

## Overview

Poland imposes corporate and personal income tax on its residents, including Polish subsidiaries of foreign entities in respect of income and capital gains earned anywhere in the world. Non-residents who carry on business in Poland, are employed in Poland, or sell certain types of properties are also subject to Polish income tax. There are no provincial or local income taxes in Poland.

The corporate income tax (CIT) law provides both for an unlimited and limited tax obligation. As a rule, companies that have their registered office or place of management in Poland are liable for Polish corporate income tax on their worldwide income and capital gains (unlimited tax obligation). If a company does not have its registered office or place of management in Poland, the tax in Poland is levied only on the income and capital gains actually earned in Poland (limited tax obligation). Foreign partnerships are also subject to corporate tax in Poland if they are treated as nontax transparent legal persons in their home country.

A branch of a non-resident company does not constitute a separate entity or a taxpayer for income tax purposes in Poland. Generally, the foreign company pays tax on income resulting from branch's activities and allocated to the branch. The rules regarding taxable income, tax-deductible costs, depreciation and other factors applicable to a non-resident company having a non-resident company having a branch in Poland are the same as those applying to Polish companies. The nonresident company is usually taxed on income determined on the basis of the accounting records regarding the branch.

Polish legal entities and natural persons are liable for CIT and personal income tax on the profits earned by their controlled foreign companies (CFC), even if the income is not distributed by the foreign company. A CFC is defined as one of the following:

- i. A foreign entity resident in a state
- ii. A foreign entity resident in a tax haven with which Poland or the EU has not concluded the treaty on the exchange of tax information
- iii. A foreign entity:
  - Directly or indirectly controlled by a Polish taxpayer (the definition of "control" is very broad and covers, among other criteria, holding more than 50% of shares or more than 50% of voting rights in controlling bodies or decision-making bodies, or holding more than 50% of shares with the right to participate in the company's profits, but also exercising a "factual control")
  - Where at least 33% of the entity's revenues generated in a given tax year are derived from passive sources of income; and
  - That paid a total amount of income tax that is lower than the difference between the income tax that would be paid had the entity been resident in Poland and the income tax actually paid.

The CFC regime does not apply to entities subject to taxation in an EU or European Economic Area (EEA) member state on their worldwide income if such companies carry out actual (genuine) economic activity in this member state.

From 2019, the CFC rules cover entities such as foreign foundations, trusts or other entities (titles) of a fiduciary nature. CFC will also include foreign capital groups including member companies) and organizationally or legally separated parts of foreign companies or other entities. Entities or persons that control a CFC must maintain a register

of their CFC, keep records of economic events involving the CFC, submit a CFC tax return and pay a tax on the CFC's income.

Please note that due to special measures adopted in connection with the COVID-19 pandemic some of the deadlines indicated in this part of the Guide are postponed or might be postponed by Polish government.

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## Legal system

The Constitution is the supreme law in Poland and the Polish legal system is based on the principle of civil rights governed by the Civil Code. Poland is a member of the EU and its national law must abide by the conditions of its regulations. Poland is a parliamentary republic. The legislative authority is held by the lower house (Sejm) and the upper house (Senat). The government structure is based around the Council of Ministers led by the prime minister. The president is the formal head of state.

Poland ratified a Multilateral Instrument to Modify Bilateral Tax Treaties (MLI) and declared 78 double taxation treaties to be covered by the MLI, including with Austria, Belgium, Canada, Denmark, France, Ireland, Luxembourg, the Netherlands and the UK. In Poland the MLI entered into force regarding double taxation treaties, inter alia, with Australia, Austria, Japan, Finland, France, Ireland, Luxembourg and the United Kingdom.<sup>1</sup>

From 2019, tax advisors, legal counsel, attorneys and other experts and professional advisors are required to provide tax authorities with information on cross-border and domestic tax schemes made available to or implemented by their clients. These are known as the Mandatory Disclosure Rules. In certain cases, if the advisor pleads professional secrecy, the client will have to report the tax scheme to the tax authorities.

The schemes, both cross-border and domestic, should principally be reported within 30 days from the date when they were made available or implemented, whichever occurs first.

Moreover, performing any activities, which constitute part of a tax scheme as well as accrual of a tax benefit resulting from the scheme should be reported by the beneficiary by the deadline for submitting a tax declaration relating to the tax settlement period in which any element of the tax scheme was performed or benefit resulting from the tax scheme occurred.

