



# Investment in Poland

**The rough guide to successful  
investing in Poland**

November 2021

---

KPMG.PL



# Contents

<b>Introduction</b>	● 4
<b>Condition of Poland's economy</b>	● 5
Macroeconomic indicators	○ 6
Doing business in Poland	○ 14
<b>Foreign investment in Poland</b>	● 22
The value of foreign investments in Poland	○ 23
The M&A market in Poland	○ 25
Typical acquisition process	○ 29
Incentives for investors	○ 45
<b>Forms of conducting business activity</b>	● 54
Forms of conducting business activity in Poland available to foreign entities	● 55

# Contents

<b>Tax regulations</b>	● 65
Polish tax system	○ 66
Corporate income tax	○ 68
Withholding tax	○ 72
Transfer Pricing	○ 74
Personal Income Tax	○ 76
Social security	○ 82
Posting of workers and immigration issues	○ 84
Value-added tax	○ 85
<b>Statutory financial statements and reporting requirements</b>	● 98
Key features of financial statements prepared by entities in Poland	○ 99
<b>Which investment destination to choose?</b>	● 104

# Introduction

Foreign investors in Poland appreciate the country's openness, geographic location in the middle of Europe and stability of its diversified economy. Businesses that have decided to locate their capital here can benefit from a number of incentives and grants from national programmes and EU funds, which Poland is the biggest beneficiary. Moreover, companies located in Poland enjoy having access to well-educated workforce, a large internal market and an increasingly better transportation infrastructure. On the other hand, investors look with similar interest at disturbing data on rising inflation, the frequently changing rules of administrative, regulatory or tax burdens. Nevertheless, Poland is one of the biggest recipients of greenfield investments in the continent, as well as a target country for numerous M&A transactions made by foreign entities.

Foreign investors' capital and activity have played a significant part in helping Poland to remain the only country in the region to experience continuous GDP growth over the past three decades, even during the previous global financial crisis. The recession noted in 2020 was also one of the slightest in the EU, highly impacted by the COVID-19 pandemic and related restrictions. The rebound noted in the second and third quarter of 2021 allows for positive forecasts for the whole year and further future.

This report contains key information relevant to a potential foreign investor. The publication presents the economic situation, describes the mergers and acquisitions market and highlights the legal and tax issues of key importance for investing and running a business in Poland. Investors will also find a short guide to the country's geographic regions.

Information is of the highest value these days and I believe this publication will support entrepreneurs considering investments in Poland. I wish you an interesting read and sound investment decisions.

## **Stacy Ligas**

Senior Partner, CEO,  
KPMG in Poland



# Condition of Poland's economy





# Macroeconomic indicators

After Brexit, Poland has become the sixth largest economy in the European Union. Over the decade before the pandemic (2009-2019), its GDP grew by 3.6% per year on average. Poland's economy was growing not only quickly but also very steadily, as it was the only EU country not to be affected by recession during the previous global crisis. In 2009, at a time when the entire European Union saw a decline of over 4%, Poland's gross domestic product rose by 2.8%. High growth rates are characteristic of most Central and Eastern European countries, which embarked upon a dynamic growth path in the 1990s. In 2020, as a result of the COVID-19 pandemic, Poland recorded a recession of 2.5%, according to the GUS (Statistics Poland) data. This is the fifth best result in the whole of the European Union, while the eurozone and the overall EU economy shrank by 6.4% and 5.9% respectively in 2020. According to the European Commission November 2021 forecasts, Polish GDP will grow at similar pace as the entire economic bloc in 2021, by 4.9% and is expected to achieve even higher dynamic in the next year.

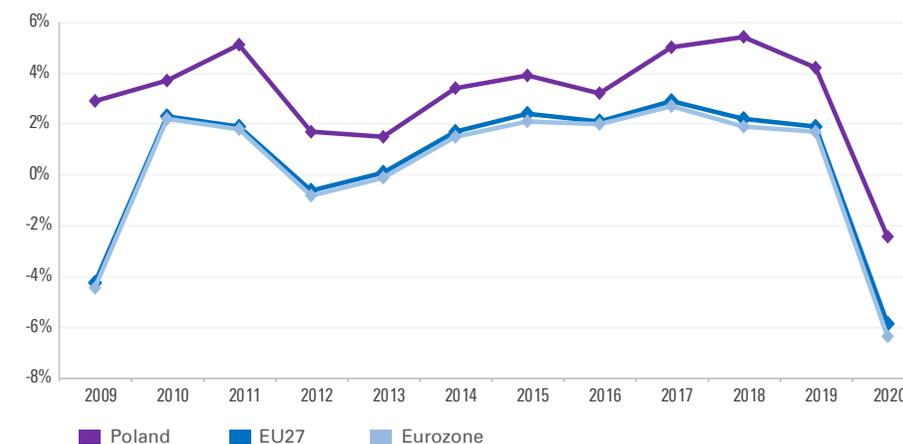
The number of COVID-19 cases during the first months of the pandemic were not as high as in some major EU economies, nevertheless the situation got worse in the autumn and winter. The "state of epidemic" was introduced on the whole territory of Poland as early as on 20 March.

From this time, the government applied temporary sanitary measures and restrictions to reduce the spread of SARS-CoV-2 on country or regional level. The measures included, in particular, restrictions on foreign and domestic travel, and the closure of schools, cultural institutions, restaurants and recreation facilities.

At the same time, measures were taken early on into the pandemic to support the economy. According to the International Monetary Fund data, the Polish Government announced programmes and tax exemptions in response to the pandemic thorough 2020 worth up to 7.7% of its GDP (vs. 2019), or approx. EUR 38 billion. In a relation to GDP it was twice as more as in the entire EU, which summarized national above the line measures announced in 2020 were worth 3,8% of the bloc's gross domestic product. An additional amount of nearly EUR 27 billion, i.e. 5,4% of GDP was channelled via state-owned institutions for liquidity-enhancing loans, loan guarantees and equity injections. It was 6,8% in the EU for comparison.

Moreover, as a Member State of the EU, Poland can benefit from the new NextGenerationEU fund aimed at rebuilding economies after the pandemic. From its main instrument - Recovery and Resilience Facility, Poland is expected to receive over EUR 58 bln of grants and loans.

## Gross Domestic Product growth rate



Source: KPMG in Poland based on Eurostat data.



### Consumer goods and services prices growth rate\*

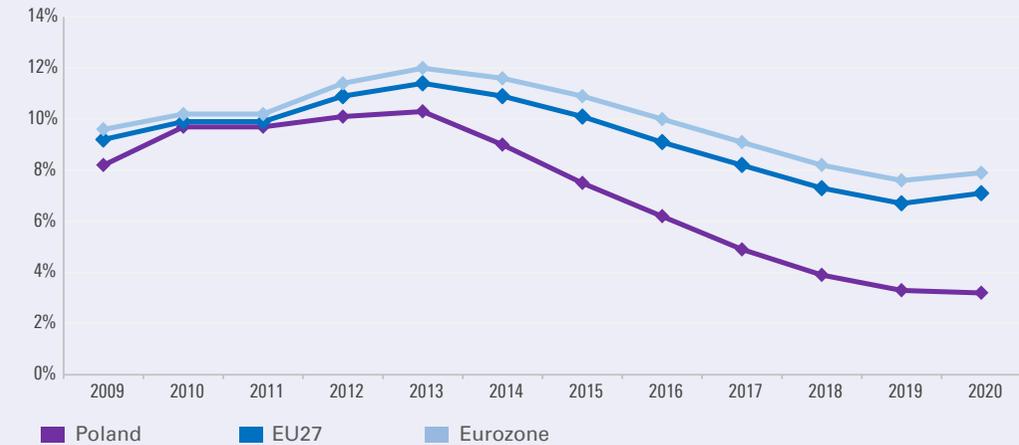


Source: KPMG in Poland based on Eurostat data.  
\*HICP harmonised data, with 2015 as the baseline year.

The institution which is responsible for maintaining a stable level of prices is the National Bank of Poland. Since 2013, inflation in Poland has been lower than in the EU as a whole. Only 2019 marked the beginning of higher inflation rates, mainly due to the rising energy prices and increased expenditure stemming from rapidly rising income levels. Fiscal stimulus was another factor that influenced the inflation in 2020. Prices grew by 3,7% through the year, which was 3 p.p. higher than in the EU as a whole, according to the Eurostat methodology. Partial data for 2021 indicates that inflation will still be on an upward trend in Poland.

For years, economic growth in Poland was driven by domestic demand, primarily private consumption, which, in turn, results from low unemployment and rising wages. From a level of well over ten per cent in the early 21st century, the unemployment rate fell below the EU average, to 3.3% in 2019, and despite the pandemic it declined further to 3.2% in 2020. The net income earned by average Poles has been rising over the last five years (2015–2020) at an average annual rate of 4.7%. In the early 2021, the minimum wage was raised by 7.7% nominally to approx. EUR 614 per month.

### Unemployment rate



Source: KPMG in Poland based on Eurostat data.

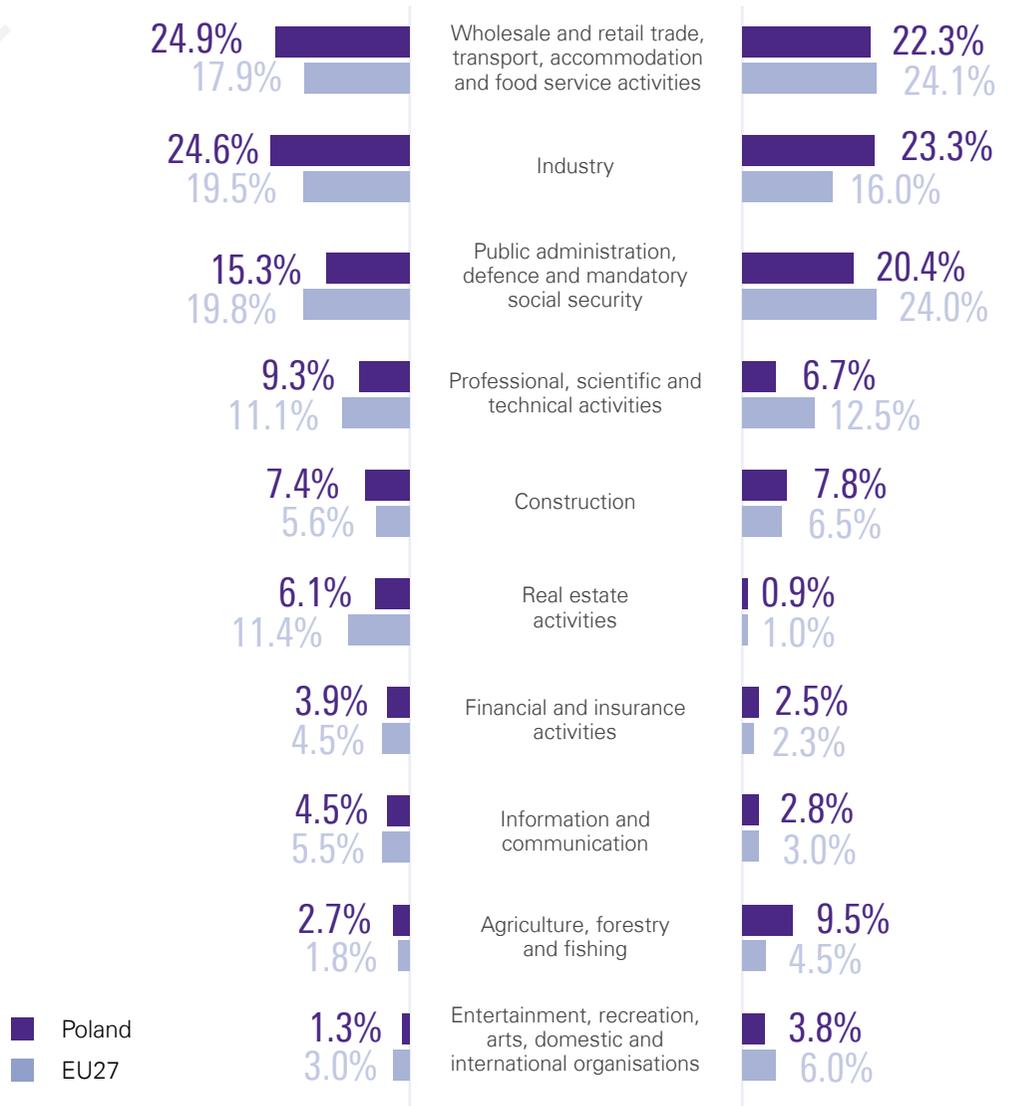


Almost a half of gross added value (value of goods and services produced minus materials and other directly related costs) in Poland is produced in wholesale and retail trade, transport and HoReCa and in the industrial sector. These sectors also generate the largest share of all jobs. Compared to the average figures for the EU as a whole, the public sector has clearly lesser impact on overall GDP. Real estate activities are responsible for 11.4% of the value added in the whole of the EU, and only 6.1% in Poland, with employment close to the EU average (1%). In comparison with the EU, Poland is characterised by a greater role of agriculture, forestry and fisheries, with 9.5% of Poles employed in this sector.

### Share of sectors in gross value added and employment in 2020

SHARE OF SECTORS IN GENERATING GROSS VALUE ADDED

SHARE OF SECTORS IN EMPLOYMENT



Source: KPMG in Poland based on Eurostat data.



Poland recorded a goods trade surplus in 2020, exporting products worth €239.9 billion. At that time, imports were lower by EUR 10.5 billion, amounting to EUR 229.4 billion. While the value of goods imported to Poland fell by 3.2%, exports slightly increased (+0.7%) in 2020, compared to the previous year. Since 2013, Poland had a negative balance of trade only in 2018.

In 2019, as much as 74% of Polish exports and 55% of Polish imports were within the EU. Germany is the most important partner in both directions of trade, with Poland having a highly positive balance of trade with that country. Further on, the Czech Republic, United Kingdom and France were responsible in total for 17% of Polish exports (in value terms), with Russia and the USA being the most important destinations outside the EU. Vehicles, machinery and equipment represent the largest share of exports. In 2020, Poland exported EUR 90 billion worth of goods in this category.

The situation is different for Poland's purchases abroad. In 2020, the second largest import partner after Germany was China (14% share in imports). Among main trading partners, China, along with South Korea noted the highest increase in the value of goods sent to Poland in 2020, by 13% and 9% accordingly compared to 2019. Italy was the third country in terms of the value of imports (6% share), followed by Russia and other EU countries. The structure of imports is similar to that of exports. The value of heavy industry and vehicles purchased by Polish companies abroad totalled EUR 83 billion in 2020.

## International trade in goods



Goods exports from Poland in 2020 (EUR billion, % share)

Goods imports into Poland in 2020 (EUR billion, % share)



Source: KPMG in Poland based Insigos, Ministry of Economic Development of the Republic of Poland. Preliminary data.

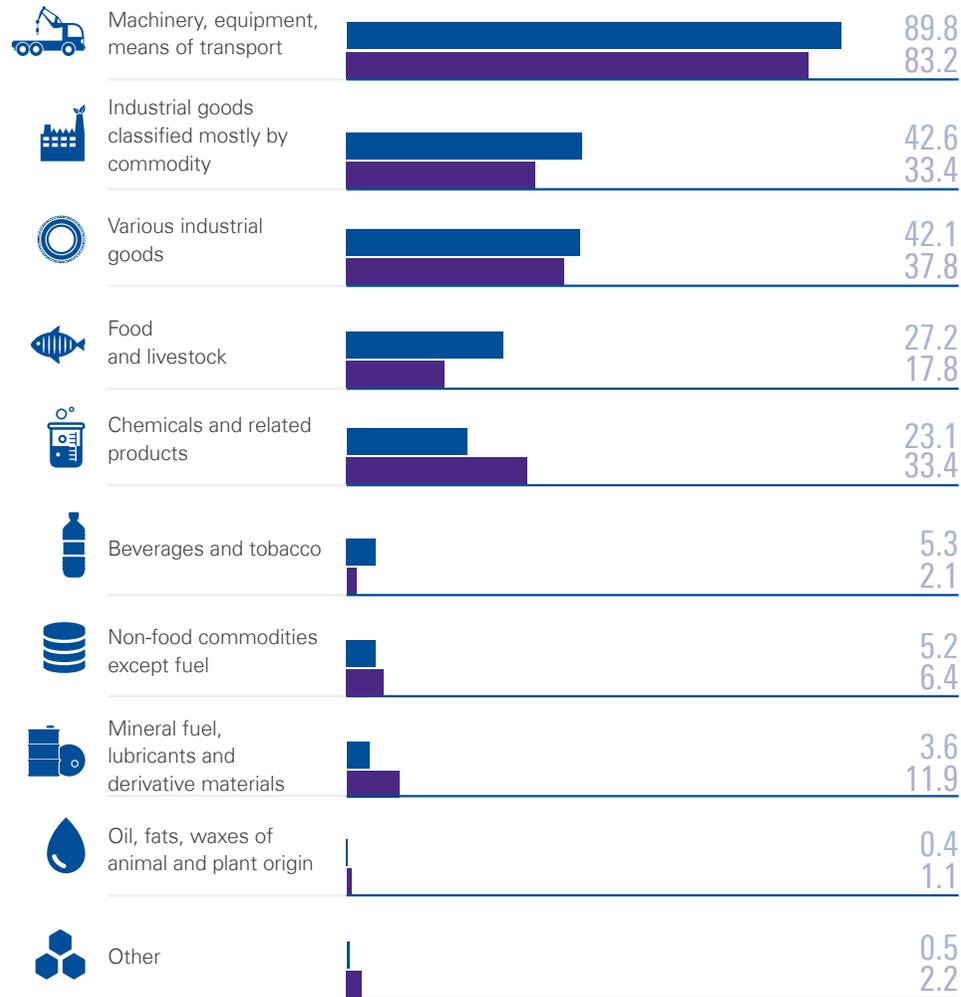


Check the current situation of the automotive sector in Poland





## Poland's foreign trade in 2020 broken down by groups of goods (EUR billion)



■ Exports ■ Imports

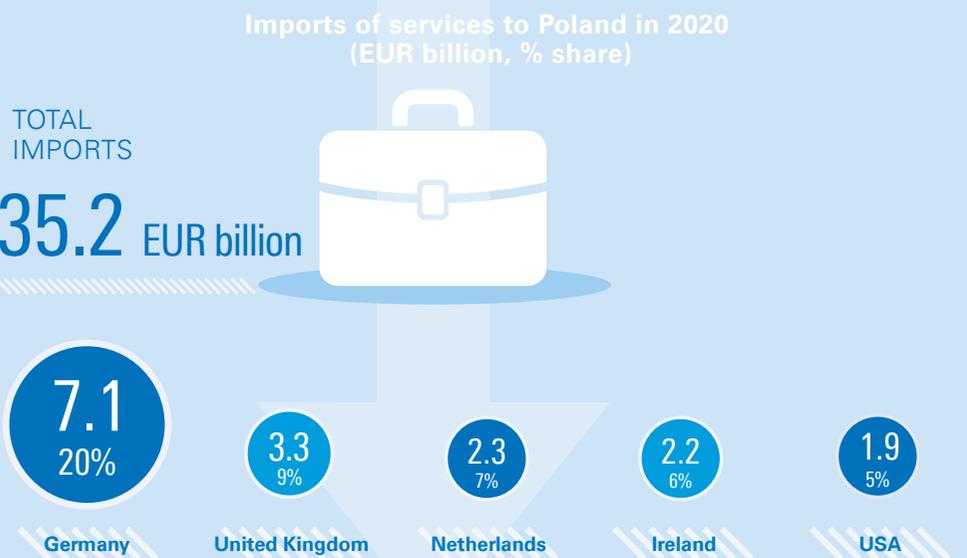
Source: KPMG in Poland based on Eurostat data.

The situation in the trade in services shows a somewhat different picture. In 2020, a total of 64% of services exported from Poland went to EU countries. In turn, the EU is responsible for 70% of the Polish imports of services in terms of value. Germany is the major partner in both directions: Polish companies provided EUR 13.7 billion worth of services to Germany, and Poles purchased EUR 7.1 billion worth of services from that country. In the case of imports and exports of services, however, two non-EU partners play an important role: Switzerland and the United States.

Transport is the key type of services provided by companies based in Poland. The value of Polish companies' receivables for those services amounted to EUR 17 billion in 2020, the value of which remained almost unchanged despite the pandemic. Poland is the EU leader, with about a 30% market share in terms of international transport performed, measured in tonne-kilometres (according to the newest available data for 2019). In terms of exports, the category of other business services, provided largely from shared services centres (SSC/BPO), plays an equally important role: in 2020, the Poland already had approx. 1 500 such centres, more than any other CEE country.

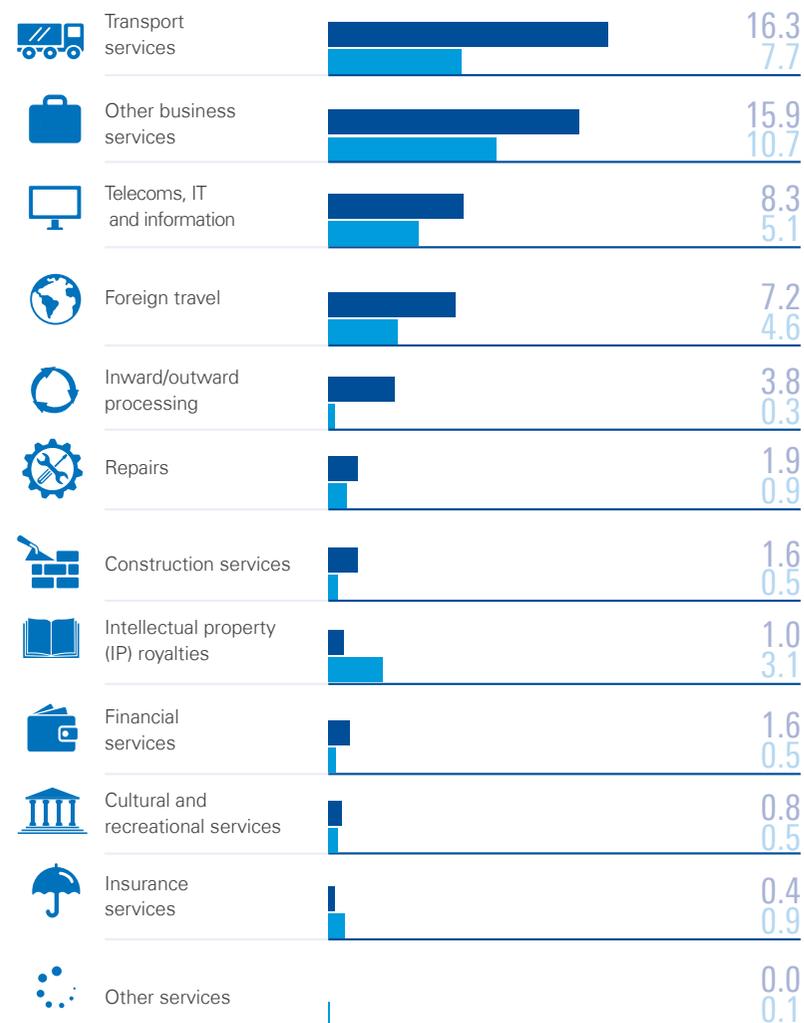


## International trade in services



Source: KPMG in Poland based on National Bank of Poland's data, converted at the average annual exchange rate for 2020.

## Poland's foreign trade in 2020 by type of services (EUR billion)

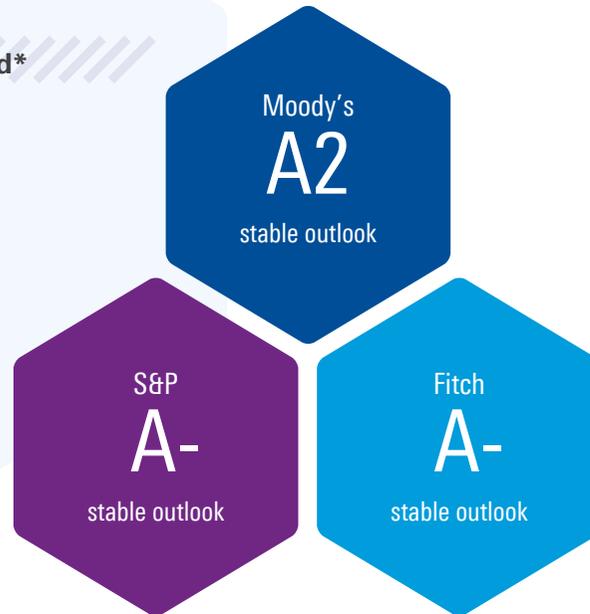


■ Exports ■ Imports

Source: KPMG in Poland based on National Bank of Poland's data, converted at the average annual exchange rate for 2020.



## Foreign currency long-term sovereign debt ratings of Poland\*



Source: KPMG in Poland based on the Ministry of Finance of the Republic of Poland news portal.  
\*Ratings current for October 2021.

## Credit ratings

All three major rating agencies assess Poland's credit standing at the investment level and positively confirm Poland's economic resilience. They highlight the good performance of the country's economy and the stability associated with European Union membership. Moody's, S&P and Fitch affirmed their ratings for Poland during the COVID-19 pandemic, believing that the economic recovery would be relatively quick. The current outlook for the credit ratings from the three key rating agencies has been described as 'stable' for Poland.



# How can we help you?

The multidisciplinary KPMG Financial Services team provides support that increase the value of financial institutions and strengthen their competitive position on the market.

