



Doing business in Poland



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Foreword

Advicero Tax is an independent consulting company providing comprehensive advise covering tax advisory, legal, financial audit, accounting and payroll outsourcing services.

Advicero Tax has been created by consultants having extensive experience in advising Polish and international clients. Our goal is to apply the highest quality and standards of services on the level known from international advisory firms, offering them at the fee level tailored to meet the specific needs of our Clients. Having the background of working in the strongest advisory practices in Poland, we know not only how to provide the Clients with the highest quality advice, but also how our Clients' business works. Thanks to that we are able to address and match our Clients' needs and we can flexibly adapt to changing demands the Clients' business may bring.

Our experience determines the scope of our advice, which covers in particular, but is not limited to:

- strategic tax advisory for real estate and construction, retail and FMCG, e-commerce, manufacturing, trade, energy sectors,
- tax advisory and compliance for investment and private equity funds,
- transactional advisory and restructurings,
- management remuneration schemes,
- tax reviews, transfer pricing studies,
- accounting and payroll outsourcing.

We provide our services in Polish, English and German.

Our mission is to support the business of our Clients and to provide them with the necessary advice, allowing them to run their business activities in an optimal and safe way.

Our approach is to render our services to our Clients with the highest professional care, providing to you the right people and the right mix of services.

This brochure provides a general information on the Polish business environment and the Polish tax and legal system.

This brochure does not constitute legal or tax advice and shall not be considered as such. Unless Advicero Tax advisers are consulted before using the information presented in this publication, Advicero Tax shall not be held responsible in case of use nor for the results of decisions taken on the base of this publication.

Professional advice should be obtained before acting or refraining from acting on the contents of this publication.

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Nexia International (Nexia) is a top 10 global network of independent accounting and consulting firms with more than 580 offices in over 100 countries, providing a comprehensive portfolio of audit, accountancy, tax and advisory services.

Combining local expertise and global reach, Nexia member firms work together to help you achieve your business and financial goals. With a substantial presence in the world's major financial and economic centres, Nexia member firms are strategically positioned to serve the diverse international requirements of their clients, ranging from globally listed entities and international subsidiaries, to owner-managed businesses and high-net-worth individuals.

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For further information about Nexia, please visit www.nexia.com.

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Chapter 1 Introducing Poland

Geography and climate

Poland in figures



Source: http://www.paiz.gov.pl/en?lang_id=17

Political system

Political system of Poland is parliamentary representative democratic republic. There is multi-party system where Prime Minister is the head of government and President is the head of state. Executive power is exercised by the President and the government, which consists of a council of ministers led by the Prime Minister. Members of government are chosen from majority party of parliament (Sejm). Although, it's not the rule and many exceptions are known by history. Formally government is announced by the president and must obtain 'motion of confidence' in Sejm within two weeks.

Legislative is vested in two chambers of parliament (Sejm and Senate). Members of Sejm are elected by proportional representation. Parliamentary elections occur every four years.

Legal system

The Polish law is shared for private and public law which are codified. Supreme law is Constitution of Poland. Polish law is created by Polish parliament (Sejm and Senat).

Polish public and private laws are divided into various areas, including, for example:

- civil law (prawo cywilne), much of which is contained in the Polish Civil Code
- commercial law, notably the Polish Code of Commercial Companies
- copyright law,
- administrative law
- constitutional law
- private international law
- tax laws
- criminal law
- family law
- labour law
- water law
- media law.

Language

Official language of Poland is Polish, although there are other regional languages like Kashubian strongly similar to Polish.

Economy

Poland is the sixth-largest economy in the UE and the largest of economy among the ex-communist members of the European Union. Before the late 2000s global crisis Polish economy growth 6% per year. According to the Central Statistical Office in Poland economic growth year for first quarter of 2014 was 3.4% and it is expected to grow by 3.7% in 2015 and 3.9% in 2016.

Overall of Polish export value is about €152.78 billion. Poland export mostly machinery and transport equipment (37.8%), intermediate manufactured goods (23.7%), miscellaneous manufactured articles (17.1%), food and live animals (7.6%). Main exports Poland partners are:

- Germany – 26%
- United Kingdom – 7%
- Czech Republic – 6.5%
- France – 6.0%
- Russia – 5.2%
- Italy – 5.0%
- Netherlands – 4.6%.

Business hours

The usual business working day in Poland is 8-hours day which result of 40-hours per week. These general rules are provided by Polish Labour Law.