## Taxation authorities

The tax system in Poland is administered by the National Fiscal Administration (NFA). The NFA comprises the following offices/bodies:

- i. The Head of the National Fiscal Administration
- ii. Director of the National Fiscal Information Service

- iii. Directors of chambers of fiscal administration
- iv. Heads of customs and revenue offices
- v. Heads of tax offices.

The heads of tax offices and the heads of customs and revenue offices have the primary role of collection, while the directors of chambers of fiscal administration supervise. There are two types of tax rulings in Poland: a general tax ruling and an individual tax ruling. General tax rulings can be applied by all taxpayers (excluding administrative bodies) or issued ex officio by the Minister of Finance. Their aim is to ensure the uniform application of law by the tax authorities.

Individual tax rulings are issued by the director of the National Fiscal Information Service upon every taxpayer's request (subject to cases where there is a risk of the general anti-avoidance rule applicability). As a rule, the taxpayer who received an individual tax ruling may benefit from legal protection. The taxpayer is not obliged to pay the tax or tax arrears (along with penalty interest) if the ruling was issued before the taxable event described in the application and covered by the tax ruling. No adverse tax penalties arise in such a case.

## Business vehicles

Economic activity is generally free in Poland and foreign entities are allowed to do business in Poland on the terms provided for in the applicable laws. Since Poland is a member of the EU, a company set up in Poland may be used to do business in other EU member states. A business may be conducted in one of the following forms:

- i. A joint-stock company
- ii. A limited liability company
- iii. A limited partnership
- iv. A limited joint-stock partnership
- v. A branch office of foreign enterprise
- vi. A representative office of foreign enterprise<sup>2</sup>
- vii. Individual business activity (sole proprietorship).

A limited liability company (LLC) is roughly the equivalent of a private limited company in the UK or a GmbH in Germany. A Polish joint stock company (JSC) is the equivalent of a public limited company in the UK or an Aktiengesellschaft in Germany. The JSC is the required form if the intention is to list a company on a stock exchange. The LLC's main advantages are lower costs, fewer formalities and flexibility.

It is planned that from March 1, 2021, entrepreneurs will be able to choose a simple joint-stock company as a form of conducting businesses. A simple joint-stock company will be based on flexibility and low requirements for its establishment. The minimum share capital is to be set at PLN 1. Also, taking up shares in exchange for providing work or services to the company and an instant 24-hour online registration process will be introduced.

## Financing a corporate subsidiary

### Equity financing

The two main methods of equity financing are (i) contributions for shares and (ii) contributions without taking up additional shares (so called additional capital contributions). In general, a capital contribution to a Polish company is subject to the tax on civil law transactions (TCLT) at the rate of 0.5%. The tax base is the value of share capital increase, whereas the share premium increase is not subject to tax.

In regards to partnerships, capital contributions are generally subject to 0.5% TCLT on the value of the contribution.

### Debt financing

In general, the granting of a loan is subject to 0.5% TCLT, except for:

- i. Loans granted by foreign entities, not having registered office or place of management in Poland, that carry on activities in the area of crediting and granting loans;

- ii. Loans subject to VAT; and
- iii. Shareholder loans granted to a limited liability company or joint-stock company (no minimum shareholding is required).

## Tax deductibility of interest

Generally, interest on loans taken out for justified business purpose is tax-deductible on a cash basis, i.e., when paid or compounded, if the loan is connected to the taxable revenues of the taxpayer. Interest on loans taken to pay out dividends or redeem shares is not tax-deductible.

As a result of implementation of EU laws, new interest limitation rules restricting deductions in excess of financing costs over interest income (net financing costs) to 30% of an adjusted tax basis (basically, tax-adjusted EBITDA) were introduced. These laws apply to financing from all entities, including unrelated banks and to all loans, including loans granted before the new regulations were in place.

The financing costs are defined broadly as costs related to obtaining and using financial means from other entities (including unrelated entities), such as interest (including capitalized interest), charges, commissions, premiums, interest paid of leasing installments, fines and charges for late payments of liabilities and hedging costs (including the costs of financial derivatives), regardless of the counterparty.

The new rules do not apply to surplus financing costs not exceeding PLN 3 million in a given year. The financing costs that cannot be deducted for tax purposes in a given tax year may be deducted in the five subsequent years, within the rules and limits.

