



ESSENTIAL OF
DOING BUSINESS
in Poland

2022
updated in July 2022



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TAX SERVICES

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VGD is an international company providing services in accounting, payroll, audit, tax advisory and business consulting. Credibility, thoroughness, knowledge of tax regulations specific to your business area - this is a baseline. But at VGD we go above and beyond.

We are much more than just an accountancy firm. We are a tax compass for your business lifecycle. Giving the finance proper direction with solid organization and complex services is essential: it provides insights that enable you to take the right decisions. Reach peak efficiency under constant supervision of VGD and stay there.

VGD operates in 8 European countries and in China. Our specialists speak Polish, English, Czech, Russian and Ukrainian. Their expertise serves as a guarantor of the financial safety of our clients.



VGD has offices in:



Poland



Belgium



Czech Republic



Germany



Hungary



Luxembourg



Netherlands



Slovakia

Let's grow **your business**

Simplify your start as an expatpreneur in Poland. At VGD we boost your business to enter the Polish market. You have a vision of your finances. We know a way to get you there. Whether it is for an ambitious starter or a big international company, our mission is to support your business to become successful.



WHY POLAND?

Poland is a good place for starting up or investing in business. It has good connections to the Europe, strong innovation, a thriving infrastructure and highly skilled employees.

01

WHY POLAND?

Poland is located in Central Europe, bordered with Germany to the West; Czech Republic and Slovakia to the South; Ukraine and Belarus to the East; and the Baltic Sea, Lithuania and Kaliningrad Area, a Russian exclave, to the North.

With an area of 312.679 sq. km, Poland is the 9th largest country on the continent. Its area can be compared to New Mexico. The country's population is over 38,5 million people, concentrated mainly in large and medium cities. Approximately 63% of population are people of age 15-64.

Almost 98% of the population is of Polish origin. The vast majority (86%) of Poles are Catholics. The Capital is Warsaw, which area is 517,24 kilometres. Population as of 2021 was estimated at 1.794.166 making it 14th most populated city in Europe, with a metropolitan area of approximately 3.500.000 people. Warsaw leads Central Europe in foreign investment.

The climate is oceanic in the North and West and becomes gradually more continental on the South and East. Summers are generally warm, with average temperature between 20°C and 27°C. Winters are cold, with average temperatures around 3°C in the Northwest and -8°C in the Northeast. The Polish landscape is vary: the mountains in the South and the sandy beaches in the North. The Polish Baltic coast is approximately 528 km long. Surface waters represent 2.7% of the area. Forests cover about 30.5% of the land area.

Poland joined the European Union on May 1st, 2004, that resulted in a further harmonisation of the Polish law with EU standards.

The currency is Polish złoty (PLN), divided in 100 groszy. On December 31st, 2021, the exchange rate of the EUR to PLN was 4.5994. On December 31st, 2020, the exchange rate of the EUR to PLN was 4.6165.

Since the collapse of the communism in 1989, Poland has dramatically transformed its economy and has enjoyed unsurpassed success in terms of economic growth, financial stability and investment attractiveness. From 1989 to 2018 Poland's

GDP increased by 826.96%. It was the best result in Europe. GDP in 2021 grew by 5,7%. Poland's GDP at current market of European countries ranks in the 9th position. It is higher than in Belgium, Sweden, Ireland and Norway.

Polish is the only official language and is one of the official languages of the European Union.

Healthcare system in Poland is based on all-inclusive insurance system. This general health insurance program makes state subsidised healthcare available to all citizens.

Poland educates the most talented experts. In 2020 it took 14th place in the EU ranking of the number of science, technology and IT graduates. Poland is one of the leading European countries in terms of the level of education of its inhabitants. People aged 25-64 who completed their education at at least secondary level accounted for 93.2% in 2020 (average 79.0% for European Union countries).

The statistic of employment by economic sector shows that 61% of the employees were active in the service sector. 30,8% were employed in industry and 8,19% in the agricultural sector. Big domestic market and economic stability are Poland's advantages as investment destination.

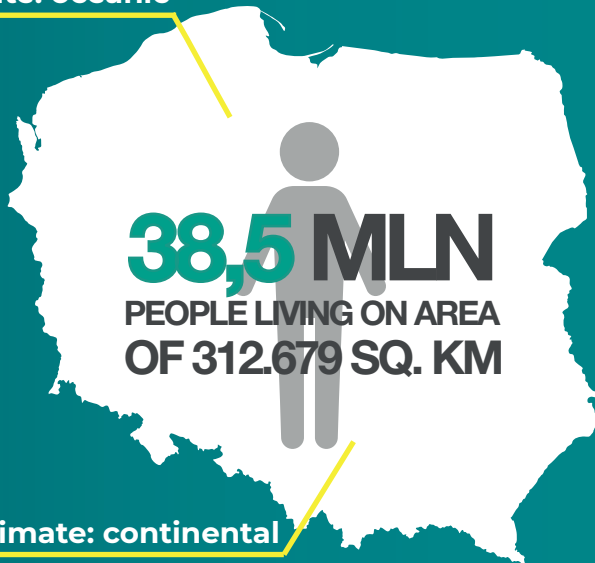
The top exports of Poland are: Vehicle Parts, Cars and Furniture. Top imports are Cars, Crude Petroleum, Vehicle Parts, Packaged Medicaments and Office Machine Parts. The top export destinations are Germany, the United Kingdom, the Czech Republic and France. The top import origins are Germany and China.



GDP
growth of
5,7%

POLAND

climate: oceanic



WEATHER



20 - 27°C



Northwest: 3 °C
Northeast: -8 °C

INVESTMENT CLIMATE

- Foreign investors rated investment climate in Poland at 3,7 in 1-5 scale. This is one of the best scores in the history of the survey.
- 94% of foreign investors would invest in Poland again.



The currency is Polish złoty (PLN), divided in 100 groszy.



Polish is the only official language of Poland.



86% Poles feel safe in Poland.

AGE GROUPS



RELIGION



- 86% Catholicism
- 6% Non believer
- 1% Other religions
- 1% Orthodox Cristianity
- 1% Protestantism

EMPLOYMENT STRUCTURE



- 61,0% Services
- 30,8% Industry
- 8,19% Agriculture

HOW TO ESTABLISH A POLISH CORPORATE ENTITY?

Opening a business can be stressful. At VGD we turn stress into excitement. Start an adventure with us that will lead you to success!



02

WHEN YOU START

The establishment of a polish corporate entity

2.1 Types of Business Associations

The Polish law provides the following commercial forms of conducting economic activity:

LIMITED LIABILITY
COMPANY

JOINT-STOCK
COMPANY

PARTNERSHIP
(4 TYPES)

COOPERATIVE

SOLE TRADER SHIP

BRANCH OF A FOREIGN
ENTREPRENEUR

REPRESENTATIVE OFFICE
OF
A FOREIGN ENTREPRENEUR

All these forms are available for Polish and foreign investors based in the EU and EFTA member countries.

For foreign investors, the most common form of conducting activity is a limited liability company (spółka z ograniczoną odpowiedzialnością – Sp. z o.o.) followed by a joint-stock company (spółka akcyjna – S.A.).



Sp. z o.o. - a limited liability company



S.A. - a joint-stock company

Major differences between these two types are:

	LIMITED LIABILITY COMPANY	JOINT-STOCK COMPANY
Number of shareholders / founding members	One or more shareholders. Cannot be formed by another limited liability with one shareholder.	One or more founding members. Cannot be formed by a limited liability company with one shareholder.
Minimum Capital	5.000 PLN	100.000 PLN
Minimum Value of 1 share	50 PLN	0,01 PLN
Contributions	In cash or in kind. 100% of the share capital must be paid up before registration.	In cash or in kind - in cash: 25% to be paid up before registration - in kind: must be fully paid up not later than one year after registration - solely in kind or in cash and in kind: 25% of the nominal share capital should be paid up before registration
Valuation procedure of contributions in kind	No valuation report required.	The founders must prepare a valuation report, to be verified by auditors appointed by the registration court.
Additional payments	The articles of association may oblige shareholders to make additional payments up to a specified amount in proportion to their shares.	Shareholders may be obliged to make additional payments only in exchange for additional privileges granted to their shares.
Authorised capital	Not possible	The article of association may authorize the Management Board to increase the share capital for a period not longer than 3 years.
Supervision	Each shareholder has the right of inspection. A supervisory board or audit commission is optional, unless the company's share capital exceeds 500.000 PLN and there are more than 25 shareholders.	Shareholders have no right of inspection. The company must appoint a supervisory board. Not possible (except through a compulsory buy-out / squeeze out).
Exclusion of a shareholder	The court may decide on the exclusion of an individual shareholder, on request of other shareholders holding shares representing more than 50% of the capital.	Not possible (except through a compulsory buy-out / squeeze out).
Responsibility	Management Board members are liable jointly and severally with all their assets for the company's liabilities towards its creditors and for the company's tax arrears if enforcement against the company proves ineffective, unless a member of the Board shows that bankruptcy was declared or arrangement proceedings were initiated in due time, or that the lack of such declaration or arrangement proceedings was not his fault, or if he indicates property on which the enforcement can be effected.	Management Board members are liable jointly and severally with all their assets for the company's tax arrears if enforcement against the company proves ineffective, unless a member of the Board shows that bankruptcy was declared or arrangement proceedings were initiated in due time, or that the lack of such declaration or arrangement proceedings was not his fault, or if he indicates property on which the enforcement can be effected.

2.2 A simple joint-stock company - the most important features

From July 1, 2021, entrepreneurs are able to keep accounts in a new form - a simple joint stock company.

A simple joint stock company is easier to set up than a classic joint-stock company, and it will also be easier to dissolve. The basic principles of simple joint stock company are:

- very low share capital required to set up a company - PLN 1
- flexible approach to the company's bodies, including the possibility of appointing a board of directors that combines the features of the management board and the supervisory board
- simpler procedures and bigger freedom of adopting resolutions distantly, via e-mail or instant messaging
- bigger flexibility in terms of types of shares and the company's operating rules, including actions for work or services
- possibility to set up via the Internet, in the S24 system
- digital shareholder register kept by a notary public or a brokerage house
- easier management of the company's funds - no "frozen" share capital
- simple rules for liquidating a company and shorter time for liquidation.