Chapter 2 Business entities

According to the Polish Law (Commercial Companies Code) the pursuit of an economic activity by entrepreneurs can be performed in the form of a company, which can be identified into one of the following categories:

- **General partnership:** two or more partners, unlimited liability of partners,
- **Limited partnership:** two categories of partners – a limited partner, responsible for liabilities up to the amount of his contribution, a general partner with unlimited liability,
- **Partnership limited by shares:** two categories of partners – a shareholder and a general partner (unlimited liability), share capital of at least 50,000 PLN,
- **Limited liability company:** share capital of at least 5,000 PLN,
- **Joint-stock company:** share capital of at least 100,000 PLN.

Commercial Companies Code regulates in detail such restructuring operations as:

- merger, division,
- liquidation,
- transformation.

Main types of business activity in Poland

Polish law provide free business activity for every entrepreneur which means that everyone has equal right to choose relevant type of business activity suits to its business.

The most common types of business activity are commercial companies, in particular the limited liability company (about 85% of all entities) and general partnership. Below we shall present main information for these two types of companies and information about joint-stock company as well.

General partnership

Preferred form for micro- and small businesses conducted at least by two entities. Basic form of business activity in Poland, type of commercial partnership.

It has no legal personality, although it has legal capacity (which provide right to acquire rights and incur obligations on its own behalf) and judicial and procedural capacity. What is important, general partnership has no minimal capital required. Partnership shall be founded by at least two: (i) natural persons, (ii) legal persons, (iii) organizations without legal personality to which the applicable laws have granted legal capacity.

These partners may contribute property, rights or services to partnership as its own capital. What is more each partner may represent the partnership individually (unless the article of association provides different rules of representation). The main disadvantage of general partnership is liability of partnership. The partnership bears unlimited of liability for its obligations up to full value of all its assets.

Partnership does not pay income tax, income tax applies to individual partners.

Limited liability company

Commercial company preferred for entities who wants to exclude their liability for company's obligation. One of most popular types of business activity in Poland.

It has legal personality, may be establish by one or more entities among: (i) natural persons, (ii) legal persons, (iii) organizational units without legal personality to which the applicable law have granted legal capacity.

LLC articles of associations must be prepared in form of notarial deed. Minimal share capital of Polish LLC is 5.000 PLN, and cannot be contributed by non-transferable right to perform of work or services. The nominal value of a share may not be lower than 50 PLN.

LLC shall be obliged to establish Management Board and optionally Supervision Body (obligatory only if number of shareholders exceeds 25 and the share capital exceeds PLN 500,000).

Shareholders' Meeting shall be confirmed by minutes of the shareholders' meeting. Minutes shall be prepared in form of notarial deed. Meeting shall be prepared in location where company has its registered office or in other place within the territory of Poland (only if permitted by the articles of association).

Shareholders do not bear any liability of company's obligation. Their risk is limited to contribution involved in company.

The company is taxpayer of the Corporate Income Tax (19%).

Joint-stock company

Preferred type of business activity for companies with many shareholders, for large scale businesses. Obligatory forms for banks, insurance companies and general pension societies.

It has legal personality, may be established by one or more entities among: (i) natural persons, (ii) legal persons, (iii) organizational units without legal personality to which the applicable law have granted legal capacity.

Joint-stock company articles of associations must be prepared in notarial deed. Minimal share capital is PLN 100.000 and cannot be contributed by non-transferable right to performance of work or services. The nominal value of a share may be not lower by PLN 0.01.

What is important there are two types of shares: registered shares and bearer shares. The bearer shares certificates may not be issued before full payment is made, registered shares may be issued before full payment. What is more, there are differences in possibility to dispose each shares.

Joint-stock company shall be obliged to establish Management Board and Supervision Body.

Doing business in Poland

General meeting of shareholders shall be confirmed by minutes of general meeting of shareholders. Minutes shall be prepared in form of notarial deed. Meeting shall be prepared in location where company has its registered office or in other place within the territory of Poland (only if permitted by the articles of association).

Shareholders do not bear any liability of company's obligation. Their risk is limited to contribution involved in company.

The company is taxpayer of the Corporate Income Tax (19%).

Chapter 3 Company formations and administration

Forming a company

To form company businesses shall face some of bureaucratic and legal steps..

First of all entrepreneur shall conclude company agreement and then according to Polish law – notarize it. Next step of company formation shall be register in National Court Register (NCR) by submitted relevant forms.

