

DOING BUSINESS IN POLAND

Why Poland?

Poland is a country in Central East Europe. The total area of Poland is over 120,000 sq mi (9th largest in Europe) with a population of over 38 million people. Poland joined the NATO alliance in 1999. Poland has been a member of the European Union since 2004. Poland is part of the Schengen Area and the EU single market. The Polish currency is Złoty (PLN).

Poland is one of the fastest growing countries within the EU and avoided recession in the late

2000's. Poland is one of the most attractive locations for foreign investments. The country offers a wide range of investment incentives.

Poland is a member of the WTO (World Trade Organization) and the OECD (Organization for Economic Co-operation and Development).

The biggest Polish cities are Warsaw (capital city), Kraków, Łódź, Wrocław, Poznań, Gdańsk, Szczecin, Katowice.

Poland in figures

Polish investment attractiveness is confirmed by the following facts:

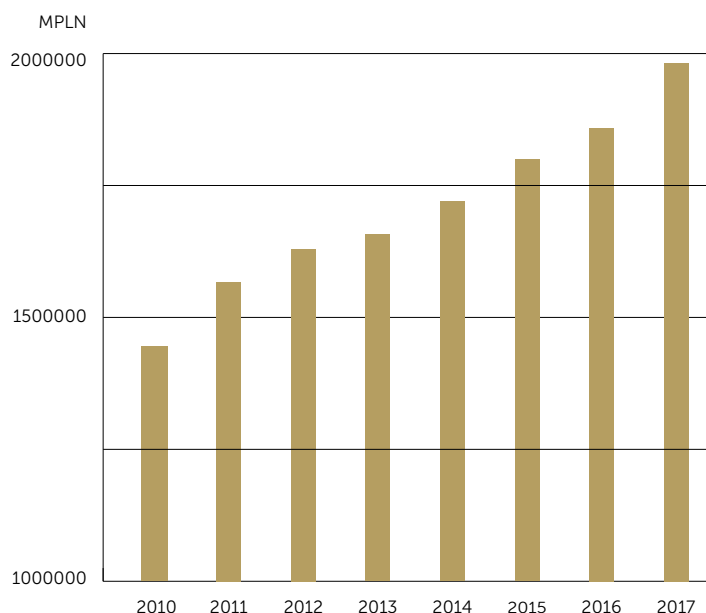
- EUR 176 billion of FDI stock at the end of 2017 (according to National Bank of Poland),
- EY's European Attractiveness Survey 2017 implies that Poland is the 1st most attractive FDI destination in CEE (and 5th most attractive in Europe). Better scores were only attributed to UK, Germany, France and Spain.

Economic data:

- GDP per capita: 68% of the EU average,
- GDP value: USD 467.3 bn (current prices),
- Economic growth: 4.6% GDP growth in 2017
- Inflation at the end of 2017: 2.0%,
- Exports: USD 228.2 bn in 2017,
- Public debt/GDP: 54.1% (at the end of 2017)
- Unemployment rate 5.9% (June 2018),
- Average gross wages and salaries in enterprise sector PLN 4,886.56 (March 2018)

GDP (current prices)

Source: GUS (Statistics Poland)



Forms of business operations

Entrepreneurs can conduct their business in the form of capital companies or partnerships. Many natural persons in Poland operate under their own name.

The main constitutional principle is the freedom of business operations for everyone based on equal rights. For most firms the entry in the court register or the records of business operations together with the registration for tax and social security purposes is sufficient to start a business. However, for some kind of businesses a license or permit must be previously obtained. A license is needed only for a few areas of activity, e.g. production and sale of weapons, air transport and casinos. A permit should be applied for around 30 kinds of businesses, e.g. production and distribution of alcohol, pharmaceuticals, banking and insurance services. A permit must be granted to an entrepreneur if he fulfills all legal requirements for conducting a particular business. Some kind of operations are regulated by the state which means that the entrepreneur must fulfill the minimum legal requirements and register the business in the records of regulated operations.

Capital companies

Capital companies in Poland are limited liability company and joint stock company.

