

Polish deal. Tax changes

On Saturday, May 15, a program convention of the ruling party Law and Justice (PIS) was held in Warsaw, during which the so-called Polish Deal (Polski Ład), the social and economic package for recovery from the Covid-19 pandemic, was presented. The cornerstone of the program is to increase spending on health to 7% of GDP, reduce taxes of about 18 million Poles, increase large infrastructural investments, secure loans for housing with no own contribution and allow for a permission to build a house up to 70 sqm without formalities.

Together with the announcement of the program, the Ministry of Finance presented the main premises of the planned changes in the tax system, which will significantly affect the taxation of income from work and business activities undertaken by individuals. Specific draft acts are expected to be presented no later than mid-year, with the goal of them coming into force at the beginning of 2022.

HIGH TAX ALLOWANCE	As announced before, the tax allowance for all PIT taxpayers will increase to PLN 30,000 (currently it is PLN 8,000). This is a major change in the tax system, which will result in a reduction in the amount of tax payable or its complete elimination for approximately 18 million Poles. Such a high tax allowance means that pensions and salaries up to PLN 2,500 per month will be entirely tax-free.
RAISING THE TAX THRESHOLD	The second change is to raise the tax threshold for entering the higher income tax bracket from the current amount of over PLN 85,000 to PLN 120,000. Currently, taxpayers who earn up to PLN 85,000 annually pay tax at a rate of 17%. Income exceeding the annual limit of PLN 85,528 is taxed at 32%. After the amendment, the 32% rate will apply to income above PLN 120,000.
HEALTH INSURANCE CONTRIBUTION DEDUCTION	In exchange for the higher tax-free allowance and the increased second tax threshold, the government announced changes to the rules for deducting health contributions. After the amendments, the contribution will still be 9%, but it will not be in any part tax deductible as it is now. For high earners, this will mean a tax increase of 7.75 percentage points – the Ministry of Finance has announced a relief for the middle class to offset the higher tax. The details of the relief were not presented
HEALTH INSURANCE CONTRIBUTIONS FOR ENTREPRENEURS	Significant and unfavorable changes in the rules of paying health insurance contributions await entrepreneurs, including sole proprietors (self-employed persons) and partners in partnerships. The contribution will be calculated according to the same rules as for employees, i.e. depending on the total income in a given month. Additionally, as in the case of employees, the health insurance contribution will not reduce the tax . Compared to the current solution, where the contribution is lump-sum (regardless of income) and tax-deductible, this means an increase in the effective burden on entrepreneurs by almost 9 percentage points. At the same time, the Ministry of Finance has communicated that it is not working on changes regarding deductible costs or social security contributions.
IMPACT OF CHANGES ON NET REMUNERATION	The planned changes will result in net wage increases for low earners. Higher taxation will apply to employees who earn more than PLN 11,000 gross per month. The negative effect in this case will result from changes in the rules of deducting the health insurance contribution. According to presented calculations, those earning up to PLN 6,600 gross will gain the most, those earning up to PLN 11,000 will not lose, whereas in the case of those earning more than PLN 11,000 taxation will increase, which will result in a lower net salary.

OTHER CHANGES IN THE AREA OF LABOR LAW

The premises of the Polish Deal include proposals to abolish civil law contracts resulting in replacing them with employment contracts. It has been announced that civil law contracts will be subject to full social security contributions. Measures can be expected that will force the change of existing contracts of mandate or contract of specific work into employment contracts, as well as the intensification of controls among the self-employed (on B2B contracts).

Another element of the program is the regulation of remote work, which has become very popular in the time of the pandemic. In addition to the regulation of organizational and technical issues, we should expect provisions encouraging employers to use this form of work, especially in the case of part-time employees (e.g. young parents).

TAX RELIEFS FOR ENTERPRISES

The Ministry of Finance plans facilitations for large investors, tax reliefs on returning to Poland and relocating operations here, reliefs on prototyping and robotization.

Under the so-called return relief, which is intended to encourage not only employees but also entrepreneurs who have successfully developed their business abroad to return to Poland, the PIT will be 50% lower during the first two years after return.

In addition, the Ministry of Finance is preparing regulations that will allow companies to operate not only in CIT tax groups, but also for the purpose of VAT settlement.

The planned robotization relief is intended to allow funding for process automation expenditures. The relief is to cover the cost of purchasing an industrial robot, as well as of purchasing the necessary software, its installation, and required training. The relief will involve an increase in the deductible expense associated with eligible expenses, similar to the current R&D relief.

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