

BUSINESS AND TAXATION GUIDE TO POLAND

2013



MAZARS IN POLAND

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1. GENERAL INFORMATION

1.1 Opportunities and possible obstacles for foreign investors

The Polish market offers foreign investors some very interesting opportunities. During the recent financial crisis, Poland has been one of the only EU countries not to fall into recession.

Due to relatively large number of citizens (approximately 38 million) and constantly growing domestic consumption, diversity of economic structure and good access to Eastern and Western European markets, Poland is already appreciated by a significant number of foreign entrepreneurs. According to data compiled by the National Bank of Poland, in 2011, foreign direct investments increased by 38% on the previous year.

Stable inflation and economic growth offers foreign investors a relatively safe economic environment with long-term opportunities. What is more, the probability of the economic crisis impacting investments is widely regarded as low due to the low level of public sector debt, currently 55% of Polish Gross Domestic Product (GDP) in comparison to the average EU27 of 80% of GDP. In addition, Poland offers foreign investors a number of tax breaks and direct grants, as well as 14 special economic industrial and technology zones and a modernised infrastructure.

Some of the key attractions for foreign investors include:

- EU member (since 2004)
- OECD member (since 1999)
- Attractive and stable economy, supported by grants and incentives (SEZ)
- International business hub, especially in outsourcing and business support services, with easy access to Western and Eastern markets
- Large domestic market and growing domestic consumption
- Relatively low labour costs
- Highly educated and qualified workforce.

Constant development of Polish market and rapid growth of internal consumption opens up opportunities in a variety of sectors, with high economic capacity for foreign investors in:

Home appliances market

Poland is a prime location for white goods factories. Most major players in this market have already invested and built production facilities in Poland and are developing their export product range.

Strengths of the Polish white goods market include:

- High absorbency
- Excellent geographic location
- A strategic European market
- Positioned for expansion to the East.

Biotechnology sector

The Polish biotechnology market is undergoing rapid development and is one of the fastest growing in Europe. Investments in this sector are recognised as a priority by the Polish government with a number of investment incentives, grants, government and EU funds to support expansion. See section 3 for details.

Biofuels production is especially noteworthy and Poland's application of genetic engineering, hormones, antibodies, and diagnostic tests are showcasing the country's biotechnology expertise. Biopharmaceutical production is currently the fastest growing branch in this sector.

BPO/SSC sector

The Central and Eastern Europe (CEE) region offers enormous potential in the BPO/SSC sector. In Poland, the BPO/SSC sector began to develop approximately a decade ago, mainly through international shared service centres in the field of accounting and finance, IT support services, and research and development. Key drivers behind this investment included the favourable investment climate, highly skilled local workforce and the development of modern office space in Poland.

Renewable energy sector

Economic growth and a population of 38 million are some of the many factors driving the demand for cleaner, greener technologies and energy. Poland aims to reduce dependency on imported oil and gas and to reduce its use of coal in energy production.

The government has set ambitious targets for 2020: increase use of renewable energy sources in electricity production, heating and cooling, as well as in transport, mandatory reduction in the amount of biodegradable waste deposited in landfills to 35%, construction of biogas plants in each Polish municipality. Key investment attractions are:

- Poland's favourable wind conditions on the Baltic coast
- Poland offers great potential for obtaining biomass, biogas
- Investment incentives for renewable energy producers.

R&D sector

This sector is being boosted by Poland's economic growth, competitiveness, level of research and innovation to projects. This leads to further R&D development. In comparison to the rest of the EU, Poland acknowledges that there's still considerable potential for R&D development. To illustrate, the EU average spend on R&D activities is 1.83% of GDP, compared to 0.57% in Poland. Percentage share of innovative enterprises operating in the EU is 54.1%, while in Poland it is 24.5%.

Potential investment benefits for offshoring/outsourcing R&D to Poland are:

- Low comparative costs of R&D activities in Poland
- Accessibility to highly qualified staff
- Large number of young educated workers with foreign language skills
- Great opportunities for business cooperation with the scientific community
- Advantageous European location.

1.2 Area and population

The area of Poland is 312,679 km², bordering Russia and Lithuania on the north, Belarus and Ukraine on the east, Slovakia and the Czech Republic on the south and Germany on the west.

Poland's population is approximately 38 million. The population density is 122 inhabitants per km². Geographically, the population density is greatest in the biggest cities: Warsaw (Poland's capital), Cracow, Łódź, Poznań, Gdańsk, Wrocław.

The Polish climate is generally similar to the rest of mainland Europe. The winter climate is affected by cold fronts that come from Scandinavia and Siberia, with around four to eight weeks of snow typical during the months of December and January. Summers are generally warm, with average temperatures between 18 °C (64 °F) and 30 °C (86 °F) depending on a region.

1.3 Government and law

The Polish government is defined and controlled by Constitution (adopted in 1997), which is the supreme law of the land. The sources of universally binding law in the Republic of Poland are:

- The Constitution
- Statutes
- Ratified international agreements
- Regulations.

