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# The impact of taxation on economic development and growth: The case of Greece

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## Abstract

This article provides a comprehensive analysis of the Greek tax system, focusing both on the fundamental principles and guidelines governing the country's tax policy, and on its relationship with economic development and social justice. In this context, the main features of the Greek tax system are presented, with reference to the main indirect and direct taxes and their respective rates.

Specifically, the personal and legal income tax, the tax rate on business profits, the value added tax (VAT), as well as other indirect taxes are analyzed, in order to clarify the structure and operation of the Greek tax system. In addition, an assessment is made of the challenges faced by the Greek tax administration, such as widespread tax evasion and the need for reforms.

Through this approach, the aim is to identify the advantages and limitations inherent in the current Greek tax framework. Based on this analysis, specific proposals are formulated for the improvement of the Greek tax system, emphasizing the enhancement of efficiency and the promotion of social justice. Specifically, the reduction of indirect taxes and the enhancement of direct taxation are proposed, incorporating social and income criteria to enhance social equality and sustainable development.

**JEL Classifications:** A19, H20, H21, H24, K34

**Keywords:** Taxes, development, social justice, efficiency

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## 1 Introduction

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Taxation is one of the most important mechanisms for implementing economic policy, as it directly affects both fiscal stability and social cohesion. In the context of modern economic reality, where development and social justice are fundamental objectives of state policy, the tax system emerges as a crucial factor in shaping economic and social balances.

The purpose of this article is to systematically analyze the Greek tax framework, with an emphasis on the fundamental principles and guidelines that govern it, as well as its relationship with economic development and social justice. The analysis includes a presentation of the main characteristics of the system, with particular reference to direct and indirect taxes, personal and corporate income tax, value-added tax (VAT), and other special taxes.

At the same time, the structural challenges facing the Greek tax administration are examined, such as widespread tax evasion, the complexity of the regulatory framework, and the need for continuous reform.

The aim of the study is to highlight the strengths and weaknesses of the current system, as well as to formulate policy proposals aimed at enhancing efficiency, transparency, and social justice.

Despite the fact that the international literature has extensively examined the relationship between taxation and economic development, there has not been a systematic and comprehensive analysis of the structural composition of tax systems characterized by a high reliance on indirect taxation and institutional instability, such as that of Greece. The Greek case is particularly noteworthy, as the country's tax system relies heavily on indirect taxes while simultaneously exhibiting frequent legislative changes and persistently high levels of tax evasion. These characteristics significantly affect both economic growth and social justice. The present study seeks to address this gap in the international literature by providing an updated and systematic analysis of the structure and implications of the Greek tax system. The present study contributes to the existing academic literature along three main dimensions. First, it provides an updated and structured institutional mapping of the Greek tax system, with particular emphasis on the balance between direct and indirect taxation. Second, it integrates theoretical approaches concerning the trade-off between efficiency and equity, while simultaneously interpreting recent empirical data and findings in order to highlight the distributive and developmental implications of the tax mix in Greece. Third, it examines the relationship between institutional instability and legislative fragmentation, developing a comprehensive analytical framework that extends beyond a mere description of tax provisions to address broader economic outcomes and institutional

implications.

This study does not confine itself to a mere description of the Greek tax system. Rather, it proceeds with a systematic analytical evaluation of its structural composition, examining it through the lens of redistribution theory and institutional economics. In doing so, it situates the Greek case within the broader framework of the international debate concerning tax mix and economic performance.

Based on the above considerations, the study is structured around the following research questions:

1. How does the structure of the Greek tax system, and in particular the ratio between direct and indirect taxation, affect social justice and the redistributive function of taxation?
2. To what extent do institutional instability and legislative fragmentation influence the effectiveness and economic development of the Greek economy?
3. Which reforms in tax policy and tax administration, based on the study's findings, could contribute to enhancing the effectiveness of the Greek tax system and strengthening sustainable development in the country?

The remainder of the paper is organized as follows. The next section presents the relevant literature and the theoretical framework. This is followed by an extensive analysis of the structure of the Greek tax system and an evaluation of its main challenges. The study then presents and discusses the research findings and the resulting policy implications. The paper concludes with a summary of the main conclusions and suggestions for future research.

Finally, the last section concludes the paper by outlining the policy implications and proposing directions for future research.

First, it provides an updated institutional mapping of the Greek tax system based on the most recent available data. Second, it examines how the structure of taxation affects both efficiency and social justice, highlighting its implications for wealth redistribution and economic stability. Third, it integrates institutional, legal, and economic evidence within a unified analytical framework, offering policy recommendations grounded in documented scientific findings.

This study is highly relevant for policymakers, tax authorities, and academic researchers, as it provides a structured and analytical framework for evaluating the design of the tax mix in economies facing institutional instability. Furthermore, it establishes a theoretical foundation that may inform future research, particularly with regard to the interaction between taxation, economic development, and social inequalities in European countries.

## **2 Literature review**

The tax system constitutes a complex and demanding institutional framework, the formation of which must be based on specific principles and rules with the aim of balancing two key parameters: social justice and economic efficiency.

These principles are not established arbitrarily, but are determined through institutional procedures that seek, on the one hand, to protect taxpayers and, on the other, to ensure the state's ability to generate sufficient and stable revenues. In this context, the constitutional legislator is called upon to shape these principles with a view to both protecting the taxable entity in question and providing assistance to the tax legislator, so that he can proceed with the establishment of fair provisions (Floros, 2004).

One of the basic principles is that of universality, according to which taxes are imposed on all taxpayers, both nationals and foreigners residing or earning income in the country. The application of this principle is combined with social regulations, such as exemptions for low incomes, so as not to affect social justice.

Equally important is the principle of neutrality, which is also underlined by the Organization for Economic Co-operation and Development (OECD), noting that taxation must be applied in an impartial and fair manner, without discrimination in favor of or against specific groups of taxpayers (OECD, 2017).

Other critical rules highlighted in the literature concern the simplicity of tax legislation, so that it is understandable and easy to use, strengthening the relationships of trust between authorities and taxpayers, as well as stability and certainty, which allow the planning of economic activities without surprises (Floros, 2004).

Furthermore, the appropriateness of the tax in terms of the time and manner of its imposition ensures the ability of taxpayers to comply, while the rule of productivity emphasizes that each tax must yield the expected revenue to the public treasury (Floros, 2004).