What is more, entrepreneurs which want to set-up their businesses in Poland shall register in Statistical Office to obtain the statistical number (REGON) and in the Tax Office – to obtain Tax Identification Number (NIP).

The company must register for VAT by the date when the company carries out VAT-covered business activities for the first time. The registration must be submitted with the Tax Office. The company must provide information e.g. on (i) its business name and legal form; (b) the REGON (statistical number); (iii) start date for its business activities, and (d) the address of its registered office.

Chapter 4 Financial reporting and audit requirements

Reporting and audit requirements

Polish accounting principles are regulated by the Accounting Act dated 29 September 1994.

The Accounting Act regulates:

- the principles of maintaining accounting books,
- timing and procedures related to the stock taking,
- valuation of assets and liabilities and determination of the financial result,
- business combinations,
- consolidation procedures,
- auditing and publishing financial statements,
- protection requirements,
- financial statements formats.

Specific accounting areas such as financial instruments, consolidation of financial statements, accounting for banks, insurance companies, investment funds and pension funds are additionally regulated by regulations issued by Minister of Finance. Otherwise, the Polish Accounting Standards Committee was established to prepare and issue the National Accounting Standards.

The Accounting Act's regulations are binding for the following entities that have their registered office or place of management in Poland:

- commercial companies,
- individuals, civil partnership, registered partnership of professional partnership, if their net revenue from the sale of goods, products and financial operations for the preceding financial year amounted to at least the Polish currency equivalent of EUR 1,200,000,
- business unit operating under Polish banking law, regulations on trading in securities, regulations on investment funds and/or regulations on the organization and operation of pension funds, regardless of their revenue,

- communes, districts, provinces and their associations, as well as state, communal, district and provincial entities such as public sector entities, auxiliary units of public sector entities, public sector organizations or special purpose funds without legal personality,
- unincorporated business units, with the exception of partnerships referred to above,
- foreign legal person, branch and representatives office of foreign businesses as defined by the regulations on the freedom of enterprise,
- entities other than those specified above, if they receive subsidies or grants from the State budget, budgets of local authorities or special purpose funds for performing tasks assigned to them – from the beginning of the financial year in which those subsidies or grants were awarded.

Polish bookkeeping rules do not differ significantly from those commonly adopted worldwide (entries have to be documented, are made on a double entry basis, chronologically and mainly on a historic cost basis). Since 2002 the Accounting Act has been undergoing significant changes to bring Polish accounting practices closer to the International Financial Reporting Standards (IFRS). However, due to the many changes in IFRS, differences continue to exist between the Accounting Act and IFRS. In areas unregulated by the Accounting Act or National Standards, reference may be made to IFRS.

The accounting books should be kept and financial statements prepared in the Polish language and expressed in the Polish currency. Each entity is obliged to maintain accounting books and other documentation which, in particular, contains a description of the entity's accounting principles and rules for keeping subsidiary ledgers and their link to general ledger accounts.

The Management Board is responsible for the fulfilment of accounting obligations specified in the Accounting Act, including a supervisory obligation, even if certain accounting obligations have been delegated to another person.

All entities governed by the Accounting Act are obliged to prepare financial statements for each financial year (not necessary the calendar year). The annual financial statements comprise the balance sheet, income statement, notes to the financial statements (including an introduction to the financial statements and additional notes). Financial statements which are subject to an audit, include also a statement of changes in equity and a cash flow statement.

In addition to the financial statements, the following entities: joint-stock companies, limited liabilities companies, insurance companies, co-operatives and state-owned companies, are obliged to prepare the Management Board report on the company's activities commenting on, inter alia, the financial and economic situation of the company.

In Poland it is allowed, and in some cases required, that IFRS should be used as the reporting framework (according to the amendments to the Accounting Act, which came into force on 1 January 2005). The obligation to prepare consolidated financial statements in compliance with IFRS has been imposed on banks and entities allowed to trade in the regulated markets of EEA countries. The following entities, in turn, have the possibility of drawing up standards compliant with the IFRS: entities that applied for permission to list on a regulated market in Poland or other EEA country, entities that are part of a group where the parent entity prepares consolidated financial statements for statutory purposes in accordance with IFRS, subsidiary of a foreign entity if this entity compiles financial statements based on IFRS.