Capital companies acquire legal personality as of the date of their entry into the National Court Register. They may be established by natural or legal persons. Shareholders in capital companies are not liable personally for the obligations of the companies. Governing bodies of capital companies are Meeting of Shareholders, Management Board and Supervisory Board.

Limited liability company

The entity most often established by entrepreneurs is a limited liability company (sp. z o.o.). The minimum capital of a limited liability company amounts to PLN 5,000. The articles of association must be made in the form of a notarial deed. The shareholders in a limited liability company may be natural persons or companies/partnerships. However, a single shareholder limited liability company cannot be established by another single shareholder limited liability company.

In order to establish a limited liability company, its founders must conclude the articles of association, sign an agreement regarding its registered office, open a bank account and pay in the entire share capital.

The shares may be taken up in exchange for cash or non-cash contributions.

Joint stock company

The principles of operation for a joint stock company (S. A.) are more complex and formalized than in the case of a limited liability company. The form of a joint stock company is required for special types of operations e.g. for banks, insurance companies.

The minimum capital of a joint stock company amounts to PLN 100,000. At least one-fourth of the nominal value of shares taken up in exchange for cash contributions should be paid up before the company is registered.

Types of partnerships

Entrepreneurs may establish in Poland commercial partnerships, the operations of which are regulated in the Code of Commercial Partnerships and Companies and civil partnerships governed by the provisions of the Civil Code.

A civil partnership is intended for conducting operations on a small scale. It does not have a status of entrepreneur.

Commercial partnerships are Registered partnership (sp. j.), Limited partnership (sp. k.), Limited joint stock partnership (S.K.A) and Professional partnership (sp. p.).

In a registered partnership all partners are liable for the obligations of the partnership jointly and severally. The articles of association must be made in writing, otherwise they are null and void.

In a limited partnership at least one partner, i.e. a general partner, is liable for the obligations of the partnership jointly and severally and without limitation, whereas limited partners are liable only up to the amount of the commendam sum. The form of a notarial deed is required in order to establish the limited partnership.

In a limited joint stock partnership only a general partner is liable for the obligations of the partnership jointly and severally and without limitation. Shareholders do not bear such liability. The minimum amount of the share capital in the limited joint

stock partnership amounts to PLN 50. The articles of association must be made in the form of a notarial deed.

Professional partnership (sp. p.) is created by partners in order to pursue professions defined in Article 88 of the Code of Commercial Partnerships and Companies, e.g. attorney at law, architect, certified auditor, tax advisor, physician, patent attorney. Individual partners are not liable for obligations of the partnership arising from the activities of other partners. The articles of association must be made in writing.

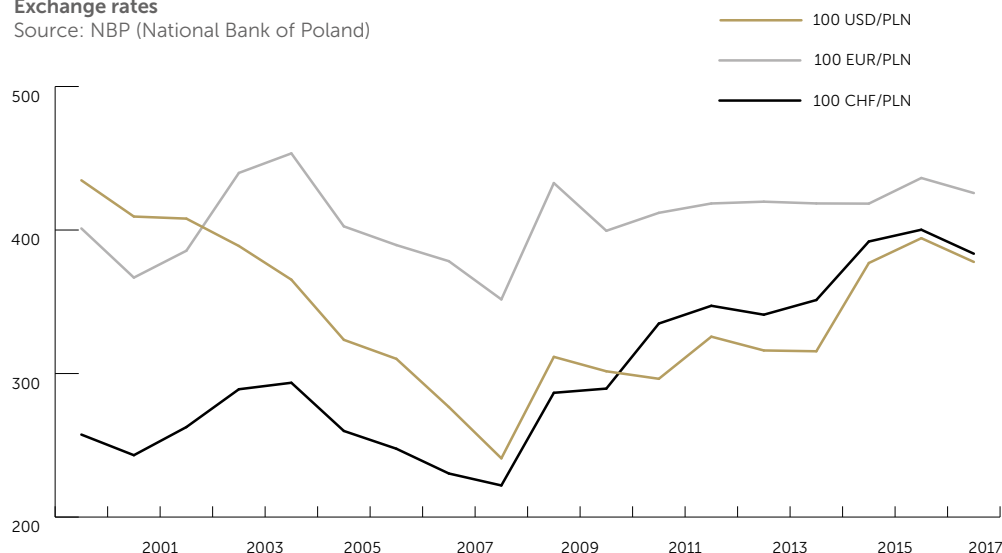
In principle, each partner in a commercial partnership has a right to manage the affairs of the partnership but is also liable for its obligations, including tax arrears. Except for limited partners in a limited partnership and shareholders in a limited joint stock partnership who, in principle, do not represent the partnership.