6 STEPS TO REGISTER A LIMITED LIABILITY COMPANY



1 The Articles of Association or the Founding Deed (for a single-member company) must be executed in a notarized form before a notary in Poland.



2 Entry in the Court Register



3 Registration with the Statistical Office



4 Opening of a bank account



5 Registration with the Revenue Office. Taxpayers' Identification Number (NIP)



6 Registration with the Social Security Office

2.3 Steps to register a limited liability company in a traditional way

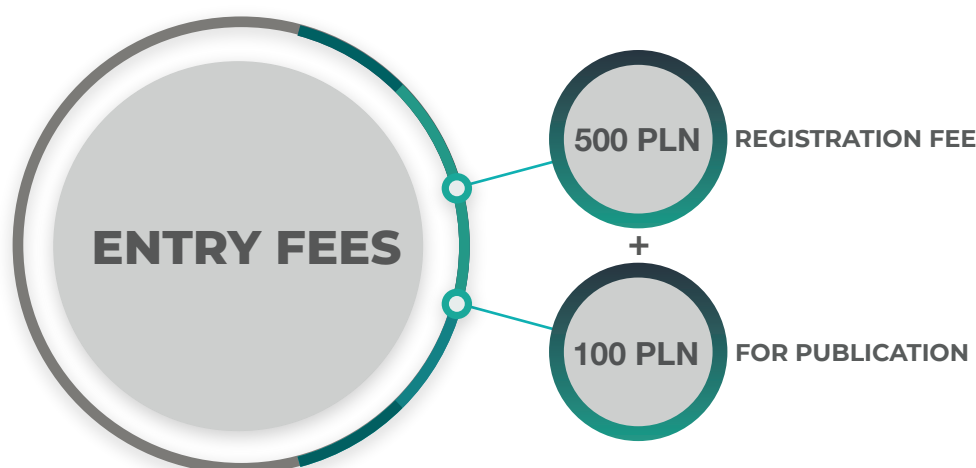
a) The Articles of Association or the Founding Deed (for a single-member company) must be executed in a notarized form before a notary in Poland.

The notary fee for a company with a capital of 5.000 PLN is approximately 500 PLN.

- The Articles of Association or the Founding Deed should stipulate,
- The business name and registered address of the company,
- The activities of the company, as specified in the Polish Classification of Activities (PKD),
- The duration of the company, if established for a definite period of time,
- The amount of the share capital,
- The capacity (or lack thereof) for a partner to hold more than one share,
- The number and nominal value of shares subscribed for by each individual partner.

The next step is to make the contributions to the company's share capital and to appoint the Management Board.

b) Entry in the Court Register



The registration fee amounts to 500 PLN + additionally 100 PLN for publication. The application for entry in the Court Register must be filled by the Management Board and signed by all of the board members. The application should be filed jointly with:

- The Articles of Association,
- A representation of all members of the Management Board and of fully paid contributions of all partners to the share capital,
- If the notarial deed, which includes the Articles of Association, does not provide for the appointment of the members of the company's governing bodies, proof of their appointment with details of their membership must be provided,
- A list of all partners signed by all members of the Management Board, including the first name and the family name or the business names and the number and the nominal value of the shares of each partner, as well as sample signatures of members of the Management Board placed before the Court or certified by a public notary,
- A document confirming the possession of a title to the premises in which the company intends to operate (e.g. lease contract),
- Evidence of payment of the fees for court registration and publication in the Court and Business Gazette (Monitor Sądowy i Gospodarczy).

After the acceptance of the application, the limited liability company is entered into the Register of Entrepreneurs of the National Court Register (KRS).

KRS - National Court Register



It should be kept in mind that if the formation of the company is not reported to the Registry Court within six months of the date of execution of the Articles of Association, the Articles of Association will be deemed null and void.

c) Registration with the Statistical Office

Entrepreneurs are required to hold a REGON statistical number.

REGON - National Business Registry Number



Registration form is submitted at the National Court Registration and later sent to the Statistic Office by the National Court Register.

The Statistical Office provides the registered entrepreneurs with certificates of the REGON statistical numbers. Certificates are issued free of charge on the spot.

d) Opening of a bank account

According to the Business Activity Law, entrepreneurs are required to carry out transactions in a non-cash form, must open a bank account.

The Law provides that the entrepreneur should:

- Make or accept payments via his or her bank account in each case where the other party to a transaction is another entrepreneur and the value of receivables or payables exceeds the PLN equivalent of 15.000 EUR, calculated at the exchange rate published by the National Bank of Poland on the last day of the month preceding the month in which the transactions are effected,
- Give notice of the fact of holding a bank account for business purposes to the applicable Tax Office. If the entrepreneur holds more than one bank account, he or she should choose one of them as the principal account. The name and address of the bank and the number of the bank account should be disclosed to the Tax Office.

In order to open a bank account, the entrepreneur must enter into an agreement with the bank. The bank usually requires the submission of originals and copies of all documents obtained in the course of the registration of the company.

The agreement should be read carefully. If it includes references to any other instruments, such as the regulations, general terms or resolutions of bank authorities, the entrepreneur should demand to see such documents and revise them carefully. Whether, the operator should ask a bank officer for additional explanations and where explanations provided are inadequate, consult a legal advisor.

The bank account agreement is accompanied by an annex containing sample signatures of persons authorised to use the account, as well as the company's official stamp. The authorised persons place their signatures in the presence of a bank officer.

The banks may charge fees for:

- Opening of an account,
- Issuance of a cheque-book,
- Keeping of an account,
- Transfers,
- Cash payments,
- Other services.

Money deposited on the company's account may accrue interest, although in some banks deposits are interest-free. The solvency of the bank should be taken into account when selecting a bank. The holder of a bank account may obtain a credit or overdraft facilities under a separate agreement.

Nowadays people can use system S24 to register the company without leaving the house. This system gives the opportunity to sign the agreement and make all payments electronically and then send them to Registration Court.

e) Registration with the Revenue Office. Taxpayer's Identification Number (NIP)

Taxpaying entrepreneurs are required to register with tax authorities, where they can obtain a Taxpayer's Identification Number (NIP). A registration form should be submitted at the National Court Registration and later should be also sent to the Statistical Office by the National Court Register.

The application for registration should include the full and abbreviated business name, legal or organisational form, address of the registered office, list of bank accounts, the place of keeping accounting records, and the objects of business activities compliant with the classification standards.

The requirement to submit the bank account agreement may be met only after such agreement has been concluded with the bank. However, the bank requires the decision on granting a NIP number to be submitted prior to the conclusion of the agreement. As a result, the entrepreneurs wishing to comply with all formalities are faced with conflicting requirements. In practice, banks allow to deliver the NIP granting confirmation later on.

Taxpayers of goods and services tax (VAT) or excise duty are required to register prior to performing the first taxable operation.



NIP - Taxpayer Identification Number

f) Registration with the Social Security Office

Although the confirmation is not obligatory, it is better to have it because the company can be asked to present it. Apart from registering with the Revenue office, a taxpayer commencing business activity is required to register with the Social Security Office (see point 3.1).

The entry application must be submitted at the national Court Office together with applications for NIP and REGON.

2.4 Online registration of the company

System S24 allows to register a limited liability company, general partnership and limited partnership online within 24 hours. There is the opportunity to sign the agreement and make payments electronically and send to the Registration Court all necessary documents.

By creating an account in the system S24 the company has to indicate general information about the owner and address, and authenticate them by giving username and password. These data represent an electronic signature, which serves both to log into the system and sign documents.

The S24 can be used by Polish citizens as well as foreigners. In the case of non-Polish citizens, personal identification number PESEL is not required when registering account. Instead, the person has to present the personal identity document.

2.5 Changes in the National Court Register Act

15 March 2018 was the date of entry into force of an act amending the National Court Register Act and several other acts of law, of 26 January 2018 (Journal of Laws of 2018, item 398), introducing major changes in submission of financial statements to the registration court.

As of the above-mentioned date, it is no longer allowed to submit financial statements to the registration court in hard copy and such statements are required to be submitted via an electronic system. The above apply to financial statements for 2017 already; in this case, however, it will be possible during the transition period between 15 March 2018 and 30 September 2018 to submit them in electronic form (scans). During the transition period, financial statements made in traditional form should be scanned upon signing, and then the copy should be signed in accordance with Article 38.2 of the above-mentioned Act, that is it should bear a qualified electronic signature or a signature authorised by ePUAP trusted profile by at least one individual whose PESEL (personal identification number) is disclosed in the National Court Register and who is entered as a member of the body authorised to represent the company, a partner authorised to represent a partnership, a receiver, or a liquidator.

Then, thus signed copy of financial statements will be subject to entry in the repository of financial documents using a computer system for free-of-charge entry of financial statements directly to the repository, which was to be made available as of 15 March this year.

As of 1 October 2018, it will become obligatory to draw up financial statements only in electronic form and sign them with a qualified electronic signature or a signature confirmed with ePUAP trusted profile.

Information from the financial statements will be sent from the court repository of financial documents to the Central Register of Tax Information. Therefore, it will no longer be necessary to send financial statements separately to tax offices.

EMPLOYMENT IN POLAND

The most important legislation that you must comply with when employing workers.

03

WHEN YOU EMPLOY

Employment in Poland

3.1 Registration

Once a company has started engaging employees, it has to:

Register the Company and the employees in the social security office (ZUS).

A payer of social security contributions is required to register no later than in 7 days following:

- The company that has employed the first person or entered into legal relations whereby the other party has acquired the right to be covered by the retirement and pension schemes,
- The obligation to pay contributions to the retirement and pension schemes arisen for the insured that are required to pay their own social security contributions or the social security contributions of their associates.

Register with the Tax Office (Urząd Skarbowy)

A yearly declaration (PIT-4R) that shows the monthly salaries paid to the employees during the current tax year, should be sent before January 31st of the following year after the current tax year

ZUS - Social Security Office



Urząd Skarbowy (US) - Tax Office



Also foreign companies, having no entity in Poland, can employ Polish citizens in Poland to perform limited activities such as promotional activities. In such case, there are two possibilities:

- The employee is appointed as paymaster for social charges.
- The employer is appointed as paymaster, for which the company needs to request for a NIP (tax identification) number in Poland.

