Fiscal policy in the short and medium run

The Greek authorities have prepared and submitted to the negotiation table a well-documented proposal on the medium-term fiscal path, the primary balance targets and the required fiscal measures to achieve them.

In the medium-run, the proposal sets sizeable headline primary surplus targets in order to strengthen the commitment of the authorities to sound public finances and reduce the debt-to-output ratio in a non-aggressive manner, yet, realistic enough so as to avoid jeopardizing the fragile economic recovery. The proposed medium-run fiscal stance is in line with neutral overall discretionary fiscal policy.

In the short run, and in light of the deteriorating macroeconomic environment for 2015, the proposal adopts a headline primary surplus target of 1% for 2015 and 2% for 2016. Our baseline fiscal scenario for 2015 (primary balance of -0.1% of GDP) and 2016 (primary balance of 0.1% of GDP) results in a fiscal gap of 1.1% of GDP for 2015 and 1.9% of GDP for 2016.

The proposal identifies and quantifies a series of robust parametric measures that allow the Greek authorities to fully cover the above fiscal gaps in a credible manner. The most notable source of revenues stems from the VAT reform that yields an extra 1.4 billion Euros per year, yet, without increasing the rates for basic goods, such as medicine, energy and fresh food. In addition, the proposal identifies a series of administrative measures that will deliver a significant yield for 2015 and 2016. A conservative estimate of the yield is in the range of 2.3 bn.

In total, the proposal of the Greek authorities covers the estimated fiscal gap for 2015 and 2016 with parametric measures only. It also covers the institutions' higher estimated fiscal gap once one takes into account a conservative estimate of the administrative fiscal measures.

Table of revised fiscal proposals

Parametric measures	**1.995**	**3.583**
%GDP	*1,1%*	*2%*
Analytical parametric measures		
Special tax 12% on corporate profits above 1 mil (payable in two annual installments)	600	600
Increase corporate income tax from 26% to 29%		450
Increase solidarity contribution rates in PIT	220	250
Cuts in defence spending		200
TV advertisement tax	100	100
E-gaming – VLTs	35	225
Administrative dispute settlement on property taxation of past years (FMAP, FAP)	50	50
Vehicle technical control inspection	72	50
Uninsured vehicles	51	40
Increase luxury tax and include private yachts	47	47
VAT Reform	680	1.360
Early retirement restrictions (accrual)	0	71
Pharmaceutical rebates	140	140
Administrative Measures	**1.625**	**2.361**
%GDP	*0,91%*	*1,31%*
Analytical administrative measures		
Fuel smuggling	75	300
Audits on Bank accounts	200	500
VAT fraud (carousel and split payment)	50	700
E-gaming	160	361
Environmental and agricultural compliance with EU regulations	276	
Transfer pricing	24	
Fees and licences for TV channels	340	
Installment scheme	500	500

Analytical Parametric Measures

1) Special tax 12% on corporate profits above 1 mil euro (payable in two annual installments)

   An extra-ordinary contribution will be levied on the profits of the (largest) companies, through the implementation of a rate 12% on corporate profits - according to the provisions from article 2 of L. 3808/2009 - for the fiscal year 2014.

2) Increase corporate income tax from 26% to 29%

The Income Tax Code will be amended – specifically par. 1 article 58 Law 4172/2013 – so that the income tax rate for companies who keep double-entry books will be raised from 26% to 29%

The following table summarizes the estimated revenues from the first two measures

From	To	COMPANIES	PROFITS (2013)	Additional revenues from 12% rate on 2014 profits above 1 million (payable in two installments in 2015 and 2016)	Additional revenues from increasing the corporate income tax rate from 26% to 29% (3%)
0	100.000				0
100.101	300.000	9.897	1.637.220.547		49.116.616
300.001	1.000.000	3.629	1.866.308.221		55.989.247
1.000.001	5.000.000	1.135	2.265.674.224	271.880.907	67.970.227
5.000.001		269	7.914.559.326	949.747.119	237.436.780
TOTAL		**14.930**	**13.683.762.318**	**1.221.628.026**	**410.512.870**