Partners in partnerships share in profits on the terms provided for in the Code of Commercial Partnerships and Companies, e.g. in a limited joint stock partnership a general partner and a shareholder share in the profit of the partnership in proportion to their contributions made to the partnership. However, the issue of profit sharing may be regulated differently in the articles of association of the partnership. From that perspective, partnerships are more flexible than capital companies.

The problem of unlimited liability of a partner (general partner) may be minimized if such partner operated in the form of a capital company. Most often the general partner is a limited liability company with the minimum capital of PLN 5,000.

Exchange rates

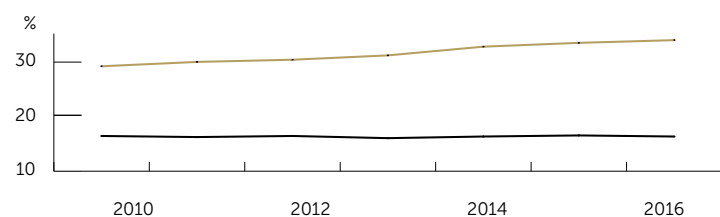
Source: NBP (National Bank of Poland)



Branches and representative offices of foreign entities

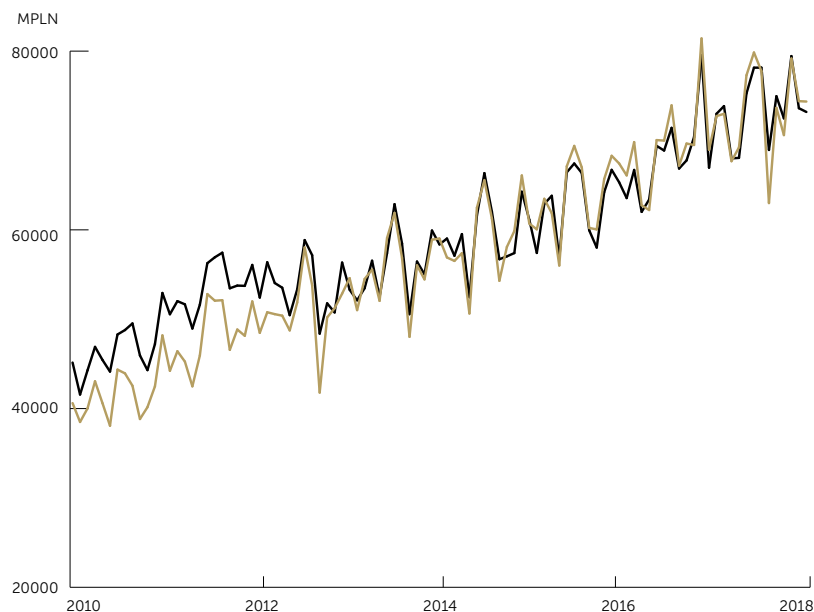
Foreign entrepreneurs may operate in Poland through a branch. However, entrepreneurs from outside the European Economic Area may establish branches in Poland on a reciprocity basis.