The fastest way to start employment through a foreign entity is to appoint the employee(s) as paymaster. Such procedure takes only a couple of working days.

In case the several people are employed, it might be more profitable to appoint the foreign entity as paymaster, as the monthly social declaration can be grouped on employer base (and not separately per employee).

The appointment of a foreign entity as paymaster can take approximately one month though. In practice, employees are sometimes appointed as paymasters for a transition period, awaiting the completion of the foreign entity's registration.

Please note that Polish Labour law requires from employees (at employers cost) before their first working day:

- A medical examination, certifying that the employee's health is sufficient to perform the job,
- A preliminary safety and security training (given by employer who was trained before and has qualifications to process it or a licensed training company).

3.2 Employment contracts

The following types of employment contract can be signed for:

AN INDEFINITE TERM

A FIXED TERM

To replace an employee – in the event of his or her justified absence from work; the employer can hire another worker under a fixed term employment contract for the period of absence.

Once a fourth fixed-term contract is signed, it is deemed that this contract has become an indefinite term contract. The employment on fixed-term contracts is limited up to 33 months.

An employment contract is concluded in writing and should be signed before an employee starts his work. In addition, an employee should be familiarized with the company's work regulations.

An employment contract must specify its parties, type, date of its execution and the condition of the work and remuneration, in particular:

01

The type of work, the place of its execution and the date of its commencement

02

The remuneration corresponding to the type of work with an indication of its components

03

Work schedule

Any changes in employment contract conditions should also be made in the written form.

All of the contract types mentioned above can be preceded by a (separate) employment contract for a trial period of no longer than three month.

Apart from the contract, written information about the basic conditions of employment must be given to the employee during the first seven days of work.

3.3 Working term notes

A normal working week in Poland consists of 40 hours or a 5 working days of 8 hours per day.

The national minimum wage for 2022 is 3010,00 PLN per month. This minimum is usually yearly adapted by the government. Salaries for a particular month have to be paid at the latest by the 10th of the subsequent month (bank transfer or cash – at an employee's request).



All employees are entitled to an annual unbroken (2 weeks) vacation. An employee, who is employed for the first time in his life, gains the right to his first leave after one month of service in the amount of 1/12th of his yearly vacation leave entitlement. Employees who have had some working experience gain the right to their yearly vacation on the first day of employment.

This yearly vacation entitlement is as follows:

- 20 days – if the employee has been working for less than 10 years
- 26 days – if the employee has been working for at least 10 years.

The working period on which vacation entitlement depends on, includes time spent on education, depending on the type of finished school, e.g.:

- Basic vocational school – length of course but not more than three years,
- Secondary vocational school – length of course but not more than five years,
- Secondary school of general education – four years,
- Vocational college – six years,
- Higher education institution – eight years.

The above periods cannot be added together.

PUBLIC HOLIDAYS IN POLAND 2022	
New Year's Day	1 January
The Epiphany	6 January
Easter Sunday	movable - in 2022 - 17 April
Easter Monday	movable - in 2022 - 18 April
Labour Day	1 May
Constitution Day	3 May
Whitsunday	movable - in 2022 - 5 June
Corpus Christi	movable - in 2022 - 16 June
Assumption	15 August
All Saint's Day	1 November
Independence	11 November
Day	25 December
Christmas Day	26 December

3.4 Termination of an employment contract

In general, an employment contract can be terminated:

- By mutual agreement,
- Upon declaration by one of the parties (with or without termination notice; the second one is used for disciplinary dismissal),
- Upon expiration of the period for which the contract was concluded.

In case the contract is terminated by one of the parties, a termination notice applies (except in some cases), in particular:

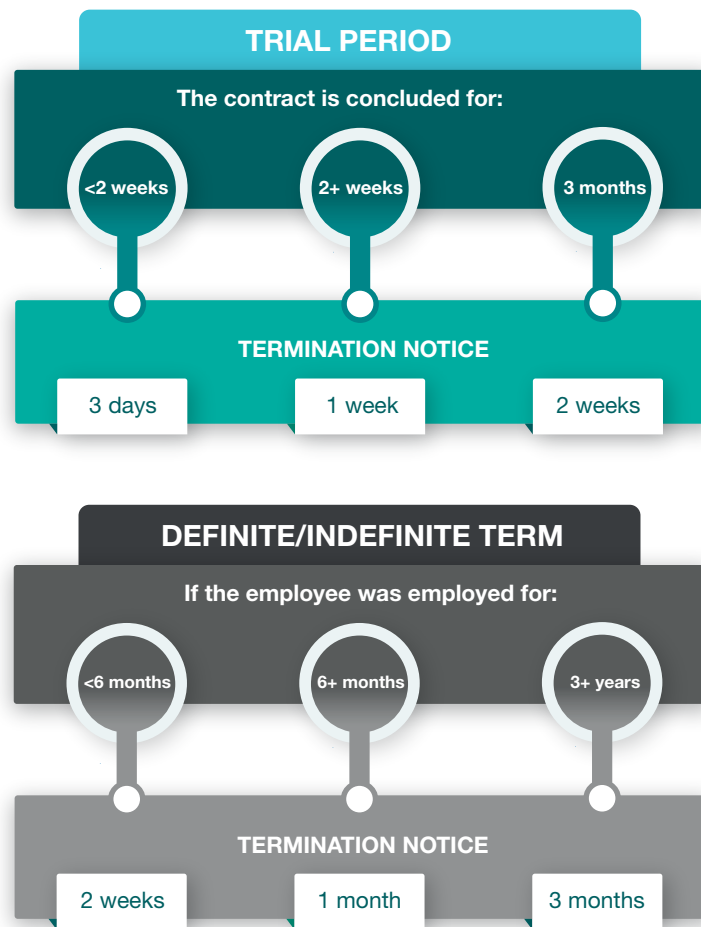
- *employment contract for a trial period:*

- Three working days, if the contract is concluded for no more than two weeks,
- One week, if the contract is concluded for more than two weeks but less than three months,
- Two weeks, if the trial period is three months.

- *employment contract for a definite / indefinite term and replacement contracts:*

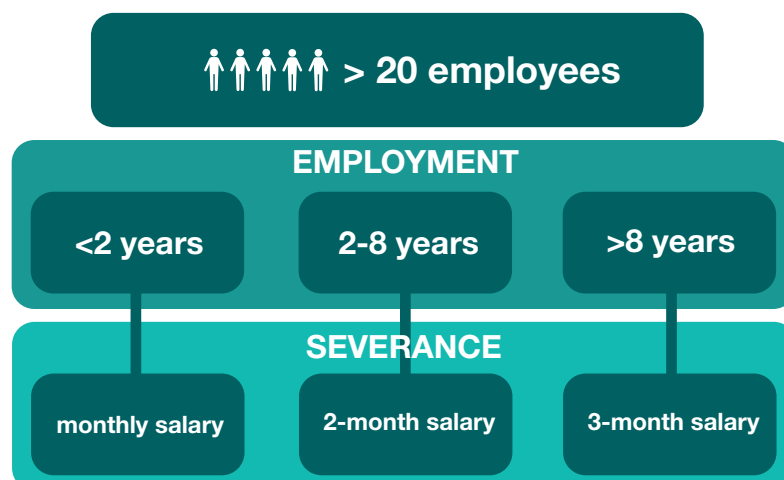
- Two weeks, if the employee has worked for the employer for no more than six months

- One month, if the employee has worked for the employer for at least six months but less than three years,
- Three months, if the employee has worked for the employer for at least three years



If Employer employs more than 20 employees, then severance has to be paid in the case of termination of the contract by Employer for reasons unrelated to the employee (liquidation of the position):

- monthly salary, if the employee has been employed with the employer for less than 2 years,
- 2-month salary if the employee has been employed with the employer from 2 to 8 years,
- 3-month salary if the employee has been employed with the employer for over 8 years.



3.5 Social security contributions

An employer is obliged to pay contributions to Social Insurance Office (ZUS), both on behalf of employee and the employer, amounting to:

Social security contributions			
TYPE OF INSURANCE	TOTAL	by employee	by employer
Retirement*	19,52%	9,76%	9,76%
Disability*	8,00%	1,50%	6,50%
Sickness	2,45%	2,45%	-
Accident**	0,67 - 3,33%	-	0,67 - 3,33%
Labor Fund and Solidarity Support Fund for Disabled People	2,45%	-	2,45%
Fund of Guaranteed Labor Benefits	0,10%	-	0,10%
Total	33,19 - 36,85%	13,71%	17,48 - 20,1%

*Cap on gross salary subject to contribution (177 660 PLN in 2022)

**Depending on the company profile (1,67 % if the company has maximum nine employees)

Apart from the contributions listed in the table above, employers who hire employees in special conditions are required to pay contributions to the Bridging Pension Fund (FEP).

A contribution to the FEP employer pays for employee who meets the following conditions:

1. was born after December 31st, 1948
2. performs work in special conditions

The rate of contribution to the FEP is 1,5% of the base. The base of the contribution is the same as for contributions for the pension and retirement.

Employers having over 25 employees are also obliged to pay a premium to the State Fund for Disabled (PFRON). The duty to pay the premium to the Fund and the amount of premium depends on the number of people employed, average remuneration in Polish economy and the total number of disabled employees.

The health insurance contribution of 9,00% is paid by the employee. Social security has to be paid by the 15th day of the subsequent month at the latest (companies) or by 20th day of the subsequent month (entrepreneurs).

3.6 Contracts of mandate

Apart from contracts of employment based on labour law, companies may hire people on the basis of civil law. One of the most popular civil contracts is contract of mandate. It is usually signed for definite period of time in order to perform a certain activity. What is important it that the activity is carefully performed and not the specific result of this performance.

Characteristics of the contract of mandate:

- relative independence and freedom of action
- hours of activity performance are not restricted by the company
- no apparent supervision of the company.

Law does not specify elements of the contract; it is advisable to determine:

- parties of the contract
- date of beginning and end of the contract
- scope of the contract
- remuneration
- signatures.

