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Now on Greek Menus: Tax Battle

Popular Fish Restaurant Becomes Front Line in Broad Effort to Fight Evasion, Boost Revenue

By JAMES ANGELOS

HYDRA, Greece—A family-owned fish restaurant on this serene island has become an improbable focal point of Greeks' debate over their government's effort to collect more taxes.

Riot police were called to Hydra when a small insurrection erupted over the summer, after financial-crimes police tried to arrest a proprietor of a century-old seafood *taverna* for allegedly failing to give proper receipts.



James Angelos/The Wall Street Journal

Sevasti Mavrommatou working in Kitchen of her restaurant Psaropoula.

The police action was part of a stepped-up effort to stamp out off-the-books transactions that Greek officials say are depriving Athens of vital revenue when every taxable cent is needed to ward off fiscal doom.

Tax-evasion is pervasive in Greece. Many Greeks, however, object to what they see as the government's uneven approach to the issue. They see heavy-handed treatment of small-business owners who are reeling from recession and an increased tax burden. They are resentful, meanwhile, over reports of tax evasion and money laundering among the politically connected and wealthy. Many also express anger over constitutionally

decreed tax-exemptions for wealthy ship owners.

On Thursday, the debate reached the halls of Parliament. "The tavern owner on Hydra, you took her in shackled," said Alexis Tsipras, the head of the main opposition party, Syriza, which has accused the government of not going after the biggest tax evaders. "Will you take any of those who have billions untaxed abroad to the bench in shackles? We are waiting to see. You won't take them. We will take them, though."

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Greece's tax revenue as a percentage of gross domestic product has long lagged that of most other European Union nations, according to Eurostat, the EU's statistics agency. The nation collected tax equal to one-third of

GDP in 2010, according to provisional data—below Denmark's 48.5% and Germany's 39.5%, and just above Spain's 32.9% and Ireland's 29.8%.

Evaded taxable income in Greece amounted to €28 billion (\$36 billion) among the self-employed in 2009, according to a recent academic study. The lost income-tax revenue—which doesn't include other evaded taxes, such as on consumption—would have been the equivalent of nearly one-third of that year's budget deficit, the authors estimated.

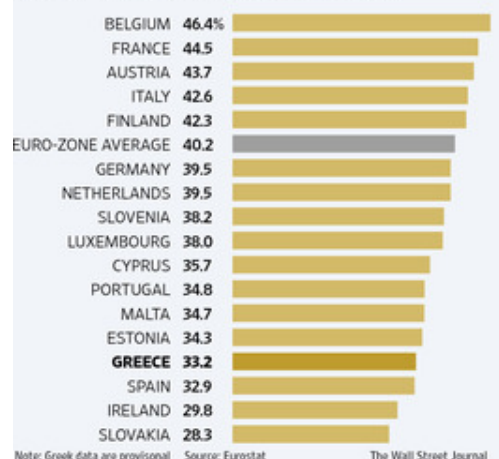
"The highest tax evaders are people who are highly educated and have high-profile professions," said Margarita Tsoutsoura of the University of Chicago Booth School of Business, an author of the study. The greatest offenders, she said, include doctors, engineers, lawyers and accountants.

Investigators visited this quaint island not far from Athens—a destination for many wealthy Greek and foreign vacationers who often arrive on sleek yachts—during a summer of widespread financial checks on establishments catering to tourists. At the fish restaurant Psaropoula, on the island's main harbor, police allegedly observed servers fail to give proper receipts, which, for restaurants, specify a recently elevated value-added tax of 23%.

The police attempted to take Sevasti Mavrommatis, a 54-year-old owner, into custody for a flagrant violation of tax law. Ms. Mavrommatis's blood pressure surged, she later recalled. She began to tremble and fainted, she said. "I didn't kill anyone," she said. "Why put me in jail with the criminals?"

Coming Up Short

Greece has one of the euro zone's lowest tax-collection rates. Tax revenue, as a share of gross domestic product, in 2010:



Her 29-year-old son, Ilias, who waits tables at the restaurant, said he told police to take him instead. The mother went to an island hospital. Authorities apprehended the son.

Word spread quickly among the island's few thousand residents. Locals besieged the small local police station, cutting off electricity and hurling firecrackers and a flare into its courtyard from nearby rooftops, witnesses said. "Let Ilias go!" some shouted.

Police and their detainee remained shut inside most of the night, witnesses say, until reinforcements arrived to escort Mr. Mavrommatis to a boat bound for the Greek mainland. He was fingerprinted and released that day.

Family members deny any criminal offense and said they simply had three open orders for which they hadn't yet given receipts. "The government catches us, and leaves the big ones," Mr. Mavrommatis said.

Public prosecutors for the region say Ms. Mavrommatis and her son are charged with a misdemeanor of giving "fictitious invoices," and are due to appear in court in November.

Financial and riot police returned to the island shortly afterward and checked more local establishments, a show of force many found objectionable—not to mention futile, since businesses were aware of the sweep. Young people posed for pictures with riot police in the frame.

The Greek government defended the action, saying it is determined to end the "unjust and destructive behavior" of tax evasion no matter what the source.

"The huge problem of tax evasion plagues the Greek economy, nullifying every attempt at

recovery and hope for the future of all," said government spokesman Simos Kedikoglou. Everyone, he added, should take their "moral and practical share" in efforts to rehabilitate Greece's economy and restore its credibility.

This past summer, investigators under the Greek Finance Ministry carried out 4,067 controls on businesses in tourist areas. Violations were found at nearly 56% of the establishments, totaling 31,237 offenses, most commonly for failing to give proper receipts. The ministry said it played no role in the Hydra investigation, which was conducted by a unit of the Greek police founded in 2011 to crack down on economic crime.

Stories of Greeks failing to pay taxes often make headlines in other nations like Germany, where many question why Germans should send bailout money to a dysfunctional Greece while many Greeks aren't paying. One German public television documentary, "The Greece Lie," featured a Greek shipping tycoon who questioned why he would help fund a corrupt, inept state. "Would you give your money to Al Capone?" the shipowner said.

Discussions continue here over who should pay their fair share—a quarrel picked up on a recent day by two men in a stationery store.

"Was what happened on Hydra a good thing?" asked Nikos Lazarou, a 59-year-old who frequently vacations on the island and who was buying a newspaper. The locals' uprising, Mr. Lazarou argued, was shameful. A little bit of tax evasion from a lot of small businesses, he said, added up to a big problem.

"If you kick a dog, it will bite you!" replied the man working behind the counter, Costas Capralos, who saw the upheaval as a justified act of resistance against a state that had pushed the common man to the brink.

"They haven't even begun with the tax evasion of the big capital," said Mr. Capralos. "There is no justice."

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