A foreign entrepreneur establishing a branch may perform business operations only within the scope of operations of such foreign entrepreneur. Branches of foreign entities are entered into the register of entrepreneurs. The law requires the foreign entrepreneur to appoint his representative in Poland. Foreign entrepreneurs may establish representative offices having seats in the



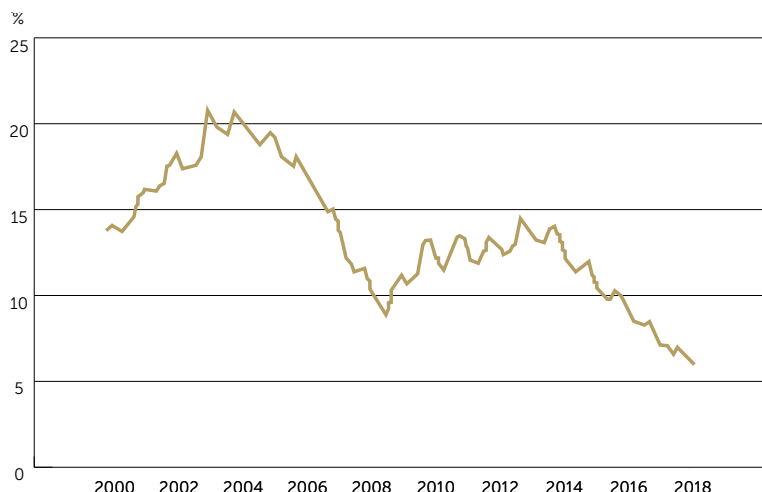
Total exports (current prices), —
Total imports (current prices) —

Source: GUS (Statistics Poland)



Registered unemployment rate

Source: GUS (Statistics Poland)



territory of Poland. The scope of operation of the representative office may cover only advertising and promotion of the foreign entrepreneur.

Except for certain financial institutions, representative offices of foreign entities are entered into the register of representative offices of foreign entrepreneurs, kept by the minister competent for economy.

Business operations of natural persons

Natural persons (individuals) register their business operations in the Central Records and Information of Business Operations. Entry may be made by electronic way. The entry of a natural person in the above register covers also the registration for the purpose of taxes as well social and health insurance. The minimum monthly social and health insurance contributions amount to ca. EUR 300.

Taxation of income of capital companies

Capital companies pay corporate income tax (CIT) in the amount of 15% (startup and small entities) or 19% of income. It is an annual tax. In principle, the tax year is the same as the calendar year, unless another tax year was agreed upon in the articles of association and notified to the tax office. During the tax year companies pay advances towards CIT, and annual settlement of the tax must be made by the end of the third month after the tax year ended. A loss may be accounted for with income over 5 years following the year in which such loss was incurred. Only a maximum of 50% of the loss from the year concerned may be deducted in one tax year.

In many cases within the European Union double taxation of profits of capital companies, consisting in charging CIT on income of the company and then on dividends, has been eliminated. Dividends paid out by a Polish capital company to other legal persons from Poland or another EU member state will not be subject to a withholding tax in Poland and additionally in many cases will be exempt from taxation in the shareholder's country of residence. Exemption from a withholding tax on dividend is conditional, among others, on holding directly at least 10% of shares in the company paying out the dividend for at least 2 years.

Capital companies pay income tax (CIT) of 15% or 19% on generated income. When dividends are paid out to shareholders, in principle tax on dividends of 19% is collected. However, pursuant to international double tax treaties and European directives, often a lower tax rate or exemption is applied.

Taxation of income of partnerships

Income of partnerships is taxed only once at partner level. Partnerships themselves are not taxpayers liable to income tax. Income from a share in a partnership is treated as income from business operations

of individual partners except a limited joint stock company, which is taxed in the same way as capital companies.

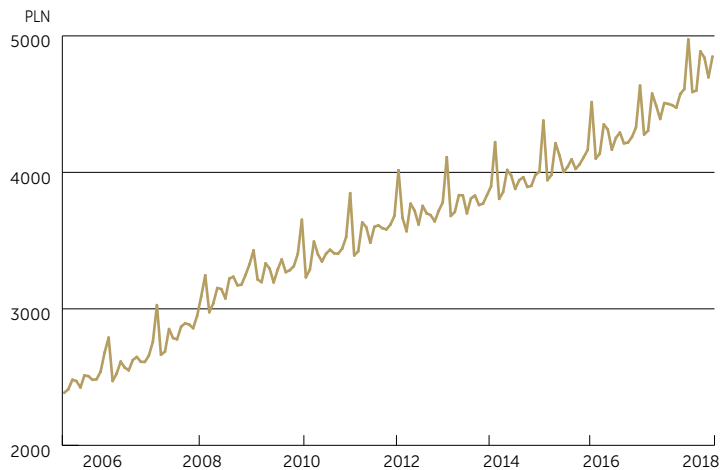
The type of tax depends on a shareholder's status. A shareholder who is a legal person pays a 19% corporate income tax. A shareholder who is a natural person pays a tax in accordance with a tax scale (18% and 32%); he may also choose a 19% flat rate tax. The choice of that form of taxation must be notified to the tax office before commencement of the operations, at the latest by the date of obtaining the first revenue.