At the same time, reference is also made to the rule of the minimum maintenance threshold, which protects the income of the taxpayer and his family from taxes that exceed living needs, as well as to the principle of separation of income, which takes into account the differences in tax capacity depending on the source of income, avoiding indiscriminate uniform taxation (Floros, 2004).

The rule of avoidance of double taxation is also considered extremely important, which aims to prevent the over-taxation of the same entity for the same object within and across borders, contributing both to the fair distribution of burdens and to the strengthening of tax

compliance (Floros, 2004). As the relevant bibliography points out, the purposes of taxation are multiple. Beyond the obvious fiscal purpose, namely securing the necessary revenues to cover public expenditures, taxation can function as a social policy tool, aiming at the redistribution of income and the support of vulnerable social groups (Georgakopoulos, 2005).

Furthermore, in times of crisis, taxation can be used as an economic policy tool, imposing extraordinary taxes to strengthen structural sectors of the state, such as tourism or defense (Georgakopoulos, 2005).

Finally, the literature highlights that the proper functioning of the tax system requires fair, clear and effective rules, which respond to the social and economic needs of each era (Arnold, Brys, Johansson, Schweltnus & Vartia, 2011; Clotfelter, 1983; Slemrod, 1985; Alm, 1990, 1992b). Their observance is a key condition for achieving social justice, ensuring economic stability and the sustainable management of public resources (OECD, 2017).

It is worth noting that, according to the existing international literature, the analysis of tax systems focuses on understanding and evaluating the relationship between the effectiveness of tax policy and the achievement of social equity within the framework of public finance. In particular, classical theory emphasizes that both the design and the operation of tax systems should strike a balance between the efficient collection of sufficient public revenues and the promotion of justice and social equality, acknowledging that improvements in one objective may entail trade-offs with respect to the other (Atkinson & Stiglitz, 1976). In every economy, individuals differ in terms of characteristics and preferences, and under certain normative assumptions, it is considered appropriate that they contribute different amounts of tax.

The structure of taxation, especially the ratio between direct and indirect taxes, constitutes a crucial determinant of how fairly and effectively a tax system operates (Cremer, Pestieau & Rochet, 2001). Direct taxes, such as income and property taxes, are typically associated with progressivity and greater flexibility in tax design, thereby contributing to income redistribution and the promotion of social justice. By contrast, indirect taxes, such as value-added tax (VAT), tend to be more proportional in nature and may result in a disproportionate financial burden on economically weaker groups, affecting both purchasing power and the allocation of resources. Therefore, the analysis of tax structure is essential for assessing both the efficiency and the equity of a tax system, while also influencing economic stability and growth.

Empirical studies indicate that consumption taxes, when measured as a percentage of

income, are more likely to exert greater financial pressure on lower-income households (Warren, 2008). This may constrain the ability of the tax system to redistribute resources in a more equitable manner (OECD, 2014; Blasco, Guillaud & Zemmour, 2023). At the same time, complex legislation and political instability increase compliance costs and make it more difficult to predict investment activity (Gulen & Ion, 2016).

Overall, the above theoretical and empirical insights provide the analytical basis for examining the Greek case.

On this theoretical basis, the present study formulates the following hypotheses with regard to the Greek tax system:

1. An increased dependence on indirect taxes is anticipated to undermine the redistributive effectiveness of Greece's tax system.
2. Legislative instability and regulatory fragmentation are likely to elevate compliance costs, thereby adversely impacting investment and overall economic performance.
3. Implementing structural reforms focused on enhancing tax progressivity and administrative efficiency is expected to improve both fiscal effectiveness and social equity.

This issue remains underexplored in the international literature in relation to the Greek case specifically. The present study is especially significant given that the Greek tax system has been marked by frequent legislative modifications and intricate regulatory frameworks, which have collectively contributed to a heightened level of institutional instability (Dimitrios, Dermatis, Anastasiou & Liargovas, 2020).

### **3 Methodology**

The present study adopts a qualitative, descriptive-analytical approach based on legal texts, official statistical data, and institutional reports. The analysis is grounded in institutional economics and public finance theory, examining how the Greek tax system has been structured and how it affects economic development and social justice.

The research is based on a systematic review and synthesis of primary and secondary sources. Primary sources include official legislative texts, the Greek Income Tax Code, the VAT Code, and relevant regulatory provisions issued by the Ministry of National Economy and Finance. Secondary sources comprise reports and statistical data from the European Commission, OECD publications, Eurostat databases, and various peer-reviewed academic journals.

The analysis covers the period 2010–2025, a timeframe during which the Greek tax

system underwent significant changes under the influence of fiscal adjustments, legislative reforms, and structural transformations. This period is characterized by the evolution of the economic crisis and the subsequent efforts to restructure the public sector, with the objective of strengthening tax administration and improving the efficiency of tax revenue management.

The evaluation framework of the tax system is structured around three principal dimensions: first, the balance between direct and indirect taxation; second, the degree of progressivity and the capacity for resource redistribution; and third, institutional stability and regulatory coherence.

These criteria provide a structured basis for assessing how the Greek tax system influences efficiency, investment incentives, and social equity. Although the study does not employ econometric methods, it integrates theoretical approaches with institutional and statistical evidence in order to deliver a coherent and policy-relevant assessment.

## **4 Structure of the Greek tax system**

The tax system of each country consists of the taxes imposed on its taxable entities, with the ultimate aim of covering public expenditures.

In essence, a tax system is defined as the set of tax laws that govern the tax function and differ between countries due to the different economic, social and political factors that affect its structure and operation.

The Greek tax system can be characterized as volatile, at the core of which lies a wide range of taxes, distinguished into direct and indirect taxes depending on who bears the tax burden.

This distinction goes beyond the formal level, as it decisively affects the operation of the tax system, influencing the distribution of income and the level of social justice that is sought to be achieved (Karagiorgos & Georgiou, 2003).

### **4.1 Direct taxes**

Direct taxes are those taxes that are imposed on specific individuals based on their income or wealth, i.e. elements that constitute those factors that determine their tax-paying capacity. In Greek tax legislation, the main direct taxes are the following (Karagiorgos & Georgiou, 2003):

1. Personal Income Tax (<https://minfin.gov.gr/forologiki-politiki/forologikos-odigos/forologia-eisodimatos/>)

As for the income tax imposed on individuals, it refers to the tax levied annually on the earned income of each individual (Law 4127/2013).