Polish statutory audit requirements apply to all annual consolidated statements and to the annual standalone financial statements of the following entities that operate as a going concern:

- banks, insurance companies, investments and pension funds, joint-stock companies and public companies,
- other entities that meet at least two of the following three thresholds in the financial year preceding the financial year for which the financial statements were drawn up:

- the average annual number of employees, by full-time equivalents, reached or exceeded 50 people,
- total assets as at the end of the financial year reached or exceeded the Polish currency equivalent of EUR 2,000,000,
- net sales of products and goods for resale, plus income on financial transactions for the financial year reached or exceeded the Polish currency equivalent of EUR 5,000,000.

Financial statements prepared in accordance with IFRS are subject to mandatory audit. The statutory audit requirements also apply to entities after merger for the year when the merger occurred.

The audit of statutory financial statements is conducted in compliance with the Chapter 7 of the Accounting Act, Auditors Act and the national auditing standards issued by the National Assembly of Statutory Auditors (KIBR). In Poland, list of statutory auditors authorized to sign auditor's opinions and reports as well as subject authorized to conduct audits are kept by the KIBR.

Reporting deadlines

The annual financial statements shall be prepared within three months from the balance sheet date and approved by the shareholders within six months of the end of the financial year.

The approved financial statements shall be filed in the relevant Court Register within 15 days from the approval date and in the relevant Tax Office within 10 days from the approval date.

Non-compliance with the above deadline is penalised (Penal Fiscal Code, regulations to be introduced as of 1 January 2015).

Chapter 5 Company taxation

Resident companies

The taxation of corporations is regulated by the Act on Corporate Income Tax. CIT applies to all legal entities, including:

- corporations,
- corporations under organization,
- "organizational units with no corporate status" (with an exception of partnerships) which conduct business activities,
- foreign entities with no corporate status, provided that are treated as corporations and subject to unlimited tax liability in their home countries,
- (since January 2014) limited joint-stock partnerships.

Resident vs non-residents

As a general rule, Polish CIT must be calculated on:

- revenues gained anywhere in the world, for taxpayers who have their seat or management in Poland (tax residents),
- revenues gained on the Polish territory, for all other taxpayers (being non-residents).

Tax year and reporting

The tax year is equal to calendar year, unless determined differently in the articles of association of the taxpayer and announced to the competent head of tax office.

The CIT is calculated in annual periods. The annual CIT return shall be filed within the end of the third month following the end of the tax year. In the course of the tax year the CIT advances are due, monthly or quarterly.

Tax rate and taxable basis

CIT rate is 19%. Penalty tax rate of 50% may be applied for profit adjustment in relation to transaction concluded with related parties (transfer pricing).

The taxable income is determined as the difference between taxable revenues (which means any revenue due for the running year) and tax-deductible costs (meaning costs incurred in the process of gaining revenues as well as securing or protecting the source of said revenues).

Interest deduction

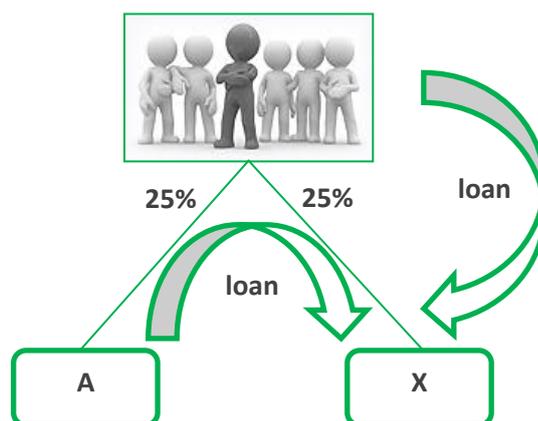
According to Polish income tax regulations only interest paid or capitalised can be deducted for tax purposes. Instead, accrued interest does not constitute tax deductible cost.

In case where interest is related to acquisition or construction of fixed assets, such interest accrued before the date of putting fixed asset for use can be deducted through depreciation write-offs.

Polish income tax regulations provide for thin capitalisation rules. According to the said thin capitalisation limitations, interest due on a loan granted by a related party (i.e. a sister company 25% voting rights of which are held by the same parent, or a shareholder holding at least 25% of voting rights) is not recognized as tax deductible cost when the debt-to-equity (understood as paid-in share capital) ratio exceeds 3:1 in the portion in which the loan exceeds this ratio.

For thin capitalization purposes, the term "loan" is widely understood as any kind of debt claim including debt securities and certain deposits or irregular deposits.