Poland is a republic. The governing system of Poland is based on the separation and balance of powers between legislative, executive and judicial branches.

- Legislative power lies with parliament
- Executive power is vested in the President of the Republic of Poland and the Council of Ministers
- Judicial power is granted to the courts and tribunals. The judicial branches major institutions include the Supreme Court of the Republic of Poland (Sąd Najwyższy), the Supreme Administrative Court of the Republic of Poland (Naczelny Sąd Administracyjny), the Constitutional Tribunal of the Republic of Poland (Trybunał Konstytucyjny) and the State Tribunal of the Republic of Poland (Trybunał Stanu).

Poland's public administrative system is divided into 16 voivodeships (states). These are further divided into 379 poviats (counties) and 2,478 gminas (communes/municipalities). Administrative authority at voivodeship level is shared between a government-appointed governor (the voivode usually a political appointee), an elected assembly (the sejmik) and an executive chosen by that assembly. The leader of that executive is called the marshal (marszałek).

1.4 Economy

Poland's economy is widely considered to be one of the healthiest of the post-Communist countries and is currently one of the fastest growing within the EU. Having a strong domestic market, low private debt, flexible currency, and not being dependent on a single export sector, Poland is the only European economy to have avoided the late-2000 recession. In the last decade, Poland has steadfastly pursued a policy of liberalising the economy and now stands out as a successful example of the transition from a centrally planned economy to a primarily market-based economy. In 2009, Poland reported the highest GDP growth in the EU. As of February 2012, the Polish economy had not entered a recession in the wake of the global financial crisis.

According to National Bank of Poland, foreign direct investment (FDI) to Poland in 2011 amounted to €10.8 billion. This marked a 37.7% increase on 2010. Mergers and Acquisitions were the main driver behind this growth.

The services sector is the largest component of Poland's economy. GDP by sector is approximately:

- 4.6% Agriculture
- 28.1% Industry
- 67.3% Services.

Germany is Poland's main export partner, followed by the United Kingdom, Czech Republic, France, Italy and Russia. The country's main exports are machinery and transport equipment, manufactured goods, food and livestock, chemicals and related products.

The Polish Financial Supervision Authority regulates the Polish banking sector.

1.5 Financial status

Poland's credit rating is currently:

- Standard & Poors, A- (stable)
- Moody's, A2 (stable)
- Fitch, A- (stable).

Poland's economy is anticipated to grow by between 2% and 3% in 2013.

1.6 Currency

The unit of currency in Poland is the zloty, represented by zł. A single zloty is divided into 100 groszy.

The International Standards Organization (ISO) currency code is PLN.

POLAND IN BRIEF

Capital	Warsaw
Population	38.5 million
Area	312 679 km ²
Largest cities	Warsaw, Cracow, Łódź, Poznań, Gdańsk, Wrocław
Official language	Polish
Currency	Polish zloty (PLN)
Time	GMT +1
Calling code	+48
Membership	EU, EEA, OECD, WTO



2. REGULATION OF FOREIGN INVESTMENT

2.1 Business activities

In accordance with Poland's **Business Activity Law (Article 13)** foreign entrepreneurs from the EU and Member States of EFTA, or parties to the EEA Agreement, are able to conduct business activities in Poland and exercise the same rights as Polish residents.

In order for non-residents outside of the EU, EFTA and EEA to undertake and conduct business activities and enjoy the same rights as Polish citizens and companies, they must:

- Obtain a permit for occupation within the territory of Poland
- Request tolerate presence or refugee status, as granted by Polish authorities
- Be granted temporary protection of Poland.

Other foreigners may conduct business in Poland in the form of companies regulated by commercial law. Providing a respective treaty does not stipulate otherwise, non-residents outside of the EU, EFTA and EEA can establish and conduct business activities through:

- Limited partnership
- Joint stock partnership
- Limited liability company
- Joint-stock company.

The abovementioned individuals are eligible to participate in those entities, purchase and acquire their shares. See section 4 for more details on how to establish these business entities.

In addition, foreign entrepreneurs may create a branch of a foreign corporation or establish a representative office.

2.2 Foreign exchange transactions

In general, no foreign exchange controls are imposed on transactions between EU, EEA, EFTA and OECD members. Permission may be required for certain transactions between other jurisdictions and to conduct certain transactions in a foreign currency.

3. GOVERNMENT INCENTIVES

To encourage inward investment, both foreign and local entrepreneurs may benefit from a large variety of favourable European or Polish government assistance programmes, including tax breaks and direct grants. The most popular utilised by investors include:

3.1 EU structural funds

The value of structural funds made available to Poland and Polish investors between 2007 and 2013 is approximately €67 billion to support:

- Six Operational Programmes:
 - Innovative Economy
 - Human Capital
 - Infrastructure & Environment
 - Development of Eastern Poland
 - Regional Programs
 - Technical Support Programme
- 16 Regional Operational Programmes
- European Territorial Cooperation Programme
- Development of brownfield and greenfield sites
- Innovation clusters.

