

# Doing Business in Poland

10 years of  
A|T|A Finance  
Audit Tax Accounting







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## A New Start

Dear Readers,

At the outset of our work on ‘Doing business in Poland’, we enjoyed a positive economic outlook for Poland and were planning the details of the celebration of the tenth anniversary of the ATA Finance Group. However, in the meantime, the COVID-19 pandemic clipped the wings of the global economy. A microscopic virus will affect the long-term priorities for both the economic policy and enterprise management by forcing focus on the sanitary and economic security.

If, then, security is to dominate the minds of those in charge of the state and business, Poland has a good chance of returning rapidly onto the growth path and attracting new investments.

Wherefore such optimism? Poland is a country of considerable potential due to its size, location and economic diversity. The diversification of Poland’s economy as well as its highly-qualified workforce will allow the industries which have resisted the Asian-bound relocation trends to strengthen and enable the reconstruction of those segments of the national economy which previously stood little chance of development due

to the global competition. As part of the so-called Anti-Crisis Shield implemented in response to the pandemic, the Polish state has launched a number of instruments to support both businesses and individuals. It is also evident that, when facing a crisis, the Polish society reveals its undying characteristics, such as resourcefulness, innovation and solidarity. These qualities, coupled with an injection of public funds, will help to bring about a rapid economic recovery.

In the assessment of the European Commission, among all EU Member States it is the Polish economy that will be the least vulnerable to the adverse implications of the pandemic. Poland has succeeded, despite an unprecedented investor pessimism during the pandemic, in increasing the number of new direct foreign investments.

Hence, if one is on the lookout, in an age of uncertainty, for an attractive, but at the same time safe, investment location, Poland is definitely such a place.

We hope you will enjoy the reading and are looking forward to cooperating with you in the future.

ATA Finance Team





## 10 years of ATA Finance. What will the next decade unfold?

### What should one wish the ATA Finance Group on its anniversary?

Well, the same wishes we would extend to our clients: development, work satisfaction and legal stability. We are proud to have been in a position to support our clients over the ten years in ensuring tax security to their businesses, to assist them in disputes with tax authorities and in carrying out their transactions. We are happy to see how many of them have been successful, how many are conquering new markets, taking up challenges and modernising their enterprises.

### What will the Polish economy be like in the next decade?

That's a long period of time; yet after the three decades of the system transformation that Poland has undergone since the fall of communism, one can attempt to put forward certain projections. Poland has proved its ability to take advantage of a historical opportunity to modernise the state and develop its economy. Joining the European Union in 2004 was an important developmental impulse as well as a stabilising factor. Poland has made an active entry into the foreign markets. The year 2019 saw the greatest foreign trade surplus in our history. I think that despite the global economic downturn,

the Polish economy will be competitive and innovative enough to even strengthen its exports.

As for the job market, it is worth mentioning the record-low unemployment rate, despite a temporary rise due to the pandemic. The rate of unemployment, which according to EU criteria stood at just over 3% at the end of 2019, is one of the lowest across the EU. At the same time, there has been a record rise in both average and minimum wages. Although the economic downturn could result in a reduced job demand, the increase in salaries appears to be a long-term trend, which may result in Poland no longer being perceived as a source of cheap labour. Businesses will be betting on innovation and digitalisation so as not to fall behind their competitors. Enterprise modernisation will be the challenge for the next 10 years.

### And how does the state encourage business owners to modernise their enterprises?

For instance, by granting tax reliefs for innovative companies. The recently introduced IP-Box relief allows one to apply a 5% CIT and PIT rate on the revenues from innovative activities for the purposes of tax regulations. One can also use the R&D relief, which basically involves a deduction of the costs incurred on R&D activities with a right to

simultaneously amortise such costs. Moreover, one can still take advantage of the tax preferences of the Polish Special Economic Zones. A Polish Investment Zone has been created allowing businesses to be exempt from CIT and PIT in addition to the existing economic zones. These preferences are primarily addressed to businesses investing in new technologies and modern services.

### Is it still worth investing in Poland?

We are still a country of excellent opportunities for investors. The growth of the Polish GDP has for years been considerably higher than the EU average. After a temporary economic downturn in 2021 as a result of the COVID-19, we expect a growth rate of 3%–4%. The increasing wealth of the society will make the consumption market even more attractive. We are at the forefront in terms of direct foreign investment. We took the fifth place in the Global Best To Invest ranking in 2019. Investors trust in us, which has also been proved during the pandemic. One must not forget to mention here the great strength of our region, i.e. the well-qualified workforce. Good specialists are among our greatest assets and wealth. Particularly at ATA Finance, people are the key to success.



An interview  
with **Marcin Sobieszek**  
Tax Advisor and Partner  
ATA Finance

## The Economic Backdrop for Investments in Poland 1 / 2



R.G.

Poland is among the countries which are deemed the most attractive for investors, even in spite of the crisis brought about by the COVID-19 pandemic. This is attested to by Poland's first place in terms of growth of new foreign investment in the ranking of the fDi Group, a Financial Times' analytical organisation, in the first months of 2020. Poland has found itself in the company of the few countries which, despite a record-high investor pessimism, have been able to increase the number of direct foreign investments.

Poland's economic success results from the advantageous location at the heart of Europe, its large internal market, political stability, good standing of public finance and a market economy based on solid grounds. What investors appreciate in Poland most is the human capital.

Poland is the 22nd largest economy in the world and the 5th largest in the European Union after Brexit. The public debt stood at nearly 44% GDP at the end of 2019, much below the EU prudential threshold, which confirms the good condition of public finances. Although the public debt is expected to rise considerably as a result of the pandemic-related crisis, it is likely to be substantially lower than the EU average, which stood at 80% GDP in 2019.

After many years of high GDP growth rate, which was 4.1% in 2019, Poland will not be immune to the economic downturn caused by the COVID-19 pandemic. The Polish economy is estimated to shrink by approx. 4% in 2020. On the other hand, the forecasts for 2021 are already optimistic and assume both a 3–4% growth in GDP and a substantial improvement in public finance health.

Poland is a country with a low unemployment rate. It stood at less than 3% at the end of 2019, according to EU criteria. The situation on the job market will deteriorate temporarily as a result of the pandemic-caused crisis. However, a broad public-aid programme for businesses will allow a considerable number of jobs to be protected and enterprises to carry on business.

The services sector in Poland is particularly developed, with about 59% of Poles finding employment there. Industry gives jobs to over 32% workers, whereas agriculture – to slightly more than 9%. Investors have taken a liking to Poland as the place for the creation of service centres, such as BPO, ITO, SSC and R&D. In terms of services, the most important sectors include: trade, transportation, logistics, communications and real estate-related services.

Poland is among the top EU Member States in terms of industrialisation. The most important branches of industry include: fuel and energy, metallurgy, machinery, chemicals and mineral extraction. The automotive, pharmaceutical and electronic industries are developing particularly dynamically in Poland. Collaboration between industry and science is key to economic development and is practically achieved by the creation of technological parks and incubators, innovation clusters, and research and implementation centres across the entire country. As part of the 'Industry 4.0' governmental programme the first Digital Innovation Hubs have emerged with the aim of supporting businesses with the digital transformation.

Positive trends are also visible in foreign trade. Poland has seen foreign trade surpluses every year since 2015. In 2019, the amount of Polish exports rose by 5.5% reaching a record high of EUR 235.8 billion. Germany is Poland's main trade partner. In terms of export, the next positions are taken by Czechia, the United Kingdom, Italy, the Netherlands and Russia. Apart from Germany, the largest numbers of goods are imported from China, Russia, Italy, the Netherlands and France. Poland's greatest export hits include: household appliances, agri-food products, furniture, car parts, buses and trams,



## The Economic Backdrop for Investments in Poland 2 / 2



yachts, doors and windows, clothes, cosmetics and computer games.