Major differences between employment contract and contract of mandate:

FEATURE	EMPLOYMENT CONTRACT	CONTRACT OF MANDATE
Form	written	no requirements
Remuneration	defined in the contract	compensated or free of charge
Subordination	execution of employer's orders	no strict subordination
Place of work	defined in the contract	no requirements
Time of work	defined in the contract	no requirements
Personal performance	only personal	third party may perform the activity, but such a provision should be included in the contract
Purpose	certain, recurrent	specific (usually a service)
Termination	dependent on type of contract and period of employment	any time, unless stated differently in the contract

When the mandatory has no other title to social security insurance and the value of the contract is up to the minimum remuneration, such contracts of mandate are subject to ZUS (pension and disability insurance; sickness insurance is facultative). If the mandatory has any other title to insurance and his/her base of social security insurance is higher than the minimum remuneration, such contracts are not subject to ZUS, however, the mandatory may at his/her request be covered by the pension and disability insurance (however, in this case the mandatory cannot be covered by sickness insurance).

Contracts of mandate are always subject to health insurance (the only exception is when the contract is concluded with an up to 26 years old student; in such a case there are no contributions to ZUS from such a contract). Income on contract of mandate is taxed. If the amount arising from the contract is lower than 200 PLN, a lump sum of tax in the amount of 17% is charged on the income. Social security contributions are not deducted from the taxable income.

From January 1st, 2017 there is a minimal hour rate on contract of mandate, which in 2022 amounts to 19,70 PLN gross. To ensure mandatories receive this minimum rate, it is necessary to keep monthly time-sheets. If the paymaster does not apply to the regulations the National Labour Inspectorate (PIP – Państwowa Inspekcja Pracy) may impose a fine (from 1 000 PLN up to 30 000 PLN).



Państwowa Inspekcja Pracy (PIP) - the National Labour Inspectorate

3.7 Employee Capital Plans (PPK)

Employee Capital Plans is a common system of long-term savings. Anyone who is employed and subject to pension insurance can join an ECP. Savings are provided by the employee, the employer and the State.

The ECP Act must be applied:

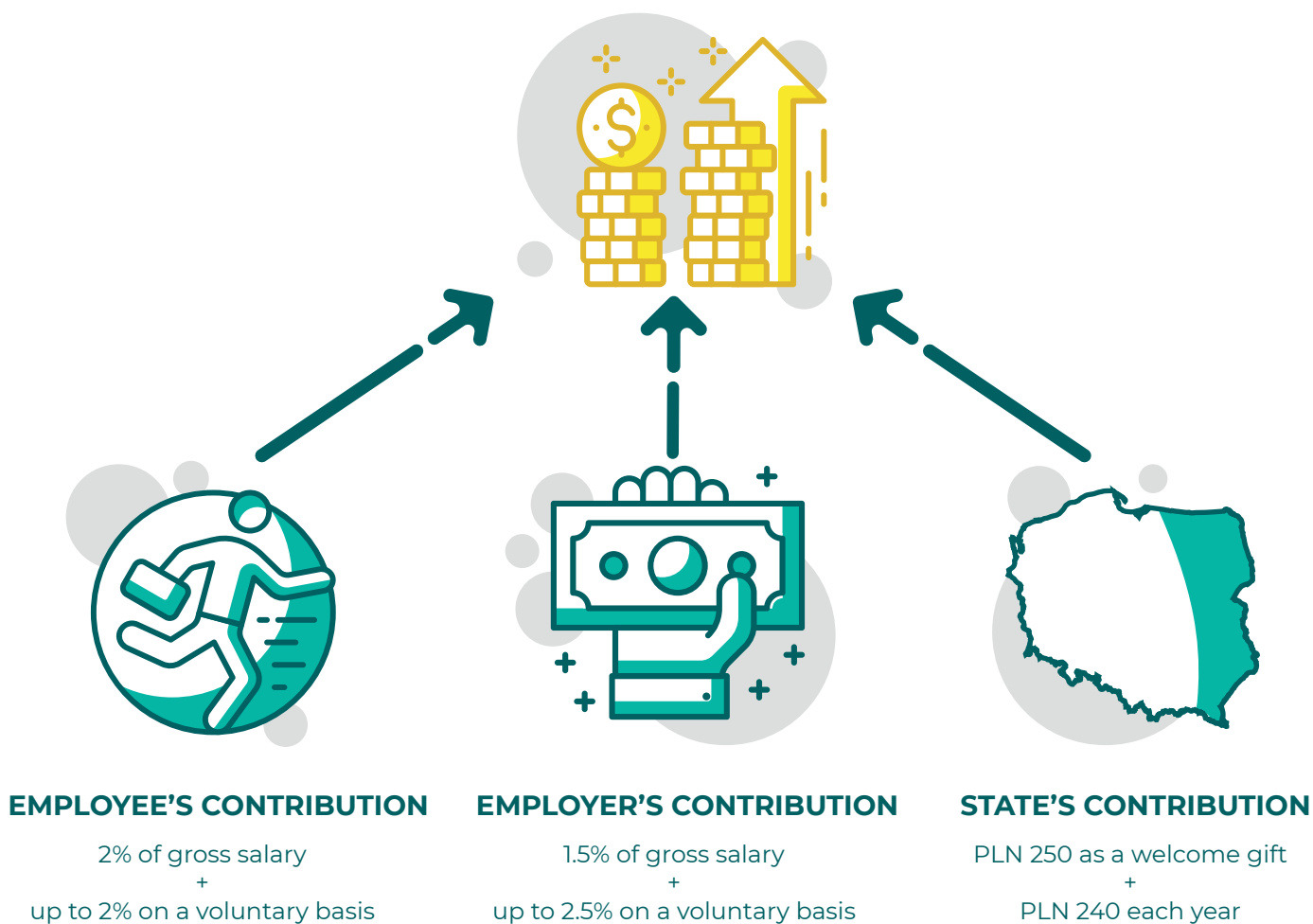
- from 1 July 2019 – by companies employing at least 250 persons as of 31 December 2018;
- from 1 January 2020 – by companies employing at least 50 persons as of 30 June 2019;
- from 1 July 2020 – by companies employing at least 20 persons as of 31 December 2019;
- from 1 January 2021 – by other entities, including public sector entities.

Exception: entities belonging to a capital group. They choose when to join an ECP – they can join on the date which is mandatory for the largest company or they can join an ECP on the date which is mandatory for this particular company.



Pracownicze Plany Kapitałowe (PPK) - Employee Capital Plans (ECP)

Employee Capital Plans



More info & examples

<https://pl.vgd.eu/en/newsroom/employee-capital-plans-in-poland/>



ACCOUNTING PRACTISES AND AUDIT REQUIREMENTS

All businesses operating in Poland must adhere to Polish accounting standards. The required accounting procedures are based on a double-entry system.

04

ACCOUNTING RULES

Accounting practises and audit requirements

4.1 Form and content of accounts

All businesses operating in Poland must adhere to Polish accounting standards. The required accounting procedures are based on a double-entry system. Each company must establish its book of accounts. Except for state organisations no uniform book of accounts is imposed. Nevertheless, a book of accounts must still meet certain requirements, such as the ability to show the company's assets, the cost of production and the profitability of the company. The accounting records, the annual balance sheet and the profit and loss account must be maintained in Polish currency and prepared in the Polish language.

Accounting records have to be maintained in the registered office. If they are kept by a third person, the tax office should be informed within 15 days.

The requirements regarding correctness and clarity of the accounting records and vouchers do not differ from those normally applied in western countries. Accounting records, documentation, reports, etc. have to be kept for 5 years.

Companies are required to produce a balance sheet and a profit and loss account. In addition to the financial statements, a company has to produce a written report including additional information.

4.2 Valuation of assets

Fixed assets have to be booked at acquisition or production cost and depreciated over their useful life or written down for impairment. Once in every four years, companies should verify the inventory of their fixed assets by a stock take.

Intangible assets are recorded initially at their purchase price and then are amortised over their useful lives or written down for impairment. The amortisation period for goodwill and development costs qualifying for capitalisation should not exceed five years. If justified, however, the amortisation period for goodwill may be extended up to 20 years.

Fixed assets under construction are recorded at the actual cost incurred for the construction. Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets incurred before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use.

Investment property is valued at a purchase price decreased by depreciation and write-offs due to impairment or at their fair value – the policy to be selected. If the fair value model is selected, the changes are recognised in other operating costs or other operating income. Investment property includes properties which the Company does not use for its own purposes but which are held for the purpose of generating profits in the form of increasing value or revenues from rental.

Borrowing costs which relate to the construction, adaption, assembly or improvement of a fixed asset or intangible asset are capitalised as part of the cost of the asset.

Inventories may be valued either at average cost or First In First Out or Last In First Out.

Receivables and loans are valued at the amount due, with the prudence principle. Receivables and loans classified as financial assets may be valued at adjusted purchase price, and if the company intends to sell them for up to three months, according to market value or otherwise determined fair value.

Liabilities are measured at the amount payable. Financial liabilities can be measured at adjusted purchase price, and if the company intends to sell them for up to three months, according to market value or otherwise determined fair value.

A lease is classified as a finance lease if at least one of the following seven conditions is met.

Own shares (stocks) are valued at purchase cost.

Equity (funds), with the exception of shares (stocks), and other assets and liabilities are valued at nominal value.

Provisions have to be made for doubtful receivables and obsolete inventories.

Deferred tax liabilities as well as deferred tax assets (under some conditions) are recognized.

4.3 The Financial statements

The financial statements have to be prepared in Polish language and expressed in Polish currency. They consist of:

- ✓ The balance sheet,
- ✓ The income statement,
- ✓ Notes to the balance sheet and the income statement (introduction and additional notes),
- ✓ Cash flow statement (only for audited entities),
- ✓ Statement of change in equity (only for audited entities).

The format of the balance sheet, income statement, cash flow statement and statement of change in equity are fixed.

Listed entities and entities that are part of a group where the parent company prepares consolidated financial statements in accordance with IFRS, are permitted to apply IFRS on their standalone financial statements.

The standalone and consolidated financial statement should be approved within 6 months after the balance sheet date.

The financial statements have to be filed with the registration court together with the auditors' opinion (if applicable), the shareholders resolution on the approval of the financial statements, and the report of the Management Board. Such filing should be performed within fifteen days of approval by the shareholders.