The Personal Income Tax is imposed annually on the income earned by individuals and includes several favorable provisions.

Specifically, there is a tax reduction under certain conditions for donations of money or food to specific organizations, as well as a reduction of 200 euros for the taxpayer and his dependents in cases of specific categories of disability. In addition, certain sources of income are entitled to a special tax reduction in accordance with Article 16, while incentives also apply to domestic tax residents who transfer their tax residence to Greece, under specific conditions (Articles 5A, 5B, 5C). It is worth noting that the income of natural persons is divided into three main categories: income from employment and pensions, income from professional activity and income from capital, and is taxed as follows.

#### A. Income from employment and pensions

Income from employment and pensions concerns any benefit in cash or in kind obtained within the framework of an existing employment relationship. However, certain categories of benefits are exempt from the determination of taxable income, in order to ensure social protection and avoid excessive burden on employees. More specifically, exemptions are provided for benefits related to the coverage of operating expenses, such as compensation for travel, accommodation and food expenses, as well as for social assistance. For example, amounts up to five thousand (5,000) euros per year are exempted to cover nursery and kindergarten expenses, benefits for the acquisition of a child of up to 5,000 euros —with the possibility of an increase by the same amount for each additional dependent child—, as well as hospital expenses of the employee himself or members of his family, provided that the legal conditions are met. Also, tips from customers to employees, up to the limit of three hundred (300) euros per month, are not included in taxable income, since they are voluntary benefits. At the same time, special categories of income addressed to vulnerable social groups, such as benefits to the unemployed and people with disabilities, are also exempt from income tax, confirming the social policy dimension of the tax system. As regards the determination of the tax burden, taxable income from employment and pensions is subject to graduated taxation, in accordance with the applicable tax scales provided for by law. This graduated structure reflects the principle of tax equality and progressivity, as it imposes increased rates on higher incomes, ensuring a fairer distribution of the tax burden. Thus, taxable income from employment and pensions is taxed, in accordance with the following scale (Table 1).

It is worth noting that the final tax burden resulting from the application of the income tax scale for employees and pensioners is further reduced through a special tax reduction, which varies depending on the family status of the taxpayer. Specifically, for a taxpayer without dependent children, this reduction amounts to 777 euros, while for families with children the amount increases incrementally. As a result, the reduction amounts to 900 euros for one dependent child, 1,120 euros for two children, 1,340 euros for three children, 1,580 euros for four children, and 1,780 euros for five children.

For each additional dependent child after the fifth, the reduction is increased by 220 euros. In any case, if the corresponding tax amount is lower than the provided reduction amount, the reduction is limited to the amount of the corresponding tax (article 43 of Law 5045/2023). At the same time, an income adjustment of the reduction is provided, in order to ensure the progressivity of the tax. More specifically, for taxable income above 12,000 euros, the amount of the reduction is reduced by 20 euros for each additional 1,000 euros of income from employment services and pensions. The existence of this mechanism aims at a fairer distribution of the tax relief, as it gradually limits the benefit for taxpayers with higher incomes, while maintaining full protection for lower and middle incomes.

#### B. Business income

Business income is the total income derived from business transactions, less business expenses, depreciation and provisions for doubtful debts. Business income includes both the proceeds from the sale of the business's assets and the proceeds from its liquidation, as they arise during the tax year. In the event that the result of the business activity is a loss, this is carried forward successively for offsetting against the profits of the following five tax years, facilitating the entrepreneur in dealing with financial difficulties. When determining profit, all expenses that meet specific criteria are allowed to be deducted: first, they must be incurred in the interest of the business or in the course of its ordinary commercial transactions; second, they must correspond to a real transaction and their value must not fall below or exceed the market value, based on the available data of the Tax Administration; and third, they must be recorded in the books of the business during the period in which they are incurred and must be proven by appropriate supporting documents. Special care is taken for scientific and technological research expenses, which are deductible from the gross income of businesses at the time they are incurred, increased by 100%. Furthermore, under certain conditions, this deduction may be increased by up to 150% or 200%, in accordance with the provisions of Article 22A of the Income Tax Code (ITC). Additionally, it is envisaged to grant increased deductions for expenses related to environmental protection

and employee employment, in accordance with Article 22B of the Income Tax Code, as well as expenses related to green economic activities, energy and digitalization, in accordance with Article 22E. These increases aim to support businesses that adopt and promote sustainable and innovative practices. Finally, expenses that are not tax deductible are explicitly listed in Article 23 of the Income Tax Code, highlighting the cases of expenses that do not meet the aforementioned criteria and cannot be deducted from the business's income. Regarding the method of taxation of profits from business activity, they are taxed at the following scale, after being added to any income from salaries and pensions. It should be noted that, the same tax deductions that apply to income from salaries and pensions do not apply to profits from business activity.

**Table 1: Taxation scale for income from employment, pensions and business activity**

<b>Income</b>	<b>Tax rate</b>
0€-10.000€	9%
10.001€-20.000€	22%
20.001€-30.000€	28%
30.001€-40.000€	36%
40.001€-	44%

**Source:** <https://minfin.gov.gr/forologiki-politiki/forologikos-odigos/forologia-eisodimatos/>

It should be noted that for income derived from individual entrepreneurial activity, there is a legislative provision regarding the establishment of a minimum presumed net income, which amounts to up to 50,000 euros. This presumed income results from the sum of three distinct parameters, which are described as follows: First, the legislation stipulates that the person exercising individual entrepreneurial activity is presumed to obtain a minimum income of equal value to that of an employee paid the minimum wage. Furthermore, this amount is calculated on the basis of the annual amount of the gross minimum wage, increased by ten percent (10%) for the 3 years following the second three-year period from the start of the professional activity, an additional ten percent (10%) on the amount of the third three-year period for the three years following the third three-year period and an additional ten percent (10%) on the amount of the fourth three-year period for the following years. Secondly, a percentage of ten percent (10%) is added to the annual payroll cost of the professional, limited to a maximum amount of fifteen thousand (15,000) euros. This increase aims to compensate for employer contributions and other labor costs. Finally, the third parameter includes the addition of an amount corresponding to five percent (5%) on the amount by which the current turnover of the liable party exceeds the average annual

