

Tax & Accounting newsletter

Circular 2107/2025 | Contributions for pension and defined benefit pension plans

Following amendments to the Income Tax Code (ITC) under L. 5178/2025, which apply retroactively from 1 January 2024, the Tax Administration issued Circular 2107/2025 (Circular) to clarify the tax treatment of employer and employee contributions to occupational funds and group pension plans.



Employment income tax exemption | Calculation of the 20% threshold base

Employer and employee contributions to Optional Occupational Insurance Funds (Optional TEA), Mutual Aid Funds formed by conversion under art. 6 par. 20 L. 3029/2002 (MAF) and premiums to group pension plans, are excluded from taxable employment income to the extent that they do not annually and cumulatively exceed 20% of (i) the employee's *gross remuneration from employment* plus (ii) *the benefits in kind* included in taxable employment income.

The Circular provides that all amounts qualifying as *gross remuneration under labour law* are taken into account for this calculation, *whether or not they are included in taxable employment income*.

Although no precise definition of the term “gross remuneration” is found in a labour law provision, the Circular further clarifies that, indicatively, the following amounts should be included in the threshold base:

- lawful withholdings for employee's mandatory social security contributions, i.e. contributions to social security funds or Mandatory TEA;
- contributions to Optional TEA, MAF and premiums to group pension plans which burden the employee;
- contributions which burden the employee for medical and hospital coverage of the employee (and his/her spouse and children) or employee's life or disability coverage up to the amount of EUR 1,500 annually;

All the above, provided that they constitute gross remuneration as per labor and social security law.

- the value of benefits in kind under art. 13 ITC.

Specific rules for defined benefit group pension plans

Neither the law nor the Circular provide for a definition of “*defined benefit pension plans*”. In practice, defined benefits are those under which the employer promises to pay employees, upon fulfillment of the conditions for retirement, specified benefits (either a lump-sum payment or a pension).

The Circular confirms that the 20% threshold should not apply to defined benefit pension plans that were already in existence as of the effective date of the law, i.e. 20 December 2023.

As regards the taxation of the pension benefits received specifically in the context of defined benefit plans, it is clarified that:

- Where a benefit is received by the employee after 1 January 2024, the new tax rates under art. 15 par. 4a ITC (as amended by art. 107 L. 5078/2023) apply to the entire benefit and withholding follows the new rates under art. 64 par. 1(e) ITC (as amended by art. 109 L. 5078/2023). *This differs from typical group pension plans, for which the transitional rule of art. 110 par. 15 L. 5078/2023 provides that amounts accumulated up until 31 December 2023 are taxed under the prior regime, whereas amounts accumulated as of 1 January 2024 are taxed under the new rates taking into account the entire insurance period.*
- Once a benefit is paid, the insurance years already taken into account for its taxation, are not considered again upon the payment of any future benefit.

What's next

Following a long period of uncertainty around the above topics due to the consecutive amendments of the legal framework and the lack of updated guidelines, employers should now carefully review payroll calculations to ensure compliance in light of Circular 2107/2025.

Contact us



Maria Zoupa
Partner | Head of Corporate Tax

m.zoupa@zeya.com



Diana Tsourapa
Partner | Tax & Accounting

d.tsourapa@zeya.com



Irene Kasapoglou
Director | Tax & Accounting

i.kasapoglou@zeya.com

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