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Greece Proposes New Tax Bill In Parliament

Article

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By Nektaria Stamouli

ATHENS--Greece late Thursday submitted to parliament a new tax bill that has been long promised to the country's international creditors in an effort to increase budget revenue, simplify the tax system and curb evasion.

The new bill, that imposes higher taxes in wages and pensions and reduces tax brackets from eight to three, aims to generate more than 1 billion euros ($1.3 billion) of additional revenue annually from 2014 and is part of a EUR13.5 billion austerity package that the Greek parliament passed early November.

It was seen as a precondition from the country's European peers in order to unlock the badly needed next aid tranche, but the high taxation also threatens to deepen the country's brutal recession and destabilize its fragile politics.

Earlier Thursday euro-zone finance ministers backed the release of long-delayed aid payments to Greece, saying the first batch of about EUR34 billion of money will be sent to Athens in the coming days.

According to the new three-tier taxation system, annual incomes up to EUR25,000 for salaried workers will be taxed at 22%, incomes up to EUR42,000 will be taxed at 32%, while a 42% tax rate will be applied to those paid more than EUR42,000. Currently, a 40% rate is applied to those earning over EUR60,000, while those earning over EUR100,000 are taxed at 45%.

Self-employed workers will have to pay a 26% tax on incomes up to EUR50,000 and 32% for those that are exceeding that level.

Tax rate for businesses will be reduced to 32.8% from 40% now, while taxation of interest on deposits will be increased to 15% from 10%.

Under the new tax regime farmers will be treated as traders regardless of their income and the size of their land. Up to now lower-income farmers, or the ones who their main occupation was not agriculture, were exempt from taxation.

The Finance Ministry aims to crack down a large-scale tax evasion. According its estimates, up to 1 million taxpayers declare EUR9 billion and pay tax just EUR115 million on agricultural income.

The "shadow economy" accounts for about 24% of Greek gross domestic product, according to a study by Margarita Tsoutsoura of the University of Chicago Booth School of Business. Tax dodging costs Greece about EUR28 billion ($36 billion) a year, an amount equivalent to roughly 15% of economic output, the study says. The tax bill is expected to be voted by early January, before its international creditors disburse about EUR9 billion in aid, while the government is expected to pass a second law overhauling the country's tax system by mid-2013.

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