



TAX ALERT

Polish Order 2.0

Changes in PIT

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Dear Sir or Madame,

please find below information about changes in the Polish Personal Income Tax Act introduced as part of the project modifying the Polish Order.

Best regards,

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The Polish Order 2.0 – introduction

In view of the widespread criticism of tax solutions implemented under the amending act called „the Polish Order”, the legislator decided to repeal the most controversial regulations, by replacing the „middle-class tax relief” with a reduced 12% PIT rate and enabling a selected group of entrepreneurs deduction of part of a health insurance contribution. The tax amendments provide also for a thorough reconstruction of rules for calculating PIT prepayments by employers.

In addition to changes in PIT, the given amending Act modifies also the provisions on CIT taxation (postponement of the dates of entry into force of regulations, which shall oblige taxpayers to submit to tax authority accounting books and tax registers in electronic form). The rules of health insurance contribution have also been subject to revision by the legislator. However, a major part of changes in this respect have clarified regulations introduced at the beginning of this year.

Who is affected by the new regulations

Because of the wide range of changes in tax regulations, the information contained in this tax alert should interest each entrepreneur and employer.

Entry into force

Generally, the analyzed Act shall come into force on 1 July 2022. However, the legislator established transitional provisions, based on which some of regulations shall take retroactive effect as from 1 January 2022. The regulations, which – according to the legislator - need time for implementation in the IT systems, will come into force as from 1 January 2023.

The most important changes in PIT

Changes in Personal Income Tax Act cover in particular:

- abolishment of the middle-class tax relief and repeal of the obligation to calculate by tax remitters during 2022 the PIT prepayments also according to the rules binding in 2021 (**entry into force: 1 July 2022**),
- decreasing of the lowest PIT rate from 17% to 12%, resulting in modification of tax scale (**entry into force: 1 January 2022**). After the changes, the tax scale shall look as follows:

Tax base in PLN		The PIT amounts to
above	up to	
	120.000 PLN	12% minus the tax-free amount PLN 3,600
120.000 PLN		PLN 10,800 + 32% surplus over PLN 120,000

- decreasing of lump sum tax on small contracts to 12%, i.e. order contracts, which provide for remuneration of no more than PLN 200 (**entry into force: 1 July 2022**)
- introduction of the new rules on calculation of PIT prepayments by tax remitter, including changes in rules for application by tax remitters of tax-free amount (**entry into force: 1 January 2023**),
- enabling the deduction of:

- the part of health insurance contributions paid by taxpayers running business activity, who settle tax on their income under the flat rate PIT (19%), from the amount of income, up to the limit of PLN 8,700 per year,
- 50% of health insurance contributions paid by taxpayers running business activity, who settle PIT under the lump sum PIT, from revenues,

(relates to PIT prepayments due as from June 2022 or the second quarter of 2022, with the possibility to deduct contributions paid before July 2022)

- changes in the moment of recognizing the costs of social insurance contributions, in part which is covered by the tax remitter, for tax purposes, by unifying these rules, irrespective of the rules for time of paying the remuneration adopted by a given employer. The contributions shall become deductible in the month, for which the contributions are due, provided they are paid on time **(entry into force: 1 January 2023)**. **Caution:** similar change has not been introduced to the CIT regulations. However, it is possible that the given rules will be included in the amendment of the CIT Act, which is already announced by the Polish Ministry of Finance,
- increase to PLN 4,500 of tax-free amount on benefits obtained by pensioners in connection with the former employment relationship between them and the employer **(entry into force: 1 January 2022 r.)**,
- restoring the right of joint taxation with a child by a single parent and increasing (in relations to provisions applicable in 2021) of child's income threshold, beyond which the joint taxation is excluded **(entry into force: 1 January 2022)**. The aforesaid tax preference will replace the tax relief in the amount of PLN 1,500 provided for single parents.

Changes affecting tax remitters

The selected changes relating to tax remitters are as follows:

- in principle, the calculation of PIT prepayment by a tax remitter will be done on the basis of a proper statement submitted by a taxpayer (e.g. by an employee). The statement, in addition to written form, might be also submitted by electronic means or through the HR-system operated by a given employer. The Polish Ministry of Finance announced preparation of a new PIT-2 form template of much broader range of data than the currently applied version,
- the Act shall impose on taxpayers (including employees) an obligation to withdraw or change (by making a new statement) the previously submitted statement, if the circumstances affecting the calculation of the tax prepayment by the payer have changed,
- tax remitter will be obliged to take into account the information resulting from the statement not later than in the month following the month, in which the statement was submitted,
- the statement of the taxpayer doesn't have to be submitted each year (the statement shall be applicable to the consecutive years once submitted),
- in the statement the taxpayer will be able to declare to the tax remitter (subject to criminal liability) that he meets the conditions for the application of PIT exemptions (e.g. provided for person coming back from abroad, person having at least 4 children, person over the age of 60/65), which shall commit the tax remitter to calculate PIT prepayments taking into account these exemptions,

- in case the statement is untrue, which will result in underestimation of PIT prepayment, the tax remitter will be released from liability for the understated or uncollected PIT prepayment (the taxpayer shall bear the responsibility),
- following the introduction of lower 12% PIT rate in the first range of tax scale, the 1/12 of the tax-free amount, by which the PIT prepayment is reduced by tax remitters, shall be decreased, from PLN 425 to PLN 300,
- on the taxpayer's request (expressed in the statement), the tax remitter, when calculating the PIT prepayment, will have to take into account the tax-free amount also in relations to order contracts, specific-task contracts or to remuneration for the performance of the duties of a member of the management board,
- the Act stipulates that the mentioned statement on applying the tax-free amount can be submitted by a taxpayer no more than to three tax remitters (1/12, 1/24 or 1/36 of the tax-free amount respectively, when calculating PIT prepayment due for a given month),
- at the same time, when submitting the statement on applying the tax-free amount to the tax remitter, the taxpayer shall bear in mind that the total value of deductions of tax-free amount cannot exceed the maximum tax-free amount attributable to one month, i.e. 1/12 of the total tax free amount.

Useful links

The explanatory memorandum to the draft of the amending Act is available under the following link:

<https://www.sejm.gov.pl/Sejm9.nsf/druk.xsp?nr=2186>

The Act can be downloaded from the following page:

<https://www.sejm.gov.pl/Sejm9.nsf/PrzebiegProc.xsp?nr=2186>

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