

Ministry of Finance wants to correct the Polish Deal in July

I. Ministry of Finance has proposed several more tax changes

On 24 March 2022 the government presented for public consultation a draft of extensive changes to the provisions of the so-called Polish Deal. The vast majority of the new regulations are to become effective as soon as 1 July 2022 (with some going into effect as of 1 January 2023 or 2024). The draft not only introduces some new solutions, but also eliminates those that taxable persons have viewed as unfavorable (so-called middle class relief, landmark relief, the new single-parent credit). In addition, as explained by the government, the proposed changes should also reduce wage pressure on employers, which in turn will have a positive effect on all businesses, including those that are CIT taxable persons.

II. First PIT rate to fall from 17 to 12 percent

The most important point of the changes is the reduction of the PIT rate in the first tax bracket from the current 17 to 12 percent. Whereas the tax-free amount (PLN 30 thousand) and the tax rate threshold will remain unchanged. The latter will continue to amount to PLN 120 per year (PLN 10 thousand per month), with excess over PLN 120 thousand taxable at the rate of 32 percent. The reduction of the first tax rate will result in a decrease in the standard tax deduction, which instead of PLN 4800 per year (PLN 400 per month) will now amount to PLN 3600 per year (PLN 300 per month). This change was necessary for the tax-free amount to remain at PLN 30 thousand. Otherwise the rate decrease would have increased the tax-free amount, which had just been raised considerably on 1 January 2022. As a result of the changes, annual tax on PLN 120 thousand in income will amount to PLN 10800 instead of the current PLN 15300 (a decrease of PLN 4500 per year).

III. Some traders with health insurance premium deduction

The amendments also provide that certain groups of taxable persons will be able to deduct health insurance premiums from their income. To recap, until the end of 2021 those premiums were for the most part tax-deductible, which meant that their cost amounted to only 1,25% of income. This deduction was eliminated as of 1 January 2022. Now the government wants to restore the deduction, but only for three groups of taxable persons: for those who pay flat-rate PIT, lump-sum tax on recorded revenues and those using the tax card. Eligibility to make the deduction will not be extended to taxable persons taxed on the tax scale. For them, the costs associated with not being able to deduct the health insurance premiums are to be offset by the lower PIT rate, higher tax-free amount and the higher tax threshold between the rates of 12 and 32%.

The government intends to change several provisions of the so-called Polish Deal as of July 2022. The proposal includes a decrease in the lower PIT rate from 17 to 12% and a partial deduction of health insurance premiums, as well as elimination of middle class relief. There will also be numerous changes for tax remitters.



IV. Health insurance premium deduction not for everyone and with limits

Those who pay flat-rate PIT are to become eligible to deduct health insurance premiums from their income, the same way that they currently deduct ZUS premiums (alternatively, they may be charged to costs). This deduction (costs) is, however, going to be limited to no more than PLN 8700 per year, which means that those taxable persons will see an annual tax decrease of PLN 1653. The limit is to be set at 4,9 percent of the so-called thirty-fold, which caps the ZUS premium calculation basis. This year it amounts to PLN 177 660. Thus the limit of PLN 8700. The cap will be revalued each time there is a change in the thirty-fold (rounded off to PLN 100). It needs to be remembered that the health insurance premium calculation base is not capped like in the case of ZUS premiums. Whereas the limits for lump-sum and tax card payers are different. Lump-sum payers will be able to deduct half of their health insurance premiums, whilst those who use the tax card will deduct 19% of premiums paid.

V. No more middle class and landmark relief

The draft does away with two controversial types of relief. The first is the so-called middle class relief, which is to be offset with the reduction in PIT from 17 to 12%. Interestingly, the draft amendments also contain a safety mechanism where those taxable persons who lose on the elimination of this relief (despite the rate reduction) will get a refund of the difference, i.e. a tax liability reduction, so that the new solution does not make their tax situation worse. The second relief to be eliminated is the so-called landmark relief (referred to as “palace+” by the media). Here too the draft preserves the acquired rights to deduct such expenses if incurred up until 30 June 2022.

VI. Tax remitters with numerous new obligations and new collection of PIT-2

There will also be numerous changes for tax remitters. The most obvious is the change in the monthly standard tax deduction (1/12) from PLN 400 to 300. But another thing will also change. Taxable persons will now have to declare that their standard tax deduction is to be taken by not just one, but even as many as three tax remitters, so that a given tax remitter will deduct either 1/12 of the standard deduction (PLN 300), or 1/24 (PLN 150), or 1/36 (PLN 100). The second important change is that a tax remitter that establishes a new employment relationship (e.g. contract of employment, contract to manage a business, managerial contract) will be required to initiate the filing by the hired taxable person of a request (declaration) on the tax remitter’s application of the monthly standard tax deduction and on the deduction of health insurance premiums when calculating tax advances. Until now this requirement had not been formulated in the PIT Act. The new rules will require some effort on the part of the employers, as they will have to ask their employees (by 15 June 2022) to update their previously filed PIT-2 declarations. Employees who fail to respond (by 30 June 2022) will be deemed to have decided to continue on current terms.