turnover of the corresponding Activity Code Number, in which the liable party generates the highest income. However, this surcharge is not applied when the average turnover does not exceed 10,000 euros, and when the number of professionals in the specific sector does not exceed thirty. In addition, special treatment is provided for liable parties who sell tobacco products at retail, which may differentiate the calculation or application of this surcharge. If the above calculated sum of the taxable person's income is less than the amount of 30,000 euros, and the highest paid employee employed by the same taxable person is entitled to annual gross earnings that exceed the said sum, then the amount of gross earnings is taken as the taxable person's presumed annual income up to the amount of thirty thousand (30,000) euros. This determination of presumed income is contestable, however, specific conditions are provided for by which the taxpayer can prove incidents that lead to an objective reduction in professional activity. Such incidents include, but are not limited to, military service, criminal imprisonment, hospitalization, pregnancy and childbirth, adoption or foster care of children, natural disasters and other similar incidents. In addition, the taxpayer has the possibility to submit an application to the competent tax authority to challenge the determined minimum net income, if there are special reasons, in order to carry out an audit for the respective years. It is noted that this minimum net income does not apply in certain cases, such as in the case of agricultural professional activity, as well as to people with a disability of 80% or more. Any income from salaries and pensions as well as income from agricultural activity are deducted from the above calculated minimum net income. In addition, the application of an independent tax rate is provided for the commissions received by street lottery sellers from their supplier, while the income from these commissions is explicitly excluded from the calculation of the presumption. Finally, other cases that reduce the minimum net income from the exercise of business activity are expressly provided for. Such cases include, for example, the first years of professional activity, disability of 67% and above, large and single-parent families, as well as the exercise of activity or the main residence in municipal communities with a population of less than 1,500 inhabitants, excluding municipal communities located in the regional units of Attica, except for island areas.

#### C. Capital income

Capital income includes income received by a natural person during the tax year in cash or in kind in the form of dividends, interest, royalties, as well as income from immovable property.

- Dividend income

The term “dividends” refers to income derived from shares, foundation certificates or other rights to participate in profits, which are not claims on debts (debts). In addition, the term includes income from other corporate rights, such as shares, portions, including interim dividends and mathematical reserves, participations in the profits of personal businesses, as well as distributions of profits from any type of legal person or legal entity. In this context, any other relevant distributed amount falls within the definition of dividends. In cases where the distribution of dividends is subject to withholding tax, the withholding tax covers the tax liability only for individuals and exclusively for the specific type of income of the taxpayer. Finally, the tax rate applicable to dividends is 5%.

- Interest income

The term “interest” refers to income derived from claims of any kind, regardless of whether they are secured by a mortgage or not, and whether they provide a right to participate in the debtor’s profits or not. It includes, among others, income from deposits, government securities, bonds and debentures, with or without collateral, as well as any type of loan relationship. This category also includes additional benefits (premiums), repurchase agreements (repos/reverse repos), as well as rewards arising from securities, bonds or debentures. Since interest is subject to withholding tax, the withholding tax covers exclusively the tax liability of individuals and concerns the specific type of income received by the taxpayer. In addition, according to the current tax regime, interest on bonds and Greek government bonds acquired by individuals is exempt from income tax. Finally, interest is taxed at a rate of 15%.

- Income from royalties

The term “royalties” refers to income obtained as consideration for the use, or the right to use, of intellectual property rights in a literary, artistic or scientific work. These works include, but are not limited to, cinematographic and television films, tapes for radio broadcasts, videocassette reproduction, software for commercial exploitation or personal use, patents, trademarks, preferential rights, designs or models, blueprints, as well as secret chemical formulas or processes. In addition, this concept includes the exchange of information concerning industrial, commercial or scientific experience, payments for the use of industrial, commercial or scientific equipment, as well as the rental of the latter, technical methods of production, technical or technological assistance and know-how, research results, republishing of articles or studies, as well as payments for consulting services provided electronically via computer networks, such as access to problem-solving databases or the electronic downloading of computer software. It is noteworthy that these payments

may also concern products acquired for the personal or professional use of the buyer. The taxation of royalties is carried out at a rate of 20%, and in the event that the income from royalties is subject to withholding tax, the withholding tax exhausts the tax liability only for individuals and for the specific type of income of the taxpayer.

- Income from Real Estate (Rent)

The term “income from real estate” refers to income, in cash or in kind, resulting from the process of leasing, own use or free concession of use of land and real estate. Specifically, this income arises from the following activities:

a) The leasing, subleasing, or concession of use of land or real estate, including buildings, structures, and any type of facilities or equipment associated with them.

b) The lease, sublease, or concession of use of mines, quarries, forests, and agricultural land, including meadows, arable and grazing land, as well as any constructions or installations located on or below the surface, such as fish farms, lakes, reservoirs, springs, and wells.

c) The lease, sublease, or concession of space for the placement of advertising signs of any kind.

d) The lease, sublease, or concession of use of common areas in real estate.

From the income derived from real estate, certain expenses are deductible under specific conditions, such as e.g. the rent paid in cases of sublease or the one-off 5% for repair and maintenance expenses of the real estate, provided that the lessor is a natural person. Also, income from the rental of real estate that was declared as vacant or had been made available for short-term lease is exempt from personal income tax, provided that a long-term lease agreement has been drawn up for the said real estate between September 8, 2024 and December 31, 2025. The duration of the tax exemption is set at thirty-six (36) months, starting from the month in which the relevant lease agreement is concluded and concerns real estate up to one hundred and twenty (120) sq.m. Income from real estate is taxed separately, according to the following scale:

**Table 2: Income from real estate**

<b>Income</b>	<b>Tax rate</b>
0€-12.000€	15%
12.001€-35.000€	35%
35.001€-	45%

Source: <https://minfin.gov.gr/forologiki-politiki/forologikos-odigos/forologia-eisodimatos/>