The greatest challenges for the next decades for Poland include the energy policy and environmental protection. Traditionally, the Polish economy was based on solid fuels. The Ministry of Climate is currently implementing programmes aiming at ensuring energy security while at the same time reducing CO<sub>2</sub> emissions and environmental pollution. Some of the programmes currently underway as part of the climatic and environmental policies include: the Polish nuclear energy programme, envisaging the first energy block of a new nuclear energy plant to be launched in 2024; the MPA 44 programme concerning the adaptation of major cities to the climatic changes; a circular economy programme; the Clean Air programme promoting the replacement of heat sources with more ecological ones, and the insulation of houses. Concurrently with the nuclear energy programme, investments in wind farms and photovoltaic projects are rising steadily. The production of the first Polish electric car, in hatchback and SUV versions, is expected to be launched in 2023. The production of environmentally friendly electric cars is also expected to contribute to the restoration of the Polish automotive industry.

Poland is dynamically developing its infrastructure, which is exemplified by major infrastructural projects, such as the Central Transport Port ('Solidarity' Hub) integrating air, railway and road transport (its launch is being planned in 2027), the cut-through of the Vistula Spit (Mierzeja Wiśłana), which will shorten the sea transport routes from the Vistula Lagoon (Zalew Wiślany) to the Gdańsk Bay, and the investments within the framework of the Trans-European Network (TEN-T). Another important initiative undertaken by Poland and certain other EU Member States lying among the Baltic, Black Sea and Adriatic is the Three Seas Investment Fund created for the provision of finance for investments in transport, energy and digital infrastructure. In addition to infrastructural projects of an international reach, Poland plans on intensive development of the local and regional infrastructure, particularly the rail and bus transport. Grand infrastructural projects also include the Polish Digital Valley whereby Microsoft's new data-processing region will be created in Poland. This billion-dollar technological investment is going to offer Poland an opportunity to become a technological hub for Central and Eastern Europe. Google Cloud is planning on investing in Poland even more. 2 billion dollars have been earmarked for the launch of a cloud computing centre in 2021.

In recovering from the COVID-19-related crisis, the following factors could prove Poland's greatest assets: a lesser degree of global interdependence of the Polish economy, particularly with respect to China, less export dependency in comparison with large West European economies, lower participation of the tourism and entertainment industries in GDP compared to Southern European countries. Further advantages for Poland can be expected from a diversified economy and a potential for expanding the domestic production to cover for the goods hitherto imported from abroad, particularly from Asia. The Polish Economic Institute has estimated an annual rise of approx. 8.3 billion dollars in value added created in Poland as a result of some production being transferred to Poland from China.



## Forms of Doing Business 1 / 4



Business in Poland can be carried on by individuals, partnerships, companies and other entities expressly allowed to do business by statute, e.g. cooperatives. Below is an overview of the basic forms of doing business, i.e. partnerships, companies and sole traders.

In principle, setting up a business in Poland requires registration. Individuals, including members of partnerships, register their businesses with the Central Registration and Information on Business (CRIB, or CEIDG in Polish). Most partnerships and companies set up under company law are registered with the National Court Register (NCR, or KRS in Polish).

Establishing other types of business requires obtaining a license or permit. Some examples of business activities requiring a license include prospecting for and exploitation of mineral beds, air transport, radio and television broadcasting; generation, storage, transportation and sale of energy and fuels; and operation of casinos. Activities requiring a permit include: sale of alcohol, betting and gambling, manufacturing and marketing medicinal products, operating pharmacies and pharmaceutical wholesaling. Certain types of business activity require registration with registers of regulated business activities kept by

various authorities, e.g. organisation of tourist events is registered with the Voivodship Marshal, while detective services – with the Minister of Internal Affairs.

In addition to registration, businesses must also obtain REGON (a business statistical number), NIP (a tax identification number), and file proper forms with the Social Security Institution if they intend to employ staff. In case of CEIDG or online company/partnership registration with the S24 system, the registration is automatic. Further, a business bank account must be opened and the formalities relating to the registered seat completed, such as signing a lease agreement.

Since 2020, companies and partnerships have been required to submit the information on their beneficial owners to the Central Register of Ultimate Beneficial Owners (CRUBO, or CRBR in Polish).

### 1. Companies

There are two company forms in Poland:

- a limited liability company,
- a joint-stock company.

Companies are incorporated, i.e. obtain legal personality, upon registration with the National Court Register. They can be formed by individuals or legal entities. Shareholders are not personally liable for the debts of the companies in which they hold shares.

#### 1.1 Limited liability company (LLC, sp. z o.o. in Polish)

A limited liability company (LLC) can be formed by one or more persons. It cannot be established by a sole shareholder being another LLC. In principle, an LLC agreement (i.e. articles of association) should be made in the form of notarial deed. An LLC can also be registered via the so-called S24 system, i.e. an online portal run by the Ministry of Justice. In the event of online registration, shareholders use a template available in the S24 system.

A minimum share capital in a limited liability company is PLN 5,000 (approx. EUR 1,124). The shares can be allotted to shareholders in exchange for contributions in cash or in kind. The shareholders are not personally liable for the debts of the company.

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The company's affairs and representation are carried out by the management board. The articles of association or a statute may require the appointment of a supervisory board or an audit committee.

In order to establish an LLC, it is necessary: that a company agreement (articles of association) be concluded, that the shareholders make contributions covering the entire initial share capital, that the management board be appointed, that the supervisory or audit committee be appointed where the statute or articles of association so provide, and that the company be registered with the NCR (KRS).

### 1.2 Joint-stock company (JSC, or S.A. in Polish)

The rules for the operation of joint-stock company (JSC) are more complex and formalised as compared to a limited liability company. The form of a joint-stock company is required for the operation of certain types of business activity, e.g. for banks or insurance companies.

The minimum share capital of joint-stock company is PLN 100,000 (approx. EUR 22,472). A joint-stock company's articles of association

(in Polish statut) must be made in the form of notarial deed. Where the shares are to be allotted in exchange for contributions in kind only, or a combination of contributions in kind and in cash, then a minimum of a quarter of the share capital must be paid up prior to registration. The shares can be registered or bearer shares. The shareholders are not personally liable for the debts of the company.

A joint-stock company is required to create reserve capital for covering future losses. A minimum of 8% of the profit in a given fiscal year will be then transferred to the capital until a minimum of one third of the share capital of the company is achieved.

The management boards manages the company's affairs and represents it vis-a-vis third parties. A joint-stock company is required to have a supervisory board.

## 2. Partnerships

### 2.1 Types of partnership

Entrepreneurs can set up companies or partnerships operating under the Code of

Commercial Companies and civil-code (general) partnerships under the Civil Code.

A civil-code partnership is designed for small-scale operations. It does not enjoy the status of a trader with the registration of business being carried out by the partners with the Central Registration and Information on Business (CEIDG).

The other types of partnership, operating under company law and registered with the National Court Register, are as follows:

- **Registered partnership (sp. j.):** In this type of partnership all partners are personally (i.e. without limitation), jointly with the other partners and the partnership itself and severally, liable for the debts of the partnership. The partnership agreement must be in writing, otherwise being null and void. A registered partnership can be registered online or traditionally – by filing a printed application.
- **Limited partnership (sp. k.):** In a limited partnership at least one partner, i.e. a general partner (komplementariusz), is fully liable for the partnership's debts with



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at least one partner, i.e. a limited partner (komandytariusz), being liable only up to the amount of the predetermined contribution. In principle, forming a limited partnership requires the form of notarial deed. A limited partnership can also be formed online using a pre-existing template.

- **Limited joint-stock partnership (s. k. a.):** In a limited joint-stock partnership only the general partner is liable for the debts of the partnership. The shareholders do not incur such liability. The minimum amount of share capital in a limited joint-stock partnership is PLN 50,000. The partnership's articles of association must be made in the form of notarial deed.
- **Professional partnership (sp. p.):** This type of partnership is designed for professionals engaged in a free-trade within the meaning of Art. 88 of the Code of Commercial Companies, e.g. attorneys, pharmacists, architects, certified auditors, tax advisors, doctors or patent attorneys. Partners are not liable for the partnership's debts resulting from the actions of the other partners or persons employed by the partnership who report to such other partners. A partnership agreement must be made in writing.