As of 1 January 2015 further changes will be introduced in the income tax law. The amendment assumes extension of entities classifying for thin capitalization restrictions to all indirect shareholders having at least 25% shareholding. The new restrictions should be applicable to loans granted after 1 January 2015.



In addition, an alternative method for interest deduction shall be introduced as of 1 January 2015. Namely, deductible interest shall be calculated as a product of the assets' value and the NBP reference rate increased by 1.25 p.p. Such deductible interest amount cannot be however higher than 50% of operational income (with exception for some type of taxpayers). If not deducted in a given tax year, the remaining amount is subject to deduction within 5 consecutive years, in the scope of the above limits. Once chosen, the said alternative method shall be applied during at least 3-year period.

Capital assets

Costs related to acquisition or construction of any "fixed asset" are to be capitalized into the initial value of the fixed asset and to be deducted through depreciation write-offs.

"Fixed asset" is assets with value over PLN 3,500 and expected useful life of 1 year or more. Applicable depreciation rates depend on the type of assets. In the table below please find some examples of depreciation rates.

Examples of annual depreciation rates

<i>Type of asset</i>	<i>Depreciation rate (%)</i>	<i>Depreciation period</i>
buildings	2.5	40 years
office equipment	14	86 months
computers	30	40 months

motor vehicles	20	5 years
plant and machinery	5 to 20	5 to 20 years
intangibles	20	5 years

Double taxation relief

Poland concluded Conventions on Avoidance of Double Taxation (so called Double Taxation Treaties, DTT) with approx. 90 countries over the world.

DTT provide for rules to determine the place of taxation for income sourced either in Poland or in other country, received by residents of one of those states. In particular, DTT are applicable to income taxes (Polish Corporate Income Tax and Personal Income Tax) as well as donation or inheritance taxes.

Exemplary, the DTT concluded between Poland and Germany provides for the following withholding taxation rules with respect to dividends, interest and royalties:

- 5% on dividends paid to corporations, with at least 10% of participation,
- 15% on dividend paid to other entities,
- 5% on interest,
- WHT exemption exemplary on interest paid by or for benefit of a government, also on interest paid with regard to a credit granted by banks,
- 5% on royalties.

Withholding tax

Dividend distributions are generally subject to 19% withholding tax levied on the gross distribution amount, unless a DTT provides otherwise or exemption resulting from EU Directive is applicable (conditions analogous to those in case of inbound dividends).

Payments of interest and royalties to foreign companies are subject to 20% withholding tax unless a DTT provides otherwise or exemption resulting from EU Directive is applicable.

Also the 20% withholding tax rate applies to fees paid for certain intangible services (e.g. advisory, accounting, market research, legal assistance, advertising, management and control, data processing, search and selection, guarantees and pledges and other similar services), unless the relevant DTT provides otherwise. Under most DTTs such payments are treated as business income taxable in the taxpayer's country of residence and hence not taxable in Poland, unless attributable to a permanent establishment in Poland.

Capital Gains Tax (CGT)

Inbound dividends from a subsidiary in another EU (European Union) or EEA (European Economic Area) Member State can be exempt from income tax in Poland, if the Polish parent has been holding a minimum 10% capital participation in the subsidiary for an uninterrupted period of at least two years. This also applies to permanent establishments of non-resident EU/EEA companies located in Poland when they receive dividends from another EU/EEA resident company. In the case of a Swiss subsidiary the required minimum participation is 25%. In other cases of inbound dividends, exemption or lower withholding tax rates may result from the Double Tax Treaties (DTT). Tax credit (both direct and underlying) may also be applicable, depending on a number of requirements under both domestic rules and DTTs.

Use of tax losses

Tax losses can be carried forward and set off within five consecutive years. In a given tax year not more than 50% of a tax loss of a given year can be used. No carry back of losses is possible. Tax losses get forfeited in case an entity is taken over or divided, also in case an entity is transformed (apart from cases where a corporation is transformed into another corporation).

General anti-avoidance provision

The Polish tax regulation do not provide for a general anti-avoidance clause. Most probably, such clause will be introduced in the Polish Tax Code as of 1 January 2016.

The said clause will be applicable upon fulfillment of the following conditions:

- conducting transaction through an inadequate legal construct, i.e. aimed at achieving tax benefit,
- there is another adequate legal construct that could be used for a given transaction,
- at least one of transactional parties achieved predominantly tax benefit though application of this legal construct,
- tax authority proves the above and taxpayer does not show other important, different than fiscal, reasons for conducting the transaction.

