



cutting through complexity



# Investment in Poland

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KPMG IN POLAND

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# Chapter 1

## Poland – a Brief Summary

### 1.1 Geography and Climate

Poland is situated in the heart of Central Europe and is the ninth-largest country on the continent, with an area of 312,679 square kilometres and a population of 38.5 million.

The country borders Russia, Lithuania, Belarus and Ukraine in the north and east, the Slovak and Czech Republics in the south and Germany in the west. Its borders extend for almost 3,600 kilometres, including 530 kilometres on the Baltic coast. The capital, Warsaw together with its immediate suburbs, has a population of 2.6 million. Poland's largest cities besides Warsaw are Cracow – which is Poland's historical capital and its second largest metropolis, Łódź, Wrocław, Poznań and Gdańsk.

Poland consists mainly of lowland areas, with 75% of the land less than 200 metres above sea level. The countryside is nevertheless varied: there are beautiful lake regions (9,300 in excess of one hectare in size), forests and mountains. Poland's highest peak, Rysy in the Tatra Mountains, rises 2,499 metres above sea level. The Wisła (Vistula), Poland's longest river, measures 1,050 kilometres in length. The second longest, the Odra (850 kilometres), flows along the border with Germany.

Poland's climate is prone to abrupt changes both during the seasons and from year to year. Average temperatures are between -5 and 0°C in January to 17-20°C in July, with minimum and maximum temperatures ranging from -20 to 35°C. Poland is in the Central European time zone and is thus one hour ahead of standard GMT. The country switches to daylight saving time between the end of March and the end of October.

### 1.2 History

In early times, Poland was inhabited by Western Slavs, who adopted Christianity in 966 A.D. The Polish Kingdom was established in 1025 A.D. and encompassed approximately 80% of today's Polish territory. After the reign of the Piasts, Poland's ancient ruling family, Poland was divided into a large number of smaller kingdoms (1138-1306). After the consolidation of the country during the Jagiellonian period (1386-1572), Poland once again flourished culturally and economically; its territory at the end of the period was several times larger than that of today's Poland. During the following 200 years, the kings (including a number of foreign rulers) were elected by a congress of noblemen. Their accumulated reigns brought about prosperity and the accelerated growth of the country's towns. Nevertheless, recurrent

wars eventually impoverished the economy and led to rural stagnation.

Efforts to address the rapidly deteriorating situation, including the proclamation of the world's second liberal constitution (after that of the US), were undertaken much too late. Poland's neighbours resolved to consolidate their forces, and took advantage of its military and economic weakness by imposing three consecutive partitions, in 1772, 1793 and 1795. The result of these divisions was the total erasure of Poland from the map of Europe. The three regions of partitioned Poland (under Russian, Prussian and Austrian control) had varying degrees of autonomy, but were constantly subject to new restrictions, primarily directed against Polish culture and national identity. This gave rise to a series of protests, which in 1830 and 1863 took the form of general uprisings.

At the end of World War I, Poland regained both its independence and control over a large part of its former territory. In 1919, the country had over 26 million inhabitants and was approximately 25% larger than it is today. In 1939, there were already 35 million Poles, although a third of them had a mother tongue other than Polish.

Between the two World Wars, Poland had ample time to consolidate its national, political and legal identity; economic consolidation was harder to achieve because

of the worldwide depression. Following Germany's invasion of Poland on 1st September 1939 – which gave rise to World War II – the country was divided between Nazi Germany and the Soviet Union. The government was forced to flee Poland, and eventually resumed operations in England. Despite strong oppression by their invaders Poles maintained a strong underground resistance throughout the war.

Subsequent to World War II, Poland once again regained its independence, although it was significantly restricted by a strong Soviet influence over the country's economic and political systems. In 1945, it had 24 million inhabitants and covered an area of 311,700 square kilometres. Following the war, it lost significant territories and cities in the East (including Lvov and Vilnius), but acquired some Western ones (Wrocław and Szczecin), which were historically Polish. During this period, internal migration took place on a massive scale.

According to the prevailing Soviet doctrine, all large farms and banks, and nearly the whole of industry, commerce, transport were nationalised and centrally managed. In practice this brought more losses than gains, along with a growing discontent among the population. Activity by the democratic opposition eventually led to several explosions of social discontent and the creation in 1980 of the Solidarity union – the first independent union in Central

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and Eastern Europe since World War II. Determined to stay in full control, in 1981 the authorities imposed martial law, which sent the opposition underground and resulted in numerous economic sanctions by the West.

In 1989, the Communist Party, in the wake of general economic collapse and social discontent, was effectively forced to step aside in favour of the opposition following the “round table” negotiations. The years following witnessed free presidential and parliamentary elections, recovery of political and individual freedoms, regained external political autonomy, and the introduction of a market economy.

Since the collapse of communism in 1989, Poland has dramatically transformed its economy and has enjoyed unsurpassed success in terms of economic growth, financial stability and investment attractiveness. This is demonstrated by EUR 153.3 billion of Foreign Direct Investment stock, as of December 2011.

Following a successful referendum on European Union accession and subsequent approvals of the EU member countries, Poland joined the EU on 1st May 2004. Along with nine other countries, Poland became a member of an economic and political organisation that will determine its prospects for decades.

Poland is a member of the United Nations Organisation, UNIDO, the International

Monetary Fund, the World Bank, NATO, the OECD, and the Convention for the Protection of Intellectual Rights, as well as other international bodies. Until 1st May 2004, Poland was also a member of the free-trade zone CEFTA. EU enlargement automatically terminated CEFTA membership for the new EU countries – Poland, Czech and Slovak Republics, Hungary and Slovenia.

### 1.3 Government and Constitution

Poland is a parliamentary democracy headed by a president elected in general elections. The presidential term of office is 5 years from the date of swearing in. The president's role, the election procedures, the functions and responsibilities of the parliament and government are determined by the provisions of the Constitution of the Republic of Poland of 2nd April 1997.

The president is the commander of the armed forces and may veto legislation passed by the parliament. The vetoes can be overturned by a minimum of a three-fifths vote in the Sejm (the lower house of parliament). The president is the country's top-level representative in all international and internal relations and his powers also include the right to dissolve the parliament and call new elections if the parliament proves unable to observe constitutional deadlines for adopting

such key legislation as the budget or the composition of a new government.

The president of Poland is Bronisław Komorowski of the governing Civic Platform (PO) party, elected on 4th July 2010.

Poland's previous president was Lech Kaczyński, of the right-wing Law and Justice party (PiS), elected in October 2005. On 10th April 2010 the president together with his wife Maria and dozens of the country's top political and military leaders lost their lives in a plane crash in Smolensk. Lech Kaczyński was flying to Smolensk to commemorate the 70th anniversary of the murder of Polish officers by the Soviet secret police. The plane crash was the worst political disaster in the post-war history of Poland.

The bicameral parliament, composed of a lower house (Sejm) and upper house (Senat), is elected every four years in general elections and is responsible for creating laws. In this respect, it is the Sejm that has most of the power; the Senate may only suggest amendments to legislation passed by the Sejm. Poland's last parliamentary elections were held in October 2011. Civic Platform (PO), a centre-right party based on liberal conservative values won the elections for the second time in a row and received 45% of the seats in the Sejm, and in

conjunction with the Polish People's Party (PSL), a social conservative party (6% of seats), formed the government. The Law and Justice (PiS) party won 34% of seats.

The prime minister, nominated by the president to form a government and win a vote of confidence in the Sejm, chairs the Council of Ministers and is Poland's head of government. Poland's incumbent prime minister is Donald Tusk, the leader of Civic Platform (PO).

Poland is divided into 16 provinces with significant self-governing powers. Each of the provinces (voivodeships – województwa) is headed by a provincial governor (voivode – wojewoda) appointed by the central government. The provinces are further divided into 379 counties (powiaty) and 2,479 communes (gminy). The local governments of the provinces, counties and communes are elected in general local elections; the most recent elections were held in autumn 2010. Local administrations are responsible for managing local affairs, including the allocation of public funds.

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### 1.4 Currency

Poland's official currency is the złoty (PLN) which is subdivided into 100 groszy.

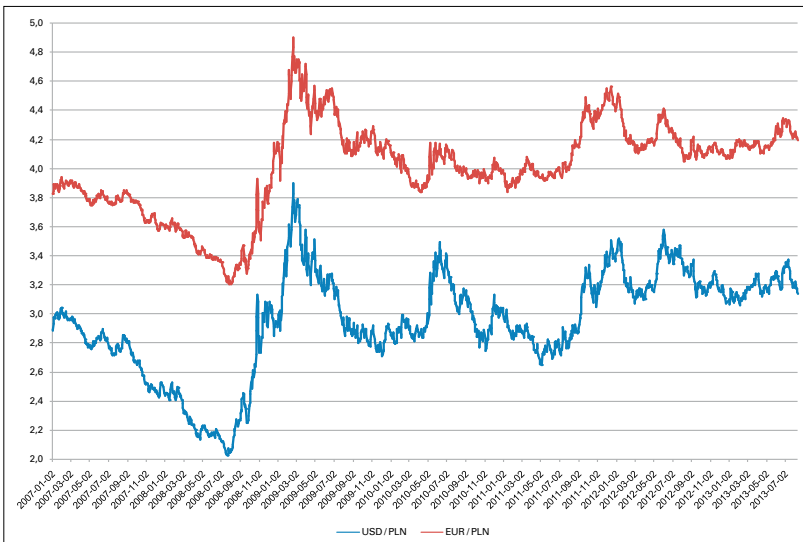
The PLN is subject to a floating exchange rate applied to foreign currencies. The acceptable fluctuation range of the market rate towards the central one as quoted by the Central Bank of Poland (NBP) is not restricted and is determined solely by market mechanisms. The 2012 average NBP exchange rates were: USD 1 = PLN 3.26; EUR 1 = 4.19 PLN. However,

it is important to note that the PLN exchange rate has been subject to strong fluctuations over the last.

### 1.5 Population and Language

Poland has 38.5 million inhabitants, 52% of which are women. Over 98% of the population is of Polish origin. More than 60% live in cities, of which almost 50% live in communities of over 100,000 inhabitants. The vast majority of Poles (95%) are Roman Catholics. 63.9% of

#### PLN EXCHANGE RATE



Source: KPMG in Poland based on National Bank of Poland data



Poland's population is of working age.

Polish is the official language; it belongs to the Indo-European group of languages and is part of the West Slavonic language family.

Knowledge of foreign languages can be rather limited, except in Poland's main cities. This situation is slightly better in organisations which have frequent contact with foreigners. However, language problems may arise in local institutions and industrial enterprises.

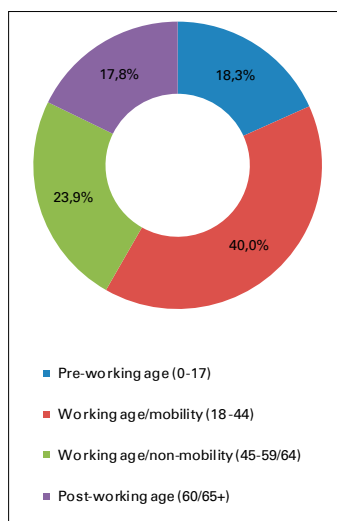
English is best spoken in the major cities and by the younger generation, whereas German predominates amongst older generation and in Western Poland. The older generation, especially in the east part of the country, knows Russian.

## 1.6 Labour market

As much as 17% of people aged over 13 have completed higher education, with a considerably higher education level among women (19%, compared with 14.8% among men). What is more, the qualification levels of the Polish workforce are constantly increasing. Currently there are 1.7 million students in 453 higher education institutions in Poland, including a large number of technical and business

universities, as well as highly esteemed medical academies. More than 492 thousand people graduated in 2011, of which 122 thousand majored in business and administration, 8.7 thousand in law, 10 thousand in biology, 6.9 thousand in physics, 4.2 thousand in mathematics and statistics, 15.1 thousand in information technology, 28.1 thousand in engineering, 14.4 thousand in manufacturing, 14.6 thousand in architecture and construction and 42.6 thousand in medical studies.

**POPULATION BY AGE GROUPS**

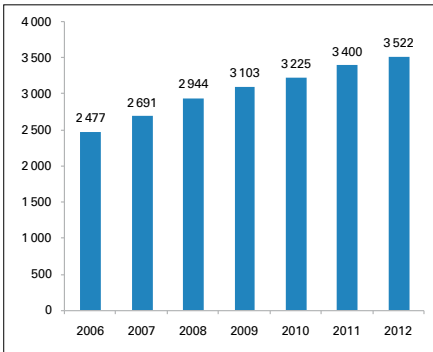


*Source: KPMG in Poland based on Polish Central Statistical Office data*

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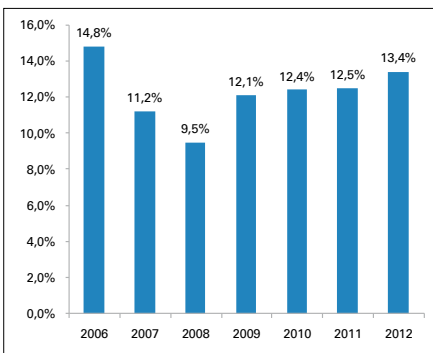
## Poland – a Brief Summary

### AVERAGE MONTHLY GROSS SALARY (PLN)



Source: KPMG in Poland based on Polish Central Statistical Office data

### REGISTERED UNEMPLOYMENT RATE



Source: KPMG in Poland based on Polish Central Statistical Office data (end of period)

### 1.7 Economy

After the political changes in 1989 and the transition to free-market economy, Poland achieved considerable economic success. Driven by extensive internal demand, exports

and foreign investment, Poland's economy became the strongest in CEE. What is more, in the 21st century it remained one of the most stable and healthy economies in Europe. This was particularly visible in 2009

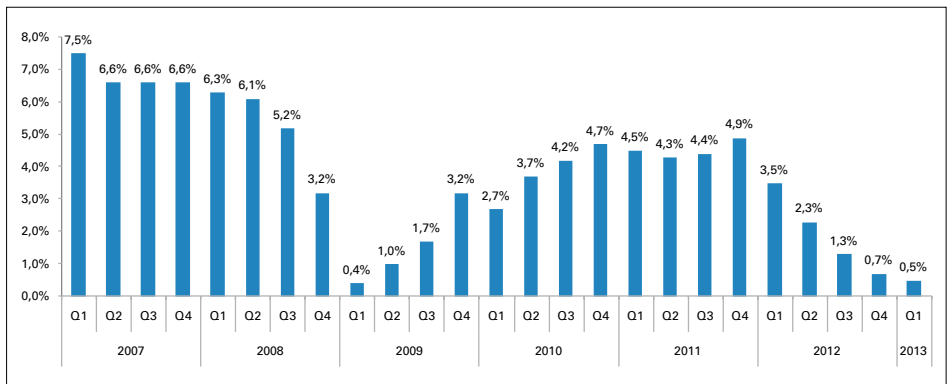
Labour costs in Poland are still well below the average EU level, comparable to Hungary and Slovakia and lower than in the Czech Republic. The average monthly gross salary amounted to about PLN 3.5 thousand (EUR 841) in 2012. The unemployment rate amounted to 13.2% at the end of H1 2013. However, it is still below the levels recorded in 2000-2006, when unemployment ranged from 15 to 20%.

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when Poland remained the only country that managed to maintain positive GDP growth in the EU. As a result of the global financial crisis, the GDP growth rate in Poland fell from 6-7% level recorded in 2007 and Q1 2008 to 0.5% in Q2 2009. However the Polish economy managed to rebound very quickly.

In 2011 Polish GDP rose by 4.3%, however 2012 brought about a gradual slowdown – the growth rate fell from 3.5% y/y (Q1 2012) to 0.7% (Q4 2012), with full year results of 1.9%. The EU official 2013 forecast for Poland's GDP growth is 1.1%, with a slight rebound expected in 2014 (2.2%). Despite

#### GROSS DOMESTIC PRODUCT (Y/Y GROWTH, CONSTANT PRICES)



Source: KPMG in Poland based on Polish Central Statistical Office data

this, Poland's performance is expected to exceed the EU27 average (-0.1% and 1.4% respectively, no EU28 forecast available).

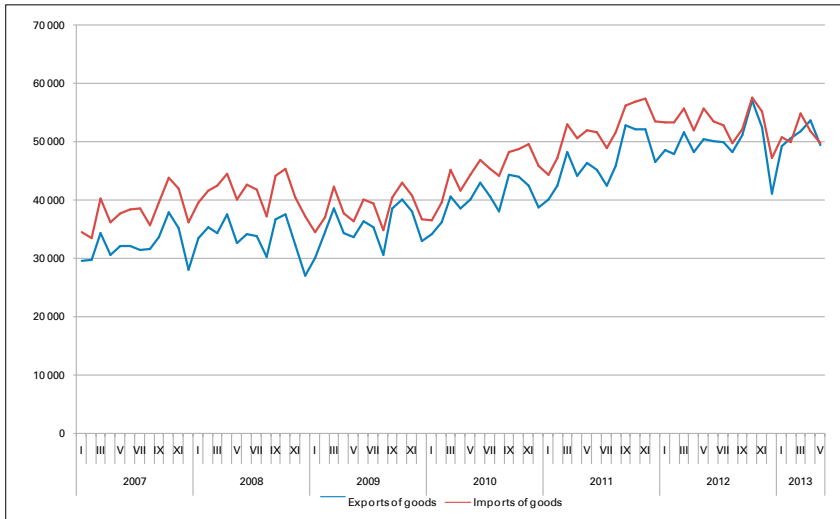
Unlike many other EU countries, the 2009 economic slowdown in Poland was mainly an effect of the economic difficulties experienced by main trade partners, and not a decrease in internal consumption or a crisis in the financial sector, which remained relatively stable.

Polish exports rose in 2010 and 2011, however, growth was flat in 2012 – 2.8% y/y, compared to 7.7% in 2011 (in real terms). The total value of Polish exports of goods and services reached EUR 175.9 billion in 2012 with Germany remaining the most important trade partner.

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### EXPORTS AND IMPORTS (EUR m)

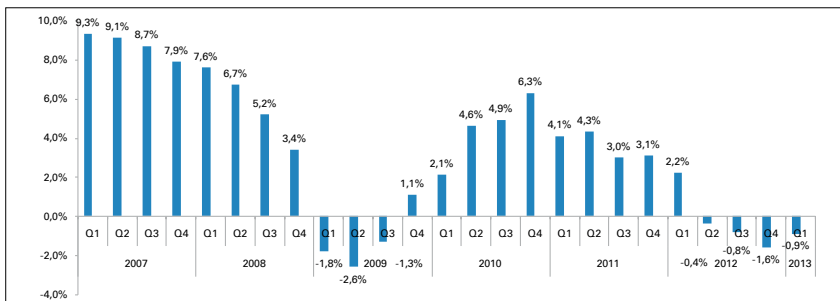


Source: KPMG in Poland based on Polish Central Statistical Office data

In 2012 slowdown was visible also in domestic demand. However, the decrease was inconsiderable (-0.2% in 2012), especially when compared with the 2009 crisis.

At the same time, the consumption expenditures of Polish households did not decrease (either in 2009, or in 2012). However, growth in 2012 was low (0,8%).

### DOMESTIC DEMAND (Y/Y GROWTH, CONSTANT PRICES)

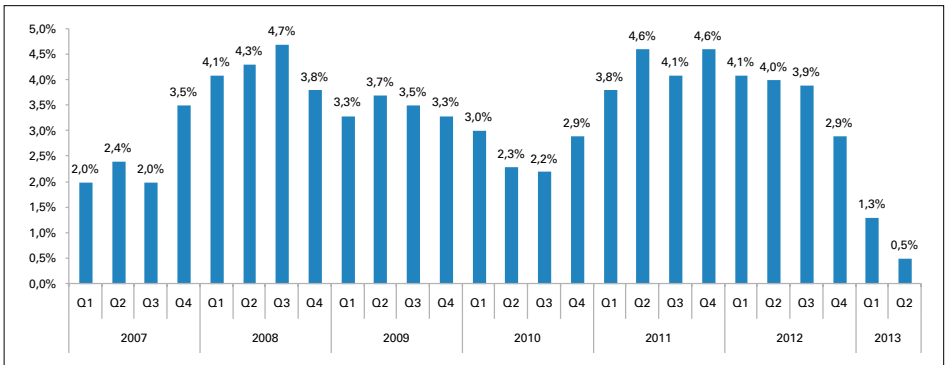


Source: KPMG in Poland based on Polish Central Statistical Office data

Although inflation is generally under control, the consumer prices index remains at a relatively high level, outside the central bank's target range – 4.3% in 2011 and 3.7% in 2012.

In Q1 and Q2 2013, however, the consumer price index was considerably lower.

#### PRICES OF CONSUMER GOODS AND SERVICES (Y/Y GROWTH)



Source: KPMG in Poland based on Polish Central Statistical Office data

### 1.8 Main Cities

#### Warszawa (Warsaw)

Warsaw is Poland's capital and one of the fastest growing cities in Europe. It is one of the most important financial centres of the CEE and is a driving force in the development of the entire country's economy.



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<b>Geographic location</b>	Warsaw is situated in central Poland, 523 km east of Berlin. The city straddles the Vistula River, which divides it into two parts.
<b>Population</b>	1,708.4 million (2011)
<b>Major industries</b>	Financial services, B2B services, retail, electronics and high-tech industry, e-commerce
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• Warsaw is the capital of the largest country in Central and Eastern Europe. It has a huge internal market and well developed connections to other markets.</li> <li>• The city is the seat off all governmental institutions and many business institutions, as well as think tanks.</li> <li>• Warsaw has a huge supply of high standard office stock. A large variety of hotels is also available.</li> <li>• Warsaw has the largest pool of experienced employees in Poland, offering unique professional skills and expertise.</li> <li>• Warsaw is the largest academic city in Poland, with internationally recognised business schools, universities and technical universities.</li> <li>• The citizens of Warsaw have good language skills, especially in English, German and Russian.</li> </ul>
<b>Human resources</b>	<p>The current unemployment rate is very low (4. %). Salaries, amounting to around EUR 1,198 a month (2011), are the highest among the largest cities in Poland.</p> <p>Warsaw is the main academic centre of Poland. Currently there are 77 higher education institutions located in the city, educating 260 thousand students. 65.5 thousand students graduated in 2011, among them 16.7 thousand majoring in business schools, and more than 6.5 thousand in technical studies.</p>
<b>Office space</b>	Modern office stock in Warsaw totals approximately 3.6 million sq m, 34% of which is located in the city centre. Approximately 530,000 sq m is to be delivered by the end of 2013. Prime rents in the city centre are at the level of EUR 25-27/sq m/month. In non-central locations, for the best projects, rents amount to around EUR 15-16.5/sq m/month. The office vacancy rate is 6.7%.

<b>National and international connectivity</b>	Warsaw has two airports: Frederic Chopin Airport, situated 10 km from the city centre, offers flights to 70 international and domestic destinations and Modlin Airport (40 km from the city centre) which offers flights to 26 cities. Warsaw has rail connections to all voivodeship cities and numerous European capitals, including Berlin, Moscow, Vienna, Budapest, Prague and Vilnius. International roads connect Warsaw with major European cities.
<b>Cost of living</b>	Warsaw is the most expensive city in Poland, however, when compared with other capital cities in the CEE region, the cost of living is quite reasonable. Moreover, it is much less expensive than other Western European capitals. Rental for a one bedroom apartment in the city centre costs around EUR 500 per month.
<b>Hotels</b>	There are 62 hotels, including 10 five star and 8 five star ones.

### Kraków (Cracow)

Cracow is Poland's second largest city and the capital of the Malopolskie Voivodeship (province). Along with Warsaw, Cracow is the country's most important scientific and business centre. The city is also considered the cultural capital of Poland.



<b>Geographic location</b>	Cracow is located in the southern part of Poland on the Vistula River, approximately 300 km south of Warsaw and 100 km north of the Tatra Mountains.
<b>Population</b>	759.1 thousand (2011)

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<b>Major industries</b>	B2B services, finance, BPO/SSC, e-commerce, metallurgic, tobacco, and pharmaceutical industries
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• One of the largest pools of highly skilled and experienced professionals in Poland.</li> <li>• A number of innovative research and development institutions.</li> <li>• A network of institutions supporting investors, including Centrum Business in Malopolska (CeBiM), providing an integrated service for investors, as well as the Cracow Special Economic Zone – Cracow Technology Park, which offers tax exemptions.</li> <li>• Very good international connectivity.</li> </ul>
<b>Human resources</b>	<p>Salaries in the city are still much lower than in Western Europe, amounting to around EUR 904 a month (2011). The current unemployment rate is moderate (5.3%).</p> <p>Cracow is Poland's second largest academic centre with 22 higher education institutions and around 184.5 thousand students. Of about 47.3 thousand graduates in 2011 more than 11.3 thousand graduated in business and 7.8 thousand in technical studies.</p>
<b>Office space</b>	<p>Modern office stock in Cracow totals approximately 540,000 sq m. Most of the office buildings are situated on the outskirts of the city centre. Currently there is around 60,000 sq m under construction. Prime rents in the city (both centrally and non-centrally located) are at the level of EUR 13-15/sq m/month. The office vacancy rate is 7%.</p>
<b>National and international connectivity</b>	<p>Cracow offers a well-developed network of international and national roads as well as railway and airline connections. Through the A4 highway Cracow is connected to Katowice, Wroclaw and Dresden in Germany. The John Paul II International Airport Krakow-Balice located 11 km from the city offers regular flights to a large number of domestic and international destinations.</p>
<b>Cost of living</b>	<p>The cost of living is relatively high compared with other large Polish cities, however, it is still lower than in Western Europe. The cost of renting a one bedroom apartment in Cracow totals on average EUR 350.</p>
<b>Hotels</b>	<p>Cracow offers 129 hotels, including 10 five star and 21 four star ones.</p>



## Łódź

Łódź is the capital of Łódzkie Voivodeship (province) and the third largest city in Poland. The city has traditionally been known as an industrial centre. However, this has changed over the years and new technologies and outsourcing centres, as well as home appliance manufacturing and logistics, have gained great significance in the city.



<b>Geographic location</b>	Łódź is situated in the centre of Poland, 130 km from Warsaw, on the crossing of international routes.
<b>Population</b>	725 thousand (2011)
<b>Major industries</b>	BPO, logistics, household appliance manufacturing, electronics, B2B services, retail
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• Łódź is located in the very centre of Poland, on the crossing of international transport routes.</li> <li>• Very good connection to the capital, together with much lower rents, labour costs and costs of living make Łódź a decent alternative to Warsaw.</li> <li>• The Łódź Special Economic Zone offers fiscal incentives and consulting services for investors.</li> <li>• The Municipality has a coherent strategy, developed together with business partners, with a major goal of making Łódź an attractive place for investments, with a focus on BPO/SSC/IT.</li> </ul>

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<b>Human resources</b>	<p>The current registered unemployment rate is one of the highest among the largest cities in Poland (11.4%). Employment costs, compared with other Polish cities, are low - average wages amount to EUR 830 per month (2011). Łódź is an important academic centre with many research institutes and 23 higher education institutions, educating more than 95.4 thousand students. 25.8 thousand students graduated in 2011, among them 6.3 thousand majoring in economics schools and 4.7 thousand in technical schools.</p>
<b>Office space</b>	<p>Modern office stock in Łódź is estimated at around 260,000 sq m, the majority of which is located in the city centre. Prime rents in the city centre are at the level of EUR 11-12/sq m/month for existing and planned buildings. The office vacancy rate is high – it equals 19%.</p>
<b>National and international connectivity</b>	<p>Łódź is easily accessible from western and southern parts of Europe by two main transit roads that pass through Poland. The already well-developed transport infrastructure will soon be extended by an intersection of two trans-European motorways. Łódź also offers the largest cargo railway station in Poland, as well as railway connections to the majority of Polish cities. The train journey to Warsaw takes 90 minutes (it will decrease to 65 minutes after the modernisation is finished). The Władysław Reymont Airport is located 6 km from the city centre. Chopin International Airport in Warsaw is also easily accessible.</p>
<b>Cost of living</b>	<p>The cost of living in Łódź is one of the lowest among major Polish cities. The average monthly rent for a one bedroom apartment equals EUR 280.</p>
<b>Hotels</b>	<p>There are 24 hotels operating in Łódź, including international chains.</p>

### Wrocław

Wrocław is the capital of the Dolnośląskie Voivodeship (province) and the fourth largest city in Poland. The region has a track record of spectacular success in attracting foreign investment, mostly due to the active support of the local government.