### 2.2 Doing business as partnership

In principle, each partner in a partnership established under company law has a right and obligation to manage the partnership's affairs. Partners also have the right to represent the partnership. Not only the partnership, but also partners are liable with all their personal assets for the debts of the partnership vis-a-vis third parties. The exceptions from this rule concern limited partners in a limited partnership, whose liability is limited, and shareholders in a limited joint-stock partnership, who, as a rule, do not represent the partnership and are not liable for its debts. Also, the liability of a partner in a professional partnership is limited to his/her activity as a free-trade professional performed through the partnership. The rules for managing a partnership's affairs and its representation can be regulated differently in the partnership agreement (articles of association).

Partners in partnerships share the profits on the terms specified in the Code of Commercial Companies. For instance, each partner in a registered partnership has a right to an equal share in profits and participates in losses in the same proportion regardless of the type and value of his/her contribution, whereas in a limited partnership, the limited partner participates in

the profits of the partnership in proportion to the contribution actually made to the company unless the partnership agreement stipulates otherwise. However, the manner of profit distribution in a partnership can be regulated differently in the partnership agreement (articles of association).

### 3. Branches and representative offices of foreign entities

Foreign enterprises can do business in Poland through branches under the reciprocity principle unless relevant ratified international agreements provide otherwise. A foreign enterprise establishing a branch in Poland can only to business within the scope of the business of the foreign entity. Branches of foreign entities are entered in the business register of the National Court Register. When establishing a branch, an authorised person should be appointed in the branch to represent the foreign entity.

Foreign enterprises can establish representative offices with a registered seat on the territory of Poland. The scope of activities of such representative office can only comprise advertising and promoting the foreign entity. Representative offices of foreign entities, except for foreign banks and credit institutions, are entered in the register

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of representative offices kept by the Minister of Development. A representative office is entered in the register of representative offices for a period of two years, which can be extended by another two years.

### 4. Doing business as a sole trader

Sole traders and partners in civil-code partnerships register their respective businesses with the Central Registration and Information on Business (CRIB). The filing can be made electronically or on a printed form filed with the local council.

The sole traders registering a business with the CEIDG who are not insured otherwise are required to register with the Social Security Institution (ZUS) and then regularly pay social security and health insurance contributions for themselves and their employees. Certain individuals starting up a business for the first time are eligible for the so-called 'Start-up Relief', i.e. being exempt from the obligation to pay their own social security contributions for the first six months of their business activity. However, they are required to pay the health insurance and all social security contributions due on account of employment of staff.

Sole traders can notify a succession administrator with the CEIDG, who will be allowed to take over temporary management of the business in the event of the owner's death. This allows the business to continue operations and give the heirs time (two years or up to five years in special cases) to decide upon further operation of the business.





## Taxation in Poland – Carrot and Stick

### How many taxes will I pay when investing in Poland?

The taxation rate on income should encourage one to invest in Poland. The base CIT rate is 19%, which is less than the average EU or OECD rates. Smaller enterprises pay 9% CIT. One can even pay 5% CIT on separated (spun-off) revenues from innovative activities within the meaning of the CIT Act upon satisfaction of certain conditions under that Act. The income of individuals' doing business as sole traders, including the income from participation in certain partnerships, can be taxed at a flat rate of 19%.

Capital gains tax stands at 19%. On the other hand, transfers of profits to other companies, including EU entities, may often be exempt from tax. Payments of profits to non-EU states are taxable with withholding tax at a rate set out in a relevant double-taxation agreement. Thus, the final fiscal burden will depend on the investor's status, and the size and type of business pursued.

### Can I count on additional preferences?

In addition to the reduced CIT rates mentioned above, the Polish regulations provide for various reliefs for businesses, e.g. for those investing

in special economic zones or those incurring expenditure in research and development.

It is worth mentioning here the Polish Investment Zone, which allows businesses to apply tax exemptions without having to set up a business in a special economic zone. The level of tax relief is dependent of the investment location and size of the business. The relief applies to new investments in traditional industries and modern services which satisfy the quantitative and qualitative conditions set out in the applicable statute.

### What is the risk of dispute with Polish tax authorities?

In recent years, the Polish revenue administration has been involved in an effective fight against tax fraud. This has resulted in a considerable rise not only in state revenues, but also in administrative duties to the taxpayer. In the area of VAT, this includes the obligation to make split payments.

The Polish revenue administration also fights against aggressive tax optimisation. This has resulted in an obligation, imposed in 2019, to report tax optimisation schemes. Moreover, a number of reporting obligations, as well as a special tax-

refund procedure, have been imposed in the case of reduced withholding-tax rates and tax exemptions, which represents a considerable burden to companies' financial teams.

Also as regards transfer-pricing, the tax authorities currently require very detailed information on transactions between related entities while at the same time increasing the turnover/cost thresholds in excess of which reporting obligations arise. Many domestic taxpayers who do not use any tax exemptions or report any tax losses will be eligible for an exemption from the reporting obligation. Nevertheless, every company, even if not required to draw up transfer-pricing documentation, is required to apply market prices in transactions with related entities and must be prepared to defend its pricing policies applied in such transactions.

Businesses with considerable turnover from transactions with related entities and making considerable transfers abroad should take into account additional documentary and reporting obligations as well as being a likely target of the revenue administration. Given such restrictive regulations, cooperation with a tax advisor becomes an important element of a company's financial security.



An interview with **Agnieszka Jasica-Skalbmierska**  
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# Business Taxation 1 / 7

## 1. Income taxes

The primary taxes paid on the income from business are personal income tax (PIT) and corporate income tax (CIT).

Certain types of business may be taxed with a lump-sum tax, regardless of the actual level of income. Such special types of public duty include the tonnage tax paid by companies engaged in international (maritime) shipping, as well as the agricultural and forest taxes. Small firms can use lump-sum tax and simplified bookkeeping.

As of 2021 limited liability and joint-stock companies in which shares are held only by natural persons, fulfilling the additional criteria laid down in the CIT Act, such as the minimum investment and employment levels as well as turnover below PLN 100 million, will be allowed to choose a special tax regime, called ‘Estonian tax’, which enables a company to postpone the taxation of its income until the distribution of profits.

PIT or CIT taxpayers who own buildings being fixed assets which are wholly or partly leased may be subject to a special duty, i.e. minimal tax on commercial properties. It is calculated on the fiscal value of the property less PLN 10,000,000 at

a monthly rate of 0.035%. The commercial property tax will reduce the advances towards the PIT or CIT, hence the taxpayers achieving a certain level of profitability will not actually bear its burden.

Certain revenue types paid to tax non-residents as e.g. interest, license fees or for certain intangible services are also taxable with lump-sum tax. The obligation to collect the withholding tax rests with the remitter, i.e. the payer of the amounts due to the non-resident. The basic rate of withholding tax is 20% (19% on dividends). However, an exemption or reduced rate under the relevant international agreements can be applied, upon satisfaction of certain statutory documenting requirements, to payments to certain entities having a registered seat in the EU or a country with which Poland has signed a double-taxation treaty. Poland has entered into 90 international agreements on the avoidance of double taxation.

### 1.1 Taxation of income of companies and limited joints-stock partnerships

Companies, i.e. the limited liability company and the joint-stock company, pay corporate income tax (CIT) on their income. The limited joint-stock partnership and – as of 2021 – the

limited partnership are also subject to CIT. As of 2021 some registered partnerships can also be considered CIT payers, if they do not reveal the identity of their partners or beneficial owners to the tax authorities.

The basic CIT rate is 19%. For small taxpayers whose revenues do not exceed a certain threshold set out in the statute, the CIT rate is 9%. In 2021, the right to a 9% CIT rate is vested in taxpayers whose VAT revenues including VAT did not exceed EUR 2,000,000. The applicable regulations provide for exclusions from the application of a reduced CIT rate, e.g. in the case of entities created as a result of company division or transformation from sole proprietorship. Moreover, certain companies will be eligible for a preferential CIT rate of 5% on the so-called ‘eligible revenues’, i.e. expressly stated in the statute, revenues from eligible IP rights. Such preferential rate is applicable e.g. to income from patents, protection rights for utility models, rights under the registration of industrial designs, medicinal products and copyright in computer software. Under a special tax regime called ‘Estonian tax’, the flat rate of CIT, i.e. 15% (for small companies) or 25%, is only payable upon the distribution of profits. These rates can be reduced by 5 percentage





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points provided that the investment level requirements set out in the CIT Act are met. Shareholders are allowed to deduct a part of the ‘Estonian tax’ from their PIT.