Revenues and allowable expenses on account of a share in a partnership are determined based on accounting books and records of the company and attributed to shareholders in proportion to their right to share in profits. A loss attributable to a shareholder may be accounted for with income over 5 years following the year in which such loss was incurred. Only a maximum of 50% of the loss from the year concerned may be deducted in one tax year.

When profits of partnerships are distributed among shareholders, no tax on dividends is collected.

Average monthly nominal gross wages and salaries in the enterprise sector

Source: GUS (Statistics Poland)



Operation in the form of a partnership is advantageous because income is taxed only once (no tax on profit distribution) and a 19% flat rate may be applied by natural persons. Operation in the form of a partnership is advantageous because income is taxed only once (no tax on profit distribution) and a 19% flat rate may be applied by natural persons.

Taxation of individual entrepreneurs

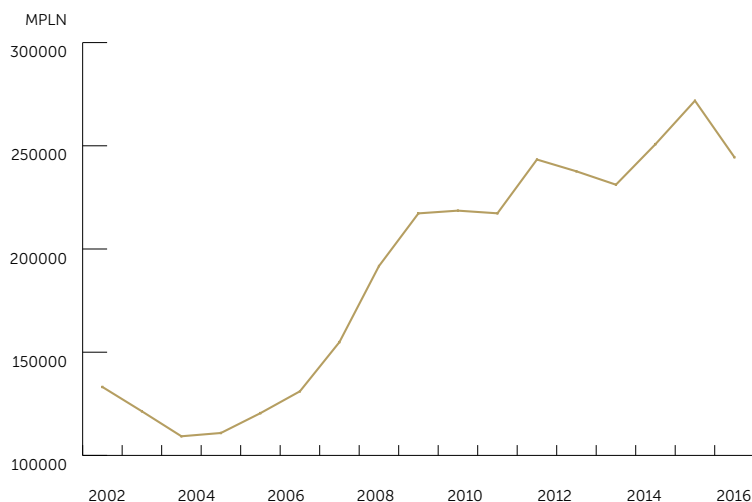
Individual entrepreneurs tax their income from business operations in accordance with a tax scale. The lowest rate is 18% and 32% is paid on income above ca. EUR 20,000. Entrepreneurs running small businesses (revenues up to EUR 150,000) may choose a lump sum in addition and simplified forms of taxation. A lump sum tax is paid on revenues from certain types of operations set forth in the law. The lump sum amount is collected on revenues. Depending on the type of operations this ranges between 3% and 20%.

Attractive form of taxation is a flat rate tax in the amount of 19% of income. Income taxed with the flat rate is disclosed in separate tax returns and is not accounted for on an annual basis using the tax scale. It is, however, not possible to apply the flat rate to managing activities. There are also restrictions for entrepreneurs providing services to their employers. The possibility to apply the flat rate depends on timely notification of the tax office about choosing this form of taxation.

Entrepreneurs pay a lump sum tax or advances towards personal income tax on a monthly or quarterly basis. The tax year for natural persons is always the calendar year. PIT

Total investments (current prices)

Source: GUS (Statistics Poland)



tax return must be filed by the end of April of the following calendar year.

Natural persons conducting business operations may apply a flat rate of 19% of income, which is very advantageous in the case of higher income. In addition, simplified forms of tax books and records are envisaged for a turnover of up to EUR 1,200,000.

Taxation of foreign branches and representative offices

Operations of a foreign representative office is by law limited to advertising and promotion. Therefore, representative offices do not constitute the so called permanent establishment within the meaning of the international tax law and in principle do not pay income tax in Poland.