M&A services: due diligence, VDR assistance, negotiations, post-M&A integration



Customer & Sales management services: innovation & product management, CX management



Accounting Advisory Services: IFRS implementation, PPA, finance function transformation



Operational excellence: Target Operating Model, process design and re-engineering



Credit risk: statistical model design and validation, scenario analysis, sensitivity and stress testing



Business Strategy and Transformation



Market risk: financial instruments valuation, interest rate risk management



Digital Strategy and Transformation



Regulatory support: CRR 2/CRD 5 implementation, Basel IV impact, transaction structuring from capital perspective, Capital Market Development Strategy implementation



Assets Based Consulting: IFRS 9 tool, RWA tool, NDoD tool, XBRL tool, Leasy tool



Financial statement audit



Other assurance services



The financial services sector in Poland is extremely competitive. This means that you need an advisor with in-depth knowledge of the sector. Whether your focus is on cost reduction, capital and liquidity management, risk management, tax, legal or audit issues - the changing economic and regulatory landscape requires a well-tested business approach. KPMG in Poland has extensive experience in providing services for organizations across the banking, insurance, savings, mortgage and credit sectors.

**Iwona Galbierz-Sztrauch**  
Partner, Financial Services Advisory



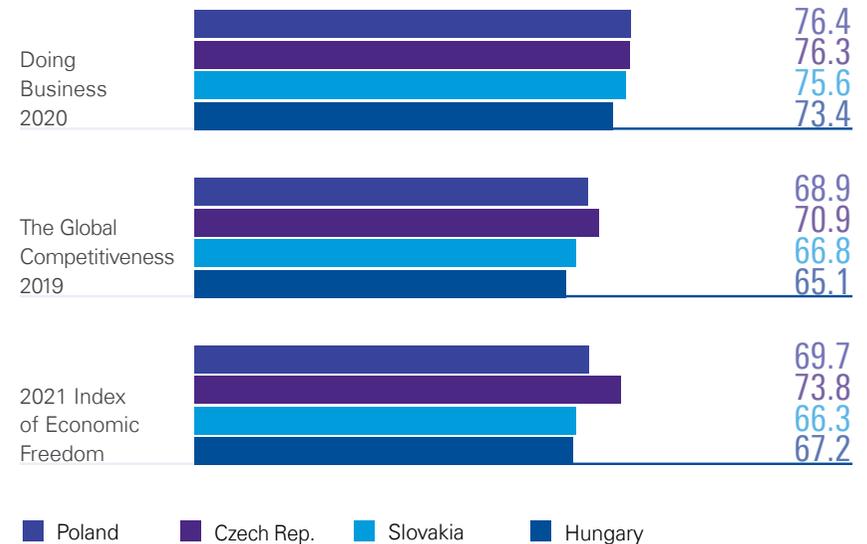
# Doing business in Poland

## The institutional environment

In its Doing Business 2020 ranking, updated annually and measuring the ease of doing business around the world, the World Bank awarded Poland a score of 76.4 out of 100. In this respect, Poland ranked 40th in the world, directly outperforming the Czech Republic and the Netherlands. Poland ranked higher, i.e. 37th, in the 2019 World Economic Forum ranking, known as The Global Competitiveness Index, which takes into account both micro- and macro-economic factors. In turn, the Heritage Foundation ranked Poland 41st in terms of economic freedom in its 2021 Index of Economic Freedom report.

The World Bank appreciated Poland above all for its unproblematic cross-border trade, awarding the maximum number of points for this aspect. Likewise, in the 2021 Index of Economic Freedom, Poland ranked 16th in the world (the highest rating) precisely for freedom of trade. As a member of the EU, Poland is one of the important players on the single market, which means that it has unlimited access to the markets of the 26 other countries.

## Countries' performance in global economic ratings



Source: KPMG in Poland based on *Doing Business 2020*, World Bank; *The Global Competitiveness Report 2019*, World Economic Forum; *2021 Index of Economic Freedom*, The Heritage Foundation.

No duties are levied in trade between EU Member States, and non-tariff barriers are also prohibited. In relations with third countries, trade policy is regulated by the European Commission.

In this way, the European Union ensures uniform and consistent rules for trade in goods, foreign direct investments and intellectual property rights. Moreover, the flows of services, capital and people are facilitated within the single market, allowing companies registered in one country to operate throughout the EU almost as freely as in a single country. In addition, Poland's presence in a large economic bloc helped it to gain the maximum score in terms of macroeconomic environment in the International Economic Forum ranking.



Poland's position in *Doing Business 2020* in various areas of business



Source: KPMG in Poland based on *Doing Business 2020*, World Bank.

Poland's position in *The Global Competitiveness Report 4.0 2019* in various areas of business



Source: KPMG in Poland based on *The Global Competitiveness Report 2019*, World Economic Forum.

Poland's position in the 2021 Index of Economic Freedom in various areas of business



Source: KPMG in Poland based on the *2021 Index of Economic Freedom*, The Heritage Foundation.



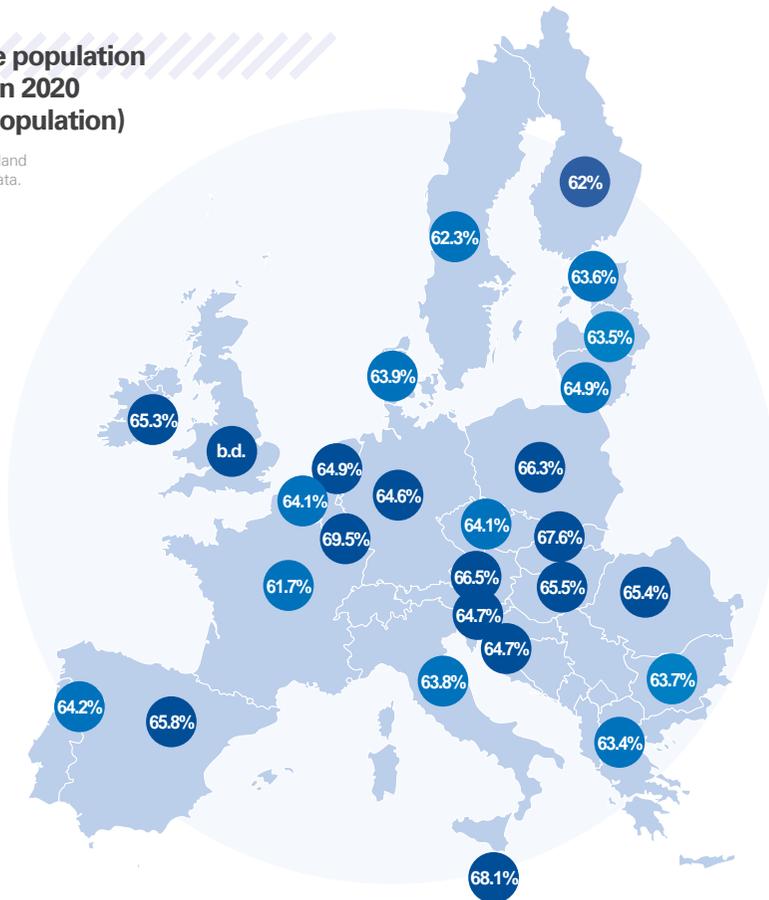
## Human capital

After Brexit, Poland became the fifth largest Member State in terms of population. Also, its population is relatively young. As many as 67% of the 38 million of Poles are of working age. Across the European Union, only a few smaller countries can boast such a high proportion of people aged 15–64.

As many as 29% of Poles of working age have a university degree: they are highly skilled personnel. At present, the most popular degrees include business, law and administration, as well as engineering, manufacturing technology and construction, studied respectively by 22% and 16% of students in 2018.

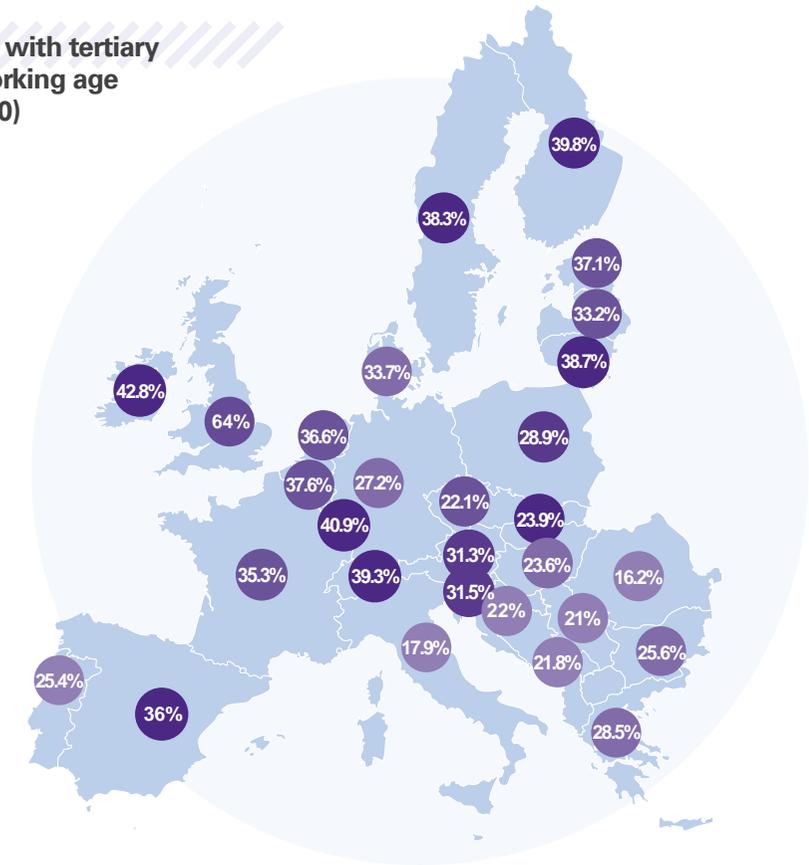
### Working age population (15–64 y.o.) in 2020 (% of total population)

Source: KPMG in Poland based on Eurostat data.



### Share of people with tertiary education in working age population (2020)

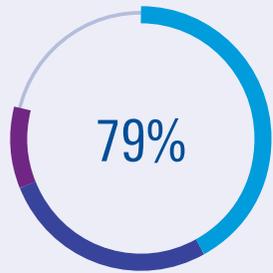
Source: KPMG in Poland based on Eurostat data.



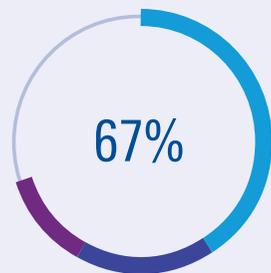
After many years of being part of the Eastern bloc, a large proportion of Poles speak Russian, which means it is easy for them to establish relations with partners from the East. Today, however, English is the most widely taught foreign language. In total, 67% of Poles know foreign languages, with 22% speaking two or more. The quality and effectiveness of language learning is also worth emphasising, since English proficiency is high, as confirmed by the EF English Proficiency Index 2020 report. Poles ranked 16th in the world in terms of proficiency in English.



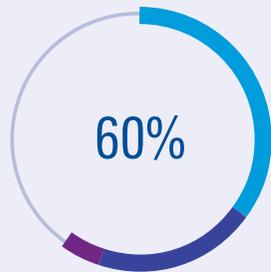
Foreign language skills in 2016 (% of the population) in selected EU countries



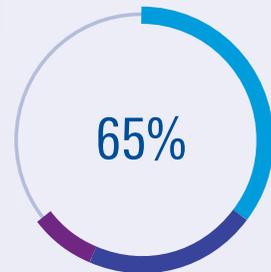
Germany



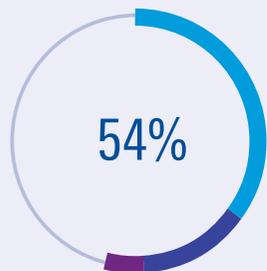
Poland



France



EU28



Spain

- 1 foreign language
- 2 foreign languages
- 3 or more foreign languages

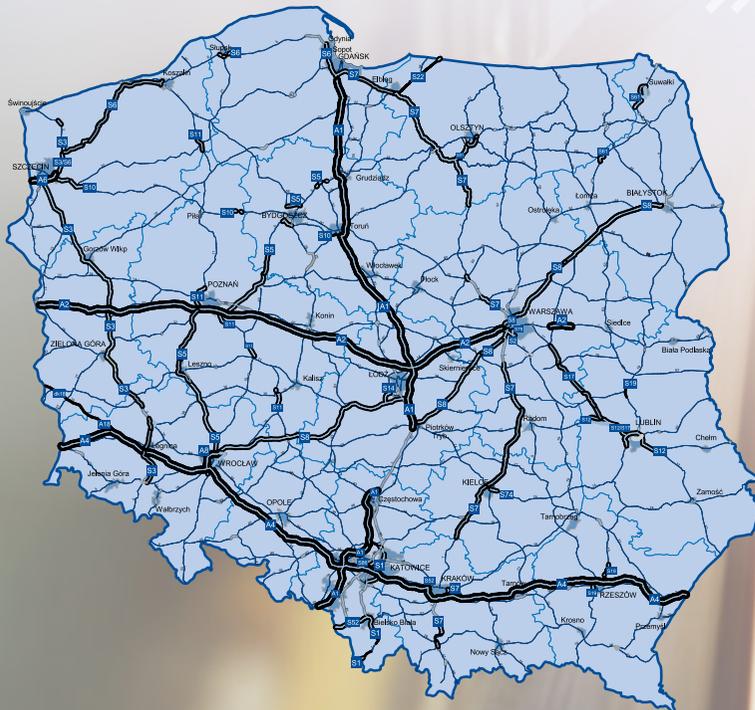
Source: KPMG in Poland based on Eurostat data.





## Infrastructure

Poland's location at the heart of the continent and, at the same time, at the EU's border, means that major trade routes between Europe and Asia intersect within its territory. Two of the nine corridors of the trans-European TEN-T transport network of international importance run across Poland: the North Sea-Baltic Sea corridor and the Baltic Sea-Adriatic Sea corridor. Since joining the European Community, Poland has been rapidly expanding its network of road, sea, air and rail connections with the aid of EU funds. In the current perspective 2021-2027, Poland will receive EUR 76 billion from EU funds, thus remaining the largest beneficiary of the EU budget. From that funds the largest part (33%) will be allocated to infrastructure projects, roads, railroads and public transport and environmental protection. Additionally, Poland is planning to allocate nearly EUR 7 billion of grants from the new EU Recovery and Resilience Facility for sustainable transport modes and related infrastructure. As recently as 2003, drivers had only 405 km of motorways and 226 km of express roads to use. After years of construction boom, the motorway network in Poland expanded to over 1 700 km, with as many as 2 643 km of express roads by the end of 2020. According to the Government's Road Construction Programme, another 6,500 km of highways and expressways are to be completed and built by 2030.



National road network (as of June 2020)

- motorway (A)
- express road (S) – dual carriageway
- express road (S) – single carriageway
- national road (G, GP) – dual carriageway
- national road (G, GP) – single carriageway

Source: KPMG in Poland based on GDDKiA data (General Director for National Roads and Motorways).

According to Eurostat data, Poland had the third longest rail network in the EU in 2019, ranking just behind Germany and France. High-speed rail was not launched until 2014 and is still being developed. Passenger rail transportation grew at an average annual rate of nearly 2% per year from 2009 to 2019. In 2020, the number of passengers declined significantly due to a reduction in the number of passengers allowed on trains and travel restrictions related to the COVID-19 pandemic. During the same period, freight transport remained very close to the average of the last decade.



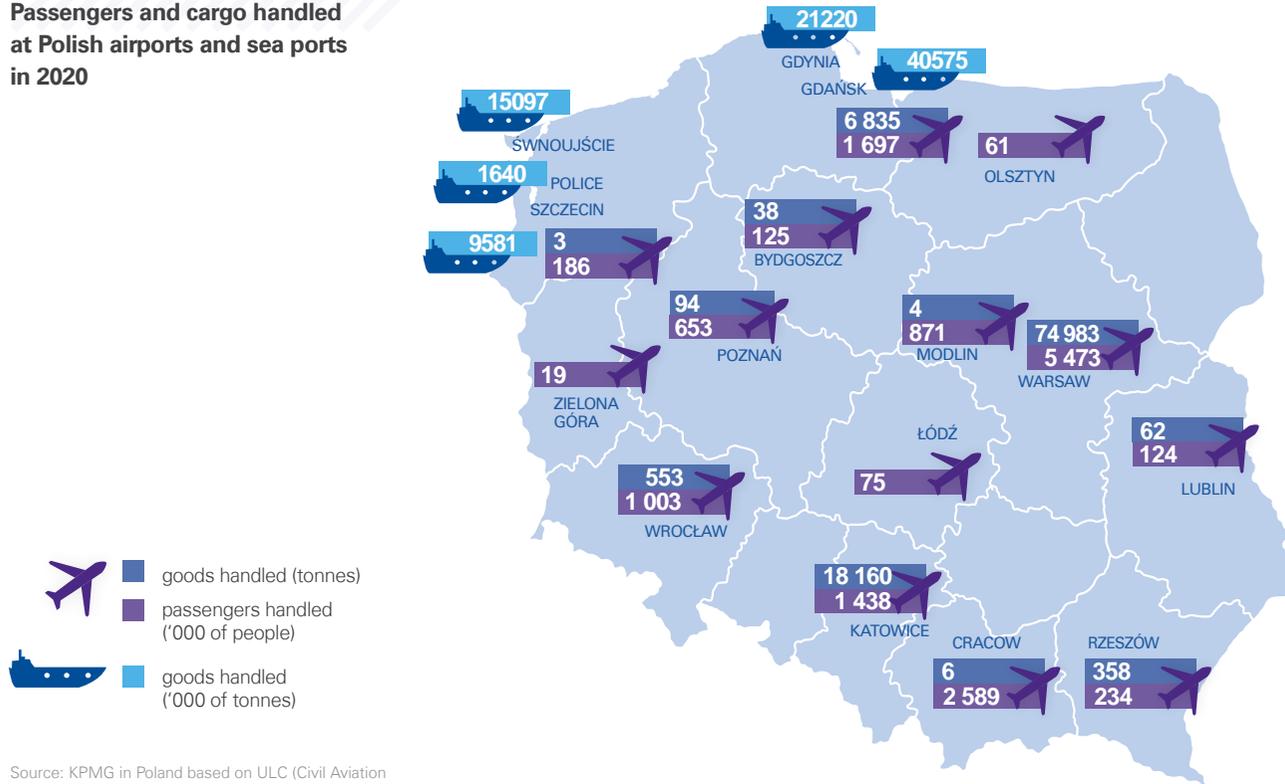
■ passenger (in million people)  
■ freight (in million tons)

Source: KPMG in Poland based on UTK data (Office of Rail Transport).



Air transport in Poland is constantly developing. At present, there are 14 civil airports around the country. A reopening of the previously suspended airport in Radom is planned, alongside the construction of the Central Transport Hub in the Mazowieckie Voivodship, intended to become a reloading and passenger hub at the heart of the country. Until 2019, air traffic in Poland grew continuously in terms of the number of passengers carried. In just 2019, recording a 7% increase. In 2020, Poland maintained the highest percentage of pre-COVID-19 passengers in the region. Through the Baltic Sea, Poland has access to markets all over the world, enabling it to directly receive and dispatch bulk goods. The largest Polish port, which is also the fourth largest port in the Baltic Sea, is located in Gdańsk, with a cargo volume of 40.5 million tonnes handled in 2020. Considering container transport only, the Gdańsk reloading terminal is the second largest in the Baltic after St. Petersburg.

**Passengers and cargo handled at Polish airports and sea ports in 2020**



Source: KPMG in Poland based on ULC (Civil Aviation Authority) and GUS data (Statistics Poland).

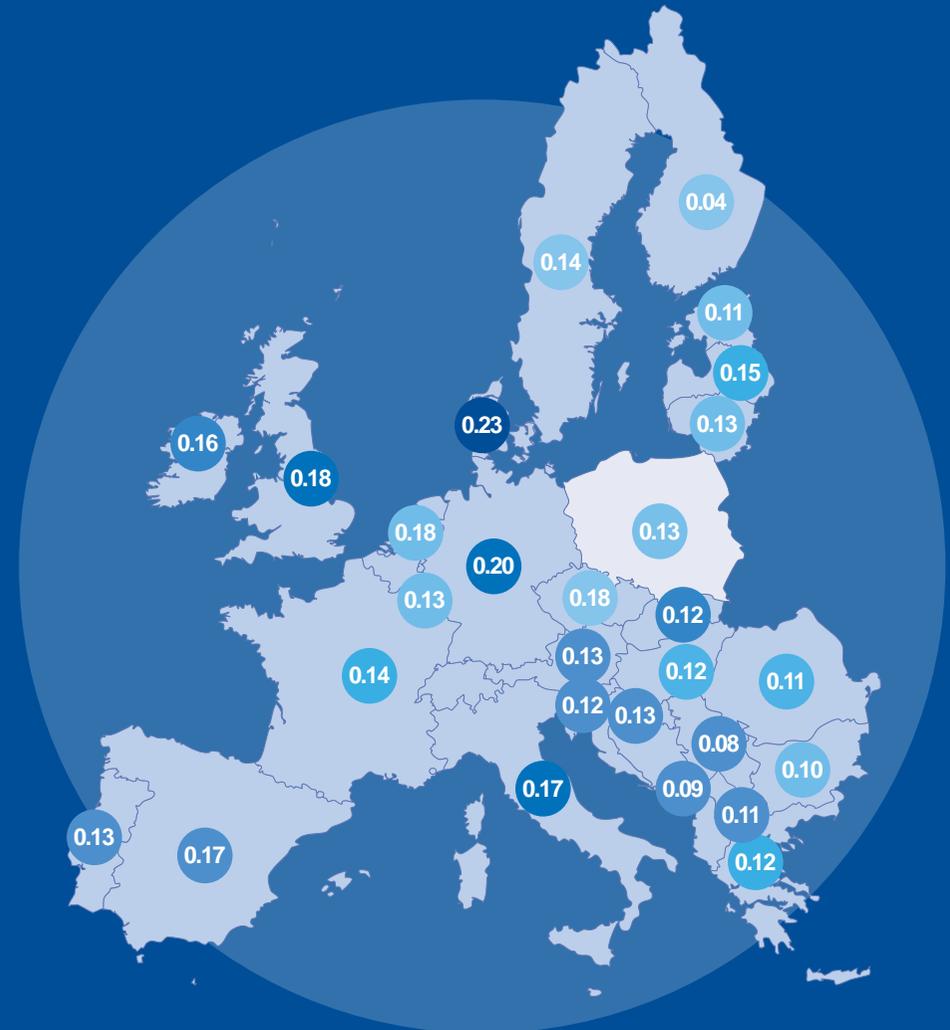




## Energy prices

Poland has fully adopted the provisions of the EU energy packages, which ensure liberalisation of the energy market. As a result, Poland has a fully competitive electricity market, where both individual and institutional customers have the right to choose their energy supplier freely, regardless of the power grid operator or energy producer. The freedom of choice helps companies select the best price. According to data from the Council of European Energy Regulators, which collected information from 24 European countries, it was in Poland, where the highest percentage of institutional customers (61.9%) changed their electricity supplier in 2018. The situation looked similar during the preceding few years, as a result of the large number of suppliers operating throughout the country and the hassle-free supplier switching process. Moreover, energy-intensive enterprises may decide to reduce energy prices by purchasing it from the Polish Power Exchange or signing a contract directly with a power generating company. Nominal electricity prices for companies consuming between 500 and 2000 MWh remain at a competitive level compared to Poland's EU neighbors - Germany, the Czech Republic, Slovakia and Lithuania. Nevertheless, the cost of electricity in Poland is a heavy burden when purchasing power parity is taken into account.

## Average electricity cost (incl. taxes and charges) in the enterprise sector \* in 2020 (in EUR/MWh)



\* Entities consuming 500 - 2 000 MWh per annum.  
Source: KPMG in Poland based on Eurostat data.



## How can we help you?

Energy Strategies



Capacity market: System services and financing options



Energy purchase management





# How can we help you?

KPMG in Poland offers consulting services aimed at improving the efficiency of your company.