CIT is an annual tax. As a rule, the fiscal year coincides with the calendar year. However, CIT payers can choose a fiscal year that is different from the calendar year if their respective company/partnership agreements or articles of association provide so. The tax authorities must be notified of the election of the fiscal year, and any subsequent changes thereto, in a CIT return.

During the fiscal year, companies are required to pay advances towards CIT. A tax return must be filed by the end of the third month following the end of a given fiscal year.

For CIT purposes, the income obtained from capital gains is determined separately from the income from other sources. Losses are settled by way of reduction of taxable income over the next five fiscal years. The maximum amount of loss deduction for each fiscal year is 50% of the loss. There is an exception to this rule whereby taxpayers can make a one-off deduction of a loss in one fiscal year of up to PLN 5,000,000. In the event of a one-off deduction, any amount

not deducted can be settled within the five-year term; however, the amount of deduction in a given year cannot exceed 50% of the loss.

The European Union has eliminated in many cases the double taxation of companies’ profits which are paid out to shareholders being other companies. This double taxation involved first collecting income tax on the company’s revenue and then on the dividend paid out by the company to such other companies. The dividends paid by a Polish company to other companies being payers of income tax on all revenues obtained in Poland or in another EU Member State, will not, upon satisfaction of the statutory conditions, be taxable with the Polish withholding tax. Moreover, they will often be exempt from the tax in the state where the company receiving the dividend has its registered seat. The exemption of dividend from withholding tax is conditional, inter alia, on having held directly a minimum of 10% shares in the company paying out the dividend for a minimum of 2 years. The exemption is applicable accordingly to the profits paid to those shareholders in a limited joint-stock partnership which are themselves companies taxable with CIT on the entire revenue.

Polish limited liability companies and joint-stock companies can create tax capital groups. CIT settlements among the companies making up a tax capital group is carried out at the level of the group, which is the CIT payer. The members of a capital group need not draw up transfer-pricing documentation for the transactions within the group and do not apply the regulations limiting the possibility of booking the interest on intra-group financing as costs of revenue. However, creating a tax capital group and maintaining its status requires compliance with a number of requirements, including a minimum share of income in revenues at the level of 2%.

### 1.2. Taxation of income of partnerships

Tax transparent partnerships are (as of 2021):

- civil-code partnership,
- registered partnership (with the exception of the partnerships which did not reveal their partners and beneficial owners to the tax authorities),
- professional partnership.



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Limited partnerships, which were treated as tax transparent until the end of 2020, can continue their tax settlements as tax-transparent entities only until 30th April 2021.

The income of a tax transparent partnership is taxed only once at the level of the partner with partnerships themselves being neither CIT nor PIT payers. The revenue from participation in a partnership is treated as revenue obtained by the several partners from business. These rules do not apply, however, to the limited joint-stock partnership and – as of 2021 – to the limited partnership, which for tax purposes are treated as legal persons and hence are subject to CIT. Also registered partnerships which did not disclose their partners and beneficial owners to the tax authorities will lose as of 2021 the right to be taxed at the partner level only.

The type of income tax paid depends on the partner's status. A partner being legal person will pay CIT at a basic rate of 19% or at a reduced rate (9% in the event of small taxpayers and 5% in the event of income eligible for a relief). A partner being an individual will pay the tax according to the standard tax scale (17% and 32% or can apply the flat rate of 19%). The application of a flat rate requires

prior notification of the relevant tax authority.

Individuals whose annual income from the sources specified by statute, including from business, exceed PLN 1,000,000 (approx. EUR 225,000) pay an additional so-called 'solidarity tax' at a rate of 4% on the income exceeding the threshold.

Each partner's revenues and tax deductible costs are ascertained on the basis of the partnership's accounting books and assigned to them in proportions reflecting each partner's share in the profits of the partnership.

Similarly to companies, a partnership's losses are settled by reducing the income over the following five years by a maximum of 50% of the loss with a possibility of one-off reduction in one fiscal year of up to PLN 5,000,000.

Partners in a tax-transparent partnership are not taxed with a dividend tax on the profits distributed to them. This rule does not apply to partners in a limited joint-stock partnership, and as of 2021 to limited partnerships and certain registered partnerships which did not revealed their partners and beneficial owners to the tax authorities.

### 1.3 Taxation of sole traders' income

Sole traders' income is generally taxable at standard tax rates. The income not exceeding PLN 85,528 (approx. EUR 19,227) is taxable at a 17% PIT rate with 32% tax being charged on the excess above that threshold.

Small businesses can also elect simplified forms of taxation, i.e. lump-sum tax on recorded revenues or tax card. The lump-sum tax on recorded revenues is paid on revenues from certain types of business specified by statute. The rate is between 2% and 20% depending on the type of business activity pursued. A tax card is a simplified form of taxation of certain types of business carried out on a small scale. The monthly amount of tax paid under the tax card is determined by the head of the relevant tax office regardless of the revenues or income obtained by the business.

The flat-rate tax of 19% on the income of sole traders is an attractive form of taxation. The income taxed with lump-sum tax is declared in a separate tax return and is not combined with other types of income taxed at the standard rates of the tax scale. However, a flat rate of PIT cannot be applied to managerial activities. There are



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also limitations concerning sole traders providing services to their employers. The application of the flat rate of tax is conditional on prior notification, within a prescribed deadline, of the tax office of the selection of this taxation form.

Individuals whose annual income from sources specified by statute, including from business, has exceeded PLN 1,000,000 (approx. EUR 225,000) will pay an additional ‘solidarity tax’ at a rate of 4%. On the excess over PLN 1,000,000, the income tax is due on general terms plus the additional 4%. The solidarity tax is not collected on income from businesses taxable with lump-sum tax, but is paid among others by those taxed at a flat rate whose income exceeds the above threshold.

As a rule, sole traders pay monthly PIT advances or monthly lump-sum tax. Some small firms and taxpayers starting a business are eligible for quarterly settlements.

Sole traders starting a small business can apply for the so-called ‘tax credit’, which allows the payment of PIT or lump-sum tax on recorded revenues to be suspended for one fiscal year following the first or second year of business. Such deferred tax is then paid over the following 5 fiscal years. In order to be eligible for tax

credit, one must satisfy a number of statutory conditions, including the requirement of employing a minimum of 5 employees in the period preceding the year in which the tax credit is used. Tax credit is not applicable if the flat-rate tax of 19% is elected.

The fiscal year for individuals always coincides with the calendar year. The annual PIT return must be filed by the end of April of the next year, whereas the deadline for the filing of the annual return on lump-sum tax is by the end of February of the year following the fiscal year.

### 1.4 Taxation on the income of foreign entities’ branches and representative offices

The business of a foreign representative office is by operation of law restricted to advertising and promotion. Therefore, representative offices do not constitute what is referred to as ‘establishments’ for the purposes of international tax law and as such generally do not pay income taxes in Poland.

Branches of foreign entities operating in Poland constitute permanent establishments of such foreign entities for the purposes of tax law.

The profits from the business of a permanent establishment are taxable in Poland. A permanent establishment of a legal entity will pay CIT on the income taxable in Poland (the basic rate of 19%). A sole trader setting up a branch in Poland will pay PIT at the standard rates (i.e. 17% and 32%) or at a flat rate of 19% on the income, provided that the tax authorities are notified of the election of the latter form of taxation within the prescribed deadline. If a taxpayer’s income from specified sources, including the income from operating a branch, exceeds PLN 1,000,000 (approx. EUR 225,000) in a given year, an additional solidarity tax at a rate of 4% will be due on the excess over that amount.

In most cases, branches are required to pay the Polish tax on goods and services (VAT) and other taxes specific to their respective lines of business as well as collecting personal income tax and social security contributions if they employ staff in Poland.

## 2. Other taxes and charges paid by businesses

Enterprises doing business in Poland as a rule are VAT payers. Certain types of business activity

## Business Taxation 5 / 7

are additionally taxable with special taxes, such as excise duty, mining tax on certain minerals and gaming tax. There are a number of public duties which are not taxes sensu stricto, but charge businesses, e.g. customs duty, social security, environmental charges, copyright levies on copying devices, advertising tax collected by certain municipalities on advertising media, and the so-called 'sugar tax', i.e. a levy on sweeteners in beverages. In addition, certain legal transactions may entail an obligation to pay tax on civil-law transactions or stamp duty.

