

Warsaw, 13th November 2017

In recent times, the Council of Ministers adopted a new draft legislation introducing changes in the areas of personal income tax, legal entities and the flat-rate tax, as well as in the law on social security system. Legislative works still underway but it's worth getting already familiar with changes proposed by the Government.

An important change in the social security system:

In accordance with the draft which is supposed to come into force from 1st January 2018 the annual cap for pension contributions, (currently determined as the amount equal to 30 times the average wage in the national economy) shall cease. Currently pension contributions both paid by the employee and the employer are calculated and paid up to this limit. When the change comes into force, full social security contributions will need to be paid from the total income.

The most important changes in the income tax Act:

❖ **changes related to the tax-free amount:**

according to the draft of PIT Act, from January 1, 2018, the tax-free amount will be:

- **1 440 PLN** for taxable base equal or below 8 000 PLN.
- **1 440 PLN** decreased by amount calculated according to the formula: $883.98 \text{ PLN} \times (\text{tax base} - 8\,000 \text{ PLN}) / 5\,000 \text{ PLN}$ for the tax base in the range of 8 000 – 13 000 PLN;

- **556,02 PLN** for the tax base in the range of 13 000 PLN - 85 528 PLN;
- **556,02 PLN** decreased by the amount calculated according to the formula: $556,02 \text{ PLN} \times (\text{tax base} - 85\,528 \text{ PLN}) / 41\,472 \text{ PLN}$ for the tax base in the range of 85 528 PLN - 127 000 PLN;
- 0 PLN for the tax base higher than 127 000 zł.

❖ **New limits of tax exemptions**

In the Government's draft was proposed among others the introduction of higher limits of tax relief for some benefits:

- Benefits financed from Company Social Benefits Fund - from 380 PLN to 1 000 PLN;
- Payments received in respect of an individual random events, natural disasters, prolonged illness or death which are funded out of Company Social Benefits Fund - no limit, payments which are funded from other sources of 2 280 PLN to 6 000 PLN
- Benefits financed from sources other than the Company Social Benefits Fund received from the employer in respect of attendance of a child to nursery school, children's Club, kindergarten to 1 000 PLN;
- Payments related to the financing vocational rest of employees' children - from 760 PLN to 2.000 PLN;
- Benefits received by pensioners from the former employer - from 2 280 PLN for the full release (no limit);
- Prizes and winnings in lotteries and games, prizes related to premium sales - from 760 PLN to 2 000 PLN.

❖ **Changes in the cost of obtaining used for the transfer of copyright**

Starting from January 1, 2018, the limit of 50% deductible costs in case of transfer of copyright shall increase and will be 85 528 PLN. In addition, the new law introduces a list of specific occupations that are eligible to use this kind of costs. Thus, when the changes come into effect, some groups currently applying this rule will lose this ability e.g. lawyers, tax advisors or marketers.

❖ **Changes in tax incentive programs**

Some changes proposed by Government applies to income earned in respect of participation in the incentive programs based on shares or in connection with the implementation of the rights of the derivative financial instruments.

The changes will allow to postpone the moment of recognizing of taxable income til the moment of sale of shares.

From the changes will benefit taxpayers who employed on basis:

- employment contract;

- civil law contract;

from each the income received as the income from personal activity.

To benefit from postponing the moment of recognizing the income till the moment of sale the shares, the following conditions need to be fulfilled:

- the Incentive program must meet the definition of incentive program contained in the PIT Act;
- The headquarter of the dominant company, which offer the shares to taxpayer has to be located within the EU/EEA;
- Incentive program must be created on the basis of the resolution of the general meeting assembly of a public limited liability company;

The revenue generated from the exercise of the rights of securities or derivative of financial instruments acquired in the aftermath of the cover or the acquisition of these rights as a benefit in kind or gratuitous, shall be included in this source of revenue, under which this benefit in kind or supplies has been obtained.

In case of exercising the rights of securities or derivals of financial instruments, it will be possible to consider as cost of revenue the income recognized on acquisition of these securities or financial instruments.

❖ **Changes in the flat tax rate on rental income.**

- The rental tax flat-rate will still be available for all taxpayers, however, above the threshold of 100.000 PLN income from this source in the fiscal year, the tax will be calculated according to the rate of 12.5% instead of, as curenly, 8.5%.
- The is supposed also to introduce the facilitation for entrepreneurs which will consist the prolongation of deadlines to choose the method of taxation of the revenue received on renta income. The statement should be submitted by 20th day of the month following the month in which it was achieved the first revenue.
- Also a change related to the method of informing tax office about quarterly taxation is proposed. Once the change is implemented, taxpayer will indicate quarterly taxation method in the annual tax return submitting for a open tax year.