3.2 Special Economic Zones (SEZ)

There are 14 SEZ located in different regions of Poland, where manufacturing entities can receive significant investment incentives, such as:

- Between 30% and 50% income tax exemption on eligible investment costs (e.g. investments exceeding €100,000)
- Real estate tax exemptions in selected locations
- Attractive conditions to purchase land for investment
- Support in the investment process
- Specific employment support programmes organised by Poland's Regional Labour Offices with regard to recruiting and training employees.

3.3 Innovative Economy Programme

There are various cash grants, co-funded by the European Regional Development Fund (ERDF), available for specific investment projects, including:

3.3.1 Optional Programme "Innovative Economy", with funds split to specifically encourage:

- **Research & Development (R&D) of new technologies**, broadening the role the scientific community plays in Poland's economy and strengthening Poland's commercial R&D sector activities
- **R&D infrastructure**, modernising Poland's IT infrastructure and consolidating scientific research
- **Capital for innovation** - increasing the number of enterprises using innovative solutions and to improve access to external financial resources that encourage SME investment in innovation
- **Investment in innovative undertakings** that will strengthen and reposition Poland as an attractive economic partner on the world stage, such as:
 - Industrial design projects
 - Production and services sectors
 - Digital and e-services.

3.3.2 European Social Fund Human Capital Programme – offering cash grants to invest in people and their skills. The programme aims to enhance employment opportunities and combat social exclusion and strong regional disparities. The aid is granted for specialist and general training schemes for postgraduate studies programmes.

The level of aid available depends on the size of the enterprise and type of activities:

- Between 60% and 80% for general training schemes
- Between 25% and 45% for specialist training schemes.

3.3.3 Infrastructure and Environment Programme – co-funded by the Cohesion Fund and the ERDF, this programme offers cash grants for eco-friendly investments that, among other things, address and support:

- Production and collection of energy and biofuels from renewable sources
- Water and sewage management
- Environment-friendly transport
- Protection and promotion of ecological habitats.



4. BUSINESS ORGANISATIONS AVAILABLE TO FOREIGNERS

Poland's **Business Activity Law (Article 13)** recognises the following legal forms of business entities:

- Sole proprietorship (własna działalność gospodarcza)
- Civil partnership (spółka cywilna)
- Commercial partnerships (spółki handlowe):
 - Registered partnership (spółka jawna)
 - Limited partnership (spółka komandytowa)
 - Professional partnership (spółka partnerska)
 - Joint-stock partnership (spółka komandytowo-akcyjna)
- Companies (spółki kapitałowe):
 - Limited liability company (spółka z ograniczoną odpowiedzialnością),
 - Joint-stock company (spółka akcyjna)
- Branch offices and representative offices (oddziały i przedstawicielstwa),
- Permanent establishment.

In accordance with the Business Activity Law, foreigners from the EU and EFTA member states enjoy the same rights as the Polish citizens and companies when establishing and conducting business activities in the Republic of Poland.

In order for citizens of foreign states, who are not within the EU and EFTA member states, to enjoy the same rights, they must have either:

- Permit to reside in the territory of the Republic of Poland
- Permit to stay as a long-term EU resident
- Refugee status granted in the Republic of Poland, consent for tolerated stay or have temporary protection within the territory.

Other foreigners may conduct business in Poland using companies regulated by commercial law, for example limited partnership, limited joint-stock partnership, limited liability company and joint stock company.

4.1 Sole proprietorship

This is a very popular form for individuals establishing a small business. Key features are:

- Individuals are personally liable for all obligations arising from the business activity
- A sole proprietorship must be registered in the Commercial Register
- Individuals are subject to Personal Income Tax (PIT) – see section 7 for details.

4.2 Civil partnerships

A civil partnership is regulated in the **Civil Code of 23 April 1964** (Article 860). Partners agree to undertake to promote the attainment of a common economic objective by acting in a specific manner and, in particular, by making contributions. Key features are:

- Civil partnerships are established by at least two natural persons or legal entities
- Deed of the partnership must be made in writing
- Partners are jointly and severally liable for the partnership's liabilities
- The civil partnership must be registered in the Commercial Register
- Partners are subject to Personal Income Tax (PIT) individually – see section 7 for details.

Upon entry into the register the civil partnership will become a registered partnership if in two subsequent financial years the civil partnership reports a net revenue of €800,000 (or equivalent in Polish currency) from the sale of goods or provision of services. See 4.3.1 for details.

4.3 Commercial partnerships

4.3.1 Registered partnership

Established under the regulations set out by the **Commercial Companies Code**, a registered partnership typically conducts business on a larger scale than a civil partnership. Key features are:

- Established on the basis of written agreement
- Conducts an enterprise under its own name and not any other commercial company
- Does not have a legal personality, although a registered partnership can have its own assets and debts
- Every partner is liable for the obligations and liabilities of the partnership, without limits
- Must be registered with the National Court Register
- All partners are entitled to run and represent the registered partnership
- A partner may be excluded from the representation right (either upon a court's ruling or agreement concluded between the partners on the subject matter)
- Corporate Income Tax (CIT) transparent.

