



## New restrictions introduced on deductibility of expenses

### Law 4321/2015

Greece's parliament approved a law on 20 March 2015 (Law 4321/2015) that introduces new restrictions on the deductibility of expenses for tax purposes.

Under the new rules, which apply as from 21 March (the date the law was published in the official gazette), any expense incurred on a payment to one of the following categories of persons (whether an individual or a legal person/entity) generally will be nondeductible:

1. A person resident in a noncooperative state or a privileged tax regime jurisdiction (i.e. a country with a corporate tax rate of less than 13%);
2. A "de facto" affiliated company that does not comply with Greece's transfer pricing documentation requirements before the relevant transaction is carried out; or
3. A company or group of companies that lack sufficient substance to conduct the particular business activity.

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However, the expenses may be deductible if the taxpayer pre-pays a 26% tax on the total amount of the expenses incurred. The tax paid will be refunded if the taxpayer can demonstrate within a three-month period (starting from the date the relevant invoice was issued) that the transaction took place on market terms.

For expenses incurred in transactions with companies in the second and third bullets to be fully deductible, the taxpayer will have to furnish “*conclusive evidence that the company does not fall under one of these categories*” before a regular tax audit takes place. If such evidence is produced, the taxpayer will not be required to pay the 26% tax.

The Ministry of Finance is expected to issue further clarifications of the new rules in the near future. Some business associations and the Scientific Committee of the Hellenic Parliament have criticized the measures on the grounds they may not be compliant with the Treaty on the Functioning of the European Union and Greece’s tax treaties.

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