It is worth noting that as of January 1, 2024, a new framework for the taxation of income

of individuals arising from the short-term rental of real estate is being established. Specifically, the income obtained by individuals through the short-term rental of up to two (2) real estate properties, as defined in article 111 of Law 4446/2016, is now considered income from real estate and is subject to the application of the tax scale applicable to income from real estate. However, this tax treatment applies as long as the properties are rented furnished and only with the provision of bed linen, without the provision of other services. In case additional services are provided, this income is classified as income from business activity. Furthermore, the legislation stipulates that, when individuals lease three (3) or more properties, their income from short-term leases is automatically considered as income from business activity. In addition, a reduction in personal income tax is provided through credits derived from building upgrade expenses. These expenses concern the purchase of goods and the receipt of services related to the energy, functional and aesthetic upgrade of existing buildings, provided that the buildings in question have not already been included or are not going to be included in an upgrade program. The tax reduction is carried out by distributing the expenses over five (5) years, with a maximum total expense limit of sixteen thousand (16,000) euros. The amount of expenses for the purchase of goods is taken into account only if it does not exceed one third (1/3) of the amount of expenses for services, which are also taken into account for the tax reduction. In order to apply the reduction, it is necessary to present legal documents and pay them by electronic means of payment or through a payment service provider.

- Income from Capital Gains (Chapter 6 of the Income Tax Code)

All income arising from capital gains is regulated and taxed in accordance with the provisions of the Income Tax Code (ITC), specifically in Chapter 6 thereof. In particular, income from capital gains is subject to a tax rate of 15%. However, in the case of employees, partners or shareholders of legal persons or legal entities that are not listed on a stock exchange and are newly established small or very small enterprises, income from capital gains arising from stock options is taxed at a reduced rate of 5%, subject to compliance with certain specific conditions. In addition, the income resulting from capital gains on the transfer of immovable property or ideal shares thereof, or of a real right over immovable property or ideal share thereof, or of participations that directly or indirectly amount to more than 50% of their value from immovable property and do not constitute a business activity, is subject to personal income tax. This term also includes the market value of the building that has been erected on the land of a third party at the expense of the lessee and that passes to the third party upon the expiration or termination of the lease relationship.

However, the taxation of the said income from capital gains on the transfer of immovable property has been suspended until 31 December 2026, in accordance with article 90 of Law 5162/2024. The concept of transfer of real estate also includes the contribution of real estate to cover or increase the capital of a legal person or legal entity. Also, income from the transfer of securities is understood as any income resulting from the capital gain of the transfer of securities, as well as the transfer of an entire enterprise. Specifically, these securities include shares in companies not listed on a stock market, shares and other transferable securities listed on a stock market, where the transferor participates with a percentage of at least 0.5%, shares or portions in personal companies, government bonds, treasury bills or corporate bonds, as well as derivative financial products. Capital gain is understood as the difference between the acquisition price paid by the taxpayer and the sale price received. Any expenses directly related to the purchase or sale of the securities are included in the acquisition price and the sale price. Income acquired by individuals who are tax residents in states with which Greece has concluded a double taxation avoidance agreement (DTA) and which arises from capital gains on the transfer of securities in accordance with the previous paragraphs is exempt from tax, provided that they submit to the Tax Administration supporting documents proving their tax residence. In addition, the income arising for an employee or partner or shareholder from a legal person or legal entity in the form of stock options, as determined at the time of exercise of the option and regardless of whether the employment relationship continues to apply, constitutes income from capital gains, provided that the shares are transferred after twenty-four months from the acquisition of the options and is subject to personal income tax. More specifically, for the above income originating from a legal person or legal entity that is not listed on the stock exchange, a newly established small business or a very small business, it is subject to a rate of 5%, provided that the following conditions are cumulatively met:

- a) the above rights are acquired within five years after the establishment of the company,
- b) the company has not been established through a merger, and
- c) the shares are transferred after thirty-six months from the acquisition of the options.

Finally, the income that arises for an employee or partner or shareholder in the form of shares granted to him by a legal person or legal entity within the framework of free share distribution programs, which require the achievement of specific goals or the occurrence of a specific event in order for the shares to be disposed of, constitutes income from capital gains if the shares are transferred after their acquisition by the beneficiary of the program.

## 2. Corporate Income Tax (<https://minfin.gov.gr/forologiki-politiki/forologikos-odigos/forologia-eisodimatos/>)

The income tax imposed on legal persons and legal entities concerns the profits they make annually, which constitute the basic tax base. The tax rate varies depending on the type and nature of the legal persons and their activities. Specifically, profits from business activity of legal persons are generally taxed at a rate of 24% for the tax year 2021 and onwards, with a reduction to 22% (based on no. 120 of Law 4799/2021). However, there are special categories of taxpayers with a different rate: credit institutions that have joined a regime of optional conversion of deferred tax claims, on temporary differences, into final and settled claims against the Greek State (article 27A) are taxed at 29%, while agricultural cooperatives of Law 4384/2016 and legal entities recognized by the Ministry of Rural Development and Food as Producer Groups and Organizations of article 27 of Regulation (EU) 1305/2013 and included in the maintained Register of Producer Organizations and Groups (MOPO) pursuant to article 7 paragraph 1 of decision no. 397/18235/2017 (B' 601) are taxed at a rate of 10%. Exemptions from income tax are provided for specific categories of legal entities, such as general government bodies (with the exception of income derived from capital and capital gains), the Bank of Greece, investment portfolio companies and undertakings for collective investment in transferable securities (UCITS) established in Greece or in other Member States of the European Union or the European Economic Area, international organizations covered by international conventions, the Private Property Development Fund of the State S.A. and school committees and boards of minority schools. The determination of the profits of legal entities is based on the total income from which deductible expenses are deducted, as defined in the Income Tax Code. In the event of a loss, this can be offset successively against future business profits in the following five tax years. In addition, any distribution or capitalization of profits that have not been previously taxed is taxed as business profit, regardless of any losses in previous years. Intra-group dividends of legal entities are exempt from tax if they fall under the provisions of Directive 2011/96/EU. The same exemption applies to intra-group dividends received by domestic enterprises from legal entities established outside the European Union, as well as to intra-group dividends from permanent establishments of companies from non-EU countries located in Greece and originating from their subsidiaries in another country. As regards intra-group dividends, they are exempt from tax if they meet the conditions provided for in Directive 2011/96/EU, as well as in cases where they are received by domestic enterprises from legal entities established outside the European Union or from permanent establishments of companies

from non-European Union countries located in Greece and originating from their subsidiaries in another country. Intra-group transactions of legal entities with related parties must be governed by the Arm's Length Principle, in accordance with the OECD Guidelines, in order to ensure the fair and transparent nature of the transactions. Finally, Greek tax law has incorporated provisions of ATAD Directive 2016/EE/1164, which concern the limitation of interest, exit taxation, the general anti-abuse rule, the Controlled Foreign Company (CFC) rules, as well as the arrangements for hybrid instruments. In addition, the obligation to publish an annual list of jurisdictions that are considered non-cooperative or with a preferential tax regime has been established. For transactions with tax residents in such jurisdictions and in order to deduct these expenses from income, the taxpayer is required to prove that the expenses relate to real and ordinary transactions, in order to avoid being attributed as a transfer of profits or income or capital for the purpose of tax avoidance or tax evasion.