From 2022 there are changes about signing financial statement. Article 52 of the Accounting Act introduced the possibility of signing by at least one person belonging to the body managing the entity and submitting by other persons belonging to this body declarations that the financial statements meet the requirements provided for in the act, or refuse to submit such declarations. The refusal to submit the declaration is synonymous to the refusal to sign the financial statements and requires a written justification. The statement that the financial statements meet the requirements provided for in the Act and the refusal to submit such a statement are attached to the financial statements.

4.4 Consolidated accounts

A company that controls (cfr. the regulations of the EU-Directives) another company must prepare consolidated statements if two of following thresholds are met in the financial year and the preceding financial year:

- ✓ The average number of employees exceeds 250
- ✓ Balance sheet assets exceeds 7,5 million EUR
- ✓ Net sales exceed 15 million EUR

Group entities can be included using the full consolidation method: the proportional consolidation method and the equity accounting method, depending on the relation between the entity and the consolidating holding.

Listed companies and banks are obliged to draw up consolidated financial statements in accordance to IFRS.

4.5 Audit requirements

Banks, insurance companies, investment and pension funds, joint stock companies and listed companies, cooperative savings and credit unions are required to have an annual audit.

Other companies must be audited if two of the following three conditions are met in the preceding year:

- A.** Average annual full-time employment attained or exceeded the level of 50 persons,
- B.** Total balance sheet assets at the end of the financial year attained or exceeded a Polish currency equivalent of 2.500.000 EUR,
- C.** Net revenue from the sales of products and goods, as well as financial transactions for the financial year attained or exceeded a Polish currency equivalent of 5.000.000 EUR.

Additionally, entities after a merger are required to be audited after year of merging.

4.6 Transfer pricing

Starting from January 1st, 2017 new regulations regarding subject, entity-based scope of transfer pricing documentation, thresholds and types of documentation, come into force. Taxpayers are obliged to present the complete transfer pricing documentation within 14 days of the request from the tax authorities.

The catalogue of exemptions includes following transactions:

1.

concluded between Polish tax residents, without tax loss

2.

low value added services loans, credit facility fulfilling the safe harbour conditions

3.

so-called pure re invoicing provided that the statutory conditions are met

4.

transactions covered by a advance pricing agreement, investment or tax agreement

Additionally, starting from 2022 taxpayers are obliged to prepare local transfer pricing documentation for following transaction:

- concluded with an unrelated entity with a place of residence, registered office or management in a territory or country applying harmful tax competition (tax heaven), if the value of this transaction exceeds PLN 100,000/tax year
- concluded with a related or unrelated entity, if the beneficial owner has a place of residence, registered office or management in a territory or country applying harmful tax competition (tax heaven) and the value of the transaction exceeds PLN 500,000/tax year

4.6.1 Value thresholds

Value thresholds that condition an obligation to prepare transfer pricing documentation:

- PLN 10 m. in case of goods and financial transactions, and
- PLN 2 m. in case of service and other transactions.

Taxpayers required to prepare a Local File are also required to perform a comparative analysis for each transaction. The purpose of the Local File documentation is to prove the market nature of transactions with related entities.

Therefore, the Local File documentation currently includes an obligatory element called transfer pricing analysis (comparative analysis - benchmark or compliance analysis).

4.6.2 New TP-R form

According to art. 11t Polish CIT Act, taxpayers, required to prepare transfer pricing documentation, are obligated to submit to tax authority official information about transaction with related parties. Deadline for this reporting is end of twelve month after end of the tax year. However, due to economic and political situation Ministry of Finance has decided to extend the deadline for submission TP-R form for 2021 tax year.

Deadline for this reporting is end of twelve month after end of the tax year. However, due to economic and political situation Ministry of Finance has decided to extend the deadline for submission TP-R form for 2021 tax year.

Deadline for this reporting is extended:

- **to 30 September 2022** – in the event that the deadline expires between 1 January 2022 and 30 June 2022
- **by 3 months** – where the deadline expires in the period from 1 July 2022 to 31 December 2022

A TP-R report will need to disclose i.a.: financial information of a taxpayer (the value of financial indicators that measure the financial position of a taxpayer), information on related entities and controlled transactions, information on transfer methods and transfer prices and their corrections, profitability ratios and information on the restructuring of a given entity. Reporting with TP-R will require taxpayers to have detailed records.

Due to the scope of information covered by TP-R, accounting records should provide an opportunity to obtain such financial parameters of transactions as, i.a.: operating margin, gross profit margin, return on assets, return on equity, net and gross sales mark-up, operating mark-up or Berry index.

TP-R form should be signed as follows:

- a physical person who is a related entity
- an entity authorized by a foreign entrepreneur who represents it in the territory of the Poland (in the case of a related entity operating abroad);
- the head of the entity (pursuant to Article 3 (1) (6) of the Accounting Act), if it is managed by a multi-person body - by a person designated for this purpose, who is part of such body.

4.6.3 Group transfer pricing documentation (Master File)

Group transfer price documentation is mandatory only for entities covered by the consolidated financial statements and when the consolidated revenues of a group for the previous year amounted to over PLN 200 m. Master File should be ready till end of twelve month for previous tax year.

It is possible to have a Master File documentation in English, but it should be complete and contain all elements indicated in Polish regulations. At the request of an authority, a taxpayer will be required to submit group documentation of transfer prices in Polish within 30 days from the date of delivery of the request.

4.6.4 Safe harbours

Authorities will not be required to verify the market nature of an interest rate for loans and to verify the market nature of a mark-up on costs for services with low added value after meeting conditions specified in regulations.

The regulations provide a limit for the mark-up of „up to 5 percent” of costs for purchasing services and „from 5 percent” of costs for providing those services. In case of loans, determining an interest rate based on the type of base interest rate (including the currency of the loan) and a margin, as announced by the Minister of Finance, is of key importance.

The use of this simplified solution results in automatic recognition of a price or its element as a market one. Therefore, taxpayers who meet the abovementioned conditions are released from the obligation to include transfer pricing analysis in local documentation.

CORPORATE INCOME TAX

A company is regarded as a Polish resident when it is either incorporated in Poland or managed and controlled in Poland.

05

COMPANIES PAY TAXES

Corporate Income Tax

5.1 Taxable entities

A company is regarded as a Polish resident when it is either incorporated in Poland or managed and controlled in Poland.

Resident entities are subject to taxation with respect to their global income irrespective of where it was generated (unlimited tax liability).

Entities which do not have their seat or management in Poland are subject to taxation in Poland only with regard to the income sourced in Poland (limited tax liability). The same rule applies to branches. This rule may be modified by a double tax treaty.

5.2 Tax year and tax payments

The tax year consists of 12 consecutive months and usually corresponds to a calendar year. If the company was established during the second half of a calendar year, the first tax year may be extended from the day of start up by the end of the calendar year following the year of starting up.

A company is free to change its tax year to another 12 months period. However, the first tax year resulting from this change cannot be shorter than 12 months or longer than 23 months.

Monthly advances of corporate income tax have to be made. A final settlement of tax should be made on the day of the annual tax declarations will be submitted, so no later than the end of the third month of the following year (usually March 31st).

5.3 Tax base

5.3.1 Taxable profit

The taxable income is calculated by adjusting accounting profits for tax purposes. Taxpayers are obliged to keep accounting books in a manner that allows determination of the taxable base and the amount of tax due. Otherwise, income will be assessed by the tax authorities.

Generally, taxable revenues are recognised on an accrual basis. However, for certain revenues (i.e. interests) apply a cash basis.

From the 1st of January 2018 for CIT purposes there are two sources of revenue: capital revenues and others. The goal was to separate these kinds of revenue and show them separately in CIT return with applicable costs.

There will be no possibility to set-off income derived from one source with loss borne in the other sources. Income in both baskets taxed at 19% CIT. Apart from share capital transactions, the capital basket will include royalties, license fees and similar rights.

Generally, costs incurred for the purposes of earning revenue are tax deductible at the time when the revenue is earned. Certain costs are not tax deductible, such as:

- Most penalties and fines,
- Costs incurred in excess of the statutory limits (e.g. depreciation charges and insurance of passenger cars over 150.000 EUR (for electric cars 225,000 PLN under separate conditions), representation),
- Certain accruals and provisions (even if mandatory from an accounting point of view).

5.3.2 „Thin Capitalisation”

Poland implemented ATAD Directive No. 2016/1164 and based on it since January 1st, 2018 all companies are obliged to calculate the limitation of interest. In Poland we have two limits (to be chosen by the taxpayer, are not aggregated):

amount of 3 million PLN

OR

30% of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

The rest can be included into taxable costs during next 5 years.

5.3.3 Depreciation

Assets which have a useful life of more than one year are subject to depreciation. Nevertheless, assets costing less than 10.000 PLN (the amount was changed pf January 1st, 2018) may be fully expensed in the year of acquisition.

Typical examples of depreciation rates are depicted in the table on the right. Land is not a subject to depreciation. Intangible assets are typically written off over five years.

Both straight line and reducing balance methods are allowed (the latter applies only to machinery and equipment, except for passenger cars).

examples of depreciation rates

SUBJECT	RATE [%]
Buildings	1,5 to 2,5
Office equipment	14
Office furniture	20
Computers	30
Motor vehicles	20
Plant and machinery	7 to 25

5.3.4 Dividends and withholding tax

Dividends paid by a Polish company are subject to a withholding tax of 19% (both, payment to residents and non-residents). Since the implementation of the Parent-Subsidiary Directive, dividends paid out by Polish companies are exempt from withholding tax if the shareholder holds 10% of the shares in the Polish company during a period of two years. This two years requirement does not have to be met on the payment date. In particular, it is possible to declare the intention of holding the shares for the period required for exemption.

Interest and royalties payments are the subject of a withholding tax of 19% (payments to residents) or 20% (payments to non-residents).

In case of non-residents payments, a tax treaty may provide differently. In such case, a tax residence certificate of the receiving entity is required.

Starting from January 2022 we have new tax regime for dividends payments for "holding company". Key assumptions are:

1.