# Corporate income tax

Corporate income tax is levied on the total income of legal persons, organizational units without legal personality and joint-stock limited partnerships, with the exception of civil, registered, professional and limited partnerships. The provisions of the CIT law also apply to companies in the process of being established and so-called tax capital groups (i.e., a group made up of at least two commercial companies that meet strict conditions set out in the CIT law).

CIT is charged at a flat rate. In 2020, the rate of corporate income tax is 19%. However, a reduced 9% rate may apply to small taxpayers earning revenues equivalent to €1.2 million or less and for taxpayers starting a new business or their first tax year in operation (many limitations apply).

The tax year ordinarily corresponds to the calendar year, unless a company decides otherwise in its articles of association or statutes. Where alternative dates are used, the start of the company's year determines the tax rate applicable during the whole tax year.

Under the general rules, the company is obliged during the tax year to make monthly CIT advance payments by 20th day of the following month. Newly established companies and companies that reported for the previous tax year revenues from sales (including VAT) not exceeding €2 million may pay advance payments quarterly. After the end of the tax year, an annual tax return must be filed and any tax due paid within three months. Fines and penalty interest might be imposed for failure to comply with the above requirements.

Additionally, since 2019, a preferential 5% income tax rate was introduced in Poland for qualified income from certain intellectual property rights (mainly registered ones, e.g., patent rights, protection rights for a utility model, a right under the registration of an industrial pattern; it does not relate to know-how or trademarks), i.e., so-called IP Box regulations. The preferential 5% income tax rate is provided for entrepreneurs who receive income from commercialization of intellectual property rights (created from scratch or further developed).

## Inter-company distributions

As a rule, dividends distributed between a resident parent and subsidiary companies are taxed in Poland. At the recipient level, income from participation in the profits of a legal person is subject to a 19% tax rate. It is not combined with income from other sources.

Dividends and certain other income from participation in a legal person are tax-exempt provided that the recipient is a company that is tax-resident in Poland or another EU/EEA member state, and that holds at least 10% of shares in that company for an uninterrupted period of two years. The two-year holding period requirement does not have to be met

upfront. This exemption also applies to Swiss parent companies provided that they have at least a 25% shareholding in Polish subsidiaries.

There are also several technical requirements to be met in order to benefit from the tax exemption, including obtaining valid tax residency certificate of the dividend recipient or the relevant declaration on fulfillment of the tax exemption prerequisites. This tax exemption does not apply to artificial structures. This concerns the situations where application of the tax exemption (i) is to the contrary with the purpose of this exemption or (ii) is a main or one of the main reasons for the transaction or the other activity (or many transactions or the other activities) and the way it worked was artificial. The way it worked is deemed not artificial if in the case at hand it should be assumed that an entity acting reasonably and guided by lawful goals would apply this method of operation to a predominant extent for justified economic reasons.

If the above-mentioned tax exemption cannot be applied, specific provisions of double taxation treaties should be taken into account.

## Tax base and deductibility of expenses

The tax base for income from general business operations is determined on the basis of profits pursuant to commercial accounts. The company is obliged to keep accounting books in a manner that allows determination of the taxable base and the amount of tax due. Otherwise, income will be assessed by the tax authorities.

As a rule, the taxable income is recognized on an accrual basis (i.e., when the invoice is issued but not later than the month in which the goods or services were supplied). However, interest income is taxable in Poland on a cash basis, meaning that interest constitutes taxable revenue upon being received. Interest is also being deemed received when interest is compounded and added to the loan principal.

Generally, taxable income is calculated as all taxable revenue of the company less tax-deductible costs. In order to qualify expenditures as tax-deductible, they should be incurred with the aim of generating income, or saving or securing the source of income.

Expenses are deductible only if they properly are supported by documents that are mandatory under the tax accounting rules. Expenditures such as most penalties and fines or representation expenses are not tax-deductible.

## Capital gains

In addition to income from general business operations, there is also a separate income basket for capital gains that includes *inter alia* income from securities, other financial instruments, shares in legal entities profit and property rights such as copyrights, trademarks and particular licenses.

In the case of capital gains, taxable income is calculated as the difference between revenue obtained from the sale of securities (shares) and the cost of purchasing them.