4.3.2 Professional partnership

As the name suggests, this entity is mainly established by partners for the purpose of conducting professional activities, also defined as liberal professions. For example, architect, engineer, advocate, doctor, notary, legal advisor etc. Key features are:

- Partner does not bear responsibility for liabilities of the partnership relating to the activities of other partners
- Deed of this partnership must be established in a written agreement, otherwise it is void
- The partnership must register with the National Court Register
- CIT transparent.

4.3.3 Limited partnership

This is a company where at least one partner is a general partner and has unlimited personal liability for the partnership's obligations (creditors), and the liability of at least one other partner is limited.

The general partner may itself be a limited company. Key features are:

- At least one partner has limited liability up to an amount specified in the partnership agreement and is released from liability if the contribution actually made to the partnership is equal or higher than the sum of liability specified in the partnership agreement (the limited partner)
- To establish, an agreement in the form of notarial deed is required
- Has to be registered in Register of Entrepreneurs in the National Court Register
- CIT transparent.

4.3.4 Limited joint-stock partnership

Established by two types of partners, at least one partner is fully responsible for the partnership's obligations (the general partner), and at least one partner is a shareholder and is free from the partnership's liability. Key features are:

- General partners may represent the partnership, shareholders only on the basis of Power of Attorney
- Day-to-day activities of the partnership are managed by the general partners
- The minimum contribution to the partnership is PLN 50,000
- To establish, an agreement in the form of notarial deed is required
- A limited joint-stock partnership must register with the National Court Register
- CIT transparent
- Often used as a tax optimisation vehicle.

4.4 Companies

4.4.1 Limited liability company

A limited company is one of the most popular business entities in Poland. The Commercial Companies Code mainly regulates limited companies and incorporation is relatively straightforward.

Key features are:

- Company may be founded by natural or legal persons, or eventually by a sole shareholder (with minor restrictions)
- A notarial deed of incorporation and registration in the National Court Register is compulsory
- The company is managed by a management board, which can have one member or more.
- A supervisory board is generally optional, although may be required in set circumstances
- Minimum aggregate value of share capital is PLN 5,000

- The minimum nominal value per share is PLN 50
- Contributions may be in cash and/or in kind
- Shareholders' liability is limited up to the value of share capital
- CIT transparent
- Often used as a tax optimisation vehicle.

4.4.2 Joint-stock company

Often known as a public limited company, this entity is relatively similar to a limited liability company.

The key differences are:

- Required for certain types of business (e.g. banking) or for companies listed on the Warsaw Stock Exchange, or listed elsewhere
- Has a legal personality, is represented by a management board and a supervisory board must also be appointed
- The minimum aggregate issued share capital is PLN 100,000
- The minimum nominal value per share is PLN 0.01
- Contributions to share capital may be in cash and/or in kind
- Share certificates are required
- Company acquires legal personality as soon as it is entered into the National Court Register.

4.5 Branches

A foreign business may establish a branch office in Poland for the sole purpose of carrying out a business activity that's within the scope of the foreign entity's activity. Key features are:

- A branch office does not have its own legal personality
- The business activity must be the same as the foreign entity's activity
- The branch must use the same name as the foreign registered entity (in the language of the country where its registered office is located) as well as the Polish translation of its legal form and the phrase "oddział w Polsce"
- May employ Polish and foreign individuals
- Must be entered into the National Court Register, registered with tax authorities and social security office
- Must maintain accounting records that comply with Polish accounting laws
- Must notify the Minister of Economy of closure or any prohibition on conducting its activities.

4.6 Representative offices

A foreign entity may establish a representative office in Poland. A representative office operates on behalf of the business of the foreign entity in Poland and their activity is limited solely to the advertising and promotion of a foreign business. Key features are:

- The representative office cannot trade but only advertise and promote the foreign business in Poland
- Must be entered into the Register of Representative Offices, maintained by the Ministry of Economy
- May employ Polish and foreign individuals.

4.7 Permanent establishment (PE)

A PE is part of a foreign entity operating in Poland, characterised by a considerable level of permanence. They are:

- Registered only for tax purposes (PIT/CIT and VAT)
- Obligated to keep tax books in order to settle the PEs tax liabilities as defined in the double tax treaties.

5. SETTING UP AND RUNNING BUSINESS ORGANISATIONS

Due to the wide variety of business structures available to resident and foreign investors in Poland, the procedures for setting up business organisations may differ significantly. Because of this, seeking professional guidance is always advisable.

5.1 Sole proprietorship

For a sole proprietorship, registration with the appropriate municipality, plus the social security office and tax authorities is necessary. However due to one-stop shop rule, meeting the formal requirements is usually relatively easy and fairly quick. Some municipalities offer the facility for sole proprietorships to register their business. Registration by proxy is also possible.

5.2 Other entities

In the case of more complicated entities, a more formal agreement or act of incorporation is necessary. For some, this must take the form of a notarial deed, for example, a limited liability company and joint-stock company. All forms of companies must register with the National Court Register. Again, a one-stop shop rule applies, whereby the entity must also register with the social security office and tax authorities. However, full registration of the company takes an average of one to two months. Registration of a permanent establishment is only required with the tax authorities. This registration is usually finalised in less than four weeks.

