

HR & Tax Alert



Quality In Everything We Do

Poland – Personal Income Tax changes for 2007

December 2006

Executive summary

Changes to the Polish Personal Income Tax (PIT) legislation law have recently been announced and included many changes affecting expatriates and their employers. Most important amongst these are a change in the definition of tax residence in Poland, a change in the regulations on the foreign employment exemption and changes in withholding regulations for income taxed overseas.

These changes take effect from 1 January 2007.

Definition of tax residence

The amendments to the Personal Income Tax Act (PITA) significantly revise the definition of residency in Poland. Under the revised law, an individual is deemed to be resident in Poland if:

- his centre of vital interests is in Poland: or
- he stays in the territory of Poland for more than 183 days in the tax year.

Previously an individual would only be considered tax resident if he had a permanent place of abode in Poland.

The second condition is crucial for individuals previously considered non-residents working in Poland. The result of the changes is that those individuals who stay in Poland for more than 183 days in a given year will lose their right to benefit from preferential tax rates such as those available to

non-residents on income from Management Board duties. Additionally, they will be taxable in Poland on their world-wide income, not only that earned from Polish sources as would be the case under the existing law.

This means that greater importance will be attached to relevant bilateral double tax treaties, which will be the deciding factor in the case of conflicts between two or more countries over tax residence and will determine which country has the right to collect tax on various types of income.

Monthly tax declarations no longer required

The new law cancels the requirement to file monthly tax declarations such as PIT-4 (filed by the employer) or PIT-53 (filed by the employee) forms. Advance tax will be withheld in accordance with the existing rules (i.e. on a monthly basis) however tax remitters will now be required to file an annual declaration by the end of January of the following year.

Tax scale

Although the PITA amendments replace the current tax rates (of up to 40%) with 18% and 32% rates, the cuts will not come into force until 2009. However, in 2007 taxpayers will benefit from a higher tax-free amount of PLN 3013.00 and higher deductible tax costs under their employment contracts (e.g. PLN 108.50 if an employee has one employer and resides in the place where he works).

2007 Tax Scale		
Tax assessment base (PLN)		Amount of tax
over	up to	
	43,405	19% minus a standard deduction of PLN 572.54
43,405	85,528	PLN 7,674.41 + 30% of the excess over PLN 43,405
85,528		PLN 20,311.31 + 40% of the excess over PLN 85,528

Medical services as tax deductible costs

Employers will be given the opportunity to include all expenses for employees' medical care in their tax deductible costs for corporate tax purposes. Currently the deduction is limited to medical examinations or tests that are obligatory under other laws (mainly labour law).

Revenue from foreign employment exempt from tax

Employment income while on a foreign assignment will be tax-exempt up to 30% of the daily maintenance allowance set by the Polish government for each day of a foreign assignment during which an employee remained in the employment relationship. This provision replaces the current exemption corresponding to 30 daily allowances. The exemption will not apply to business trips.

Joint spousal returns

The revised law expressly states that spouses cannot file a joint tax return unless they have remained married for the whole tax year.

Deductions

Under the new law, taxpayers will continue to benefit from a 1% tax deduction on account of contributions

to public benefit and religious worship organisations. This is subject to the provision that from 2007 onward it will be the tax offices' responsibility to transfer the 1% deductions to accounts named by taxpayers.

In 2007 the deduction of interest paid on certain mortgages will no longer be available. A taxpayer who has taken out a mortgage which qualifies for the interest deduction by the end of 2006 will retain the right to deduct related interest until the year 2027, i.e. over a period of 20 years.

Child deduction

The new law offers a new deduction for taxpayers bringing up children. Those taxpayers will be given the opportunity to reduce their tax by PLN 120 per qualifying child (to qualify children must be under age 18 or under 25 and in full time education). The deduction is available for both parents jointly.

No advance tax withheld on income taxed abroad

PIT remitters will not be required to withhold any advance tax on income paid to employees for their work abroad if that incomes is taxed outside of Poland. Collection of advance tax in Poland can be continued at the taxpayer's request.

Non-residents' obligation to pay monthly flat-rate tax confirmed

The law expressly says that non resident taxpayers who earn income from their personal activities (e.g. as members of Management Boards) where income tax is not withheld, are required to pay flat-rate income tax corresponding to 20% of the received income by the 20th day of each month for the preceding month.

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