## Business Process Optimization

PowerDive – Business Intelligence Platform: Working Capital Management, Cash Life Cycle Management, Digital Dashboards for KPI Reporting



Robotic Process Automation: initial identification, through detailed process design to technology and process change



Microsoft Dynamics 365 Business Central



## Management Consulting

Shared Services and Outsourcing Advisory (SSOA): Strategy development, High level design, Detailed Design and Target Operating Model, Build, Implementation and Improve



Energy Strategies



CIO Advisory Services



## Cybersecurity

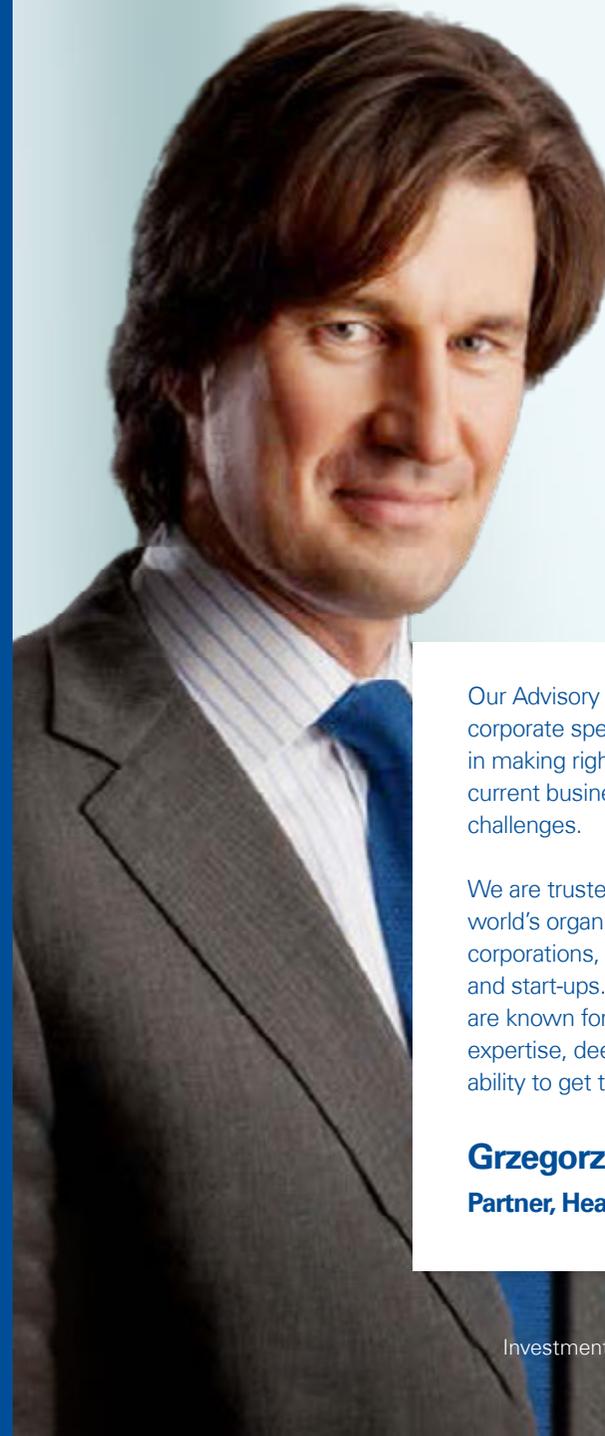
Red Teaming



CISO in the box



Response to security incidents



Our Advisory experts work across the full corporate spectrum to help their Clients in making right decisions addressing both current business issues and future market challenges.

We are trusted advisors to the world's organizations, international corporations, local established entrepreneurs and start-ups. They choose us because we are known for our talented people, technical expertise, deep industry insights and our ability to get the job done.

**Grzegorz Cimochocki**  
Partner, Head of Business Advisory



# Foreign investment in Poland



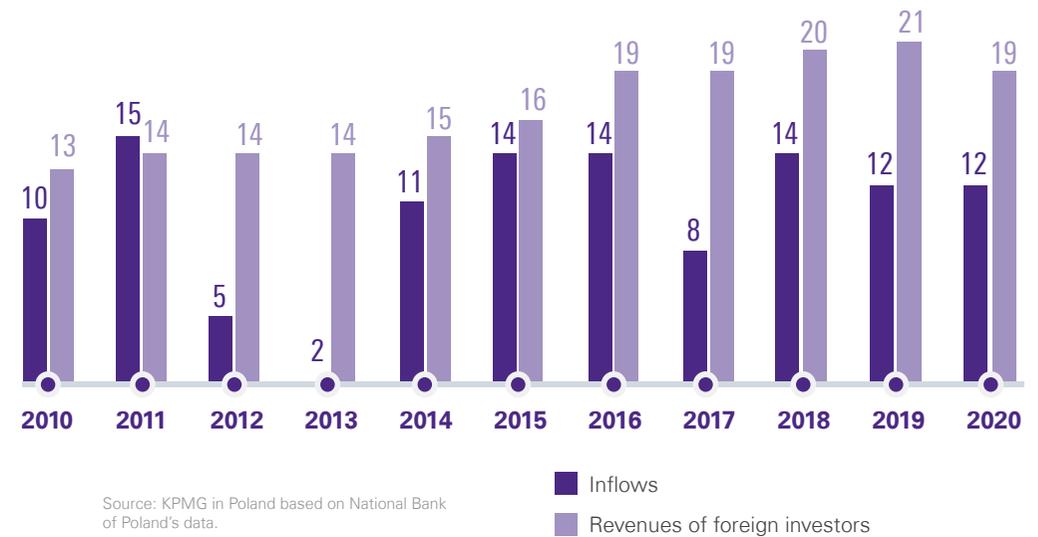


# The value of foreign investments in Poland

At the end of 2020, Poland's liabilities under foreign direct investments (FDI) amounted to EUR 203.4 billion. Throughout the year, foreign investors invested EUR 12.1 billion net, which comprised reinvested earnings of EUR 9.9 billion, equity and shares of EUR 3.8 billion and debt instruments worth EUR -1.6 billion. In 2020, foreign investment inflows to Poland slightly increased, by EUR 67 million despite the extraordinary situation in which the economy found itself. At that time a decline was recorded in the revenues earned by foreign investors in Poland, the value of which steadily grew in the preceding years. In 2020 those revenues amounted to EUR 19 billion, compared to EUR 20.8 billion in the preceding year.

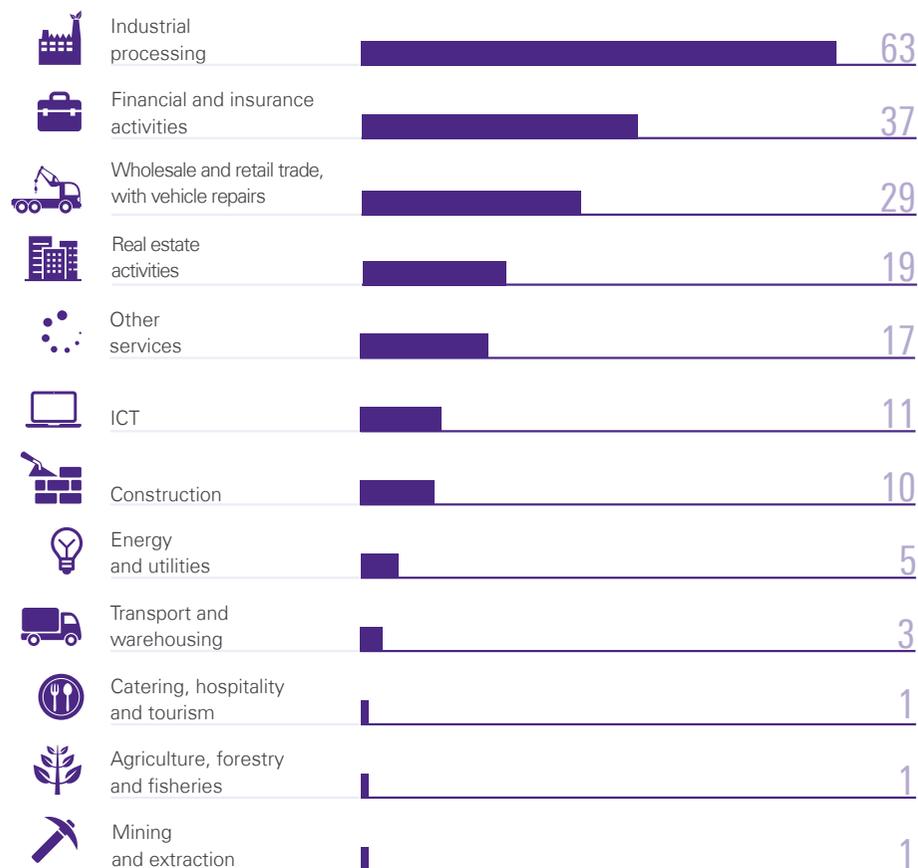
The majority of foreign investments in Poland are related to industry. At the end of 2020, Poland's FDI liabilities in this sector of the economy amounted to EUR 62.7 billion. The next largest destination sectors in terms of attracted investments are financial and insurance services (EUR 37 billion), wholesale and retail trade plus vehicle repairs (EUR 29.2 billion) and real estate (EUR 19.2 billion). Considering the number of entities with foreign capital operating in Poland, according to the GUS (Statistics Poland) data, the largest number, i.e. almost 28%, were active in wholesale/retail trade and vehicle repairs sector in 2019. The total number of companies with foreign capital operating in all sectors at that time was 24.2 thousand, most of them being small and micro businesses, with large enterprises representing almost 6.5%.

Inflows and revenues from FDIs in Poland (in EUR billion)





## Poland's FDI-related liabilities at the end of 2020, by sector (in EUR billion)



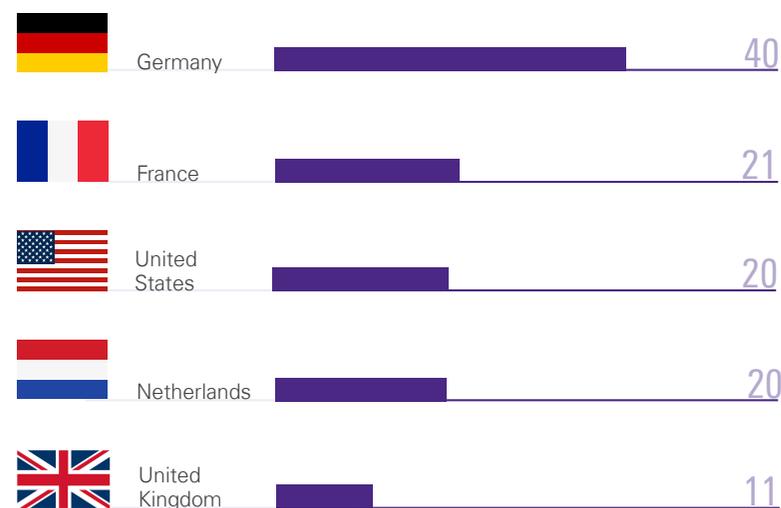
Source: KPMG in Poland based on National Bank of Poland's data.

More than two-thirds of foreign direct investments in Poland in 2019 came from entities, whose parent company is seated in the EU. Among them, Germany was the largest ultimate investing country, responsible for 19.4% (EUR 40.2 billion) of total Polish FDI liabilities

followed by France, whose share amounted to 10.4% (EUR 21.5 billion). Among non-EU countries the US companies were the most significant investors in Poland - directly or indirectly by subsidiaries seated in other countries. At the end of 2019, the value of their investments amounted to EUR 20.4 billion or 9.9% of total Polish FDI liabilities. At the time of writing, the National Bank of Poland has not released the data for 2020.



## Largest foreign investors by Poland's FDI-related liabilities at the end of 2019 by the seat of the parent company of the direct investor (in EUR billion)



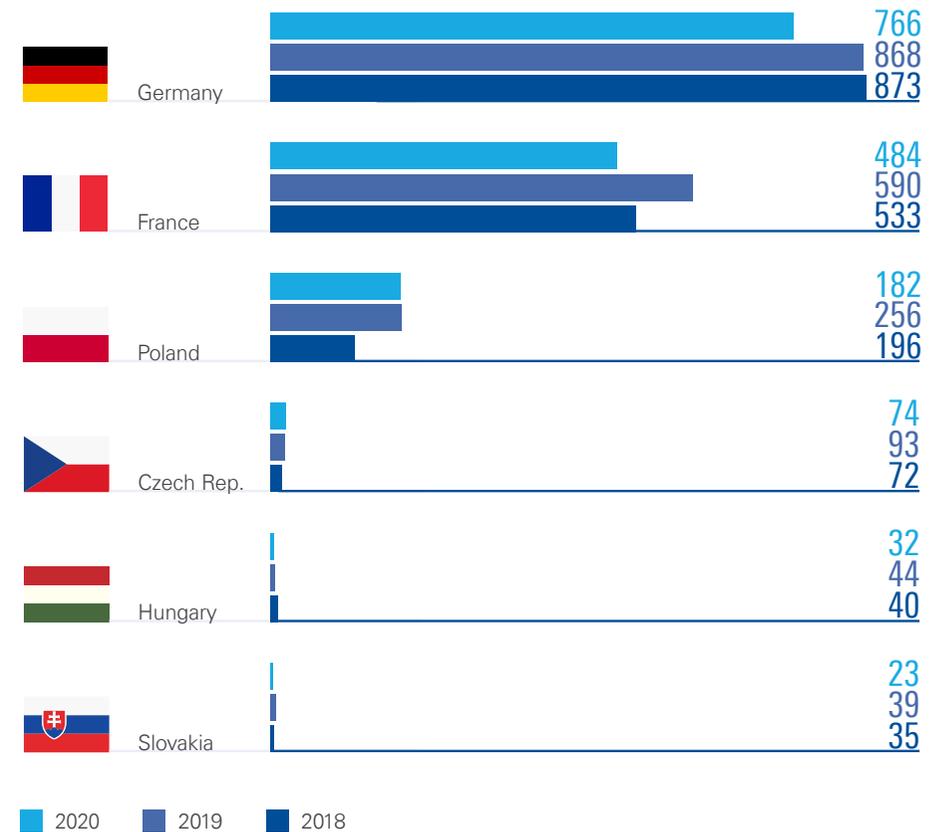
Source: KPMG in Poland based on National Bank of Poland's data. Converted at the NBP's average annual exchange rate for 2019.



# The M&A market in Poland

Poland's high appeal as an investment destination is also reflected in its well-developed mergers and acquisitions (M&A) market. In 2020, foreign investors announced 182 cross-border transactions in Poland. This is a significantly higher figure compared with the total transactions announced at that time in the Czech Republic, Hungary and Slovakia. The number and value of M&A transactions in Poland has been rising for years, until it fell during the time of coronavirus pandemic and economic uncertainty.

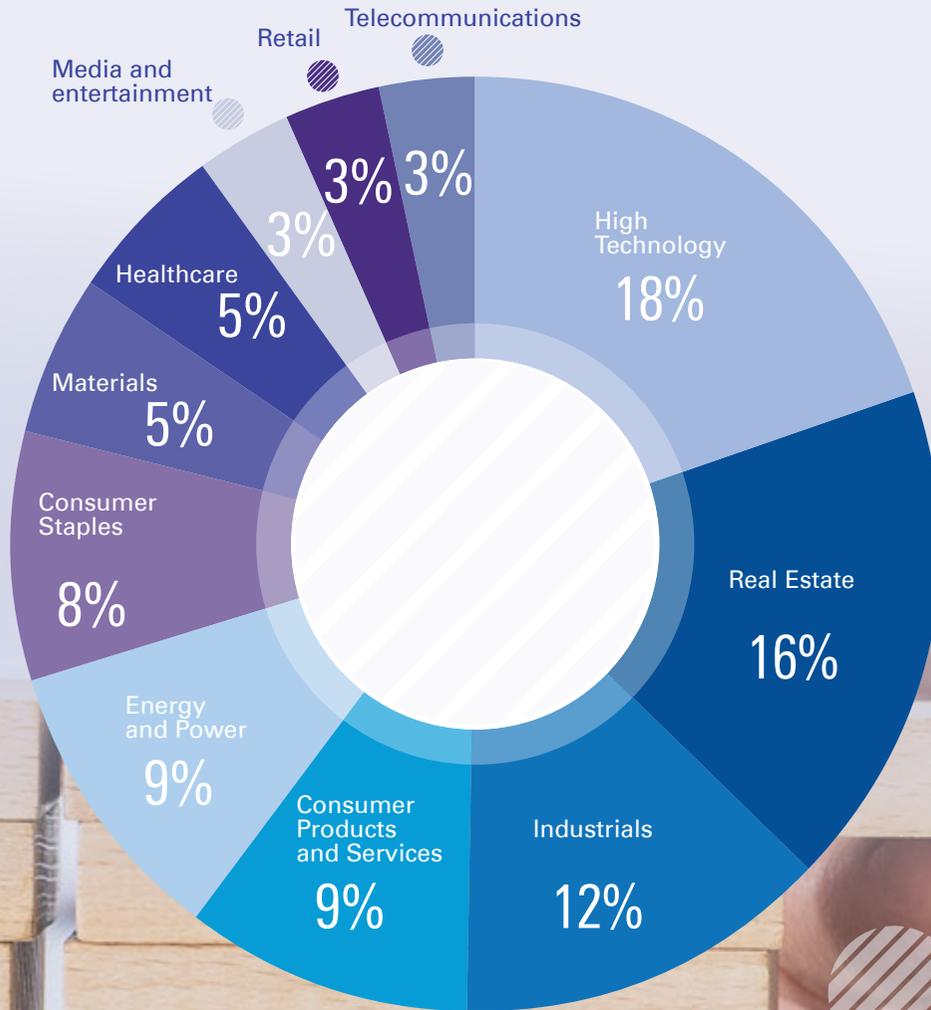
Number of cross-border M&A transactions announced, by target country in selected EU countries



Source: KPMG in Poland based on Thomson ONE data.



**Number of cross-border M&A transactions in Poland in 2020, by economic sector**

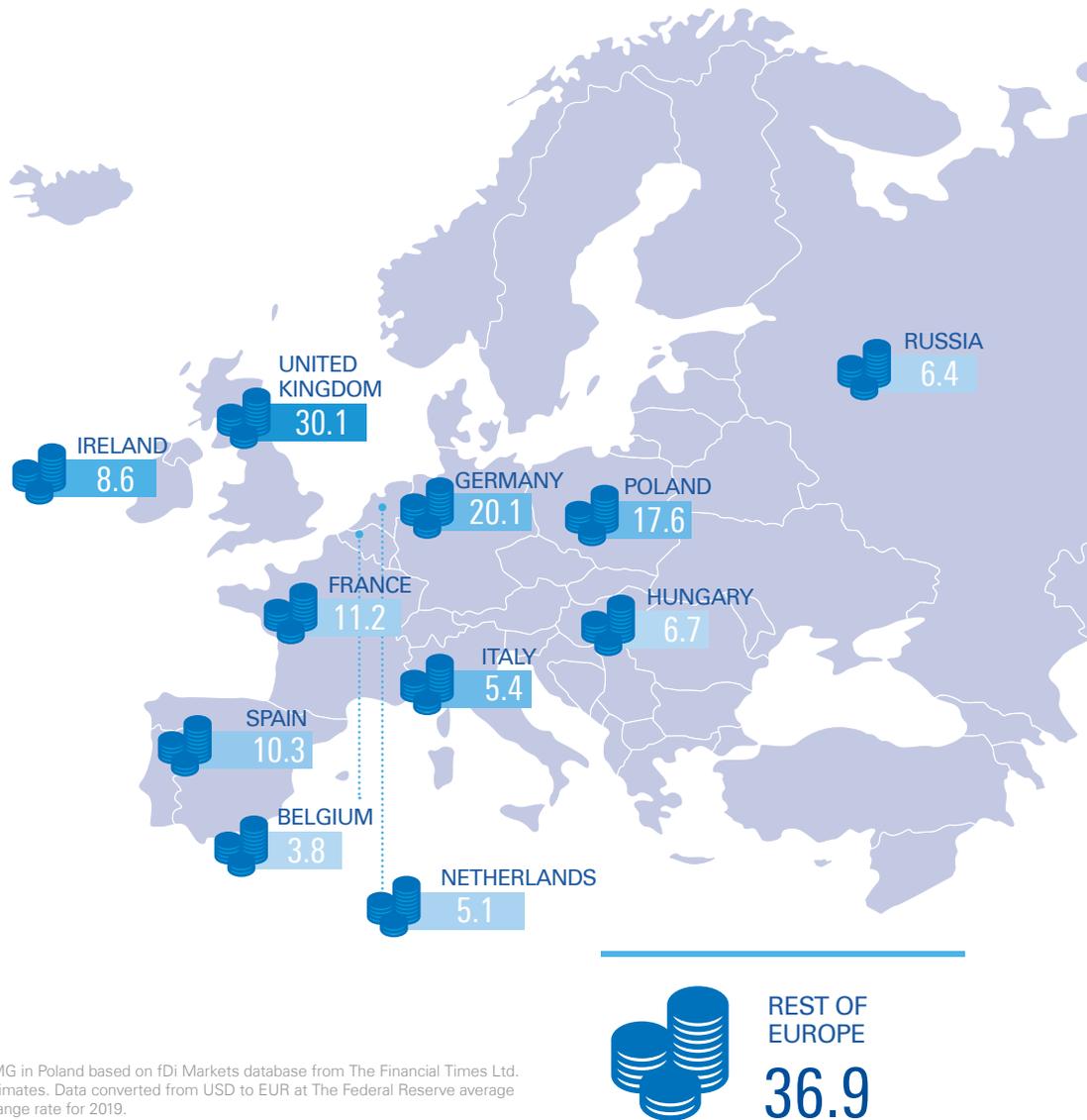


In preceding years the largest number of cross-border M&A transactions in Poland have been observed in the real estate sector. In 2020 however, 33 such mergers and acquisitions were announced with high technology companies as targets, which was the highest number in the history of this sector. The largest of all deals was announced in the telecoms sector: the acquisition of Play Communications by French Iliad Group which including debt was worth about EUR 3.5 billion.

Source: KPMG in Poland based on Thomson ONE data.



Value of foreign greenfield investments in 2020 in Europe (EUR billion)



Source: KPMG in Poland based on fDi Markets database from The Financial Times Ltd. Includes estimates. Data converted from USD to EUR at The Federal Reserve average annual exchange rate for 2019.

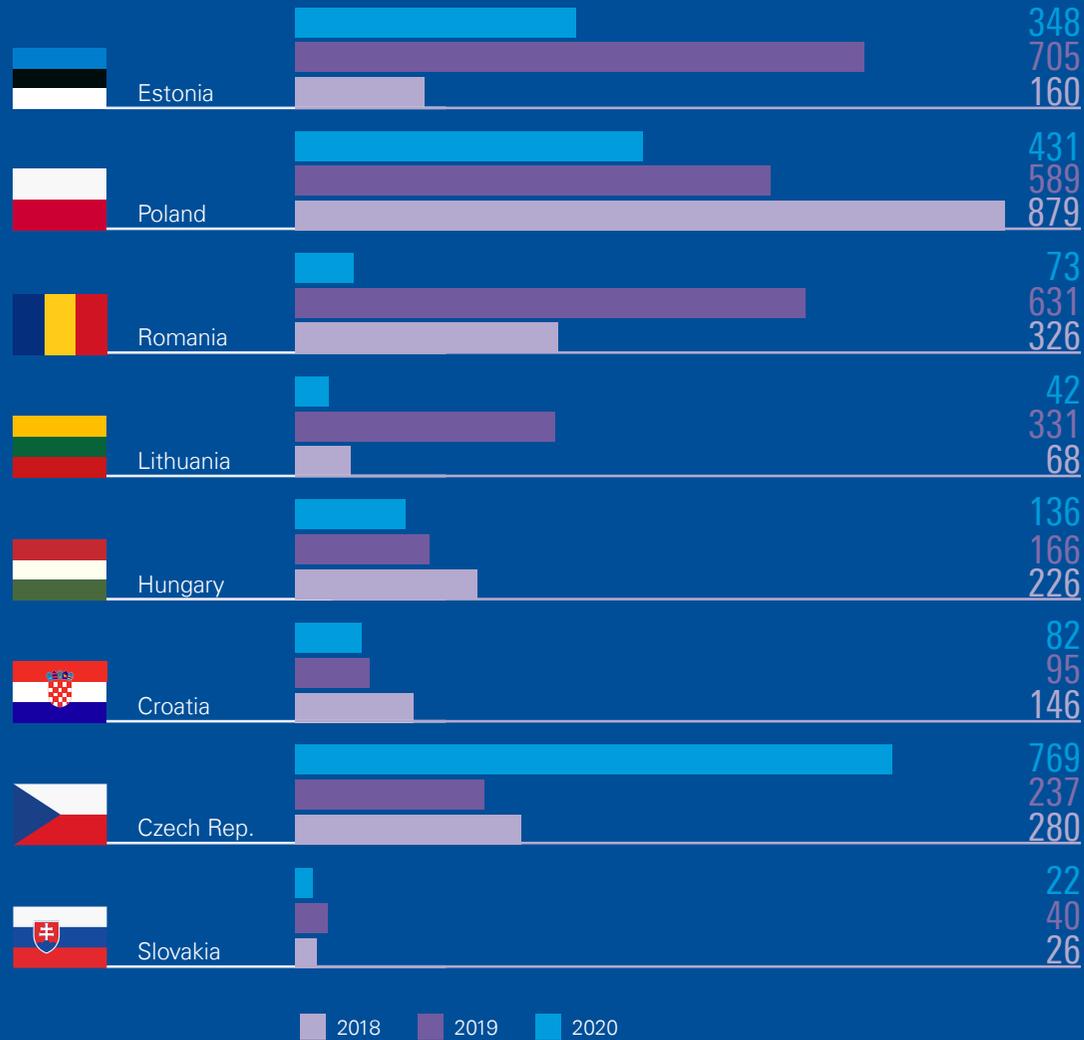
Poland is also a popular destination for grass roots investment projects on undeveloped land. According to fDi Markets data, in 2020 over 11% of the value of greenfield foreign investments across Europe came to Poland. The value of 378 such investments made in Poland amounted to over EUR 17.6 billion. It was the third highest result on the continent, after Great Britain and Germany. Despite a strong slowdown in foreign investments in 2020, the number of such projects in Poland increased by five and its percentage share in all projects in Europe in terms of invested capital grew from 10% in 2019 to 11%.

The time of the COVID-19 pandemic has significantly slowed down investments made in the CEE region. Investments of Private Equity (PE) funds fell by nearly half to nearly EUR 1.6 billion. Poland remained the biggest beneficiary of these funds, receiving 27% of the capital invested in the region. Poland has consistently topped the Visegrad Group ranking in terms of PE investment value since 2015.

Private Equity funds usually invest in Polish companies through buyouts (EUR 195 million, 45.3% in 2020). Poland also remains an attractive investment direction for entities looking for companies whose ambition is further dynamic growth. This is indicated by Venture Capital investments (EUR 111 million, an increase of EUR 12 million y/y) and also in relatively mature companies (Growth Capital), where an increase in investments was recorded by EUR 33 million (EUR 123 million in total).