### 2.1 VAT and excise duty

VAT in Poland is called 'tax on goods and services'. This tax has been harmonised at the European Union level. The amount of turnover exempt from VAT is PLN 200,000 (approx. EUR 45,000). However, by way of exception companies doing certain types of business activity are required to settle VAT regardless of their level of turnover.

The basic VAT rate is 23%. The reduced 8% rate is applicable inter alia to catering services, maintenance services for buildings covered by the social residential building programme,

supply of most magazines, newspapers and dailies, including those in electronic form. A special reduced 5% rate is applicable to certain foodstuffs, baby care and hygienic products, and supply of books, including e-books. The 0% rate applies inter alia to the export of goods, international transport services and intracommunity supply of goods.

Taxpayers can request Head of the National Revenue Information Service to issue binding rate information (BRI, or WIS in Polish).

Taxpayers are required to file monthly electronic standard audit files for tax (SAF-T, or JPK\_V7M or V7K in Polish) by the 25th day of the following month. Small taxpayers can settle their VAT at quarterly intervals.

The basic input VAT refund term is 60 days of the date of filing the relevant return. For the taxpayers not disclosing any VAT sales in their returns, the input VAT refund deadline is 180 days. It can be shortened upon provision of a collateral. Upon satisfaction of a number of conditions set out in the VAT Act, the VAT refund term can be reduced to 25 days of the return being filed. One such condition is that the purchase invoices and any customs dues from

which the amounts of input VAT result have been paid. The invoices must be paid via a previously reported bank account. Invoiced unpaid or paid by other means (e.g. in cash) cannot exceed the amount of PLN 15,000. Moreover, one can obtain a VAT refund within 25 days, without having to satisfy any additional conditions, into the so-called VAT account, i.e. a special bank account created for split payments. Under the split payment regime, VAT amounts from invoiced are transferred into a separate bank account of the business. Each Polish VAT payer having a bank account with a Polish bank has a VAT account, which can be used for limited purposes, e.g. for the payment of public dues.

VAT from imports is settled in the course of customs proceedings. The first instance in a customs procedure is head of the customs-revenue office. Certain taxpayers are eligible for a simplified import VAT settlement procedure involving disclosing the VAT on imports in a VAT return, thus enabling one to settle output VAT on imports as input VAT, which in turn allows import VAT to be settled without it having to be paid beforehand.

Excise duty is a tax which has been harmonised at the European Union level. Taxable with excise



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## Business Taxation 6 / 7



duty are passenger cars and certain excise products, such as: energy products, electric energy, alcoholic beverages, tobacco products, dried tobacco, e-cigarette liquids and the so-called innovative products for smokers.

### 2.2. Tax on civil-law transactions

In principle, tax on civil-law transactions is due on transactions which are not taxable with VAT. By way of exception, the tax may be due on transactions taxable with VAT which are exempt from VAT and concern real estate or rights relating to real estate as well as contracts of sale of shares in companies.

Businesses are required to pay tax on civil-law transactions when entering inter alia into the following transactions:

- Conclusion of a company agreement (articles of association) or its amendment resulting in an increase in the taxable base, increase in capital, or supplementary payments to capital: 0.5% of the amount of the company's share capital, its increase or amount of supplementary payment;
- Making a contribution or increasing a contribution in a partnership, supplementary payments, partner loans: 0.5%;
- Loan agreements other than loans granted by shareholders to their respective companies: 0.5%; however, civil-law transaction tax is not due on loans from financial institutions;
- Establishment of mortgage: 0.1% of the secured amount of existing debt and PLN 19 for the security of a debt of indeterminate amount;
- Sale of property rights, e.g. sale of shares in a company: 1% of the market value of the assets sold;
- Contract of sale of real estate or right related in real estate, e.g. right of perpetual usufruct: 2% of the market value of the subject matter of the contract;
- Contract of sale of tangible assets if the transaction in question is not taxable or exempt from VAT: 2% of the market value of the assets sold.

The act on tax on civil-law transactions provides for a number of exemptions. Transactions eligible for exemptions include loans granted by non-residents engaged in the provision of credit and loans, and loans granted by shareholders to their companies.

### 2.3 Local taxes and levies

Local taxes, i.e. those due the municipalities, paid by businesses include primarily real estate tax and vehicle tax.

Real estate tax is paid by real estate owners, independent possessors, perpetual usufructors, and possessors of real estate owned by the State Treasury or a local government. Real estate tax is payable annually. Companies pay it in monthly instalments, without request, based on the returns filed. Individuals pay real estate tax upon the decision of a tax authority in four instalments or in a single payment if the amount of tax does not exceed PLN 100.

The taxable base of land is its area, whereas for buildings or their parts – the usable area. The rates of tax for land and buildings are

## Business Taxation 7 / 7

established by way of resolution of the local council of the municipality in which the real estate is situated. In the case of buildings or its parts, the rate of the tax is 2% of their value adopted for the purposes of amortisation without deducting any amortisation write-offs.

Statute specifies maximum real estate tax rates, e.g. in 2020 a business will pay a maximum of PLN 23.90 (approx. EUR 5) per square metre of a building used for business purposes. However, the local council can adopt lower rate or exemptions for specific types of real estate.

Taxable with vehicle tax are trucks, semi-trailer tractors, semi-trailers and trailers and as provided by statute. The rates of annual tax are determined by resolution of the local council. The statute sets out the maximum tax rates. The annual vehicle tax is payable in two instalments.



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# Investor Support and Tax Reliefs 1 / 3

## 1. Programmes for businesses

Businesses can take advantage of many support programmes financed by the state, European Funds or local governments. The largest state institutions providing support to businesses include: Polish Agency for Enterprise Development, Polish Development Fund, Agency for Industry Development and Bank Gospodarstwa Krajowego (the National Economy Bank). The Minister of Investment and Development is responsible for the implementation of European Fund programmes by way of delegating programme management to the implementing institutions. Special aid in the area of innovative and research activities, exploitation of new technologies, export growth and human resource development is available to small and medium-sized enterprises (SMEs).

Foreign businesses planning on investing in Poland can apply for the support from the Polish Agency for Investment and Trade (PAIT, or PAIH in Polish), cooperating with a nationwide network of regional Investor Service Centres. The PAIT has its trade offices abroad. Investors can obtain PAIT's aid inter alia in obtaining offers of greenfield or brownfield investment properties and in seeking governmental subsidies under the Programme for supporting investments of major importance to the Polish

economy for years 2011–2030. These subsidies are granted to reimburse the eligible costs of creation of new jobs or eligible investment costs.

Polish and foreign investors are also attracted by the several dozen Polish industrial and technological parks, where companies from certain industries can inter alia draw on the support from research and science centres.

## 2. Tax reliefs for businesses

### 2.1 Special economic zones and the Polish Investment Zone

Businesses operating in one of the 14 special economic zones (SEZs, or SSE in Polish) can be exempt from PIT or CIT income tax. The admissible level of public aid is dependent on the amount of investment, level of employment, location of the business, size of the enterprise and type of business activity pursued. The amount of PIT or CIT relief is calculated as a percentage of eligible costs of investment assets or costs of employment. Depending on the region, the maximum intensity of public aid will be between 10% and 50% of eligible costs.

Micro, small and medium-sized businesses can count on greater support. SEZs also provide assistance with investment property acquisition and project implementation. Permits for doing business in SEZs will have expired by the end of 2026 at the latest.

New regulations were adopted in 2018 allowing businesses engaged in new investments, whether on public or private land, to be exempt from PIT and CIT on the entire territory of Poland. The public aid can be used by companies from the traditional industry sectors, with certain exclusions, and those engaged in the modern services sector (BSS), such as: IT, research and development in the field of science and technology, accounting and auditing, bookkeeping (except for tax returns), technical research and analysis, call centres, architectural and engineering centres. The eligible costs of a new investment comprise specified capital expenditure or two years' costs of newly-employed labour. The cap on the public aid for a given business will be set out in the decision on support issued for a period of 10 to 15 years on behalf of the minister responsible for economic matters. The level of supports depends on the status of the enterprise and a number of criteria relating inter alia to the location of



## Investor Support and Tax Reliefs 2 / 3



the investment and the business profile of the enterprise in question. Similarly to SEZs, the maximum regional aid is between 10% and 50% of eligible costs. Micro, small and medium-sized businesses can count on a greater level of aid.