3) Increase solidarity contribution rates in PIT

   Article 52 of law 4305/2014 in combination with article 29 of L. 3986/2011 will be amended so as to result in new scales for the solidarity contribution:

- Between 12.000 – 20.000 euro: 0.7%

- Between 20.001- 30.000 euro 1.4%
- Between 30.001 – 50.000 euro: 2%
- Between 50.001 – 100.000 euro: 4%
- Between 100.001 – 500.000 euro: 6%
- >500.000 euro: 8%

  The fiscal effect of this measure has already been documented during Brussels Group meetings.

4) Cuts in defense spending

   The Ministry of Defense will introduce a wide set of measures which will produce savings of 200 million euro on a permanent basis. The following table indicates the relevant measures and their fiscal effect.

Actions	**Estimated amount of savings (in million euro)**
Shut down camps (est. 20 large camps and 30 smaller camps)	100
Scrap equipment	50
Operational costs	50
TOTAL	**200**

5) TV advertisement tax

   The tax on television advertisements provided for by article 5, section 12 of L. 3845/2010 will be implemented from … 2015. In addition, any decision, arrangement, or decree which has suspended its implementation will be recalled.

   The fiscal effect of this measure has already been documented during Brussels Group meetings.

6) E-gaming – VLTs

1. The Government will implement taxation on Gross Gaming Revenues (GGR) of 30% on VLT games expected to be installed at second half of 2015. (16.500 VLTs for OPAP in 2015 plus additional 18.500 for other concessionaires in 2016, total 35.000).

The fiscal effect of this measure has already been documented during Brussels Group meetings.

7) Administrative dispute settlement on property taxation of past years (FMAP, FAP)

There will be a legal regulation allowing the possibility of an administrative settlement of cases that have not been discussed in first instance courts and are pending at different stages of administrative or judicial proceedings in order to irrevocably finalize the amount of the debt and for it to become immediately certified and collectable.

The fiscal effect of this measure has already been documented during Brussels Group meetings.

8) Vehicle technical control inspection
9) Uninsured vehicles

All appropriate and necessary measures will be taken, legislative or administrative, towards the collection of several categories of public revenue, like vehicle technical control inspection and uninsured vehicles fines

The fiscal effect of this measure has already been documented during Brussels Group meetings.

10) Increase luxury tax and include private yachts

The implementation of a luxury tax, provided for by article 44 of L. 4111/2013, will be extended to private boats and yachts in excess of 10 metres. The rates which apply to 2,500 cc automobiles, planes, helicopters, gliders, recreational vessels and swimming pools will be increased to 13% from 10%.

The fiscal effect of this measure has already been documented during Brussels Group meetings.

11) VAT Reform

The current rates of 6.5%, 13%, 23% to be changed to 6%, 13%, 23%. The 6% rate will cover: medicine, books, theatres. The 13% rate to cover: newspapers and magazines, basic and fresh food stuff, energy, water, hotels and restaurants. The 23% rate to cover: all other goods and services, including processed and other food stuff (approx 28% of the food category, e.g. seafood (not fish), readymade sweets and jams, mixed or processed bread or pasta, sandwiches, precooked food, prepared meat products, tinned food, chocolates, ready sauces etc).

The fiscal effect of this measure has already been documented during Brussels Group meetings.

12) Early retirement restrictions (accrual)

According to the proposals already submitted and discussed during BG meetings, the fiscal effect of limiting early retirements will be about 71 million euro

13) Pharmaceutical rebates

Current situation for medicines dispensed through private pharmacies

The pharmaceutical expenditure for 2014referring tomedicines dispensed through private pharmacies was 1.826.418.207€.

Rebates applied to pharmaceutical companies consist mainly of two types:

-9% rebate applied to all products (different pharmaceutical forms, strengths and packages) in their ex-factory price

-Volume rebate applied to products (brand names) with quarterly sales volume above 100.000€ according to a taxation scale varying from 2% to 12%.

