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## Tax changes brought about by the “Polish Deal”

**On 15 May 2021, Poland's government unveiled the details of the new stimulus plan dubbed the “Polish Deal” (hereinafter: the Program) designed to bolster the post-pandemic economy.**

**The Program is to introduce important amendments to the Polish tax system, the most important of which are presented below.**

### **Tax-free allowance to rise to PLN 30k per year**

To ease the tax burden on low wage earners, the personal income tax-free allowance is to be increased to PLN 30 thousand annually (at present, the tax-free amount is set at PLN 8 thousand and once this threshold is exceeded, a degressive tax-free amount is applied).

In practice, increasing the tax-free allowance means that individuals earning income of up to PLN 2.5 thousand gross monthly, to which tax scale is applied, will be exempt from the income tax. In turn, income tax charged on higher earners will be decreased by the amount corresponding to the updated tax-free amount.

### **Higher rate threshold to rise to PLN 120k per year**

The Program provides for raising the threshold for entering the higher income tax bracket of 32 percent to PLN 120 thousand (currently: PLN 85,528).

Importantly, the increased threshold will only apply to income subject to PIT according to the tax scale, which primarily means income from employment relationship and business activity taxed under general

rules. At the same time, the flat 19 percent income tax rate applicable to income from business activity is to remain unchanged.

The Program will include also an item concerning a tax relief for individuals whose income under employment relationship is between PLN 70k to PLN 130k annually, to reduce the possible inconvenience of introducing new taxation rules for individuals earning from around PLN 6 thousand to around PLN 11 thousand per month. The details thereof, however, have not been specified.

### **Non-deductible health insurance contributions and liquidation of lump-sum health insurance contribution**

The total tax and contribution burden is to increase due to making health insurance contributions non-deductible. Currently, for income earned under employment contracts, the monthly contribution rate for health insurance is 9 percent of the assessment base, where 7.75 percent of the contribution is tax-deductible. Now, under the Program, the health insurance contribution will become non-deductible.

Important changes in this regard are also to be introduced in respect of individuals conducting business activity who currently pay lump-sum health insurance contributions, calculated based on declared amount which cannot be lower than 75 percent of the average monthly remuneration in the enterprise sector in the fourth quarter of the previous year, amounting to PLN 381 in 2021.

Under the proposed amendments, individuals running a business will

pay a health insurance contribution calculated in proportion to their income at the rate of 9 percent, without the possibility of deducting it from tax.

### **Impact on net earnings**

In principle, the purpose of the amendments is to reduce the tax burden for individuals whose monthly earnings do not exceed around PLN 11 thousand gross and around PLN 6 thousand gross, for employees and individuals running business activity, respectively.

At the same time, the tax and health contribution burden is to increase for those who exceed these caps.

### **Other amendments**

Another incentive brought by the Program is the so-called “return relief”, which is to encourage not only employees, but also entrepreneurs who have settled abroad to return to Poland.

As announced, individuals coming back to Poland will pay half of their PIT due within two years of their return.

Importantly, the “Polish Deal” does not cover solely PIT and health contribution-related considerations, extending to other levies and fees.

In the area of CIT, the Program is to introduce a new automation and robotization relief, and to extend the existing R&D and IP-BOX relief schemes.

The group of Estonian CIT users is to get extended and a new tax relief that reduces the costs of entering the stock exchange (IPO) is to be implemented.

The Program also brings VAT-related proposals, namely, eliminating VAT on settlements within capital groups and introducing the possibility of selecting VAT settlement method for financial transactions.

### Entry into force

So far, the government has not published any documents containing legislative details of the announced changes, and the schedule of works on the amendments along with the date of their entry into force remain unknown. Yet, given that the majority of the amendments announced

relate to income taxes, one may assume that they are likely to become effective on 1 January 2022.

If you would like to learn more about the issues discussed, please do not hesitate to contact us.

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