

December 2018

SIMPLIFIED TAX ADVANCES 2019

We would like to remind you about the possibility of switching into payment of simplified CIT / PIT advances starting from 2019 for Polish taxpayers. Under this method the tax advances are paid in equal amounts each month throughout the year. The final reconciliation to the actual (due) tax amount is made at the end of tax year. The simplified method is worth considering in case of expected income increase.

GENERAL RULES

Taxpayers are entitled to make monthly advance payments in the amount of 1/12 of the tax due, as calculated in the yearly tax statement filed in the year preceding given tax year (e.g. for 2019 the basis for calculation of simplified income tax advance payments will be the tax return for 2017 filed in 2018). If there was no tax due in the said statement, taxpayers are entitled to make monthly advance payments in the amount of 1/12 of the tax due, as shown in the yearly tax statement filed in the year preceding by two years a given tax year (e.g. for 2019 the basis for calculation would be the tax return for 2016 filed in 2017).

Once chosen, the simplified method should be applied throughout the whole tax year. The method should be also applied in the following tax years, unless the taxpayer informs the respective head of tax office about the resignation by the date of the first advance payment in the particular tax year.

If the tax return (being the basis for calculation of simplified tax advances) is corrected so that the amount of tax due changes, the amount of simplified tax advances may also change. This depends on the point of time when the corrected tax return was filed. If it was filed before or in the tax year for which the simplified advance payments are paid, then the advances should be respectively adjusted. In case it was filed later, no adjustment of advances is required.

The simplified tax advances should be adjusted respectively also in case the tax base is changed by the relevant tax authority as a result of the tax proceedings.

DEADLINES

According to the current regulations, in case you would decide to implement the simplified tax advances, this decision should be notified to the relevant head of tax office by 20 February 2019 (in case of the PIT taxpayers and CIT taxpayers with the tax year equalling the calendar year). Please note, however, that according to the draft regulations (currently in the course of legislative work) **such notification will not be necessary**. During the tax year the taxpayer will pay advances in a simplified form and **will inform about choosing the simplified method in its annual tax return**.

The deadlines for (i) payment of tax advances and (ii) the yearly tax reconciliation and return remain the same as in the traditional method.

ADVANTAGES AND DISADVANTAGES

ADVANTAGES

- The simplified method is worth considering in case of expected income increase.
- It Improves cash flow: it allows for determining with anticipation the amount of monthly tax advances and may result in lowering the tax advances throughout the year.
- In particular, the payment of part of the tax could be deferred until the yearly tax reconciliation, which might result in a temporal increase of liquidity.
- Additionally, application of the simplified method mitigates the risk of tax liabilities resulting from incorrect calculation of monthly tax advances (the advances are calculated based on the past tax results and are equal each month).
- It simplifies tax management in the context of regular CIT and the so called minimal tax (tax on commercial properties) - cash flows are easy to be planned.

DISADVANTAGES

- The simplified method should rather not be considered if there are grounds to believe that the income will not increase or will deteriorate (e.g. despite growing revenues the substantial increase of tax costs is expected) which would result in a lower tax base.
- The deferral of part of the tax until the yearly reconciliation may result in a necessity to make a significant tax payment at the end of the tax year.
- Additionally, if the taxpayer suffered loss in particular months, the tax will have to be paid anyway (may impact the liquidity).
- Also, the taxpayer might be required to pay the minimal CIT at the end of the tax year (there is possibility to apply for a refund of paid minimal CIT, however such refund will most probably trigger the tax audit, in particular with respect to the arm's length character of the financing as well as other revenues and costs).
- Tax losses from previous years cannot be deducted from the tax advances (but may be utilized at year end).

HOW CAN WE HELP

Should you wish to proceed, we may compose a rough simulation of tax advances with our comments - for your planning purposes.

CONTACT US

This document has been prepared for information purposes only and is of a general nature. Before taking any action pursuant to the above information, we recommend that you obtain a valid opinion of TPA experts.



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