The above mentioned rebates resulted to approx.207.000.000€ for 2014. To the above mentioned rebates an additional 2% is applied in the ex-factory price of products in ATC5 and an additional 5% is applied to new active substances for the first year of theirinclusion in the Positive Reimbursement List.

Proposal

The 9% rebate and the volume rebate are unified in the below presented scale and applied from 1st Euro:

Quarterly volume rebate per medicine's brand name		Scale Factor	Quarterly Sales	Quarterly Rebate
0,00	250.000,00	0,15	81.162.295	12.174.344,17
250.000,01	500.000,00	0,17	51.262.292	7.979.589,63
500.000,00	750.000,00	0,19	33.918.592	5.634.532,38
750.000,01	1.000.000,00	0,22	32.419.630	5.744.818,59
1.000.000,01	1.500.000,00	0,23	48.973.464	9.363.896,63
1.500.000,01	3.000.000,00	0,25	81.567.007	17.446.751,80
3.000.000,00		0,26	80.460.826	19.092.314,0

			QUARTERLY REBATE TOTAL	77.436.247,20
			YEAR ESTIMATION	309.744.988,80
			DEDUCTION OF REBATE 2014	207.000.000
			ESTIMATED ADDITIONAL REBATE	**102.744.988,80**

Additionally the 2% extra rebate applied to products in ATC 5 will be doubled (4%). The estimated additional amount is estimated aprrox. **9,6 million€**.

Additionally the 5%extra rebate applied to products with new active substances for the first year of their inclusion in the Positive Reimbursement List will be doubled (10%). This has not been estimated yet.

<u>Current situation for high cost drugs</u>

For high cost drugs dispensed from EOPYY's pharmacies a special acquisition price exists, which is hospital price minus 5% (hospital price=ex-factory price -8.74%).

In the acquisition price of these products additional volume rebates are applied: 1.5%, 3% and 4.5% based on quarterly sales of pharmaceutical companies. These rebates are estimated 20,679 million €/year.

Proposal

The above mentioned rebate will be reconfigured with the following new taxation scale:

Quarterly volume rebate per medicine's brand name		Scale Factor	Quarterly Sales	Quarterly Rebate
0	250.000,00	0,01	10.411.919	104.119,19
250.000	500.000,00	0,03	11.864.624	180.983,83
500.000,01	1.000.000,00	0,05	18.965.831	543.291,56
1.000.000,01	1.500.000,00	0,07	27.509.250	1.155.647,51
1.500.000,01	3.000.000,00	0,09	39.739.696	2.276.572,61
3.000.000,00		0,1	120.546.677	9.964.967,74
			QUARTERLY REBATE TOTAL	14.225.282,44
			YEAR ESTIMATION	56.901.129,76
			DEDUCTION OF REBATE 2014	20.678.906
			ESTIMATED ADDITIONAL	**36.222.223,76**

			REBATE	

Quarterly volume of sales by pharmaceutical product (private pharmacies)		**New Rates**
0	250.000	15%
250.000	500.000	17%
500.000	750.000	19%
750.000	1.000.000	22%
1.000.000	1.500.000	23%
1.500.000	3.000.000	25%
3.000.000		26%
Revenues with the previous rates (2014)		200.000.000
Revenues with the new rates		302.745.000
Additional revenues		102.745.000

Quarterly volume of sales by pharmaceutical product (ex-factory, high cost medicines distributed by EOPYY pharmacies)		**New Rate**
0	250.000	1%
250.000	500.000	3%
500.000	1.000.000	5%
1.000.000	1.500.000	7%
1.500.000	3.000.000	9%
3.000.000		10%
Revenues with the previous rates (2014)		24.000.000
Revenues with the new rates		60.222.000
Additional revenues		36.222.000

Total additional revenue from rebates **138.967.000**