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New personal income tax (PIT) regulations for 2018

Draft amendments to both the Personal income tax (PIT) Act and Corporate income tax (CIT) Act as well as to the Act on lump-sum tax on registered revenues were passed by the Senate on 10 November 2017.

The draft amendments introduce a number of significant changes in the PIT Act. We present below those of greatest significance.

Higher tax-free amount

The draft amendments include a raising of the tax-free amount from PLN 6 600 to PLN 8 000 starting from 2018. This means that people with annual income lower than PLN 8 000 will not pay tax at all. Taxpayers with an annual taxable base higher than PLN 8 000 but lower than PLN 13 000 will be able to deduct between PLN 556.02 and PLN 1 404, whereas those whose taxable base exceeds PLN 13 000 per annum but will be lower than the threshold for the lower tax rate of 18 percent (PLN 85 528), will apply a tax deduction of PLN 556.02. Any taxpayers with an annual taxable base over PLN 85 528 will be able to deduct from PLN 556.02 down to zero at a point when their base for tax calculation reaches PLN 127 000.

Increase of exemption levels

The draft introduces changes to the limits of certain tax exemptions listed in Article 21 of the PIT Act, including:

- benefits from trade union funds received in the case of particular incidents – from PLN 2 260 to PLN 6 000;
- benefits from the Employer Social Benefits Fund – from PLN 380 to PLN 1 000;
- vacation subsidies – from PLN 760 to PLN 2 000.

Extension of the scope of the so-called rehabilitation allowance

The Act envisages extending the scope of rehabilitation relief through:

- extending the circle of people who will be able to deduct the expenses for maintenance of an assisting guide dog by allowing the deduction for any persons having a guide dog;
- extending the scope of deductibility of expenses related to the necessary transport of individuals to necessary medical and rehabilitation therapies – by abolishing the limitation to rehabilitation and extending the right to the deductions for all persons with disabilities irrespective of their disability group;
- increasing to PLN 10 080 the income threshold of disabled persons who are maintained by taxpayers, allowing the taxpayer to deduct from their income expenses borne in conjunction with rehabilitation costs of the dependent disabled person.

Equity incentive programmes

New provisions extend the possibility of deferring income tax on participation in equity-based incentive schemes to the shares of companies whose head office or management is located in the territory of a country with which Poland has concluded a double taxation agreement. The current rules limit the entitlement to exemption to shares of companies domiciled in EU or EEA Member States.

In the case of receiving shares in the course of participating in such plans, taxable income will only arise at the time of the disposal of shares purchased under those programmes (i.e. deferral of taxation to the moment of disposal of the shares and taxation at a rate of 19 percent).

Flat-rate tax on rental income

According to current rules income from rental, lease and contracts of a similar nature obtained by individuals outside their registered business activity are taxed according to general principles, at progressive rates of 18 and 32 percent. Individuals may, however, elect to tax such income with a flat rate tax of 8.5 percent. The proposed changes limit the application of the indicated current rate only to rental income not exceeding PLN 100 000 a year and introducing a second, higher rate of 12.5 percent on any excess.

Obligation to pay tax advances from PLN 1 000

Taxpayers earning income from business activity are obliged to pay tax advances during the year (Article 44 item 1 of the PIT Act).

The draft amendments introduce an exception to this rule, allowing taxpayers to not pay an advance if the amount of the advance due (calculated as the difference between the tax due on income earned since the beginning of the year and the sum of advances paid thus far from the beginning of the year) does not exceed PLN 1 000.

This rule will also apply to taxpayers who, in addition to income from business activity, receive income from rental or special forms of agricultural activities, with respect to which an obligation to calculate and pay tax advances exists.

Increase of the limit for one-time deduction of costs of acquisition of fixed or intangible assets

The current rules allow a one-time deduction of costs of acquisition of fixed assets or intangible assets up to a limit of PLN 3 500 and has not been updated for several years. The proposed amendments to the regulations provide for an increase from the aforementioned PLN 3 500 to PLN 10 000.

Applying 50 percent statutory deduction

The proposed regulations include an increase of the threshold for application of the statutory 50 percent deduction in the case of, among others, income from the transfer of copyrights – from the current PLN 42 764 to PLN 85 528.

At the same time, the proposed changes introduce a restriction on the types of activity to which the 50 percent deduction applies.

Starting from 2018, the 50 percent deduction may be applied to revenues from the following types of activities:

- creative activity in the field of architecture, interior design, urban planning, literature, fine arts, music, photography, audio-visual work, computer programs, choreography, artistic soldering, folk arts and journalism;
- research and development and science and teaching;
- artistic activity in the field of theatrical and stage arts, theatre and stage management, dance and circus arts, as well as in conducting, vocals, instrumentals, costumes and stage design;
- audio-visual production of directors, screenwriters, image and sound operators, editors, stuntmen;
- publicism.

According to current plans, the new regulations are due to enter into force on 1 January, 2018.

If you are interested in exploring the new regulations and their impact on taxpayers and tax remitters in greater detail, please feel free to contact us.

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