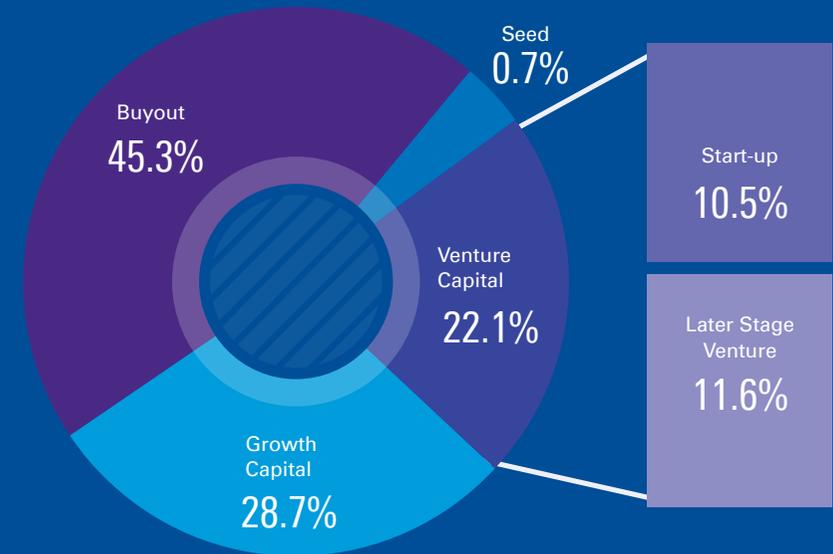


Types of PE investments by value of capital invested in portfolio companies based in Poland (2020)



Source: KPMG in Poland based on Invest Europe/EDC data.

Types of PE investments by value of capital invested in portfolio companies based in Poland (2020)



Source: KPMG in Poland based on Invest Europe/EDC data.



# Typical acquisition process



Learn more how KPMG can help  
you carry out transactions in Poland



## Acquisition process – key stages and schedule

### Steps of the process

An acquisition is a complex and time-consuming process. The essential steps in the process are as follows:

- 1 Market analysis
- 2 Identification and pre-selection of potential acquisition targets
- 3 Examination of transaction interest
- 4 Due diligence, valuation and analysis of returns
- 5 Negotiation and transaction closing
- 6 Integration



**STEP 1**  
Market analysis  
Market analysis  
(Poland and/or beyond)

- Defining the acquisition strategy, drawing up a plan and a timetable for the process
- Analysing market trends, threats and opportunities
- Determining financial and operational parameters of Potential Acquisition Targets
- Preparing an overall profile of the Potential Acquisition Target
- Prioritising tasks

**Formulating an investment thesis**

**STEP 2**  
Long list of targets  
Pre-selection of potential acquisition targets

- Contacting the pre-selected Potential Acquisition Targets
- Presenting the Investor's competence, credibility and successes
- Obtaining additional relevant information on Potential Acquisition Targets
- Initial valuation and financial analysis of Potential Acquisition Targets
- Initial confirmation of the sellers' transactional motivation

**Identifying potential acquisition targets**

**STEP 3**  
Short list of targets  
Examination of transaction interest

- Further financial and operational analysis of Potential Acquisition Targets
- Selection and acceptance of a limited number of Potential Acquisition Targets for further process
- Arranging meetings between the parties
- Agreeing on the Non-Disclosure Agreement (NDA)
- Gathering non-public information on Potential Acquisition Targets
- Final confirmation of the seller's transactional motivation
- Preparing a declaration of interest: a letter of intent or preliminary bid

**Selecting and contacting highest-potential acquisition targets**



### STEP 4 Due diligence Examination of acquisition target

- Financial, tax, legal, operational etc. due diligence
- Meetings with management boards and business owners
- Analysing key risk areas and the impact of the due diligence findings on business valuation and transaction structure
- Preparing a financial model/forecasts, valuation and analysis of returns on investment and synergies
- Preparing a confirmatory bid

**A confirmatory bid**

### STEP 5 Negotiations Purchase

- Determining the negotiating strategy
- Negotiating terms of the transaction
- Finalising the sale-purchase agreement and fulfilling conditions precedent
- Acquisition financing

**Negotiation and transaction closing**

### STEP 6 Integration Synergies

- Implementing the developed business plan
- Integrating the acquisition target with the buyer in terms of operations, finance, accounting, IT, HR, etc.
- Assessing the resulting synergies

**Evaluation of the acquisition**



## Duration

A transaction usually takes less than a year to close. There is a distinct relationship between the investor type and the time it takes to sign a sales and purchase agreement (SPA) from the date of first contact. The average transaction time for strategic investors is longer than that declared by financial investors. The difference may be due the fact that industry investors have less experience with transactions and tend to carry out a more detailed market analysis and due diligence process in order to adapt the business model to the investor's objectives.

### The average number of months needed to close a capital transaction on the Polish market (from the first contact to signing the SPA)



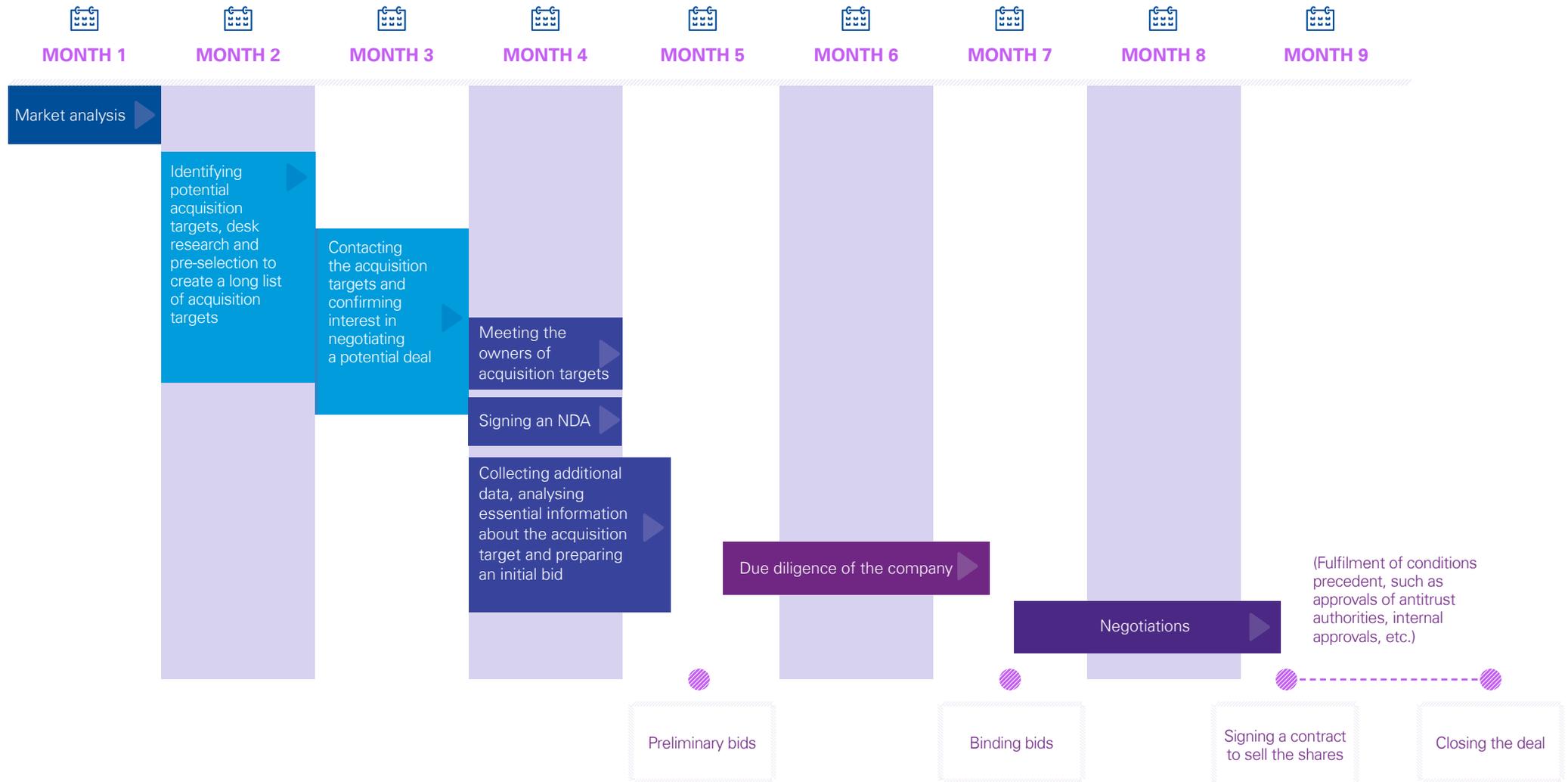
It is very difficult to determine the exact timeline of the M&A process transaction because of the multiple factors that may affect the timing of specific steps. The main factors to be taken into account include:

- The decision-making speed within the company
- Preparation and performance of the due diligence process
- Negotiations
- Compliance with conditions precedent depending on third parties (e.g. financing institutions or administrative bodies).

Źródło: Charakterystyka procesów transakcyjnych w Polsce: Oczekiwania a rzeczywistość, KPMG w Polsce.



Sample flowchart of a business sale





## Transaction motives and identification of acquisition targets

### Transaction motives: strategic vs. financial investors

Investment motives vary depending on the type of actor that carries out the transactions. Strategic investors who acquire companies want to integrate the target into the rest of their organisation and have a real impact on its management. In contrast, financial investors engage their capital in the target company, counting primarily on profits from its future resale.

Understandably, the desire to make a profit on the future resale of the target company is the fundamental factor considered by financial investors when engaging in transactions. This objective is achieved, among others, by increasing the operational efficiency of the acquisition target, geographical expansion or by achieving cost or revenue synergies through industry consolidation.

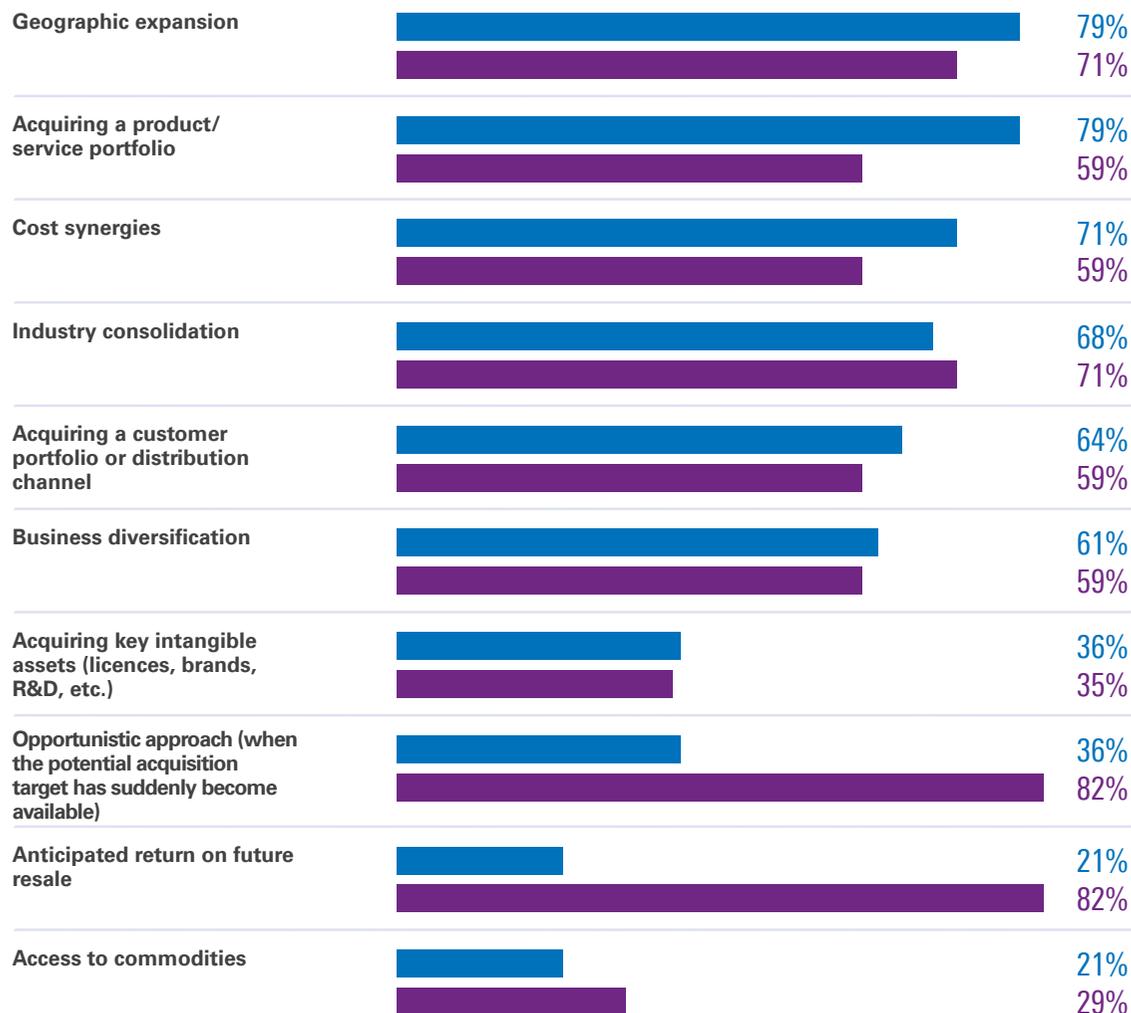
A more diverse approach to trading processes is presented by strategic investors. In most cases, they mention geographic expansion as well as the acquisition of a portfolio of products and services as their main or usually considered reason for investment. They also attach importance to cost synergies, industry consolidation and acquisition of customers and distribution channels.



Read more about transaction processes in Poland through the eyes of investors



### Main or usual investment motives



Strategic investors

Financial investors

Source: Transaction processes in Poland. Expectations versus reality, KPMG in Poland



## Identification and selection of acquisition targets

Market analysis as well as identification and pre-selection of potential acquisition targets are the steps which prepare investors to engage in dialogue with sellers on a potential transaction. If conducted properly, this step ensures that investment guidelines are fine-tuned and the most appropriate entities are selected to match the buyer's specific investment criteria.

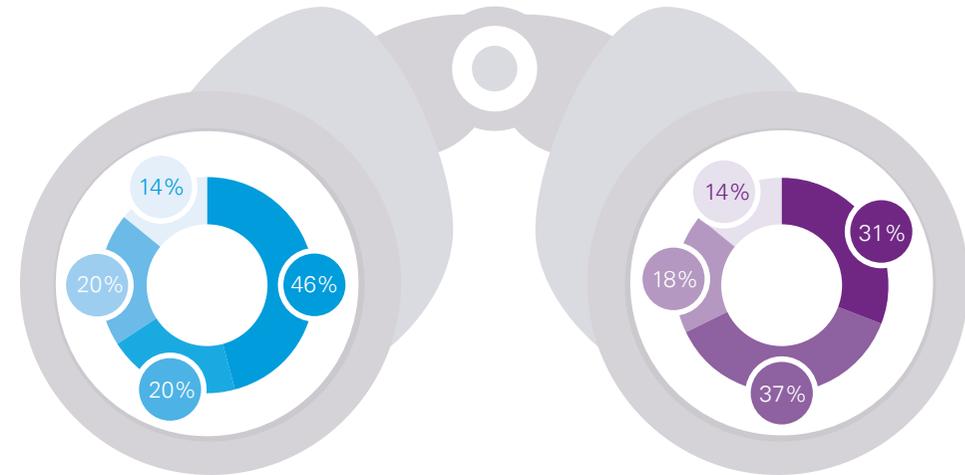
The key methods for identifying acquisition targets include:

- Identification and selection, carried out by the investor based on its internal resources. This path is more likely to be chosen by strategic rather than financial investors.
- Support of an external transaction advisor who acts on behalf of the buyer or leads the company sale process.
- Direct contact between the parties, e.g. as a result of relations with the management of the selling party.

Overall, as many as 40% of acquisition targets are determined as a result of an internal identification and selection process. This path is more likely to be chosen by strategic investors (46%) than financial investors (31%). Acquisition targets are also chosen with the help of an external consultant, either engaged by the seller (26%) or the buyer (14%). Financial investors were much more likely (37% of mentions) than strategic investors (20% of mentions) to be contacted by a consultant engaged by the seller. One in five acquisition targets is identified through direct contact between the parties.

Once potential acquisition targets have been identified and a list has been drawn up, a critical verification of the potential targets takes place, and a long list of acquisition targets is created, based on the investor's criteria.

### Most common methods applied by investors to search for acquisition targets



#### Strategic investors

#### Financial investors

●	As a result of an internal identification and selection process	●
●	Through an external consultant hired to identify potential targets	●
●	Through a contact from a consultant hired by the seller	●
●	Through direct contact from the seller	●

Source: Transaction processes in Poland. Expectations versus reality, KPMG in Poland



## Examination of transaction interest

As a next step, the selected acquisition targets are contacted and the owners' interest in the potential transaction is confirmed. After confirming the sellers' initial interest in the deal, information about the acquisition target is collected to enable the investor to present an initial bid or a letter of intent. At this step, sellers expect the investor to present its intentions and motivation to complete the transaction, as well as the buyer's competence and success in growing business through mergers and acquisitions.

Often, the exchange of information about the company and the investor's investment strategy takes place during a meeting of the parties, which enables the owners of the acquisition target to meet the potential buyer's team.

Once the information about the acquisition target has been gathered and preliminary analyses have been conducted, the investor presents an initial bid or letter of intent to the sellers. When the proposed conditions have been accepted by the owners, the investor is invited to carry out a due diligence process.

From the investor's perspective, it is important at this stage to determine whether the talks with the acquisition target are held on an exclusivity basis (this requires a specific agreement to be made between the seller and the buyer, e.g. in the form of a term sheet) or whether the investor participates in an auction process. While obtaining exclusivity is the preferred scenario for investors, owners in most organised sales processes are not willing to hold one-on-one talks or try to significantly reduce the duration of the exclusivity period.



**Transaction services (M&A)**





## Due diligence

The talks about a potential transaction are characterised by asymmetry of information available to the buyer and the seller. Company owners have (or at least should have) complete information about the activities of the target company while the investor only holds partial data, and only those that the sellers have agreed to disclose.

From the investors' perspective, maximum reduction of transactional risk is one of the key success factors in carrying out an acquisition. If properly conducted, the due diligence process helps to eliminate information asymmetries between the parties and to identify and assess potential risks so that the investor can start negotiating the transaction dossier with the necessary knowledge about the acquisition target.

The key objectives of the due diligence process are as follows:

- Verification of previously received information about the target company.
- Analysis of historical financial data and development prospects of the acquisition target, in order to put a value on the company and confirm the pricing terms in the binding offer.
- Identification of risk factors (market, financial, tax, legal, commercial and other risks).
- Analysis and estimation of synergies arising from the transaction.

Due diligence is usually carried out in the following areas:



**Financial.** As a rule, investors pay most attention to the financial analysis of the target company in order to gain assurances about its financial standing and to confirm that the underlying data for the initial bid are correct.



**Carry out financial due diligence with KPMG**



**Market.** As part of the due diligence process, investors also focus on assessing market risks, including market structure, competition, entry barriers and growth prospects for the industry.



**Carry out commercial due diligence with KPMG**



**Legal.** Another important area is the analysis of legal risks and potential legal and financial consequences arising from specific ways of doing business. Legal due diligence includes an analysis of agreements with contractors, employee issues, regulatory aspects, corporate documentation, etc. Identification of potential risks is directional and includes recommendations as to how to include them in the transaction documentation, e.g. a suggestion to obtain appropriate collateral, price reduction or retention of part of the price.



**Carry out legal due diligence with KPMG**





**Taxation.** Tax due diligence aims at confirming compliance with tax requirements and identifying potential tax liabilities arising from irregularities.



**Carry out tax due diligence with KPMG**



**Business.** In this area, the investor analyses relations with suppliers and customers, financing institutions and employees. As a rule, this part of due diligence is carried out directly by the investor's team but an external advisor may be involved in some cases.



**Carry out operational due diligence with KPMG**



In addition to the aforementioned elements, the due diligence process may include, for instance, environmental or intellectual property issues.





The challenges encountered in the course of due diligence often extend the timing of the process, and the parties may even hold up talks and leave the negotiating table. The following main problems may be encountered:

**No access to the data required by the investor.**

Restricted access to data may result from the reporting methods within the organisation or from sellers' decisions not to disclose full information which, in their view, is too sensitive to be disclosed to potential investors. This kind of situation leads to difficulties in estimating potential synergies and achieving sufficient comfort for the investor to make a confirmatory bid.

**No preparation for due diligence.** This element may occur both on the part of the seller and of the investor. Missing elements in disclosed documentation, low quality of data, and slow response time are the most common shortcomings on the part of the seller. In turn, investors may incorrectly select their team members or the time to carry out the due diligence, which may cause delays or insufficiencies in analysis.

**VDR vs. full access.** In recent years, due diligence in the form of a virtual data room (VDR) has grown in popularity, replacing the process where documentation is made available at the company's headquarters or on electronic data media. A VDR ensures parallel access to data for the investor's team and their advisors who take part in the process. However, depending on the rules adopted by the seller for the due diligence, this tool may also have certain limitations, e.g. restricted access to files (no possibility to save or print documents) and constraints in asking questions to the company.



**Typical challenges during the due diligence process in Polish companies include:**

Common unawareness of due diligence procedures among sellers who do not use advisory services;

No dedicated controlling team and/or accounting function performed by outsourced providers;

No management reports or very limited informative value of the existing management accounting;

No procedures in place to forecast and monitor performance.

The analysis of the acquisition target carried out as part of the due diligence provides an input for a detailed model and financial forecasts. The financial model developed by the investor at this stage should be based on highly granular historical data, and take into account the future business growth prospects discussed directly with the management of the target company.

In the case of strategic or financial investors who plan an acquisition through a portfolio company, an analysis of potential synergies to be released after the contemplated transaction and effective integration is an indispensable element of financial forecasting. Likewise, it is important for financial investors to understand possible exit paths within the anticipated time frame and potential returns on investment.

Additionally, it is important from the investors' perspective to design and analyse possible growth scenarios for the target company, taking into account key sensitivities and their impact on financial forecasts.



## Negotiations and deal closing

### Settlement methods for transactions

Analysis of the business value precedes the sales process in order to frame the negotiations. However, several mechanisms that are agreed before the transaction documentation is signed may lead to price adjustments after closing the deal.

The first mechanism is the preparation of a closing report, where an initial sale price is determined and then adjusted for actual performance, as reflected in the company's balance sheet as at the date of the deal. The closing balance sheet is prepared approx. 8–12 weeks after the deal has been closed. If the balance sheet shows a better net asset position than that assumed when calculating the initial selling price, the purchase price is adjusted upwards and the buyer pays an additional amount. Otherwise the selling price is adjusted downwards and the difference must be returned by the seller.

In order to reduce the time it takes to determine the selling price and to avoid possible disputes over price adjustments after closing, parties may use a locked-box formula, where the price is fixed in advance, as of a certain day, and is not subject to any adjustments after closing.

The essence of this solution is to limit cash outflows to the owners, i.e. to “lock” the company for the duration of the transaction and to handle usual business flows only. Under the locked-box mechanism, the buyer assumes the risk that the target company's financial performance may change after closing.

The parties may also agree on an earn-out clause, i.e. that the price will be paid in parts. The earn-out mechanism is generally applied when the purchase price does not reflect the future business performance, in which case the parties agree on an initial purchase price payable at deal closing, and an additional payment to be made after a certain period of time has lapsed and the target company has achieved the intended performance levels.

The experience of nearly 4 out of 10 surveyed investors shows that closing balance verification was carried out in more than a half of the transactions. Strategic investors were willing to use partial deferral of payment for shares when making transactions (more than one in three respondents used this option in over 55% of cases). On the other hand, financial investors often opted for the locked-box mechanism (more than one in three respondents used it in over 55% of cases).

### Percentage of transactions involving the following settlement methods (based on investors' experience in the last 3 years)



Source: Transaction processes in Poland. Expectations versus reality, KPMG in Poland



## Transaction documentation

Transaction documentation plays a key role for the acquisition process as it sets out the legal conditions for conducting and closing the process as well as the conditions for the execution of the sale. In particular, it determines the seller's liability for defects/claims related to the business being sold and the buyer's options to pursue claims related to such defects.

In the initial phase of the process, documents such as a Letter of Intent, Memorandum of Understanding or Term Sheet are often used.

Such documents usually accompany the buyer's bid and are normally non-binding in the legal sense. In most cases, such documents are intended to delineate and organise further steps in the process. Therefore, they are not used in competitive procedures where the process is determined by the seller (or its advisors) in the form of a Process Letter.

The main legal document that strictly determines all conditions for the purchase of shares, stocks or a business is a sale agreement, usually taking the form of a SPA (Share Purchase Agreement or Sale-Purchase Agreement). A sale agreement may be signed simultaneously when the entire transaction is closed, which entails the payment of the price. If the deal closing is subject to certain conditions (the so-called conditions precedent), the deal may be closed only after they have been effectively fulfilled or after the buyer has waived such a condition, provided that such waiver is legally permissible.

In transactions where the buyer does not become the sole owner of the shares of the acquired company, various types of agreements between the investor and the other shareholders are used in addition to the SPA (the so-called Shareholders' Agreement). Such agreements precisely define the cooperation of all shareholders with regard to business management, including corporate supervision, decision-making procedures of the company's governing bodies and, in many cases, other obligations of specific shareholders with regard to financing the company and its operations.