Branches of foreign persons operating in Poland constitute a permanent establishment of a foreign entrepreneur within the meaning of tax regulations.

Profits attributable to the operations of a permanent establishment are taxed in Poland.

A permanent establishment of a legal person will pay a 19% corporate income tax on income taxable in Poland. A natural person establishing a branch in Poland will pay income tax in accordance with the tax scale (18% and 32%) or a flat rate tax in the amount of 19% of income if he/she notifies the intention to use this form of taxation to the tax office in a timely manner. In most cases, branches are obligated to pay the Polish goods and services tax (VAT) and collect as withholding agents personal income tax and social security contributions if they employ personnel in Poland.

Other taxes and charges paid by entrepreneurs

Contrary to what is commonly heard, the Polish tax system is not very complicated, especially when we compare it with systems existing in certain West European countries.

The most common taxes, apart from income taxes, are goods and services tax (VAT), excise tax, tax on civil law transactions. In addition, local taxes and charges are paid, e.g. real estate tax, vehicle tax, stamp duty on certain activities in governmental offices, tonnage tax, tax on extraction of certain minerals, agricultural and forest tax.

VAT and excise tax

VAT is called in Poland goods and services tax. The basic rate is 23%. The reduced rate is 8% and is applied e.g. in construction covered by social housing programmes, in transport of passengers, in supply of pharmaceuticals and certain food products. Also special tax rates are used, e.g. 0% in the case of export, international transport, 5% for certain food products.

The input tax is refunded within 25, 60 or 180 days. VAT declarations are filed on a monthly basis. Taxable entities may account for VAT on a quarterly basis, however, bigger companies have to pay advances for the first two months of a quarter.

VAT on imports is accounted for by customs authorities. In the case of certain simplified customs procedures, VAT may be accounted for in a tax declaration and therefore it does not have to be paid to customs authorities in order to apply later for its return.

Excise tax is collected by customs authorities. The tax is harmonized with the EU regulations and is paid on manufacture of or trade in excise goods such as: energy products, energy, alcoholic beverages, tobacco, cars.

Tax on civil law transactions

In principle, the tax is collected on transactions (agreements) on which no VAT is charged.

So entrepreneurs have to pay that tax for example in the following situations:

- execution of articles of association of a capital company, capital increase or additional contributions: 0.5% on the amount of the share capital, its increase or additional contribution;
- execution of articles of association of a partnership and amendments thereto, including contribution increase, shareholder loan: 0.5% on the market value of the contribution;
- loan agreement: 2%, however, no tax is due on loans from financial institutions and loans concluded abroad;
- mortgage: 0.1% of the secured receivable or PLN 19 in the case of a capped mortgage (when its amount is not determined);
- agreement for the sale of property rights, e.g. transfer of shares in a company: 1% of their market value;
- agreement for the sale of real estate, if its delivery is not charged with VAT or is exempt from VAT: 2% of its market value.
- Tax on civil law transactions is paid on agreements not covered by VAT. There are many exemptions, e.g. no tax on civil law transactions is paid on a shareholder loan granted to a capital company.

Local taxes and charges

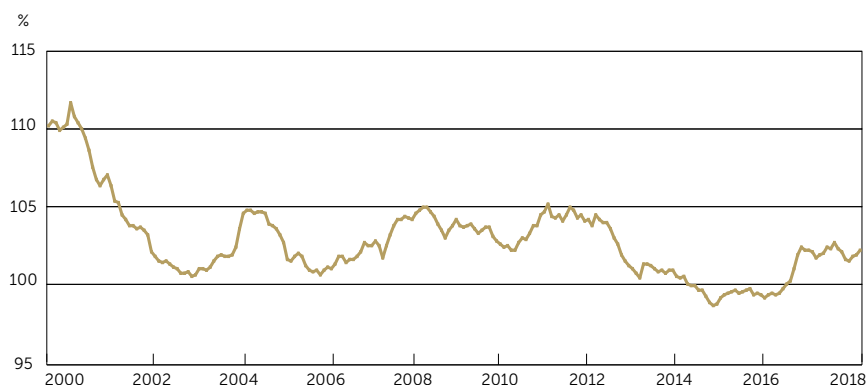
Taxes paid by entrepreneurs to budgets of local administration authorities (gminy) are first of all real estate and vehicle taxes. Real estate tax is paid by owners of real estate, owner-like possessors of real estate, perpetual usufructors of land, possessors of certain real estate owned by the State Treasury. Real estate tax is an annual tax. Entrepreneurs pay the tax in monthly instalments during the tax year. Real estate tax is paid on the area of land and usable area of buildings. Rates per 1 square meter are determined in a resolution adopted by the council of the local administration authority. In the case of structures, the annual tax is computed as 2% of the structure initial value.