The cost of the purchase is defined as the price paid for securities (shares) plus all related costs (i.e., tax on civil law transactions or broker's fee). Expenditures incurred on the purchase of securities are not tax-deductible at the date when they were incurred. Those expenditures should be included in the tax calculation only upon a future disposal of the securities for consideration. There are separate rules for determining tax-deductible costs in case the shares were acquired as result of an in-kind contribution.

Income from capital gains is taxed with standard 19% CIT rate and it is not aggregated with other sources of income. The regular CIT rate is applied against capital gains earned in Poland by both resident and nonresident companies. Relief from Polish taxation may be available to a non-resident company as long as the applicable double taxation treaty does not provide otherwise. The majority of the double taxation treaties concluded by Poland provide that gains earned on the disposal of securities and other financial instruments may be taxed only in the country in which the company receiving the income has its registered office or place of management (unless a real estate clause is provided for in a relevant double taxation treaty).

## Minimum CIT levy

A so-called "minimum CIT levy" applies to the owners of leased buildings. The tax base is the gross (initial) tax value of the buildings owned by a given taxpayer decreased by PLN 10m (approx. EUR 2.4m). In other words, PLN 10m is the amount deducted from the tax base for the calculation of the minimum CIT levy, e.g.,:

- i. If the gross tax book value of the building(s) is PLN 90m, the tax base for the minimum CIT levy is PLN 80m

(90m-10m),

- ii. If the gross tax book value of the building(s) is PLN 9m, the tax base for the minimum CIT levy is PLN 0m (9m-10m).

The resulting amount is taxable at the rate of 0.035% (0.42% per year) per month.

In addition, minimum CIT levy does not apply if the total share of the usable space of the building leased does not exceed 5% of the total usable space of that building.

Generally, the minimum CIT levy is also applicable in a period where taxpayers generate or utilize tax losses. However, in such cases, taxable persons may apply for the refund of minimum CIT levy after the end of given tax year, provided certain conditions are met.

Taxable persons do not have to pay this tax if it is lower than the CIT advance for the month calculated under the general CIT rules. Furthermore, the minimum CIT levy is deductible from the CIT due calculated under the general rules.

## General anti-avoidance rule

General anti-abuse regulations (GAAR) entered into force in Poland on July 15, 2016. The GAAR applies to legal structures where the main or one of the main purposes of an arrangement (or series of arrangements) is to obtain a tax advantage that is contrary to the subject matter or purpose of a provision of the tax act in given circumstances, provided that a given structure is artificial.

A legal structure, including a transaction or series of transactions, is deemed to be created mainly in order to receive a tax benefit if other business justifications of the structure, as indicated by a taxpayer, are considered immaterial. From 2019, the GAAR may be applied on the basis that the main or one of the main reasons of the structure / transactions(s) was to achieve undue tax benefit (irrespective of economic or business justification of such structure / transaction).

Under the recently amended regulations, from 2019 onwards, an additional tax liability will arise in the case of the GAAR application.

On top of the payment of outstanding tax with penalty interest, this additional tax liability will be applied in settlements to which anti-abuse or special tax anti-abuse clauses apply.

## Exit tax

Starting from 2019, an exit tax applies with respect to income on unrealized profits, concerning cross-border transfer of assets within the same taxpayer or change of the tax residency. The taxable basis will be the sum of income from unrealized gains established for individual assets. In turn, the income from unrealized gains will be the surplus of the market value of the transferred assets determined as at the date of transfer (e.g., as a result of a change of tax residency) over their tax value. A 19% tax rate shall apply to corporate income taxpayers. Two tax rates will apply to personal income taxpayers: 3% if the tax value of the asset will not be determined, and 19% in other situations.

# Cross-border payments

## Transfer pricing

Transfer pricing regulations in Poland are based on the Organisation for Economic Co-operation and Development (OECD) standards. Where the prices agreed upon between related parties differ from prices which would be agreed upon between non-related parties in ordinary trade relations, and the difference is not justified in a satisfactory manner, the tax authorities have the right to assess the income and tax due.

Moreover, since 2019, the tax authorities are able to re-characterize or even disregard transactions with related entities if they conclude that unrelated entities would not enter into transaction declared by the taxpayer or would conclude a different transaction. Consequently, when assessing the arm's length level of remuneration in a given transaction, they could refer to other transactions or terms that in their opinion could have been applied by unrelated entities.