### 2.2 5% PIT/CIT under the IP-Box relief

Businesses engaged in the commercialisation of IP rights can apply the preferential 5% rate of CIT or PIT with regard to the income from the so-called ‘eligible intellectual property rights’.

Eligible IP rights include: patent, protection right for utility models, rights from registration of industrial designs, rights from registration of integrated circuit topographies, supplementary protection certificates for pharmaceutical and plant protection products, rights from registration of a pharmaceutical or veterinarian pharmaceutical product admitted for sale, exclusive right to the protection of and commercial use of a bred or discovered and developed plant variety, and copyright in computer software.

Businesses can take advantage of the reduced PIT/CIT rate on condition that they keep special

records allowing the income from innovative activities to be separated.

### 2.3 R&D (research and development) relief

The relief can be applied in the event of the production and marketing, but also modification for one’s own purposes, of new technologies, products or services. It involves an additional deduction from taxable income of the so-called ‘eligible costs’ which have already been recorded as tax-deductible costs (costs of revenue). Thus, R&D expenditure can, upon satisfaction of the statutory conditions, be deducted twice when settling PIT/CIT.

Businesses incurring R&D expenses can deduct 100% of the eligible costs as set out in statute, whereas entities enjoying the status of R&D Centres can deduct even as much as 150% of such costs.

Such deductions must not exceed the income from non-agricultural business (in the event of PIT payers) or the income from non-capital operations (in the event of CIT payers). Businesses applying the R&D relief must keep records allowing a separation of R&D costs.

### 2.4 The “Estonian tax” and special investment fund account

As of 2021, small and mid-size companies in which only natural persons are shareholders are can apply special tax regimes: the so called ‘Estonian tax’ and the ‘special investment fund account’.

The ‘Estonian tax’ allows to postpone the CIT payment until profit distribution. The flat rate of 15% (for small companies) and 25% applied under this regime can be reduced by 5 percentage points provided that the company fulfills the investment requirements under the CIT Act. The shareholders can reduce their PIT by part of the “Estonian tax” paid by the company. The ‘Estonian tax’ regime requires that numerous requirements are fulfilled, e.g. minimum investment and employment levels.

The ‘special investment fund account’ is a tax regime allowing small and mid-size companies to accelerate the depreciation of their fixed assets, but requiring them to create a special fund for investment purposes in the reserve capital.



## Investor Support and Tax Reliefs 2 / 3

Both regimes require the fulfilment of additional criteria set out in the CIT Act. One of them is the maximum level of turnover of PLN 100 million.

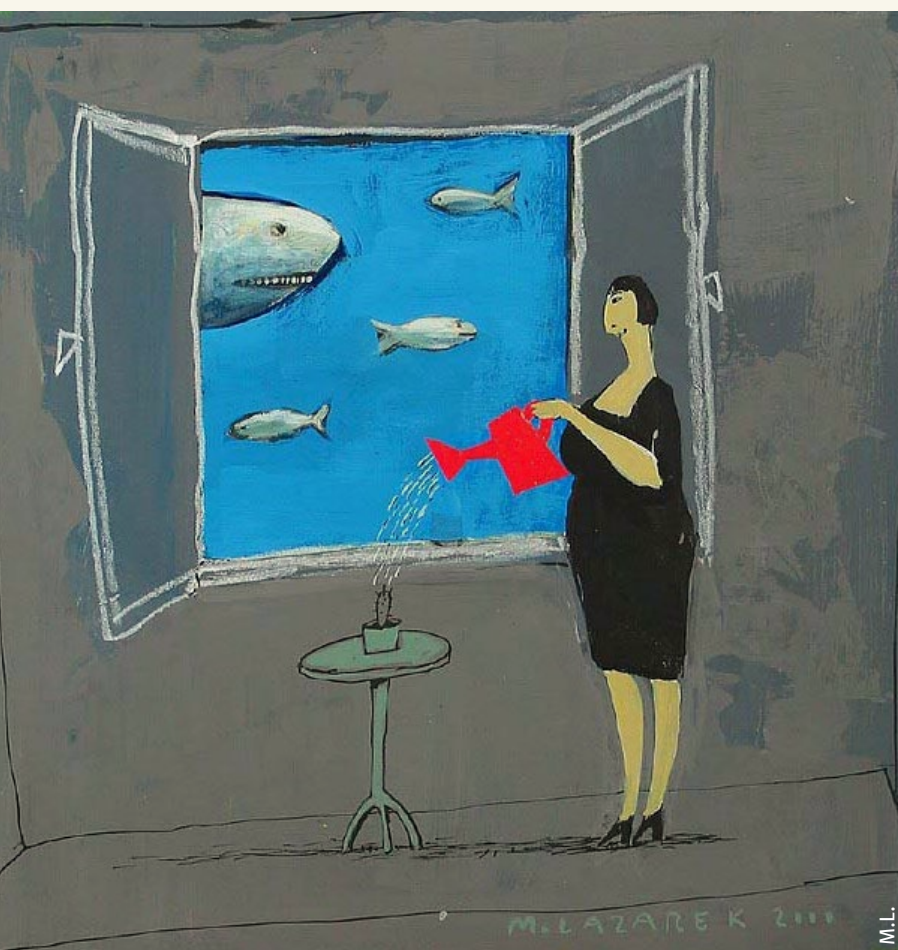
### 2.5 Exemptions from real estate tax

Another incentive to invest in a give location is an exemption from real estate tax awarded by the local council of a given municipality by way of resolution. Such exemptions constitute public aid; therefore, prior to the start of an investment, one has to notify a relevant authority of the intention to apply them unless the aid programme in question is based on community regulations on de minimis aid and does not require notification.



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## Tax Authorities and Avoiding Tax Risks 1 / 2



Most taxes are settled by way of the so-called ‘self-assessment’. This means that the tax becomes due in the amount declared by the taxpayer or tax remitter. Tax authorities are authorised to determine a specific tax liability in an amount different to that disclosed in a tax return as a result of tax proceedings. In order to make PIT settlements easier for taxpayers, an e-pit system has been implemented, whereby the revenue administration prepares preliminary annual PIT returns to be then verified by the taxpayer.

Certain taxes are determined by way of a decision, e.g. real estate tax paid by individuals, tax paid by small businesses in the form of a tax card. Most business tax returns must be filed electronically.

The collection of tax and customs dues as well as taxpayer service are the obligations of heads of tax offices. There are 20 tax offices in Poland specialising in servicing the so-called ‘large taxpayers’, including entities whose turnover in the previous fiscal year exceeded EUR 5,000,000 and those involving non-residents. The tax authorities with respect to local taxes and levies are the respective mayors. The Starost (head of poviat (i.e. county)) and Voivodeship Marshal (head of voivodeship (i.e. province)) are also

vested with powers of tax authorities in relation to the collection of certain levies, i.e. the so-called ‘environmental taxes’.

Proceedings conducted before tax and customs authorities are two-instance proceedings; thus, businesses can appeal any decisions of such bodies they disagree with. The final decisions of the revenue administration bodies can be appealed against to administrative courts. The court proceedings also involve two instances.

The Head of the National Revenue Administration (KAS) exercises supervision over the activities of tax offices and customs-revenue offices. His competences include, among other things, entering into advance pricing agreements with regard to transfer-pricing and issuing decisions in matters relating to tax avoidance.

Information activities in relation to tax and customs law are carried out by the Director of the National Revenue Information Service. His competences include, among other things, issuing private tax rulings and binding VAT rate information decisions.

The Director of the Revenue Administration Chamber in Warsaw issues binding tariff information decisions, i.e. decisions determining the

classification of goods for the purposes of customs, which are binding for three years.

The Minister of Finance oversees the uniformity of tax-law application inter alia by issuing public tax rulings and tax explanations addressed at all taxpayers.