5.3 Audit and accounting requirements

Polish accounting law lays out the regulations and principles that must be followed regarding accounting and financial reporting. In brief, these specify that:

- Accounting records must be maintained in the Polish language and, in most cases, in Polish zlotys
- Entities must comply with the format for financial statements specified under the accounting law
- An annual report by the company's board of directors is required
- The accounting records must be held at the company's registered office or at the office of an authorised independent accounting service
- Compliance with accounting regulations must be adhered to at all times - even though these are broadly similar to international standards, local assistance is usually mandatory
- Companies with shares listed on a recognised EU stock exchange are required to adopt IFRS (others may adopt IFRS if their financial statements are consolidated by a parent company based in the EU that has adopted IFRS)
- An audit is required for larger private limited companies, all public limited companies, banks and insurance companies, all companies that adopt IFRS and any other companies that have voluntarily included the requirement for annual audit in their deeds of incorporation.

5.4 Filing requirements

All companies and partnerships registered in the National Court Register must file an annual directors' report and financial statements, together with an audit report where applicable.

6. CORPORATE TAXES AND SOCIAL CHARGES

6.1 General information

The Polish tax system is comprehensive and tightly regulated. Any taxpayers conducting a business activity in Poland may be subject to the following taxes:

- Income tax, which is imposed on legal persons (corporate income tax – CIT) and natural persons (personal income tax – PIT)
- Value added tax (VAT), see section 9
- Excise duty, see section 9
- Customs duties, see section 9
- Local taxes and charges, in particular Real Estate Tax (RET) and inheritance tax
- Civil law activities tax (CLAT).

All taxes are imposed entirely based on acts passed by the Polish Parliament, which means that taxes cannot be imposed based on decrees issued by the Ministry of Finance or any other authority. This ensures the certainty of law and protects taxpayers from unpredictable changes in legislation.

Additionally, in case of uncertainties regarding the interpretation of the tax law, Polish taxpayers are entitled to apply to the Minister of Finance for an **individual ruling**. The individual ruling is an official interpretation of the tax law in the individual case presented by a given taxpayer. Such interpretation issued by the Minister of Finance protects the taxpayer in any subsequent tax proceedings commenced against him or her with respect to the issues covered by the ruling. When applying for the ruling, or in the course of tax proceedings, the taxpayers may also refer to the EU law or European Court of Justice (ECJ) verdicts and attribute their rights directly to these sources.

6.2 Corporate income tax (CIT)

All Polish companies are taxable on their worldwide income. Non-resident companies are taxable only on Polish sources of income, subject to double tax treaties (see section 8) and EU law. The current rate of CIT is 19%.

6.2.1 CIT-payers

Subject to CIT taxation are limited liability and joint-stock companies that are Polish residents. Partnerships are neither CIT nor PIT payers. Any income generated by partnerships is directly attributed to shareholders (in proportion to their shares) and depending on their status (companies or natural persons) may then be subject to CIT or PIT.

6.2.2 Unlimited and limited tax obligations

CIT payers that are Polish residents are liable for CIT payments on their worldwide taxable income, irrespective of whether it arises from domestic or foreign operations (unlimited tax obligation). A company has a resident status if it is seated in Poland or if its management is located in Poland. Therefore, Polish subsidiaries of foreign companies are regarded as residents and are taxed based on general rules.

On the other hand, a non-resident company is subject to CIT exclusively on income generated in Poland. Furthermore, double tax treaties concluded by Poland provide for further limitations related to taxation of non-residents. Under these treaties, Poland can tax a non-resident's business profits only to such an extent that these profits are attributable to the non-resident's permanent establishment (PE) located in Poland. A PE is defined as a fixed place of business, the most typical example being a branch office.

6.2.3 Tax base and CIT rate

CIT in Poland is, as a rule, payable on income, i.e. on revenues minus tax deductible costs. Tax deductible costs exceeding the revenue in the given financial year constitutes a loss, which may be deducted from the income over the next five consecutive years. However, no more than 50% of a loss can be offset in one year. Therefore, a loss can be fully absorbed by the company within two years at the earliest.

In practice, the taxable income is established by adjusting the profit reported for accounting purposes. The relevant adjustments are necessary due to differences between the tax and accounting treatment of numerous revenue and cost items.

CIT is collected at the flat rate of **19%**. This rate has been applied since 1 January 2004 and it is not anticipated to change in the forthcoming years. This means that Poland is currently among the most competitive countries in the EU for business profit taxation (Austria – 25%, Belgium – approx. 34%, Italy – approx. 31%, Netherlands – 25.5%, and Spain – 30%).

CIT is payable on an annual basis, but taxpayers are obliged to make monthly advance payments. The amount of tax payable for a particular month is the difference between cumulative tax due and the cumulative payments of tax made in preceding months. Many companies may also elect to make interim payments based on taxable profit of a preceding year. Generally, the tax year is the calendar year. However, taxpayers can opt for another tax year under the condition that it will last 12 calendar months (with minor exceptions).