The Polish tax law provides regulations regarding the negotiating and concluding of Advanced Pricing Arrangements

(APAs). It is possible to conclude 3 types of APAs: unilateral (covering cross-border or domestic intra-group transactions), bilateral or multilateral. As a rule, all types of related party transactions may be covered by an APA if the prices are established according to one of the methods provided in the CIT law, except the transactions (i) completed before the date of submitting the application and (ii) started before the day of submitting the application, which on the day of submitting the application are subject to tax proceedings tax control, customs and tax control or proceedings in the administrative court for the period of any of the last two tax years of the applicant preceding the tax year in which the application was submitted. By concluding an APA, the Ministry of Finance confirms that the prices set out in the related party transactions are comparable to the market prices and that the taxpayer correctly selected the transfer pricing method. The maximum period for which an APA might be concluded is 5 years. After this period expires, an APA can be renewed for a period of up to 5 years.

From 2019, Poland has incorporated significant changes to its transfer pricing law, including documentation rules which were already significantly amended in 2017.

Transfer pricing documentation requirements in Poland depend now in particular on the value of the taxpayer's transactions with related entities. Domestic transactions (between Polish taxpayers) are excluded from the documentation requirements under certain conditions, inter alia that neither party of the transaction incurs tax losses. Certain other exceptions from the transfer pricing documentation requirements are also provided.

The documentation must be prepared each year for transactions over the statutory thresholds and the representatives of the taxpayer must file within 9 months after the end of the tax year a statement that the TP file for the year has been duly prepared within the deadline and that the prices set in the transactions described therein are at arm's length. The statement must be signed by management board members. Submission of a false statement may lead to personal fines.

Transfer pricing analyses for each transaction which exceeded the statutory threshold must be included in the local file. Additionally, a special form, TP-R, which replaces the previous CIT-TP / PIT-TP reports, must be filed each year, where the taxpayer provides information about transactions with related entities in a simplified form. The new form must be submitted within 9 months after the end of the fiscal year.

Taxpayers are obliged to possess a master file in case of meeting all of the following conditions: (i) the entity is required to prepare a local file, (ii) the entity belongs to the group of related entities for which consolidated financial statements are prepared and (iii) consolidated revenues of the group exceeded PLN 200 million in the previous financial year. There is a possibility to prepare the master file in English though tax authorities have the right to request a Polish version of the document.

Following a request from the tax authorities, a company has 7 days to submit transfer pricing documentation to substantiate the transaction. The requirement to prepare documents also applies to transactions where payment is made directly or indirectly to an entity whose residence, registered office or place of management is situated in a territory or country pursuing harmful tax competition practices, or tax havens, even if the entity is not a related party.

Since 2019, safe harbors have been introduced for two transaction types, (i) loans meeting specific requirements and (ii) low-value-added services transactions. In the case of the loans, an official announcement on the arm's length level interest rates is published each year. For the low-value-added transactions a mark-up of 5% is recommended.

Since 2019, the regulations modify significantly the rules on conducting transfer pricing adjustments. Such adjustment could be recorded for tax purposes in the adjusted period, contrary to previous financial years. However, the taxpayers will be obliged to meet a number of requirements before conducting the adjustment, which may make them difficult to apply in practice.

From 2019, the rules imposing penalty sanctions were also amended. Based on the new regulations, the additional tax liability, in the event of a decision on incorrect pricing in a controlled transaction, will amount to 10% of the amount of overstated loss or understated income. In certain cases, the additional tax liability may amount to 20% or 30% of overstated loss or understated income.

## Withholding tax

Where a Polish company makes certain income payments to a non-resident, the Polish company is obliged to deduct Polish income tax from such payments. The WHT regime requires companies to deduct WHT from payments made in respect of:

- i. Royalties
- ii. Interest payments

- iii. Dividends and other revenues from participating in the profits of legal persons
- iv. Certain intangibles services.