CIT exemption for 95% of the amount of dividends received by the holding company from subsidiaries

2.

full CIT exemption of profits from the sale of shares / stocks in subsidiaries sold to unrelated entities

This regulations constitutes an alternative to the currently existing exemptions from dividend payment, each means that Polish tax payers able to choose between:

taking advantage of the existing dividend exemptions (regulation of the Art. 20 section 3 and the Art. 22 section 4 of the CIT Act)

OR

taking advantage of exemptions under the proposed holding regime. Then such a taxpayer will be entitled to exempt income from the sale of shares in subsidiaries

The above rules will apply only if the entity is considered to be the so-called holding company. Pursuant to this regulations, a limited liability company or a joint stock company, being a Polish tax resident, will be considered a holding company, which meets the additional conditions provided for in the draft act, that is:

- ✓ holds, for an uninterrupted period of at least 1 year, directly on the basis of title, at least 10% of shares (stocks) in the capital of a subsidiary;
- ✓ is not a company forming a tax capital group;
- ✓ does not benefit from tax exemptions (activity in the special economic zone);
- ✓ conducts a real business activity;
- ✓ shares in this company are not held, directly or indirectly, by a shareholder having its seat or management board or registered or located in the territory or in the country:
 - A. listed in the regulation of the Minister of Finance on the determination of countries and territories applying harmful tax competition in the field of corporate income tax;
 - B. indicated in the EU list of non-cooperative jurisdictions for tax purposes adopted by the Council of the European Union;
 - C. international agreement constituting the basis for obtaining tax information from the tax authorities of that country.
 - D. with which the Republic of Poland has not ratified an international agreement, in particular an agreement on the avoidance of double taxation, or the European Union has not ratified an international agreement constituting the basis for obtaining tax information from the tax authorities of that country.

Poland has approximately 80 tax treaties with foreign countries, amongst others:

Examples of tax treaties with foreign countries			
COUNTRY	DIVIDENDS [%]	INTEREST	ROYALTIES
Belgium	5/15	0/5	5
Luxembourg	5/15	0/5	5
Netherlands	5/15	0/5	5
Germany	5/15	0/5	5
Hungary	10	0/10	10
Slovak Republic	5/10	0/10	5
United States	5/15	0	10
UK	0/10	5	5
France	5/15	0	0/10
Czech Republic	5/10	0/5	10

The low rates apply if specific conditions are met. Please consult VGD for a detailed analysis.

Since January 1, 2022 has been introduced new WHT regime. New rules concern to certain amounts in excess of PLN 2 million transferred to a single related party being a foreign tax resident (payments to non-related party for services as advisory, accounting, management and similar, are excluded). If the threshold of PLN 2 million is exceeded in relation to payments transferred to the same taxpayer, the Polish taxpayer is required to deduct the withholding tax at the standard rate (20% or 19%), any WHT exemption or a reduced rate of this tax based on appropriate double taxation treaties, are not apply.

So called "Pay and Refund mechanism" applies to following liabilities/payments:

- ✓ dividends (or other profit sharing in legal entities)
- ✓ interest, royalties or related rights, invention rights including sale thereof, fees for access to a proprietary formula or production process, or for the right to use an industrial and know-how.

There are two options to non-apply Pay and Refund mechanism:

- 1** a tax remitter or taxpayer has a WHT ruling issued by Polish tax authority, confirming the preferential treatment under the Polish CIT Act or an appropriate double taxation treaty.
- 2** a tax remitter provides tax authorities with a official statement confirming that: it holds documents required for reduced WHT rate or WHT exemption resulting from the Polish CIT Act or from applicable double tax treaties and to its best knowledge and no circumstances exist to justify the assumption that the reduced WHT rate or WHT exemption cannot be applied.

5.3.5 Capital gains and losses

Capital gains are taxed as normal income. Capital losses are deducted from normal business income.

5.3.6 Tax losses



Tax losses incurred in the previous tax years can be deducted from income earned in future years. However, the losses can be carried forward for a maximum of 5 years. Additionally, the deducted amount in one year is limited to 50% of the total tax losses carried forward. From the 1st of January 2019 entrepreneurs can settle the loss in one part till the amount of PLN 5 million once. It is related to losses occurred from 2019.

5.4 Tax rate

The standard corporate income tax rate is 19%. From 2019 small companies can use 9% if their revenues are not higher than EUR 2 million.

In order to apply the reduced 9% rate, taxpayers who continued operations started in previous years in 2022 must satisfy one more condition - be a small CIT taxpayer this year, which they have, if their sales revenues for the previous year were within the limit of EUR 2 million.

The lowered rate of 9% applies to income (income) other than from capital gains and may be applied by:

-  small taxpayers,
-  taxpayers starting business (in the tax year in which they started it), with certain restrictions on entities created as a result of certain restructuring activities.

5.5 Estonian CIT

Since 2021 Polish taxpayers have opportunity to use new tax scheme called "Estonian CIT".

Estonian CIT regulations consists in deferring income tax payment until the moment of distributing the entity's profits among shareholders. Therefore, the income tax is not paid and the funds allocated for this purpose may be reinvested. Importantly, the effective tax rate under the scheme is much lower than in the case of standard taxation.

The effective tax rate for small taxpayers and taxpayers initiating their business activities will amount to 10% and 20% for other taxpayers. Important is, that Polish tax payers can start use this regulation during tax year.

TAX RELIEFS

Pay less corporation tax using tax reliefs.

06

PAY LESS TAXES

Tax reliefs

6.1 Research and development tax relief (R&D)

This relief allows to make an additional deduction of R&D costs from the tax base and enables for achievement of a real financial benefits. This incentive is allowed for all type companies (special status company - as R&D centre - is not required). The value of this additional deduction depends on kind of incurred cost:

200%

remuneration of employees and social security cost

100%

acquisition of specialized equipment other than fixed assets

The R&D tax relief doesn't require keeping the record with respect to the projects, but with respect to the types of costs only. Crucial is, that the result of the research conducted does not matter.

6.2 IP Box

IP Box is one of new Polish tax incentive. Main goal of this scheme is to increase the attractiveness of conducting innovation activities in Poland.

IP Box gives the opportunity to use 5% for the intellectual property rights (the rights to an invention (patents), the rights for the utility model, the rights to a computer program, the rights from registration of medicinal or veterinary product, the rights from the registration of an industrial design).

The income from the qualified intellectual property rights include:

1

the fees or charges arising from the license for qualified intellectual property right

2

the sale of qualified intellectual property rights

3

the qualified intellectual property rights included in the sale price of the products or services

4

the compensation for infringement of qualified intellectual property rights if obtained in litigation proceedings, including court proceedings or arbitration

The final amount of income from the qualified intellectual property right will be determined using the appropriate formula included in the CIT Act

6.3 New relief for innovative employees

If a taxpayer suffered a loss or earned income is too low, to make full deduction of the R&D tax relief, the company can reduce the monthly advance payments of Personal Income Tax advance remitted as an employer by 19% of the value of the R&D relief not claimed in whole. This provision will apply to advance tax payments withheld from salaries of employees whose involvement in R&D projects accounts for at least 50% of their monthly working time.

6.4 New relief for “robotization”

This incentive is dedicated, mainly to production entities which are investing in automation of their plants. The new robotization relief allows for an additional deduction (50%) from income of robotization costs. This additional deduction will be available for: costs of purchasing new industrial robots software used for the correct operation of robots, as well as training costs for employees on how to use them. Robotization relief is available only for tax costs incurred in the years 2022 through 2026.

6.5 New relief for prototypes

A company which runs a trial production of new products and markets a new product will have the possibility to deduct 30% of eligible costs from its tax base (the deduction cannot exceed 10% of its income). This tax relief includes: expenses for the purchase, production or improvement of fixed assets necessary to launch trial production, costs of acquiring materials solely for the purpose of the trial production of a new product. The catalogue of eligible costs of marketing a new product includes, among others, costs of research, expertise, preparation of documentation necessary to obtain a certificate, costs of products life cycle tests and environmental technologies verification system.

6.6 Relief for business expansion and consolidation

This tax relief can be crucial for taxpayers incurring costs related to expansion of their business. Based on this scheme, Polish taxpayers can include additional deduction of qualified costs not exceeding PLN1 million for boosting sales of products developed by them. The incentive does not apply to sales to related parties.

6.7 Relief for consolidation

Incentive for consolidation enables an additional deduction of up to PLN250,000/tax year of eligible costs incurred on acquisition of shares in third party transactions. The costs include, e.g., legal advisory fees, valuation costs, notarial and administrative fees. This relief doesn't concern amount paid for the shares.

PERSONAL INCOME TAX

Polish residents for income tax purposes are taxed on their worldwide income, whereas non-residents are taxed on their Polish source of income only and this is a subject of the provisions of double taxation treaties.

A group of approximately 15 people are standing in a line across a wide, flat, light-colored landscape, holding hands. They are dressed in outdoor or hiking attire. In the background, there are large, rugged, light-colored mountains under a clear sky. The entire image has a magenta/pink color overlay.

07

WHEN TO PAY TAXES?

Personal Income Tax

7.1 Residency

Residents for income tax purposes are generally:

- Persons having a permanent residence in Poland,
- Persons spending at least 183 days a year in Poland,
- Persons having a centre of personal or economic interests in Poland.

Broadly speaking, Polish residents for income tax purposes are taxed on their worldwide income, whereas non-residents are taxed on their Polish source of income only and this is a subject of the provisions of double taxation treaties.

7.1.1 Tax non-residents

Non-residents are individuals who reside in Poland for less than 183 days in the relevant calendar year, and who are liable to Polish income tax only on Polish source income. Polish source income is regarded as income that arises from one of the following areas:

- Work carried out on the territory of Poland,
- Activities carried through permanent establishment located in Poland,
- Business, technical and other consultation services and similar activities provided on the territory of Poland,
- Rental income from real estates in Poland and others.

Most double taxation treaties exempt employment income in Poland for less than 183 days from Polish income taxes, unless this work is performed for a Permanent Establishment.

7.2 Tax base

The tax base for a Resident is his/her gross income from both: domestic and foreign sources.

The income of individuals in Poland is split up into different groups of income. The taxation of each group is usually a bit different, the profits and losses of each group cannot always be compensated. If the total income of the year consists of more than one kind of income we advise to use specialists.

The different groups of income are:

- Service relationship and employment relationship,
- Activity carried on personally,
- Non-agricultural business activity,
- Special branches of agricultural production,
- Lease, sublease, tenancy, sub tenancy and other contracts of similar character,
- Money capitals and property rights,

- Activities carried out by a controlled foreign company,
- Repayable transfer of:
 - immovable property, parts thereof and shares in immovable property,
 - co-operative right of living or business quarters and right to have the detached house in cooperative,
 - perpetual usufruct of lands,
 - other items.
- Other sources.

