M&P BERNITSAS
LAW OFFICES
briefing

March 2015

TAX BRIEFING

Transitional Provision for Write-off of Bad Debts for the Period 2010-2013

The Ministry of Finance issued Ministerial Circular POL. 1056/2015, interpreting Articles 26 and 72, par. 4 of the Income Tax Code, through which a transitional provision for the write-off of bad debts for the period 2010-2013 was implemented. Any remaining balance in bad debt provision accounts as at 31st December 2014 will count towards taxable income for the 2015 tax year. We understand that a separate Circular dealing with bad debt provisions made by banks will be issued.

IN THIS ISSUE

For further information on the contents of this Briefing, please do not hesitate to contact your M. & P. Bernitsas Law Offices contact or any of the lawyers listed below.

Nikos Papachristopoulos
E: *npapachristopoulos@bernitsaslaw.com*

Fotodotis Malamas
E: *fmalamas@bernitsaslaw.com*

Smaro Anagnostou
E: *sanagnostou@bernitsaslaw.com*

5 Lykavittou Street, GR-106 72 Athens, Greece
T: + 30210 3615395 | **www.bernitsaslaw.com**

In accordance with the terms of existing legislation, companies were able to generate a bad debt provision account on an annual basis equal to 0.5% or 1% of their gross wholesale revenues, depending on the industry in which they are active. This did not apply to retail sales or sales to the public sector.

The current cycle was due to expire at the end of 2014, but in 2013 the income tax legislation was changed, the effect of which was to abolish the five-year cycle. This left unclear how companies should deal with the write offs built up between the 2010 and 2013 years.

Ministerial Circular POL. 1056/2015 stipulates that bad debt provision accounts created in the 2010, 2011, 2012 and 2013 years are subject to the terms of Article 31, par. 1(i) of Law 2238/1994, the former Income Tax Code. The effect of this is that, where there is a remaining balance in the bad debt provision account at the end of each five year period starting from 2005, the balance is added back to the gross revenues of the subsequent tax year and is subject to income tax at the prevailing rate, currently 26%.

All remaining amounts, however, which have been set aside since the beginning of the 2010 five year cycle, in other words in 2010, 2011, 2012 and 2013, will be aggregated with other taxable revenues for the purposes of the 2015 tax year. Companies are able to set off amounts in the bad debt provision account as at 31st December 2013 against write-offs made up to the 31st December 2014.

The Circular specifies that amounts in the provision account exceeding the 0.5% or 1% provision threshold, which were formed based on the earlier provisions of Income Tax Code Law 2238/1994 in the years up to 2013, and which have therefore already been taxed as income, will not be subject to further tax.