6.2.4 Revenues and tax deductible costs

All revenues are generally subject to CIT, with the exception of revenues derived from forestry and agricultural activities. For CIT purposes, expenses incurred in order to generate revenues, possibly in order to retain or secure these revenues, may decrease taxable costs. However, there is also a certain group of expenses, which are excluded from tax deductible costs by law. For example:

- Representation expenses
- Penalty interest incurred on tax arrears
- Accrued, but unpaid, interest
- Interest on loans and credits from certain related entities, if the debt to equity ratio exceeds 3:1 (thin-capitalisation rules). The threshold for establishing whether a company is a related entity is based on 25% "group" ownership.

6.3 Withholding tax (WHT)

6.3.1 Dividends

There are also specific regulations regarding the payment and taxation of dividends. Dividends paid by Polish companies are subject to 19% taxation rate. This rate is applied to the gross dividend amount (i.e. no costs can be deducted). The withholding tax (WHT) is withheld and remitted to the tax office by the payer of dividends.

When dividends are paid to a foreign shareholder, a respective double tax treaty can reduce the WHT rate.

Furthermore, the participation exemption (resulting from the EU Parent-Subsidiary Directive) has been implemented. Based on the relevant provisions, dividends paid by Polish companies are exempt from the WHT providing that the recipient of the dividends is liable to tax on its worldwide income in an EU member state and holds at least 10% of shares of the dividend's payer for a minimum uninterrupted period of two years. This condition may be fulfilled after the payment.

6.3.2 Interest/royalties payments

Interest and royalties paid abroad are subject to specific regulations. These categories of payments are subject to 20% WHT on their gross amount, unless a respective double tax treaty provides otherwise.

In addition, based on the provisions of Interest-Royalties Directive, such payments made between related parties ("A" holds at least 25% shares of "B", "B" holds at least 25% of "A", "C" holds at least 25% of "A" and "B" for a minimum uninterrupted period of two years) from the EU member states will be exempt from WHT. However, due to the transition period of the Interest-Royalties Directive in Poland, this directive has not been fully implemented into Polish CIT Law yet. If relevant conditions are met, the WHT rate on interest and royalties payments is 5% until 30 June 2013 and starting from 1 July 2013 the applicable payments will be exempt from WHT in Poland.

6.4 Social security contributions

Polish employers have to pay social security costs and compulsory insurances to the social insurance office (Zakład Ubezpieczeń Społecznych) and to the National Health Fund. The employer is responsible for withholding and remitting the full amount of social security contributions (employee's share and employer's share) to the relevant authorities. The rates of social security contributions for 2012 are:

Fund	Employer	Employee
Pension/retirement fund	9.76%	9.76%
Disability insurance	4.5%	1.5%
Sickness benefits	/	2.45%
Accident insurance	Between 0.67% and 3.33%	/
Health insurance	/	9.00%

The employer and employee pay contributions to the pension and disability funds. The 9.76% employee contribution is transferred to the Open Pension Fund.

Contributions by employees are based on their gross income for income tax purposes. The ceiling on income on which contributions for the pension and disability insurance are due is PLN 111, 390 in 2013.

There is no ceiling for health insurance.

In addition, 9% of gross pay (less contributions for pension and disability insurance) for obligatory health insurance contribution (covering medical expenses) is payable by employees.

The 2.45% sickness benefit is paid into the Labour Fund.

7. PERSONAL TAXATION

7.1 General information

Application of Personal Income Tax (PIT) and whom it applies to is regulated by the Personal Income Tax Act 'PIT Act' (1991). Polish tax residents are subject to tax on worldwide income. Individuals who are not tax resident in Poland are subject to tax only on income derived from Polish sources of income.

7.2 Tax base

PIT is generally calculated on the income (i.e. on revenues reduced by tax deductible costs). However, the income calculation differs depending on the source from which the income is earned (for example contract of employment, individual business activity, personally performed activities etc.).

7.3 PIT rates

PIT is calculated using a progressive tax scale.

- The rate of 18% is applied to taxable income of up to PLN 85,528, and 32% is applied on all taxable income exceeding PLN 85,528.
- Profits from self-employment and shares in partnerships, may, in most instances, be taxed at a flat rate of 19% , providing the taxpayer has elected for this. Taxation of individual businesses and deductible costs are based upon similar provisions as covered in section 6 on corporate income tax (CIT).
- Directors' fees and income from civil law contracts for persons with limited tax liability are taxed at a flat rate of 20%.

7.4 PIT payments

PIT is calculated on annual income. However, interim payments are made monthly during the calendar year, with an annual tax return filed and any balance paid on or before the 30 April. It is the obligation of Polish employers to calculate and to withhold advance payments of tax on their employees' remuneration and transfer it to the tax authorities.

7.4.1 Taxation of savings

Any interest income derived from cash deposits, bank accounts, and other savings is taxed at source at the flat rate of 19% for individuals.