The law specifies the maximum rates of real estate tax.

Vehicle tax is paid on trucks, semitrailers, buses. The rates are determined by the council of the local administration authority and the law sets forth the maximum rates.

Price indices of consumer goods and services

Source: GUS (Statistics Poland)



R & D tax incentives

The new provisions entered into force as at 1 January 2018 provide for a significant increase in the bonus in the form of an additional deduction of eligible costs from the tax base amounting to:

- 100 percent for all categories of eligible costs for all enterprises,
- 150 percent for all categories of eligible costs for taxpayers having the status of a research and development center (R&D Center).

The list of eligible costs include among others:

- salaries of employees in the part relating to R&D activity,
- remuneration of individuals engaged in R&D activities under service or specific task contracts, the purchase of specialized R&D equipment, which is not a fixed asset, the purchase of services enabling the use of research equipment for R&D, costs of R&D carried forward as an intangible asset.

Taxpayers having the status of an R&D Center will receive additional benefits in the form of:

- increased bonus – 150 percent of eligible costs,
- expanded catalogue of eligible costs:
 - depreciation of structures, buildings and premises constituting a separate property, used in R&D activities,
 - studies, opinions, consulting and equivalent services, researches, technical knowledge and patents or licenses for protected inventions purchased from entities other than scientific units.

TAX CREDITS FOR ENTREPRENEURS

Entrepreneurs operating in Special Economic Zones (SEZ) enjoy exemptions from corporate and personal income taxes. There are 14 SEZ zones in Poland. State aid depends on the amount of investment, employment, region where operations are conducted, and the size of the entrepreneur. The maximum level of state aid for large entrepreneurs equals 50% of eligible investment expenditure.

Apart from tax credits entrepreneurs may receive state aid in the form of local community and governmental subsidies, and exemption from real estate tax.

Entrepreneurs may also use a credit for new technologies. It allows to deduct from the taxable income, on a one-off basis, maximum 50% of expenditure for new technologies defined in the law, and at the same time to make depreciation charges on that amount.

Also research and development centers are eligible for income tax and real estate tax credits.

SUPPORTING NEW INVESTMENTS

Starting from June 2018 a new regime of tax benefits, similar to SEZ activity is available for investors.

Income from economic activity specified in a decision issued on support will be exempt from personal and corporate income tax. But contrary to the SEZ regulations, entrepreneurs will not be restricted by having to invest only in separated zones, so the authors of the proposal count on the economic activation of the entire country. The way to determine the amount of granted exemption is regulated in a relevant implementing instrument to the Act – Regulation of the Council of Ministers. According to its wording, the

entrepreneur-investor applying for a decision on support will have to satisfy the criterion of eligible costs of the investment:

Unemployment rate in the county where the investment is planned in relation to national average unemployment rate	Eligible costs of the investment
0% - 60%	at least PLN 100 million
60% - 100%	at least PLN 80 million
100% - 130%	at least PLN 60 million
130% - 160%	at least PLN 40 million
160% - 200%	at least PLN 20 million
200% - 250%	at least PLN 15 million
over 250%	at least PLN 10 million

Significantly the thresholds of investment costs presented above will be subject to significant reduction:

Reduction criterion	Reduction of eligible costs of the investment
investment within the scope of modern services for business and R&D works	80%
micro-entrepreneurs	98%
small entrepreneurs	95%
medium entrepreneurs	80%

The amount of tax exemption will be calculated as follows:

- maximum intensity of the assistance specified for a given area multiplied by incurred costs of the investment eligible for assistance, or
- maximum intensity of assistance specified for a given area and labour costs of newly employed personnel over two years, covering costs of gross payroll of such personnel plus contributions paid by the employer.