7.2.1 Deductions and exemptions

A deduction of 250 PLN or 300 PLN per month (until 09/2019 the costs amounted to 111,25 PLN and 139,06 PLN. They are higher from 10/2019.) is available in respect of expenses associated with earning employment income. Those with more than one employment are entitled to an increased deduction up to 1,5 times this maximum. From 2022 an annual tax credit is available to all individuals (till the end of 2021 it was available only to those whose income was lower than 127 000 PLN). Individuals engaged under Polish Civil Code contracts may deduct 20% or 50% (in the case of transfer of copyrights) of their income as costs of earnings, irrespective of whether these expenses are actually incurred.

7.2.2 Capital gains

Capital gains are subject to tax of 19%. However, there are some exceptions and exemptions, including tangible assets held for longer than six months and real estate held for more than five years.

7.3 Tax rates

In Poland there is a progressive tax scale with three income thresholds:

Tax liability	
GROSS INCOME P.A. [PLN]	TAX LIABILITY
less than 120.000	12% less an allowance (3.600)
over 120.000	10.800 PLN + 32% over 120.000 PLN
over 1 mln	10.800 PLN + 32% over 120.000 PLN + 4% over 1 mln (solidarity tribute)

Tax allowance in the amount of PLN 3.600 is applicable for every taxpayer regardless of the income earned (until 12/2021 tax allowance was applicable only for those whose annual income was up to PLN 127.000).

7.4 The Polish deal

New regulations, called the Polish Deal, are applied to salaries paid from 01/01/2022 (regardless of the month for which they are due).

The Polish Deal is a comprehensive socio-economic program. Some of its components are changes in the personal income tax, which include in particular:

- 1 increasing the tax-free amount to PLN 30,000 for all taxpayers whose tax is calculated according to the tax scale
- 2 increasing the income threshold to PLN 120,000, beyond which the 32% tax rate will apply
- 3 introducing middle class relief
- 4 change in the rules for determining the basis for the calculation of health insurance contributions for entrepreneurs and the elimination of the possibility of deducting health insurance contributions from personal income tax.

Some regulations regarding the Polish Deal were changed from 01/07/2022. The main changes include:

- 1 lower tax rate: 12% instead of 17% (the lower rate is applied for the whole 2022)
- 2 elimination of the middle class allowance
- 3 Tax-free amount of PLN 30 000 remains the same, however, the monthly tax allowance dropped from PLN 425 to PLN 300 due to decrease of tax rate.

7.4.1 Middle class (employee) allowance

The allowance applies to remuneration for work (along with related benefits, such as bonuses, lump sum for a car, medical packages, life insurance, etc.). It does not apply to contracts of mandate nor benefits financed by the social security office - ZUS (sickness, maternity, rehabilitation, care benefits). It applies to taxpayers who earn a monthly income of at least PLN 5,701 and not more than PLN 11,141. In the case of people who earn their income outside these limits, the allowance is not granted. The employee's annual income is also significant in this case. The allowance can be applied in the case of annual revenues between PLN 68,412 - PLN 133,692. So, if the monthly income allowed for the tax relief, but in the annual settlement it turns out that the employee earned income lower than PLN 68,412 (e.g. s/he was in a long-term illness and received sickness / maternity benefits or employment ended during the year and the employee was not employed by another employer by the end of the tax year) or higher than PLN 133,692 (e.g. the employee received a high bonus), s/he will have to return the entire deduction in this settlement (no proportionality principle).

In order to calculate the allowance two algorithms are used depending on the amount of monthly income:

- 1 for income from PLN 5.071 up to PLN 8.549:

$$(A \times 6,68\% - 380,50 \text{ zł}) \div 0,17$$
 - 2 for income higher than PLN 8.549 up to PLN 11.141:

$$(A \times (-7,35\%) + 819,08 \text{ zł}) \div 0,17$$
- where A - monthly income obtained from the employment contract.

If the employee's annual income is exceeded by even PLN 1, the allowance will not be available. In this case, the employee will have to pay the extra tax when submitting the annual tax return. If an employee at the beginning of the year receives remuneration in the range allowing for the application of the tax relief, while in the last months of the year receives a significant increase, e.g. a bonus, it may turn out that the amount of tax will increase drastically. In order to avoid the necessity to return the allowance for the employee in the annual settlement, in the event that it turns out that the employee is ultimately not entitled to the allowance, the employee may submit a declaration of non-application of the allowance to the employer.

However, if it turns out in the annual tax return that the employee had the right to apply it, s/he will be able to regain it when submitting annual tax statement for the previous tax year. Declaration of non-application of the allowance should be submitted separately for every tax year.

It will not be possible to deduct the health insurance contribution from the tax, so in fact the tax will be higher. Employees with revenues in the range of PLN 5,701 - PLN 11,141, however, will not really feel the change, thanks to the allowance for the employee. The employee allowance is deducted from taxable income, while the tax allowance is deducted from tax.

The middle class allowance is also applied to entrepreneurs who settle their taxes based on the tax scale. It does not apply to those who pay a flat tax (19%) or lump sum tax (ryczałt ewidencjonowany).

7.4.2. Additional discounts for employees

It is necessary to submit to the employer a declaration in which the employee states that the conditions for the application of the discounts below are met.



RELIEF FOR RETURN

Used in the case of a taxpayer who after 31/12/2021 moved his/her place of residence from abroad to the territory of the Republic of Poland. Revenues in the maximum amount of PLN 85,528 in four subsequent tax years are not taxed



RELIEF FOR A PARENT

Income up to the amount of PLN 85,528 is not taxed in the case of salaries of employees who raise at least 4 children.



RELIEF FOR SENIORS

For women over 60 and men over 65. Income up to the amount of PLN 85,528 in the tax year is tax-free, provided that the employee, despite acquiring the right, does not receive a retirement pension or disability pension.

7.4.3. Performing the function of a member of the management board by appointment

A management board member employed on the basis of an appointment and receiving remuneration on this account will be covered by health insurance from 2022. Such a person should be registered at the social security office (ZUS) with the use of a document ZUS ZZA with the code 2250- within 7 days from the day of appointment.

7.4.4. Car lump sum – company cars used by the employees for private purposes



PLN 250
per month

A lump sum of PLN 250 per month applies to cars with an engine power of up to 60 kW, i.e. 80.5 km and to electric cars.



PLN 400
per month

A lump sum of PLN 400 per month applies to other cars

OTHER TAXES AND OBLIGATIONS

Other important taxes and obligations that might be applicable to your business.

08



WHAT MORE TO EXPECT?

Other taxes

8.1 VAT

There are four rates if VAT applies: a standard rate of 23%, and reduced rates of 8%, 5% and 0%.

The standard rate applies to all supplies of goods or services, unless a specific provision allows to a reduced rate or exemption. For example, the 8% rate applies to health care related goods and hotel services. 0% supplies include export of goods outside the European Union and intra-community supplies of goods. In addition, a super-reduced VAT rate of 5% may be applied to foodstuff, books and special magazines.

The zero VAT rate on some goods comes into effect under the government's Anti-Inflation Shield. The discount is valid from February 1 to October 31, 2022. According to the assumptions, it should relieve the pockets of Polish citizens and slow down the inflation-driven increase in the prices of basic products such as bread, dairy products and fruit.

There was also a reduction in fuel tax rates from 23% to 8%. It is temporary and will apply from February 1, 2022 to October 31, 2022.

As a rule, SAFT file for VAT are filed on a monthly basis. It has to be filled within 25 days after the end of the taxable period, to which also the payment (if applicable) is due to.

Excess of input VAT may be carried forward against future VAT liabilities or refunded. Refunds are generally made within 60 days if the entity has the sale, and without sale during 180 days.

8.1.1. Uniform control file (Standard Audit File for Tax: SAFT)

From October 1, 2020, the new SAFT file format applies. It replaces the obligation to send the VAT declaration and the JPK VAT file, with the new obligation to submit only the JPK V7 file. The new structure contains information shown so far in the SAFT VAT file and VAT declarations, as well as detailed designations of specific transactions.

The new SAFT V7 structure is a set of data on purchase and sale transactions, detailing the value, amounts and rates of VAT, and data of individual contractors. The file is divided into two logical structures:

RECORD PART

resembling SAFT files submitted so far

DECLARATION PART

consisting of items shown in VAT returns

The above obligation requires scrupulous recording of the types of services provided and goods delivered, only on the sellers' side, so as to correctly mark them in the JPK V7 file. The Ministry of Finance has specified 13 groups of sensitive goods and services, to which the following symbols should be used:

GROUP NR	DESCRIPTION
GTU_01	supply of alcoholic beverages - ethyl alcohol, beer, wine, fermented beverages and intermediate products, as defined in the provisions on excise duty
GTU_02	delivery of goods referred to in art. 103 sec. 5aa of the VAT Act
GTU_03	deliveries of heating oil within the meaning of the provisions on excise duty as well as lubricating oils and other oils
GTU_04	deliveries of tobacco products, raw tobacco, liquid for electronic cigarettes and innovative products, within the meaning of the provisions on excise duty
GTU_05	deliveries of waste - only specified in item 79-91 of Annex 15 to the VAT Act
GTU_06	deliveries of electronic devices and parts and materials therefor, exclusively specified in item 7-9, 59-63, 65, 66, 69 and 94-96 of Annex 15 to the VAT Act
GTU_07	deliveries of vehicles and specific car parts
GTU_08	deliveries of precious and non-precious metals - only specified in item 1-3 of Annex 12 to the Act and in item 12-25, 33-40, 45, 46, 56 and 78 of Annex 15 to the VAT Act
GTU_09	supply of drugs and medical devices - medicinal products, foodstuffs for particular nutritional uses and medical devices subject to the notification obligation referred to in Art. 37av paragraph. 1 of the Pharmaceutical Law
GTU_10	deliveries of buildings, structures and land
GTU_11	providing services in the field of transferring greenhouse gas emission allowances referred to in the Act on the greenhouse gas emission allowance trading scheme
GTU_12	providing consulting, accounting, legal, management, training, marketing, advertising services, market research and public opinion research, in the field of research and development works
GTU_13	providing transport and warehouse management services