8. DOUBLE TAXATION AGREEMENTS

Poland has a well-developed tax treaty network and has entered into various agreements (based on the OECD Model) with 89 foreign governments.

A Double Taxation Treaty, in principle, enables tax paid by one party to be offset against the tax payable in the other, in this way preventing double taxation.

Another important factor is the granting of an exemption or a reduced tax rate on certain categories of income, such as interest, royalties, dividends, capital gains that are connected with a transaction carried out between parties associated with the DTT.

Benefits under the agreement can generally be obtained only if the person or entity is a qualified resident of one of the treaty countries. Most agreements provide for a reduction of the withholding rate for:

- Dividends
- Interests
- Royalties
- Capital gains.

When certain income is taxable under the Polish Income Tax and there is an exemption (reduced tax) under any DTT, the exemption prevails. However, in order to apply this exemption (reduced tax) the Polish taxpayer must possess a certificate of residency for the country where the DTT is being applied.

In addition, Poland has implemented the Parent–Subsidiary Directive and the Interest and Royalties Directive. The first provides for participation exemption for dividends paid between related EU companies. The latter provides for exemption for interest and royalties between related EU companies.

From the 1 July 2013, interest and royalties paid between eligible companies will be exempt from withholding tax in Poland; until then a 5% rate applies.



9. SALES AND USE TAXES

9.1 Value Added Tax (VAT)

VAT was introduced in Poland in 1993. Following Poland's accession to the EU on 1 May 2004, a new **VAT Act** was introduced to ensure harmonisation of the Polish VAT system with specific provisions of the 6th VAT EU Directive. Currently, the Polish VAT system reflects the provisions of the 112 VAT Directive and in that respect is similar to the VAT systems operating in other EU member states.

Under Polish VAT regulations, VAT applies to the following transactions:

- Supply of goods and services in Poland
- Exportation of goods outside of the EU (generally subject to 0% VAT)
- Importation of goods from outside of the EU
- Intra-community acquisition of goods for business purposes
- Intra-community supply of goods (generally subject to 0% VAT rate).

Businesses that conduct activities subject to VAT in Poland are obliged to register as VAT taxpayers before undertaking their first taxable activity.

The VAT burden is borne by the ultimate consumer of goods and services and businesses are responsible for the administration and collection of tax. This means that VAT is not a cost for most businesses, since they can pass the tax burden to the ultimate users of goods and services via the mechanism of VAT calculation (i.e. output VAT may be decreased by input VAT).

Polish VAT Law allows direct refunds into the bank account when input VAT exceeds output VAT.

The VAT rates as of **1 January 2011** are: 23% (standard rate which covers all goods and services that don't fall within the lower rates), 8%, 5%, 0% and exemption. VAT rates may be further increased depending on the public sector debt to Gross Domestic Profit ratio.

- 8% supplies include, among others, hotel services and passenger transport supply, construction and assembly services, restoration and conservation of building that fall within social housing programmes
- 5% rate applies to certain foods, e.g. meat, fish, dairy products, vegetables, fruit, bread, etc.
- 0% supplies include exports and intra-community supplies of goods and international transport services.

9.2 Customs duties

As Poland is a part of the EU customs area imports and exports are, in principle, regulated by the EU Customs Code.

For trade with non-EU countries, customs duty arises on the customs value of many imported goods. The customs value includes costs such as transport, packaging, and insurance etc. It is possible to bring goods into Poland under a temporary customs clearance and then re-export free of customs duty. This applies to regular commercial transactions as well as to personal effects of expatriate staff.

9.3 Civil Law Activity Tax (CLAT)

Several categories of activities are subject to the Civil Law Activities Tax (CLAT) [podatek od czynności cywilnoprawnych – (PCC)].

As a rule, CLAT applies to various transactions performed by entities that may not have VAT-payer status and are not involved in professional commerce. The transactions covered include, among others, the sale of a property or a loan.

However, CLAT may also be imposed on businesses. In particular, it applies to the incorporation of a company or partnership and share capital increases or increases in the partnership's assets. Both are subject to CLAT at a rate of 0.5%. This is calculated on the increased (created) share capital or increased asset value. For this reason, CLAT must be taken into account when setting up a company in Poland.

9.4 Local taxes and charges

Among taxes and charges imposed by local authorities (e.g. cities, communes), the most significant one is Real Estate Tax (RET). The tax law will only set the maximum amount of local tax chargeable, with local authorities setting the actual rates.

Real Estate Tax is charged on:

- Land (calculated per square metre)
- Buildings (calculated per square metre of usable surface)
- Structure relating to a business activity (calculated on value).

Particularly entrepreneurs involved in industrial activities should take Real Estate Tax into account. The taxpayers may apply for a RET exemption.

A tax on transport is imposed on lorries, tractors and trailers. Each local authority also sets these tax rates.

9.5 Inheritance and gift tax

Inheritances and gifts received from immediate family (parents, children, etc.) are free from taxation.