#### **4.2 Indirect taxes**

Indirect taxes are those taxes that are imposed on expendable income and are collected without nominal lists. In Greek tax legislation, the main indirect taxes are the following (Karagiorgos, Georgiou, 2003):

1. Value Added Tax (<https://minfin.gov.gr/forologiki-politiki/forologikos-odigos/foros-prostithemenis-axias-f-p-a/>)

Value Added Tax (VAT) is an indirect tax that was first imposed on Greek taxpayers on 1 January 1987, during the ministry of Dimitris Tsovolas (Law 1642 of 21 August 1986). However, the initial plan of the Greek government was for this tax to come into force on 1 January 1984, a plan that was not achieved due to technical shortcomings (Digaves, 1988). Specifically, during the early stages of its implementation, the Value Added Tax rate was set at 6% for consumer goods, 18% for services and 36% for luxury goods. As expected, during its early implementation, this tax caused some turbulence in the Greek market (Digaves, 1988). Today, Value Added Tax is regulated by Law 5144/2024 of the VAT Code and, based on it, is imposed on the following transactions: a) the supply of goods and the provision of services, provided that they are carried out for a taxable reason within the country by a taxable person acting in that capacity, b) the import of goods, c) the intra-Community acquisition of goods carried out for a taxable reason within the country by a taxable person acting in that capacity or by a non-taxable legal person, when the seller is a taxable person established in another Member State, acts in that capacity and is not exempt from the tax due to the amount of the annual turnover carried out, in accordance with the legislation of

his country, nor is he subject to special provisions of the VAT Code, and d) the intra-Community acquisition of goods subject to a special consumption tax, which is carried out by a taxable person or by a non-taxable legal person, provided that such persons fall under special provisions of the VAT Code. Since 1 January 2006, Value Added Tax (VAT) is imposed at a rate of 24% on the supply of certain categories of real estate in Greece, replacing the real estate transfer tax. Specifically, VAT is imposed on the supply of completed or unfinished buildings or parts thereof and the land transferred with them as a single property or as ideal land shares, provided that the transfer is carried out for an onerous reason before the first installation therein. For the purposes of VAT, buildings are considered to be all buildings and any type of construction that is permanently attached to the ground, while first installation is understood to be the first use of the property after its construction, whether for owner-occupation, private use, lease or other use. In addition to the delivery of buildings, VAT is also imposed on the transfer of petty ownership, the establishment or waiver of the right of personal or real easement, the granting of the right of exclusive use of jointly owned main, auxiliary or special areas of buildings or a jointly owned part of a plot of land, as well as the transfer of the right to exercise the usufruct of the above-described completed or unfinished properties. In addition, work carried out on such properties under a project lease is also subject to VAT, regardless of whether the employer or contractor provides the materials. Such works are excavations, demolitions, construction of buildings, roads, bridges, aqueducts, hydraulic and sewage works, electromechanical installations and technical works in general, as well as additions, extensions, alterations and repairs, in addition to the usual maintenance work of these works. A special regime applies in cases of consideration, where the conclusion of a contract by the taxable person for the construction of buildings for sale to the owner of the land is not subject to tax, provided that the builder has been subject to a tax suspension regime.

Moreover, VAT is subject to the condition that no work had begun before the revision. An important exception is the exemption for first residences. The delivery to beneficiaries of VAT exemption upon the acquisition of a first residence, as well as the granting of the right of exclusive use in favor of the above properties, is exempt from VAT. At the same time, with the request of the taxable person, a builder of buildings for sale, a suspension of VAT on property deliveries (paragraphs 1 and 2a of article 8 of the VAT Code) has come into force until 31.12.2025 and a real estate transfer tax is imposed. It is clarified that the suspension concerns all of the above properties of the taxable person that are not disposed of. Together with the application, the subject submits a list of the undisposed real estate and the amount

of tax corresponding to each real estate to be settled. According to the VAT Code, as subjects of taxes, first of all, any natural or legal person, domestic or foreign, as well as associations of persons, are considered, provided that they exercise an independent economic activity. In addition, the field includes persons who make occasional deliveries of new means of transport to other member states. The category of subjects also includes persons who provide for occasional deliveries of real estate, as defined in article 8 of the VAT Code, provided that they have been subject to the normal VAT regime by means of a relevant declaration. Special mention is made of the joint venture that constructs a property under the system of consideration, as well as the society that constructs a property on a plot or parcel of land belonging to its members, for the deliveries and self-deliveries carried out by their members, under the terms and conditions provided for in detail in articles 8 and 9 of the VAT Code. At the same time, extensive exemptions are provided for, aiming at social policy and the protection of the public interest. Exempted transactions include the provision of medical and hospital services, social services, education by public or recognized bodies, services related to sports and physical education by non-profit legal entities, insurance and financial services, leases, state lotteries and games of chance, intra-community deliveries and exports, as well as international transport. Finally, the Greek Value Added Tax regime provides for three main categories of rates, which vary depending on the type of goods and services. The standard rate is 24% and applies to the vast majority of transactions. At the same time, a reduced rate of 13% is provided for basic goods and services, such as food, catering services and hotels, transport, common medicines and agricultural supplies, in order to limit the tax burden in sectors of particular importance to society as a whole. In addition, a super-reduced rate of 6% – and exceptionally 4% – applies to the user on medicines, books, theatrical performances, electricity, natural gas, as well as special services related to health and the strengthening of the protection of people with disabilities. Within the framework of regional policy, for the islands of Leros, Lesvos, Kos, Samos and Chios there is a 30% reduction in the foreseen VAT rates, as a measure to compensate for their geographical and economic specificities. Finally, in special cases, the application of a zero rate (0%), as was the case for approved vaccines against COVID-19, a fact that shows the flexible nature of the system in addressing emergency social and health needs.