Other types of agreements are often negotiated and signed along with the SPA, and they become part of the broadly defined transaction. For example, these may be managerial, financing or refinancing agreements, or agreements concerning various areas of operations in the target company.

## Antitrust approval

The law contains regulations to counteract excessive business concentration in various market areas. Hence the need to analyse the impact of the transaction on the competition situation in specific areas where the transaction participants operate.

Depending on the circumstances, the competent antitrust authority may be the Office of Competition and Consumer Protection in Poland (UOKIK) or even the European Commission.

It is important to know in advance whether approval is required for the proposed transaction and which authority will be competent in the case. The procedure to be conducted by the antitrust authority may influence the timing of the transaction.



**Ownership changes:  
Comprehensive legal support**





## Benefits of the transaction: synergies, integration and evaluation of the acquisition

Many strategic investors fail to achieve the expected benefits from acquisitions due to the absence of an effective integration process. After closing the deal, the investor should immediately commence the integration process as planned for the first 100 days after the transaction. This process is prepared before the purchase and determines elements such as ways for the management to achieve the intended growth, cost synergies as well as integration and enhancement of operational processes. The support of an advisor during the integration process may prevent disputes.

The integration process covers aspects such as the IT infrastructure, operations, accounting and organisational culture. The investor's support in creating an integration team before the deal closing, involving the company's existing employees and the investor's representatives, will partially alleviate the pressure on the sellers. During the transfer of the business, many situations may arise where the sellers will need to be involved, for instance:

- Support in employee issues, the role of trade unions, integration of employees into the investor's organisational structure.
- Participation in meetings of the investor's management board in order to support the adaptation of the company's business strategy to the investor's strategy.
- Support in establishing relationships with customers and suppliers.
- Supporting the management board in decision-making for a limited period of time.

It is crucial for the seller to provide the investor with as much business information as possible, which is recommended even before the deal closing so that the information can be used during the integration process. The documented and verified processes and procedures in the company will be essential as a guide to running the business after the transaction.

Achieving the expected return on investment (ROI/IRR) is a key factor in assessing the outcomes of acquisitions for 88% of financial investors and 43% of strategic investors. This is hardly surprising since the main purpose of acquisitions for financial investors is to resell the company at a profit. Strategic investors, in turn, aim to integrate the acquired target into their group, which means they also attach great importance to the achievement of certain key performance indicators (KPIs) and the absence of problems other than those identified when analysing the standing of the target company.

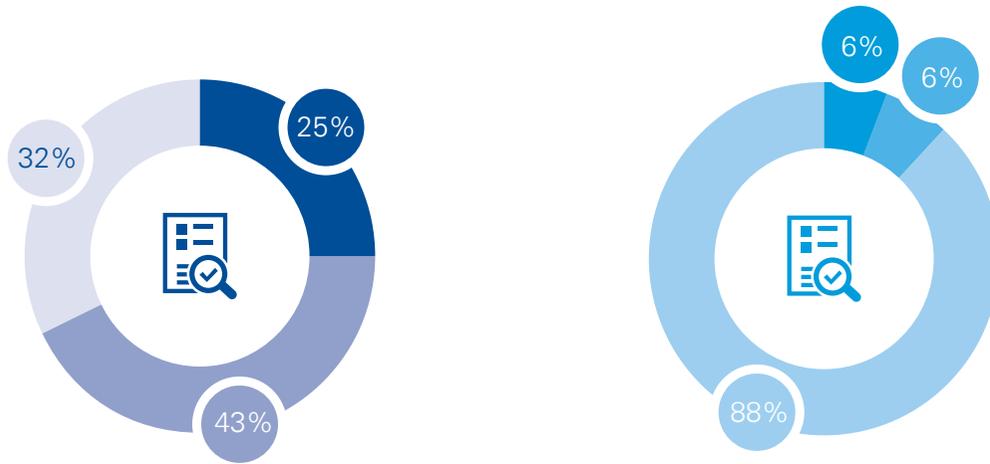


Find out how we can assist you in Post Merger Integration





Key factors considered when assessing transaction outcomes



Based on their own experience with transactions in Poland, the surveyed investors shared their comments on what they would like to improve during future transactions. Most of them mentioned better due diligence, more efficient transaction planning and a thorough understanding of the specific characteristics of the target company. Due diligence, considered more important by the surveyed strategic investors when assessing potential investments, is the main area of improvement, mentioned by as many as 40% of them. Additionally, 20% of strategic investors said they would like to ensure better transaction planning in the future while 15% would like to perform a more detailed valuation of the target company. Financial investors, hoping for future profits from resale, want to negotiate more attractive purchase prices (27% of mentions). Moreover, 20% of the surveyed financial investors indicated they would like to ensure better transaction planning, and the same percentages would like to understand the nature of the target company better and implement organisational changes faster.

Strategic investors

Financial investors

●	No problems after transaction completion other than those identified during the due diligence process	●
	Satisfaction of the managerial staff and owners on the buyer's side	●
●	Was the intended ROI/IRR achieved?	●
●	Were the intended KPIs (or synergies) achieved?	

Source: Transaction processes in Poland. Expectations versus reality, KPMG in Poland



# How can we help you?

KPMG supports clients in all aspects of a transactions process, both the buy-side (investors) and the sell-side (vendors).

M&A transaction services



Financial and tax due diligence



Valuations for the acquisition or sale of businesses



Commercial due diligence



Ownership changes: Comprehensive legal support



Operational due diligence



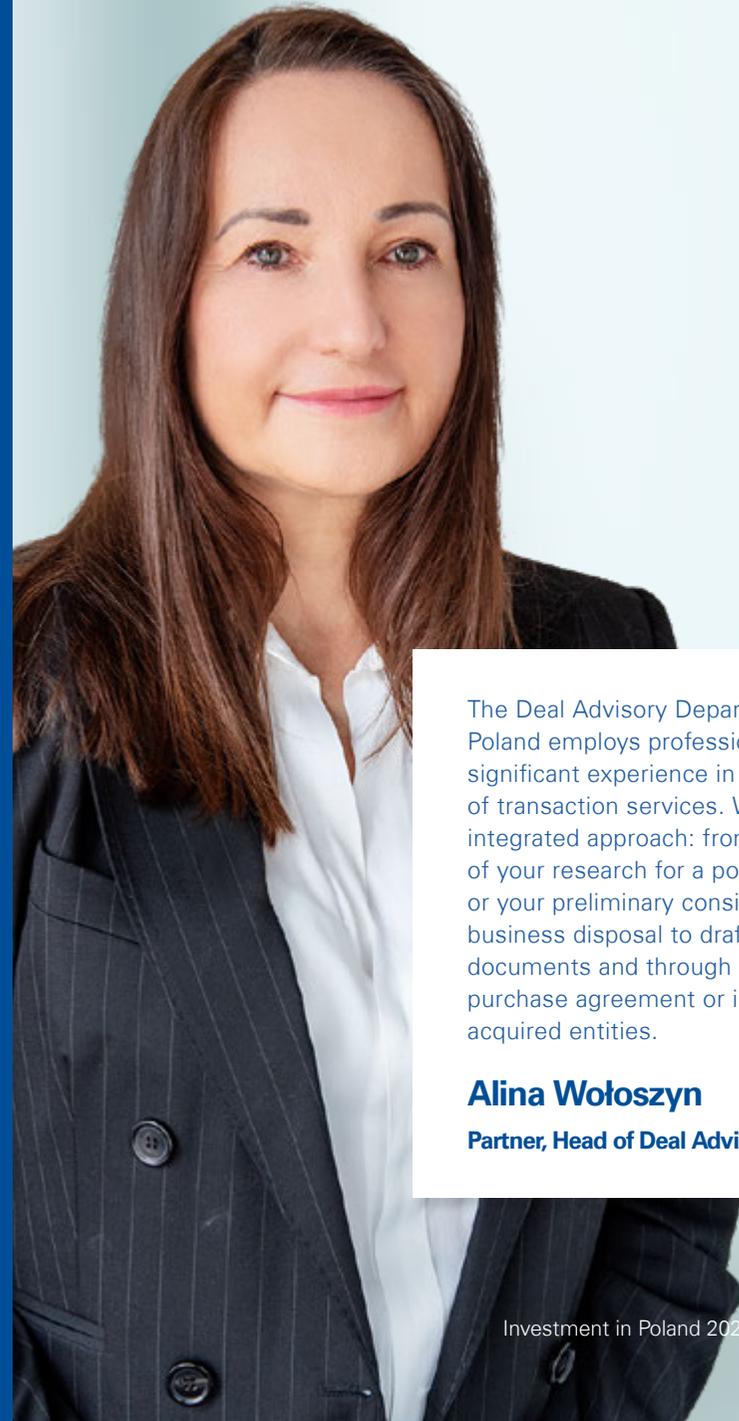
Transaction Services



Post Merger Integration (PMI) Assistance



Financing



The Deal Advisory Department in Poland employs professionals who have significant experience in a wide range of transaction services. We have an integrated approach: from the beginning of your research for a potential target or your preliminary consideration for business disposal to drafting of the final documents and through the sale and purchase agreement or integration of acquired entities.

**Alina Wołoszyn**

**Partner, Head of Deal Advisory**



# Incentives for investors

## Exemptions and grants for investments, R&D and other projects

Poland offers a broad system of support for entrepreneurs, covering both EU and national funds. In the 2014–2020 financial framework, which is already coming to an end, Poland received the largest financial pool, exceeding EUR 82.5 billion, for the implementation of EU cohesion policy under six national and 16 regional operational programmes. The new financial framework for the years 2021-2027, adopted by the European Parliament and the Council, seems to be equally promising - the budget for Poland will amount to EUR 72.2 billion from the Cohesion Policy and EUR 3.8 billion from the Fair Transformation Fund (EUR 76 billion in total). Moreover, Poland will also receive EU support for its National Recovery Plan of €58.1 billion to rebuild the Polish economy after the COVID-19 pandemic.

Support in Poland is available in the form of grants and repayable instruments for both the investment phase and the operational phase of business. The state aid intensity can reach up to 80%, depending on the programme, business size and location of the project.

In addition to the aforementioned measures, support is offered also under other programmes and measures, e.g.:

- tax relief for conducting R&D activities (not classified as state aid),
- tax exemptions in the Polish Investment Zone (formerly: in special economic zones),
- the Horizon 2020 programme,
- programmes operated by the National Fund for Environmental Protection and Water Management,
- government programmes,
- dedicated support to combat the effects of the COVID 19 pandemic,
- also new reliefs are planned, eg. for prototypes, innovative employees, robotization.



**Check how we can help you choose  
the most relevant tax incentive scheme  
for your business**





## Investment phase

Investors can benefit from various types of incentives, such as grants and tax reliefs. Entrepreneurs can obtain funding for a single project from several sources simultaneously, combining the available sources of aid.

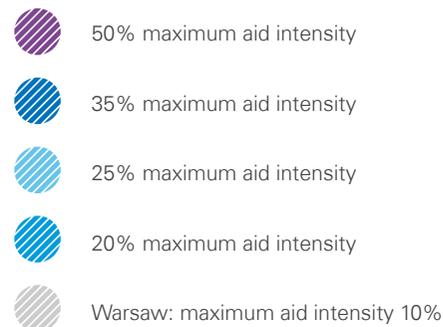
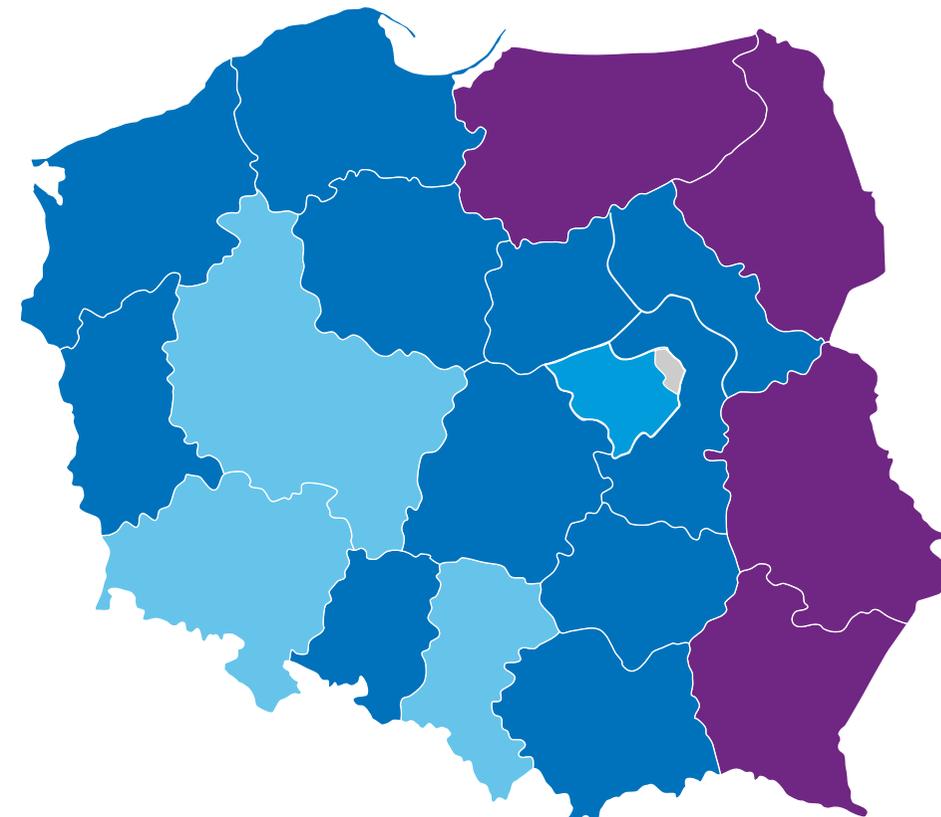
### Tax exemptions in the Polish Investment Zone

Since their establishment two decades ago, Special Economic Zones (hereinafter: SEZ) have been an attractive solution for investors who seek to start their business in Poland.

According to the new rules (starting from 2018), investors can obtain CIT or PIT exemptions in connection with a new investment implemented throughout Poland. In practice, this means that the whole country has become one large special economic zone – the Polish Investment Zone (hereinafter: PIZ).

The tax relief threshold, i.e. the amount of unpaid CIT/PIT, is calculated as aid intensity (the maximum amount depends on the location and size of the entrepreneur) multiplied by eligible costs (investment outlays or two years' worth of labour costs of new employees employed in connection with the investment).

Eligible costs to be supported under new investments include investment costs incurred during the validity of the relevant decision: land, fixed assets, modernisation of fixed assets, intangible assets, lease of land/buildings. The amount of support depends on the location of the project and the size of the enterprise. The maximum thresholds of state aid intensity, within current perspective 2014-2020, are shown on the map below (these thresholds will change in the beginning of year 2022) :





A new investment may lead to the creation of a completely new business or development of an existing one (e.g. diversification, a fundamental change in the production process or a boost in production capacity).

Increased employment related to the new investment is also important.

In order to obtain an exemption, granted for a maximum period of 15 years, investors are required to meet certain quantitative criteria (i.e. minimum eligible investment costs) and qualitative criteria (certain rules relating to structural, scientific or human resources development).

It should be remembered that in order for an investment to be considered eligible for support, it must not begin before the application for project financing has been submitted or before a formal permission from the relevant institution has been received.

Following the change of legal regulations whereby the entire territory of Poland was included in a special economic zone, new investments located within the borders of the existing SEZ will receive support for 15 years.



### KPMG support in applying for a tax relief under the Polish Investment Zone scheme



#### Exemption from property tax

Support may also be provided by local authorities as an exemption from property tax. In this case, support is often provided as de minimis aid, with no obligation to notify it to the European Commission.





## Operational phase

### Grants

During the operational phase, entrepreneurs can take advantage of incentives associated with their business activity. The main areas of support include research and development, innovation, and environmental protection.

Entrepreneurs engaged in research and development, i.e. undertaking work aimed at developing new products, services and technologies (or improving existing ones), are eligible for support provided in the form of grants and repayable instruments offered under national and regional operational programmes. Innovation consists in developing new or significantly improved products, processes, marketing or organisational solutions for the company. Innovative solutions may be developed in house or acquired from other companies or organisations. The maximum support is 65% of eligible costs for large enterprises, 75% of eligible costs for medium-sized enterprises and 80% of eligible costs for small and micro enterprises.

Entrepreneurs can also apply for financial support for projects promoting clean energy, efficient energy use and 'green' activities. Support is granted for the implementation of projects involving efficient use of resources (e.g. investments that reduce the consumption of raw materials in manufacturing), building an energy-efficient economy (e.g. replacing old production lines with new more energy-efficient ones), reduction of emissions (e.g. modernisation of boiler rooms) and use of renewable energy sources.

Special support instruments have been prepared for micro, small and medium-sized enterprises which play a special role in sustainable economic growth. The programmes aim to simplify the implementation of innovative technologies by such entities, strengthen cooperation between science and business, and implement environment-friendly solutions.

Investors who seek to implement a project with the support of public funds, need to monitor the timing of calls for proposals under individual programmes/measures.

Recruitment schedules are dynamic and are updated several times during the year. Additionally, dedicated support schemes are also available to combat the negative effects of the

COVID-19 pandemic, including thematic R&D competitions, financial support for jobs, loans guarantees, etc

**This programme is an updated version of the previous programme to support investments of significant importance for the Polish economy for 2011–2023.**

The most important change consists in reduced entry criteria/quantitative criteria, which will allow smaller, innovative Polish entrepreneurs to apply for support. Other qualitative criteria have also been changed, i.e. the ones related to the Strategy for Responsible Development and the location of investments in medium-sized towns that are losing their social and economic functions and in poviats with high unemployment rates. These changes in the programme are intended to help to level out economic inequalities between regions. The support granting process is also expected to be improved: all analyses carried out before granting funds will be coordinated by the Polish Investment & Trade Agency (PAIH), and not by the Ministry of Entrepreneurship and Technology, as has been the case until now. The monitoring process will also be simplified, with inspections being mostly carried out remotely.

**The deadline for the call for proposals:**

The programme will be implemented on a continuous basis until 2030, with grants available until the end of 2025.

The budget of the programme has been increased by PLN 1.1 billion.

**Who can apply for support?**

According to the new Programme, support will be available to companies implementing investment projects that will boost the innovativeness and competitiveness of Poland's economy. Support will be granted in the form of grants awarded in connection with the costs of creating new jobs and investment costs.

Support will be granted for the following:

- innovative investments and R&D;
- investments in regions at risk of exclusion;
- promoting specialised, highly paid and stable jobs;
- strategic manufacturing investments.

Support thresholds:

**EMPLOYER GRANT - LEVEL OF SUPPORT**

Investment category	Large	Developing	Medium	Small	Micro
<b>Business Services Centre</b>	Up to 7500 PLN or 15 000 PLN per one newly created workplace				
<b>R&amp;D Centre</b>	Up to 10 000 PLN or 20 000 PLN for one newly created workplace				

**INVESTMENT GRANT - LEVEL OF SUPPORT**

Investment category	Large	Developing	Medium	Small	Micro
<b>Strategic Or Innovative</b>	Up to 5 or up to 15%	Up to 10 or up to 20%		Up to 15 or up to 25%	
<b>R&amp;D Centre</b>	Up to 15 or up to 25%				



MINIMUM INVESTMENT COSTS (MILLION PLN) /  
MINIMUM NUMBER OF NEW WORKPLACES

Investment category	Large	Developing	Medium	Small	Micro
<b>Strategic</b>	80/50	40/25	24/15	16/10	8/5
<b>Innovative</b>	5/20	2.5/10	1.5/6	1/4	0.5/2
<b>Advanced Business Services Centre</b>	1/100	0.5/50	0.3/30	0.3/20	0.3/10
<b>R&amp;D Centre</b>	1/10	0.5/10	0.3/10	0.3/10	0.3/10

Higher levels of support are available for investment locations:

- 1) Investments in medium-sized towns that are losing their socio-economic functions and in poviats or towns with poviat rights where the unemployment rate is at least 160% of the average unemployment rate in the country;
- 2) In five voivodships of Eastern Poland: Warmińsko-Mazurskie, Podlaskie, Lubelskie, Świętokrzyskie, Podkarpackie;

Moreover, entrepreneurs can count on training grants, up to PLN 5,000 or PLN 7,000 per employee.

The quality criteria for evaluation of investments have been aligned with the criteria applicable within the Polish Investment Zone. The mechanism for evaluating fulfillment of the criteria has been simplified and made more precise. For each of the 10 quality criteria 1 point is awarded. A maximum of 10 points may be obtained for qualitative evaluation of an investment and to be eligible for support, the project must receive a minimum of 4-6 depending on location.

So far, support under the programme has been used mainly by large foreign companies. The new amendments will enable more Polish companies to take advantage of the programme as they have not been able to achieve high investment thresholds, usually falling beyond SMEs' capabilities, particularly in terms of the number of new jobs to be created.



## Tax relief for R&D activities

Entrepreneurs have the opportunity to take advantage of a tax relief for their R&D activities. Since 2018, the bonus, which takes the form of an additional deduction of eligible costs from the tax base, has been as follows:

- 100% of the salaries of employees involved in research and development,
- 100% of other expenditures (in SMEs and large enterprises) related to research and development (including depreciation write-offs).

The available bonus for entrepreneurs with the status of an R&D centre will be up to 150%. The costs of R&D activities should be separated in books of account. Eligible costs are to be declared in tax returns. Unlike with grants, eligibility for the R&D tax relief is verified during tax inspection and, therefore, it is important to ensure the following:

- correct identification of projects and eligible costs,
- having documentation in place to confirm the conduct of an R&D project and the validity of the allocated costs.

Unlike with R&D grants, the tax relief covers costs that have been already incurred.

To date, the relief has not been granted to taxpayers who conduct business activity under a permit in a special economic zone. Starting from 2018, taxpayers who conducted business activity in a special economic zone under a permit, or activity under a support decision under the PIZ during the tax year, are entitled to deduct only eligible costs which are not taken into account in calculating tax-exempt income under the permit.



**Comprehensive assistance in obtaining  
the R&D tax relief**





## Innovation Box

The introduction of preferential taxation of income generated by intellectual property rights (the so called IP BOX, or Innovation Box) in 2019, together with previously available incentives, will enable entrepreneurs to receive financial support at every stage of the innovation process: from the idea to commercialisation.

The new tax incentive should be seen as a complementary element that “closes” the innovation support chain. The Innovation Box aims to support entrepreneurs who develop new or improved products, processes, technologies, enabling them to derive additional tax benefits from pursuing R&D activities and the commercialisation of its results. The Innovation

Box will enable companies to apply the preferential income tax rate of 5% on income generated by intellectual property rights. The greater the taxpayer's involvement in the creation, development or improvement of innovation (i.e. in IPR related R&D), the greater the potential tax benefit to be attained. The preferential tax rate applies throughout the entire period during which IPR protection is granted. The Innovation Box is also complementary to tax deductions related to the R&D relief. Moreover, in connection with the Polish Order, further changes are planned from 1 January 2022, including the possibility of using the R&D Tax relief and the IP BOX at the same time, within the same production process.



**Support for innovators: Reduce  
your income tax through IP BOX**





# How can we help you?

KPMG offers its support at all stages in obtaining tax reliefs and subsidies from EU and national funds.

R&D tax relief



Assisting in obtaining financial support from EU funds and the state budget



IP Box : Support for innovators



Reviewing development plans and its optimization for available sources of support



Polish Investment Zone: KPMG support



Settlement of the investment covered by the "decision on support"



The Grants & Incentives Team at KPMG in Poland provides dedicated services for entities interested in obtaining state aid for their business. With KPMG's comprehensive approach to Clients' business, high standards of our services, professional experience, knowledge and experience of the Grants & Incentives Team, our Clients can take advantage of the development opportunities and respond to the risks associated with doing business.

**Mirosław Michna**  
Partner, Tax

# Forms of conducting business activity





# Forms of conducting business activity in Poland available to foreign entities

## Legal status

Polish law distinguishes three groups of foreign entrepreneurs:

1 Foreign entities from Member States of the European Union and Member States of the European Free Trade Association – parties to the Agreement on the European Economic Area, as well as foreign entities from the countries that are not parties to the Agreement on the European Economic Area but enjoy freedom of establishment based on agreements signed by these countries with the European Community and its Member States.

2 Citizens of countries other than Member States who, for example, have obtained a permanent residence permit in the territory of the Republic of Poland, a temporary residence permit, a tolerated stay permit, refugee status granted by the Republic of Poland, or other permits and permissions specified in the Polish law.

3 Foreign persons other than those specified in points 1 and 2 above. The first two groups benefit from the same legal options of doing business as Polish entities (i.e. sole proprietorship, partnerships and corporations).



Entities included in the third group may take up and pursue business activities, but only in the following forms:

- a limited partnership,
- a limited joint-stock partnership,
- a limited liability company, and
- a joint stock company which differs from a limited liability company not only in terms of the required minimum share capital and other features, but also in that it can issue bearer shares; companies listed on the Warsaw Stock Exchange must have the status of a joint stock company.