Payments of dividends and other revenues from participation in the profits of legal persons having their registered office in Poland are subject to a 19% WHT. WHT may be reduced with respect to foreign taxpayers on the basis of double taxation treaties between Poland and the country the taxpayer is resident in. Generally, double taxation treaties with Poland provide no separate regulations in respect of tax treatment of individual types of income derived from participation in the profits of legal persons, as listed in the CIT law. Instead, they contain a general clause under which income from other rights in companies, which under the tax law of the payer's country of residence is treated for tax purposes as income from shares, should be treated as income from dividend. As a rule, the reduced rate provided in the double taxation treaty may be applied only if the taxpayer supplies the required certificate of tax residence, issued by the relevant tax authority in the country the taxpayer is resident in.

Under the implementation of the EU Parent Subsidiary Directive, dividends paid by Polish subsidiaries to their parents in the EU, the EEU or Switzerland are exempt from Polish withholding tax if all the following conditions are met:

- i. Dividends are paid to a beneficiary which does not have its registered office or place of management in Poland
- ii. The beneficiary is subject to income tax on its world-wide income in one of the EU/EEU member states or in Switzerland
- iii. The beneficiary holds directly at least 10% (25% in case of Switzerland) of the shares in a Polish company for an uninterrupted period of not less than two years (this condition does not have to be met upfront);
- iv. The beneficiary does not enjoy exemption from income tax on its entire income, irrespective of the sources from which the income is earned.

The tax exemption cannot be applied to artificial structures, as defined in point 6.1 above.

Moreover, in order to benefit from the exemption set forth by Polish regulators implementing the directive, the payer should hold the recipient's certificate of tax residence and should obtain a written statement from the beneficiary confirming that the beneficiary does not enjoy the exemption from income tax on its entire income.

Payments of interest and royalties to foreign companies are subject to a 20% withholding tax unless a relevant double taxation treaty provides otherwise and a tax residence certificate is held. Poland also implemented EU Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments made between associated companies of different member states (the Interest and Royalties Directive). Therefore, interest payments between an EU parent and subsidiary, or between direct sister companies (in all cases, a minimum 25% interest and two-year holding period is required) are free from withholding tax.

In order to benefit from the exemption set forth by Polish regulations implementing the directive, the payer should hold the recipient's certificate of tax residence. Moreover, the payer should obtain from the beneficiary a written statement confirming (i) that the beneficiary does not enjoy exemption from income tax on its entire income, irrespective of the sources from which the income is earned, (ii) a minimum 25% interest (in the case of the sister companies) and (iii) that the recipient is the beneficial owner of interest or royalties paid.

There is also a limitation of tax deductibility of costs incurred for certain royalties and intangible services (e.g., advisory, management, data processing, marketing, market research, insurance, guarantees). Tax deductibility of such costs is limited to 5% of tax adjusted EBITDA, but the limit applies only to the excess of intangible costs greater than PLN 3 million. The restrictions, however, apply only to services acquired from (i) related parties or (ii) entities residing in so-called tax havens.

Starting from 2019, important changes with respect to the withholding tax (WHT) mechanism were introduced. Pursuant to the amended provisions, the taxpayer is obliged to demonstrate due diligence in verifying the possibility of applying a reduced tax rate or an exemption in respect of payments subject to WHT. Also, the existing definition of beneficial owner was amended – e.g., the additional requirement of carrying out actual economic activity in the state of place of residence was introduced.

At the top of the rules described above, under the new “pay and refund” regime, for the dividends, interest, royalties or fees for intangible services exceeding PLN 2 million per paid to one recipient during the tax year, the tax remitter (i.e., the Polish company) is generally obliged to collect and remit WHT based on the standard Polish WHT rates (i.e., 19 or 20%, as the case may be). Then, upon the taxpayer's or tax remitter's request, the WHT can be refunded after the tax authorities examine the possibility of application of lower WHT rate or tax exemption.

Nonetheless, the tax remitter may apply a lower WHT rate or WHT exemption if it submits a declaration to the tax

authority that it holds all documents required by tax law authorizing it to apply preferential WHT regime and confirm that it has no knowledge on any circumstances that might exclude preferential WHT treatment of the payment at hand.

Additionally, as regards WHT exemptions for dividends and interest based on EU directives (see above), the taxpayer may apply to the tax authorities for an opinion on the application of the relevant WHT exemption. This implies the tax authorities to examine whether the prerequisites for WHT exemption are met.

The entry into force of the new WHT “pay and refund regime” has been postponed until July 1, 2020 (by a decree of the Minister of Finance). Further extension of the entry into force is possible – the draft regulation postponing the entry into force date until December 31, 2020 has been recently published (and – as of the date of this document – it is still in process). Also, the Ministry of Finance is preparing amendments to the above-mentioned legislation. Thus, Polish WHT provisions should be monitored.