2. Special Consumption Taxes (<https://minfin.gov.gr/forologiki-politiki/forologikos-odigos/e-f-k-eidikoi-foroi-katanalosis/>)

Excise Taxes (ETC) are a form of indirect taxation, which is imposed on specific categories of products of high consumption and social importance, such as fuels, tobacco products and

alcoholic beverages. In Greece, the institutional framework governing Excise Taxes (ETC) has been incorporated into the new National Customs Code (Law 5222/2025), which replaced the previous Law 2960/2001 and regulates in detail the issues of production, processing, possession, circulation and control of the products subject to these taxes. In the field of fuels and energy products, the basic rates are set at €700 per 1,000 liters of gasoline, €410 per 1,000 liters of diesel, €280 per 1,000 liters of heating oil and €430 per 1,000 kilograms of LPG. The taxation of this category directly affects transportation and heating costs, while also representing one of the most efficient sources of state revenue.

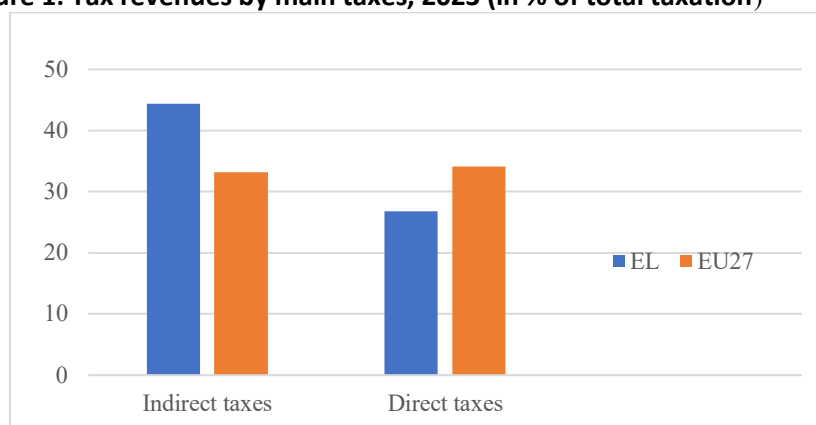
As regards tobacco products, a mixed taxation system is applied, which includes a fixed tax of €82.5 per 1,000 cigarettes and a proportional tax of 26% on the retail selling price. At the same time, there is a minimum consumption tax, which ensures that the total tax burden cannot fall below a specific threshold. In the category of alcoholic beverages, taxation varies depending on the type. In particular, on beer the tax is calculated based on Plato degrees and volume, with an indicative rate of €2.5 per Plato degree and one hundred liters, while on spirits (such as ouzo, tsipouro, vodka, whiskey) a tax of €1,225 per one hundred liters of anhydrous alcohol is applied. Finally, it is clarified that wine is exempt from the VAT, with the exception of certain special categories of fortified or sparkling wines.

#### **4.3 Evolution and structure of the tax burden in Greece**

The European Commission's Taxation in the European Union 2025 Report provides updated data on the tax burden and its structure in the Member States. For Greece, in 2023, total tax revenues amounted to 38.9% of Gross Domestic Product (GDP), a percentage that ranks it in tenth place among the countries of the European Union. This level is marginally lower than the EU-27 average (39% of GDP). It is noteworthy that, compared to 2022, Greece recorded a significant reduction in the tax burden by 2.1 percentage points (from 41.0% to 38.9% of GDP). Regarding the structure of taxes, the burden of indirect taxes in Greece remains particularly high. In 2023, indirect taxes accounted for 17.3% of GDP, placing the country in fourth place in the European Union, while the corresponding percentage for the EU-27 average was 13.0% of GDP. At the level of internal composition, indirect taxes represented 44.4% of total tax revenues, compared to 33.2% in the Union average. The historical development highlights an increase of 3.4 percentage points in Greece between 2013 and 2023, in contrast to the EU-27, where a decrease of 1.4 percentage points was recorded. As regards direct taxes, Greece presented a percentage of 10.4% of GDP in 2023, ranking 16th among the Member States of the European Union. As a share of total tax revenues, direct taxes amounted to 26.8%, significantly lower than the EU-27 average (34.2%). All of the above contribute to a picture that demonstrates a relative

underrepresentation of direct taxation in the Greek tax system, with revenues relying disproportionately on indirect forms of taxation (European Commission, 2025).

**Figure 1: Tax revenues by main taxes, 2023 (in % of total taxation)**



**Source: European Commission, DG Taxation and Customs Union, based on Eurostat data. Data extracted February 2025**

#### **4.4 Problems and challenges of the Greek tax system**

The operation of the Greek tax system has historically shown significant structural weaknesses, which negatively affect both the state's ability to collect tax revenues effectively, as well as social justice and the competitiveness of the economy. These problems mainly concern tax evasion, bureaucracy and regulatory complexity, the lack of stability of the tax framework, as well as excessive dependence on indirect taxation. Tax evasion is one of the most serious and long-standing problems of the Greek economy. According to the latest study by the European Commission (Taxation Trends in the EU, 2024), the "tax gap" - i.e. the difference between potential and actually collected tax revenues - in Greece remains one of the highest in the European Union. Specifically regarding VAT, in 2022 Greece recorded losses of 13.7%, compared to a European average of 7%. The positive thing is that there is a gradual decrease in this indicator, according to data from 2018 to 2022 (European Commission, 2025). The existence of an extensive shadow economy, estimated at approximately 36% of GDP (Pappadà & Rogoff, 2025), combined with the insufficient capabilities of control mechanisms, makes it particularly difficult to ensure tax compliance. The phenomenon is particularly pronounced in specific sectors, such as catering, freelancers and small businesses, where cash transactions facilitate the concealment of income. At the same time, contribution evasion, especially in the sectors of temporary or uninsured work, weakens the sustainability of the insurance system. The failure to pay insurance contributions by employers or employees not only undermines the funds' revenues, but also intensifies inequalities between consistent and inconsistent insured persons. This further