<b>Geographic location</b>	Wrocław is situated in south-western Poland, in the middle of the Silesian Lowland, on the Odra River, close to the German Border.
<b>Population</b>	631.2 thousand (2011)
<b>Major industries</b>	Financial services, electrical equipment, machinery, automotive
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• The city has a track record of attracting foreign investors – mostly in financial services and BPO/SSC/IT outsourcing.</li> <li>• Wrocław has a coherent strategy in this area, aimed at becoming a European centre for knowledge outsourcing, analysis and mathematical modelling.</li> <li>• The municipality is known for the high standard of services provided to foreign investors.</li> <li>• Tax exemptions are available in the Wałbrzych Special Economic Zone “INVEST-PARK”.</li> <li>• Wrocław’s close proximity to the German and Czech Republic borders and well developed transport infrastructure enables easy access to those important markets.</li> <li>• Quick development of infrastructure.</li> </ul>
<b>Human resources</b>	<p>The current unemployment rate is moderate (5.3%). Salaries are comparable to other large Polish cities (EUR 928 a month in 2011), but they are still lower than in Warsaw and much lower than in Western Europe.</p> <p>Wrocław is one of Poland’s most important and largest academic centres with 143.2 thousand students and 25 higher education institutions. The most important include: the University of Wrocław, Wrocław University of Technology and Wrocław University of Economics. In 2011 there were 35.3 thousand graduates, among them 6.7 thousand in economics schools, and 6.9 thousand in technical schools.</p>
<b>Office space</b>	Modern office stock in Wrocław totals around 401,000 sq m. 53% of the space is located in the city centre. There is 96,000 sq m of office space under construction, and planned for delivery in 2012/2013. Prime rents in the city centre are at the level of EUR 14-16/sq m/month. The office vacancy rate is 4%.

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<b>National and international connectivity</b>	Wrocław is an important railway hub with direct connections to many European capitals and other major cities in Europe. An international road network connects Wrocław to European capitals. Nicolaus Copernicus International Airport is located 6 km from the city centre and offers flights to a number of European cities.
<b>Cost of living</b>	Wrocław is the second most expensive city in Poland; however it is still much cheaper than Western European ones. Rent for a one bedroom apartment amounts on average to EUR 400 per month.
<b>Hotels</b>	There are 42 hotels operating in Wrocław.

### Poznań

Poznań is the administrative capital of the Wielkopolskie Voivodeship (province) and the fifth largest Polish city in terms of population. The city is considered to be the trade capital of Poland and one of the country's most important business, education and cultural centres.



<b>Geographic location</b>	Poznań is situated in the central-western part of Poland in the Warta River valley, halfway between Warsaw and Berlin and approx. 160 km from the Polish-German border.
<b>Population</b>	553.6 thousand (2011)
<b>Major industries</b>	Trade, food processing, chemicals, electro-mechanical industry

<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• One of the leading Polish cities in terms of the economy, located at a crossroads for major transport routes and in close proximity to the German border.</li> <li>• Highly skilled and experienced workforce with a very good knowledge of foreign languages.</li> <li>• About 50 research and development institutions ready to cooperate with businesses.</li> <li>• Support for investments from local and regional administration and tax exemptions offered by the Kostrzyn-Slubice Special Economic Zone located nearby.</li> <li>• A large number of infrastructure modernisation projects finalised.</li> </ul>
<b>Human resources</b>	<p>The unemployment rate is the lowest among large Polish cities (3.9%). The average salaries are slightly higher compared with other large cities, though still much lower than in Western European cities (EUR 968 a month in 2011).</p> <p>The most important education institutions (27) are the Adam Mickiewicz University in Poznań, the Poznań University of Technology, the Poznań University of Life Sciences and the Poznań University of Economics. 36.8 thousand people graduated in 2011, among them 7.1 thousand with a major in economics and 4.4 thousand in technical studies.</p>
<b>Office space</b>	<p>Modern office stock in Poznań totals approximately 253,000 sq m, with 46% located in the city centre. Currently there is around 45,000 sq m under construction. Prime rents in the city centre are at the level of EUR 13-14/sq m/month. Office vacancy rate is 9%.</p>
<b>National and international connectivity</b>	<p>Poznań is located at the crossroads of major pan-European transport routes running from east to west and north to south. The city also offers a well-developed railway network with connections to all major Polish cities and a large number of European ones like Berlin, Prague and Kiev. The Poznań-Lawica airport, located 7 km from the city centre, offers flights to a number of European destinations.</p>
<b>Cost of living</b>	<p>Living in Poznań is moderately expensive compared with other large Polish cities, but is still much lower than in Western Europe. The cost of renting a one bedroom apartment in Poznań totals on average EUR 300.</p>
<b>Hotels</b>	<p>There are 46 hotels in Poznań.</p>

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### Gdańsk

Gdańsk is the capital of the Pomorskie Voivodeship (province), one of the largest metropolitan areas in Poland and the country's major seaport. Gdańsk, together with Gdynia and Sopot form a closely integrated urban area (the Tricity).



<b>Geographic location</b>	Gdańsk is situated in northern Poland on the Baltic Coast.
<b>Population</b>	460 thousand, 744.4 thousand in Tricity (2011)
<b>Major industries</b>	Maritime, high-tech, logistics, tourism, petrochemicals, cosmetics
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• A talent pool with multiple language skills, well suited to provide services in English, German and Russian.</li> <li>• The largest Scandinavian language faculty in Poland with over 200 people studying Swedish, Danish and Norwegian annually.</li> <li>• A number of institutions supporting investors (Pomerania Development Agency, Investor Assistance Centre, Gdańsk Economic Development Agency), as well as tax exemptions in the Pomeranian Special Economic Zone.</li> <li>• Progressive policies and a good standard of living make the city an attractive place to live and work.</li> </ul>

<b>Human resources</b>	The average monthly salary is relatively high compared with other large cities in Poland and amounted to EUR 1,050 in 2011. The current unemployment rate in Gdańsk is moderate (5.9%). All together, the Tricity has 21 higher education institutions.
<b>Office space</b>	Modern office stock in the Tricity totals approximately 365,500 sq m. An additional 110,000 sq m is currently under construction. Prime rental levels for high quality office buildings in the Tricity are at EUR 13-14/sq m/month. The vacancy rate equals 7%.
<b>National and international connectivity</b>	The Lech Walesa Airport offers direct flights to a large number of European destinations, including Warsaw and Cracow. Railway connections are available with the main cities and industrial centres in Poland.
<b>Cost of living</b>	The cost of living in Gdańsk is lower than in Warsaw or Cracow and much lower than in Western European cities. The average rent for a one bedroom apartment in Gdańsk is approximately EUR 300 per month.
<b>Hotels</b>	There are 54 hotels in the Tricity.

## Lublin

Lublin is the capital of the Lubelskie Voivodeship (province) and one of the most important cities in eastern Poland in terms of economy, culture and education. Lublin is a recognized higher education centre.



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<b>Geographic location</b>	Lublin is situated near the eastern border of the European Union, 161 km from Warsaw, 220 km from Lvov, 610 km from Kiev and 509 km from Minsk.
<b>Population</b>	348.5 thousand (2011)
<b>Major industries</b>	Food processing, machinery, BPO, transport & logistics
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• Very low labour and office space costs compared with other Polish cities.</li> <li>• One of the most important Polish academic centres, with a strong educational, scientific and research base.</li> <li>• As many as 25 thousand well educated people with very good knowledge of foreign languages graduating from Lublin's universities every year.</li> <li>• Close proximity to the eastern border and good knowledge of Slavic languages make Lublin a suitable location for investment focused on Eastern markets.</li> <li>• Investment support provided by the local administration, tax exemptions for companies investing in the EURO-PARK MIELEC Special Economic Zone, as well as grants and real estate tax exemptions for companies creating new jobs.</li> </ul>
<b>Human resources</b>	<p>The current unemployment rate is one of the highest among the largest cities in Poland and equals 9.4%. In 2011, the average salary in the city amounted to EUR 875 per month, much less than in most large Polish cities and below the country's average.</p> <p>Lublin is the largest educational centre of eastern Poland, known for its developed educational base as well as research and scientific facilities. There are more than 80 thousand students supplying the labour market with about 24.5 thousand highly skilled graduates every year.</p>
<b>Office space</b>	Office stock in Lublin totals approximately 73,500 sq m and about 30,000 sq m is under construction. Office costs, at the level of approximately EUR 10-12/sq m/month, are among the lowest in Poland. The vacancy rate is 4%.
<b>National and international connectivity</b>	The Lubelskie Voivodeship is traversed by major European road and railway routes leading from Berlin through Warsaw to the largest cities of Eastern Europe: Minsk, Moscow, Kiev, Lvov and Odessa. Lublin Airport in Świdnik started its operation in December 2012.



<b>Cost of living</b>	Cost of living in Lublin is one of the lowest among large Polish cities and is significantly lower than in Western European ones. Average rent for a one bedroom apartment in Lublin varies between EUR 250 and EUR 280.
<b>Hotels</b>	The city offers 14 hotels, out of which 2 are four star ones.

## Katowice

Katowice, the capital of Śląskie Voivodeship (province), is the centre of the Metropolitan Association of Upper Silesia, with a population of 2 million. Historically, the city itself and the surrounding area are heavily industrialised. However, the city is currently shifting toward small business and knowledge intensive investments.



<b>Geographic location</b>	Katowice is located in the southern part of Poland in the Upper Silesia region. Katowice lies between the Vistula and Odra Rivers in close proximity to the Sudety Mountains. Within 600 km of Katowice are the capitals of six countries: Berlin, Vienna, Prague, Bratislava, Budapest and Warsaw.
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<b>Population</b>	309.3 thousand (2011)
<b>Major industries</b>	Coal industry, metals, machinery
<b>Key investment drivers</b>	<ul style="list-style-type: none"> <li>• Katowice, being the central city of the Metropolitan Agglomeration of Upper Silesia with more than 2 million citizens, has the second largest workforce in Poland.</li> <li>• Developed manufacturing industry with highly skilled technical specialists.</li> <li>• One of the best technical universities in Poland with a large number of graduates in IT and technical majors.</li> <li>• Katowice Special Economic Zone, offering incentives for investors such as tax exemptions, investment and legal advisory.</li> </ul>
<b>Human resources</b>	The average salaries in the city are relatively high (EUR 1,216 a month in 2011). However, this is mainly due to the large number of well-paid workers employed in the mining sector. The current unemployment rate is very low (4.8%) and it is comparable with Warsaw and Poznań.
<b>Office space</b>	Modern office stock in Katowice totals approximately 249,000 sq m. Currently there are five projects under construction in Katowice with a total office space of 38,000 sq m. Prime rents in the city centre are at the level of EUR 11-13/sq m/month. The vacancy rate is 11%.
<b>National and international connectivity</b>	Katowice is an important railway and road junction. It is connected by rail with all major Polish cities and many European capitals. The city is located on the crossing of two motorways (north-south and east-west directions), which provide connections to major Polish cities (Wrocław, Cracow, Łódź, Gdańsk), as well as Germany, the Czech Republic and Slovakia. Katowice International Airport located in Pyrzowice, around 30 km from the city centre, offers a number of international and domestic flights.
<b>Cost of living</b>	The general cost of living is lower than in major Polish cities and much lower than in Western Europe. The monthly rent for a one bedroom apartment in Katowice varies between EUR 230 and EUR 320.
<b>Hotels</b>	The number of hotels in Katowice totals 16.

Source: KPMG, GUS, municipalities, investor information offices, press articles, CB Richard Ellis.

## 1.9 Coming to and Living in Poland

### - Practical Tips

#### Residence and work permits

Poland is a member of the European Union and the Schengen Group. Bordercrossing between the Member States of the Schengen Group is now allowed at any place. Foreigners from the Schengen Group may stay in Poland (or in another country of the Schengen Zone) for 3 months during the following 6 months without the need to obtain a visa or other confirmation of stay. EU citizens can also visit Poland without any special permission, but they should have a valid passport or other document confirming their identity and citizenship.

Generally, citizens of other countries need visas, however bilateral agreements allow citizens of some countries, such as Brazil, Israel, Japan and the USA etc., to move freely in and out of Poland without visas.

A visa may easily be obtained at the Polish embassy or consulate office in the traveler's country of residence. There are several kinds of visas. Usually it is issued for 3 months (short-term visa) or for a maximum period of up to 12 months (long-term visa) or for a one border crossing.

A foreigner is also obliged to have proof of insurance and, in case of staying on Polish territory for more than 3 days, sufficient

funds to stay in Poland.

The border authorities may ask the foreigner to show how they intend to finance their entry, stay and departure from Poland. Valid credit cards and traveller's checks are acceptable. A bank confirmation can also be used but it has to be stamped a month before crossing the border at the latest, with the signature of the employee authorised to confirm that the visitor has sufficient funds in his or her bank, which also must have its branch in Poland. Otherwise it is necessary to possess an appropriate amount of money in Polish zloty or other exchangeable currencies – about PLN 100 (EUR 25) per adult per day.

For stays exceeding 3 months, a foreign individual (including nationals of EU Member States) is obliged to obtain an extension of a visa or a temporary residence permit (a special residence permit – certificate of registration for EU nationals and members of their families will also be issued).

This requirement does not apply to persons retaining permanent residence on the territory of another EU state, to which they return at least once a week and who perform work, a profession, or conduct business activity in Poland.

Decisions concerning residence permits and other residence documents (also with

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regard to their prolongation and revocation) are issued by the voivode of the voivodeship where an applicant intends to reside.

In most cases, a certificate of registration for EU nationals for persons wishing to stay on the territory of Poland for more than 3 months will be granted to an EU citizen on condition that he or she:

- intends to perform or performs work a profession or business activity on the territory of Poland, or
- has health insurance and sufficient resources to cover his/her expenses without the need of social security support, or
- is a student or a trainee, or
- intends to join his/her family residing in Poland.

A long term residence permit will be granted to a foreigner who has resided in Poland continuously for at least 5 years. The residence is deemed continuous as long as any absence from the country was not longer than a total of 6 months annually.

Generally, a temporary residence permit for non-EU citizens grants them permission to reside in Poland from 3 months up to 2 years. Such a permit is granted when a citizen:

- intends to perform or performs work or a free profession or business activity on the territory of Poland, or

- runs a business under Polish law. In this case, a foreigner has to present additional documents such as: documents confirming his or her business on the territory of Poland, its subject and range, and in particular an extract from a relevant National Court Register, a notarial confirmation of a partnership agreement, a statement from the Internal Revenue Office confirming no tax arrears, or
- is a student or a trainee (in this case a residence permit up to 1 year applies), or
- intends to join his/her family residing in Poland.

Persons wishing to obtain a temporary residence permit need to have health insurance and sufficient resources to finance their stay in Poland. For stays longer than 2 years (1 year for students and trainees), the temporary residence permit has to be prolonged. Having resided continuously and legally within the Polish territory for the preceding 5 years, a non-EU citizen may apply for a permanent residence permit, provided that he or she has a stable, regular and sufficient source of income as well as health insurance. The residence is deemed continuous if their absence from Poland during the period of 5 years was no longer than a total of 10 months and no longer than 6 months at a time (business trips excluded). This permit cannot be granted to students or trainees.

Generally, persons planning to work in Poland need to obtain a work permit unless they fulfil one of the following conditions (examples):

- they are EU/EEA citizens or residents of countries which have signed bilateral agreements with either EU or Poland regarding the free movement of people (they only need to register their stay exceeding 3 months, as specified above);
- they possess a residence permit obtained in order to perform a free profession or business in Poland;
- they possess a residence permit obtained on the basis of marriage with a Polish citizen;
- they possess a permit to settle in Poland;
- they are students or trainees (in some cases);
- they conduct scientific research (in some cases).

A person who does not fulfil any of the above-mentioned requirements (or other conditions mentioned in the regulations), needs to obtain a work permit in Poland.

An employer always applies for a work permit for his or her employee. A Polish entity will apply for a work permit if a foreigner will have a contract with a Polish company. The company from the other country should apply if the foreigner will be delegated to Poland.

Generally, an individual may not start work and sign a contract with a Polish entity without a valid work permit and residence permit or visa.

### Customs

The completion of a customs declaration specifying the amounts of foreign currency brought into the country is recommended. There are no restrictions on the amounts of foreign currency that can be brought into Poland. However, it is obligatory to declare an amount of money equal to or higher than EUR 10,000 (or equivalent in other currencies or shares, bonds etc.).

Within the European Union, goods transported between countries are not subject to customs control and customs duty.

Generally, private belongings (e.g. computers, cameras) transported in luggage by foreigners entering Poland from outside the European Union are not subject to customs duties.

Additionally, the following items are free of customs duties:

- 1 litre of alcoholic beverages over 22% or 2 litres of alcoholic beverages up to 22% other than non-sparkling wine and beer;
- 4 litres of non-sparkling wine;
- 200 cigarettes or 50 cigars or up to 250 grams of tobacco;

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- 16 litres of beer;
- up to 50 ml of perfume and up to 250 ml of toilet water;
- medical products – in amounts intended for personal use.

The total value of any other goods not listed above that are brought into Poland in personal luggage cannot exceed EUR 430 in the case of air and sea travellers and EUR 300 in other cases.

For persons travelling by other means of transport stricter regulations apply.

Additionally, personal belongings of non-EU citizens arriving in the EU are free of customs duties, provided that there is a valid reason for bringing them and they are used only for personal purposes. These items must leave Polish territory along with their owner. In the case of items of exceptionally high value, a traveller may be asked to fill in a customs declaration.

Narcotics and drugs are strictly forbidden.

It is possible to reclaim VAT on purchases made in Poland and then taken abroad.

### Automobiles and driving licence

Automobiles used for travelling into Poland, together with their necessary accessories, are also exempt from customs and import tax duties (subject to the same provision above relating to number plates).

It is possible to make a conditional customs declaration for a car whereby no duties are levied, but the car must leave Poland within 3 months. A car with non-EU plates may be driven by an EU citizen, who must be residing within the EU at the time, for occasional, private use or at owner's order. It may not be driven by a non-EU citizen other than its owner.

Individual importers who wish to register their automobiles in Poland generally must pay customs duties and excise taxes, which vary depending on the importer's country of origin. However, all of the most popular car models are available in Poland.

During the first 6 months of their stay in the country, non-EU citizens may utilise their foreign driving licences and car number plates on automobiles brought into Poland (provided the car is not transferred into the ownership of a Polish company or the Polish representative office of a foreign company). New documents are issued on the basis of an application and a sworn translation of the text of the foreign driving licence. Citizens of the US should, in addition, pass a written examination and pay the examination fee.

Driver's licences issued by other EU member states are accepted in Poland and remain valid until the expiry date indicated in the document. While driving a vehicle on the territory of Poland, the driver is obliged to have with them a driver's licence,

personal ID, vehicle registration card with a valid MOT certificate, third-party liability insurance and a Green Card (this concerns tourists from outside European Union).

Poland is a right-hand traffic country. Fastened seatbelts are compulsory for drivers and passengers both in the front and back seats. Children up to 12 years old and 150 cm tall must travel in special certified child seats. It is obligatory to use dipped headlights (day and night) all year round.

It is prohibited to use mobile phones while driving. A driver may only use a mobile phone through a hands-free set. The maximum blood alcohol level permitted when driving is 0.2 mg/ml. Exceeding the blood alcohol level of 0.5 mg/ml is a criminal offence and is subject to imprisonment of up to two years.

Polish law requires that all vehicles must be equipped with a fire extinguisher and a warning triangle. Moreover, there should be a first aid kit and a reflective vest in the car.

The following speed limits are in force on roads:

- built-up areas – up to 50 km/h (between 5:00 a.m. and 11:00 p.m.) and up to 60 km/h (between 11:00 p.m. and 5:00 a.m.);
- outside built-up areas – up to 90 km/h;
- residential areas – up to 20 km/h;
- dual express carriageways – up to 120 km/h;
- single express carriageways – up to 100 km/h;
- dual carriageways with at least two lanes in each direction – up to 100 km/h;
- motorways – up to 140 km/h.

### Transport and communications

Transport in Poland is provided by means of air travel, rail, road and shipping.

Poland has a number of international airports – the largest of which is Warsaw Chopin Airport (<http://www.lotnisko-chopina.pl>). Warsaw, the country's capital, offers approximately 100 regular connections including all major European airports, as well as non-stop flights to the US and Canada. The other Polish airports with international connections are:

- Bydgoszcz (Szwederowo) – Ignacy Jan Paderewski Airport  
<http://www.plb.pl>
- Cracow (Balice) – John Paul II International Airport  
<http://www.lotnisko-balice.pl>
- Gdańsk (Rębiechowo) – Lech Wałęsa Airport  
<http://www.airport.gdansk.pl>
- Katowice (Pyrzowice) – International Airport  
<http://www.gtl.com.pl>

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- Łódź – Władysław Reymont Airport  
<http://www.airport.lodz.pl>
- Poznań (Ławica) – Poznań Airport  
<http://www.airport-poznan.com.pl>
- Rzeszów (Jasionka) – Rzeszów-Jasionka Airport  
<http://www.rzeszowairport.pl>
- Szczecin (Goleniów) – NSZZ Solidarność Szczecin Goleniów Airport  
<http://www.airport.com.pl>
- Warszawa (Modlin) – Warsaw-Modlin Mazovia Airport  
<http://www.modlinairport.pl>
- Wrocław (Strachowice) – Copernicus Airport Wrocław  
<http://www.airport.wroclaw.pl>

In the wake of Western European developments in the air transport sector, several “no-frills” airlines have commenced operations from Poland and offer competitive prices for intra-European flights when compared with the traditional airlines brands.

Polish trains offer express (Intercity) connections, as well as passenger and fast trains, both domestic and international. Railway travel enables most of the cities and towns in Poland to be reached, but the railway infrastructure is better developed in the western part of the country. It is often faster and/or less expensive to travel from Warsaw by train than by plane or car (as is the case when going to Cracow, Katowice,

Łódź and Poznań). Tickets may be purchased from ticket offices at stations and via the Internet.

One can also use a range of bus connections. Tickets are available at ticket offices or from drivers directly before departure. The newest buses have also a ticket machine inside.

The government is conducting intensive work on the development of road infrastructure. Currently under construction and reconstruction are around 730 km of roads – including 240 km of motorways, and 425 km of express roads (as of 30th November 2012).

The main ports in Poland are Gdańsk, Gdynia, Szczecin and Świnoujście. Sailors may also use marinas in Kołobrzeg, Ustka, Darłowo and Łeba. Passenger ferries link Poland with Scandinavia all year round. These services are provided from Gdańsk by Polferries, from Gdynia by Stena Line and from the Port of Świnoujście by Unity Line and Polferries.

Public transport in larger cities includes buses and trams and there is an underground line in Warsaw. This allows convenient travel within the entire area of the city and makes it possible to avoid traffic jams, searching for a parking place and paying parking charges.

International and Polish car rental agencies are frequently represented at airports



and in larger hotels. Taxis are abundant and may be hired for trips all over Poland. Generally it is cheaper to use taxis ordered by phone and those belonging to a taxi corporation. Prices for longer trips should be negotiated in advance.

The Polish telecommunications sector has experienced significant improvements in recent years. Several major investments aimed at offering users a choice between different fixed-line telecom operators have been completed. Poland currently has four leading mobile phone operators (operating under the brands T-Mobile, Orange, Plus and Play). They offer post-paid services, and pre-paid services (also under the additional brands e.g. Heyah and Sami Swoi, 36i6). The MNVOs on the market include: mBank mobile, tuBiedronka and others.

GSM (operating at 900 and 1800 MHz) is the most common standard for mobile telephony systems in Poland. Mobile network operators declare that they provide almost 100% 2G coverage of the area of the country. All mobile operators also have UMTS (900/2100 MHz) services in the major cities, with nationwide coverage planned. Smartphone brands such as Blackberry, HTC or iPhone are commonly used in business.

Internet services are available as fixed connections (DSL) or wireless (GPRS/EDGE/UMTS/HSDPA/LTE).

They are provided by telecom operators, a number of ISPs and cable TV operators.

### Hotels and restaurants

Many international hotel chains are represented in Poland, including Accor, Best Western, Campanile, Hilton, Holiday Inn, InterContinental, Marriott, Novotel, Qubus, Radisson Blu and Sheraton. Hotel infrastructure in Poland has experienced rapid growth in recent years due to the organisation of the 2012 UEFA European Football Championship. Polish hotels and other types of accommodation are available in many online booking systems (international and country specific). In 2011 there were 45 five star hotels in Poland.

Settling bills at the leading hotels may be done by credit card. This is also possible in the majority of restaurants and shops in big cities.

Restaurants offer a broad range of cuisines from all around the world (from traditional Polish to Mexican and Chinese). How much one spends in a restaurant depends on its standard and location. In the cheapest places we can eat a one-course meal for PLN 10–20 (EUR 2.5 – 5); in restaurants with a higher standard a main course costs around PLN 50 (EUR 12.5) or more. When paying a bill at a restaurant, it is customary to allow up to a 10% gratuity, but in some places an obligatory tip is added to the bill.

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### Culture and entertainment

Today, there are thirteen unique locations in Poland which are listed on the UNESCO World Cultural and Natural Heritage List (a register of sites with a special cultural or physical significance worldwide). This list includes Cracow's Historic Centre, Wieliczka Salt Mine, Auschwitz-Birkenau, Białowieża Forest, Historic Centre of Warsaw, Old City of Zamość, Medieval Town of Toruń, Castle of the Teutonic Order in Malbork, Kalwaria Zebrzydowska, Churches of Peace in Jawor and Świdnica, the Wooden Churches of Southern Małopolska and Muskauer Park, Centennial Hall in Wrocław.

The most important cities in terms of culture are Warsaw, Cracow, Poznań, Łódź, Wrocław, Katowice, Lublin, Szczecin and Toruń. Polish theatres, operas, philharmonics and museums offer a very good and high level of entertainment.

### Healthcare

Public healthcare in Poland is financed by a central state budget created to protect health called the National Health Fund (NFZ). According to Polish law, it is obligatory for an employer to pay social insurance for all employees, including foreigners. Therefore, foreigners employed in Poland are assured a range of medical services free of charge.

Among those who have the right to access the fund, the law lists foreigners residing in Poland on the basis of:

- a stay visa to perform work,
- residence permits,
- temporary residence permits,
- refugee status granted in Poland,
- temporary protection on Polish territory.

Health insurance also covers the family members of the listed groups staying in Poland.

In other cases foreigners are liable for all health treatment costs, with the exception of citizens of countries with which Poland has signed bilateral agreements on free-of-charge medical care. After Poland's EU accession a person entitled to health care under EEA rules who possesses a European Health Insurance Card, receives free services within the general health care system in Poland.

### Opening and closing hours

Banks are generally open from 9:00 a.m. to 5:00 p.m., or until 6:00 p.m. Banks also offer cash machines (ATMs/ CDMs) from which cash may be taken out or deposited, usually 24 hours per day.

Institutions and government agencies work five days a week, usually from 8:00

a.m. to 4:00 p.m. or from 8:30 a.m. to 4:30 p.m. Many public institutions have some days with extended opening hours.

Industrial plant administrations and offices are generally open from 7:00 a.m. to 3:00 p.m.

There is, however, a growing number of offices following Western business hours of 8:30 a.m. to 5:00 p.m. All offices and some major shops are closed during official holidays.

In most cities and larger towns there are supermarkets, hypermarkets and shopping centres, and in all towns there are local stores. The opening hours are not formally set and may vary, depending on the city or area.

Shopping centres are open from 10:00 a.m. to 10:00 p.m., and hypermarkets are usually open from 8:00 a.m. to 10:00 p.m.. Local shops are open from Monday to Friday, between 7:00 or 8:00 a.m. and 6:00 p.m. (on Saturdays until 2:00 p.m.), and are usually closed on Sundays. If basic products are needed at night, filling station shops are open 24/7, even on public holidays.

### National holidays

When considering a visit to Poland it is good to know the schedule of public holidays, because many institutions and

shops are closed at that time. They are as follows:

- 1st January – New Year's Day
- 6th January – Three Kings Day (The Epiphany)
- 1st April 2013 – Easter Monday (date changes year to year)
- 1st May – International Workers' Day
- 3rd May – May-3rd-Constitution Day
- 30th May 2013 – Corpus Christi (date changes year to year)
- 15th August – Assumption of Mary
- 1st November – All Saints Day
- 11th November – Polish Independence Day
- 25th December – Christmas (1st day)
- 26th December – Christmas (2nd day)

### Cost of living

The cost of living varies depending on location. Prices of food articles in Poland are not high; shopping is cheapest in hypermarkets and at markets, while small shops are slightly more expensive (e.g. bread costs about PLN 2-3 (EUR 0.5-0.75), Coca-Cola 0.5l PLN 3-3.5 (EUR 0.75-0.9), Big Mac PLN 9.10 (EUR 2.2), cigarettes PLN 10-15 (EUR 2.5-3.5).

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Rent for average quality apartments in major cities per month:

- PLN 1000-1800 (EUR 240-440) for a studio;
- PLN 1400-2400 (EUR 340-580) for a one-bedroom apartment;
- PLN 2000-3600 (EUR 485-875) for a two-bedroom apartment.

Payment in advance of at least 1 month's rent is typically requested.

Currently, in most large cities there are enough apartments and office space for rent and one can find and rent acceptable premises in a comparatively short time through specialised agencies. Lease agreements are similar to those in other countries.

### Business culture

Meetings and visits should be pre-arranged (ideally a week in advance) and confirmed by phone and email/fax a day or two before. It is not acceptable to ask for a meeting on Sunday – the Polish set aside this day for religious practices and family gatherings.

Punctuality is important. If you anticipate that you will be late, send a text message or call your host. However meetings can often last longer than planned. The meeting starts with traditional greetings and a handshake. It is polite to wait for

a woman to extend her hand first when meeting her for the first time.

Poland is a rather formal and hierarchical culture. Hence at the beginning of business cooperation it is common to address people with Pan (Mr) and Pani (Mrs) plus the person's surname. A relationship might warm up to the degree where first names can be used, but it has to be clearly announced by the other party. Organisations in Poland have a respect for hierarchy and authority, with structure and delegation coming from above. This hierarchical style influences many business formalities and settings, including the use of professional titles and the decision making process.