As a result of applying the clause tax authorities are entitled to use the most suitable legal construct to given transaction and redefine tax obligation. In addition, tax authorities may apply a penalty of 30% of understated taxable basis.

Transfer pricing

Poland has implemented transfer pricing rules based on arm's length principle (market level of prices applicable). Poland generally follows the OECD's Transfer Pricing Guidelines with respect to the methods to assess profits. However, the requirements for documentation in case of transactions with related companies and the penalty regime for transfer pricing adjustments are relatively restrictive.

Any additional income assessed as a result of a TP adjustment is subject to a penalty rate of 50% when the following happens simultaneously:

- taxpayer's income is assessed at an amount higher than that declared by the taxpayer in connection with a transaction; same goes when the loss is assessed at an amount lower than that declared by the taxpayer,
- the taxpayer fails to submit the required transfer pricing documentation.

Tax Rulings

Under existing regulations of the Polish Tax Code taxpayers are entitled to confirm – by the written interpretation of tax law issued by the Minister of Finance or an authorized body – a proper understanding of selected provisions of tax law. Individual tax rulings are issued upon written application, that contains description of the actual facts or planned events, the question and own opinion on the issue. The interpretation remains valid until changed by tax authorities or when the underlying provision of law is a changed in a manner making the interpretation irrelevant.

Bad debt corrections

Polish taxpayers are obliged to correct income tax settlements in relation to unpaid liabilities. When relevant liabilities are not paid within certain deadlines, corresponding tax deductible costs shall be corrected (decreased, if correction exceeds available tax cost amount, then taxable revenues shall be accordingly increased).

The deadline for correction depends on the agreed payment deadline:

- when payment deadline is shorter than 60 days, correction is to be performed within 30 days from payment deadline,
- when it's 60 days or more, correction is to be performed within 90 days from the date when the expense was originally deducted for tax purposes.

The said regulations provide for detailed rules of correction in case of depreciation write-offs, calculated on the part of initial value of a fixed asset (or intangibles) that is overdue.

Controlled Foreign Companies

As of 1 January 2015 CFC legislation shall come into force. According to the new regulations, incomes of the company shall be subject to 19% tax rate, in case:

- it is a subsidiary of a Polish taxpayer having its a registered office or a place of management in a country that applies harmful tax competition, or

- it is a subsidiary of a Polish taxpayer jointly fulfilling the following conditions:
 - ✓ level of control: Polish taxpayer holds in CFC incessantly, for min. 30 days directly or indirectly, at least 25% shares in capital (or 25% voting rights or 25% shares linked with right to participate in profits),
 - ✓ passive income: min. 50% of revenues of foreign company are generated in the given tax year from passive income sources,
 - ✓ low level of taxation: at least one kind of passive incomes in a country of registered office or place of management is subject to taxation with a tax rate lower than 14.25% or exempted (except for exemptions from directive no 2011/96/UE), or excluded from taxation.

Chapter 6 Personal taxation

Residents and non-residents

Individuals considered as Polish tax residents, underlie Polish taxation with regard to their world-wide income, irrespective where the income source is located (unlimited tax liability).

One is classified as Polish tax resident when:

- he has in Poland his center of vital or economic interests, or
- resides on Polish territory for a period longer than 183 days in a given tax year.

Tax residence shall be determined with consideration of relevant DTT. In cases one is considered non-Polish resident, he underlies Polish taxation solely with regard to income sourced in Poland (limited tax liability). Polish tax non-residents (individuals with limited liability for Polish tax) are taxable solely on income received in connection with the performance of duties in Poland or from Polish sources. For those who qualify for limited tax liability, income from board duties (under certain conditions) and Polish civil contracts such as personal services contracts or specific task agreements may be taxed at a flat rate of 20%. In such cases, no deductions are available.

Income tax

Polish employers must withhold tax from their employees' taxable salary and remit it to the tax office by the 20th day of the month following the month of payment. As a rule, the annual tax returns shall be filed individually by the employees, however in certain cases they can opt for the employer to file their annual tax return.

Self-employed individuals and those paid by a foreign entity are personally responsible for paying monthly tax advances, generally by the 20th day of the following month. An annual return disclosing all income sources and showing any

additional tax payable must be filed (and the tax due paid) by 30 April of the following year. A separate annual tax return should be filed for capital gains (e.g. on the sale of shares). Married tax resident couples may file joint returns. Their tax liability is then calculated on half the total income and multiplied by two.