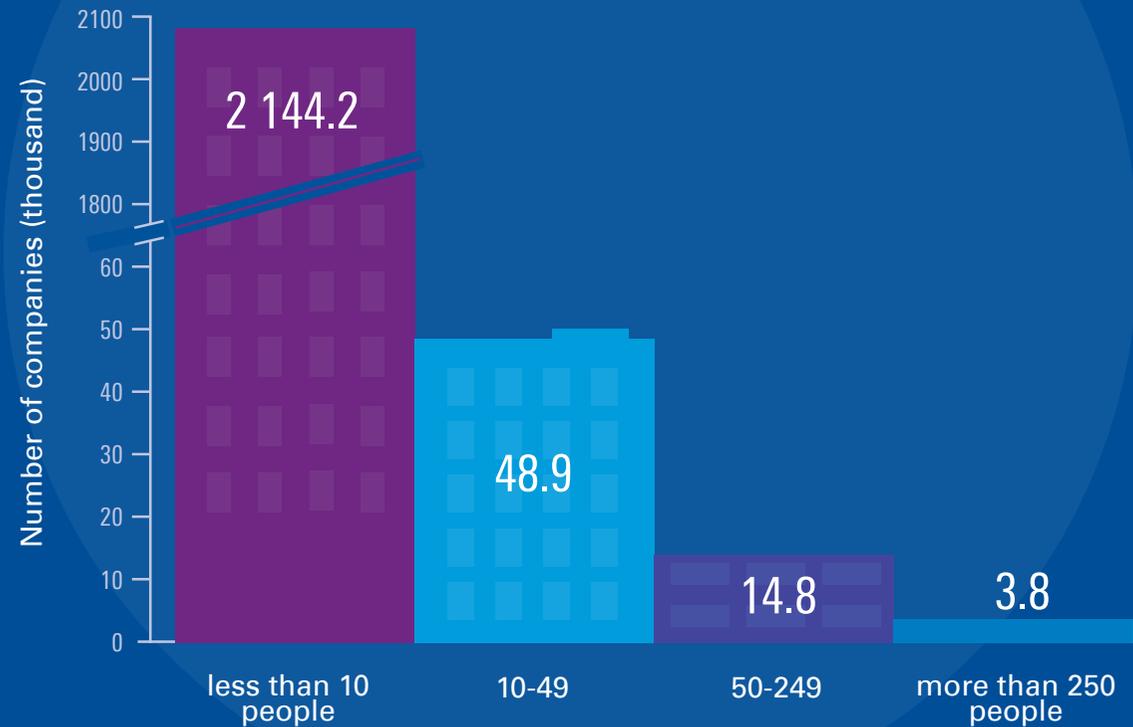
It is also possible to establish a representative office or a branch of a foreign entrepreneur in certain sectors of activity.



**Company Law/Corporate Services**



**Number of non-financial companies in Poland, by employment (2019)**



Source: KPMG in Poland based on GUS/Statistics Poland data.



## Choosing the form of investment

The choice of the legal form of business activity (investment) in Poland within the framework outlined above depends on a number of business-related, practical, and/or formal factors.

Taxation is among the main factors to consider before choosing the form of business in Poland. Other important criteria are the freedom of financial flows between the investor and the company in Poland (the investor's financing of the company's activity, payments from profit, exit from investment), as well as the scope of the investor's liability for the business in Poland, and the scope of protection for the investment, as defined by the generally applicable Polish regulations and international agreements. Another significant consideration is the degree of formalisation of activities and the scope of formal obligations related to the selected form of business.

For the reasons outlined above, foreign investors clearly prefer the limited liability company (spółka z ograniczoną odpowiedzialnością) as the optimal formula for doing business in Poland, as illustrated in the table below.

### Business entities with foreign capital, by legal forms in 2019

Limited liability companies	93.1%
Joint stock companies	2.9%
Limited partnerships	2.7%
Branches of foreign entrepreneurs	0.8%
Limited joint-stock partnerships	0.2%
Other legal forms	0.3%

Source: KPMG in Poland based on GUS/Statistics Poland data.



Indeed, a limited liability company has all the advantages and characteristics expected by investors. It is also a very precise, clear and safe legal vehicle for conducting business in the form of a joint venture with other partners, whether Polish or foreign.

Unlike a joint stock company, a limited liability company is significantly de formalised, which makes it very easy for the investor to exercise control over the company.

In contrast, a joint stock company is, by its very nature, dedicated primarily to investments where the ownership structure is, or is expected to be, highly fragmented/scattered. Therefore, the legal format of a joint stock company will be recommended if the investor plans to float that company on the stock exchange, as this legal form is strictly required by the applicable legislation. Additionally, business in certain regulated areas must be conducted in the form of a joint stock company (banking or insurance), as long as such activity is not launched in the form of a branch of a foreign company.

## Establishment of partnerships and corporations

Although the formalities required to start up a business in Poland have been significantly simplified, still a number of required steps and procedures need to be completed.

The activity conducted by individual entrepreneurs (natural persons, civil-law partnerships) is subject to disclosure in the Central Business Register and Information System (CEIDG), while partnerships and corporations established under commercial law are required to be registered at the National Court Register (KRS). Both registers are centralised and can be universally accessed via ICT (online).

Considering that the vast majority of foreign investments takes the form of a corporation, the most important remarks related to the establishment of such companies are presented below.

In principle, no special permit is required to establish a company with the participation of a foreign entrepreneur. However, such permits may be necessary if a foreign investor joins an existing company which owns real estate.

However, different rules apply if such a company seeks to run a business in regulated sectors such as banking, insurance, a range of other financial services, activities in the power and mining sectors, etc. In such cases, the company with a foreign entrepreneur is required to obtain relevant permits, licences, and approvals from the relevant authorities, which are issued on the same terms and conditions as those applicable to companies involving Polish entrepreneurs only.

The Code of Commercial Companies regulates all issues related to the establishment, operation, and dissolution of such commercial companies, including limited liability companies and joint stock companies. The existing legal framework offers a lot of leeway for companies in determining the contents of their articles of association (in limited liability companies) or bylaws (in joint stock companies). Some provisions of the Code of Commercial Companies are not mandatory and may be modified by provisions of incorporating documents.

The articles of association, or the statutes as well as any amendments to these documents must be drawn up in the form of a notarial deed. One exception is a limited liability company established via the Internet, where the articles of association are drawn up on an electronic form available on the dedicated website of the Polish Ministry of Justice.

The main differences between these two types of companies are specified below.



## Limited liability company vs. Joint stock company

	LIMITED LIABILITY COMPANY (SPÓŁKA Z O.O.)	JOINT STOCK COMPANY (SPÓŁKA AKCYJNA)
<b>Purpose</b>	to carry out business activities for any purpose, as provided for by law	to carry out business and non business activities
<b>Number of founders (Polish or foreign)</b>	at least one person (however, if the founder is a limited liability company, it must have more than one partner)	at least one person (however, if the founder is a limited liability company, it must have more than one partner)
<b>Method of establishment</b>	simpler: signing the articles of association in the form of a notarial deed, or filling out an online form + registering the company in court	more complicated: signing the bylaws of a joint stock company + signing the notarial deed on the subscription for shares (if the share capital is to be collected via public offering, the approval of the Polish Financial Supervision Authority is required + registration in court
<b>Operating restrictions</b>	restricted operations (not allowed to conduct business in areas such as banking or insurance or running a stock exchange)	unrestricted
<b>Minimum share capital</b>	PLN 5 000	PLN 100 000

	LIMITED LIABILITY COMPANY (SPÓŁKA Z O.O.)	JOINT STOCK COMPANY (SPÓŁKA AKCYJNA)
<b>Capital to be paid up before company registration</b>	100% of the declared share capital or, in case of online registration, within 7 days from the date of entry into business register	at least 25% of the declared share capital
<b>Shares</b>	the initial capital may be divided into shares of equal or unequal value; preference shares entitle their holder to additional dividends or voting rights	share capital is divided into shares of equal nominal value; types of shares: registered shares, bearer shares, preference shares, in-kind contribution shares, cash shares, silent shares and syndicated shares
<b>Minimum nominal value of a share</b>	PLN 50	PLN 0.01
<b>Valuation of in-kind contributions</b>	performed by the founders	by the founders; however, the founders must draw up a report which is subject to audit by auditors appointed by the registry court (exceptions to this rule are permitted)
<b>Legal status of shares</b>	shares are property rights and are not securities; in principle, share certificates are not issued	shares are securities, and share certificates should be issued. Since 2021 the share certificates are replaced by electronic register kept by the authorised entities



	LIMITED LIABILITY COMPANY (SPÓŁKA Z O.O.)	JOINT STOCK COMPANY (SPÓŁKA AKCYJNA)	LIMITED LIABILITY COMPANY (SPÓŁKA Z O.O.)	JOINT STOCK COMPANY (SPÓŁKA AKCYJNA)
<b>Sale of shares issued in exchange for in-kind contribution</b>	no restrictions; such shares may be sold after their issuance provided that other restrictions do not apply	such shares may not be transferred or pledged until the shareholders' meeting has approved the financial statements and accounts for the financial year during which the shares were paid for by in-kind contribution	<b>Personal liability of shareholders for the liabilities of the company</b>	the shareholders are not liable for the company's liabilities; indirect (economic) liability – up to the amount of the investment made by the shareholder
<b>Trading in shares on the stock exchange</b>	not possible	possible, subject to additional requirements	<b>Personal liability of board members for the liabilities of the company</b>	the Polish Code of Commercial Companies provides for personal joint and several liability of members of the management board, including liabilities under tax and social security arrears (however, the law provides for various restrictions in this respect) in case where enforcement proceedings against the company prove ineffective
<b>Capital increase</b>	generally, an approval of the shareholders' meeting (in the form of a notarial deed) expressed by an absolute majority of votes (2/3) is required unless the articles of association lay down stricter requirements; the articles of association may also authorise an increase in the share capital without any amendment to the articles of association, in which case the form of a notarial deed is not required and a simple majority of votes is sufficient to increase the share capital	generally, an approval of the shareholders' meeting (in the form of a notarial deed) expressed by a majority of 3/4 of votes is required unless the company's bylaws lay down stricter requirements, with the exception of capital increases that are made up to the amount of the target share capital, for which a resolution of the management board is required	<b>Shareholders' right to share in profits</b>	enforceable by the shareholders' meeting's approval of the balance sheet and profit and loss account for the previous year, in the form of a shareholders' resolution on the payment of dividends (provided that the articles of association provide for such a resolution), unless the articles of association or the resolution of the shareholders' meeting provide otherwise
<b>Mandatory audit</b>	only if certain conditions set out in the Polish Accounting Act are fulfilled	at all times	<b>Distribution of assets after liquidation of the company</b>	the distribution of assets to shareholders may not take place before the lapse of one year from the date on which the opening of liquidation was announced and creditors were invited to report claims
<b>Obligation to convene a meeting if the company suffers a loss in order to decide on the going concern status</b>	if the loss exceeds the sum of the supplementary and reserve capital and a half of the share capital	if the loss exceeds the sum of the supplementary and reserve capital and 1/3 of the share capital		



In addition to concluding the aforementioned act of incorporation, the newly established company must be registered in the KRS system, and must be also registered for taxation and statistical purposes. The latter is done simultaneously with the registration procedure in the National Court Register.

Where a company starts hiring its staff, the relevant notifications and the required procedures, including those related to social security of its employees. It must also obtain the respective work permit for the employment of foreign staff members wherever such consent is required under the relevant legislation.

Only natural persons, both Polish citizens and citizens of other countries, may be members of the company's governing bodies. These functions may be performed with or without compensation, and their physical presence in Poland is not required.

In order for the company to be registered, it is necessary, in accordance with the relevant European regulations, to indicate the beneficial owner of the new business (UBO - Ultimate Beneficial Owner). Members of the company's governing bodies must also be assigned a PESEL number, i.e. a number assigned in the Polish system of citizen registration. Members of the management boards must also have an electronic signature since the use of electronic signature is required in certain procedures related to the management of company affairs (e.g. signing annual financial statements).

## Representative offices and branches of a foreign entrepreneur

Foreign natural and legal persons, including banks, insurance companies and foundations, may establish a representation in Poland. The establishment and operation of any kind of representation is regulated by Polish law.

Foreign entities may establish two forms of representation: a representative office or a branch of a foreign entrepreneur. The scope of permissible activities for a representative office is much narrower than that for a branch. Branches may conduct business activity within the scope of business corresponding to the activity conducted by the foreign entrepreneur in its home country. A representative office may only engage in advertising and promotion of the relevant foreign entrepreneur.

### Branch

Business activity within a branch may commence after the branch has been entered in the register of entrepreneurs of the National Court Register (KRS).

A foreign entrepreneur who sets up a branch is required to appoint a person at the branch authorised to represent the foreign entrepreneur. Moreover, the foreign entrepreneur is required:

- to use, with reference to the branch, the original name of a foreign entrepreneur together with the name of the entrepreneur's legal form translated into Polish, adding the words "branch in Poland" (oddział w Polsce);
- to keep separate accounts for the branch in the Polish language in accordance with accounting regulations;
- to report any changes in the factual and legal situation to the minister competent for the economy, e.g. when the liquidation of the foreign entrepreneur has been opened or when the entrepreneur has lost the right to conduct business activity.

The provisions of the Polish Code of Commercial Companies pertaining to the liquidation of a limited liability company apply accordingly to the liquidation of a branch of a foreign entrepreneur.

A foreign entrepreneur who runs a branch is subject to income tax in Poland with respect to the income obtained in the territory of Poland, unless the relevant Double Tax Treaty (international agreement on double taxation avoidance) provides otherwise.

The sale or supply of services carried out through a branch is subject to VAT in accordance with the regulations based on the EU VAT directive (Council Directive 2006/112/EC).

Moreover, a foreign entrepreneur is required to keep separate accounts in the Polish language in accordance with the applicable accounting regulations and to keep the tax registers required by domestic tax law.



## Representative office

A foreign entrepreneur entitled to establish a representative office is a foreign person conducting business activity abroad and a Polish citizen conducting business activity abroad.

Representative offices are subject to entry in the register of representative offices kept by the Minister of Entrepreneurship and Technology (except for representative offices of banks and credit institutions). In order to register a representative office, it is necessary to enclose an excerpt from the foreign register together with a translation into Polish, or another document which specifies the seat and the rules of representation for the representative office. Moreover, a person authorised to represent the representative office should be indicated together with a declaration of acceptance. A representative office may be established only for two years, with the possibility to extend this period for two more years.

A representative office may also be set up by foreign persons appointed by an act of the competent authority of their country of establishment to promote the economy of that country. Such a representative office may only engage in the promotion and advertising of the economy of that country.

The Minister may refuse to enter a representative office in the register if not all requirements have been fulfilled. The Minister may also delete a representative office from the register if the provisions of Polish law are not complied with.

## Joining existing companies

Foreign entrepreneurs may also acquire shares in existing Polish companies, either by purchasing shares from existing shareholders or by subscription for new shares in the increased share capital of an existing company.

This type of investment may be subject to certain restrictions and/or procedures. In particular, it must be examined whether such an investment, which will constitute a kind of economic consolidation, requires the approval of an antitrust authority: depending on the volume of the planned transaction, this will be either a national antitrust authority (in Poland: Office of Competition and Consumer Protection, UOKiK) or the European Commission. Moreover, the consent of the Polish authorities may be required if an investor from a non-EEA country acquires or takes up more than 50% of the share capital of a Polish company that owns real property. Specific restrictions and related procedures will apply in case the target company owns any agricultural real property.

The regulations introduced in connection with the COVID 19 pandemic provide for protection for Polish enterprises operating in specific areas of the economy against the takeover by foreign entrepreneurs.



Legal advisory services on mergers and acquisitions





## Investment income and liquidation of operations

Funds for opening and conducting business activity in Poland may be invested as share capital of a company or in other forms, such as loans or additional payment to the company provided by a foreign investor. In those cases, note should be taken of the existing tax rules related to thin capitalisation.

Funds invested by the foreign entrepreneur may be recovered either as repayment of loans or additional payments, or as dividends paid and disclosed in approved financial statements of the company. Polish commercial law also provides for the possibility of paying advances against the planned dividends.

Other business transactions between a Polish company and its foreign shareholder must be closed in compliance with the tax requirements applicable to transfer pricing.

In principle, investors can decide to dissolve and liquidate the company at any time. The liquidation (winding-up) procedure is conducted under court supervision. A number of formalities must be completed under the procedure, including public notification of potential creditors, who can lodge their claims against the company during a period of three months.

Funds remaining in the company after all creditors' claims and liabilities have been settled (liquidation sum) are paid out to the shareholders.

Foreign investors participate in the company's profits and receive relevant payments, as mentioned above, on the same basis as Polish entrepreneurs.



Bankruptcy and restructuring advisory services





# How can we help you?

We offer complex advisory services within the scope of corporate law and services, from company incorporation, through comprehensive day-to-day legal services and company restructuring, to the conclusion of company legal existence.

Company law / corporate services



Real Estate Law



Mergers and acquisitions



Labour Law



Banking and finance



Energy Law



Litigation, arbitration and risk management



Bankruptcy and restructuring



A thorough knowledge of the constantly changing regulations is essential to run a business, regardless of geography. Dedicated support in this regard allows you to take full advantage of development opportunities and reduce risks. KPMG advisers provide legal assistance to entrepreneurs, taking an interdisciplinary perspective into account. We work closely with KPMG experts from other fields to fully understand the business background of each project in order to guarantee the highest quality of service.

**Dariusz Dobkowski**

**Partner, Legal**

# Tax regulations





# Polish tax system

Polish tax system is one of self-assessment. The Polish tax authorities hold power to undertake a tax audit in the five years after a tax liability arises and to reassess the amount of that tax liability. If a tax audit has been carried out and a decision is issued by the respective authorities, then that period is usually regarded as being effectively closed (it is difficult for the authorities to re-open periods once decision was issued).

According to the resolution of the Supreme Administrative Court that was made on 6 November 2017, the above limitation period for CIT is also applicable

irrespectively of settlement of the tax losses reported from the previous periods.

The obligation to pay CIT arises three months after the fiscal year end. VAT and PIT/ social security withholdings are paid in the following month. Interest on overdue tax can be levied on any unpaid amounts. The current general rate of penalty interest is 8% per annum.

Polish tax law is subject to constant changes. The newest ones are planned to come into force in January 2022 (they are still under discussion). These will be shown in the next edition of the Report (information about Polish taxes presented in the Report is based on tax regulations binding in 2021).



Follow the latest updates on new tax regulations



## Tax rulings

Under Polish tax law, the taxpayer has the right to apply to the Ministry of Finance for an interpretation of tax provisions. Such a tax ruling, if adhered to, should safeguard the position of the taxpayer filing the request as long as the background presented in the application for the ruling corresponds to the actual facts and the legal regulations based on which the tax ruling was issued are still binding in respect to the transaction.

If the tax ruling refers to future events, it protects the taxpayer against any future reassessments (i.e. the payment of tax arrears, penalty interest and penal fiscal liability). If the tax ruling refers to past events, the protection is limited to penalty interest and penal fiscal liability.

## Mandatory Disclosure Rules

Mandatory Disclosure Rules reporting obligations in Poland were imposed into the Polish Tax Ordinance Act ("Tax Code") and came into force on 1 January 2019, with a retroactive effect in certain cases from 25 June or 1 November 2018 depending on the event in question.

These provisions transposed the (EU) Directive of the Council of the European Union no. 2018/822 of 25 May 2018, amending the Directive 2011/16/EU with respect to mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements ("DAC6").

Based on the Polish MDR regulations, tax arrangements which satisfy certain criteria specified in the Tax Code should be reported to the Head of National Fiscal Administration.



Note though that the Polish MDR provisions went further and extended the reporting obligations compared to DAC6 – the Polish MDR provisions include additional hallmarks which may trigger the MDR reporting obligation. As a result, the Polish MDR regulations cover not only those tax arrangements which include hallmarks under DAC6 but also other transactions (including domestic and other cross-border transactions, as well as VAT transactions).

Reporting obligations may be imposed on various entities participating in the arrangement: either on the entity developing the tax arrangement, the taxpayer himself, or an entity supporting the implementation of a tax arrangement.

Poland remains the country with one of the highest penalties when considering MDR obligations i.e. not submitting information subject to MDR reporting or submitting such information after the deadline, may result in a penal-fiscal sanction (imposed on individuals from within the taxpayer's financial / management structure) in the form of a fine up to approx. PLN 27m (ca. EUR 6m).



**Comprehensive tax, legal and accounting support**



## General anti-abuse clause

A general anti-abuse clause ("GAAR") is present in Polish tax legislation. On the basis of the GAAR regulations, activity undertaken, in particular with the aim of achieving a tax benefit that is contradictory in the given circumstances to the subject and aim of the regulation of the tax act, should not result in achieving such tax benefit, provided that the manner of action was artificial (tax avoidance). Therefore,

a justified business case should be in place when performing any restructuring involving Polish entities. In order to confirm that GAAR does not apply to the given action/operation/transaction, the taxpayer is entitled to obtain a protective opinion.

However, so far application for a protective opinion has not been

a common practice in the Polish market. Therefore, strong business justification should be in place when performing any restructurings involving Polish entities.

Moreover, additional penalty sanction in the form of an additional tax liability resulting from the application of the GAAR might be applied.



**Advisory regarding General Anti-Avoidance Rules (GAAR)**





# Corporate Income Tax

Generally, CIT in Poland is levied on all taxable income. The standard CIT rate of 19% is payable on income. There is also a reduced rate of 9% of CIT is possible to be applied (with exception of capital gain source of income), nevertheless, availability is limited to entities starting their activity and the so called „small taxpayers”, whose:

- revenues for the current tax year do not exceed the PLN equivalent of EUR 2m and
- in the case of the entities continuing their activity – sales revenues, including VAT, for the previous tax year did not exceed the PLN equivalent of EUR 2m.

The taxable income in Poland is calculated as taxable revenues reduced by eligible costs incurred to generate these revenues, or in order to retain or secure the source of taxable revenue.

However, there is a long list of exceptions, i.e. expenses that cannot be treated as tax-deductible costs despite the underlying purpose of generating revenue. Non-deductible costs include i.a.: contractual penalties resulting from the supply of defective goods or services, costs of representation, interest accrued but not paid etc.

Since 1 January 2021, the CIT obligations have been extended to the limited partnerships and general partnerships (in which general partners are not only natural persons) having their registered office or place of management in the territory of Poland.

Essentially, this means that the income generated by limited partnerships (and certain general partnerships) which, up to 1 January 2021, have been treated for CIT purposes as tax-transparent entities, is covered by CIT at the partnership level. Subsequently, there is also taxation on payments made to partners at the partner level. The new provisions provide under certain conditions a tax exemption on the portion of revenue earned by limited partners due to participation in a limited partnership (limited up to PLN 60 thousand of revenue annually).

## 'Estonian' CIT

As of January 2021, the commonly referred to as Estonian CIT, was implemented to Polish CIT Act. The main assumption of the model is that eligible CIT payers will not have to pay income tax until they decide to distribute the company's earnings.

The Estonian CIT scheme, envisaged only for limited liability companies and joint stock companies, may be applied only by companies meeting a number of criteria, among others, the total operating income achieved in the previous tax year did not exceed PLN 100 million, the company's shareholders are only natural persons, the company does not hold shares in other companies, revenues from passive activities need to constitute less than half of total revenues (as well as conditions related to employment and level of investment expenditures).

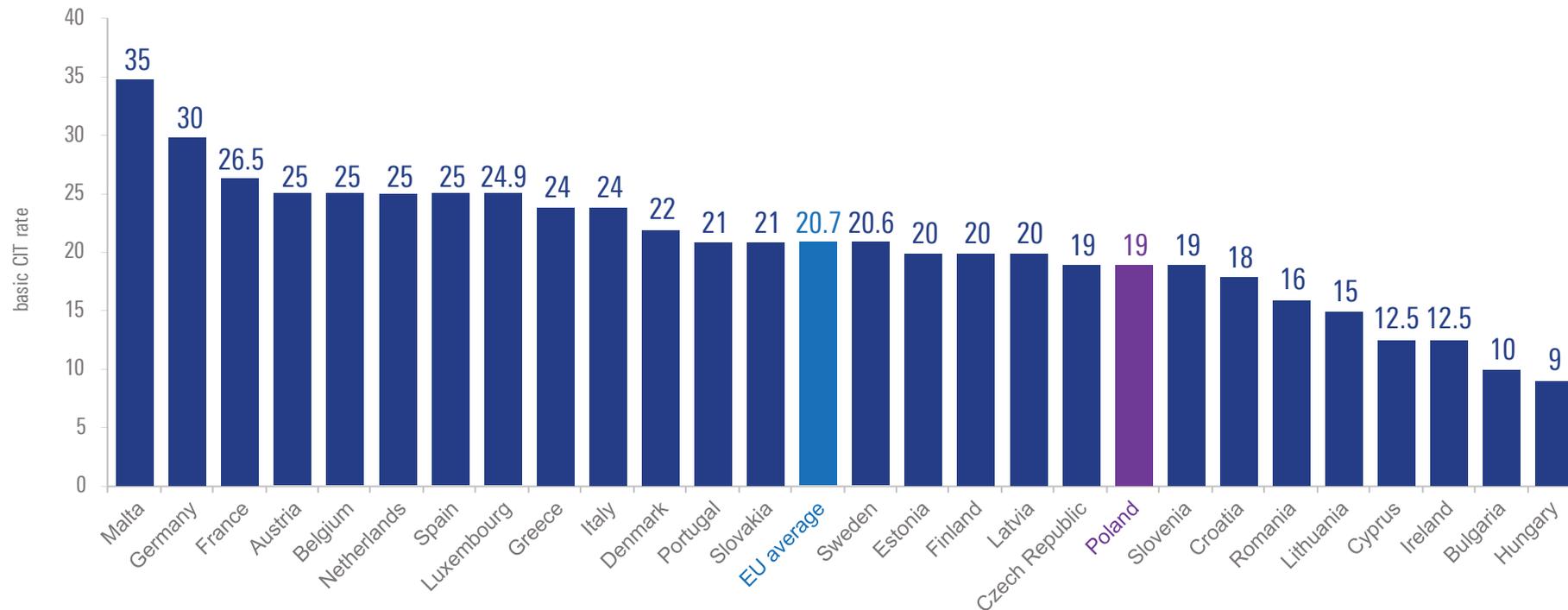
In general, the subject of lump-sum taxation, as a rule with the 15% or 25% rate, will be the income corresponding to the net profit, which will be designated for distribution earned during the lump-sum taxation period or the net profit transferred to cover losses reported prior to the lump-sum taxation period.