burdens honest taxpayers and reduces trust in the state. Furthermore, the Greek tax system is characterized by intense regulatory complexity, frequent changes in provisions and unclear wording, which creates a complex and often unstable legislative environment. According to the SEV Competitiveness Report (2023), Greece has one of the most complex tax systems in the EU, with dozens of amendments to tax legislation recorded every year. A characteristic of the Greek tax system is instability. This is a key inhibiting factor for attracting domestic and foreign investments. Proof of this is the fact that over the last 15 years, Greece has made dozens of changes to tax rates, with a typical example being the taxation of business profits, which was changed at least 8 times between 2010 and 2022. The uncertainty created by this liquidity leads to disinvestment, postponement of investment decisions and a decrease in the competitiveness of the Greek economy. The country ranks low in international tax predictability and stability indicators (Tax Competitiveness Index 2023 – Greece: 30th out of 38 OECD countries). Finally, the Greek tax system is highly dependent on indirect taxation, which exacerbates social inequalities. According to Eurostat data (2023), indirect taxes (VAT, excise duties) account for approximately 44.4% of Greece's total tax revenues, compared to the European average of 33.2%. The excessive emphasis on indirect taxation is problematic, as these are taxes that do not differentiate according to the income or tax-paying capacity of the citizen. Thus, the lower income groups end up spending a proportionally higher percentage of their income on taxes, which reinforces tax inequality. This situation limits the redistributive role of taxation and undermines social. At the same time, the lack of progressivity in the tax system weakens citizens' trust in tax justice, reinforcing the reluctance to comply.

## **5. Research findings**

The above analytical findings indicate that the Greek tax system relies disproportionately on indirect taxation compared to the average of the European Union. Indirect taxes account for a significantly higher share of total tax revenues in Greece, while direct taxation appears comparatively limited. This structural imbalance constrains the redistributive capacity of the tax system, given that indirect taxes are generally less sensitive to taxpayers' income levels. This suggests that the current tax mix may weaken the effectiveness of taxation as a mechanism for reducing income inequalities (Ganghof, 2006; Martin & Prasad, 2014; Duncan & Sabirianova, 2016).

At the same time, the analysis reveals persistent legislative instability within the Greek

tax system. Frequent amendments to tax legislation, in combination with the complexity of the regulatory framework, contribute to heightened uncertainty for both businesses and households (European Commission, 2017). Furthermore, the existing institutional instability increases compliance costs and does not facilitate long-term economic planning. The structural characteristics of the tax system thus extend beyond revenue collection, exerting a deeper influence on investment decisions and overall economic performance. Consequently, the structure and design of the tax framework play a decisive role in shaping the economic climate and the efficiency of economic activity.

Moreover, indicators such as the VAT gap highlight ongoing challenges in tax collection effectiveness. Despite gradual improvements in recent years, Greece continues to record one of the highest VAT gaps within the European Union. This fact underscores that the system's effectiveness is constrained not only by its institutional design, but also by the adequacy of its enforcement and administrative mechanisms.

Finally, the analysis of tax progressivity demonstrates that, although the personal income tax incorporates progressive brackets and specific deductions, the overall distributive impact of the tax system is substantially reduced due to the dominant role of proportional indirect taxation. The interaction between the limited weight of direct taxes and the high dependence on consumption-based taxation diminishes the overall capacity of the tax system to promote social equity. As a result, the Greek tax structure appears to be characterized by a pronounced tension between the need for fiscal effectiveness and the pursuit of social justice.

## **6. Policy Implications**

The findings of the present study highlight important implications for the design of tax policy and institutional reform in Greece. The structural imbalance identified between direct and indirect taxation suggests the need for a gradual restructuring of the tax mix. Reducing the excessive reliance on consumption-based indirect taxes may enhance the redistributive capacity of the system. At the same time, strengthening the role of progressive direct taxation may contribute to improving social balance without necessarily jeopardizing fiscal stability.

Moreover, the evidence concerning the ongoing legislative instability in Greece indicates that policy reform should focus on enhancing stability and the credibility of institutional procedures. Limiting the frequent amendments of core tax provisions and improving the

clarity of tax legislation would contribute to a noticeable reduction in compliance costs and to the improvement of the investment climate.

In addition, the analysis of the challenges related to the VAT gap and tax evasion underscores the importance of strengthening administrative capacity. Investment in digital tools, data integration systems, and risk-based auditing mechanisms has the potential to significantly improve the effectiveness of tax administration. However, technological modernization should be accompanied by stronger institutional frameworks and the development of human capital within the tax administration.

Finally, tax policy should incorporate more transparent and effective mechanisms of social targeting. The design of tax credits, deductions, and exemptions based on income and vulnerability criteria may lead to a substantial improvement in the existing situation. Overall, the reform of the Greek tax system should not focus exclusively on the achievement of high public revenues. Instead, it should pursue a balanced combination of fiscal efficiency, institutional stability, and social justice.

## **7. Conclusions**

The present study examined the structural characteristics of the Greek tax system and their implications for economic development and social justice.

The findings indicate that the Greek tax system is characterized by a disproportionately high reliance on indirect taxation compared to the average of the European Union (OECD, 2022; European Commission, 2025). This particular feature constrains the redistributive capacity of the system, as progressive direct taxation plays a relatively limited role. Consequently, the ability of the tax mechanism to contribute effectively to the reduction of social inequalities appears to be restricted.

The analysis also highlighted the persistent legislative instability of the tax framework in the country. Frequent amendments and the complex structure of regulations lead to increased compliance costs and create uncertainty for taxpayers, thereby affecting investment decisions and overall economic performance. Despite recent progress in the digitalization of tax administration and improvements in compliance indicators, significant challenges remain, such as the VAT gap.

Overall, the study confirms the existence of a structural tension within the Greek tax system between effectiveness in tax collection and the promotion of social equity.

In relation to the first research question, the findings confirm that the current tax mix, characterized by its strong reliance on indirect taxation, undermines the redistributive effectiveness of the Greek tax system. With respect to the second research question, the evidence supports the view that legislative instability and regulatory complexity act as constraints on economic development. Finally, concerning the third research question, the analysis indicates that reform packages aimed at enhancing tax progressivity and administrative efficiency are broadly consistent with addressing the structural weaknesses identified in this study.

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