Personal tax rates

Generally, the income gained by individuals is subject to progressive scale, applicable rates are 18% and 32%.

Whenever an individual gains income in the course of his business activity (i.e. self-employment or participation in partnerships), he can choose to apply 19% flat PIT rate by filing an application to the competent tax authority within due deadline.

Some types of income – capital gains, interest, dividends, income from sale of real estate – are taxable with 19% PIT.

Polish non-residents can benefit from 20% flat PIT rate on revenues gained from so called personally exercised activities as well as from management services.

Personal income tax rates:

<i>Taxable basis in PLN</i>	<i>Tax rate</i>
up to 85,528	18% of taxable basis minus PLN 556.02
over 85,528	PLN 14,839.02 + 32% of any amount exceeding PLN 85,528

Deductions

Available deductions depend on the income source. A deduction of PLN 111.25 per month is available in respect of expenses associated with earning employment income. Individuals working under Polish civil law contracts may deduct 20% of their income as tax costs, irrespective of whether these costs are actually incurred. Higher deductions are available to individuals working under

Polish civil contracts if their actual expenses are higher than 20%. In case of certain activities, e.g. exploiting a copyright, a deduction of 50% is allowed.

Shall an individual be self-employed, deduction of all income-related expenditures is allowed, based on rules similar to those applicable for corporations. The same applies for income gained from participation in a partnership.

Chapter 7 Types of employment and social security

Employment contracts

Generally, there are following possible types of employment agreement in Poland:

1. Self-employment
2. Employment
3. Civil contracts: the contract of mandate (in Polish: umowa zlecenie) or contract for a specific task (in Polish: umowa o dzieło).

Self-employment

Employee may act through his/her business activity on the basis of cooperation agreement (so called self-employment). In this case all registration and tax settlement obligations are on the side of an employee. Social Insurance Contributions should be remitted by the 10th day of each month for the previous month.

Individuals starting business activity can, during the period of 24 calendar months, pay social insurance contributions based on the individually declared amount not lower than 30% of minimum wage, in case certain conditions are fulfilled. Accordingly, such decreased Social Insurance contributions for each month of 2014 are as follows:

<i>The amount of monthly contribution</i>	<i>Rate of the social insurance contribution</i>
PLN 98.38	i.e. 19.52% for retirement insurance
PLN 40.32	i.e. 8% for disability pension insurance
PLN 12.35	i.e. 2.45% for illness insurance
PLN 9.73	i.e. 1.93% for accident insurance - providing that an individual running business activity registers for accident insurance up to 9 people
PLN 270.40	i.e. 9.00% of the basis* for the health insurance

Standard monthly contributions shall amount to:

<i>The amount of monthly contribution</i>	<i>Rate of the social insurance contribution</i>
PLN 438.73	i.e. 19.52% for retirement insurance
PLN 179.81	i.e. 8% for disability pension insurance
PLN 55.07	i.e. 2.45% for illness insurance
PLN 43.38	i.e. 1.93% for accident insurance - providing that an individual running business activity registers for accident insurance up to 9 people
PLN 270.40	i.e. 9.00% of the basis* for the health insurance

Standard employment

With regard to employment contract social insurance contributions are collected by an employer, however they are divided in two parts: paid by an employer and an employee (however withheld by an employer acting as remitter). Social security contributions should be paid by the 15th day of each month.

Social Insurance payments consist of: retirement and disability pension insurance, illness and accident insurance, Labour Fund, Bridging Pension Fund, Employee Benefit Fund and health insurance. The basis of calculation is generally income, however in case of retirement and disability pension insurance the contributions are calculated on basis of income but only up to the upper limit (for 2014 this is 112,380 PLN).

<i>Social contributions – employment contract</i>			
<i>Contribution % of total monthly salary</i>	<i>Total</i>	<i>Employee</i>	<i>Employer</i>
Retirement insurance	19.52%***	9.76%	9.76%
Disability pension insurance	8.00%***	1.50%	6.50%
Health insurance	9%	9%*	-
Illness insurance	2.45%	2.45%	-
Accident insurance	0.67-3.86%	-	0.67-3.86%**
Bridging Pension Fund	1.5%	-	1.5%

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Labour Fund	2.45%	-	2.45%
Employee Benefit Fund	0.10%	-	0.10%

Civil contracts

Generally, both tax and Social Insurance settlements with regard to civil contracts are analogous to employment contract. However, depending on the status of the individual, an employer may not be required to register an employee for all the titles of social security contributions.