## Payroll taxes

There are no specific payroll taxes in Poland, besides social security contributions and Personal Income Tax (17%/32% deducted from employees salary by the employer acting as a tax remitter). As a rule, the employer is obliged to withhold the employees' social security contributions from their salary and remit it to the Social Security Authorities. The effective rate for the employee is roughly 14% of gross salary. Additionally, the employer is obligated to pay its own share of the contributions, with the effective rate at roughly 19% to 22% of gross salary. Both payments are made monthly and might constitute tax-deductible expenses for both the employer and the employees.

## Indirect taxes

### Value-added tax

Supplies subject to VAT include goods and services for consideration, export of goods, import of goods, intra-Community acquisition of goods for consideration and intra-Community supply of goods. The supply of goods is construed to mean transfer of right to dispose of the goods as an owner, such as sale or exchange. It also means, among others, transfer of ownership in exchange for compensation, release of goods pursuant to a finance leasing agreement in the meaning of the CIT Act, commission sale and establishing or transferring the right of perpetual usufruct to land and other property rights connected with premises.

Supply of services is construed to mean any performance that does not constitute supply of goods. This definition encompasses anything that cannot be determined as supply of goods. Import of goods is understood as importation from outside the EU and is subject to import VAT. Export outside the EU is also subject to VAT, but may benefit from the 0% VAT rate provided certain conditions are met. The scope of intra-Community supplies and acquisitions covers purchase, sale as well as transfer of goods. In such intra-Community transactions, VAT is settled pursuant to the reverse-charge principle:

the supplier applies 0% rate (some documentation conditions should be met), while the purchaser self-accounts by applying its own, domestic rate.

VAT payers that have neither a registered seat nor a fixed place of business in Poland or in another EU member state are obliged to appoint a fiscal representative. VAT payers having a registered seat or a fixed place of business in another EU member state may appoint a fiscal representative. The fiscal representative is jointly liable with the trader it represents for all Polish VAT liabilities settled by the fiscal representative on behalf of and on account of trader.

The basic VAT rate is 23% and it is applicable to the majority of goods and services. The reduced rates are 8%, 5% and 0%. For example, the 8% rate is applicable to some goods connected with healthcare, groceries, hotel services and transport of persons and the 5% rate applies to edible products of animal origin, printed books, newspapers and sanitary products. The 0% rate refers mainly to intra-Community supply of goods and export of goods. 0% rated sales are also treated as taxable sales. Starting from November 1, 2019, taxpayers can apply for Binding Rate Information – valid information on the VAT rate applicable for a given good or service. As of April 1, 2020 the received information is binding for the tax authorities.

Under general rules, a taxpayer may recover input VAT (the exceptions are listed in the VAT Act ). VAT payers have the right to reduce the amount of output VAT by the amount of input VAT when purchasing goods and services in connection with taxable business purposes. Input tax directly related to making VAT-exempt supplies is generally not recoverable. It can be deducted as a cost for corporate income tax purposes, with some exceptions (e.g., in some cases input VAT related to financial services rendered to entities established outside of the EU may be recovered).

If a taxpayer makes both exempt and taxable supplies, then it will not be able to recover input VAT in full, and only a portion of the VAT can be reclaimed. To determine the amount of VAT that may be recovered in this situation, the taxpayer calculates the VAT ratio, which is the ratio of turnover made on taxable supplies to the total turnover. The ratio is subject to correction at the end of the tax year. The excess of input VAT over output VAT reported in a given VAT return may be refunded or carried forward against future VAT liabilities. Refunds are generally made within 60 days, but under certain conditions at the taxpayer's request the VAT is refunded within 25 days.

In principle, under Polish VAT regulations, the tax point is when the goods are released or the services completed. The tax point for an advance payment or prepayment received before the goods are released, or before the services are completed is the date payment is received. Notwithstanding the foregoing, for selected goods and services, such as electricity, telecommunications and leasing, the tax point is the time the VAT invoice is (or should be) issued.