The Polish revenue administration undertakes a number of actions aiming at tightening the VAT system. As part of VAT abuse prevention, additional obligations are imposed on taxpayers and tax authorities, such as VAT SAF-T (information on purchase and sale transactions provided to tax authorities), split payment (payments involving the amount of VAT being transferred to a separate, so-called ‘VAT account’), STIR system (a cash-flow analysis system to detect suspicious transactions), the so-called ‘VAT payer white list’ (a search engine for VAT payers with account numbers into which businesses are required to make payments in VAT, PIT or CIT under the pain of legal sanctions). Currently, the main priority of tax audits is focus on tax optimisation leading to tax avoidance in income taxes as well as VAT and excise duty.

In order to combat aggressive tax planning, mandatory disclosure rules (MDR) have been introduced based on EU regulations.



## Tax Authorities and Avoiding Tax Risks 2 / 2

The arrangements meeting the statutory criteria, i.e. being potentially aggressive tax optimisation schemes, must be reported to Head of the National Revenue Administration by their promoters, beneficiaries and supporters, i.e. besides the businesses themselves – by tax advisors, accountants and financial directors.

In order to avoid potential disputes with the tax authorities, enterprises should apply the safeguards set out in tax regulations, i.e. a private tax ruling, binding tariff information or binding rate information with respect to VAT. It is essential for companies carrying out transactions with related entities to draw up transfer-pricing documentation. Taxpayers carrying out audited transactions of considerable amount may consider entering into

an advance pricing agreement (APA) with Head of the National Revenue Administration. Under such an agreement, the taxpayer can obtain an assurance that the manner of transfer price calculation presented during the APA procedure will not be disputed by the tax authorities. In addition, the taxpayer has no obligation to prepare transfer-pricing documentation in relation to the transactions covered by an APA and, to a certain extent, he will not be subject to the limitations on recording as tax-deductible costs the expenses for intangible services incurred for the benefit of related entities. An APA can be concluded for a period of 5 fiscal years and can be renewed.

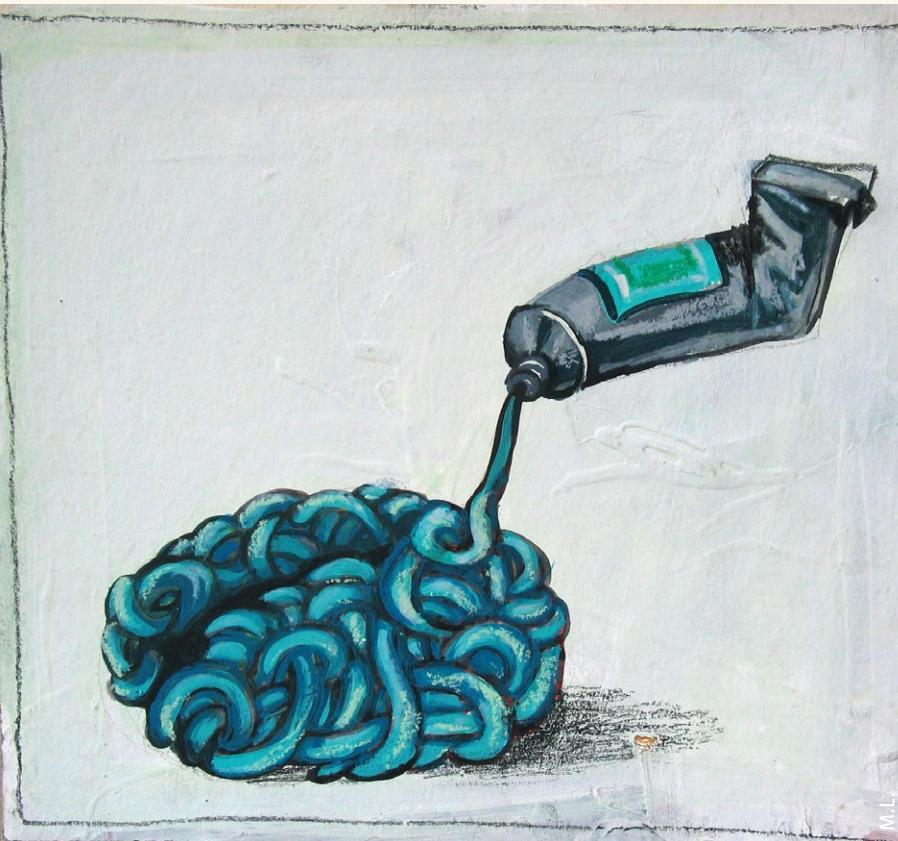
One should exercise special care in foreign transfers of dividends, interest, license fees, etc., as the

application of an exemption or reduced rate of withholding tax entails a number of documenting obligations, including those concerning the ultimate beneficial owners.

For the largest businesses (i.e. those with the annual turnover exceeding EUR 50 million), a programme of cooperation between the taxpayer and revenue administration was introduced in mid 2020. Under this programme, taxpayers can enter into a voluntary agreement of cooperation with revenue administration with Head of the National Revenue Administration. Entering into such an agreement can result in certain benefits for the taxpayer, e.g. being released from mandatory disclosure rules or exclusion of penal fiscal liability.



## Employment, Taxation and Costs of Labour 1 / 2



The basic form of employment is an employment contract. A contract of employment can be concluded for an indeterminate period of time or a specified period of time. It can also be concluded for a probationary period of up to 3 months. An employee cannot be employed on temporary (i.e. fixed-term) contracts for more than 33 months. The total number of fixed-term contracts during that period cannot exceed three. Upon the lapse of the 33 months or upon conclusion of a fourth contract during that period, an employee will be deemed to be employed on a permanent contract.

When terminating a permanent contract upon notice or terminating a contract of employment without notice, the employer must state in writing the reasons for the termination. In the event of termination of an employment contract with notice or without notice, the employee can appeal to the labour court.

The notice period for employment contracts is dependent on the employee's length of service. In the event of a permanent contract, the maximum notice period is 3 months.

The working hours must not exceed 8 hours a day (24-hours) and an average of 40 hours in an average five-day working week calculated over an accounting

period not longer than 4 months. In justified cases, the Labour Code allows for the application of a different system and schedule of working hours as well as for the daily limit of working hours to be increased. A task-based system of working hours can also be applied, which requires an agreement with the employee as to the time required for the performance of specific tasks.

The maximum annual holiday entitlement is 26 days. The right to the maximum holiday entitlement is acquired upon 10 years of service, including the period of secondary education in vocational schools and tertiary education. With the length of service not exceeding 10 years, an employee will be entitled to 20 days of annual paid leave.

Employees can be represented vis-a-vis the employer by trade unions or a works council (at work establishments employing more than 50 employees). Approx. 13% workers are members of trade unions. A vast majority of trade union members come from state administration, local administration, social and political organisations, educational and science institutions, and state-owned companies. In privately-held companies, only 4% employees declare union membership (CBOS data for 2019).

Employers employing more than 50 employees, calculated in full-time equivalents, are required to establish a Company Social Benefit Fund. This fund is created from the annual deductions from pay. The basic rate of such annual deduction per employee is, given normal work conditions, 37.5% of the average monthly salary in the national economy in the preceding year or in the second half of the preceding year if the average salary over that period was higher. For instance, in 2020 a deduction per employee at standard rates stands at PLN 1,550.26 (approx. EUR 348).

An employer is required to deduct, as remitter, from the salaries paid the advances towards income tax as well as the social security contributions and health insurance contributions. Part of the social security is financed by the employer. The PIT rates are 17% and 32%. Moreover, employees whose income from sources specified in statute, including from employment, exceed PLN 1,000,000 (approx. EUR 225,000), will pay an additional 4% solidarity tax on the income exceeding the threshold.

As regards the level of tax burden on employee salaries, for instance, given a gross monthly salary of approx. EUR 1,234 (PLN 5,489.21 – average monthly salary in the business sector in March



## Employment, Taxation and Costs of Labour 2 / 2



2020), the net amount received by the employee will be approx. EUR 890, excluding any relief the individual in question may be entitled to. Thus, the employee's tax burden will be approx. 28%. The total employer's cost, on the other hand, will be EUR 1,486, i.e. approx. 120% of the amount of the employee's salary (including the Labour Fund, Guaranteed Employee Benefit Fund and accident insurance contributions at a rate of 1.67%). The

level of tax burden will be vary between cases, specifically on account of different accident insurance rates, PIT rates and exemptions or deductions to which the employee in question will be entitled.

