not want to jeopardize their political careers.

"The problem is not simply tax evasion among the rich," said Zoe Konstantopoulou, a member of Parliament from Syriza who serves on a panel investigating the so-called Lagarde list, a compilation of more than 2,000 Greeks with accounts in a Swiss branch of HSBC that had been sent to Mr. Papaconstantinou in 2010 by Christine Lagarde, then the finance minister of France. "The problem is tax evasion among the rich with the complicity and the aiding and abetting of those who govern."

While Greece received a badly needed $45 billion in aid last month to help it avoid defaulting on its debts, critics say that unless Athens can more forcefully tap the billions it is owed in taxes, it will never pay off its debts, even if its moribund economy eventually starts to recover.

A dysfunctional bureaucracy weakened by budget cuts, two destabilizing rounds of elections last spring and an economy decimated by austerity have hampered tax collections further. But a thicket of regulations and a culture of resistance also fuel a shadow economy that includes an estimated 25 percent of economic activity.

One study by researchers from the University of Chicago and Virginia Tech estimated that tax evasion costs Greece about $37 billion a year, equivalent to nearly 15 percent of economic output. The study found that doctors, engineers, accountants and lawyers were "the primary tax-evading occupations."

The reports were released shortly before Greece's financial crimes squad accused Mr. Papaconstantinou late last month of removing the names of three of his relatives from the Lagarde list.

Those accounts belonged to a cousin of Mr. Papaconstantinou's, her husband and the spouse of another cousin. On Wednesday, the cousin, Eleni Papaconstantinou-Sikiaridis, resigned from her post at the Greek privatization agency, saying in a letter that the money held in the HSBC Geneva account was "the legal wealth of myself and my husband."

Mr. Papaconstantinou has vehemently denied the accusations and has said that he worked to clamp down on tax evasion as finance minister from 2009 until 2011. "I handed to the tax authorities all the files which I received from the French authorities," he said in an e-mail. "I am not in a position to confirm that the original information received in 2010 contained the three files concerned," he added, about his relatives.

"If the original is identical to the new one sent by the French authorities two weeks ago, this means that someone removed the names after I handed the files over," he said.

Mr. Papaconstantinou told Parliament in November that he had asked the head of the financial crimes unit at the time to investigate only the names of the 20 biggest account holders on the list. In the e-mail interview, he said that an aide in his office pulled together the names, which he said accounted for about half of the money in the accounts.

He said he had been uneasy releasing the full 2,000 names to financial investigators for fear that they would be leaked. "Surely it is easier to safeguard an investigation of 20 people than one of 2,000 people," he said.

Mr. Papaconstantinou testified that he then passed the entire file in June 2011 to the head of Greece's financial crimes unit, Ioannis Diotis, who later gave it to Mr. Papaconstantinou's successor, Evangelos Venizelos, the current leader of the Socialists and a rival of Mr. Papaconstantinou's.

Mr. Diotis said that Mr. Venizelos did not give him orders to investigate the names on the list. Mr. Venizelos said Mr. Diotis had told him the material was unusable as it had been illegally acquired. Mr. Venizelos added that he passed the memory stick to the prime minister, Mr. Samaras, last October after Finance Minister Yannis Stournaras said the authorities could not find the original list.

On Thursday, Syriza called for an investigation into Mr. Papaconstantinou and Mr. Venizelos, and it labeled the current coalition government "the architects of corruption, and of the cover-up of corruption."

Liz Alderman reported from Paris, and Rachel Donadio from Rome. Niki Kitsantonis contributed reporting from Athens.