VII. Those with income up to PLN 30 thousand eligible to request no advances

The draft amendments contain regulations based on which a taxable person will be able to authorize his tax remitter, with a written request, to not withhold advances in a given tax year. This solution will as a rule apply to all income tax remitters. A taxable person will be able to submit such a request if he expects that his income taxable on the tax scale will not exceed PLN 30 thousand (or the tax-free amount) in the tax year. But the taxable person will be required to immediately withdraw the request if he determines that his income will exceed this amount. Once the taxable person withdraws his request to not withhold advances in a given tax year, the tax remitter will calculate the advances, but will not reduce them by the monthly standard deduction.



VIII. All declarations and requests must be made in writing

The amendments introduce a rule whereby all the taxable person's declarations and requests that affect the calculation of the advances must be submitted to the tax remitter in writing. The new regulations require taxable persons to withdraw or amend previously filed declarations or requests if there has been a change in the circumstances that affect the remitter's calculation of advances. If a taxable person changes a previously filed declaration or request, he will not be required to withdraw those previously filed, as the new declaration or request will replace them. Whereas the tax remitter will be required to inform the newly hired taxable person of the option to submit declarations and requests that affect the calculation of the tax advances before the first pay day.

IX. Regulations on double calculation of advances to be revoked

The draft provides for the revocation as of 1 July 2022 of the requirement imposed on tax remitters to in the course of 2022 calculate tax advances also in accordance with the regulations in effect until the end of 2021, i.e. for the revocation of the so-called rollover mechanism implemented in the legal system by way of the minister's of finance decree of 7 January 2022 on extending the deadline for the collection and payment of personal income tax advances by certain tax remitters (Journal of Laws item 28; the mechanism is currently regulated by Article 53a of the PIT Act). This revocation is possible due to the introduction of a lower tax rate and health insurance premium deduction. In some situations this change will eliminate the risk of having to pay significant amounts when filing annual tax returns.



X. Restoration of joint filing for single parents

As of 1 January 2022 the Polish Deal introduced a credit of PLN 1500 to replace the advantageous taxation of single parents (or legal guardians). Now the government is doing away with this solution and restoring the joint filing for single parents. And so once again the taxation of single parents will consist of the calculation of double tax on half the income. Under this method of calculation, the tax-free amount is deducted twice, in the same way as for married filing jointly. The amendments also change the income criterion for adult children, children who continue their education, which allows for the preferential taxation of a single parent and for taking advantage of a PIT-0 exemption for 4+ families or the tax credit for children. The amendments propose a change in the income criterion for adult children who continue to study, consisting of raising it to twelve times the value of the social pension. There will also be changes in the methods used to add the income of minor children to the income of their parents.

XI. Changes for young adults and seniors

The amendments provide for changes in PIT exemptions for young adults (so-called “zero PIT” or “young relief”), as well as in the new relief for working seniors. In the case of the latter, the relief is currently available also in situations where a taxable person has already collected his pension benefits, but has chosen to return to work and suspend the pension. Whereas after the change, the exemption will only apply to those who despite becoming eligible for retirement benefits have never collected their pension. In addition, after the changes, free from taxation will be the benefits received by retirees or disability recipients in connection with their previous service, employment or cooperative employment relationship, including from trade unions, up to no more than PLN 3000 per tax year.



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XII. IPO relief to be clarified

The proposed amendments include provisions that clarify the tax preference relating to the sale of shares acquired in an initial public offering (IPO). At this time, such income is exempt from taxation if the sale of such shares took place after three years from the day on which the shares were admitted to trading on a regulated market or introduced to an alternative trading system. The exemption is not available to taxable persons if they (or their testators) were the company’s related parties in the two years preceding the date the taxable person (or his testator) acquired the shares. The new regulations clarify that if the sale of shares results in a financial loss, i.e. the expenses incurred for their acquisition exceed the revenue from their sale, then that excess is a tax-deductible cost in the tax year. The cost arises in the year in which the shares were sold. Other changes have also been made in the provisions on IPO relief to clarify the regulations.

XIII. Electronic transmission of tax books postponed

As part of the tax changes in the system in effect as of 1 January 2022, PIT and CIT taxable persons are required to keep their tax books in electronic form and to transmit them to tax offices. This requirement is to become effective as of 1 January 2023. The proposed reform will change the effective date of these new requirements. This will give taxable persons more time to prepare for the digitalization of accounting records. The amendments propose a gradual approach to reaching the target model in stages. And so the new requirements would have to be performed: as of 2024 by CIT taxable persons with previous tax year revenues in excess of 50 million euro; as of 2025 by CIT taxable persons (other than above) required to transmit SAF_VAT records and PIT taxable persons required to submit SAF_VAT records; as of 2026 by the remaining PIT and CIT taxable persons.

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