The use of business cards is widespread. Printed folders and other documentation regarding your activities are recommended as the best means of presentation to your hosts. When submitting an offer, as a minimum, the executive summary should be translated into Polish. The receipt of important documentation should be confirmed by signature or stamp on a copy of the submitted original.

Presentations should be a blend of well organised information backed up with statistics and case studies. However, it is good to add some information which presents the speaker e.g. his or her experience.

Business negotiations in Poland adopt a reserved approach to making deals. Extended periods of silence are not uncommon and these should not be disrupted by unnecessary talk or pressing for a decision. Due to the hierarchical nature of Polish business and adherence to procedures it is not always easy to receive rapid answers or confirmations during meetings. It is only possible if the key decision maker is present at the meeting.

In Polish business culture it is customary to give a small gift to your counterparts – at the beginning or at the end of the business relationship or perhaps both. The most appreciated items are generally those typical of the culture that the visitor represents. However, the gift should not be overly expensive.



# Chapter 2

## Business Opportunities

### 2.1 Incentives for Foreign Investment

Poland remains one of the most favourable countries in Central and Eastern Europe for foreign direct investment. According to the latest data from the National Bank of Poland,

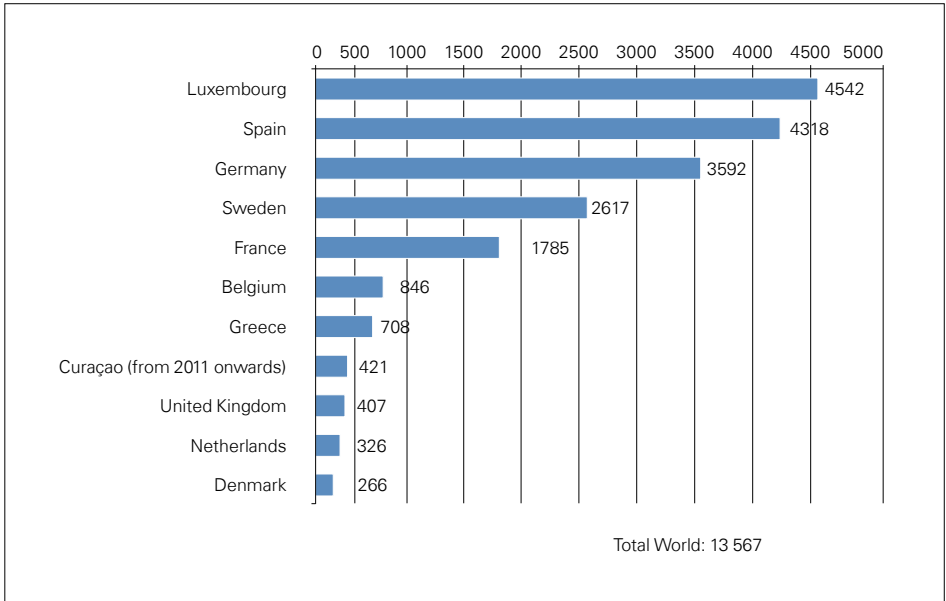
the value of foreign direct investment in Poland reached the level of approximately EUR 13 567 million in 2011. At the time of printing this report, figures for 2012 have not been published.

**Table 1. Foreign direct investment inflow in Poland (net, EUR million)**

	2004	2005	2006	2007	2008	2009	2010	2011
FDI inflow	10,237	8,330	15,741	17,242	10,128	9,343	10,473	13,567

Source: National Bank of Poland (NBP)

**Chart 1. Foreign direct investment inflow in Poland in 2011 by country (EUR million)**



Source: National Bank of Poland (NBP)

Progressive economic growth, the highest amount of European Union structural funds in 2007-2013 in Europe and other incentives induce the increase the investment attractiveness of Poland. The country's attractiveness has also increased as a result of the Polish Government's policy of promoting foreign investors as important contributors in the modernisation and rationalisation of activities in various economic sectors, particularly in the manufacturing industry (including high-tech), transport, communications, banking and environmental protection. In recent years many regional shared service centres and R&D centres have been established in Poland, which contributes to the background of expanding innovations and allows the creation of a modern economy based on knowledge.

Foreign Investors in Poland may obtain various investment incentives, in particular:

- grants from European Union funds and national programmes designed *inter alia* for:
  - investment and employment,
  - R&D activities,
  - other activities, such as environmental protection, training sessions, logistics, renewable energy sources,

- incentives from the Polish Government (R&D projects, environmental projects, the Programme of support of investments of considerable importance for Polish economy for years 2011-2020),
- income tax exemption in Special Economic Zones,
- real estate tax exemption,
- technological parks, which offer infrastructure for high-tech and R&D companies,
- preferential tax deductions for the purchase of new technology,
- preferential tax deductions for R&D centres.

Incentives obtained by the investors in Poland are subject to Polish and European Union state aid rules which determine, *inter alia* the maximum level of support, beneficiaries and the detailed conditions of support.

## 2.2 Grants from EU Structural Funds

For the years 2007-2013 (+ 2 years) Poland received EUR 67.3 billion from EU Structural Funds. This amount is augmented by nearly EUR 10 billion from the Polish Government.

Currently works on new rules of providing support from the EU are in progress (both at national and EU level). These rules will be valid for the years 2014-2020. At the time of printing this report it is assumed

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# Business Opportunities



■ The aid limits for the period 2007-2013

■ The aid limits for the period 2014-2020

*Map: The regional aid map for Poland covering the period 2007-2013 and 2014-2020*

that Poland will receive over EUR 70 billion for the next financial perspective. The deal was endorsed by the European Parliament on July 3rd but the final vote will take place in autumn 2013.

The map below presents ceilings of permitted state aid for the years 2007-2013 and 2014-2020. Please note that due to the economic development of the regions of Central Europe, a reduced ceiling of permitted state aid will apply in many of these, including Poland, during 2014-2020.

Businesses in Poland can be supported by grants within the framework of state aid provided in one of the Operational Programmes. Operational Programmes are co-financed from structural funds assigned for Poland for the years 2007-2013 – European Regional Development Fund and European Social Fund.

The Polish Operational Programmes for the years 2007-2013 are:

- Innovative Economy,
- Infrastructure and Environment,
- Human Capital,
- Development of Eastern Poland,
- European Territorial Cooperation,
- Technical Assistance,
- 16 Regional Programmes.

Under the above programmes, grants were awarded for investments, R&D



projects, training sessions, environmental protection, transport and logistics, renewable energy etc. Currently support from most sources is no longer available due to the exhaustion of budgets.

At present, the Ministry of Regional Development is working on documentation that will form the basis of the implementation of EU funds in Poland for 2014-2020. It is assumed that more money will be spent on research, technological development, innovation and entrepreneurship, and low-carbon economy.

### 2.3 National Sources

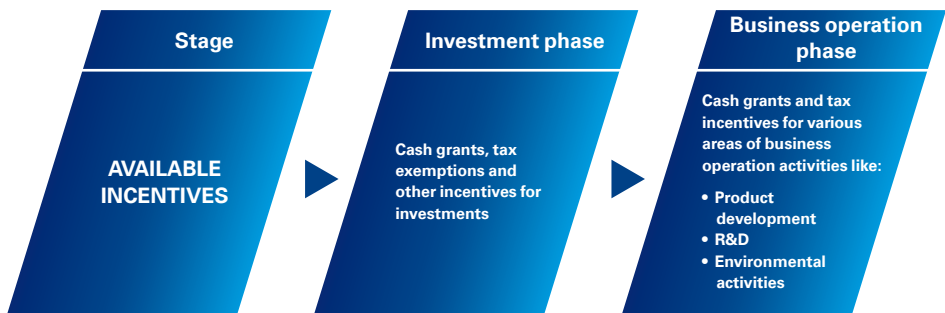
Foreign investors may also look for financial support from the Polish budget. Incentives are available for investments, R&D and environmental projects. Investors may obtain state aid at every stage of their business activity:

#### The Programme of support of investments of considerable importance for Polish economy for years 2011-2020

Large investment projects may be granted from Polish budget in the form of the Programme of support of investments of considerable importance for Polish economy for years 2011-2020 (the Programme) by the Ministry of Economy.

The aim of the Programme is to increase innovation and competitiveness of the Polish economy. The Programme is designed for the promotion of investments of priority interest for the Polish economy. The priority sectors are:

- automotive sector,
- electronic sector,
- aviation sector,
- biotechnology sector,
- modern services sector,
- research and development.



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The Programme provides support for initial investments under the two following categories:

- support for creation of new job places (employment grant)
- support for new investment (investment grant)

The amount of aid reaches from PLN 3 200 to PLN 15 600 for one created job in case of employment grant and from 2 per cent up to 10,5 per cent of eligible costs in case of investment grant. The amount of grant depends on a various factors, including number of created jobs, location of the investment, human capital (understood as the share of university graduates in total employment) and capital expenditures. Each project is subject to an individual assessment on the basis of detailed criteria laid down in the Programme.

### Grants for R&D

Foreign investors who would like to improve their products or services or even create new products on the basis of R&D works, may also benefit from state aid to support research and development activities. State aid is granted for activities aiming to develop new or significantly modified products, services or technologies that are later implemented into company's economic activity.

It is worth mentioning that R&D centers of international corporations which carry out research in Poland as a part of an international project, may also apply for R&D grants. Grants are available from the National Center for Research and Development.

### Environmental grants

Companies investing in projects related to environmental protection e.g. development of renewable sources of energy, environmental protection and energy audits may receive grants or preferential loans from the National Fund of Environmental Protection and Water Management. Levels and conditions of support vary depending on the type of investment supported.

### 2.4 Tax Incentives in Special Economic Zones

Special Economic Zones (SEZs) are specially earmarked areas in which business activity (mainly production and services) can be conducted on preferential terms. In July 2013 the Government extended the activity of SEZs until the end of 2026 which means an extension to the period of time that companies can benefit from the exemption from Corporate Income Tax (CIT).

Apart from being eligible for support from EU structural funds, entrepreneurs carrying

out business activity in SEZs, can benefit from:

- income tax exemption (the amount of SEZ exemption is calculated on two years' worth of costs of employment or investment expenditures),
- real estate tax exemption (in selected areas),
- infrastructure support (telecommunication, infrastructure, roads, railways, sewage system, etc.).

The total value of grants and other state aid offered to the investor cannot exceed 50 per cent (70 per cent for SME) of the investment. The above applies until December 31st, 2013 but is expected to be prolonged until June 30th 2014.

The costs of investment eligible for refund include:

- purchase of land,
- construction or purchase of buildings,

- cost of equipment,
- cost of intangible assets.

In order to operate in a SEZ and benefit from the aforementioned exemption, a permit issued by the SEZ authorities is required.

Currently, 14 SEZs exist in Poland. All of them have subzones located in various parts of Poland.

It is possible to extend a SEZ area to include areas located outside the existing SEZ. In such situation the requirements are stricter: the minimum value of investment expenditures and the minimum numbers of newly created workplaces are higher than in the case of obtaining the permit in the existing SEZ (the particulars depend on the type of investment and region where it is carried out).

The investment and newly created jobs resulting from a project should be maintained for at least 5 years (3 years for SMEs).

#### List of SEZ existing in Poland:

SEZ	Address
SEZ „Euro-Park” Mielec	ul. Partyzantów 25 , 39-300 Mielec <a href="http://www.europark.com.pl/">http://www.europark.com.pl/</a>
Katowicka SEZ	ul. Wojewódzka 42, 40-026 Katowice <a href="http://www.ksse.com.pl/">http://www.ksse.com.pl/</a>
Suwalska SEZ	ul. Noniewiczza 49, 16-400 Suwałki <a href="http://www.ssse.com.pl/">http://www.ssse.com.pl/</a>

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Legnicka SEZ	ul. Św. Maksymiliana Kolbe 14, 59-220 Legnica <a href="http://www.lsse.eu/">http://www.lsse.eu/</a>
Łódzka SEZ	ul. Tymienieckiego 22/24, 90-349 Łódź <a href="http://www.sse.lodz.pl/">http://www.sse.lodz.pl/</a>
Wałbrzyska SEZ „Invest-Park	ul. Uczniowska 21, 58-306 Wałbrzych <a href="http://www.invest-park.com.pl/">http://www.invest-park.com.pl/</a>
Kamiennogórska SEZ	ul. Jana Pawła II 11A, 58-400 Kamienna Góra <a href="http://www.ssemp.pl/">http://www.ssemp.pl/</a>
Kostrzyńsko-Slubicka SEZ	ul. Orła Białego 22, 66-470 Kostrzyn n. Odrą <a href="http://ksse.pl/">http://ksse.pl/</a>
Ślupska SEZ	ul. Obrońców Wybrzeża 2, 76-200 Słupsk <a href="http://www.sse.slupsk.pl/">http://www.sse.slupsk.pl/</a>
Starachowice SEZ	ul. Radomska 29, 27-200 Starachowice <a href="http://www.sse.com.pl/">http://www.sse.com.pl/</a>
Tarnobrzaska SEZ	ul. ul. Zakładowa 30, 39-400 Tarnobrzeg <a href="http://www.tsse.pl/">http://www.tsse.pl/</a>
Warmińsko – Mazurska SEZ	ul. Kasprowicza 1, 10-219 Olsztyn <a href="http://www.wmsse.com.pl/">http://www.wmsse.com.pl/</a>
Krakowska SEZ	Al. Jana Pawła II 41L, 31-864 Kraków <a href="http://www.sse.krakow.pl/">http://www.sse.krakow.pl/</a>
Pomorska SEZ	ul. Władysława IV 9, 81-703 Sopot <a href="http://www.strefa.gda.pl/">http://www.strefa.gda.pl/</a>

### 2.5 Other Incentives

Apart from the EU structural funds, national sources and the tax incentives in SEZs, investors in Poland can also take advantage of other sources of state aid, for example:

- grants for investments from the European Economic Area Funds, Swiss and Norwegian Funds,
- grants for R&D under 7. Framework Programme for Research and Development in Europe,
- tax incentives for research and development activity,
- preferential loan (e.g.: technological loan),
- real estate tax exemption.



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### 2.6 Privatisation

Privatisation is mainly regulated by the Law on Commercialisation and Privatisation of State-Owned Enterprises dated 30 August 1996 which, in principle, provides for the commercialisation of state-owned enterprises and the privatisation of such enterprises through the capital (indirect) method and the direct method.

Responsibility for the privatisation of state-owned enterprises lies with the Privatisation Department of the State Treasury Ministry. Moreover, pursuant to separate regulations, some privatisation activities are undertaken by other agencies: the Agricultural Property Agency, the Military Property Agency and the Military Housing Agency.

The highest-value shares are those held by the State Treasury in companies from the power sector, the oil and gas sector, rail transport, hard coal mining and the chemical industry.

### Commercialisation

Commercialisation involves the transformation of a state-owned enterprise into a capital company - both joint stock company and limited liability company. Unless the law provides otherwise, this company is the legal successor of the state-owned enterprise, regardless of the legal nature of those legal relations.

Commercialisation of a state-owned enterprise is effected by the minister competent for the Treasury.

Unless the law provides otherwise, the company established as a result of commercialisation must comply with the Code of Commercial Companies.

In 2012 the privatisation of 113 companies was finalised. According to the Privatisation Plan prepared by the Ministry of State Treasury, 300 companies will be privatised in 2012 – 2013.

### Capital (Indirect) Privatisation

The capital privatisation method, otherwise referred to as indirect privatisation, involves the disposal of shares outside State ownership by way of a sale resulting from:

- a publicly-announced offering
- a public tender
- negotiations undertaken pursuant to a public invitation
- admission of the bid submitted by an entity announcing the call
- a publicly-announced auction
- a transaction concluded on the regulated market
- a public offering
- subsidiary stabilisation
- selling shares outside organised trading

The Council of Ministers may agree to a sale procedure other than that described above. Moreover, the Council of Ministers may express its consent to contribute shares held by the Treasury to another Treasury-held joint stock company in exchange for shares taken up in the increased share capital of that company.

The detailed procedures applicable to the sale of Treasury-held shares and the conditions to be met by the sales offer are defined in the regulation dated 30 May 2011, on The Detailed Procedure for Selling Treasury-held Shares (Dz.U.2011.114.664).

Payment for shares sold in a public tender or as a result of negotiations undertaken following a public invitation may be made in instalments if the amount outstanding after the payment of the first instalment has been secured (in which case the first instalment of the payment represents a minimum 20% of that price whereas the remainder is paid in instalments for a maximum period of 5 years). The detailed conditions enabling such instalment payments are defined in the Council of Minister's regulation of 25 April 2006 on public aid given during privatisation processes (Dz.U.06.84.580 as amended).

Considering the limitations indicated in the Act on Commercialisation and Privatisation, eligible employees are entitled to free-of-charge acquisition of up to 15 % of the shares taken up by the Treasury on the day

on which the company is entered into the relevant register.

Income from indirect privatisation projects completed in 2012 totalled PLN 9.158 million.

### Direct Privatisation

Direct privatisation involves the disposal of all tangible and intangible assets of a state-owned enterprise through:

- the sale of the enterprise
- contribution of the enterprise into a company
- release of the enterprise for paid use.

By the end of 2010, 2220 state-owned enterprises had been deleted from the register of entrepreneurs.

### Reprivatisation

Reprivatisation is a controversial issue and investors should carefully check that the target they are looking to acquire is free from any reprivatisation claims.

Reprivatisation is defined as compensation for damage resulting from the forced nationalisation of land, businesses, shops etc. after 1944; i.e. during the time when Poland was subjected to communist regulations. It also applies to land and property remaining outside Polish territory after World War II when the borders with neighbouring countries were redrawn.

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No complex legal regulation on reprivatization has been prepared or introduced yet. It is important to point out that despite this lack, it is possible to file lawsuits seeking confirmation of the illegality of certain nationalisation actions under the general provisions of law. Officials from the Ministry of the Treasury believe that there is a regular trend whereby ever higher indemnities are adjudicated by common courts in such cases.







## Chapter 3

# Forms of Carrying out Business Activity Available to Foreign Entities in Poland

### 3.1 Legal Status

Foreign entities from European Union Member States and from Member States of the European Free Trade Agreement (EFTA) – parties to the Agreement on the European Economic Area as well as foreign entities from countries which are not parties to the Agreement on the European Economic Area, but who enjoy freedom of establishment on the basis of agreements concluded by those countries with the European Community and its Member States – enjoy all legal forms of business operation according to the same principles as Polish entities (e.g. individual economic activity, partnerships, companies). The same rule applies to citizens of other states who have for example, obtained a permit to settle on the territory of the Republic of Poland, a tolerated stay permit or refugee status granted by the Republic of Poland. Other foreign entities are allowed to establish the following forms:

- limited partnership
- partnership limited by shares
- limited liability company (sp. z o.o.) in which shareholders receive shares (interests) in exchange for contributed capital, and
- a joint stock company (SA), which differs from a limited liability company (apart from the required minimum of equity capital and some other features) in that there is the possibility of issuing bearer shares; companies listed on the Warsaw

Stock Exchange must have a joint stock company status.

It is also possible for foreign entities to establish a representative office or a branch in some specific areas of operation.

#### Limited Partnership

A limited partnership is a partnership with at least one partner assuming unlimited liability and at least one partner whose liability is limited to a specified amount.

#### Partnership limited by shares

A partnership limited by shares is a partnership with at least one partner assuming unlimited liability and with at least one partner being a shareholder.

#### Limited Liability Companies and Joint Stock Companies

The Commercial Companies Code regulates all issues related to the establishment, activity and dissolution of these companies.

The existing legal framework allows companies ample flexibility in drawing up their company deeds (limited liability companies) or statutes (joint stock companies). Certain regulations of the Commercial Companies Code are not obligatory and can be modified by the incorporation documents.

The company deed or statute, as well as all subsequent changes, must be prepared in the form of a notarial deed. This does not apply to a limited liability company established online whose company deed is made using a model company deed (a form with possible options) available in a data communication network official system.

The major differences between the two legal types of companies are illustrated in Appendix B.

Appendix C sets out the detailed procedures for establishing a company, which are also briefly discussed below.

### 3.2 Establishing a Company

In general, establishing a company with foreign participation does not require a prior permit or licence. The only exception is a contribution of real estate to the share capital of a newly formed company in which 50% or more of the shares will be acquired by a foreign party. If this is the case a permit of the Minister of Internal Affairs and Administration is required.

However, this restriction does not generally apply to persons from European Economic Area countries.

In some cases it is also necessary to obtain the approval of the Office for Competition and Consumer Protection for acquiring shares in new or existing companies. This requirement concerns all founders of a

company, irrespective of whether they are nationals or foreign persons. For details, see the section "Anti-Monopoly Law" in this publication.

Finally, it must be remembered that carrying on certain activities in Poland, for example, banking or insurance, requires a licence or other permit. A detailed list of such activities is given in Appendix A.

One or more legal or natural persons may establish a limited liability company and a joint stock company, however, a one-person limited liability company may not incorporate them. Banks, which must always be joint stock companies (with some exceptions specified in the provisions of the Banking Law), must be established by at least three natural or legal entities (unless the founder is a domestic or foreign bank, credit institution, domestic or foreign insurance company, foreign reinsurance company, international financial institution or the State Treasury).

A company deed or statute must define the following:

- name, place of incorporation and scope of activities of the company
- in a joint stock company: number of members of the management board and the supervisory board, or at least the maximum or minimum number of such members, and the entity authorised

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to decide on the composition of the management and supervisory boards

- duration of its activity – if it is to be established for a definite period
- value of share capital; the statutes of a joint stock company should also state the amount paid towards the share capital before registration
- the company deed for limited liability companies must state whether a shareholder may have one or more shares and the numbers and value of the shares held by respective shareholders
- the statute of a joint stock company must specify the nominal value of its shares and whether they are bearer or registered shares. It must also state the number of each class of the shares issued and the rights attached to their ownership (in the event of different classes of shares)
- for joint stock companies, the statutes must define the names of the founding shareholders
- in case of a contribution in kind to a limited liability company, the company deed shall specify the object of this contribution in kind, the shareholder making such contribution and the number and nominal value of the shares taken up for the same. In case of a contribution in kind to a joint stock company, the founding shareholders need to produce a written report which in particular

specifies the object of the contribution in kind and the number of shares issued in return for the same, the persons who are making non-cash contributions and the method of valuation applied. As a general rule, the report needs to be evaluated by an auditor appointed by the registration court.

In order to obtain legal status and to be able to commence activities, a company must:

- appoint members of its managing and supervisory bodies (a supervisory body is always obligatory in the case of joint stock companies; with respect to limited liability companies, a supervisory body is obligatory under the conditions specified in the Commercial Companies Code)
- be recorded in the National Business Register in the relevant District Court. In the case of a limited liability company, registration is possible only after the entire equity capital (covered with both cash and in kind contribution) has been paid in. The exception is online registration of a limited liability company whereby the equity capital shall be paid within 7 days following the entry of the company into the register. As regards a joint stock company, registration is possible after at least one-fourth of the value of shares taken up for cash has been paid in. Shares taken up for contributions in kind in a joint stock

company shall be covered in whole no later than one year after the registration of the company. It should however be noted that if the shares in a joint stock company are taken up exclusively for contributions in kind or for contributions in kind and cash contributions, at least one fourth of the minimal amount of the equity capital required by the Companies Code needs to be paid up before the registration (the said minimal amount is PLN 100,000, which means the equity capital to be paid up before the registration of a joint stock company is PLN 25,000).

Additional detailed comments on establishment procedures and documentation can be found in Appendix C (including on – line registration available from 1st January 2012).

### 3.3 Capital

In limited liability companies, the minimum capital is PLN 5,000 divisible into shares of equal or unequal value. The lowest permitted value of a share is PLN 50. If the company deed allows the shareholders to hold more than one share, then all shares must be equal in value and indivisible.

In joint stock companies, the minimum capital is PLN 100,000 and is divided into equal nominal shares of at least PLN 0.01.

According to the Foreign Exchange Law it is possible to make the payments in foreign currency with regard to contributions to the capital made by foreign investors.

#### Increase and Decrease in Share Capital

In limited liability companies, changing the nominal value of existing shares or issuing new ones may increase the share capital. If the company's deed provides for equity increases, then such increases require only a majority vote of the shareholders (the company's deed must provide a maximum amount to which the capital may be increased solely by vote without introducing changes into the deed itself first).

If not, then the company's deed itself has to be amended, for which the consent of two-thirds of the shareholders is necessary, unless the company deed provides more stringent voting requirements.

A decrease in capital is possible basically through a vote of the shareholders, which must also specify the amount and form of the decrease. However, the decreased capital may not be lower than the minimum equity prescribed by law, i.e. PLN 5,000.

In joint stock companies, capital increases may take place through the issue of new stock and through an increase in the value of the existing stock, but this may be

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# Forms of Carrying out Business Activity Available to Foreign Entities in Poland

done only after at least nine-tenths of the declared capital has been paid in.

The increase or decrease of capital requires a revision of the joint stock company statute, which requires three-fourths of the majority of votes of the general assembly, unless the statute provides more stringent voting requirements. The lowest level of share capital may not fall below PLN 100,000.

Current shareholders in a limited liability company have priority in taking up the increased shares in proportion to the shares already held, as is also the case in joint stock companies with respect to stock, unless the pre-emptive right is restricted or excluded by the company deed, statute or a resolution of the shareholders.

Capital decreases may not be made to the detriment of the interests of creditors; therefore a company's management board is required to notify all affected parties (exceptions are allowed in both types of capital companies). Affected creditors must be satisfied or their interests otherwise secured.

Any changes to the amount of capital shall be registered in the National Business Register, unless ineffective.

Profits are distributed to shareholders, unless the distribution has been restricted in the company deed. Profits are

distributed in proportion to the shares, unless otherwise provided in the company deed. If the loss exceeds the aggregate reserve capital, supplementary capital and half of the share capital (one third of the share capital in the case of a joint stock company), the shareholders have to vote as to whether or not the company should be dissolved.

### Additional Payments

Additional payments apply generally to limited liability companies and are made by shareholders to finance working capital requirements. They can be made in addition to the shareholders' loans and they have no effect on the amount of equity, or the value of shares held by the shareholders. In joint stock companies, additional payments may be introduced in return for special rights conferred upon the existing shares.

The possibility of making additional payments arises solely from a specific regulation placed in the company deed, indicating the value of the additional payment in proportion to the held shares. If the deed does not contain such an obligation, additional payments can only take place after the company deed has been amended.

Decisions as to the amounts and dates on which the payments are to take place are

left to the shareholders' discretion. If the paid-in amounts are not necessary in order to cover losses, they may be transferred back to the shareholders.

### 3.4 Participation in Existing Companies

Foreign parties may acquire an interest in Polish companies that are already established either:

- through the purchase of existing shares or stock, or
- by taking up new issues of stock or shares.

In the case of foreign entities, this may, however, involve obtaining the appropriate permits. The most common one is the permit of the Office of Competition and Consumer Protections.

Furthermore, in the event that a foreign investor acquires 50% or more of the shares in a Polish company or has directly or indirectly 50% of the votes at the shareholder's general meetings in a Polish company which is the owner or perpetual usufructuary of a piece of real estate, and as a result the company will be at least 50% owned by the foreign entity, a permit from the Minister of Internal Affairs and Administration is required. The same applies when shares in such a company are acquired by a new foreign shareholder and the existing foreign shareholders already hold one-half or more of its share capital.

This restriction generally does not apply to investors from the European Union Member States and other states which are members of the European Economic Area.

### 3.5 The Management Board

A company's managing body is the management board, consisting of one or more members who are usually appointed by the shareholders. Members of the management board may be appointed from among the shareholders or other persons, irrespective of whether they are Polish nationals or foreigners. If it has more than one member and the company deed or statute does not provide otherwise, in its dealings with third parties a company must be represented by two members of the board, or one member and a proxy acting jointly.

A member of the management board cannot, without the consent of the company, engage in competitive activities, be a member of managing or supervisory bodies of a competitor of the company or be a partner in a partnership which is a competitor.

### 3.6 Supervisory Bodies

The company deed of a limited liability company may provide for the appointment of a supervisory board or an audit commission, or both. In companies with

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# Forms of Carrying out Business Activity Available to Foreign Entities in Poland

share capital in excess of PLN 500,000 and more than 25 shareholders, one of these two bodies is obligatory. Each body must have at least three members.

In a joint stock company, the supervisory board is an obligatory body and supervises the activity of the company on an on-going basis. The supervisory board is composed of at least three members appointed by the meeting of shareholders.

A member of the current management board, the company's liquidator and certain senior employees (e.g. chief accountant, legal counsel, etc.) may not be members of either of the company's supervisory bodies.

### 3.7 The General Assembly

The general assembly (in a joint stock company) or the shareholder's meeting (in a limited liability company), further referred to jointly as the general meeting, is the decision-making body in matters of major significance to the company. Its meetings may be ordinary or extraordinary.

An ordinary general meeting should take place once a year. It should be held during the first 6 months of the financial year.

Extraordinary general meetings may be convened at any time or when required by law.

The annual general meeting examines and approves reports from the supervisory

and management bodies and the financial statements, and discharges the management board and the supervisory board with regard to the performance of their duties during the preceding financial year. It decides on the payment of dividends or coverage of losses (in limited liability companies the deed may provide that this matter is outside the competence of the general meeting).