VAT is calculated by the taxpayer and should be paid on a monthly or quarterly basis by the 25th day of the month following the month/quarter for which it is payable. Settling VAT on a quarterly basis is possible only for: (i) taxpayers whose value of sales (including a tax amount) did not in the previous fiscal year exceed the amount of €1.2 million; or (ii) taxpayers conducting certain financial or intermediary activities, whose value of service fees (including a tax amount) did not in the previous fiscal year exceed the amount of €45,000. However, provisions regarding quarterly payments of VAT do not apply to (i) taxpayers conducting VATable activities for less than 12 months, starting from the month in which they were registered for VAT purposes, and (ii) taxpayers that have supplied the goods or provided services covered by the obligatory split payment mechanism (see section on "Split payment") in the given quarter or in the 4 quarters preceding that quarter, unless the total value of those transactions excluding tax did not exceed, in any month of these periods, the amount of PLN 50,000.

## Split payment

As of July 1, 2018, a voluntary business-to-business (B2B) split payment was introduced in Poland. Under that system, all businesses have VAT accounts established for them by the banks running their regular accounts. A purchaser of goods or services can choose, at its sole discretion, to pay the entire amount due to the seller or provider into their regular bank account, or to split the price payment between the net amount allocated to the seller's or provider's regular account and VAT amount allocated to their VAT account. Amounts deposited in the VAT accounts can only be used by taxpayers for specific purposes listed in the legislation, including payment of VAT to tax authorities or payment of VAT part of the price to their own supplier's or provider's VAT account.

Under certain conditions, taxpayers in regular VAT situations can also request a local tax authority to agree that the amounts available in their VAT accounts be released into these taxpayers' regular accounts. Tax authorities are required to decide on such requests within 60 days. Various tax benefits are available to taxpayers using the split payment mechanism in their transactions.

Starting from November 1, 2019, the mandatory split payment was introduced for selected businesses, such as trading in electronics, steel, motor vehicles, coal or construction service. The obligatory mechanism applies to transactions exceeding a threshold of PLN 15 000 gross. There are also certain legal measures available to the tax administration to tackle abuse of VAT laws.

## Tax on civil law transactions (TCLT)

TCLT is imposed on certain types of transactions, including sales agreements, loan agreements, and establishment of mortgage or articles of association. Tax rates vary between 0.5% to 2%, where certain actions are taxed at a 20% penalty rate, including if in the course of the tax audit or tax proceedings the taxpayer plead to concluding a loan agreement, an irregular deposit or establishing an irregular usufruct, or their change, and the tax due on these activities has not been paid. The general rule provides that transactions (other than those defined as articles of association and its amendments) that are subject to VAT or exempt from VAT (with certain exceptions) are not covered by TCLT.

The sale of shares and partnership interest in Polish entities is subject to a 1% TCLT, which is payable by the buyer. Sale of shares in joint stock companies may be exempt from the 1% TCLT under certain conditions, such as if a

brokerage house acts as an intermediary in the transaction. In general, granting loans is subject to 0.5% TCLT, though certain exemptions may apply (as mentioned in the section above on “Debt financing”).

## Real estate tax

The real estate tax generally applies to the owners, perpetual usufructuaries and freeholders of properties. The real estate tax applies to (i) land, (ii) buildings or parts thereof, and (iii) constructions or parts thereof connected with business activities. It is payable to local authorities, which set the real estate tax rates within the statutory maximum rates.

The maximum real estate tax rates in 2020 on:

- i. Land used for business activities – PLN 0.95 per square meter
- ii. Buildings or parts thereof used for business activities – PLN 23.90 per square meter of usable surface
- iii. Constructions or parts thereof used for business activities – 2% on the initial value of a construction, adopted for tax depreciation purposes.

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1 Information as of April 6, 2020.

2 As a rule, the representative office may not conduct business but only marketing and promotional activities of its parent company.

# Your Key Contacts

## Global



**Marcin Czajkowski**  
Counsel, Warsaw  
D+48 22 242 51 39  
[marcin.czajkowski@dentons.com](mailto:marcin.czajkowski@dentons.com)



**Cezary Przygodzki**  
Partner, Warsaw  
D+48 22 242 57 78  
[cezary.przygodzki@dentons.com](mailto:cezary.przygodzki@dentons.com)



**Dariusz Stolarek**  
Partner, Warsaw  
D+48 22 242 57 66  
[dariusz.stolarek@dentons.com](mailto:dariusz.stolarek@dentons.com)