## CIT rates in the EU

The average CIT rate in EU member states in 2021 equals to approx. 20.7% (with rates ranging from 9% in Hungary to 35% in Malta). The basic CIT rate in Poland of 19% is therefore lower than the EU average.



## Corporate Income Tax rates in European Union countries in 2021



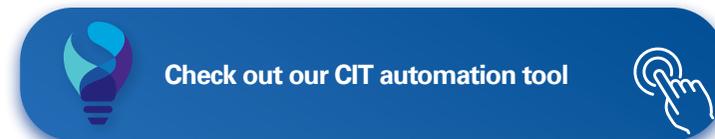
Source: KPMG in Poland based on Corporate tax rates table, KPMG International.

## Two sources of income (business and capital)

There are two separate sources of income in the Polish CIT law: (i) income from capital gains (e.g. income from participation in profits of legal persons, profits from license fees, profits from transfer of shares/ partnership, disposal of receivables previously purchased) and (ii) income from business profits. Both sources need to be settled separately for tax purposes. As a result, losses and costs can be settled only within each income source (business or capital respectively).

As of 1 January 2021, corporate income tax settlement on the sale of shares in certain real estate companies by a foreign shareholder was shifted to the Polish real estate company (if certain conditions are met). The foreign shareholder is obliged to transfer the amount of

tax due to the real estate company before the tax payment deadline i.e. by 20 of the month following the month in which the shares disposal occurred. The Polish company being sold is obliged to pay the tax regardless whether the cash is received from the shareholder or not.





## Moment of settlement of tax costs

The costs directly relating to taxable income are, as a rule, recognized in the year in which the corresponding revenue was gained, even if such costs are incurred after the end of the tax year but before the date when the financial statement or annual tax return is filed. Other direct costs should be recognised in the subsequent tax year.

Costs indirectly linked to taxable income are deductible on the day they are incurred. They are deemed to have been incurred if they were entered into the accounting books on the basis of an invoice or another accounting document.

## Foreign exchange differences

Polish CIT Law allows two methods of calculation foreign exchange ("FX") differences for tax purposes: "tax method" and accounting method. Under the tax method (applicable by default), FX constitutes taxable income or tax deductible costs only when realised. Under the accounting method, FX gains or losses crystallise for tax purposes when accrued in the accounts.

## Tax losses

Tax losses reported may be utilized within the next five consecutive years. Generally, 50% of a tax loss incurred in the certain year may be utilized, with the right to one-off utilization of PLN 5m of a loss (the remaining part of a loss is subject to the 50% per year rule).

## Tax depreciation

Fixed assets and intangibles are generally expensed for income tax purposes by way of tax deductible write-offs.

There are three depreciation methods foreseen by the provisions: straight-line depreciation, reducing balance depreciation, and depreciation based on the individual rates.

Maximum depreciation rates under the straight-line method are set out in the Polish CIT law, e.g. 2.5% p.a. on buildings and, in principle, 4.5% p.a. on infrastructure. Rates

for each asset can be reduced (depreciation period extended) at the beginning of the depreciation period or at the beginning of each year (these can also be increased back to the maximum values later on, if desired). In some special cases foreseen in the Polish CIT law the depreciation rates may be also increased by multiplying the statutory rates by a certain factor. Individual (higher) depreciation rates are also available for second-hand assets.

Land cannot be depreciated for tax purposes.

The method of tax depreciation which is chosen should be applied across the whole period of the asset's tax depreciation.

## Earning stripping rules

Generally, interest is tax deductible in Poland when paid or capitalised to the loan principal (i.e. on a cash basis, not on an accrual basis), subject to earning stripping rules and arm's length restrictions.

Net financing costs are excluded from tax deductible costs in the amount in which the surplus of debt financing costs exceeds 30% of tax EBITDA or PLN 3m (safe harbour). The net financing costs cover all costs related to obtaining financial resources from other entities, including but not limited to interest, fees, commissions, penalties, realised foreign exchange differences and costs of hedging. Please note that the net financing costs included in the initial tax value of the asset and depreciated also need to be considered for the purpose of earnings stripping rules.

Surplus of net financing costs is to be understood as an excess of debt financing costs deductible in the given tax year over the interest-like revenues subject to the tax in the given tax year. Interest-like revenues include

interest received/ capitalized to the loan principal, positive foreign exchange differences and other revenues economically equal to interest that could fall into a category of net financing costs.

The financing cost excluded from the tax deductible costs in the given tax year is subject to deduction within the consecutive five years under the limits applicable in the particular year.



### Limitation of deductibility of fees for intangible services

Fees paid for certain intangible services (e.g. consultancy, advertising, marketing, data processing), royalties and insurance costs, guarantees and suretyships are excluded from tax-deductible costs if they exceed 5% of tax EBITDA. The limitation covers payments made directly or indirectly to related parties. The restrictions do not apply if the taxpayer obtains an advance pricing agreement ("APA") from the Polish Ministry of Finance in that regard. The restriction does not apply to the fees for intangible services up to PLN 3m annually.

The intangible services costs excluded from the tax deductible costs in the given tax year is subject to deduction within the consecutive five years under the limits applicable in the particular year.

## Fiscal Grouping

In Poland, a tax capital group may be formed by limited liability or joint-stock companies seated on the territory of Poland provided that the following conditions are met:

- the average qualifying share capital of the companies in the group may not be lower than PLN 500 thousand (approx. EUR 110 thousand),
- the Polish parent company must hold at least 75% of the Polish subsidiaries' shares directly,
- the subsidiaries cannot have shares in other companies that are members of the tax capital group,
- none of the group companies should have outstanding tax liabilities at the time of concluding the tax capital group agreement.

Any tax losses arising prior to the formation of tax capital group in the individual companies cannot be offset against the group's profits. Similarly, if the tax capital group is dissolved, the tax losses incurred by the group cannot be utilised against the profits of the individual companies.

Once the tax capital group is established, the following additional conditions must be met:

- the members of the tax capital group may not benefit from CIT exemptions,
- all transactions between the members of the tax capital group and related non-group parties must be at arm's length,

- the group must achieve a taxable profit of at least 2% of gross taxable revenue in each tax year in which the tax capital group exists.

If any of these conditions are not satisfied, the tax capital group is dissolved with retroactive effect, except for the situation where the profitability ratio is not met.

The group should be established for at least three years based on the agreement in the form of the notarial deed. In order to extend the tax period of the capital group, it is required to conclude a new agreement, subject to notification and registration by the head of the competent tax office.

The companies forming a tax capital group are jointly and severally liable for their income tax liabilities for a period of the tax capital group agreement's validity.

Obligation to prepare transfer pricing local file does not apply to controlled transactions between the members of a tax capital group. The current Polish tax law does not allow for VAT grouping.

## Controlled foreign companies rules

Certain income or gain derived by foreign subsidiaries owned by Polish taxpayers are taxed in Poland. Taxpayers may be obliged to pay 19% CIT in Poland on income derived by foreign entities if they are qualified as so called 'controlled foreign companies' ("CFC").

The controlled foreign corporations rules apply if the following criteria are satisfied: (1) the subsidiary is considered a CFC because (a) its seat or place of management is in a black-listed country (practicing harmful tax competition), or in a country with which Poland has not concluded an

agreement containing an exchange of information clause; (b) at least third of the income/gain derived by the subsidiary is passive in nature, e.g. gain from the disposal of shares, interest income, IP income, etc.; (c) the above income/gain is tax exempt in the subsidiary country or the tax paid is lower than half of the liability to be paid if the foreign company would be tax resident in Poland; or (2) because no genuine economic activity is carried out by the subsidiary.

However, if the foreign company conducts genuine economic activity in the country of its seat (being EU/EAA country) and it is taxed there on its worldwide income then no taxation on CFC in Poland would arise.



# Withholding tax

Under Polish domestic legislation, 20% WHT applies on interest, royalties and fees for intangible services paid abroad (such as advisory services, accounting services, advertising, management and control services, data processing, employee recruitment, guarantees and suretyships as well as similar types of services). Dividends paid by Polish tax resident companies to foreign entities are subject to 19% WHT in Poland.

However, the domestic WHT burden may generally be reduced or eliminated under Double Tax Treaties ("DTT") to which Poland is a party or based on provisions of the European Interest and Royalties Directive as well as the Parent-Subsidiary Directive being implemented directly in the Polish CIT law. Nevertheless, in order to apply the treaty rates or WHT exemption stipulated in the Polish CIT Act, according to the CIT provisions the paying entity should possess the respective documentation, i.e.: a valid certificate of tax residence of the payment recipient and in the case of a dividend and interest payment, an additional statement confirming that the payment recipient is not considered an entity that is CIT exempt from its worldwide income in its country of seat.

In the case of interest and royalties payment, the statement should also confirm that the payment recipient is a beneficial owner of the interest received. If the paying company does not possess the above documentation, the statutory WHT rates should be applied.

## Changes to WHT regime in Poland

The new WHT regime in Poland is in place as of 2019 (part of the new rules is currently being postponed till 31 December 2021 on the basis of Decree of Ministry of Finance). Based on regulations binding till 31 December 2021, in order to apply the reduced DTT rates or exemption under the given DTT, the Polish payer should possess a tax residency certificate of the recipient of the qualifying payment (taxpayer). The same applied to WHT exemptions under the EU Interest and Royalties Directive and EU Parent Subsidiary Directive regime.

As of 1 January 2022, such an approach would only be as a rule applicable as long as the aggregate qualifying payments to the given recipient (interest, royalties, fees for certain intangible services and dividends) being the taxpayer – regardless if it is related or unrelated parties – do not exceed the threshold of PLN 2 million. If the aggregate qualifying payments to the given taxpayer exceed PLN 2 million, as a rule the Polish WHT remitter will be obliged to collect and pay WHT at domestic rates (i.e. at 19% for dividends and 20% for other qualifying payments), ignoring the WHT domestic exemptions and DTT reliefs. This would apply to the payments in excess of PLN 2 million.

Moreover, according to the new rules, it is explicitly stated that when determining whether a preferential DTT rate can apply, regardless of the total amount of qualifying payments made in the given tax year for the benefit of the particular taxpayer, the tax remitter is obliged to assure due care, which should take into account the nature and scale of the recipient's business activity.

In case of payments exceeding PLN 2 million upon which WHT has been remitted under the new rules, the taxpayer (or the tax remitter for cases where he would pay tax from his own resources and bear the economic burden of tax) will be entitled to seek a WHT refund. WHT should be refunded by the tax authorities within 6 months from filing the motion for WHT refund.

The changes to WHT regime in Poland have been postponed already several times and so we cannot exclude that new WHT regime will not come into force as at 1 January 2022 as they may be postponed again.



## Beneficial ownership, genuine business activity, substance requirements

As indicated in the section above, the remitter is obliged to demonstrate due care when applying preferential withholding taxation. Therefore, the Polish remitter is obliged to conduct an examination of the status of the beneficiary of the payment as the actual recipient of the receivables, including its business substance.

Furthermore, with new WHT regime in Poland new provisions considering beneficial ownership, genuine business activity and substance requirements have been introduced. The beneficial owner is understood as entity fulfilling jointly the below criteria:

- receives payments for its own benefit, decides on its own on its further purpose and
- bears the economic risk related to loss of this receivable or part of the receivable;
- is not intermediary, representative, trustee or other entity legally or actually obliged to transfer all or part of receivable to other entity;
- conducts genuine business activity in the origin country and the received receivables are connected with this activity.

## Evaluating whether the business activity is genuine, a number of detailed criteria should be taken into account.

On the other hand, the concept of substance of foreign companies has not yet been established in the Polish tax authorities' practice. However, given the recent developments to the Polish tax law, from the Polish perspective it is becoming increasingly essential to ensure certain functions and assets at the level of holding company being recipient of the income derived from a Polish source. Economic substance of such entity may be tested by the Polish tax authorities.

Based on a warning issued by the Ministry of Finance, in order for an entity not to be considered as a shelf dormant company, a number of criteria would be taken into account (this list is not exhaustive and is of generic nature, the tax authorities may expect different prerequisites to be met in different cases):

- the entity should have premises at their disposal enabling business
- operations i.e. not to employ domiciliation or fiduciary services;
- the entity should not employ administrative staff exclusively;
- the entity's bank account should be operated by a bank in the state of residence and handled by staff thereon;
- if needed, the entity should seek advice with local advisors before foreign firms;
- accounting, corporate and legal records should be kept at the entity's premises in the state of tax residence.



Support in WHT reporting





# Transfer Pricing

## Transfer Pricing requirements

The Tax Law contains transfer-pricing provisions that are based on OECD guidelines. Nevertheless, significant changes in Polish transfer pricing rules were introduced in 2019.

The transfer pricing provisions affect a wide group of obliged taxpayers. The threshold of at least 25 percent stake, based on which entities can be considered as related parties, also applies to instruments other than shares that determine ownership dependency. Thus, relations will be determined e.g. by the proportion of participation units or investment certificates held, and thus the catalogue of affiliated entities additionally includes, among others, investment funds. The new regulations also specify the issue of personal related relations.

There are transfer pricing documentations obligations in Poland. The purpose of preparing the documentation, is evidencing that the transfer prices in the intra-group transactions are in line with those that would have been set by unrelated parties.

There are thresholds for the transactions to qualify for the documentation requirements:

- PLN 10m for goods as well as for financial transactions;
- PLN 2m for services and other types of transactions;
- PLN 100k for transactions with an entity having a place of residence, seat or management board in the so-called "tax haven".

The Polish documentation rules follow the concept of the local file and master file documentation.

Transactions between two local related parties may be exempt from the obligation to possess transfer pricing documentation if none of the parties in a given tax year, benefits of the tax exemption or, declares a tax loss. The same exemption applies in the event of a tax loss for the tax year beginning after December 31, 2019 in which the state of epidemic threat in connection with COVID-19 was in force throughout the territory of the Republic of Poland, if the entity obtained lower total revenues in this year by at least 50% of the total revenues obtained in the corresponding period immediately preceding this year.

What is important each transaction subject to documentation obligation should be accompanied by the analysis of compliance with the arm's length principle. In other words, such benchmarking studies constitute now in Poland an obligatory element of the documentation for each transaction described in a local file (except for those to which so called 'safe harbours' apply).

Pursuant to the amended regulations, the facilitation of safe harbours in transfer pricing is applicable to two categories of transactions, that is low value-adding services and certain categories of financial transactions (loans, credits and issuance of bonds).

The Polish transfer pricing provisions directly oblige related entities to fix the conditions of the transactions at arm's length level already at the stage of price setting. There exists an obligation for the taxpayers to file a statement to the tax authorities in which the responsible persons are obliged to certify not only that the taxpayer possesses the transfer pricing documentation, but also that the conditions applied in transactions with related parties are consistent with the arm's length principle.



**TPR Assistant app for quick and correct transfer pricing reporting**





Taxpayers are required to provide information on transactions with related parties in an electronic form called TP-R, which replaced the previously existing paper form CIT-TP. TP-R require a much wider range of information, including the presentation of the results of benchmarking studies in a structured and specified manner. The obligation to provide information on TP-R form also applies to local transactions which meet the criteria for excluding them from the obligation to prepare transfer pricing documentation. In addition, in 2020, minor changes were introduced to the TP-R form, which result from the regulation of 18 December 2020 amending the regulation on information on transfer pricing.

Specific transfer pricing penalties in a form of an additional tax liability occur in the event of a decision on incorrect pricing in a controlled transaction. They are equal to 10 percent of the amount of overstated loss or understated income. In certain cases, the additional tax liability may double or triple, and thus amount up to 30 percent.

At the end of 2019, the provisions on the dispute resolution mechanism act entered into force in Poland. It adapts the EU regulations on settlements of double taxation disputes to the Polish provisions (implementation of the provisions of Council Directive (EU) 2017/1852). This act contains also an amendment of regulations regarding APA and systematize the current Mutual Agreement procedures (MAP) based on the Arbitration Convention or Double Tax Treaties.



### Assistance in preparation and negotiations of APA application with the Ministry of Finance



#### Advance pricing agreements

axpayers can apply to the Minister of Finance for an Advance Pricing Agreement ('APA'). The APA procedure should be completed within 6, 12 or 18 months respectively for unilateral, bilateral and multilateral procedures. The APA can be concluded for a maximum of 5 fiscal years and it expires at the end of the applicant's fiscal year. If key elements of the agreement have not changed significantly the APA may be renewed in a simplified procedure. The amount of the APA application fee is 1% of the value of the transaction being the subject of the agreement. Depending on the type of the APA this fee is not less than PLN 5 thousand for unilateral agreements concerning only domestic entities and not more than PLN 200 thousand for bilateral or multilateral agreements.

Moreover, besides the primary purpose of the APA, which is to eliminate the risk of the transfer pricing method to be questioned in the related party transaction (the so-called transfer pricing risk), the APA allow taxpayers to avoid limitations on tax deductibility of certain fees for intangible services during the period covered by the APA decisions.



# Personal Income Tax

## Residency

As a rule, according to the Personal Income Tax Act ("PIT Act"), individuals may be subject to a limited or unlimited tax liability in Poland, depending on whether their 'place of residence' for tax purposes is located in Poland.

The term "place of residence" is defined in Polish PIT Act. According to these provisions individual should be considered to have a place of residence in Poland ("resident"), if:

- He/she has their centre of personal or economic interests in Poland (i.e., that this person's "centre of vital interests" is located in Poland), OR
- He/she stays on the territory of Poland for a period or periods exceeding in an aggregate 183 days during the given tax year (which in Poland is equal to a calendar year).

Only one of the above conditions needs to be met for an individual to be considered a tax resident of Poland.

However, it should be pointed out that Polish tax provisions determining tax residency should be applied by taking into consideration provisions of double tax treaties concluded by Poland. An individual who has their place of residence in Poland will be subject to worldwide taxation in Poland (i.e. in accordance with the so-called unlimited tax liability principle). In consequence, not only employment income will be taxed in Poland, but also any other private income derived in Poland or abroad (such as bank interest, dividends, exercise of stock options, rental income), unless international double taxation treaties limit the right of Poland to tax such income.

A person who is not considered a tax resident of Poland will be subject to Polish taxation on a limited basis, that is only on income derived for work performed in Poland or from sources located in Poland (any other income derived from non-Polish sources will not be subject to tax in Poland). Please note that salary or benefit payments received for work performed in Poland are considered Polish source, even if physical payment is made to a bank account outside Poland. Moreover, such a person will be able to take advantage of preferential taxation (20 percent) on certain types of income available to non-residents (e.g., board fees, fees paid under management or personal services contracts).

## Taxable income

Taxable income includes most cash and non-cash benefits earned from employment or self-employment. Income tax is levied on the following types of income of individuals:

- income from business activities;
- rental income;
- income from capital gains;
- income from the sale of movable or immovable property;
- other income.

In particular income such as per diems for business trips (up to statutory limits), refunds of business travel expenses, cost of professional training if requested by the employer, is exempt from taxation.



## The taxation of employment income

Income received by an individual under an employment contract concluded with a Polish entity is always subject to Polish PIT in accordance with progressive rates at 17 percent and 32 percent. Please see the table below for the details. Please note that the amounts referred to below are in PLN.

INCOME	THE TAX AMOUNTS TO	
up to PLN 85 528	17%	Minus tax-free allowance
over PLN 85 528	PLN 14 539.76 + 32% of excess over PLN 85 528	

The amount reducing the tax (tax-free allowance) referred to above is equal to (in PLN):

- a) 1 360 – for a tax calculation base not exceeding the amount of 8 000;
- b) 1 360 reduced by an amount calculated according to the following formula:  
 $834.88 \times (\text{tax calculation base amounting to } 8\,000) \div 5\,000$   
 – for the tax calculation base in excess of 8 000 and not exceeding 13 000;
- c) 525.12 – for the tax calculation base in excess of 13 000 and not exceeding 85 528;
- d) 525.12 reduced by an amount calculated according to the following formula:  
 $525.12 \times (\text{tax calculation base amounting to } 85\,528) \div 41\,472$   
 – for the tax calculation base in excess of 85 528 and not exceeding 127 000.

As a rule, all types of remuneration and benefits received by an individual in the form of both in-cash and in-kind earnings resulting from employment constitute taxable income regardless of where paid. Typical items include the following:

- base salary;
- payments for overtime;
- various allowances (some only over a certain limit);

- awards and bonuses;
- cash equivalents for holiday leave not used;
- value of non-cash benefit;
- housing provided by the employer;
- tax covered by the employer for the employee;
- company pension plan payments made by the employer (which are not part of the mandatory social security system).

It should be noted that Poland operates a monthly tax payment system.

In case of local employment contracts, the Polish tax system requires from the Polish employer withhold the tax advance payments from the employee's pay each month.

In the case of foreign employment relationships (i.e. individual working in Poland on the basis of an employment contract with a non-Polish entity), the Polish tax system requires individuals to pay 11 monthly tax advances during the year from January to November (expatriates included). The tax for December is paid at the time of lodging the annual tax return by 30th of April of the following year. No tax declarations need to be filed during the tax year. The tax payment for December should be paid at the same time as the annual declaration is filed. Any balancing payment of tax should also be paid by this date.



**KPMG support in payroll related tax issues**



## Your e-PIT – new rules for filing tax returns

In addition to the methods of filing tax returns by taxpayer functioning until the end of 2018 (in paper or electronically via the e-Deklaracje online filing system), a service consisting of preparing the tax return by the National Treasury Administration (Krajowa Administracja Skarbowa - KAS) has been introduced (without the need for the taxpayer to submit any additional application).



KAS will fill out tax returns for some of the taxpayers (especially working on a basis of Polish employment contract in Poland) based on information from remitters, data provided by the taxpayer in the tax return for the previous year (e.g. the KRS number of the public benefit organisation, to which they contributed 1 percent of tax resulting from the prior year return) and data contained in the own registers of the Head of KAS (e.g. the amount of tax advances paid during the tax year by the taxpayer) and other state registers (e.g. social security institution with regard to the amounts of social security and health insurance contributions paid, as well as in the PESEL register in connection with data for purposes of applying the child relief deduction).

In 2020, KAS will prepare and make available in electronic form the PIT-28, PIT-37, PIT-38 and PIT-36. From 1st of February 2021, "Your e-PIT" is part of "e-Tax Office" which offers more services than just filing the tax declaration.

## Withholding and payment obligations

Where individuals work under an employment contract with a Polish company and perform the work within the territory of Poland, the employer (tax remitter) withholds tax at progressive tax rates of 17 percent and 32 percent of the taxable base. These rates are applied if the employee's remuneration exceeds the respective income tax threshold. The tax withheld by the employer must be paid to the tax office by the 20th of the month following the month in which the tax was withheld.

Where individuals perform work in Poland as employees of a foreign (non-Polish) company the foreign employer does not have a withholding tax obligation, and the employees themselves should pay the tax advances not later than the 20th of the month following the month in which the income is derived.

Separate provisions apply to individuals who receive income from sources other than an employment contract (for example personal service contracts, remuneration for management and supervisory board members). In the case of non-residents, such income is generally subject to a 20 percent flat rate final tax, which is paid by the 20th day of the following month.

## Taxation of investment income and capital gains

Interest and dividend income is subject to a flat rate of 19 percent.

Capital gains tax regime applies to the disposal of investment assets, for example stocks or investment fund units. The tax rate on such gains is also 19 percent. Polish tax residents who receive investment income sourced from outside Poland (e.g. stocks quoted on foreign stock exchanges, or interest paid from non-Polish bank accounts) are also subject to tax on this income.

However, if such income was also taxed abroad, the foreign tax can be proportionally deducted from the Polish tax liability (proportional deduction) and in line with double taxation avoidance treaties signed with Poland.

## Taxation of rental income

Rental income from property located in Poland is subject to taxation in Poland, regardless of the taxpayer's residency status. Where rental income is not received as part of business activity, the taxpayer has two options under which his rental income can be taxed.

- Taxation under general rules: Rental income (which may be decreased by relevant expenses) is subject to tax based on the progressive scale (17 percent and 32 percent), tax advance payments are paid monthly.
- Flat rate tax: Rental income received is subject to the flat rate tax (8,5 percent, 12,5 percent). In this case no expenses are deductible. Tax is paid monthly or quarterly under certain conditions.

For Polish tax residents, also rental income from abroad is declarable. The taxation depends on double taxation treaties concluded by Poland.

## Inheritance and gifts tax

As a rule, inheritance and gift tax are payable on the acquisition of immovable and movable property (including property rights).

In general, inheritance and gifts are not taxed if the inheritance occurs or gifts are exchanged between closest family members, i.e. spouses, descendants, ascendants, siblings, step-children and step-parents, provided that they comply with specific reporting obligations.

Other than that, the taxpayers are divided into 3 groups depending on the closeness to the person from whom inheritance or gift is received and this relationship influences the rate of taxation:

- I group: spouses, descendants, ascendants, siblings, step-children, step-parents, children-in-law, parents-in law
- II group: descendants of siblings, siblings of parents, descendants and spouses of step-children, spouses of siblings, siblings of spouses, spouses of siblings of spouses, spouses of other descendants
- III group: other individuals / entities



In situations where assets are located outside Poland, or whether the individuals concerned are not Polish citizens or residents of Poland, the transaction may potentially fall outside the scope of Polish inheritance or gift tax. We would recommend that in such cases an advice from specialist is obtained, especially given that a tax liability may arise both in Poland and another country.