The general meeting rules, *inter alia*, on the following matters:

- claims for compensation for damage incurred during the establishment of the company, its management or supervision
- transfer or lease of the company's enterprise and establishment of a limited right in rem (e.g. pledge) thereon
- reimbursement of supplementary payments
- increase or decrease of equity
- changes in the company's scope of activities
- dissolution of the company.

During the first 2 years after the registration of a limited liability company, a shareholder's resolution is necessary to approve the purchase of real estate or fixed assets with a cost in excess of PLN 50,000 if this exceeds one-fourth of the share capital. A similar obligation exists in joint stock companies for the purchase of property from the company's founder or



shareholder or from an entity dependent on such a founder or shareholder, if the price exceeds 10% of the paid up share capital; any purchase of property from a dominating or dependent company also requires approval.

Ordinary and extraordinary general meetings are convened by the management board and can only be held in Poland. In a limited liability company, shareholders representing at least one-tenth of the capital may demand that the management board convenes an extraordinary meeting. In the event that the management board fails to do so within 2 weeks, the shareholders are entitled to convene an extraordinary meeting after they receive authorisation from the Registry Court. In a joint stock company, shareholders representing at least half of the share capital (or who are entitled to at least 50% of all votes) are entitled to convene an extraordinary general meeting.

Resolutions of a general meeting may also be adopted despite the fact that the meeting has not been formally convened and provided that the entire capital is represented and none of those present have objected to holding the meeting or putting certain matters on the agenda. It is often used in the case of companies that have one or a few shareholders, which allows resolutions to be adopted promptly. Shareholders of limited liability

companies may also adopt resolutions without convening a general meeting if all the shareholders consent in writing to the resolutions to be adopted or to written vote.

Shareholders can participate in meetings either in person or through representatives. A limited liability company's deed may provide restrictions in this respect. In both a limited liability company and joint stock company (except for a public joint stock company) it is generally forbidden for a member of the management board or for a company's employee to be a representative of a shareholder.

For a power of attorney to be valid, it must be made in writing and it must be attached to the minute book. Power of attorney authorising somebody to represent the shareholder at the general assembly of a public company may also be made in electronic form. Decisions of general meetings are generally adopted by an absolute majority of votes. A qualified majority is needed only in specific situations. For example, decisions by joint stock companies pertaining to changes in the statute require a three-fourths majority of the votes cast. Whenever these changes increase ownership commitments or restrictions of their rights, all affected shareholders must consent.

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A general meeting is valid irrespective of the number of shares represented, unless the company's statute or deed or legal regulations provide otherwise. All shareholders must be duly invited to the meeting. The minutes of general assemblies of joint stock companies must be recorded by a notary.

### 3.8 Dissolution and Liquidation

A company is dissolved if, *inter alia*, the following situations arise:

- circumstances anticipated in the company deed or statute occur, i.e. when the company reaches the end of the period for which it was set up
- the shareholders decide on the dissolution of the company (with regard to the obligation to convene an extraordinary shareholder's meeting due to significant losses, or to decide on the further operation of the company)
- the shareholders decide to move the registered office or principal activity abroad
- a court so decides that the aim for which the company has been established cannot be reached, or another important change in the company's internal situation occurs
- a court so decides upon the request of a competent state body in the event that

the company breaches the law in a way that endangers the public interest

- announcement of the company's bankruptcy.

The commencement of the liquidation procedure must be registered in the registration court and announced in the Polish Official Journal, together with a notification to creditors to submit their claims (in the case of a limited liability company they must do so within 3 months of the public announcement, while in the case of joint stock company, - within 6 months of the last announcement on the company's liquidation).

The shareholders may distribute the remaining assets in proportion to their participation in ownership only after the company has settled or safeguarded the interests of its creditors. This distribution can occur only after a period of 6 months (limited liability company) or 1 year (joint stock company) from the date of the liquidation announcement and the announcement to the creditors has lapsed.

Once the liquidation is terminated, the liquidator is authorised to prepare a final liquidation report and file it with the National Business Register, along with a request to delete the company from the register. In the event of a company's bankruptcy, the company shall be dissolved upon the completion of bankruptcy proceedings, as of being

deleted from the register. The rules and conditions of companies' bankruptcy are set in the Act on bankruptcy and rehabilitation. In general, bankruptcy is related to a company's insolvency.

A company may suspend its activity for a period of 30 days – 24 months, but only if such company does not employ any employees.

### 3.9 Branches and Representative Offices

Foreign natural and legal persons, including banks, insurance establishments and foundations can establish representations in Poland. The establishment and functioning of all types of representations is governed by Polish law.

Foreign parties can establish two kinds of representations: branches and representative offices. The scope of permitted activities for branches is larger than that of representative offices. Branches may carry out economic activity to the extent of the foreign entrepreneur's entire range of activity ("full-trading branches"). The activity of the representative office may consist only in promoting and advertising the foreign entrepreneur.

Branches are entered into a register held by the National Business Register on the basis of an application specifying the name, registered office, legal status and

scope of activity of the branch. Moreover, a foreign entity should:

- appoint a person in Poland who is authorised to represent the foreign enterprise
- file with the register a specimen signature of such person, certified by a notary public, a copy of the founding act together with a certified Polish translation, provided that the entity's activity is carried out on the basis of such act
- if the entity exists or carries out activity on the basis of an entry in a foreign register – file with the register a copy of the relevant excerpt from the foreign register together with a certified Polish translation.

Foreign parties coming from a country outside the European Union (and which are not from the countries indicated in the first paragraph of this Chapter [Legal Status]) may establish a branch on the basis of the principle of reciprocity (which states that Polish entities are allowed to carry out business in the country from which the foreign person comes on the same terms as local entities). The existence of reciprocity is not required whenever it is excluded by a treaty.

A representative office must be entered into the register of foreign representative offices kept by the Minister of Economy (this obligation does not apply to

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representative offices of banks and credit institutions).

The following documents should be appended to the applications filed with the Minister of Economy (*inter alia*):

- founding act of the foreign enterprise
- copy of the entry into the local commercial register
- statement by the foreign entity concerning the intention to set up a representative office on the territory of Poland
- a document confirming the legal title of the foreign enterprise to the premises in which the activity will be performed.

Branches, as well as representative offices are obliged to:

- use the name of the foreign entity, in the language of the state of origin, adding a Polish translation of the local legal form status and the words in Polish “branch in Poland” or “representative office in Poland”
- keep separate books in Polish, in accordance with Poland’s binding accounting laws
- report to the Minister of Economy all material changes to the factual and legal situation of the foreign entity that might have an effect on its Polish operation.

Both branches and representative offices can employ Polish or foreign nationals.

### Branches and Representatives of Banks

Foreign banks can have representative offices and/or branches in Poland. A bank’s representative office may not carry out banking operations.

A branch of a foreign bank can be fully operational. Permits for establishing a branch or representative office are issued by the Polish Financial Supervision Authority acting jointly with the Minister of Finance.

A branch of a foreign bank can offer services and products provided for in the banking regulations, which are listed in the said permit.

All credit institutions, including banks, with registered offices in a European Union country may set up a branch or conduct cross-border activity within the territory of Poland without the aforementioned permit.

A branch of a European Union bank may commence its activity on the territory of Poland within 2 months of the date on which the Polish Financial Supervision Authority received the information, as required and specified by Polish banking law, from the appropriate regulatory institution of the state of the branch’s origin.



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### 4.1 Accounting, Financial Statements and Auditing Requirements

#### Accounting

Polish accounting principles are governed by the Accounting Act ("the Act") dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) which regulates general bookkeeping principles, timing and procedures related to the physical verification of assets and liabilities, the valuation of assets, liabilities and equity, determination of the financial result, accounting for business combinations, financial statement formats, consolidation procedures, audit requirements, and archiving requirements.

Polish accounting regulations are binding for the following entities which have their registered office within the territory of the Republic of Poland:

- commercial companies (partnerships and companies, including those in the process of being established), and civil partnerships, other than those mentioned below, as well as other legal persons, except for the State Treasury and the National Bank of Poland
- natural persons, civil partnerships established by natural persons, general partnerships established by natural persons and professional partnerships. This only applies if their net revenue from the sales of merchandise, finished goods and financial transactions for the preceding financial year amounted to at least the Polish currency equivalent of EUR 1,200,000
- entities operating under the Banking Law, regulations on trading in securities, investment fund regulations, insurance regulations 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;
  - special purpose funds without legal personality;
- entities without legal personality, with the exception of the partnerships referred to above
- foreign entities, branch offices, representative offices of foreign enterprises as defined in the Economic Freedom Act
- entities other than those specified above, if they receive subsidies or grants from the State,, local authorities or special purpose funds for performing the tasks assigned to them, from the beginning of the financial year in which those subsidies or grants were awarded.

The Act has been amended since its introduction in 1995. Significant changes were made in 2001, 2004, 2008, 2010 and 2011.

The changes made in 2004 related mainly to the adoption of International Financial Reporting Standards by qualifying companies as required by European Union regulations (for details see: Adoption of EU Requirements).

The main changes made in 2008 related to simplifications of bookkeeping and the implementation into Polish law of certain requirements of the EU Directive 2006/46/EU (i.e. new disclosures in financial statements; joint responsibility of members of the management and supervisory boards for ensuring compliance with the Accounting Act. For details see: Accounting Records).

The changes made in 2010 allowed accounting records to be maintained outside Poland (for details see: Accounting Records).

The changes made in 2011 abolished the requirement to publish financial statements in "Monitor Polski B", the official Polish Legal Journal, effective from 2013 (for details see: Audit Requirements).

### Accounting Records

All accounting books and financial statements must generally be prepared and maintained in Polish and in PLN. Source documents relating to the accounting records may be in foreign languages and

need not be translated into Polish. At the request of an external review body or an independent chartered accountant, documents in a foreign language must be reliably translated into Polish.

All source documents and accounting books must, as a rule, be retained for a period of 5 years; however, annual financial statements must be kept permanently. The content of accounting records may, upon the approval of financial statements, with limited exceptions, be transferred to and stored in electronic form.

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).

The changes made to the Accounting Act in 2010 (brought about in compliance with the EU directive) allow accounting records to be maintained by an accounting service provider in Poland or another EU member state. If accounting records are held by a third party, and are thus not held on the entity's premises, the tax office should be duly informed and access to the book by authorised external review bodies at the registered office should be ensured.

The financial year, which is usually consistent with the tax year, consists of 12 consecutive months and may commence in any month. However, if it varies from

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the calendar year the tax office should be notified. The financial year, or any changes thereto should be determined in a company's articles or the partnership deed under which the entity was established. If the entity commences its activities in the second part of a financial year, the accounting books and financial statements for that period may be combined with the accounting books and financial statements for the subsequent financial year. If the financial year changes, the first financial year following such change should consist of at least 12 consecutive months.

The Management Board is responsible for the fulfillment of the accounting obligations specified in the Accounting Act, including a supervisory obligation. This applies even if certain accounting obligations have been delegated to another person upon that person's consent.

The Management Board and the Supervisory Board or other supervisory body are obliged to ensure that the financial statements and the report on the company's activities comply with the Accounting Act. The members of the Management and Supervisory Boards are jointly responsible for any losses caused by any action, or lack thereof, in violation of the obligations mentioned above.

### Physical Verification of Assets and Liabilities

As at the last day of each financial year, entities shall conduct a physical verification of:

- monetary assets (except for cash in the bank), securities held in material form, tangible current assets, property, plant and equipment and investment property, as well as machinery and equipment included in the property, plant and equipment under construction – by means of physical count, valuation of the counted quantities, comparison of their values with the values in the accounting records, as well as a reconciliation of and accounting for any discrepancies;
- financial assets deposited in bank accounts or held with other entities including securities in non-material form, receivables including loans granted and own assets entrusted to contractors – by means of confirmation from banks and contracting parties of the accuracy of these asset balances recognised in the entity's accounting records, and a reconciliation of and accounting for any discrepancies;
- property, plants and equipment which are difficult to access, land, and rights recognised as property, disputed or doubtful receivables, and for banks, non – performing receivables, receivables and liabilities with respect to persons that do not keep accounting records, receivables and liabilities in relation to the state or local authorities, as well as assets, liabilities and



equity other than those mentioned above, or those mentioned above if, for justified reasons, it was not possible to physically verify or confirm them – by means of comparing the values in the accounting records with the relevant documents and verifying the value of these items.

The dates and frequency of physical verification are regarded as met, if such verification of:

- items of assets, excluding monetary assets, securities, works in progress and materials, merchandise and finished goods expensed during the year and counted at the year 's end, began no earlier than 3 months before the end of the financial year and ended by the 15th day of the following year,
- materials, merchandise, finished goods and semi-finished goods, located in secure storage facilities and accounted for both in units and in value. The verification of these is performed once every 2 years,
- property, plants and equipment or investment property and other fixed assets or machinery and equipment included in property, plants and equipment under construction, located in a secure premises. The verification of these is performed once every 4 years,
- merchandise and materials (packaging) whose records are maintained at retail trade outlets, is performed once a year.

### General accounting rules

In the preparation of financial statements the following principles apply:

- assumption of the going concern basis,
- use of accruals and the matching concept,
- with the exception of a few asset categories (for example investment properties and financial instruments), the prudent valuation of each asset item takes place on a cost basis; fixed assets are valued at acquisition cost, net of depreciation and impairment allowance, including borrowing costs; raw materials and merchandise, finished products and works in progress are valued at the lower of cost and net realisable value; the cost of inventories may be determined either on a specific identification, weighted average, FIFO or LIFO basis,
- valuation of creditors and debtors at their amounts due; if denominated in foreign currency they need to be translated into PLN in accordance with the exchange rate as at the balance sheet date. Allowances should be raised for doubtful debtors,
- provisions should be raised for certain or probable future liabilities (being in principle an obligation resulting from past events), when the amount can be reliably estimated,
- consistency between accounting periods and full disclosure of changes in accounting policy. Where justified, accounting policies

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may be changed with effect from the beginning of a new year. The impact of such a change must be disclosed,

- substance over form – events should be recorded in the accounting records and disclosed in the financial statements in accordance with their economic substance.

For matters not regulated by the Act, entities may apply national accounting standards (“NAS”) issued by the Accounting Standards Committee (as at 31 December 2012, 7 NAS had been issued). If there is no applicable domestic regulation or standard, entities may apply IFRS EU.

Depreciation of property, plant and equipment and amortisation of intangible fixed assets should be determined based on the expected useful life of the asset. Land is not depreciated. Property, plants and equipment under construction are not depreciated until they are capable of being brought into use.

Compared with the accounting principles commonly adopted in other countries and under IFRS, Polish principles require similar policies for raising provisions for losses and costs. The value of the inventory and receivables also needs to be written down. However, accruals and provisions that are justified from an economic point of view, and are obligatory according to accounting principles, may not be fully tax-deductible.

The Act provides for accounting for deferred taxation where temporary differences

between the values of assets, liabilities and equity for accounting and tax purposes have arisen. Deferred tax assets are determined at the amount of income tax recoverable in the future with respect to deductible temporary differences that will result in the future decrease of the tax base and tax losses carried forward, taking into account the prudence principle.

Legal mergers of commercial companies are accounted for and recognised as at the merger date in the accounting records of the company taking over the assets and liabilities of the combining companies (the acquirer), or the new company established as a result of the combination (a newly formed company), using the acquisition method, except as indicated below.

The merger date represents the date on which a merger is registered in the court register.

Accounting for a legal merger under the acquisition method involves the adding of the particular items of assets and liabilities of the acquirer, at their book value, and the relevant items of assets and liabilities of the acquiree, at their fair value determined as at the merger date.

The assets and liabilities of the acquiree as at the merger date also include any assets and liabilities which have not previously been recognised in the acquiree’s accounting records and financial statements, if such assets and liabilities are identified as a result

of a merger, and if they meet the definition of assets and liabilities.

The surplus of the acquisition cost over the fair value of the acquiree's net assets is recognised as goodwill and amortised over 5 years. In justified cases such period can be extended to 20 years.

The surplus of the fair value of the acquiree's net assets over the acquisition cost, i.e. negative goodwill, up to an amount which does not exceed the fair value of the acquired non-current assets, other than long-term financial assets listed on regulated markets, is recognised by an entity as deferred income over a period which is the remaining weighted average useful economic life of the acquired depreciable assets. The amount of negative goodwill that exceeds the fair value of non-current assets, other than long-term financial assets listed on regulated markets, is recognised as income as at the merger date.

Mutual receivables and liabilities, as well as similar balances, are eliminated.

The pooling of interests method for merger accounting is only allowed for entities under common control. However, this method is optional. In all other cases the acquisition method should be applied.

A merger under the pooling of interests method entails combining the individual items of relevant assets, liabilities, revenue and the costs of the combined companies at their book value, as at the merger date,

having adjusted them in order to unify valuation methods and after necessary eliminations.

It should be noted that the accounting requirements with respect to financial sector entities (e.g. banks, insurance and re-insurance companies, brokerage houses, investment funds, pension funds) are further regulated by detailed accounting requirements.

## **4.2 Financial Statements and Audit Requirements**

### **Adoption of EU Requirements**

In accordance with the requirements of the Regulation of the European Parliament and the European Council of Ministers of 2002 and the Regulation of the European Commission on the implementation of International Accounting Standards (International Financial Reporting Standards – "IFRS"), entities issuing commercial papers or publicly quoted securities on the regulated markets of EU countries are required to prepare their consolidated financial statements in accordance with IFRS as adopted by the European Union ("IFRS EU"), from the financial years beginning on or after 1 January 2005.

Simultaneously, EU members are allowed to decide whether the requirements related to the preparation of consolidated financial statements in accordance with International

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Financial Reporting Standards will be extended to other entities.

The adoption of the requirements of the European Parliament and of the European Council of Ministers into the Polish accounting legislation was finalised during 2004.

In terms of the 2004 amendments to the Act, the consolidated financial statements of publicly traded companies and banks are to be prepared in accordance with IFRS EU.

Issuers admitted to trading or applying for public trading on a regulated market in the EEA and subsidiaries of groups where the parent entity prepares consolidated financial statements in accordance with IFRS EU may prepare their financial statements in accordance with IFRS EU. The decision to apply IFRS EU is taken by the body entitled to approve financial statements.

Entities that prepare their financial statements in accordance with IFRS EU must conform to the provisions of the Act and the related legislation in matters not regulated by IFRS EU.

### Financial Statements

The annual financial statements of entities, prepared in accordance with the Act comprise a balance sheet, income statement and supplementary information (including an introduction to the financial statements and supplementary notes). In the event the that entity's financial statements are required to

be audited, the annual financial statements also include a statement of changes in equity and a cash flow statement. The formats for reporting each of the above statements, as provided by the Act, are presented in Appendix D. These formats represent the minimum presentation requirements rather than an obligatory template.

The financial statements are accompanied by a Management Board report on the company's activities commenting on, *inter alia*, the financial and economic situation of the entity. The annual financial statements should be prepared within 3 months of the balance sheet's date.

Groups exceeding the size limits set down by the Act are required to prepare consolidated financial statements. Exercising control over another entity i.e. the ability to govern the financial and operating policies of another entity in order to obtain economic benefits from its activities is the primary criterion in determining whether an entity is classified as a subsidiary.

Subsidiaries are consolidated using the full consolidation (acquisition accounting) method whereas jointly controlled entities are accounted for under either the proportionate or equity method. Investments in associates are accounted for using the equity method.

A parent entity registered in Poland is not required to prepare consolidated financial statements if it is a subsidiary of a company

registered in the EEA and a more senior parent holds at least 90% of the shares in the company and the remaining shareholders, if any, have agreed to the consolidated financial statements not being prepared. However, this is conditional on the consolidated financial statements of the more senior parent – including the parent and its subsidiaries and such consolidated financial statements of the more senior parent – being filed, in Polish, with the parent’s Registry Court. Until 31 December 2012, they also had to be published in “Monitor Polski B”, the official Polish Legal Journal (see below for changes effective from 2013).

Consolidated financial statements should be prepared within 3 months of end of the year and need to be approved within 6 months of the end of the financial year.

The financial statements, the Management Board report on the company’s activities, a certified copy of the resolution of the General Meeting on the approval of the financial statements and the resolution on the distribution or allocation of the financial result are to be filed with the entity’s Registry Court within 15 days of the General Meeting. The annual financial statements are approved by the approving body within 6 months of the balance sheet’s date. If the financial statements have not been approved by the required date, they should be filed within 15 days of that required date, and again, with all

the required documents described above, within 15 days of the approval.

As required by the Commercial Companies Code, joint stock companies are obliged to create a capital reserve fund of at least 8% of their after-tax profits until such a reserve fund amounts to at least one third of its share capital.

Until the end of 2012, all companies subject to annual audit were obliged to publish their financial statements together with the audit opinion and the resolution of the General Meeting on the approval of the financial statements and the resolution on the distribution or allocation of the financial result in “Monitor Polski B”, the official Polish Legal Journal. The amendments to the Act in 2011 abolished the obligation to publish financial statements in “Monitor Polski B” with effect from 2013. Effective from 1 January 2013, financial statements only need to be submitted to a Registry Court, which grants external users access to them. Entities which are not subject to the Act on the National Court Register, such as natural persons or civil partnerships established by natural persons, are still obliged to publish their financial statements in “Monitor Sądowy i Gospodarczy”, a widely available national journal.

It should be noted that reporting requirements with respect to financial sector companies and publicly traded companies

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are further regulated by detailed reporting requirements.

### Audit Requirements

Requirements for the statutory audit of financial statements are applicable to all joint stock companies, banks and insurance and re-insurance companies, investment funds, brokerage houses and pension funds, regardless of their size. Other entities are subject to audit if, in relation to the preceding financial year, two of the following three size criteria are present:

- average yearly employment of at least 50 persons,
- net revenue from the sales of merchandise and finished goods and the financial income for the financial year of at least the Polish currency equivalent of EUR 5 million,
- total assets as at the end of the financial year of at least the Polish currency equivalent of EUR 2.5 million.

The above mentioned amounts denominated in EUR are translated into Polish currency at the average exchange rate set by the National Bank of Poland as at the last day of the preceding financial year.

It follows that, on the basis of size, a limited liability company may not be subject to an audit requirement. However, the financial statements of acquirers and newly-formed companies, prepared for the financial year in which a merger took place, as well as

financial statements prepared in accordance with IFRS EU need to be audited.

An audit must be carried out prior to the approval of the financial statements by the entity's General Meeting and must be performed by an independent chartered accountant who is licensed, on an individual or corporate basis, as an authorised auditor. Appointment of an auditor shall be made by the General Meeting unless a company's articles or deed or other law indicates otherwise. The Management Board may not appoint the auditor.

The statutory auditor or audit firm may be dismissed only where there are proper grounds. Divergence of opinions on accounting treatments or audit procedures are not proper grounds for dismissal. The Management Board and statutory auditor shall immediately inform public oversight body of the dismissal or resignation of the statutory auditor or audit firm.

The period of appointment of the audit firm is not limited in time except for insurance undertakings, for which an audit firm may be appointed for a maximum period of 5 years.

For public interest entities (PIEs) rotation applies to the individual with the key certified auditor role; a Polish certified auditor who signs the audit opinion and is responsible for conducting the audit on behalf of the audit firm. The key certified auditor in a PIE rotates at least every 5 years from the date of the

appointment, with at least a 2-year cooling off period.

### Audit Committees

Most public interest entities are required to establish an Audit Committee. The Audit Committee should consist of at least 3 members, at least one of which is independent and has qualifications in accounting or auditing. If the Supervisory Board consists of no more than 5 members, an Audit Committees tasks may be executed by the Supervisory Board itself. Certain public interest entities (e.g. investment funds or pension funds) and entities which do not have a Supervisory Board are exempt from Audit Committee requirements.

The main responsibilities of an Audit Committee are to monitor the financial reporting process, the effectiveness of the company's internal control, internal audit and risk management systems and the statutory audit of the annual and consolidated financial statements. They also need to review and monitor the independence of the statutory auditor.

The Audit Committee makes a recommendation to the Supervisory Board as to the appointment of a statutory auditor. The statutory auditor reports to the Audit Committee on key matters arising from the audit and in particular on material

weaknesses in internal controls in relation to the financial reporting process.

### 4.3 Leasing Regulations

According to the definition in the Civil Code, leasing is a contract whereby the lessor purchases an object from an identified supplier and gives the object to the lessee for use. The conditions of the purchase and the identity of the supplier are agreed between the lessor and the lessee. Rent is paid to the lessor by the lessee in instalments, and should be at least equal to the price or fee paid by the lessor to the supplier. The leasing contract should be made in writing, otherwise it is null and void.

The parties can freely determine the duration of the leasing contract. However, the contract must always be for a specified period of time.

In the leasing contract, the parties can stipulate that after the lease comes to an end, the lessee is entitled to demand a transfer of ownership, without any additional fee.

The regulations determine the basic rights and obligations of the parties. The lessee is obliged to keep the object in a state of good repair, ensuring regular maintenance to prevent any deterioration of its condition. The lessee is also obliged to bear any costs associated with the ownership or possession of the object.

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In general, all rights of the lessor connected with legal or physical defects of the object are transferred to the lessee – with the exception of a situation whereby defects result from circumstances caused by or due to the actions of the lessor.

The lessor is permitted to terminate the leasing contract with immediate effect if payment is delayed by at least one instalment. However, the lessor may not terminate the leasing contract before sending a notice to the lessee in which an additional period for payment is set out. If the lessee does not make the payment during the additional period, the lessor is entitled to terminate the leasing contract.

Moreover, the termination of the leasing contract by the lessor is permitted in the following cases:

- the lessee uses the leased object in an improper manner
- the lessee makes alterations to the leased object without the lessor's consent and does not remove them, unless such alterations result from the designation of the leased object
- the lessee fails to keep the object in a state of good repair.

In the event of the termination of the leasing contract by the lessor due to a fault of the lessee, the lessor can demand immediate payment of the rent. The rent should be decreased by any benefits obtained by the

lessor as a result of the early payment under the leasing contract.

The lessee can terminate the leasing contract only when the leased object is defective and the responsibility for that defect lies with the lessor.

Apart from the general requirements for conducting economic activity in Poland, there are no specific licences or requirements to be met in Poland in order to establish and run a company carrying out leasing activities.

### 4.4 Exchange Control Regulations

This matter is regulated in the Foreign Exchange Law and indirectly by the Civil Code, which were amended at the beginning of 2009.

The regulation concerning this matter provides a definition of residents and non-residents. Residents are, *inter alia*, natural persons domiciled in Poland and companies which have their registered office in Poland, branches, representative offices and enterprises created by non-residents within the territory of Poland. Non-residents include, *inter alia*, natural persons with foreign residence and companies seated outside Poland, as well as branches, representative offices and enterprises created by residents outside the territory of Poland.

The Law also includes a new definition of third countries. These are countries other than Poland which are not members of



the European Union. Countries that are members of the European Economic Area and OECD are treated on equal footing with countries that are members of the European Union.

According to the last amendment to the of Civil Code and Foreign Exchange Law, monetary liabilities can be expressed in foreign currency. In this case, payments in Poland can be made in Polish currency, but also in a currency other than Polish zloty if it results from the provisions of statutes, court rulings or civil actions.

Foreign exchange transactions with the European Union, OECD, European Economic Area countries are generally not restricted. There are a number of transactions/ payments, particularly transactions with third countries, that require individual foreign exchange permits issued by the president of the National Bank of Poland (however, some exceptions are provided in a general foreign exchange permit regulation, in particular for business relations with countries with which Poland has signed a bilateral investment treaty). Regarding the last amendment, there are no limitations in terms of transactions such as concluding agreements or taking other civil actions which result in payments in foreign currency.

The Law also defines several terms applied in foreign exchange transactions, such as:

- “convertible currencies” - currencies that fulfil the requirements of Article VIII of the statute of the International Monetary Fund
- “foreign currencies” - currencies that are legal tender outside the territory of Poland, as well as international instruments (e.g. SDR)
- “foreign currency transactions within the territory of Poland” - these are, *inter alia*, transactions that may result in settlements being made in foreign currencies, or the transfer of the ownership of foreign exchange values between residents and non-residents
- “foreign currency transactions with foreign countries” - these are, *inter alia*, transactions that may result in financial settlements being made between residents and non-residents, or in the transfer between residents and non-residents of the ownership of foreign exchange values, or domestic means of payment.

International money transfers abroad exceeding the equivalence of 15 000 EUR should be made via entitled banks or an other domestic or EU payment institution or its branches as defined under the Act on payment services, unless the bank or other such institution is party to a transaction.

Foreign exchange regulations state that some information must be reported to the National Bank of Poland, which includes, but is not limited to the following:

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- investment firms, within the meaning of the Act on the turnover of financial instruments dated 29 July 2005, which run securities accounts, conduct foreign exchange transactions or act as an agent within those exchange transactions are obliged to submit monthly reports
- entrepreneurs running the exchange offices, are obliged to submit quarter reports.

### 4.5 Intellectual and Industrial Property

Polish law protects industrial and intellectual property and forbids unfair competition in the areas of industry, literature, scientific works and artistic works. This protection includes, *inter alia*, copyright, the work of performing artists, computer programmes, soundtracks, films, radio and television productions, inventions, industrial samples, industrial designs, trademarks, company logos, trade names and descriptions of geographical designations.