Employees below 26 years old are exempt from personal income tax. The relief for the youth applies to those obtaining revenues from employment or

contracts of mandate concluded with a business of up to PLN 85,528 (approx. EUR 19,220) in a fiscal year. Up to the threshold, the young taxpayer's revenues are exempt from PIT, and, once exceeded, PIT is only due on the excess of the threshold at standard rates.

## The Future of Accounting: Cooperation, not a Race

### Will robots replace accountants?

An accountant struggling with a pile of papers, recording every receipt by hand, working in his obscure office remote from the real business is now only an image of the past. At any rate, here at ATA Finance we perceive the accountant as an important element of the entire enterprise. This is what clients expect today. It is true that our work has been automated. Yet, on the other hand, the tools we now have at our disposal offer more possibilities while at the same time requiring higher qualifications and a comprehensive approach to the finances of the business.

The accountant of the future will be primarily a person managing data and controlling automatically-generated information, responsible for the system and its constant adaptation to the ever-changing technologies, business needs and the regulatory framework. The accountant of the future must be smarter than a self-learning machine. Rather than competing with the machine, he will cooperate with it. This revolution is already underway at our firm.

### So what do the changes at ATA Finance Accounting involve?

We are investing and implementing modern teleworking systems, cloud-based solutions and a system for electronic flow and exchange of documents between the client and the accounting firm. We use an OCR system, which allows us not only to convert a scanned invoice into an electronic file, but also to send it to a manager for approval, and then, at a later stage, to forward it to the accounting firm for automatic booking and archiving. The entire process takes place in the cloud and is available 24/7. This system allows budget control, generation of automated payments in electronic banking systems, and significantly reduces the time necessary for documents to be approved, annotated and forwarded.

Last but not least, by implementing the system we contribute to protecting the environment. The amounts of paper saved can be measured in hundreds of kilograms per year.

### Given such smart systems, will it make any sense to outsource accounting anymore?

It doesn't take genius to buy a tool. However, it is an art to use it properly and optimally as well as controlling the outcome. As I have mentioned before, the cooperation between man and the machine will be of paramount importance. Human experience, creativity, critical thinking, let alone empathy – these features can never be replaced. I believe that the individuals who have provided services to multiple companies in the course of their professional careers will be better prepared to make the best use of the experience gained as well as other human traits, hence representing a better 'safety valve' for the company.

Besides, we should not forget that the accountant is our basic partner in contacts with tax authorities or the ZUS. Our clients appreciate the fact that we take over this function, as well as the responsibility.

So, rather than taking part in a race against the machine, we are shaping together the ways in which the enterprise is managed.



An interview  
with **Rafal Wójcik**  
Partner  
ATA Finance



## Financial Reporting and Auditing 1 / 2



The rules for accounting and financial statements are set out in the Accounting Act.

Certain entities, i.e. banks and security issuers, are required to apply International Accounting Standards and International Standards for Financial Accounting along with the interpretations relating to them issued by the European Commission (IAS). However, entities drawing up financial statements in accordance with the IAS, apply the Polish Accounting Act as well as its implementing regulations to the extent not regulated by the IAS.

The Accounting Act confers on certain entities the right to apply the IAS to consolidated and standalone financial statements. The following entities are allowed to apply the IAS in drawing up consolidated financial statements:

- Issuers of securities intending to apply or applying for admission to trade on one of the regulated markets of the European Economic Area,
- Lower level dominant entities, being part of a capital group in which a higher-level dominant entity draws up financial statements in accordance with the IAS,

- Branches of a foreign entity, if such entity draws up financial statements in accordance with the IAS.

The businesses which are not required or allowed by the Accounting Act to apply the IAS, draw up their financial statements in accordance with the Polish Accounting Act, and can only apply the IAS to the extent not regulated in the National Accounting Standards issued by the Accounting Standard Committee.

Companies and partnerships are as a rule required to keep standard accounting books. Exempt from this obligation are sole traders, civil-law partnerships of individuals, civil-law partnerships of individuals and an inherited enterprise, registered partnerships of individuals, professional partnerships and inherited enterprises under succession management if their net revenues from the sale of goods, financial operations and products did not exceed EUR 2,000,000 in the preceding year. Such entities keep simplified accounts under the applicable tax regulations. Representative offices and branches of foreign entities are under an obligation to keep full accounting books regardless of their respective levels of revenue.

An annual financial statement of an entity must be approved by the approving body, not later than within 6 months of the balance sheet date. An annual financial statement of a foreign entity's branch is deemed to have been approved if a financial statement of such foreign entity comprising the financial statement of the branch has been approved.

Certain entities are required, prior to approving an annual financial statement, to have such statement approved by a certified auditor.

The obligation of having annual financial statements audited concerns operating joint-stock companies, entities drawing up their annual financial statements in accordance with the IAS and the financial institutions named in the Accounting Act, specifically banks, insurance and reinsurance companies, investment funds, pension funds, alternative investment companies (including EuVECA and EuSEF), national payment institutions and electronic money institutions. Mandatory auditing of financial statements is also required from other operating entities which satisfied at least two of the following conditions in the accounting year preceding the year for which the financial statement is being drawn up:



## Financial Reporting and Auditing 2 / 2

- The average annual employment in full-time equivalents was at least 50 persons,
- The total balance sheet assets as at the end of the accounting year stood at a minimum of the Polish currency equivalent of EUR 2,500,000.
- The net revenues from the sale of goods and products and financial operations in the accounting year in question amounted to the Polish currency equivalent of EUR 5,000,000.

The financial statements of acquiring companies and newly-formed companies made for the accounting year in which a relevant merger took place are also subject to auditing.

Where the taxpayers have elected the balance-sheet method for the determination exchange-rate differences for the purposes of PIT or CIT settlements, their financial statements will also have to be examined by auditors.







# Poland in numbers

Population:	38 million
Administrative area:	312,696 km2
Population density:	123 people per 1 km2
Number of women per 100 men:	107
Capital:	Warsaw, 1.8 million inhabitants
Currency:	Polish zloty (PLN)
Length of Baltic Sea coastline:	770 km
Highest peak:	Rysy in the Tatra Mountains, 2,499 m a.s.l.
Longest river:	Vistula, 1,047 km
Number of lakes in Poland:	7,081
Forestation:	29.6%
Largest mammal at large:	European bison (zubr) with a population in Poland of 2,269
Most popular foreign languages:	English, Russian and German
Forecasted state budget income in 2020:	EUR 98 billion
Rate of women in managerial positions (Eurostat 2018):	46.84%
Polish army manpower capacity:	110,000 people
Average life expectancy in years (GUS data for 2018):	women: 81.7, men: 73.8
Number of UNESCO World Heritage sights in Poland:	16
Admissible blood alcohol content in drivers:	0.2 per mil
Most popular Polish surname:	Nowak, over 200,000 people
Divorce rate:	33%
Internet reach for households (2019):	86.7%
First place in EU production (examples):	household appliances, windows, yachts, vodka, silver, copper, champignons, poultry, apples, blueberries
Activities with the greatest share in the export of services:	transportation, construction, business services, IT and information services, foreign travel, telecommunication services
Value of direct foreign investment in Poland (NBP data for 2019):	EUR 11.4 billion
Number of registered businesses in Poland (2018):	2.1 million





Artworks: Małgorzata Lazarek  
Photos: Karolina Jakubowska, Rafał Ganowski  
Layout: Wojtek Wilk

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# Welcome to Poland! How can we assist you?

It’s 10 years since we started supporting our clients in doing business in Poland. We offer comprehensive tax consulting services, accounting and payroll administration. We also provide auditing services including inter alia examining and reviewing standalone and consolidated financial statements drawn up in accordance with the Accounting Act and the IAS.

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## The ATA Finance Group in Poland comprises the following companies:

- ATA Tax Sp. z o.o.
- ATA Accounting Services Sp. z o.o. Sp. k.
- ATA Audit Sp. z o.o.



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