Tax exempt amounts vary by recipient group. They are:

- In-laws tax group – PLN 9,637
- Other family members – PLN 7,276
- Others – PLN 4,902

10. PORTFOLIO INVESTMENT FOR FOREIGNERS

Foreign currency borrowings may be used and the National Bank of Poland encourages the introduction of such funds into the country.

Overdrafts are available for short-term and seasonal fluctuations in the company's working capital requirements.

Portfolio investments by non-residents in Poland are subject to the following taxation:

10.1 Dividends

Dividends generated by a Polish portfolio and obtained by non-residents without permanent establishment can be taxed at:

- 19%, if a Double Taxation Agreement is not applicable
- A limited rate (generally between 10% and 15%) provided for in the relevant DTA
- 0%, if the parent-subsidiary European Directive applies.

10.2 Capital gains

Capital gains generated by a Polish portfolio and obtained by non-residents without a permanent establishment can be taxed at:

- 19%, if a DTA is not applicable, or it allows Polish taxation on them
- 0% if the DTA only allows taxation in the country of residence.

11. TRUSTS

The Polish legal system does not provide for Trusts or similar investment vehicles.

12. PRACTICAL INFORMATION

12.1 Transport

Rail and air travel are the most important means of transport between the main centres in Poland.

International airlines services operate in Warsaw, Cracow, Wrocław, Poznań, Gdańsk.

12.2 Language

The official language is Polish, used by the government when enacting laws or producing official documents.

12.3 Time relative to Greenwich Mean Time (GMT)

Poland has a single time zone – it's one hour ahead GMT. Poland follows daylight saving time, where clocks are advanced one hour.

12.4 Business hours

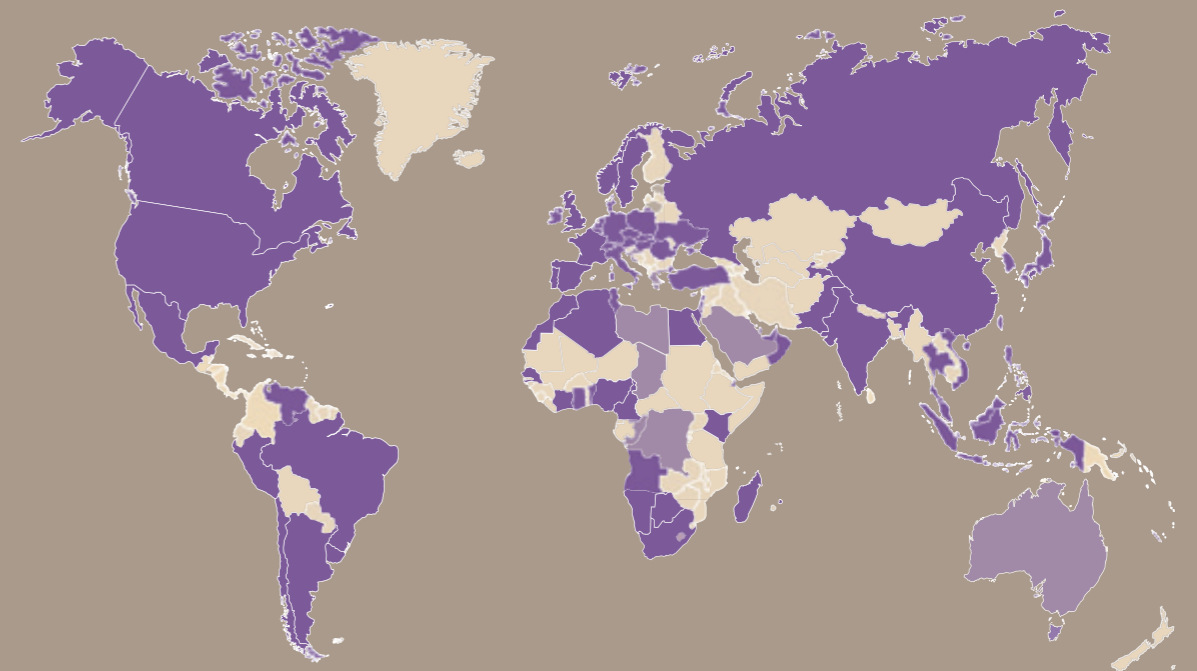
Business in Poland is normally conducted during an eight-hour day between 8:00 and 17:00, with a one-hour lunch break typically taken between midday and 13:00. Most business offices are closed on Saturday and Sunday.

12.5 Public holidays

The national holidays observed by most businesses and government offices are:

New Year's Day	1 January
Twelfth Day	6 January
Easter Monday	March /April (movable)
Labour Day	1 May
Constitution Day	3 May
Corpus Christi	June (movable)
Ascension	15 August
All Saints' Day	1 November
Independence Day	11 November
Christmas Day	25 and 26 December

MAZARS' WORLDWIDE PRESENCE



- Integrated countries
- Non-integrated countries: Mazars correspondents, country local correspondents, joint ventures and representative offices

Mazars is present in 5 continents.
Mazars in Poland has offices in Warsaw and Cracow.

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