Poland, being a member of the European Union, fulfils all the requirements and standards of the European law in this matter.

Poland is a member of the Berne Union (the union for the protection of the rights of authors), the Paris Union (for the protection of industrial property), the Patent Cooperation Treaty (Washington 1970), the Convention of Granting of a European Patent (Munich 1973) and the Madrid Agreement for

the International Registration of Trademarks and the World Institute for the Protection of Intellectual Property (WIPO). Poland is also a signatory of the Rome Convention for Protection of Artistic Performers, Producers of Phonograms and Broadcasting Organisations. In addition, Poland is a party to the Agreement of 1996 on Trade Aspects of Intellectual Property Right as well as to the bilateral Treaty on Economic Co-operation between Poland and the USA (Washington 1990). Consequently, foreign citizens and other legal entities enjoy the right to protection of their intellectual property by virtue of either Polish and European law or international treaties.

### Copyright

The Polish Law on Copyright and Neighbouring Rights ("the LCNR") was adopted on 4 February 1994.

In Poland, a copyright does not need to be registered. Protection is derived directly from the law.

According to the LCNR the following types of intellectual property, *inter alia*, are protected:

- works expressed in words, mathematical symbols, graphic signs, literary, journalistic, scientific and cartographic works and computer programmes
- artistic works
- photographic works
- industrial design works

- architectural and/or town planning works
- musical and textual works (including separately musical and textual)
- stage works, musical stage works, choreographic and pantomime works, and
- audio-visual (including films) works.

Please note that the LCNR also protects computer programmes. Computer programmes are subject to the same protection as literary works. The current provisions of the law incorporate the basic provisions of the European Union law.

The rights of authors include both economic and personal rights. Generally, economic rights expire 70 years after the author's death.

### Industrial Property Legislation

The Polish Industrial Property Law meets the standards of most European Union countries and is comparable to that of countries such as Germany and France. According to this law there is no difference in the criteria determining the granting of protection, the object of protection and the rights of the authors. Poland has also ratified most international agreements concerning the protection of industrial property such as the Patent Cooperation Treaty. Poland is also a member of the European Patent Organisation.

Legal protection of industrial property under the Industrial Property Law lasts for the following periods (provided that all periodical fees are paid regularly):

- registered patents - 20 years,
- utility models - 10 years,
- industrial designs - in general, 25 years.

A patent confers an exclusive right on the patent holder to use the patented invention in Poland.

A patent expires as a result of:

- the elapsing of time for which it was granted,
- waiving of the patent by its holder in front of the Patent Office,
- failure to pay the fee on time,
- a permanent loss of the possibility to utilise an invention caused by a lack of biological material, which has become unavailable and cannot be reconstructed on the basis of a description.

A patent can also be nullified wholly or partly through the petition of any person having a legal interest if the person can prove that the conditions required by law were not satisfied.

### Trademarks

Any mark/sign that can be introduced in graphic form (e.g. a word, drawing, shape, sound) with the purpose of distinguishing

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the goods of one entrepreneur from those of another can be considered a trademark.

Trademark protection is obtained by registering the trademark with the Patent Office, and is valid for 10 years from the date of correct submission of the trademark. This protection can be extended for subsequent 10-year periods on the application of the person holding the right.

Since 1 May 2004, Community Trademarks (CTM) have also been protected in Poland.

### Unfair Competition

Polish law protects Polish and foreign parties against the following forms of unfair competition:

- designation of an enterprise, which may mislead customers as to its identity, business name etc.,
- attempting to convince the public that goods or services originate from a person other than the true producer or supplier, or that they originate from another country or region,
- imitation of a ready-made product by copying the external appearance of the product by any technical means of reproduction, if this could mislead the consumer as to the identity of the producer or product,
- violating the rights of a person by disseminating false information, publishing others' trade or technological secrets, or

inciting others' employees not to comply with their employment obligations,

- inducing customers or other persons to terminate agreements, not to perform or to perform improperly the agreements for his/her own or another person's benefit or to the detriment of the enterprise concerned,
- hindering access to the market of other goods, which includes but is not limited to the sale of goods or services below the manufacturing costs, inducement of a third party to deny sales to other entrepreneurs or to refrain from the purchase of goods or services from others, unreasonably differential treatment of certain customers, etc.,
- unfair advertising, in particular a comparative advertisement (which is allowed under certain conditions),
- the Civil Code specifies some contractual provisions that are not allowed in contracts concluded with consumers, e.g. making the conclusion of a contract contingent upon a consumer's promise to enter into further similar contracts in the future, depriving only the consumer of the right to dissolve the contract, etc.

### 4.6 Anti-Monopoly Law

The Office of Competition and Consumer Protection (UOKiK) is responsible for promoting competition in the market and

protecting businesses and consumers from monopolistic practices. The UOKiK also supervises the formation, merger and transformation of businesses in order to monitor the risk that they will obtain a dominant position in the market.

Prohibited monopolistic practices include:

- entering into restrictive covenants, in particular aimed at:
  - direct or indirect fixing of prices and purchase and sale conditions,
  - limiting or controlling production, sales, or technical progress or investment,
  - dividing sale or purchase markets,
  - applying, in similar contracts with third parties, burdensome or diversified provisions, which create for these people disparate competitive conditions,
  - making a contract conditional upon the acceptance or fulfilment by the other party of a performance that is unrelated either by its substance or by customary practice to the object of the contract,
  - limiting market access to persons who are not a party to restrictive covenants or the elimination of such persons from the market,
  - agreement on quoted conditions by entrepreneurs participating in competitive tendering proceedings or between the entrepreneur and the organiser thereof, in particular with respect to the scope of works or price.
- abusing a dominant position in the market, particularly in the following ways:
  - imposing directly or indirectly unfair prices, including those which are excessively high or drastically low, distant payment dates, or other conditions of purchase or sale of commodities
  - limiting production, sale or technical progress to the detriment of contracting parties or consumers
  - counteracting the establishment of conditions essential to the emergence or development of competition
  - imposition by an entrepreneur of burdensome contractual conditions whereby the entrepreneur obtains unfair benefits
  - dividing the market by the criteria of territory, assortment or subjects.
- violating common consumers' interests:
  - applying provisions of model forms of contracts which were entered into the register of banned provisions
  - violating the obligation to pass to the consumer reliable, real and comprehensive information
  - unfair market practices or acts of unfair competition

Consumers are also protected under the Act dated 23 August 2007 on counteracting unfair market practices. Provisions of this Act provide specific examples of such practices, *inter alia*: misleading or aggressive market

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practice, conducting activity in the form of a Ponzi scheme.

The UOKiK issues administrative decisions to force the discontinuation of monopolistic practices wherever they can be proved to exist. In particular, it orders parties to cease such practices, impose new or modify existing contractual terms, or even nullify contracts or particular contractual terms. In the event of a breach of the law, the UOKiK has a wide spectrum of fines at its disposal. The UOKiK also influences the formation of new business entities and the merger of existing ones. Any intention thereof must be announced whenever the circumstances provided for in the specific regulations may occur. In the event that the total value of the sales of the merging businesses in the preceding year exceeds EUR 1 billion (thousand million) of the world turnover or EUR 50 million on the territory of Poland, the following must be notified to the UOKiK:

- a merger of two or more or more independent businesses,
- a takeover – whether through acquiring or taking up shares, other securities, all or a part of the assets, or otherwise – of direct or indirect control of the entirety or part of one or more enterprises by one or more entrepreneurs,
- establishing of a joint venture by entrepreneur,

- acquiring by an entrepreneur part of an other entrepreneur's assets (the whole or part of the enterprise), if the turnover of these assets during one year out of the two preceding the notification exceeded the equivalent of EUR 10 million on the territory of Poland.

Polish law provides exemptions in this scope, in particular when the entrepreneurs belong to the same capital group.

The UOKiK can prohibit the intended transaction if the parties concerned might thereby attain or strengthen a dominant position in the market. A dominant position means such position of an entrepreneur which, by affording him or her a significant scope for operating independently of competitors, contracting parties and consumers, renders him or her capable of preventing effective competition on the legitimate market. An entrepreneur is deemed to have a dominant position where his or her market share exceeds 40%.

The most severe sanctions available to the UOKiK are, *inter alia*, dividing a business in breach of the law or the issuance of an order to sell all or part of the entrepreneur's properties. Foreign investors acquiring shares in existing companies in Poland or acquiring companies subject to the privatisation process should ensure that these actions are approved by the UOKiK, as presented above.

The law guarantees parties the right to appeal to a court against the decisions of the UOKiK. The National Registry Court will make an entry in the register only if the President of the above mentioned office has given consent to effect a concentration, or if the entrepreneur has established that the concentration intent is not subject to notification requirements.

#### 4.7 Labour Law

The principal act regulating Polish labour law is the Labour Code. However, under Regulation (EC) No 593/2008 of the European Parliament and of the Council on the law applicable to contractual obligations (Rome I), it is possible to subject an employment agreement with a Polish citizen under to foreign law. However, the employee will be protected by provisions that cannot be derogated from by agreement under the law that, in the absence of choice, would have been applicable pursuant to the above Regulation, which in general means that foreign law cannot be less favorable than Polish law.

All conditions of an employment contract governed by Polish law should conform to the provisions of the Labour Code. Contractual terms unfavourable to employees are automatically replaced by the corresponding provisions from the Labour Code.

The Labour Code also applies to foreigners employed in Poland. Foreigners must obtain a work permit from the relevant administration authority and the duration of the employment contract cannot exceed the time for which the work permit has been issued. Work permit proceedings take approximately 1 month to complete.

However, since 1 May 2004 the following groups of foreigners have been exempt from the obligation to acquire a work permit:

- citizens of the European Union Member States or Economic European Area or countries which are not members of the agreement of the EEA, who may use the freedom of movement of workers under respective agreements with European Community
- family members of a foreigner (as mentioned above) or descendents and ascendants of a spouse of such foreigner .

(other exemptions are specified in the Act on employment promotion and labour market institutions and the regulation of 20 July 2011 [Dz.U.2011.155.919] on cases when the assignment of work for a foreigner on the territory of Poland is allowed without permission).

Other key labour issues are set out below.

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### Employment Contracts

Employees should be at least 18 years old (persons aged 16 and 17 can be employed only under certain conditions).

The employment contract can have one of the following forms:

- a contract concluded for a trial period that may not exceed 3 months. This type of contract normally precedes other types of employment contracts,
- a contract concluded for an unlimited period of time,
- a contract concluded for a limited period of time. Generally there are no restrictions on the duration of the period, and this type of contract can be renewed. In the event that there are two consecutive contracts for a limited period and the intervals between the contracts are shorter than 1 month, the next contract (the third one) can only be concluded for an unlimited period,
- a contract concluded for a limited period of time to substitute another employee, in the case of his or her justified absence from work (concluded only for the specific duration of the absence),
- a contract concluded for the period required to complete a specified task,
- a contract concluded for the performance of casual or seasonal work, of work performed on a repeatable basis (e.g. employment during the harvest).

Employment contracts should be in written form. If concluded in another form, the employment contract is valid, but the employer must confirm in writing all arrangements relating to working conditions and type of work on the day of commencement of work at the latest. The employment contract must include the following information: type of contract, date of its conclusion, type of work, place of the performance of work, remuneration, indicating its constituents (e.g. bonus), the amount of working time and date of commencement of work. Employees are obliged to work with due care and must obey instructions given by the employer. Employees are liable for any damage they cause, up to a maximum sum equalling 3 months of their salary; this limitation does not apply to money or material assets that have been entrusted to employees under a separate agreement.

If an employee has deliberately inflicted damage then he or she is liable for reparations up to the full amount thereof.

### Termination of Employment Contracts

All employment contracts can be terminated by mutual agreement of the parties. Contracts for a limited period automatically terminate after the expiry of that period, and contracts for a specified task automatically terminate on the date the task is completed.



Most contracts can be terminated unilaterally, either with or without notice, depending on the circumstances. The Labour Code provides detailed rules for these situations.

### Termination with Notice

The required notice periods for contracts concluded for an unlimited period are as follows:

- 2 weeks - in the event that the employee has been employed for less than 6 months,
- 1 month - in the event that the employee has been employed for 6 months or more; the notice period ends on the last day of the month, and
- 3 months - in the event that the employee has been employed for 3 years or more; the notice period ends on the last day of the month.

As a rule, only employment with the current employer is taken into account when calculating the notice period. In some cases, the period of employment with a previous employer is also taken into account.

Some employees are subject to extended protection against termination of employment. Employees who have less than 4 years left until retirement, employees on vacation, sick leave, maternity leave, and some categories

of trade union managers are subject to protection.

The required notice periods in the case of contracts for a trial period are as follows:

- 3 working days, provided that the trial period does not exceed 2 weeks,
- 1 week, provided that the trial period is longer than 2 weeks but shorter than 3 months,
- 2 weeks, provided that the trial period is 3 months.

Employment contracts for a limited period exceeding 6 months can be terminated with 2 weeks' notice if such a possibility was provided in the contract of employment. In all cases, notice of termination must be made in writing. Additionally, notices of termination in the case of contracts for an unlimited period must make clear the justified, solid, and real reasons for the termination.

### Termination without Notice

The employer may terminate a contract without notice, in the event that the employee:

- seriously and culpably violates his or her basic duties
- commits an offence making further employment impossible; this offence must be manifest or proved by a judgment

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- in a culpable manner loses his or her qualifications that are necessary for the performance of the work
- becomes incapable of continuing work (the period of inability is specified in the Labour Code)
- if the employee's justified absence lasts more than 1 month for any other reason.

An employee can terminate the contract without notice if a health institution confirms that the work adversely affects his or her health. An employee can also terminate the contract without notice if the employer commits a serious violation of its basic obligations.

The statement of termination must be given in writing and must indicate the reasons for the termination.

Upon any termination of an employment contract, the employer must immediately provide the employee with a certificate of employment. This certificate should include the material terms of employment. The employee can request that the certificate be amended. The employee can have the content of the certificate examined before a labour court.

### Working Hours

The Labour Code provides that the hours of work should generally not exceed 8 hours per day and approximately 40 hours per 5-day working week in an "adopted

reference period" not exceeding 4 months. An employee should not work more than approximately 48 hours a week, which means that 8 hours of overtime is allowed per week. There are, however, some exceptions to this rule.

In principle, an employee is entitled to at least 11 hours of uninterrupted rest every day and to at least 35 hours of uninterrupted rest each week.

Work in excess of normal hours is deemed to be overtime work and is only permitted in the following situations:

- rescue operations required to protect human life or health, or to protect property in an emergency,
- whenever a business is specific and needs overtime. Overtime in this case cannot exceed 150 hours per calendar year; the daily amount of overtime cannot violate the right of the employee to daily rest.

In addition to basic remuneration, employees who work overtime are entitled to the following allowance:

- 50% of basic remuneration – in general for overtime work on business days,
- 100% of their basic remuneration – in general for overtime work at night, overtime work on Sundays and holidays.

In exchange for overtime work, the employer may grant the employee work – free time in the amount determined in the Labour Code

(in this event the employee is not entitled to an allowance for overtime work).

Generally, managers (such as management board members, chief accountants) are not entitled to remuneration or allowance for overtime work. Lower level managers (head of units) are entitled to remuneration and allowance for overtime for work performed on Sundays or legal holidays, if in exchange for work on any such day they did not get another rest day.

### Remuneration

Remuneration is usually negotiated between the employer and employee, unless it is defined in a collective labour agreement. The Labour Code requires employers employing twenty or more persons to adopt remuneration rules. This is not the case if their employees are covered by collective labour agreements regulating remuneration and other employment benefits.

Every year the minimum monthly gross remuneration is determined through negotiations between the social partners (representatives of employees, employers and the government). If no agreement is reached, the minimum remuneration is determined by the Council of Ministers by means of a regulation adopted in accordance with the Minimum Wage Act – for 2013 it is PLN 1600 gross. Basic remuneration must

be paid at least once per month, unless the Labour Code permits exceptions.

Employees are not entitled to remuneration for products made or services rendered improperly due to fault on their part.

Employees are, however, entitled to remuneration for interruptions in employment for which they bear no liability.

Remuneration does not need to be determined and paid in Polish currency.

The Labour Code also requires employers to provide other benefits to employees, including:

- sick pay for employees who are absent from work because of illness lasting up to a total of 33 days in a calendar year (in the case employees of 50 years and over – illness lasting 14 days),
- death grants, and
- pension grants.

Compensation due to illness is paid by the employer for the first 33 days (14 days in the case of employees over 50), but thereafter it is paid by the Social Security Office (“ZUS”).

### Holidays and Other Leave

An employee is entitled to an annual uninterrupted paid holiday. The employee may not renounce his or her right to the leave. The duration of the holiday depends on the total time of the employee’s current and previous employment.

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The length of the holiday leave amounts to 20 days for employees employed for less than 10 years and 26 days for employees employed for at least 10 years.

An employee working for the first time acquires the right to holiday leave in the calendar year in which he or she commenced work upon the expiry of each month of employment in the amount of one-twelfth of the holiday leave to which he or she would be entitled after working for 1 year.

Vacation leave is granted on an hourly basis – one day of vacation leave equals 8 hours of work.

The employer must offer holiday leave in the calendar year in which the employee acquired the right to such leave. At the employee's request, the holiday leave may be divided into parts, but at least one part of the holiday leave should last at least 14 consecutive calendar days.

Employees who wish to improve their qualifications are entitled to additional study leave under specific conditions stipulated in the Labour Code.

Women are entitled to 20 weeks of maternity leave for their first child (or 31 – 37 weeks for multiple births depending on number of child born).

It should also be noted that under the conditions specified in the Labour Code, male employees entitled to a shorter period of paternity leave.

Since 2013 employees have been entitled to additional maternity leave (up to 6 additional weeks) and to parental leave (up to 26 weeks).

Employees who have been employed at least 6 months, are also entitled to up to 3-years of unpaid holiday to bring up their children (for children up to 4 years of age). In addition, one or two free days per year are permitted for family reasons, such as marriages, births, marriages of children, or deaths in the employee's close family.

### Limitation of Claims

There is a statutory 3-year limitation period on employment claims. This starts on the date on which the claim could have been raised. An employer's claim for compensation for damage caused by an employee as a result of failure to perform the employee's duties is, however, usually limited to 1 year from the date on which the employer became aware of the damage caused and in any event not later than 3 years after the occurrence of the damage.

Disputes falling within the scope of the labour law are considered by the labour courts. As to the principle, an employee instituting a case in a labour court is not obliged to pay the court fee in respect thereof.

### Possible legal opportunities in the scope of labour issues due to the financial situation of the employer

Due to the financial situation of the employer, it is possible to apply some legal actions in order to keep the employment level unchanged, but at lower costs:

- changing the terms of an individual employment contract by a notice,
- changing the terms of an individual employment contract on the basis of a settlement between the employer and employee allowing the employer to apply less beneficial employment conditions by way of revising the employment contract,
- introducing changes to a work organisation by moving to other departments within the same place of work,
- suspending, on the basis of a settlement between the employer and the trade unions (or the representatives of the employees), the application, in whole or in part, some provisions of the labour law (except for the labour code and statutory law).

If an employer is not able to organise work (work stoppage) and the reasons for this come solely from the employer's side, his or her employees shall be remunerated according to their hourly/monthly rate, or, if such component of remuneration was not determined - at the level of 60 % of their remuneration (the salary shall not be

less than the statutory minimum wage). In case of work stoppage, the employer may instruct his or her employees to perform other appropriate work. However, this must be at the remuneration rate explained in the first sentence of this point.

Polish labour law (in particular the Group Redundancy Act) provides for a group redundancy procedure, which applies to employers employing at least 20 people.

### Social Security

Employees and their families are entitled to free health care based on the general health insurance scheme. In addition, employees are entitled to other benefits such as:

- accident at work insurance
- retirement insurance, and
- pension insurance.

Basically the Polish social security system consists of three "pillars", to which payments are made. Pillar one: compulsory pay-as-you-go schemes; pillar two: compulsory capitalised private pension funds; and pillar three: voluntary capitalised funds, employee pension schemes and pension insurance. The first pillar is managed by the Social Security Office. It is worth noting that since 1 January 1999, contributions have been split between the employee and the employer. The procedure is as follows: the employer is obliged to pay social security contributions on his or

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her own behalf and withhold contributions on behalf of his or her employees. The employee pays a contribution amounting to 13.71% of their gross salary (9.76% for the pension fund, 1.5% for the disability fund and 2.45% for the illness fund), while the employer pays 19,48 – 22,67% of the gross salary (9.76% for the pension fund, 0,67 – 3,86% for the accident fund, 6.5% for the disability fund, 2.45% for the labour fund, and 0.10% for the Employees' Guarantee Benefit Fund). Once the employee's salary in a given year exceeds the statutory limit (PLN 111.390 for 2013 and it will be grow in following years), contributions toward the pension and disability funds cease.

Health insurance contributions, which allow access to free medical care in Poland, are calculated at 9.00% of the taxable base (gross remuneration less the social security contributions paid by the employee).

### 4.8 Real Estate

Real estate is understood as land, buildings on land, and apartments. If the law does not provide otherwise, the use of real estate in Poland takes the following forms:

- ownership,
- perpetual usufruct, where the ownership of the land remains with the State Treasury or the municipality. The perpetual usufructuary is granted ownership of the buildings on the land and the right to use the land for

between 40 and 99 years in consideration for an annual fee. The perpetual usufructuary may sell or encumber the right of perpetual usufruct

- other rights in rem, such as servitudes or usage,
- tenancies and leases, where by agreements are entered into between the landlord/lessor and the tenant/lessee.

The main difference between a lease and a tenancy is that a tenant acquires the right to use the land and take profit from it (traditionally – crops grown on a farm), in consideration for rent paid to the landlord. A lessee on the other hand acquires the right to use the property only. Tenancy gives better protection to the tenant in general. A lease agreement between entrepreneurs concluded for a period longer than 30 years, shall be considered to have been concluded for an indefinite period of time after the lapse of this time. The same rule applies to a tenancy agreement, regardless of whether it was concluded between entrepreneurs or not.

### Purchase of Real Estate

All sale and perpetual usufruct agreements must be notarised in order to be valid. In addition, the Law on Acquisition of Real Estate by Foreigners requires foreigners, to obtain a permit from the Minister of Internal Affairs and Administration before they can

acquire real estate. This does not apply to citizens or entrepreneurs of the member states of the European Economic Area or from Switzerland.

The Law on Acquisition of Real Estate by Foreigners applies whenever foreign parties acquire or take possession of shares in companies that are the owners or perpetual usufructuary of real estate, if as a result of the acquisition:

- the company would become a foreign-controlled company, or
- the company is already a foreign-controlled company and the acquiring foreign party does not have a shareholding in this company.

Any purported acquisition of real estate by foreigners without a permit is invalid.

Foreign parties that are citizens or entrepreneurs of the member states of the European Economic Area or Switzerland are exempt from the obligation to acquire a permit for the purchase of real estate, except for agricultural and forest real estate, for a period of 12 years from the date Poland joined the European Union. Since May 2009, the said foreigners have also been allowed to acquire a second house in Poland without the obligation to obtain a permit from the Minister of Internal Affairs and Administration (the obligation existed for a period of 5 years from the date Poland joined the European Union).

For real estate purposes foreign parties are defined as natural persons without Polish nationality, legal persons seated abroad and legal persons with a seat in Poland but which are controlled, directly or indirectly, by non-Polish nationals or legal persons seated abroad. Companies are considered to be controlled if a foreign party (or parties) holds directly or indirectly a majority (over 50%) of the votes in the shareholders' meeting or general meeting of shareholders, or in the capacity of a pledgee or usufructuary, under agreements with other persons or if those foreign parties have a dominant position, i.e. they have the power to appoint or recall a majority of the members of the management board or supervisory board of a company. The Law on Acquisition of Real Estate by Foreigners sets out a number of exceptions, which allow foreign parties to acquire real estate without a permit. The most important of these refer to:

- the acquisition of flats for individual housing purposes, and
- the acquisition of real estate by companies with foreign participation for statutory purposes if the total area of real estate owned by the foreign entities in urban areas in Poland does not exceed 0.4 hectare (ha).

The sale of property or perpetual usufruct rights belonging to the State or municipality is in principle done by public tender..

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The permit fee, stamp duty and notary fee are payable upon the purchase of ownership or perpetual usufruct rights.

or bank guarantees, and the obligation to provide an information bulletin).

### Building investments on real estate (general remarks)

In general building investments may be carried out on the basis of a building permit issued by a respective administration authority. The decision on the building permit may be granted after *inter alia* the verification of the building project with the provisions of the local zoning plan or if the plan was not adopted by the municipality (commune) with a decision on building conditions. On 1 January 2004 all the local zoning plans adopted before 1995 expired and until now many communes (municipalities) have not prepared and passed new ones, which has a negative influence on investments in towns and cities. Nevertheless, building investments may be carried out under an individual decision on building conditions.

In 2011 the Polish parliament enacted a special act regulating real estate development projects and developer agreements (in force from 29 April 2012) in order to protect the rights of developers' customers (mainly individuals) (the Act on Protection of Flat or Single-Family House Buyers' Rights). This law imposes some new restrictions on real estate developers (mandatory agreements in notarial deed form, obligatory collaterals such as escrow accounts, insurance guarantees,







# Chapter 5

## Business and Personal Taxation

### 5.1 Taxes in Poland

The following taxes are those that are most frequently encountered:

- “tax on goods and services”, which is the Polish name for Value Added Tax (VAT),
- excise tax,
- income tax, which is levied on legal persons (Corporate Income Tax) and individuals (Personal Income Tax), with the exception of income from forestry and agricultural activities where agricultural tax is imposed. Agricultural tax is not discussed in detail in this booklet, but is similar in nature to income tax,
- local taxes and charges,
- stamp fees (duties), tax on civil law activities and notary fees.

As of 18 April 2012 the Act on Taxation of the Extraction of Certain Minerals became effective. The new tax is imposed on the extraction of copper and silver.

All taxes imposed on legal persons and individuals are regulated by separate acts passed by the Polish Parliament. These also serve as the basis for the publication of ministerial decrees that are normally issued by the Minister of Finance. In addition to decrees, the Ministry of Finance also issues bulletins with official interpretations of specific provisions. All laws on taxation are supplemented by the Tax Ordinance Law, which defines general issues related to the situations in which tax liabilities arise and

methods of enforcement. It also empowers the Minister of Finance to define the rights and duties of the tax authorities.

### 5.2 General Rules of Taxation

All new businesses are expected to register with the appropriate local tax office and obtain a NIP number (taxpayer identification number). Taxpayers conducting business activities are generally required to maintain accounting records to serve as the basis for the calculation of their tax. Businesses are obliged by law to calculate taxes due during the financial year, to make prepayments and to fulfil other duties.

Polish law provides for two ways in which tax liabilities arise:

- through the occurrence of specific events, which cause tax liabilities to arise; nearly all tax liabilities incurred by businesses are created this way,
- on the basis of an administrative order specifying the amount to be paid.

### 5.3 Taxation System

The Polish taxation system is composed of the following levels:

- The Minister of Finance, who is responsible for the execution of the national budget, and is, therefore, also empowered to issue executive decrees based upon appropriate authorisation contained in the given act passed by Parliament. The Minister of

Finance is responsible for global supervision of all issues related to the taxation system. All decisions which ultimately lead to a coherent application of fiscal regulations by local tax authorities fall within the scope of his responsibility. Since 1 July 2007 the Ministry of Finance has been the only tax authority competent for issuing individual and general tax rulings. Since 1 January 2012, the latter have been issued either ex officio or in response to an application. The authority to issue tax rulings has to a large extent been delegated to the Tax Chambers in Warsaw, Katowice, Bydgoszcz and Poznan (and as of 1 April 2011, to the Tax Chamber in Lodz) which issue tax rulings in the name of the Minister of Finance.

- Tax Chambers are hierarchically superior to Tax Offices and rule on appeals against Tax Office pronouncements.
- Tax Offices are tax tribunals authorised to issue administrative decisions with respect to taxpayers located within the area of their jurisdiction. Taxes are paid to the local Tax Offices.

Taxpayers have the right to lodge appeals against decisions issued by Tax Offices. If the taxpayer does not agree with the verdict of the Tax Chamber, he or she has the right to lodge an appeal with the District Administrative Court (WSA). Should the taxpayer not be satisfied with the verdict of the WSA, he or she has the right to lodge a cassation appeal with the Supreme Administrative Court (NSA).

In 2010 a new appeal against final and binding unlawful judgments was introduced to the Administrative Court Procedure Act. The appeal enables the reconsideration of final and binding unlawful judgments resulting damage to in taxpayers. The appeal can be filed against a final and binding District Administrative Court judgment and against the Supreme Administrative Court judgment (in the latter case only if the unlawfulness results from a gross infringement of EU law).

#### 5.4 VAT

The Polish Value Added Tax (VAT) system is harmonised with EU law and is based on Council Directive 2006/112/EC.

VAT is charged on:

- supply of goods and provision of services within the territory of Poland, for consideration,
- export and import of goods,
- intra-Community supplies of goods,
- intra-Community acquisitions of goods performed within the territory of Poland, for consideration.

Additionally, under particular circumstances, VAT is charged on free of charge supplies of goods or provisions of services, but with some exemptions (e.g. for supplies of small value gifts and samples).

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VAT was designed as a tax on consumer expenditure, rather than on businesses.

