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GMS Flash Alert

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Poland – Consultation Invited on Proposed Tax Measures in "Polish Deal"

On 26 July 2021, a draft bill amending Poland's PIT Act, CIT Act, and certain other acts, bringing a raft of tax changes under the Polish Deal programme, was published on the Government Legislation Centre's website.[1] The proposed tax amendments have been made available for public consultation.

A summary of key measures affecting individuals and their employers is provided in this *GMS Flash Alert*.

WHY THIS MATTERS

The changes in tax rates and other provisions in the Polish Deal aim to promote the government's objectives of a broad tax base, greater progressivity, and to foster more equitable treatment across sectors and across individual taxpayers.

International assignment cost projections and budgeting for assignments to Poland and for assignees outside Poland still subject to Polish taxation should take into account the proposed changes, if enacted. Where called for, employers may need to make payroll adjustments and update hypothetical tax calculations for tax-equalised assignees.

Each individual's tax status should be determined in light of his or her particular situation.

Amendments to Tax Rates, Thresholds, and Allowances

According to the explanatory memorandum, the key purpose of the bill is to establish a fairer tax system by reducing the tax wedge (under the OECD definition) and making it more progressive.

This goal is to be achieved through:

- increasing the personal income tax-free allowance to PLN 30,000 annually for taxpayers using the tax scale (currently, 17 percent up to PLN 85,528, and 32 percent over PLN 85,528) ;

- raising the threshold for entering the highest personal income tax bracket of 32 percent to PLN 120,000;

- introducing a "middle-class relief" to cover individuals working under a contract of employment with annual revenue from the employment relationship between PLN 68,412 and PLN 133,692. Consequently, the tax reform's impact would be neutral for employees with monthly income between about PLN 6,000 and PLN 11,000 (i.e., to compensate for the planned increase in the health insurance contributions).

Health Insurance Contributions

Moreover, the bill is to embody previously-announced changes relating to the health insurance premium accounting basis and eliminating the deductibility of health insurance premiums.

Individuals conducting business activity are to pay health insurance premiums in proportion to their income (at the same rate as individuals employed under a contract of employment, i.e. 9 percent), without the possibility of deduction.

Importantly, the bill provides for the introduction of a minimum health insurance premium rate for individuals conducting business activity yet applying the tax scale or the flat-tax rate. In such cases, the accounting basis for the minimum health insurance premium will be the statutory minimum wage. For individuals applying lump-sum tax on recorded revenue, the health insurance premium is to be set at 1/3 of the tax due (meaning that in this case, there is no minimum rate available), while for individuals applying the fixed amount, tax it is to be set at 9 percent of the average remuneration.

Tax Relief for Those Transferring Their Residence to Poland

Another tax incentive included in the bill is the so-called "return relief," to be offered to individuals moving their place of tax residence to Poland who earn income under an employment relationship or similar arrangements, from activities performed in person, from non-agricultural business activity, or copyright. The relief can be applied for four consecutive years following the reference year. The reference year will be the year in which the taxpayer changed his or her tax residence to Poland, or the year following the change of tax residence, to be selected by the taxpayer. The relief is to consist of the option to deduct 50 percent of the total tax due, calculated according to the tax scale, or choosing the flat 19-percent income tax rate applicable to businesses. In the first year, 50 percent of the tax due for the reference year can be deducted; in the second year, the deduction will cover 50 percent of the tax calculated for the first year of applying the relief; while in the third and fourth years the deduction will be calculated in reference to the second and third years of applying the relief, respectively.

Other PIT Amendments Proposed

Other amendments to PIT regulations include relaxing the conditions for joint taxation of the income of spouses and single parents, expanding the catalogue of expenses entitling one to rehabilitation relief, cutting the red tape on the rules for introducing new PIT forms (the new templates will not be published in the Journal of Laws, but on the website of the Ministry of Finance) and introducing new reliefs and tax preferences, including monument relief and reliefs for taxpayers supporting sports and cultural activities as well as higher education and science.

New Innovation Relief Scheme for Employers/Companies

The bill brings about a suite of innovation-targeted tax reliefs, namely:

- relief for entities hiring innovative employees – offered to taxpayers who obtain income from business activity, and who incur costs related to employing highly-qualified employees involved with research and development;
- "prototype" relief covering test and production of a new product or marketing such a product;
- pro-growth relief to increase revenues from product sales;
- IPO relief offered to companies making initial public offerings or investing in such companies;
- "robotization" relief, consisting of reducing the tax burden in respect of the purchase of brand-new industrial robots as well as software and accessories needed to operate such robots.

Next Steps

The draft is currently subject to public consultation.

The essential part of the amendments brought by the bill is planned to enter into force on 1 January 2022.

FOOTNOTE:

1 See (in Polish) "Projekt z dnia 26 lipca 2021 r." at: https://legislacja.gov.pl/docs/2/12349409/12805432/12805433/dokument514512.pdf .

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