Apart from the necessity to apply GTU markings to sales invoices, the legislator introduced additional markings for transactions covered by a special procedure of VAT settlement. In relation to such transactions, individual symbols are used:

SYMBOL	DESCRIPTION
TT_WNT	in the case of intra-community acquisition of goods made by the second VAT taxpayer as part of a tripartite transaction in the simplified procedure referred to in chapter XII chapter 8 of the VAT Act
TT_D	against the delivery of goods outside the territory of the country by the second VAT payer as part of a tripartite transaction in the simplified procedure referred to in section XII chapter 8 of the VAT Act
MR_T	with regard to the provision of tourism services taxed on the basis of a margin in accordance with Art. 119 of the VAT Act
MR_UZ	in relation to the supply of second-hand goods, works of art, collectors' items and antiques taxed on the basis of a margin in accordance with Art. 120 of the VAT Act
I_42	in the case of intra-Community delivery of goods following their import under customs procedure 42 (import)
I_63	in the case of an intra-Community supply of goods following the import of these goods under customs procedure 63 (import)
B_SPV	for the transfer of a single-purpose voucher made by a taxpayer acting on his own behalf, taxed in accordance with Art. 8a sec. 1 of the VAT Act
B_SPV_DOSTAWA	for the supply of goods and the provision of services, which includes a single-purpose voucher for the taxpayer who issued the voucher in accordance with art. 8a sec. 4 of the VAT Act
B_MPV_PROWIZJA	for the provision of intermediation services and other services related to the transfer of a multi-purpose voucher, taxed in accordance with art. 8b paragraph. 2 of the VAT Act.

The transactions concerning, inter alia, fiscal report (as "RO"), internal taxation document (as "WEW"), invoice for receipt (as "FP"), mail order sale (as "SW"), sale of telecommunications, broadcasting and electronic services referred to in art. 28k of the VAT Act (as "EE"), sales made to related entities (as "TP") and transactions subject to the obligation to use the split payment mechanism (as "SPM").

8.2 Tax on civil law transactions

The tax on civil law transactions is charged on legal procedures, contracts of sale or exchange, loan agreements, company statutes and a number of other contractual agreements.

Examples of such charges are as follows:

- Company statutes: 0,5% of the capital,
- Sales contract:
 - movable goods, real estate and certain rights: 2%,
 - other property rights: 1%,
- Loans: 2%.

The tax does not apply if the transaction is subject of VAT or is treated as a VAT-exempt supply by one of the parties.

8.3 Custom duties

As a member of WTO, Poland applies import duties according to the valid and internationally recognised customs tariff, with a range of relieves and waivers available.

8.4 Excise duties (Consumption tax)

Excise duties are payable on the import or production of certain consumption goods: hydrocarbon fuels and lubricants, spirits and distilled liquors, beer, wine, and tobacco products.

Excise duties are levied as a fixed amount per unit of measure of each product. Excise duties are administered by customs for imported goods, and by the local tax authorities for local production.

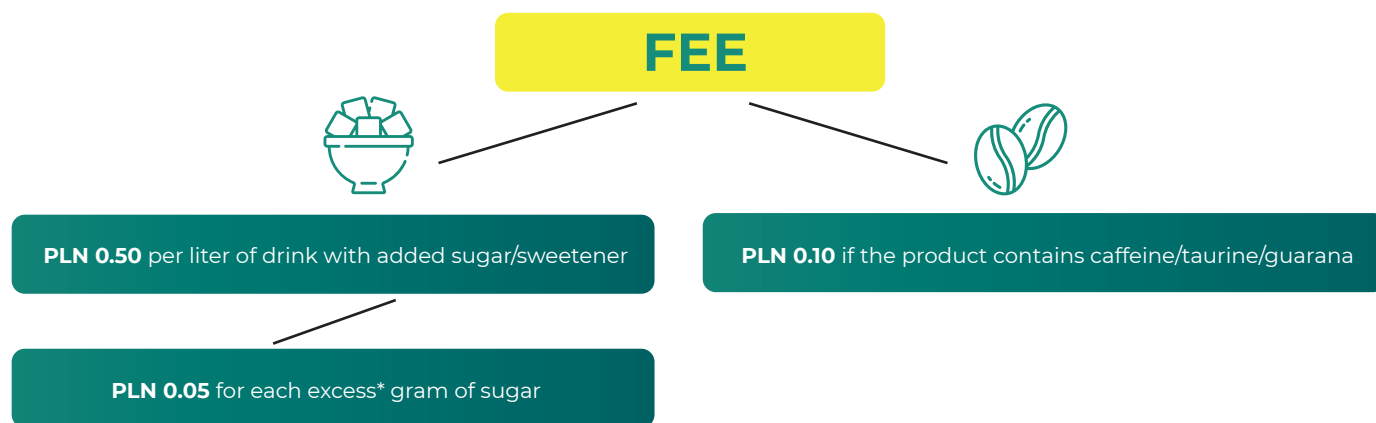
8.5 Local taxes

Among the different taxes imposed by local authorities, the most important are those levied on real estate and transportation equipment. The tax law only provides the maximum amounts of the taxes/-charges. The local authorities decide about the actual rates.

8.6 Sugar tax

It applies to: producers and suppliers of sweetened beverages (including alcoholic)
Dimension: The amount of the fee will depend on the amount of sweetener in the drink.

The fee related to sugar tax will consist of two parts:



* Excess is more than 5 grams of sugar per 100 ml of the product

However, the sugar levy will not apply to all sweetened drinks. Among others, medical products, dietary supplements, food for special medical purposes, and beverages subject to excise duty. Beverages containing a minimum of 20 percent fruit, vegetable or fruit and vegetable juices and carbohydrate-electrolyte solutions (isotonic drinks), provided that the sugar content in 100 ml does not exceed 5 grams.

8.7 Tax on alcohol in small bottles (new levy)

It applies to: consumers, the spirits industry

Dimension: PLN 25 for 1 liter 100% alcohol sold in bottles of less than 300 ml

The tax is supposed to contribute to limiting the risky consumption of high-proof alcohol. The revenues from the new tax in 2020 are to amount to over PLN 2 billion.

On average, this would increase 100 ml alcohol by PLN 1, and alcohol 200 or 300 ml by PLN 2 per bottle. 50% of the money from the fee will go to municipalities and 50% to the National Health Fund. The latter is to be spent on education, prevention and services in the field of psychiatric care and addiction treatment.

The fee will be charged at the time of sale to the store (the fee applies to alcohol intended for consumption outside the point of sale).

8.8 Special tax on commercial buildings (properties)

This tax rules concerns offered for use buildings classified as a shopping centre, department store, standalone shop and boutique, other retail building or office building.

Keys information regarding this tax:

- A.** the tax base is the initial value of the taxable asset arising from the records kept, determined as at the first day of each month.
- B.** tax-free amount of PLN 10,000,000 for a taxpayer (and not one building!);
- C.** tax rate 0,035%
- D.** tax is paid on a monthly basis

8.9 Additional information and tax reporting obligations

8.9.1 Tax strategy – new reporting obligations

The obligation to prepare and publish a report on the tax strategy executed in the given tax year shall be fulfilled by both individual CIT payers and tax capital groups. Individual CIT taxpayers become bound with the reporting requirement when their revenue exceeds EUR 50m in the tax year for which the report is due. In turn, in the case of tax capital groups, the reporting obligation is not dependent on a revenue threshold and applies both to the entire group and individual companies being part thereof.

The tax strategy must cover a vast range of information on the taxpayer's approach applied to perform correct settlement of tax liabilities. Based on Polish CIT Act information about tax strategy should covers:

1. information on the processes and procedures ensuring performance of taxpayers' obligations arising from tax regulations and proper obligation implementation, as well as an overview of forms of the taxpayer's voluntary cooperation with the National Revenue Administration,
2. information on the taxpayer's performance of tax-related obligations in the territory of the Republic of Poland (including the number of the reported tax schemes),
3. information on transactions with related entities (also those not being Polish tax residents) within the meaning of transfer pricing provisions, the value of which exceeds 5% of the balance sheet assets, determined on the basis of last approved financial statement of the company,
4. information on taxpayer-planned or taxpayer-performed restructurings which may impact the amount of tax liabilities of the taxpayer and/or related entities within the meaning of transfer pricing provisions,
5. information on the submitted applications for tax rulings, binding rate information and binding excise information,
6. information on tax settlements made in countries or territories that encourage abusive tax practices.

The taxpayers will be required to prepare and publish a report on the implemented tax strategy by the end of the 12th month following the end of the tax year to which the report relates.

The tax strategy must be published on the taxpayer's website or on the website of a related entity (only in case that the Polish taxpayer doesn't have one on its own). At the same time, the taxpayer must inform the tax authority with the address of the website on which the information about the tax strategy is published.

The report on the executed tax strategy should be made in (or translated into) Polish

Failure in meeting the obligation to prepare and publish a report on the tax strategy executed in the given tax year shall be liable to a fine of up to 120 daily rates, pursuant to the Polish Criminal Fiscal Code. Additionally, failure to provide the head of the competent tax office with information about the address of the website on which the report is published is subject to a financial penalty of up to PLN 250,000, imposed by the head of the tax office by means of administrative decision.

8.9.2 Mandatory Disclosure Rules (MDR)

As of January 1, 2019, Poland implemented Council Directive (EU) 2018/822 in the Polish law, introducing the obligation to report to Polish fiscal authorities information on arrangements in the area of tax law called Mandatory Disclosure Rules.

Based on this regulations Polish taxpayers are obliged to report information about the arrangements meeting the definition of a tax scheme. The scope of obligations is very wide, as an arrangement is construed as an activity or a set of related activities, where at least one of the parties is a taxpayer, or which result or may result in the establishment of tax obligation or a lack thereof.

Information on the tax scheme is to be reported to the Head of the National Revenue Administration within statutory deadlines – mainly 30 days from the day after the tax scheme has been made available. The failure of submission information about a tax scheme entails severe financial penalties. Administrative sanctions for a failure to follow mandatory disclosure rules may reach up to PLN 10 million. Additionally, the Polish penal and fiscal law provides for a fine for the same omission for the responsible natural persons.

Let's talk **business**

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