Registered taxpayers are entitled to deduct the VAT they have incurred on purchases ("input VAT") from the VAT they have charged on taxable activities ("output VAT").

### Registration for VAT

The application for VAT registration generally must be filed with the Tax Office before the first taxable supply is performed.

Taxpayers that intend to perform intra-Community transactions must additionally register for EU VAT. After the registration, they receive an EU VAT number and are included in the EU VIES database.

In some circumstances, the above obligation also concerns, the taxpayers that intend to purchase or provide cross-border services which are subject to the general rule with respect to the place of supply (i.e. taxable in the customer's country).

There are some exceptions to the general obligation to register, e.g. for small businesses.

### Exemption for Small Businesses

Businesses with total annual sales for the preceding tax year of at least PLN 150,000

are required to register for and charge VAT.

Businesses with total annual sales for the preceding tax year of less than PLN 150,000 are not required to register for VAT (but may register voluntarily), unless their sales for the particular year exceed the registration threshold.

Supplies of goods and services exempted from VAT, as well as supplies of fixed assets and intangibles, should generally be excluded from the calculation of the annual sales value.

The above mentioned exemptions from VAT registration, do not apply to foreign taxpayers (without their seat or place of residence in Poland), to suppliers of legal or jewelry services, or to taxpayers supplying new means of transport, precious metal products, goods subject to the excise tax (with some exceptions) and others.

### Output VAT

#### Tax base

VAT is generally calculated on the basis of the net sales price of goods or services, reduced by granted discounts.

The tax base is different in the case of, for example, imports of goods (reflecting in particular, the customs value of the goods increased by customs duty, excise tax, costs of commission, insurance and transport to the first destination in Poland,

etc), as well as in the case of stock broker services, consignment or agency sales, etc.

### VAT invoice

The supply of goods or provision of services should be documented with a VAT invoice, issued as a rule within 7 days after the sale.

The receipt of advance payment should also be documented with a VAT invoice, issued within 7 days after the advance was received.

The import and export of goods should be documented with a customs document (electronic notification).

### Sales to individuals

Sales of goods and services provided to individuals who are not carrying out business activities are generally (with some exceptions) recorded through the use of fiscal cash registers.

### Tax point

As a general rule, the tax point arises when the sale invoice is issued, but no later than on the 7th day after the goods were supplied or the services were completed.

Nevertheless, there are also exceptions to this general rule. As an example – in the case of advance payments, the tax point arises when the advance is received, and in the case of supplies of electricity or

telecommunication services – when the payment deadline expires, etc.

In the case of intra-Community supplies and acquisitions, the tax point arises on the 15th day of the month following the day when the supply or acquisition took place. However, if the invoice was issued before that day, the tax point arises on the day when the invoice was issued.

In the case of imports of goods (except for some special procedures), the tax point arises when the customs duty arises.

### VAT rates

The standard VAT rate imposed in Poland is **23%**.

The standard rate applies as a default rate, therefore it covers all the supplies of goods and services not entitled to preferential rates or the 0% rate.

The preferential VAT rates are: **8% and 5%**.

The 8 % VAT rate covers, *inter alia*, the sale of certain building and construction services relating to housing for individuals, “services connected with food” (with some exceptions), pharmaceuticals and medical equipment, passenger transport, accommodation services etc.

The 5 % VAT rate applies mainly to agricultural products, food (including ready-made meals, milk and dairy products, etc). This rate applies also to books and professional periodicals.

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In addition, the **0%** VAT rate is applied.

The 0% VAT rate, in addition to exports and intra-Community supplies of goods, applies to transport services related to the import and export of goods (under certain conditions described in the VAT Act), as well as to inward processing services.

Following the EU Directive, Polish VAT law provides exemptions from VAT for certain goods and services, including the medical, financial, insurance, education, public postage, some cultural and similar services and others, as well as the importation of certain goods and the sale of second hand goods.

### Input VAT

#### General rule

The taxpayer is generally entitled to reduce output VAT (resulting from sales) by the amount of input VAT incurred on the purchase of goods and services related to its VAT-able activity.

Input VAT related to VAT-exempt sales of goods and services is not deductible.

If input VAT relates to both types of supplies (taxable and exempt), the taxpayer should use the pro-rata method for determining the amount of deductible input VAT (if the precise assignment of part of this input VAT to a taxable sale is not possible).

#### The moment of deduction

In general, input VAT may be deducted:

- in the VAT return for the period when the VAT invoice or customs document is received,
- for imports of services or intra-Community acquisitions of goods (where VAT is accounted for using the reverse charge mechanism) - in the VAT return for the period when the VAT liability arises,
- if the invoice is issued earlier than the goods are supplied or services completed – not earlier than in the month when the right to dispose of the goods was transferred or the services were completed,

Input VAT may alternatively be deducted in one of the two following periods.

If VAT was not deducted in the above mentioned periods, the taxpayer may amend the VAT return in order to include (deduct) this VAT, within 5 years from the beginning of the year in which the right to recover input VAT arose.

#### Limitations of Recovery of input VAT

In the case of the purchase of a passenger car or other vehicles with a maximum allowed weight that is less than or equal to 3.5 tons (with some exceptions), only 60% of the input VAT may be recovered up to a maximum amount of PLN 6,000. Input VAT incurred on the fuel for such a car/vehicle is

not deductible. VAT on hotel and restaurant services is non-recoverable as a rule.

### Reverse-charge Mechanism

If the services are provided in the territory of Poland by a supplier with no seat or fixed place of business in our country, VAT with respect to this transaction should generally be self-charged by the recipient under the reverse charge mechanism. This does not apply to services connected with immovable property, if the supplier is registered for Polish VAT.

Until the end of March 2013, a similar rule applied to the supplies of goods. If goods are supplied in the territory of Poland by a supplier with no seat or fixed place of business in Poland, VAT with respect to this transaction should generally be self-charged by the recipient under the reverse charge mechanism. However, as of 1 April 2013, this rule does not apply if the supplier is registered for Polish VAT.

### VAT returns and VAT payments

VAT returns are submitted to the tax authorities either on a monthly or quarterly basis (quarterly – after notification of the tax authorities).

#### Monthly returns

In the case of monthly VAT returns, the VAT return must be submitted and VAT liability must be paid no later than on the 25th

day of the following month (or on the first business day, should the 25th day of the month be a non-business day).

#### Quarterly returns

In the case of quarterly VAT returns, the VAT return must be submitted no later than on the 25th day of the month following the quarter (or on the first business day, should the 25th day of the month be a non-business day).

Despite the fact that VAT returns are submitted on a quarterly basis, taxpayers are still obliged to pay the VAT liability monthly, no later than on the 25th day of the following month, in the amount of:

- 1/3 of the liability resulting from the previous VAT return, or
- the actual amount of VAT liability for a given month (after notification of the tax authorities).

### Refund of Surplus of Input VAT

If input VAT exceeds the amount of output VAT in the settlement period, the taxpayer is entitled either to carry forward this surplus to the following settlement period(s) or to apply for a refund.

The standard deadline for the tax authorities to transfer the surplus input VAT to the taxpayer's bank account is 60 days after the VAT return was submitted.

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Under certain conditions (e.g. if all the purchase invoices included in the VAT return were paid), this deadline may be shortened and VAT may be obtained within 25 days upon a written application of the taxpayer, submitted to the tax authorities.

If no taxable activities were performed in the settlement period, VAT may be refunded generally within 180 days, upon a written application of the taxpayer, submitted to the tax authorities.

The above mentioned deadlines may, however, be prolonged by the tax authorities, if an additional audit regarding the refund is necessary.

### Refund of VAT to non-residents

Foreign taxpayers not registered for Polish VAT, may claim a refund of input VAT incurred on the purchases of goods and services in Poland.

Refunds of input VAT can only be made to foreign taxpayers if this VAT would be refundable to a Polish taxpayer for the purchase of such goods or services. Furthermore, taxpayers from outside the EU can only claim a refund if their home country makes VAT refunds to Polish VAT payers (the reciprocity rule).

EU taxpayers should submit their application for the refund of VAT to the Polish tax office via their local tax

authorities. Travellers from outside the EU can also claim a refund of VAT on purchases in Poland.

### Bad Debt Relief

Polish regulations enable one to recover VAT charged for the supplies of goods or services, if a debtor (purchaser) does not pay for the invoice within 150 days after the payment deadline expires.

However, if the above mentioned deadline expires, the debtor is obliged to amend its input VAT, no matter whether or not the supplier recovered the output VAT.

### INTRASTAT Declarations

INTRASTAT declarations must be filed for intra-Community transfers of goods. These should be submitted to the customs chambers on a monthly basis, by the 10th day of the following month.

The obligation to submit INTRASTAT declarations arises after the threshold of PLN 1,000,000 (separately for deliveries and dispatch) has been exceeded. This obligation ceases in the year following the year that this threshold was not reached.



## 5.5 Customs Issues

### Introduction – Basic Rules

Entities operating in Poland are obliged to run their business according to the general rules deriving from European Treaties (i.e. the EC Treaty, the Euratom Treaty and the Treaty on European Union) as well as more specific customs legislative instruments based on them. The main community customs legislation is as follows:

- Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code (CCC),
- Commission Regulation (EEC) No 2454/93 of 2 July 1993 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code,
- Council Regulation (EC) No 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty,
- Council Regulation (EEC) No 2658/87 of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff,
- Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008.

### Community Customs Code

According to the Community Customs Code (CCC), all goods entering the EU customs area by crossing the Polish border should be placed under one of the following customs procedures:

- release for free circulation,
- external transit,
- customs warehouse,
- inward processing,
- processing under customs control,
- temporary importation,
- outward processing.

The institution of “reliable” exporters and importers is of significant importance in the simplification of the customs procedures applicable according to the CCC. As the name itself suggests, the simplified procedure involves streamlining the method for placing goods under one of the customs procedures. However, eligibility for the simplified procedure is dependent on the fulfilment of numerous formal requirements. The CCC provides the following three simplified procedures:

- Incomplete declaration – a declaration which does not contain all the particulars required, or a declaration which is not accompanied by all the necessary documents,
- Simplified declaration – presentation of a simplified declaration with

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the subsequent presentation of a supplementary declaration,

- Local clearance procedure - the customs procedure for the entry of goods is carried out at the premises of the importer.

Under the CCC, the customs authorities require security to ensure the payment of customs debts. The security may take the form of:

- a bank or insurance guarantee,
- a cash deposit,
- warranty documents provided for in international agreements (such as TIR or ATA carnets).

The amount of the security must fully cover the customs duty on the imported goods. The security is refunded when no further customs debt arises. The customs authorities do not pay interest on a released security.

The CCC foresees the possibility of customs formalities being handled through the agency of authorised individuals. There are two kinds of representation before customs authorities:

- Direct – where the representative acts in the name of and in the interest of a third party, and
- Indirect – where the representative acts in his or her own name but in the interest of a third party; this type of representation can only be provided by a customs agency.

### Customs Tariff

The EC tariff classification is a 10-digit commodity system applicable for goods being imported into the EU customs territory. The function of the tariff classification is to determine the duty rate applicable as well as other tariff measures such as suspensions, quotas, etc.

The EC 10-digit tariff classification system is based on the 6-digit Nomenclature of the Harmonised Commodity Description and Coding System (HS Convention). Digits from seven to ten refer to EU specific measures.

Conventional rates of customs duty are applied to goods which originate from countries with Most Favoured Nation status (MFN) and which are member countries of the World Trade Organisation (WTO). Autonomous customs rates are applied to goods imported from non-WTO countries or from other countries without MFN status.

Preferential rates that are significantly reduced or nil duty rates apply to certain goods imported from certain third (non-EU) countries with which the EU has reciprocal trade agreements (concluded with a number of third countries) or non-reciprocal agreements concluded with developing countries according to the General System of Preferences (GSP). Preferential tariff treatment established by the EU based on non-reciprocal agreements can be amended or revoked at any time.

In all cases, a certificate of origin must be submitted in compliance with the relevant trade agreement, otherwise lower customs duty rates cannot be applied.

It is possible to obtain a “Binding Tariff Information” Ruling (BTI). A request for a BTI can be placed by filing an EU application form, with the customs authorities of the country where the applicant is established or where the goods concerned will be imported. Once the BTI is issued it is binding for 6 years on the customs authorities of all member states.

Some goods may be imported within the framework of customs duty exemptions.

Examples of such goods are:

- personal belongings required by travellers,
- designs, samples, models and materials which do not have any commercial value, for advertising or canvassing purposes,
- pharmaceuticals and sanitary articles for scientific research or registration,
- goods intended for the official use of foreign diplomatic representatives, etc.

Fixed assets which are being contributed in kind from a foreign shareholder were previously (according to the Polish customs law) duty exempt, but according to the current CCC are subject to duty.

The CCC gives the European Commission the authority to exercise control over import activities by means of import tariff quotas, duty rate suspensions and tariff ceilings.

Import quotas offer reduced customs duties to those entities importing goods under quota permits. Importers are therefore encouraged to look at their operations in terms of the types of goods imported, since the goods may be covered by a quota. Unlike customs quotas, the system of customs rate suspensions and tariff ceilings allows the import of goods with a low or 0% customs duty rate without any special permits. Tariff ceilings are limited periods of time during which special rates apply to a defined quantity or value of imported goods. No special licence or permit is required to take advantage of these.

### Customs Value

The customs value is determined for the purpose of application of the EU Customs Tariff and other non-tariff measures related to international trade in goods. The common customs tariff, which is binding for all EU Member States, in most cases includes duty rates expressed as a percentage of the value of imported goods (ad valorem rate). A proper customs valuation is therefore of crucial importance, as it directly affects the calculation of customs liabilities of the majority of goods imported to the European Union.

Community customs law envisages six methods of customs valuation:

- Method 1: transaction value,

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- Method 2: transaction value of identical goods,
- Method 3: transaction value of similar goods,
- Method 4: deductive method,
- Method 5: computed method,
- Method 6: fall-back method .

The transaction value method is the first and most important method of customs valuation. The others are substitute methods, to be applied in the prescribed hierarchical order, i.e. the next method may be applied only when it is not possible to apply the previous method. With the exception of the computed method, which may be applied instead of the deductive method (on the importer's request).

### Authorised Economic Operators

The institution of an authorised economic operator was introduced in 2008. As of that date, operators interested in acquiring the AEO status may apply to the customs authorities for the grant of the AEO certificate, and, once the certificate is granted, benefit from facilitations of customs controls relating to security and safety and/or simplifications provided for under the customs rules.

The AEO status granted in any Member State of the European Union is recognised throughout the Community. The status authorises its holders to benefit from

facilitations of customs controls relating to security and safety and simplifications provided for under the customs rules. Among other benefits, this includes:

- Fewer physical and document-based controls,
- Giving priority to a consignment if it is selected for examination,
- Choice of the place of control,
- Notification of selection of a consignment for examination in advance,
- Fewer data required for summary declaration and customs clearance documentation,
- Facilitated access to customs simplifications.

The Community aims at mutual recognition of the AEO certificate in all countries implementing the AEO programme or an equivalent (such as C-TPAT in the United States). It is therefore possible for a holder of the Community AEO certificate to gain in the future the same benefits in third countries as authorised operators in those countries do.

What is more, some significant amendments to the customs and tax regulations have recently been made regarding entities using the simplified procedures for import transactions. Requirements concerning the simplified procedures have been modified in a fundamental way, whereas the Amendment

to the Polish VAT Act made it possible to obtain an additional material benefit for entities using the simplified procedures for import transactions (neutral import VAT settlement). The requirements to be met by applicants for the authorisation to benefit from particular procedures have been tightened, but also unified with the requirements for being granted the AEO status. Therefore, if an AEO applies for simplified procedures, the customs authorities do not re-examine the criteria that have already been examined within the procedure for granting the AEO certificate.

### Trade Protection Laws in the EU

Apart from the aforementioned tariff measures, Community legislation also provides for non-tariff instruments for import restrictions. Under anti-dumping legislation and legislation to combat excessive imports into the EU customs territory, upon the written request of the EU producers, the EU is entitled to defend its interests against injurious imports of similar or directly competitive goods and undertake steps to conduct certain procedures and apply protective measures. The European Commission is the executive EC body responsible for conducting and supervising the said proceedings as well as applying the necessary measures. If specific criteria are met, protective measures in the form of anti-dumping duty, minimum prices (in the

case of dumping), supplementary customs fees and quotas can be imposed (in the case of excessive imports). Manufacturers operating in Poland can also file a complaint with the European Commission through the Polish Ministry of Economy, Labour and Social Policy, which should provide applicants with assistance regarding the procedure. The Minister then sends an application to the European Commission. After evaluation of the evidence provided in the complaint, the Commission decides on the formal opening of proceedings or refusal thereof.

### 5.6 Excise Tax

#### *Taxable goods*

Polish tax legislation of excise duty results from the *acquis communautaire*, which provides general regulations concerning the common treatment of certain groups of goods in all member states of the EU. The categories of goods subject to EU excise tax are energy products (including mineral oils and coal), electricity, alcoholic beverages, and tobacco products. The common treatment requires excise tax to be levied on these goods in all EU member states and specifies the minimum excise rates for these products. It also requires the adoption of regulations concerning requirements for the production, storage and movement of excise goods.

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### Production and storage of excise goods

The most important procedure related to excise goods (other than electricity and passenger cars) is the excise duty suspension regime. Under this regime, excise tax is due when the excise goods are delivered to their final recipient.

Before that moment, the producer or supplier may benefit from the suspension procedure, which simply allows for the delay of tax payment until the goods are shipped to the final recipient. However, the use of the excise duty suspension regime is contingent upon the fulfilment of certain conditions. First, registration as an authorised tax warehouse keeper is required, as the production and processing of excise goods can only take place in such a registered location. Furthermore, during the duty suspension regime, the storage of goods outside the tax warehouse is not allowed. The use of a tax warehouse also requires the warehouse keeper to lodge collateral usually issued by a bank.

### Movement of excise goods

Specific regulations also concern the movement of excise goods. Since the excise tax is due in the country where the goods are released for consumption, it is possible to acquire and ship such goods to Poland without paying excise tax in the country of dispatch, move them to the licensed consignee (tax warehouse or

registered consignee) or store the goods in a tax warehouse under the duty suspension regime and pay the tax only upon delivery to the final recipient.

In this case, the application of the suspension regime is also subject to certain conditions. In particular the consignment of goods can only be done from a tax warehouse. The consignee is the person licensed by a customs office as an authorised warehouse keeper or a registered consignee. Authorised warehouse keepers can benefit from the duty suspension regime during the production, storage, receipt and dispatch of excise goods. Registered consignees can only acquire goods under the duty suspension procedure from non-Polish suppliers. They are not permitted to store or process such goods as in their case the tax liability arises at the moment of receiving the goods.

When moving excise goods under the duty suspension regime, the documentation requirements are of crucial importance. During the duty-suspended movement of goods, the special Excise Movement Control System – EMCS (operational in Poland beginning since 1 January 2011) which transfers electronic messages is used. It has replaced the use of paper forms (Administrative Accompanying Documents) which were required in the past. As with the case of production and storage, the

movement of excise goods must be secured by collateral.

In accordance with the EU rules that have been incorporated into Polish domestic legislation, specific provisions apply to the movement of goods with excise duty paid. A consignor who sends excise goods to a consignee in another EU Member State is entitled to reclaim the duty paid, on receipt of a proof of excise tax payment in the EU country of destination. There are no limitations concerning the status of persons who purchase or dispatch goods in this manner. Thus, goods can be acquired or dispatched by any excise taxpayer conducting business activity within the framework of excise products. The movement of goods is based in this case on a Simplified Administrative Accompanying Document (SAAD/UDT).

### Administrative surveillance

The production, storing and receiving of excise goods under the duty suspension regime is subject to the strict supervision of the customs authorities. It involves the permanent (or periodical) presence of customs officers in place of the production and storage of some strictly specified excise goods (e.g. production of fuels, ethyl alcohol, cigarettes). They are entitled to perform physical supervision over the production processes and quantities of goods.

### Passenger cars

Passenger cars are in Poland subject to excise duty on the basis of domestic (non-EU) excise regulations. The tax rate depends on the engine capacity. It amounts to 18,6% of the value for cars with an engine capacity exceeding 2 litres or 3,1% for remaining ones.

The tax is levied on cars which have not been registered in Poland yet and is payable in connection with intra-Community acquisition or import. It applies to brand new cars as well as second-hand cars. For cars produced in Poland excise tax is levied on the first domestic sale.

The relevant customs office issues a certificate confirming excise tax payment for each car. This certificate is required at the time of registration of the car in Poland.

## 5.7 Corporate Income Tax

Corporate income tax is levied on all taxable income, with the exception of that derived from forestry and agricultural activities (but does not include green houses, poultry farms, etc.).

All limited liability companies and joint stock companies (including companies with foreign participation) resident in Poland are liable to corporate income tax payments on their worldwide taxable income, irrespective of

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whether it arises from domestic or foreign operations (unlimited tax obligation).

All foreign companies, i.e. those non-resident or having their place of management abroad, are only liable for corporate income tax on their Polish sourced income, subject to the provisions of any applicable double taxation treaty (limited tax obligation).

The amendments to the Corporate Income Tax Act, in force since 1 January 2011, introduced regulations on the taxation of partnerships, as well as a new exemption for foreign investment and pension funds.

The corporate income tax rate is 19% in 2013 and applies irrespective of the level of taxable income. In the absence of a specific choice, the financial (tax) year is the calendar year.

The tax law provides a specific procedure for changing the financial year, which includes filing an information document.

Corporate income tax is payable on taxable income reduced by eligible costs and expenses incurred with the purpose of generating taxable income, retaining or protecting sources of income.. Taxable income may also be reduced by tax losses brought forward from previous years. The maximum period of carry forward is 5 years and only 50% of a loss can be offset in any one year. The losses cannot be carried back.

For tax calculation purposes, most income is taxable, including donations and gains

from the sale of real estate and intangibles.

The point in time when taxable income is recognised is the earliest of the following:

- delivery of goods (transfer of property rights or provision of a service in full or in part),
- issuing of an invoice, or
- settlement of the amount due.

In the case of continuous services, if the payment for the delivery of such services is settled in settlement periods the last day of the settlement period defined in a contract or invoice is treated as the date on which the taxable income arose, but at least once a year.

The rules for continuous services apply to the supply of electricity, heat and natural gas.

In cases where the aforementioned rules of taxable income recognition are not applicable, the income should be recognised on the date of receiving the payment.

In addition, the costs directly relating to taxable income are, as a rule, recognized in the year the corresponding income was earned, even if such costs are incurred after the end of the tax year but before the date when the financial statement or annual tax return is filed. Other direct costs should be recognised in the subsequent tax year.

Costs indirectly linked to taxable income are deductible on the day they are incurred. They are deemed to have been incurred if they are entered into the accounting books on the basis of an invoice or another accounting document. If the costs indirectly related to



the income apply to different tax years, and it proves impossible to determine which costs should be allocated to a given year, they are spread proportionally over the period of time they relate to.

Generally, an expense is tax deductible if it is incurred with the purpose of generating income, retaining or protecting sources of income and is not specifically disallowed by the Corporate Income Tax Act. The following are examples of non deductible expenses:

- Provisions for bad debts, unless the debts were already included as taxable income and the debtor is bankrupt or the debt cannot be collected despite the fact that court procedures have been followed or the cost of collection would exceed the amount due,
- Interest on overdue taxes,
- Fines and indemnities arising out of faulty goods and services.

Until the end of 2012, costs were generally recognised for tax purposes on the accruals basis (with certain exceptions). As provided by the amendments to the tax legislation that entered into force on 1 January 2013, if costs are not settled within the time limits specified in the law, they are disallowed for tax purposes until they are settled. This provision also applies to the tax depreciation of assets if the corresponding acquisition costs are not settled.

Moreover, thin capitalisation rules limit the deductibility of interest on loans and credits from certain related parties, if the debt to equity (equity within the meaning of paid up share capital) ratio exceeds 3:1. This applies to loans granted by both domestic and foreign lenders.

Depreciation on fixed assets and the amortisation of intangible assets are deductible for tax purposes; the methods and rates of tax depreciation are regulated in the Corporate Income Tax Act.

So-called small taxpayers and taxpayers commencing activity (except for those created as a result of transformation, merger, division, etc.) are able to make a one-off depreciation deduction in the year they enter certain fixed assets into the fixed assets register. This provision only relates to assets from groups 3-8 of the Classification of Fixed Assets, except for passenger vehicles. However, the amount of this one-off deduction cannot exceed the PLN equivalent of EUR 50,000.

A purchaser of used non-residential buildings should calculate their depreciation by taking into account the depreciation charged by previous owners. The period of depreciation for such buildings is computed as the difference between the depreciation period of a new non-residential building, i.e. 40 years, and the number of years during which the building was depreciated by the previous owners (but not shorter than 10 years).

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The Corporate Income Tax Act provides specific rules for determining the initial value of fixed assets and intangibles acquired as a result of certain restructuring events, such as:

- transformation, division or merger of entities,
- in-kind contribution of an enterprise or an organised part thereof,
- in-kind contribution to a partnership,
- acquisition of an enterprise or an organised part thereof,
- liquidation of another entity.

In the case of transformation, division or merger of businesses, the initial value of the assets is determined according to their initial value as specified in the tax register of the entity transformed, divided or merged, respectively (according to the continuation rule). When a division is concerned, the continuation rule applies only if the assets of the divided entity constitute an organised part of the enterprise (in certain circumstances the condition should also be met with respect to the assets held by the entity being divided).

In principle, as of 2011 the continuation rule is also applicable to partnerships and to in-kind contributions made in the form of an enterprise or an organised part thereof (irrespective of whether the items forming the enterprise or its organised part were entered into the fixed assets and intangibles register of the entity making the in-kind contribution).

According to the wording binding since 1 January 2011, the Corporate Income Tax Act includes regulations on determining the initial value of assets comprising an in-kind contribution to a partnership and assets received by its partner as a result of liquidation or withdrawal from the partnership.

According to the Corporate Income Tax Act, certain donations can be deducted from taxable income up to a maximum of 10% of income.

Companies have the possibility of recognising F/X differences in accordance with the approach applied by taxpayers for accounting purposes, provided that their financial statement is subject to audit. Moreover, F/X gains should increase taxable income and F/X losses should increase tax deductible costs.

If the taxpayer does not choose an accounting approach for recognising F/X differences, the Corporate Income Tax Act regulations in respect of calculating F/X differences for tax purposes should be applicable.

When calculating F/X differences, as a rule, the exchange rates that were actually applied to the transaction should be used to calculate the income and costs for CIT purposes. Where it is impossible to apply the actual exchange rates used, the average exchange rates announced by the National Bank of Poland apply.

The Tax Law contains transfer-pricing provisions that are in line with OECD regulations. The provisions apply to

transactions between related parties in circumstances where the taxpayer does not carry out transactions on an arm's length basis. In these cases, the tax authorities have the right to adjust the level of declared income. The tax authorities also have the power to adjust the prices on certain transactions between related parties, if these are not in accordance with fair market values. From 2001, documentary requirements have been introduced for transactions between related parties and transactions with entities based in tax havens.

Taxpayers are able to apply for an APA (Advanced Pricing Agreement) to the Minister of Finance. The purpose of an APA is to eliminate the risk related to the alleged transfer of profits between related companies – the so-called transfer pricing risk. Therefore, APAs are provided specifically for taxpayers who engage in related party transactions. Applicants for an APA are obliged to submit complex information and data concerning financials and the rationale of the transaction in the aim of concluding an agreement with the tax authorities. By means of an agreement with the Polish Minister of Finance an APA allows the company to obtain tax certainty concerning the correctness of the used pricing methodology and the level of prices in such transactions.

Since 1 January 1996, it has been possible for Polish companies to form fiscal groups. The legislation is restrictive:

- the parent company must hold 95% of the capital of the other group members,
- the average shareholding for each member company must be over PLN 1 million,
- the group must achieve a taxable profit rate of at least 3% of gross taxable income.

As a result, very few fiscal groups exist in Poland.

All dividends paid by Polish companies are subject to a 19% withholding tax at source. When dividends are paid to a foreign shareholder, the rate can be reduced under a double taxation treaty.

In some cases, dividends paid out by Polish companies qualify for an exemption from the withholding tax. The exemption applies if the recipient is a Polish company or a company with its seat in the EU, the European Economic Area (EEA) or Switzerland – provided that the shareholding of at least 10% (or 25% for Switzerland) is kept for a minimum uninterrupted period of 2 years. The withholding tax exemption can be applied before the 2-year holding period has been fulfilled but if the shares are disposed of earlier, any withholding tax due is payable together with interest. The exemption applies provided that:

- the shareholding is derived from ownership of the shares held, or
- the shares are held based on a title other than ownership, as long as this income

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# Business and Personal Taxation

would have been exempt, if the shares had not been transferred.

The exemption also applies to dividend income assigned to a permanent establishment of a qualified company, if it is located in the EU, the EEA or Switzerland. Royalties, interest and service fees paid by Polish tax resident companies to foreign entities are subject to a withholding tax in Poland. The basic tax rate provided in the CIT Act is 20% unless the applicable double taxation treaty provides otherwise (usually the rate is lower, or even zero). On 1 July 2005, Poland introduced new regulations in line with the EC Interest and Royalty Directive, according to which, royalties and interest paid to certain EU residents will be tax exempt from 1 July 2013. Since 1 July 2009 the reduced withholding tax rate is 5%. The provisions apply to payments between "associated companies". Two companies are "associated companies" if (i) one of them holds directly at least 25% of the capital of the other or (ii) a third EU company holds directly at least 25% of the capital of the two companies.