Chapter 8 Indirect taxes

Value Added Tax

Value Added Tax was introduced in Poland in 1993 and then significantly changed in 2004, in connection with Poland's entry into the European Union. The currently binding VAT Act is in line with the relevant EU VAT regulations, including the EU VAT Directive.

VAT registration

All entities that perform activities subject to VAT in Poland are obliged to register before they undertake their first taxable activity. Upon VAT registration they gain the status of active VAT payers.

Taxpayers must notify the Polish tax authorities in advance if they intend to carry out intra-Community transactions. On the basis of this notification, the entity is registered as an EU VAT payer. Taxpayers whose net amount of taxable sales did not exceed PLN 150,000 in the previous year are exempt from VAT (with exception for some types of activity). Similarly, taxpayers that start to make taxable sales during the tax year are exempt from VAT if the expected net amount of their taxable sales in a corresponding fraction does not exceed PLN 150,000. Taxpayers can, however, opt for taxation provided they notify the relevant tax office of their intention.

VAT rates

In Poland, there are three VAT rates: the standard rate of 23% and reduced rates of 8% and of 0%. Some goods or services benefit from reduced VAT rates of 5% or 3%.

The standard rate applies to all supplies of goods or services, unless a specific provision allows a reduced rate or exemption.

Recovery of input VAT

Taxpayers may recover input tax, e.g. the VAT paid on goods and services supplied and used in the taxpayers' taxable activity, by deducting it from output tax, e.g. the VAT charged on supplies made.

Input tax on e.g. the purchase of fuel, diesel or gas used for passenger cars or on restaurant services, cannot be recovered. Also input tax directly related to exempt supplies is generally not recoverable (but it can, under certain conditions, be deducted as a cost for corporate income tax purposes), with some exceptions.

Excess input VAT can be either carried forward and deducted from future VAT liabilities or refunded. Refunds are generally made within 60 days. In certain circumstances this period can be shortened to 25 days. Where a company does not perform taxable activities in a given period, the refund period is extended to 180 days.

VAT returns

As a rule VAT returns must be filed on a monthly or quarterly basis. VAT returns and full payment of VAT due must be made by the 25th day of the month following the month (quarter) in which the tax point arose. In addition, taxpayers who opt to file VAT returns quarterly are required to make advance payments no later than the 25th day of the month following the first and second month of the quarter. The advance payment is equal to 1/3 of the tax liability for the previous quarter.

Bad debt corrections

Taxpayers who did not settle their liabilities and already deducted input VAT, are obliged to correct VAT settlements. Deadline for correction is 150 days from payment deadline. Taxpayers who fail to perform such a correction are imposed a penalty equalling 30% of the correction amount.

Invoicing

Polish VAT regulations allow taxpayers to issue and store invoices in an electronic form to save administrative costs and time. The standard deadline for issuing an invoice is the 15th day of a month following the month when goods were delivered or service provided, with exceptions.

Other taxes – Tax on Civil Law Transactions

TCLT is applicable on certain transactions enumerated in the relevant Act. In the table below please find exemplary transactions and rates.

Examples of transactions subject to TCLT:

<i>Transaction</i>	<i>TCLT rate</i>	<i>Taxable basis</i>
articles of association	0.5%	share capital or property's value
loan agreement	2%	loan value
sale of assets or property rights	2% or 1%	market value of the asset or property rights

Certain transactions are TCLT exempt, like loans granted by shareholders or changes of articles of association resulting from several restructuring activities (mergers, contribution in kind of an enterprise or of shares, divisions, transformation of corporations), or transactions underlying VAT taxation.

Other taxes – Real Estate Tax

Owners and some users of real estate – land, buildings, structures – are liable to Real Estate Tax. RET due on land and buildings is calculated per sqm. Rates are determined by local tax authorities, within the limits provided by law, and are higher in case of real estate used for purposes of running business activity and lower in case of real estate destined for non-commercial use. In case of structures, understood as building objects connected permanently with the ground, other than buildings, the taxable basis is determined according to their depreciation value. The RET rate is 2%. Some RET exemptions are available, in the relevant Act or granted by the local authorities.

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