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Poland to implement 'Estonian solutions' in CIT collection

On 17 June 2020, Polish PM, Mateusz Morawiecki, presented the main assumptions behind the possible introduction of a new tax measure, dubbed as 'Estonian CIT'.

The project assumes that CIT payers with annual turnover below PLN 50 million (approx. EUR 11 million) who meet certain conditions, will not have to pay income tax until they decide to distribute the company's earning.

Main assumptions

Under the Estonian corporate income tax, the companies are not required to pay CIT on their earnings if they are reinvested, instead of being paid out to shareholders.

This means that CIT collection is shifted to the moment when the partners take profit.

This tax scheme was introduced nearly 20 years ago in Estonia, and recently also in Georgia and Latvia. Similar regulations intended for small taxpayers were also implemented, among others, in Sweden and Germany.

Entities adopting the solution will be exempt from the obligation to pay CIT in monthly or quarterly installments or to make annual settlements and pay CIT as long as they do not distribute the generated earning.

Deferral of CIT payments until the moment of earning distribution comes with simplified reporting and tax accounting requirements, along

with facilitations related to tax return filing obligation and other CIT-related administrative duties.

It must be noted, however, that the proposed solution does not come with exemption on income tax on the dividend collected at the moment of distribution of profits to partners. This would mean that at the time of distribution, the generated earning will still be subject to taxation at both the company and partner levels.

Who will benefit from the Estonian CIT?

As per the provided information, the solution is intended for CIT payers with at least three employees and only with natural persons as partners, who do not participate in the equity of any other entity.

In addition, the taxpayer's operating activities will have to account for most of their income.

However, the projected solutions will not be available to PIT payers (i.e. natural persons conducting business activities) or partners of partnerships. It will also be inaccessible to companies in which shares are held by a separate (foreign or domestic) company.

The new form of CIT settlement will be available for 4 years with an option of extension for further 4-year periods. The extension may be granted if in the last year of applying the scheme the taxpayer will still meet the criteria providing for its use. However, crossing the threshold of PLN 50 million in turnover during the settlement

period does not preclude the use of the solution.

As announced, the solution is to operate under two models. The first "comprehensive" model of taxation assumes exclusive taxation of income distributed by the company. The second one relies on making allocations to a special investment fund (account), which can be later deducted by the taxpayer. In the second model, a similar economic goal is achieved, but with the use of regular CIT settlement methods.

The application of the Estonian CIT scheme is voluntary.

Benefits for the economy

The authorities estimate that the new CIT scheme may be accessed by around 200K companies in Poland.

The new solution is expected to boost private investment by 2 percentage points and lead to creation of 120K new jobs.

Additionally, development obstacles faced by the Polish SME sector are to be reduced. The authorities are of the opinion that the proposed measures will encourage foreign entities to invest in Poland.

New regulations are expected to enter into force on 1 January 2021.

If you would like to learn more about the issue discussed, please do not hesitate to contact us at: mampytanie@kpmg.pl.

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