As a result of amendments to the Act on Trading in Financial Instruments and Other Acts the so-called 'omnibus accounts' were introduced to Polish law in 2012. Since 1 January 2012, distributions in respect of securities recorded on omnibus accounts have been subject to a withholding tax at the 20% rate in Poland.

The withholding tax exemption of interest and royalties which was previously applied exclusively to companies from the EU is now extended to entities from the EEA (i.e. Norway, Iceland and Liechtenstein).

The exemption from withholding tax in Poland concerning dividends, interest and royalties may be applied exclusively to companies from the EU and the EEA on the condition that they are subject in the EU/ EEA countries to tax imposed on their total income, and they are not exempt from taxation in these countries. Apart from a tax residency certificate, the remitter of dividends, interest or royalties should also be in possession of a statement of the taxpayer (the entity receiving the above payments) that the taxpayer fulfils the conditions for the exemption from tax in Poland.

Tax settlements are made on a monthly basis based on the current accounting data and an annual tax return is required. Since 1 January 2012 it has been necessary to remit the advance payment for the last month of the tax year by the 20th day of the first month of the next tax year.

Since 2007, there has been no obligation to file monthly tax returns. It is possible to choose the simplified method of tax prepayments settlement. In this case, monthly advance payments are made that are equal to one-twelfth of the tax liability shown in the annual tax return filed in the previous year (or if there was no tax liability – one-twelfth of the liability

shown in the annual return filed two tax years earlier). Since 2006, it has been possible to file some applications electronically.

### 5.8 Corporate Income Tax (Representative Offices)

Foreign companies doing business in Poland may establish branches or representative offices. As a general rule, a foreign company is subject to tax on the profit of a Polish branch (if the branch constitutes a permanent establishment) and any other income from Polish sources unless the provisions of a double taxation treaty apply. The tax liability of the foreign company will generally be limited to the profits of the branch and other income subject to withholding tax at source (dividends, interest and royalties).

The taxable income of foreign companies is calculated using normal corporate tax rules. If accounting records have not been kept in compliance with the Polish Act on Accounting, the taxable income is calculated as a percentage of revenues. The percentage depends on the type of activity carried out, as follows:

- Wholesale and retail trading – 5%
- Building, construction or transport – 10%
- Brokerage activities (if remunerated by commission) – 60%
- Advocacy or expertise services – 80%
- Other activities – 20%.

### 5.9 Personal Income Tax

Individuals with a permanent place of residence in Poland are subject to tax on their worldwide income (unlimited tax liability). Individuals without this have a limited tax liability.

According to the definition stated in the Personal Income Tax Act, a person who has a place of residence in Poland is a person who:

- has closer personal or economic relations with Poland (their “centre of vital interests”), or
- stays on the territory of Poland longer than 183 days in a given fiscal year.

Under these rules many foreign individuals who stay in Poland longer than 183 days in a given year will be treated as individuals with a place of permanent residence in Poland for tax purposes (i.e. Polish tax resident).

With a limited tax liability in Poland, individuals should be subject to taxation only on income derived for work performed in Poland (regardless of where it is paid) and other income from Polish sources.

Income from non-Polish sources should not be taxable in Poland. An applicable double taxation treaty may affect the income tax liability in Poland.

(Appendix E contains a list of countries with which Poland has signed such agreements).

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Taxes are generally calculated on the basis of cash and in-kind earnings paid or put at the taxpayer's disposal.

Income earned from an employment contract includes salary as well as most benefits in-kind which are paid to, provided or otherwise put at the employee's disposal during the fiscal year.

Certain types of income and benefits are exempt from personal tax, for example:

- amounts due for business trips (i.e. expenses incurred, travel costs, etc.) up to the relevant statutory limits;
- income earned abroad, if international or bilateral agreements so provide;
- certain types of benefits in-kind and pecuniary benefits, provided that they are wholly funded from the employer's social benefit fund or from the employer's trade union fund – up to PLN 380 per year;
- the value of free benefits is defined as income from other sources received from benefit providers and related to their

advertising activities – provided that the value of a onetime benefit does not exceed PLN 200 (the exemption does not apply if such a benefit is given to an employee of a benefit provider or other individual who is in a civil law relationship with the benefit provider).

Taxable income may be decreased by appropriate donations made, up to the value of 6% of income per annum, and compulsory social security expenditures (paid in Poland, or EU countries). Additionally, for employees who are seconded outside Poland, there is a specific deduction from taxable income available for each day of the secondment calculated as 30% of the published per diem rate applicable for government employees seconded to that country.

Progressive taxes at 18% and 32% are levied on total income (with the exception of income earned from dividends, interest on loans and proceeds from real estate sales). The following rates are in effect in 2013:

Taxable Income over ... in PLN	Taxable Income up to ... in PLN	Tax Applicable
-----	85,528.00	18% less 556.02
85,528.00	-----	14,839.02 plus 32% of excess over 85,528.00
The statutory deductible cost of earning income stands at PLN 111.25 per month.		

1 USD = approximately PLN 3.2 / 1 EUR = approximately PLN 4.2 (exchange rates of March 2013 – rates may fluctuate)

The above tax rate brackets apply regardless of whether the individual has limited or unlimited tax liability.

Income from dividends, capital gains (e.g. sale of shares) and interest on bank accounts and loans is taxed at a fixed rate of 19%. The above kinds of income are not added to earnings from other sources.

As a general rule taxation of income derived from the disposal of real estate applies to disposals for a period of up to 5 years of ownership (from the end of the calendar year in which it was purchased). No tax is chargeable after the end of this period.

If the property is sold before the expiry of the five year period, the method of determining the tax liability depends on the date when the property was purchased:

- (i) Acquired between 1 January 2008 and 31 December 2008 – subject to 19% tax imposed on income (revenues reduced by purchase costs). Tax is not levied if the taxpayer has been officially registered in the property for a permanent stay of at least 12 months before the disposal.
- (ii) Acquired after 31 December 2008 – subject to 19% tax imposed on income (revenues reduced by purchase costs). Some amounts spent on other residential properties (in Poland, the EU, EEA and Switzerland) during a 2 year period are exempt from tax (2 years from the end of the tax year in which the property was sold).

The tax should be paid at the time of filing of the annual tax return for the tax year in which the disposal occurred. The taxable base will be the difference between the proceeds from the sale and the costs of the acquisition of the property increased by the amount of depreciation write-offs.

#### Methods of avoiding double taxation of foreign income

If income taxed abroad is tax exempt in Poland under a double taxation treaty, it is usually added to the taxable income in order to calculate the effective tax rate applicable to the taxable part (exemption with progression).

If, according to the provisions of such treaties, income taxed abroad is not exempt from taxation in Poland, any tax paid abroad can be claimed as credit in Poland. This credit is limited to the amount of tax due on the foreign income. Where such a credit claim is less favourable than double tax relief under the exemption with progression method, the taxpayer may prepare a separate calculation of the tax due applying the exemption with progression method. The taxpayer can then claim the difference as a tax deduction, called 'abolition relief'.

Subject to the provisions of double taxation treaties, which may provide otherwise, persons with a limited tax liability are subject to a fixed 20% tax rate on income from their personally conducted activities, functions on

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# Business and Personal Taxation

supervisory bodies, director's fees, income received on the basis of a personal service contract or task contract, royalties, patent rights, copyrights and know-how, irrespective of the level of income. In this case, however, no costs are deductible.

Polish employers are obliged to withhold advance payments of tax on their employees' monthly remuneration and transfer it to the tax authorities. The amount of the advance payments depends on the remuneration received from the given employer from the beginning of the year. Advance payments for personal income tax are calculated as follows:

- for the months from the beginning of the year to the month (inclusive) in which the remuneration of an employee obtained from a given employer does not exceed PLN 85,528, the advance payment is calculated at a rate of 18%,
- for the months following the month in which the remuneration of an employee obtained from the beginning of the year from a given employer exceeds PLN 85,528, the rate of advance payment is 32%.

Income from a foreign (non-Polish) employment contract requires the recipient to pay tax advances calculated at 18% of the income during the year. However, when the annual return is filed, the recipient is subject to progressive tax rates of up to 32%. It is the individual's obligation to calculate and pay

the tax by the twentieth day of the following month.

Generally, income from business activity is taxed according to standard progressive tax rates (18% and 32%). Revenues from most business activity may, however, be taxed at a 19% flat rate on the condition that a statement regarding the election to apply this form of taxation is submitted to the tax office by 20 January, in the case of commencing business activity during the year, prior to commencement; however, not later than on the day when the first revenue is gained. This form of taxation cannot be applied to individuals who, *inter alia*, wish to render services for an employer, who employed them in the given tax year. Taxpayers, who opt for this form of taxation (19% flat rate tax), forfeit the possibility of joint taxation and certain tax reliefs.

### 5.10 Social Security (ZUS)

The system consists of three "pillars" to which payments are made. The first is obligatory, the second is obligatory for some individuals and the third is voluntary.

#### Pillar I

Contributions are split between the employee and the employer. An employer is obliged to pay social security contributions on its behalf and on behalf of the employee.



Social security contributions are made in respect of income derived under employment contracts, service contracts, and from business activity, etc.

The following table depicts obligatory Polish social security contributions (the following rates are applicable):

#### Pillar II

The funds transferred to ZUS (Social Security Office) are paid into the first and second pillars. The second pillar consists of public pension funds (OFE), which are chosen by the insured individuals, 2.3% of the contribution's basis is forwarded to the public pension fund of the employee's choice.

Contribution Type	Employer Share	Employee Share	Total
Pension Fund *	9.76%	9.76%	19.52%
Disability Fund *	6.5%	1.5%	8.00%
Bridging Retirement Fund***	0 or 1.50 %		1.50%
Illness Fund	-----	2.45%	2.45%
Accident Fund**	0.67 – 3.86**	-----	0.67–3.33**
Employees' Guaranteed Benefits Fund	0.10%	-----	0.10%
Labour Fund	2.45%	-----	2.45%
TOTAL (up to PLN 111 390)	19.48–24.17%	13.71%	33.19–37.88%
TOTAL (over PLN 111 390)	3.22–6.41%	2.45%	5.67–8.86%

#### Notes:

\* Once an individual's gross remuneration exceeds 30 average estimated national salaries for a given year (PLN 111 390 for 2013) contributions toward these funds cease.

\*\* Accident fund contributions depend on the activity of the payer specified in the employer's statistical REGON number (according to the Polish Classification of Business Activities – PKD). In case of employees working in Poland for a foreign employer, the accident fund contribution amounts to 1.93%.

\*\*\* Only applies to individuals working in specific industries undertaking work of a specific character.

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### Pillar III

The third pillar consists of private pension funds, employee pension funds, and group life insurance, etc. It is not obligatory and any contributions made to such schemes are currently not tax deductible for the individual.

### Health Insurance

There is a state healthcare system which provides free of charge access to healthcare services. Health insurance contributions from an employment contract in 2013 are calculated as 9% of gross remuneration, decreased by the employee's social security contributions. Payments in respect of statutory health insurance are partly deducted from tax by up to 7.75% of the calculation base. Therefore, most of the health insurance contributions have no effect on the employee's net remuneration (only 1.25% affects the net level).

### 5.11 Social Security

As Poland is an EU member, EU Regulations concerning the coordination of social security issues apply directly in Poland. They have superior legal force in relation to domestic law and regulate the general application of the EU rules. They also implement detailed regulations relating to migrant workers and other

individuals undertaking employment in different countries within the EU. These regulations do, however, allow Member States to retain their own separate domestic social security system (there is no uniform Community social security system). The basic principle resulting from EU Regulations is that an individual is subject to social security contributions in one state – as a rule in the state where the work is performed. Individuals who perform work in more than one country are subject to social security contributions in the country where they reside, on condition that a significant part of their activity is performed in that country.

If an individual performs work in more than one country for an employer but does not live in any of these countries, social security contributions are payable in the country where the employer has its registered office or place of business.

When an employee is posted from one country to another within the EU, the individual can remain in their home social security system. There are, however, certain conditions which should be met in order to apply the exemption from paying social security contributions in the country where the work is performed and to allow the individual to continue to pay contributions to the social security system of the country to which they are normally "attached."

## 5.12 Local Taxes and Charges

Among the different taxes and charges imposed by local authorities (e.g. cities, communes), the most important are those levied on real estate and transport equipment. The tax law only stipulates the maximum amounts of the taxes/charges (it also stipulates the minimum rates for transport equipment) and the local authorities determine the actual rates. Some of the maximum amounts are listed below.

This tax is also levied on entities which either own or have perpetual usufruct rights to real estate or construction facilities, or which rent real estate or construction facilities belonging to the State Treasury, local authorities or the Agricultural Property Agency.

In general, tax on transport equipment applies to the following types of vehicles:

- trucks with a permissible gross weight of over 3.5 tons,
- truck-tractors with a total permissible gross weight of over 3.5 tons,
- trailers and semi-trailers with a total permissible gross weight of over 7 tons except for those used for agricultural purposes,
- buses.

## 5.13 Stamp Fees and Tax on Civil Transactions

Stamp duty is charged on permits, certificates and excerpts issued by a public body and on documents relating to the

Local Taxes and Charges	Rates in 2013
Land connected with an economic activity (excluding agricultural and forestry)	PLN 0.88 per square meter
Constructions	2% of depreciation base of construction at the beginning of the year
Usable surfaces in buildings connected with a business activity (excluding agricultural and forestry)	PLN 22.82 per square meter of usable surface

1 USD = approximately PLN 3.3 / 1 EUR = approximately PLN 4.3  
(exchange rates of May 2012 – rates may fluctuate)

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appointment of a proxy. Stamp duty cannot be settled by stamps, but a remittance to the account of the respective tax office should be made. The stamp duty can also be paid at the cash-desk of the respective tax office.

Examples of stamp fees are as follows:

- Licence for the establishment in Poland of:
  - a branch of a foreign bank: PLN 12,750
  - a representative office of a foreign bank: PLN 6,713,
- Filing a document related to the appointment of a proxy or a copy, certified copy or extract of such a document – for each proxy or substitute: PLN 17,
- Issuance of an individual currency permit: PLN 113,
- Confirmation of registration for VAT purposes: PLN 170.

The tax on civil transactions (PCC) is charged on legal procedures, contracts of sale or exchange, loan agreements, articles of association and a number of other contractual arrangements. It applies to transactions which concern assets located in Poland or rights executed in Poland. It also applies to the purchase of assets located abroad or rights executed abroad by a Polish individual or company if the transaction takes place in Poland.

Examples of the charges are as follows:

- Articles of association (as a percentage of capital): 0.5%
- Sales contract:

- movable goods, real estate and certain rights (e.g. perpetual usufruct right): 2% of market value,
- other property rights (e.g. shares): 1% of market value,
- loan agreements: 2% of the loan amount.

The PCC tax does not apply to certain transactions listed (other than the Articles of Association and the amendments there to) if one of the parties to these transactions is:

- subject to VAT or,
- VAT-exempt with the exception of:
  - Sale or exchange agreements in respect of real estate or part of it as well as perpetual usufruct of land
  - Share purchase agreement.

The PCC Act provides for a number of exemptions such as for loans given to a company by its shareholder or for a sale of intangible rights constituting financial instruments to investment companies.

A penalty tax rate of 20% applies, if:

- the taxpayer has not paid tax on a given loan agreement or irregular deposit, or
- the borrower is unable to document the transfer of the loan with a bank transfer or a postal order and claims before the tax authorities that the loan has been incurred.

In the case of specific transactions subject to PCC taxation, the regulations determine the party which is obliged to pay the tax. For example, in a sale contract the tax obligation

lies with the purchaser, and in a loan contract, it lies with the borrower. The obligation to pay PCC with regard to a company's articles of association and its amendments is placed on the company.



## APPENDIX A

# Concessions and Permits for Conducting Economic Activity in Poland

A concession is required for the carrying out of economic activity in Poland in the fields of:

- Prospecting, surveying of hydrocarbon and solid mineral deposits of mining property, extracting minerals from deposits, underground tank-less storage of substances, and underground storing waste,
- manufacturing and trading in explosives, arms and ammunition, and products and technology for military or police purposes,
- manufacturing, processing, storage, transmission, distribution and trading in fuel and energy,
- protection of persons and property,
- broadcasting radio and TV programmes, except programmes that are exclusively broadcasted in a data communication system (ICT) and are not broadcasted through a terrestrial, satellite or cable network,
- air transport,
- operating gambling casinos.

Unless the provisions of separate laws provide otherwise, the granting, refusing, amendment and withdrawal of a concession is the responsibility of the competent minister.

Business activity may be carried out with a permit in the fields that include but are not limited to the following:

- organising and conducting activity in the area of games of chance,
- incorporation of banks,
- insurance and reinsurance activity,
- running an activity in financial instruments and public offers (public trading in securities),
- running an activity in a special economic zone,
- establishing an investment fund,
- establishing a pension fund,
- air transport (with some exceptions), establishment and management of airports,
- courier services, also general postal services consisting of carrying and delivering in domestic and foreign traffic, postal delivery and delivery of letters of a value or weight not exceeding 2.000 g,
- manufacturing of pharmaceuticals and medical supplies, running pharmacies and general pharmaceutical wholesale outlets, of animal drugs, customs and consignment warehouses for pharmaceuticals and medical supplies,
- trading in alcoholic beverages.

If the law states that a certain kind of activity is regulated, an entrepreneur can run this activity after fulfilling the conditions defined by this law and being entered into a register of regulated activity. Examples of regulated activities:

- manufacturing, bottling, rectification, contamination and dehydration of ethyl alcohol and isolation of ethyl alcohol from other products; manufacturing and bottling of vodka,
- manufacturing of tobacco products,
- detection services,
- packaging and trading in crop protection substances,
- sale of tourist services, including shooting events for foreigners organised in Poland, and shooting parties organised abroad,
- running customs agencies,
- production and bottling of wine products,
- telecommunications services,
- other postal services not requiring a permit,
- trade in seeds,
- production, storage and trade in bio-components,
- conducting an exchange office.
- payments services,
- archiving payroll documents.

Business activity in domestic and international road and rail transport may only be taken up and conducted with a licence.



## APPENDIX B

# Basic Differences between a Limited Liability Company (Sp. z o.o.) and Joint Stock Company (SA)

	Limited Liability Company	Joint Stock Company
General purpose	carrying out an activity in any purpose permitted by law	carrying out business, as well as non-business activities
Number of founders Polish and/or foreign	at least 1 person (however, a founder which is a limited liability company should itself have more than one shareholder)	at least 1 person (however, a founder which is a limited liability company should itself have more than one shareholder)
Manner of establishment	simple: signing of a company deed in the form of a notarial deed or completing a model company online + registration with the court	more complicated: signing articles of a joint stock company + signing of a notarial act on acquisition of shares (if share capital is to be collected by public subscription, permission from the Polish Financial Supervision Authority is required) + registration with the court
Limitation of activities	limited (it is not allowed to carry out <i>inter alia</i> banking and insurance activity or run a stock exchange)	no limitations
Minimal initial capital	PLN 5,000	PLN 100,000
Capital to be paid in prior to registration (relates only to cash contributions)	100% or in the case of online registration, up to 7 days from entry in to the registry	minimum 25%
Shares	initial capital may be divided into shares of equal or unequal value; preference shares entitle shareholders to extra dividends and/or voting rights	share capital divided into shares of equal nominal value; types of shares: registered shares, bearer shares, preference shares, utility shares
Minimal value of one share	PLN 50	PLN 0.01



Valuation of in-kind contributions	made by founders	made by founders; then the founders must draft a report which is subject to the scrutiny of expert auditors appointed by the registry court (exemptions allowed)
Legal status of shares	shares represent property rights and are not securities; as a rule, no share certificates are issued	shares are considered as securities; share certificates should be issued
Sale of shares issued in return for in-kind contribution	no restrictions; such shares can be sold immediately after issuance, provided that other restrictions do not apply	such shares may not be transferred or pledged until the general assembly approves the report and the accounts for the financial year of the company in which the shares have been covered by an in-kind contribution
Public trading in shares (stock exchange)	impossible	possible, subject to certain requirements
Increase of the share capital	generally requires the general meeting's approval (in a notarial form) passed by a two-thirds majority of votes, unless the company deed provides for a stricter majority; the company deed may also allow for an increase of capital without the necessity of changing the company deed, i.e. in such a situation a notarial form is not required and a simple majority of votes is sufficient	generally requires the general assembly's approval (in a notarial form) passed by a three-fourths majority of votes; however, the articles may provide for a stricter majority, except for increases made within the amount of the target share capital, which requires a resolution of the management board

## APPENDIX B

# Basic Differences between a Limited Liability Company (Sp. z o.o.) and Joint Stock Company (SA)

Obligatory audit	yes, if certain criteria provided in the Act on Accounting are met	always
Requirement to convene general assembly if the company incurs loss with a view to deciding on the further operation of the company	if loss exceeds the sum of the supplementary and reserve capitals and one-half of the share capital	if loss exceeds the sum of the supplementary and reserve capitals and one-third of the value of the share capital
Shareholders' personal liability for the company's obligations	The shareholders are not liable for the company's obligations. Indirect (economic) responsibility – to the extent of the investment made by each shareholder	The shareholders are not liable for the company's obligations. Indirect (economic) responsibility – to the extent of the investment made by each shareholder
Board members' personal liability for the company's obligations	direct responsibility under the Commercial Companies Code if an enforcement against a company appears to be ineffective, the board's members are jointly and severally liable for the obligations thereof, including tax and social security liabilities (subject to limitations provided by law)	if an enforcement against a company appears to be ineffective, the board's members are jointly and severally liable for tax obligations thereof (subject to limitations provided by law), responsibility for other obligations under general rules of civil code and bankruptcy law
Shareholder's right to profits	demandable by the general meeting's approval of the balance sheet and the profit and loss account for the preceding year, under decision of shareholders in the form of resolution on dividend payment (provided that passing of such a resolution is authorised by the company deed) unless the company deed or the shareholders' resolution otherwise provides	demandable by the general meeting's approval of the balance sheet and the profit and loss account for the preceding year, under decision of shareholders in the form of resolution on dividend payment, unless the company deed or the shareholders' resolution provide otherwise

Distribution of property which remains after the liquidation of the company

the distribution among shareholders of the property cannot be carried out before the lapse of 6 months from the date of the announcement of the liquidation and the summoning of creditors

distribution of the property among the shareholders cannot be effected before the lapse of 1 year from the date of the announcement of the opening of the liquidation and the summoning of creditors



# APPENDIX C

## Procedures for Establishing a Company

### A – Institution responsible

### B – Documentation required

#### I. NOTIFICATION TO THE OFFICE FOR COMPETITION AND CONSUMER PROTECTION ( IF REQUIRED BY POLISH LAW)

- A. Office for Competition and Consumer Protection (UOKiK)
- B. Application requires detailed information regarding legal, financial and economic data regarding the investing company and its parent company, if any, and the markets in which the investor acts, as well as the Company in which the shares are acquired.

#### II. SIGNING OF THE COMPANY DEED OR STATUTE (SEE ONLINE ESTABLISHMENT AND REGISTRATION OF LIMITED LIABILITY COMPANY IN POINT III A)

##### A. Notary public

##### B.

- Draft company deed, or statute – agreed by the shareholders prior to signing in front of a notary
- Draft document confirming the appointment of the management board members - it is also possible to include a relevant provision in the company deed, or statute
- If the shareholder is a legal person:
  - a copy of the Company's entry in the

register appropriate for its registered office

- a notarised resolution of the parent company expressing its intention to create a company in Poland
- notarised power of attorney authorising a proxy, if one is appointed, to sign the company deed or statute and take up shares on behalf of the parent company.

Original official foreign documents should be confirmed by the appropriate Polish embassy or consulate as being prepared in accordance with the law of the parent company or by apostille clause and then translated into Polish by a sworn translator.

#### III. ENTRY INTO THE NATIONAL BUSINESS REGISTER (AFTER REGISTRATION, THE DISTRICT COURT SENDS RELEVANT OFFICIAL FORMS AND DOCUMENTS TO LOCAL STATISTICAL OFFICE, LOCAL TAX OFFICE AND LOCAL SOCIAL SECURITY OFFICE – “ONE WINDOW” RULE (SEE ONLINE ESTABLISHMENT AND REGISTRATION OF LIMITED LIABILITY COMPANY IN POINT III A)

##### A. National Business Register – NBR (held by the relevant District Court)

##### B.

- Application (on an official form) for registration submitted by the management board
- Application (on an official form) for

registration in Local Statistical Office

- Notification (on an official form) of Local tax office
- Notification (on an official form) of the local social security office on the social security contributions payer, if adequate
- 3 Copies of a company deed or statute (for NBR, Local Statistical Office and Local tax office)
- Appointment of the company's authorities (such as the management board)
- Specimen signatures of the management board's members, certified by a notary
- Statement by all members of the management board that the contributions towards the share capital have been made in accordance with the provisions of the Commercial Companies Code
- For a limited liability company - a list of shareholders
- Copy of the approval by the Office of Competition and Consumer Protection (if required)
- Document confirming the arrangement for publication of a required announcement in the official journal "Monitor Sądowy i Gospodarczy."
- Document confirming legal title to the premises, where the registered office is located

### III A. ONLINE ESTABLISHMENT AND REGISTRATION OF LIMITED LIABILITY COMPANY

The establishment and registration of a limited liability company can be made online. This has been possible since 1st January 2012.

Online procedure requires:

- Setting an electronic account(s)
- Completing model company deed (form with possible options) available in data communication network official system confirmed with electronic signature(s)
- Completing online motion for registration
- Completing online form of list of shareholders
- Completing the online management declaration of cash contribution payment (if done before completing model deed)
- If cash contribution has not been paid before online registration, then ordinary written management statement is required (7 day terms since registration)
- Registration by NBR within 24 hours
- Submission to NBR of specimen signatures
- Since the "One-window" rule is not applied, registration for tax and social purposes shall be done separately

## APPENDIX C

# Procedures for Establishing a Company

### IV. OPENING A BANK ACCOUNT

#### A. Bank

#### B.

- Application for opening a bank account
- Specimen signatures of persons authorised to use the company's bank account
- Copy of the company deed or statute
- Copy of an excerpt from the relevant business register (NBR), and a copy of the decision of the District Court on registration of the company in the register (NBR)
- Copy of permits, if required
- REGON certificate.

### V. VAT REGISTRATION

#### A. Local Tax office

#### B. Registration form (VAT-R)





# APPENDIX D

## Contents of Financial Statements<sup>1</sup>

### Introduction to the financial statements (for entities other than banks, insurance and reinsurance companies)

Includes in particular:

1. Name (business name) and seat, primary business activities and indication of the relevant court or other authority keeping the register.
2. The lifetime of the entity where it is defined.
3. The period covered by the financial statements.
4. Whether the financial statements contain aggregated data if the entity consists of internal organisational units that prepare the financial statements separately.
5. Whether the financial statements were prepared under the assumption that the entity will continue as a going concern in the foreseeable future and whether there are any circumstances indicating any uncertainty relating to the going concern.
6. If the financial statements are prepared for a period during which a merger took place, information that these financial statements have been prepared after the merger and the method applied for recording the merger (acquisition, pooling of interests).

7. Description of the accounting policies, which have been followed during preparation of the financial statements, including the methods of valuation of assets and liabilities (including depreciation), measuring the financial result and the manner of drawing up financial statements to the extent to which the Act gives the entity the right to choose.