Apart from indicated tax benefits, the new regime also assumes a number of benefits which will facilitate the carrying on of new investments by entrepreneurs, including especially:

1. making available to entrepreneurs assets of property necessary for carrying on the investment;
2. free-of-charge provision of IT services;
3. assistance in contacts with public administration authorities;
4. co-operation within the scope of recognising needs of the labour market in the process of education;
5. carrying on measures which promote economic activities and new investments.

Bookkeeping of entrepreneurs and audit

The provisions of the Polish Accounting Act are close to the International Accounting Standards and the International Financial Reporting Standards. Entrepreneurs may also apply the above standards directly when drawing up financial statements.

In principle, commercial companies/partnerships and civil partnerships must keep full accounting books. Exempt from this obligation are natural persons, civil partnerships of natural persons, general partnerships of natural person, professional partnerships, if their net revenues on sales of goods, products and financial operations for the previous financial year did not exceed EUR 1,200,000. Also branches and representative offices of foreign persons are obligated to keep the accounting books.

Financial statements that must be audited and published are annual consolidated financial statements of capital groups and annual financial statements of joint stock companies, financial institutions indicated in the law (e.g. banks, insurance companies, pension funds), entities participating in mergers, and financial statements drawn up in accordance with IFRS. Financial statements of other entities must be audited if such entities satisfied, in the financial year preceding the one for which the statements are drawn up, at least two of the following conditions:

- average annual employment (FTE) was at least 50 persons;
- the total of balance sheet assets at the end of the financial year was equivalent in PLN to at least EUR 2,500,000;
- net revenues on sales of goods and products and financial operations for the financial year was equivalent in PLN to at least EUR 5,000,000.

About ATA Finance

ATA Finance is a team of specialists, including expert auditors, tax advisors and certified accountants. We offer clients complex services within the scope of tax advice, audit of financial statements and bookkeeping, as well as payroll accounting. Such comprehensive services are possible thanks to the cooperation of accountants with tax advisors and accounting experts. In providing our services to international clients, we also make use of the know-how of foreign specialists associated in Prime Global – an organization of independent tax advisors and auditors from over 80 countries worldwide. We gain the trust of our Clients thanks to excellent skills and expertise of our staff, knowledge of the industry, through integrating the work of tax, accounting and legal specialists. Among our clients there are national and foreign companies and organizations from various sectors, including finance, construction, production, commerce and real estate. We provide our international clients with services in foreign languages.

We are distinguished by professionalism enhanced by our experience in servicing foreign entities, full engagement in undertaken projects, ability to quickly and effectively react to client needs, assistance in practical implementation of proposed tax and accounting solutions, and flexibility, thanks to which we can undertake interdisciplinary and non-standard projects such as financial and tax reviews, enterprise valuation, tax and financial optimizations, implementation of IAS/IFRS, as well as preparation of issue prospectuses, auditing financial statements prepared in accordance with international standards (IAS/IFRS, US GAAP, HGB).

We offer services in areas important for each enterprise, linked with financial risks, including tax risk. Placing their confidence in our team of experts, our clients entrust us with services in areas of particular importance: managing tax issues, maintaining accounting books, review of accounting books and financial reports.

Thanks to the versatility of the ATA Finance team, we ensure execution of client-oriented interdisciplinary projects and tasks. The projects include financial and tax reviews, accounting and tax optimization, handling mergers, acquisition of enterprises and shares, valuation of enterprises.

A|T|A Finance

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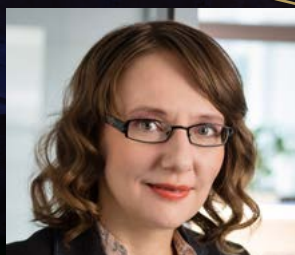
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**Our addresses will
change soon. We move
to the new offices
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in 4Q2018.**

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