### Balance sheet (for entities other than banks, insurance and reinsurance companies)

The following information should be disclosed as at the end of the financial year and the preceding financial year:

#### ASSETS

##### A. Fixed assets

- I. Intangible fixed assets
  1. Development costs
  2. Goodwill
  3. Other intangible fixed assets
  4. Prepayments for intangible fixed assets
- II. Tangible fixed assets
  1. Fixed assets
    - land (including perpetual usufruct of land)

<sup>1</sup> Smaller entities need not present the items of the balance sheet and income statement identified by Arabic numerals.  
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- buildings, premises and civil and water engineering structures
- technical equipment and machinery
- vehicles
- other tangible fixed assets
- 2. Fixed assets under construction
- 3. Prepayments for tangible fixed assets
- III. Long-term receivables
  - from related parties
  - from third parties
- IV. Long-term investments
  1. Investment property
  2. Intangible fixed assets
  3. Long-term financial assets
    - a. in related parties
      - shares
      - other securities
      - loans granted
      - other financial assets
    - b. in third parties
      - shares
      - other securities
      - loans granted
      - other financial assets
  4. Other long-term investments

- V. Prepayments and deferred expenses
  1. Deferred tax asset
  2. Other prepayments and deferred expenses

## **B. Current assets**

- I. Inventory
  1. Raw materials
  2. Semi-finished products and work in progress
  3. Finished products
  4. Merchandise
  5. Prepayments for inventory
- II. Short-term receivables
  1. Receivables from related parties
    - a. Trade receivables, due
      - within 12 months
      - in over 12 months
    - b. Other
  2. Receivables from third parties
    - a. Trade receivables, due
      - within 12 months
      - in over 12 months
      - other
    - b. Taxation, custom duties and social security debtors
    - c. Other

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## Contents of Financial Statements<sup>1</sup>

- d. Receivables subject to legal proceedings
- III. Short-term investments
  - 1. Short-term financial assets
    - a. In related parties
      - shares
      - other securities
      - loans granted
      - other short-term financial assets
    - b. In third parties
      - shares
      - other securities
      - loans granted
      - other short-term financial assets
    - c. Cash and cash equivalents
      - cash on hand and in bank
      - other cash
      - other cash equivalents
    - 2. Other short-term investments
  - IV. Short-term prepayments and deferred expenses

### TOTAL ASSETS

### EQUITY AND LIABILITIES

#### A. Equity

- I. Share capital

- II. Outstanding share capital contributions
- III. Treasury shares
- IV. Reserve capitals
- V. Revaluation reserve
- VI. Other capital reserves
- VII. Retained earnings
- VIII. Net profit/(loss)
- IX. Appropriation of the net profit during the financial year

#### B. Liabilities and provisions for liabilities

- I. Provisions for liabilities
  - 1. Deferred tax liability
  - 2. Provision for retirement and similar benefits
    - long-term
    - short-term
  - 3. Other provisions
    - long-term
    - short-term
- II. Long-term liabilities
  - 1. Related party liabilities
  - 2. Liabilities due to third parties
    - credits and loans
    - debt securities
    - other financial liabilities
    - other

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- III. Short-term liabilities
  - 1. Related party liabilities
    - a. Trade liabilities, due
      - within 12 months
      - in over 12 months’ time
    - b. Other
  - 2. Liabilities due to third parties
    - a. Credits and loans
    - b. Debt securities
    - c. Other financial liabilities
    - d. Trade liabilities, due
      - within 12 months
      - in over 12 months’ time
    - e. Advance payments received
    - f. Bills of exchange payable
    - g. Taxation, custom duties and social security
    - h. Payroll liabilities
    - i. Other
  - 3. Special funds
- IV. Accruals and deferred income
  - 1. Negative goodwill
  - 2. Other
    - long-term
    - short-term

## TOTAL EQUITY AND LIABILITIES

### **Profit and loss account (for entities other than banks, insurance and reinsurance companies)**

The following information should be disclosed for both the financial year and the previous financial year:

#### BY TYPE OF EXPENDITURE<sup>2</sup>

#### **A. Net revenues and net revenue equivalents, including**

- from related parties

- I. Net revenues from the sale of finished products
- II. Change in inventory position
- III. Cost of products produced for own needs
- IV. Net revenues from the sale of merchandise and raw materials

#### **B. Operating expenses**

- I. Depreciation
- II. Materials and energy
- III. External services
- IV. Taxes and charges, including
  - excise tax
- V. Payroll
- VI. Social security and other benefits

<sup>2</sup> An income statement may analyse expenses either by type of expenditure or by type of activity, at the discretion of the entity.

# APPENDIX D

## Contents of Financial Statements<sup>1</sup>

VII. Other expenditures by kind

VIII. Cost of merchandise and raw materials sold

### C. Gross profit/(loss)

### D. Other operating revenues

I. Profit on the disposal of non-financial fixed assets

II. Grants

III. Other operating revenues

### E. Other operating expenses

I. Loss on disposal of non-financial fixed assets

II. Revaluation of non-financial assets

III. Other operating costs

### F. Operating profit/(loss)

### G. Financial revenue

I. Dividends received and share in profits, including

– from related parties

II. Interest, including

– from related parties

III. Profit on disposal of investments

IV. Revaluation of investments

V. Other

### H. Financial expenses

I. Interest, including

– from related parties

II. Loss on disposal of investments

III. Revaluation of investments

IV. Other

### I. Gross profit/(loss) on business activities

### J. Results of extraordinary events

I. Extraordinary gains

II. Extraordinary losses

### K. Profit/(loss) before taxation

### L. Corporate income tax

### M. Other obligatory charges decreasing the profit (increasing the loss)

### N. Net profit/(loss)

### BY TYPE OF ACTIVITY<sup>3</sup>

#### A. Net revenues from the sale of merchandise and finished products, including:

– from related parties

I. Net revenues from the sale of finished products

II. Net revenues from the sale of merchandise and raw materials

#### B. Cost of finished products, merchandise and raw materials sold, including:

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<sup>3</sup> An income statement may analyse expenses either by type of expenditure or by activity, the choice being at the discretion of the entity.

- from related parties

- I. Cost of finished products sold
- II. Cost of merchandise and raw materials sold

**C. Gross profit/(loss) on sales**

**D. Selling expenses**

**E. Administrative and general expenses**

**F. Profit/(loss) on sales**

**G. Other operating revenue**

- I. Profit on disposal of non–financial fixed assets
- II. Grants
- III. Other operating revenues

**H. Other operating expenses**

- I. Loss on disposal of non–financial fixed assets
- II. Impairment/revaluation of non–financial assets
- III. Other operating costs

**I. Operating profit/(loss)**

**J. Financial revenue**

- I. Dividends received and share in profits, including
  - from related parties
- II. Interest, including
  - from related parties
- III. Profit on disposal of investments

- IV. Revaluation of investments

- III. Other

**K. Financial expenses**

- I. Interest, including
  - from related parties
- II. Loss on disposal of investments
- III. Revaluation of investments
- IV. Other

**L. Gross profit/(loss) on business activities**

**M. Results on extraordinary events**

- I. Extraordinary gains
- II. Extraordinary losses

**N. Profit/(loss) before taxation**

**O. Corporate income tax**

**P. Other obligatory charges decreasing the profit (increasing the loss)**

**R. Net profit/(loss)**

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## Contents of Financial Statements<sup>1</sup>

### Statement of changes in equity (for entities other than banks, insurance and reinsurance companies)

#### I. Equity at the beginning of the period

- effect of changes in accounting policy
- correction of errors

#### Restated equity at the beginning of the period

1. Share capital at the beginning of the period
  - 1.1. Changes in share capital
    - a. Additions relating to:
      - share issue
      - .....
    - b. Deduction relating to:
      - redemption of shares
      - .....
  - 1.2. Share capital at the end of the period
2. Outstanding share capital contributions at the beginning of the period
  - 2.1. Changes in outstanding share capital contributions
    - a. Additions relating to:
      - .....
    - b. Deduction relating to:
      - .....

- 2.2. Outstanding share capital contributions at the end of the period

#### 3. Treasury shares at the beginning of the period

##### Changes in treasury shares

- a. Additions
- b. Disposals

#### 3.1. Treasury shares at the end of the period

#### 4. Reserve capital at the beginning of the period

##### 4.1. Changes in reserve capital

- a. Additions relating to:
  - shares issued above nominal value
  - profit allocation (statutory)
  - profit allocation (above the minimum statutory value)
  - .....

- b. Deductions relating to:
  - loss coverage
  - .....

#### 4.2 Reserve capital at the end of the period

#### 5. Revaluation reserve at the beginning of the period - effect of changes in accounting policy

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- 5.1.Changes in revaluation capital
  - a. Additions relating to:
    - .....
  - b. Deductions relating to:
    - fixed assets disposals
    - .....
- 5.2. Revaluation reserve at the end of the period
- 6. Other capital reserves at the beginning of the period
  - 6.1. Changes in other reserve capital
    - a. Additions relating to:
      - .....
    - b. Deductions relating to:
      - .....
  - 6.2. Other capital reserves at the end of the period
- 7. Retained earnings at the beginning of the period
  - 7.1. Retained earnings from previous years at the beginning of the period
    - effect of changes in accounting policy
    - correction of errors
  - 7.2. Retained earnings from previous years at the beginning of the period after restatement
    - a. Additions relating to:
      - profit distribution from previous years
      - .....
    - b. Deduction relating to:
      - .....
- 7.3. Retained earnings from previous years at the end of the period
- 7.4. Accumulated loss from previous years at the beginning of the period
  - effect of changes in accounting policy
  - correction of errors
- 7.5. Accumulated loss from previous years at the beginning of the period after restatement
  - a. Additions (relating to)
    - net losses from previous years
    - .....
  - b. Deductions relating to:
    - .....
- 7.6. Accumulated loss from previous years at the end of the period
- 7.7. Retained earnings at the end of the period
- 8. Net profit/(loss) after taxation for the financial year
  - a. Net profit

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- b. Net loss
- c. Appropriation of profit

### II. Equity at the end of the period

### III. Equity after proposed profit distribution/coverage of loss

#### Cash flow statement (for entities other than banks, insurance and reinsurance companies)

#### INDIRECT METHOD<sup>4</sup>

#### A. Cash flow from operating activities

- I. Net profit/(loss)
- II. Total adjustments:
  - 1. Depreciation and amortisation
  - 2. Foreign exchange (profit)/loss
  - 3. Interest and share in profits (dividend income)
  - 4. (Profit)/loss on investing activity
  - 5. Change in provisions
  - 6. Change in inventory
  - 7. Change in receivables
  - 8. Change in short-term liabilities (excluding loans and bank credits)
  - 9. Change in prepayments, accruals and deferred income and expenses
  - 10. Other adjustments
- III. Net cash flow from operating activities

#### B. Cash flow from investing activities

- I. Proceeds:
  - 1. Disposal of tangible and intangible fixed assets
  - 2. Disposal of investment property and intangible fixed assets
  - 3. From financial assets, including:
    - a. Of related parties
    - b. Of third parties
      - sale of financial assets
      - dividends and share in profits
      - repayment of long-term loans
      - interest
      - other proceeds from financial assets
  - 4. Other proceeds from investing activities
- II. Disbursements:
  - 1. Purchase of tangible and intangible fixed assets
  - 2. Purchase of investment property and intangible fixed assets
  - 3. For financial assets, including:
    - a. Of related parties
    - b. Of third parties
      - purchase of financial assets

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<sup>4</sup> Statements of cash flows may be prepared either using direct or indirect method.



– long term loans provided

4. Other investment disbursements

III. Net cash flow from investing activities

### **C. Cash flow from financing activities**

I. Proceeds:

1. Net proceeds from the issue of shares and other equity instruments and additional shareholder payments

2. Credits and loans

3. Issue of debt securities

4. Other financial proceeds

II. Disbursements:

1. Purchase of treasury shares

2. Dividends and other payments to shareholders

3. Other payments relating to profit distribution, excluding payments to shareholders

4. Repayment of bank credits and loans

5. Redemption of debt securities

6. Other financial obligations

7. Payments relating to finance lease obligations

8. Interest

9. Other financial disbursements

III. Net cash flow from financing activities

### **D. Net cash flow**

#### **E. Balance sheet change in cash, including:**

– change in cash from foreign exchange differences

#### **F. Cash at the beginning of the financial year**

#### **G. Cash at the end of the financial year, including:**

– restricted cash

### **ADDITIONAL INFORMATION AND EXPLANATIONS**

#### **Include in particular:**

#### **1.**

1) a detailed description of changes in the value of individual categories of tangible fixed assets, intangible fixed assets and long-term investments, showing opening balances of these assets as at the beginning of the financial year, increases and decreases due to: revaluation, acquisition, internal transfers and the closing balances as at the end of the financial year, and for depreciable assets - a similar analysis of balances and the reasons for changes in accumulated depreciation or amortisation;

2) value of land in perpetual usufruct;

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- 3) value of non-depreciated and non-amortised fixed assets used by an entity under lease, tenancy or other contracts, including leasing contracts;
  - 4) amounts owed to the State budget or budgets of territorial self-government units by virtue of acquired ownership rights to buildings and structures;
  - 5) description of the ownership structure of share capital, as well as the number and nominal value of subscribed shares, including preference shares;
  - 6) opening balances as at the beginning of a financial year, increases and use, and closing balances reserve capitals (funds) and other capital reserves unless the entity prepares a statement of changes in equity;
  - 7) proposals concerning distribution of profit or coverage of loss for the financial year;
  - 8) information on provisions broken down by class as at the beginning of the financial year, increases, use, release and balances as at the end of the financial year;
  - 9) information about allowances for short – term receivables, specifying the opening balance as at the beginning of the financial year, increases, use, release and closing balances as at the end of the financial year;
  - 10) a breakdown of long-term liabilities, according to balance sheet items, whose contractual maturity as on the balance sheet date is:
    - a. up to 1 year;
    - b. over 1 year to 3 years;
    - c. over 3 years to 5 years;
    - d. over 5 years
  - 11) a list of significant items of accrued and prepaid expenses;
  - 12) a list of liability groups secured by the entity's assets (indicating their types);
  - 13) contingent liabilities, including guarantees granted by the entity, including bills of exchange; information relating to guarantees granted to related parties should be disclosed separately.
- 2.**
- 1) material structure (categories of activities) and territorial structure (country, export) of the net revenues from the sale of products, goods and materials;
  - 2) the amount and explanation of unplanned depreciation charges;
  - 3) the amount of stock revaluation write-offs;
  - 4) information concerning revenues, costs and profit/ (loss) on discontinued operations in the financial year or operations to be discontinued in the following year;

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- 5) reconciliation of income tax base and gross financial result (profit, loss) for the year for major items;
  - 6) in the case of entities which present profit and loss account by type of activity - manufacturing costs of products for the entity's own needs and cost by kind:
    - a. depreciation;
    - b. materials and energy;
    - c. external services;
    - d. taxes and charges;
    - e. payroll;
    - f. social security and other benefits;
    - g. other costs by kind;
  - 7) manufacturing costs of fixed assets under construction, including interests and capitalised exchange rates from liabilities incurred for financing the above mentioned fixed assets;
  - 8) expenditures for non-financial fixed assets incurred in the preceding year and planned for the following year; there is a separate specification of incurred and planned expenditures on environmental protection;
  - 9) information on extraordinary profits and losses, broken down into causal losses and other;
  - 10) income tax on the result of extraordinary transactions;
- 2a.** For balance sheet and profit and loss items in foreign currency – the exchange rate used for valuation.
  - 3.** Information on the structure of cash adopted for the cash flow statement and where the cash flow statement is prepared according to the direct method, there should be a reconciliation of net operating cash flows prepared under the indirect method; explanation of differences between balance sheet changes and changes regarding the same items as per the cash flow statement.
  - 4.** Information about:
    - 1) the nature and economic purpose of agreements concluded by the company and not recognised in the balance sheet to the extent necessary to assess their impact on the financial position, financial performance and financial result of the company;
    - 2) material transactions (including amounts) concluded by the entity not at arm's length basis with related parties such as: related entities and:
      - a. a person who is a member of a governing, supervisory or administrative body of the company, or an entity related to the company;
      - b. a person, who is a spouse or is keeping joint household, relative, kinsmen to the second grade,

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## Contents of Financial Statements<sup>1</sup>

- adopted or adopting, person connected based on custody or tutelage relationship with any person who is a member of a governing, supervisory or administrative body of the company or a party related to the company; or
- c. the entity controlled, jointly controlled or other entity, on which the person described above exerts a significant influence or owns significant direct or indirect voting rights
- d. the entity realising the employees' benefit plan after the period of employment, which plan is addressed to the company's employees or other entity related to that company
- including information relating to the nature of these transactions. Information relating to individual transactions may be grouped by their type, excluding cases when the information relating to individual transactions is necessary to understand their impact on the financial position, financial performance and financial result of the company
- 3) average employment in the financial year broken down by occupational groups;
- 4) remuneration, including profit appropriation paid or payable to members of the management, supervisory and administrative bodies of commercial companies and partnerships (separately for each group);
- 5) loans and similar benefits granted to members of the management and supervisory bodies of commercial companies and partnerships (separately for each group), specifying the interest rates and the repayment terms;
- 6) remuneration paid or payable for the financial year to the independent auditors or entities authorised to audit financial statements; remuneration paid or payable for the financial year broken down by:
- a. obligatory audit of the financial statements
  - b. other assurance services
  - c. tax consulting services
  - d. other services
- 5.**
- 1) information about significant events concerning the previous years included in the financial statement for the financial year including the correction of errors;

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- 2) information about significant events which occurred after the balance sheet date and were not taken into account in the financial statement;
  - 3) significant accounting policy changes, including valuation methods and the changes in the manner of drawing up the financial statement if they have a significant impact on the financial position, financial performance and financial result of an entity, the reasons for them and the impact on the financial result and the shareholders' equity;
  - 4) quantitative information ensuring comparability of the data in the financial statement for the preceding year with the financial statement for the financial year;
- 6.**
- 1) information on joint ventures which are not subject to consolidation, including:
    - a. the name and scope of activities of a joint venture;
    - b. ownership share;
    - c. portion of jointly controlled tangible fixed assets as well as intangible fixed assets;
    - d. liabilities incurred for joint venture purposes or for the purchase of tangible fixed assets;
    - e. portions of the jointly incurred liabilities;
    - f. income from the joint venture and the related costs;
    - g. contingent liabilities and investment commitments related to the joint venture;
  - 2) information on transactions with related entities;
  - 3) list of companies (name and seat) in which the entity has at least 20% of shares per cent shareholding in the capital or total number of votes in the constitutive body of the company; the list should also disclose information on percentage interest and participation in management, as well as net profit or loss of those companies for the previous financial year;
  - 4) where the entity does not prepare a consolidated financial statement, using an exemption or exclusions, information about:
    - a. legal basis with explanatory notes concerning the consolidation exemption;
    - b. the name and seat of the entity preparing a consolidated financial statement at a higher level in the group and the place of the publication of the consolidated financial statements;
    - c. basic financial ratios of related parties in the current and previous

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# Contents of Financial Statements<sup>1</sup>

financial year, such as:

- net revenues from sale of products, merchandise and materials and financial revenues;
- net result for the period and shareholders' equity with disclosure of the structure;
- value of fixed assets;
- average employment in the period;

5) information on:

- a. the name and seat of the entity preparing a consolidated financial statement at the highest level in the group, of which the company is a subsidiary;
- b. the name and seat of the entity preparing a consolidated financial statement at a lowest level in the group, of which the company is a subsidiary, and is part of the capital group referred to in point a above;

**7.** In the case of a financial statement for the period during which the merger took place:

1) if the merger was accounted for using the acquisition method:

- a. the name and scope of activity of the acquired company;
- b. the number, nominal value and the type of shares issued for the purpose of the merger;

- c. acquisition cost, fair value of net assets acquired at the acquisition date, goodwill or negative goodwill and description of the depreciation thereof;

2) if the merger was accounted for using the pooling of interests method:

- a. name and the scope of activities of the acquirees;
- b. number, nominal value and type of shares issued for the purpose of the merger;
- c. revenues and costs, profits and losses and changes in equity of the merged companies from the beginning of the year when the merger took place until the day of the merger;

**8.** In the case of uncertainty relating to the going concern assumption, a description of such uncertainty and a statement that such uncertainty exists, as well as an indication as to whether the financial statement contains any adjustments related thereto; the information shall also include a description of actions taken or planned to be taken by the entity to eliminate the uncertainty.

**9.** Any information other than the items listed above which might have considerable impact on the financial position, financial performance and financial result of the entity.

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# APPENDIX E

## Selected Data from Double Taxation Treaties between Poland and Other Countries, Relating to Withholding Tax

Withholding Tax Rates for Double Tax Treaty Relief (tax certificate required)

Country	Treaty Rate			
	Dividends		Interest	Royalties
	Preferential	Normal		
Albania	5 <1>	10	10	5
Armenia		10	5	10
Australia		15	10	10
Austria	5 <2>	15	0 / 5 <28>	5
Azerbaijan		10	10	10
Bangladesh	10 <2>	15	0 / 10 <3>	10
Belarus	10 <4>	15	10	0
Belgium	5 <5>	15	0 / 5 <6>	5
Bosnia and Herzegovina <45>	5 <1>	15	10	10
Bulgaria		10	0 / 10 <3>	5
Canada		15	0 / 15 <3>	0 / 10 <7>
Chile	5 <8>	15	15 <46>	5 / 15 <9> <46>
China		10	0 / 10 <3>	7 / 10 <9>
Croatia	5 <1>	15	0 / 10 <3>	10
Cyprus	0 <2>	5	5	5
Czech Republic		5	0 / 5 <3>	10
Denmark	0 / 5 <10>	15	0 / 5 <11>	5



Country	Treaty Rate			
	Dividends		Interest	Royalties
	Preferential	Normal		
Egypt		12	0 / 12 <3>	12
Estonia	5 <1>	15	0 / 10 <3>	10
Finland	5 <1>	15	0 / 5 <12>	5
France	5 <2>	15	0	0 / 10 <13>
Georgia		10	0 / 8 <3>	8
Germany	5 <2>	15	0 / 5 <14>	5
Greece		<15>	10	10
Hungary		10	0 / 10 <3>	10
Iceland	5 <16>	15	0 / 10 <17>	10
India		15	0 / 15 <18>	22.5
Indonesia	10 <8>	15	0 / 10 <3>	15
Iran		7	0 / 10 <3>	10
Ireland	0 <1>	15	0 / 10 <19>	0 / 10 <20>
Israel	5 <21>	10	5	5 / 10 <9>
Italy		10	0 / 10 <22>	10
Japan		10	0 / 10 <3>	0 / 10 <13>

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## Selected Data from Double Taxation Treaties between Poland and Other Countries, Relating to Withholding Tax

Country	Treaty Rate			
	Dividends		Interest	Royalties
	Preferential	Normal		
Jordan		10	0 / 10 <3>	10
Kazakhstan	10 <8>	15	0 / 10 <3>	10
Korea (Rep.)	5 <2>	10	0 / 10 <35>	10
Kuwait	0 <23>	5	0 / 5 <23>	15
Kyrgyzstan		10	0 / 10 <3>	10
Latvia	5 <1>	15	0 / 10 <3>	10
Lebanon		5	0 / 5 <3>	5
Lithuania	5 <1>	15	0 / 10 <3>	10
Luxembourg	5 <1>	15	0 / 10 <24>	10
Macedonia	5 <1>	15	0 / 10 <3>	10
Malaysia		0	0 / 15 <25>	0 / 15 / - <26>
Malta	0 <29>	10	0 / 5 <3>	5
Mexico	5 <1>	15	0 / 5 / 15 <27>	10
Moldova	5 <1>	15	0 / 10 <3>	10
Mongolia		10	0 / 10 <3>	5

Country	Treaty Rate			
	Dividends		Interest	Royalties
	Preferential	Normal		
Montenegro <45>	5 <1>	15	10	10
Morocco	7 <1>	15	10	10
Netherlands	5 <2>	15	0 / 5 <14>	5
New Zealand		15	10	10
Norway	0 <29>	15	0 / 5 <12>	5
Pakistan	15 <30>	- <15>	0 / - <31>	15 / 20 <32>
Philippines	10 <1>	15	0 / 10 <3>	15
Portugal	10 <33>	15	0 / 10 <3>	10
Qatar		5	0/5 <28>	5
Romania	5 <1>	15	0 / 10 <3>	10
Russia		10	0 / 10 <3>	10
Serbia	5 <1>	15	10	10
Singapore	0 <34>	10	0 / 10 <3>	10
Slovak Republic	5 <8>	10	0 / 10 <3>	5
Slovenia	5 <1>	15	0 / 10 <3>	10

# APPENDIX E

## Selected Data from Double Taxation Treaties between Poland and Other Countries, Relating to Withholding Tax

Country	Treaty Rate			
	Dividends		Interest	Royalties
	Preferential	Normal		
South Africa	5 <1>	15	0 / 10 <3>	10
Spain	5 <1>	15	0	0 / 10 <36>
Sri Lanka		15 <37>	0 / 10 <3>	0 / 10 <44>
Sweden	5 <1>	15	0	5
Switzerland <43>	0 <29>	15	10	0 / 10 <38>
Syria		10	0 / 10 <3>	18
Tajikistan	5 <1>	15	10	10
Thailand	20 <1>	- <15>	0 / 10 / - <39>	0 / 5 / 15 <40>
Tunisia	5 <1>	10	12	12
Turkey	10 <1>	15	0 / 10 <3>	10
Ukraine	5 <1>	15	0 / 10 <3>	10
UAE	0 <23>	5	0 / 5 <3>	5
UK	0 <2>	10	0/5 <28>	5
USA	5 <2>	15	0	10
Uzbekistan	5 <8>	15	0 / 10 <3>	10
Vietnam	10 <1>	15	10	10 / 15 <42>
Zimbabwe	10 <1>	15	10	10

- <1> Applies if the recipient is a company with a minimum holding of 25%.
- <2> Applies if the recipient is a company with a minimum holding of 10%.
- <3> 0% applies to certain government related loans.
- <4> Applies to the recipient with a minimum holding of 30%.
- <5> Applies if the recipient is a company with a minimum holding of 25% or, if the value of the investment is at least EUR 500,000, the required holding is 10%.
- <6> 0% applies to interest on loans granted for promoting exports, granted by financial institutions and to certain government-related loans.
- <7> 0% applies to copyright royalties and other similar payments in respect of literary, dramatic, musical or artistic works but excluding royalties on films and works on film or videotape for use in connection with television.
- <8> Applies if the recipient is a company with a minimum holding of 20%.
- <9> Lower rate applies to royalties paid for the use of industrial, commercial and scientific equipment.
- <10> 0% applies if the recipient is a company with a minimum holding of 25% for not less than one year. 5% applies if the recipient is a pension fund or similar institution.
- <11> 0% applies to interest related to the sale of equipment, or on certain government related loans.
- <12> 0% applies to certain government related loans
- <13> 0% applies to royalties derived from any copyright of literary, artistic or scientific work.
- <14> 0% applies to interest related to the sale of goods or equipment, on loans granted by a bank, on loans granted in order to promote exports, or paid to a government.
- <15> No reduction under the treaty.
- <16> Applies if the recipient is a company with a minimum holding of 25%. The provision is not applicable as long as dividends are tax deductible according to the laws of Iceland or may be carried forward as operating losses for income tax purposes.
- <17> 0% applies to certain government related loans and as long as Iceland does not levy tax on interest paid to non-residents.
- <18> 0% applies to certain government related loans, interest on certain bank loans or on certain approved loans.
- <19> 0% on bank loans and interest on loans related to the sale of goods or equipment.
- <20> 0% applies to royalties paid for technical services.
- <21> Applies to a recipient with a minimum holding of 15%.
- <22> 0% applies to certain government related loans and loans granted under an agreement between Italy and Poland.
- <23> 0% applies if the recipient is a government or other authority, or a company with a minimum 25% participation of a government or other authority.
- <24> 0% applies to interest on bank accounts or bank loans and on interest derived by a government.
- <25> 0% applies to interest derived by a Polish resident in connection with approved loans or long-term loans.
- <26> 0% applies to approved royalties paid from Malaysia to Poland. No reduction for films under the treaty.
- <27> 0% applies to certain government-related loans and loans from pension funds. 5% applies to loans from banks or insurance companies or on publicly traded securities.
- <28> 0% applies to interest on loans relating to promoting exports, loans relating to the sale of equipment, bank loans and certain government-related loans.

## APPENDIX E

# Selected Data from Double Taxation Treaties between Poland and Other Countries, Relating to Withholding Tax

- <29> 0% applies if the beneficial owner of the dividends is a company holding at least 10% of the capital of the company paying the dividends and has done so or will have done so for 24 months without interruption.
- <30> A holding of one third of the capital is required and the income should derive from an industrial undertaking.
- <31> 0% applies to interest paid from Pakistan to Poland on loans approved by the Ministry of Finance of Pakistan. 0% applies also to interest for certain banks. No reduction under the treaty in other cases.
- <32> Lower rate applies to royalties for technical know-how.
- <33> Applies if the recipient is a company with a minimum holding of 25% for an uninterrupted period of 2 years prior to the payment of the dividend.
- <34> 0% applies to certain dividends derived by a government or similar institution. As long as Singapore does not impose tax on dividends in addition to income tax, dividends paid from Singapore to Poland shall not be subject to any tax in Singapore.
- <35> 0% applies to certain government-related loans, loans from certain banks and interest in respect of the sale of goods or equipment.
- <36> 0% applies to copyrights and films provided under cultural agreements.
- <37> Applies to dividends paid from Poland to Sri Lanka. Specific provisions apply to dividends paid from Sri Lanka to Poland.
- <38> 0% applies as long as Switzerland does not levy a tax at source on royalties paid to non-residents.
- <39> 0% applies to certain government-related loans. 10% applies if interest is received by any financial institution (including an insurance company). No reduction under the treaty for other interest.
- <40> 0% applies in respect of films if royalties are paid to the Contracting State or a State-owned company. 5% applies in respect of copyrights excluding films.
- <41> 0% applies to certain government-related loans, or if the recipient is an institution which performs functions relating to the insurance of export and import credits.
- <42> Lower rate applies in respect of royalties for patents, use of designs, models, plans, secret formulae or processes or know-how.
- <43> Under the new Protocol signed with Switzerland on 20 April 2010, the following WHT rates will apply starting 1 July 2013.  
Interest: 0/5  
Royalties: 0/5
- <44> The lower rate applies to copyright royalties, including films.
- <45> The treaty concluded between Poland and the former Socialist Federal Republic of Yugoslavia applies.
- <46> Under the Protocol to the Agreement, if in any agreement concluded by Chile with an OECD member state, Chile agreed to exempt interest or royalties arising in Chile from tax or to reduce the rate, such exemption or reduced rate shall automatically apply under the same conditions as if it had been specified in this Convention.

**Patron of Investment in Poland**



## **Polish Information And Foreign Investment Agency (PAIIZ)**

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