## Tax registration

Currently, individuals who only receive employment contract income are generally no longer required to obtain a tax identification number (NIP) from the Polish Tax Office and can use their PESEL number (i.e. personal identification number) as their identification number for tax purposes. A NIP number is required in certain other circumstances e.g. self-employed individuals.

As of 1 June 2021, new provisions modifying the existing framework for granting tax identification numbers to foreigners performing work in Poland came into force. Natural persons, regardless of whether they are covered by the registration obligation or not, are required to obtain a PESEL number for tax purposes.

Importantly, according to the announcements made by the Ministry of Finance, it will be unacceptable for remitters to submit statements (e.g. PIT-11) lacking or containing erroneous taxpayers' identification numbers (especially using strings of digits, e.g. ones and nines). Furthermore, non-inclusion of the tax identification number may prevent the submission of the statements via the electronic system, which is currently the only acceptable mode of submitting PIT-11 and IFT-1R forms.

Additionally, lack of the tax identification number will make it impossible for the taxpayer to generate an individual number of a tax micro-account, via which tax liabilities are to be settled and will result in disrupting taxpayer's access to the "Twój e-PIT" service used for making individual submissions of annual returns.

## Deductions and reliefs

A monthly statutory deduction is applicable to the income obtained by an individual in a given month. For employment income, the statutory deductible cost of earning income are as follows:

- 250 PLN per month and not exceeding 3 000 PLN for a tax year in the case where the taxpayer earns revenues from one employment relationship;
- 4 500 PLN for a tax year in the case where the taxpayer earns revenues simultaneously from more than one employment relationship;

- 300 PLN monthly and not exceeding 3 600 PLN for a tax year in the case where the taxpayer's place of permanent or temporary residence lies outside the locality in which the employing establishment is situated and the taxpayer does not receive a family separation additional allowance;
- 5 400 PLN for a tax year in the case where the taxpayer earns revenues simultaneously from more than one employment relationship and the taxpayer's place of permanent or temporary residence lies outside the locality in which the employing establishment is situated and the taxpayer does not receive a family separation additional allowance.

PIT law also provides the possibility of using the deductions and reliefs by a taxpayer, most important of which are:

### 1 from income – taxpayers may deduct the following expenses:

- social security contributions;
- expenses for rehabilitation purposes incurred by a taxpayer who is a disabled person, or a taxpayer who supports a disabled individual;
- donations for special purposes to approved organizations e.g. churches, charities;
- donations connected to fighting the COVID-19 pandemic in Poland (until the state of pandemic is in force);
- the expenses of using internet for taxpayers who did not benefit from the tax deduction in previous years. The deduction applies to expenditures incurred during two consecutive years, up to 760 PLN per tax year;

### 2 from tax:

- obligatory health insurance contributions (not more than 7.75 percent of calculation base);
- deduction for children.



The child deduction applies to the taxpayer's children which:

- are under the age of 18;
- have been allocated a care allowance under Polish regulations, irrespective of their age;
- are under the age of 25 who are studying at recognised educational establishments.

The latest one is under the condition that the children did not receive any income themselves other than tax-exempt income in line with Polish tax regulations, family disability pension or other income low enough not to trigger a tax liability (currently 3 089 PLN).

If the parents are divorced or separated and the child spends part of the year with each parent, the deduction should be applied pro-rata to each parent based on the number of months the child resided with each of the spouses. The deduction should also be pro-rated in the year of the child's birth.

The child deduction amounts to:

- 1112,04 PLN annually for the first child, if the income received by parents (married or single parent, who meets special requirements) does not exceed 112 000 PLN in the tax year. For other parents the threshold of income is 56 000 PLN,
- 1112,04 PLN annually for the second child,
- 2000,04 PLN annually for the third child,
- 2700,00 PLN annually for the fourth and every next child.

## Methods of avoiding double taxation of foreign income

Individuals who are considered as Polish tax residents are obliged to declare in Poland their worldwide income. Declaring all the income in Poland (also income gained abroad) does not mean that it is taxable in Poland. To avoid double taxation there are bilateral Double Tax Avoidance Treaties (so-called 'DTT' or 'DTA') in force. The provisions of DTA are a priority in relation to the internal tax regulations.

There are two methods of eliminating double taxation in treaties conducted by Poland:

- exemption with progression method;
- credit method.

If income taxed abroad is tax exempt in Poland under a double taxation treaty, it can be added to the taxable income in order to calculate the effective tax rate applicable only to the taxable part (exemption with progression).

If, according to the provisions of double taxation treaties, income earned abroad should be subject to credit method, any tax paid abroad can be claimed as credit in Poland. This credit is limited to the amount of tax due on the foreign income. Where such a credit claim is less favourable than double tax relief under the exemption with progression method, the taxpayer may prepare a separate calculation of the tax due applying the exemption with progression method. The taxpayer can then claim the difference as a tax deduction, called 'abolition relief'. It should be noted that from the year 2021 the amount of the relief cannot exceed 1 360 PLN, even if the difference between the double taxation avoidance methods is more substantial.

## Solidarity levy

The solidarity levy (starting from 2019) is introduced by the Act on the Solidarity Fund for Persons with Disabilities.

The aforementioned provisions introduce into the PIT Act a new tax in payable at a rate of 4 percent on the surplus of total income above PLN 1 000 000 obtained in the tax year, to which the taxation rules set out in Article 27, Article 30b, Article 30c and Article 30f of the PIT Act apply, reduced by the amount of social security contributions and the amounts referred to in Article 30f section 5 of the PIT Act (i.e. amounts reducing the taxable base for the income of a controlled foreign company).

The income referred to above includes income taxed according to the progressive tax scale (rates of 17 and 32 percent), e.g. from employment contracts, civil law contracts, business activities and income from capital gains (e.g. from the sale of securities or shares) as well as CFC. Furthermore, the entrepreneurs who have chosen flat tax rate are also obliged to pay solidarity levy, provided that their income exceeds the threshold.

Income to which the new levy applies does not include some types of income subject to flat-rate tax (e.g. interest and dividend income).

The taxpayer is obliged to pay the solidarity levy by 30th of April of the year following the tax year. What is important to note, is that the taxpayer will also be obliged to submit an additional declaration on the amount of the solidarity levy for the tax year (DSF-1).



## Taxation of unrealised capital gains (exit tax)

In case of individuals, the exit tax is imposed on change of a taxpayer's tax residency if, as a consequence, Poland loses (fully or partially) the right to levy tax on income derived from the sale of an asset owned by the taxpayer as a result of the change of the country of residence (for natural persons) or the registered seat or the place of effective management (for legal entities) to another country.

In the case of natural persons, also the assets which are not related with business activity shall be subject to taxation (e.g. shares in companies) – this regulation concerning personal property shall be applied only if a taxpayer has been a Polish tax resident for at least five years within 10 year period before the change of the tax residency.

The exit tax basis shall be calculated as the surplus of the market value of the transferred asset, determined at the date of the transfer, over its tax value (as defined in the Polish law).

The tax rate shall amount to:

- 19 percent – for the CIT and PIT taxpayers, if the tax value of an asset is determined;
- 3 percent – only for the PIT taxpayers, if the tax value of an asset is not determined (i.e. if according to separate provisions tax deductible costs on the transfer of an asset cannot be recognized).

In the case of natural persons, only the transfer of assets with a market value exceeding PLN 4 million shall be subject to taxation (calculated in relation to an individual transaction or for several transactions conducted during a period of 1 year).

Taxpayers will be obliged to submit tax returns and report the amount of income subject to exit tax until the 7th day of the month following the month in which the income arose. At this point taxpayers shall also be obliged to pay the tax.



# Social security

The system consists of three pillars, to which payments are made. The first and second are obligatory; the third is not.

- 1) the Social Security Authorities (ZUS)
- 2) the open-ended pension funds (OFE)
- 3) the voluntary pension funds (IKE, IKZE)

In the first pillar, contributions are split between the employee and the employer. The employer is obliged to pay social security contributions on its behalf and on behalf of the employee.

Social security contributions are made in respect of income derived under employment contracts, service contracts, from business activity etc. The following table depicts obligatory Polish social security contributions (the following rates are applicable):

CONTRIBUTION TYPE	EMPLOYEE SHARE (PERCENTAGE)	EMPLOYER SHARE (PERCENTAGE)	TOTAL (PERCENTAGE)
Pension insurance*	9.76	9.76	19.52
Disability insurance*	1.50	6.50	8.00
Sickness insurance	2.45	- 2.45	
Accident insurance	- 0.67	- 3.33	0.67 - 3.33
Guaranteed benefits fund	- 0.10	0.10	
Additional retirement fund (only in certain cases)	- 1.5	1.5	
Labour fund	- 2.45	2.45	
Total – up to limit	13.71	19.48 - 22.14	33.19 - 35.85
Total – past limit	2.45	3.22 - 5.88	5.67 - 8.33
Health insurance**	9.00	9.00	

\* Contributions to pension and disability funds are limited to an annual cap set at 30 times the national average monthly salary estimated for a particular year (for 2021, the cap is set at PLN 157 770).

\*\* The gross amount reduced by employee share of pension, disability and sickness insurance constitutes the assessment basis to calculate the obligatory health insurance contributions (9 percent of income), where 7.75 percent of that assessment basis may be deducted from the tax liability due.



The second pillar consists of public pension funds (OFE) and subaccount in ZUS. The contributions can be transferred only to subaccount in ZUS or part of the contributions can be transferred to subaccount in ZUS and the other part can be transferred to the public pension fund of the employee's choice.

The three pillars scheme is currently under reconstruction. The open-ended pension funds are to be transformed into the specialized open-ended investment funds. All assets gathered by OFEs will automatically be moved to ZUS. However, the employee may decide to transfer all of their means gathered by OFE to individual subaccount (IKE) created for each employee. Transferring funds to IKE will require the payment of additional fee.

Although the assets on IKE will be a private ownership of the employees (i.e. not the government's), it could be withdrawn either after reaching the compulsory retirement age – directly to the employee or in case of the employee's death – to their heirs.

It should be also noted that generally, social security applies to income derived under a Polish employment contract and/or Polish service contracts, business activities, etc., depending on the given situation. As a rule, social security does not apply to foreign-sourced income. However, in case of seconded employees, their total income can constitute social security assessment basis, regardless of the fact whether it is subject to taxation in Poland or abroad.

## Social security of EU citizens in Poland

The Community provisions on social security do not implement one uniform social security system in the form of a single European system for all EU member countries.

Each EU member country may retain its own domestic social security system and design different regulations. The Community provisions on social security have, however, general legal force and apply directly in all Member States and are binding upon everyone to whom they are applied and have to be observed by national authorities and administrations, social security institutions, and courts. Even in cases where provisions of national law are in conflict with Community rules, the latter have priority.

Liability for Polish social security may be determined based on general European Union (EU) provisions (such as the place of performance of work) or based on Polish provisions if a local contract is concluded.

Generally, a person who has exercised their right to move within the Union may not be placed in a worse position than a person who has always resided and worked in one single Member State. In order to avoid a situation where migrant workers are either insured twice or not at all, the Community provisions on social security, determine which national legislation applies to a migrant worker in each particular case.

Individuals working in Poland, who are EU Member State nationals, should be covered by the EU social security regulations. Depending on the individual circumstances of each assignee, they may be subject to social security in their home country, the country of their employment, or the country where work is actually performed. Each case should be investigated carefully to determine appropriate social security contribution payment requirements and obligations.



KPMG support in social security compliance





# Posting of workers and immigration issues

## The Act on the posting of workers

The Act on the posting of workers incorporates into the Polish law the provisions of Directive (EU) 2018/957 of the European Parliament and of the Council of 28 June 2018. The goal of the above directive is to establish a common framework of provisions, measures and control mechanisms for more efficient and uniform action in the field of posting of workers.

The period of posting is limited to 12 months. After this period, posting still is possible, yet the posted workers must be guaranteed an additional set of terms and conditions of employment that are mandatorily applicable to workers in the Member State where the work is carried out.

It should be kept in mind that this will not apply to procedures, formalities and conditions of the conclusion and termination of the employment contract, including non-competition clauses as well as supplementary occupational retirement pension schemes.

The maximum posting period may be extended to 18 months, given that the service provider submits a motivated notification. The duration of the posting shall also cover the period for which the posted worker is replaced by another posted worker performing the same task at the same place.

After the end of the posting period the status of posted workers shall be equal to the status of local workers, yet, under the "principle of advantage", the mandatory domestic rules of the host State shall not prevent application of those terms and conditions of employment in force in the posting State which are more favourable to workers.

The equality of treatment in terms of remuneration is one of the ground rules. A posted worker shall be remunerated on the same terms as the comparable permanent workers in the host State ("equal pay for equal work").

The requirement of equal pay for equal work is associated with the obligation on the Member States to provide information on remuneration laid down by laws, industry and regional collective agreements, and with the possibility of verifying market benchmarks by employers.

With the introduction of the new provisions, the powers of labour inspectorate have been extended.



Find out how we can support you with  
the planning and management of your  
international workforce



## Work permit/visa requirements

Citizens of countries with which Poland has signed agreements related to visa-free travel may remain within the territory of Poland (without performing work) for periods of usually up to 90 days in 180 day period. However, citizens of certain other countries still require a visa in order to enter Poland.

If an individual would like to stay longer in Poland, a temporary residence permit or visa is usually required. EU citizens should register and obtain confirmation of their stay in Poland.

Work permits are generally required for foreign individuals who are not EU citizens. Generally, the procedure for obtaining this document requires involvement of the Employer where the work is being performed.

Although EU citizens do not need a work or residence permit to live and work in Poland, it should be noted that if they stay for longer than 90 days they are required to obtain a registration confirmation document.



# Value added tax

## Scope of taxation

### General information

The Polish Value Added Tax (VAT) system is harmonized with the EU law and is based on Council Directive 2006/112/EC. VAT is charged on:

- supply of goods and provision of services within the territory of Poland, for consideration,
- export and import of goods,
- intra-EU supplies of goods,
- intra-EU acquisitions of goods performed within the territory of Poland, for consideration.

Additionally, under certain circumstances, VAT is charged on free of charge supplies of goods or provisions of services, but with some exemptions (e.g. for supplies of small value gifts and samples).

VAT was designed as a tax on consumer expenditure, rather than on businesses. Registered taxpayers are entitled to deduct the tax they have incurred on purchases ("input VAT") from the tax they have charged on taxable activities ("output VAT").



### Intra-EU supplies of goods

Intra-EU supply of goods constitutes the supply where the goods are dispatched from the territory of Poland to the territory of another EU Member State. Also, the movement of own goods from the territory of Poland to another EU Member State for business purposes constitutes so called "deemed" intra-EU supply of goods.

Generally, intra-EU supply of goods is subject to 0% VAT rate, provided that the supplier:

- supplied the goods to the purchaser having valid and proper EU VAT number,
- obtains proper documentation confirming that the goods were delivered to another EU Member State,
- is registered for EU VAT purposes when submitting the VAT return where the transaction is reported and submits the EU Sales/Purchase Listing (VAT-UE) reporting this transaction.

The documents needed to apply 0% VAT rate are primarily the signed CMR documents, however, in case it is not possible to obtain such document, unsigned CMR should be gathered with additional documentation confirming the delivery of goods, e.g. statement signed by the purchaser, business correspondence, payment confirmation, warehouse documentation, etc.

In case such documentation is not available, the transaction is taxed at the domestic VAT rate, subject to future correction when the documents are obtained.



### Intra-EU acquisitions of goods

Intra-EU acquisition of goods constitutes acquiring the right to dispose of the goods as an owner within the transaction where the goods are dispatched from other EU Member State to Poland for business purposes of the purchaser.

Additionally, the movement of own goods from other EU Member State to Poland for business purposes by the taxpayer constitutes so called "deemed" intra-EU acquisition of goods.

Intra-EU acquisition of goods is in principle neutral, as the taxpayer reports in the VAT return both output and input side at the same time. Polish VAT Act included rules stating that in case the transaction was not reported within 3 months from the end of the month when tax point occurred, reporting was no longer neutral. However, these rules were questioned by Court of Justice of the EU and subsequently these rules have been abolished. Still, in case the taxpayer does report intra-EU acquisition upon tax point without having an invoice, domestic rules require that the deduction of input VAT is reversed after 3 months, subject to recovery when invoice is obtained. Nevertheless, these rules are not applicable when taxpayer reports intra-EU acquisition with delay when already having an invoice.

Generally, the entities performing intra-EU acquisitions are obliged to register for VAT purposes in Poland, however, under certain circumstances it is possible to apply call-off stock simplification to avoid registering. This procedure may be applied in case the goods are introduced into the warehouse in Poland for the purpose of future supply to the Polish purchaser. The supplier may not be seated or may not have fixed establishment in Poland in order to apply this simplification. As of 2020, the call-off stock simplification rules have been harmonized within the EU.



### Export of goods

Export of goods is understood as dispatch of goods from Poland to the destination outside the EU. There are two types of export:

- direct export – when transport is handled by the supplier, or
- indirect export – when transport is organized by the purchaser not seated and not having fixed establishment in Poland.

Export is subject to 0% VAT rate, provided that export documents are obtained. In case export procedure is initiated in Poland, IE599 electronic notification is the appropriate document which should be obtained in order to apply 0% VAT rate. Export may take place from Poland also in case export procedure has been initiated in other EU Member State, provided that the intention of export was expressed when the goods are dispatched from Poland. In that case, appropriate export documents issued in the Member State of export should be gathered.

In case export documentation is not gathered, the taxpayer may hold off with reporting the transaction for one period, in case he has document confirming that customs procedure has been initiated (IE529 electronic notification). Should the export documents still not be gathered in the next period, transaction should be reported with the domestic VAT rate. Subsequent receipt of the customs documents allows to report the transaction with 0% VAT rate in the current VAT return and report the transaction with domestic VAT rate with negative values (for exports it is not necessary to correct past periods).



### Import of goods

Transport of goods from outside the EU to Poland constitutes import of goods. Upon importation the customs authorities generally impose customs duties and calculate import VAT and the taxpayer makes the payment of VAT within 10 days.

Under the standard procedure the taxpayer is entitled to recover the paid VAT in the period of receipt of the customs document (ZC299 electronic notification) or 2 following periods.

There is also the possibility to settle import VAT neutrally in the VAT return. For that purpose, the taxpayer should:

- present recent (not older than 6 months) certificates or statements confirming lack of arrears in social security contributions and taxes,
- present confirmation of registration as an active VAT-payer, make customs notification through direct or indirect representative.

In case the conditions to settle import VAT are met, the taxpayer reports output and input VAT in the same VAT return.

### Import of services

The acquisition of services by Polish taxpayer from the foreign service supplier constitutes import of services. As a rule, import of services is neutral, as output and input VAT are reported in the same VAT return. However, like in the case of intra-EU acquisition of goods, Polish VAT Act contained rules stating that the transaction not reported within 3 months from the end of the month when service has been performed may not be reported neutrally. Nevertheless, following the judgment of Court of Justice of the EU these rules were abolished and import of services may currently be reported neutrally even in case it is reported with delay.



### Sales to individuals

Sales of goods and services provided to individuals who are not carrying out business activities are generally (with some exceptions) recorded through the use of fiscal cash registers.

Currently, certain types of businesses (e.g. car workshops) are obliged to use on-line cash registers which automatically send the copies of the issued receipts to the tax authorities. This obligation has also been extended on:

- 1st January 2021 – e.g. to hotels, gastronomic services, suppliers of coal, etc.,
- 1st July 2021 – e.g. to hairdressers, cosmetic services, healthcare and dental services, legal services, etc.

Moreover, in case the sale is confirmed firstly with the receipt and then the taxpayer would like to request an invoice, in order to do so the receipt should contain tax number of the purchaser. In case the receipt lacks this information, the supplier is not allowed to issue an invoice to this transaction.

### Distance sales to individuals – e-Commerce package

In July 2021 reform of distance sale rules entered into force, known under the name of e-Commerce package. It introduced uniform distance sale threshold for the whole EU at the level of EUR 10 000 which, when exceeded, transfers place of supply to the destination Member State (where the B2C customer is located). Thus, when the taxpayer exceeds this threshold (counted for all customer sales within the EU), VAT registration is required in all EU Member States to which distance sales are performed.

Alternatively, the suppliers may use One Stop Shop solution, registering in their own Member State and settling distance sales to other Member States in their own country of registration. This optional solution enables to avoid VAT registration obligation in other EU Member States.

Moreover, e-Commerce reform also provides for tightening import VAT regulations, opening the possibility for applying Import One Stop Shop for non-EU entities importing the goods into the EU. The reform also imposes certain obligations on e-commerce platforms which enable purchases for EU consumers from non-EU suppliers.



**Increase the efficiency of your VAT settlements**





## Output VAT

### Tax point

As a general rule, the tax point arises upon the supply of goods or performance of the service.

Nevertheless, there are also exceptions to this general rule. As an example – in the case of advance payments, the tax point arises when the advance is received, and in the case of supplies of electricity, telecommunication services or lease – when the invoice is issued, but not later than the lapse of the payment deadline. Also, for construction services the tax point occurs upon issuance of an invoice, but no later than within 30 days from the completion of the works.

In case of intra-EU supplies and acquisitions, the tax point arises upon issuance of an invoice, but not later than on the 15th day of the month following the month when the supply or acquisition took place.

In the case of imports of goods (except for some special procedures), the tax point arises when the customs duty arises.

### Tax base

Tax base constitutes generally everything which is due to the taxpayer for effecting the supply from the purchaser of third person excluding the amount of tax.

The tax base is different in the case of, for example, imports of goods (reflecting in particular, the customs value of the goods increased by customs duty, excise tax, costs of commission, insurance, and transport to the first destination in Poland, etc.), as well as in the case of stock broker services, consignment or agency sales, etc.

### VAT invoice

The supply of goods or provision of services should be documented with a VAT invoice, issued as a rule no later than on 15th day of the month following the month of the supply. Invoice may also be issued prior to the supply, but generally not earlier than 30 days prior to the supply.

Invoices may be issued in paper or electronic form and should include mandatory data listed in the VAT Act. All invoices should ensure authenticity of origin, integrity of data, and readability of the document. Electronic exchange of invoices requires the acceptance of the purchaser – the acceptance is deemed, unless the purchaser does not agree with such method of invoice receipt.

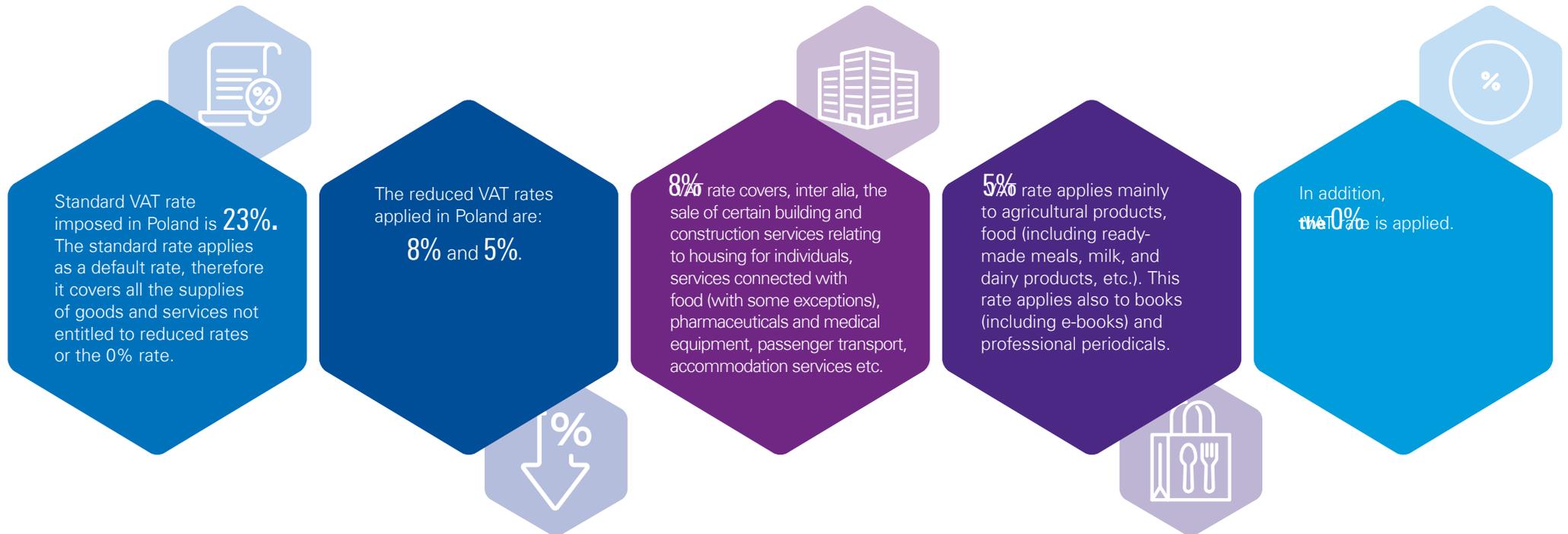
Poland introduced also structured invoices which are to be exchanged between taxpayers through National System of e-Invoices. At the initial stage this system is optional, however, Ministry of Finance aims to make this invoicing system compulsory in the future.

Import and export of goods should be documented with the customs document (electronic notification).





## VAT rates in Poland

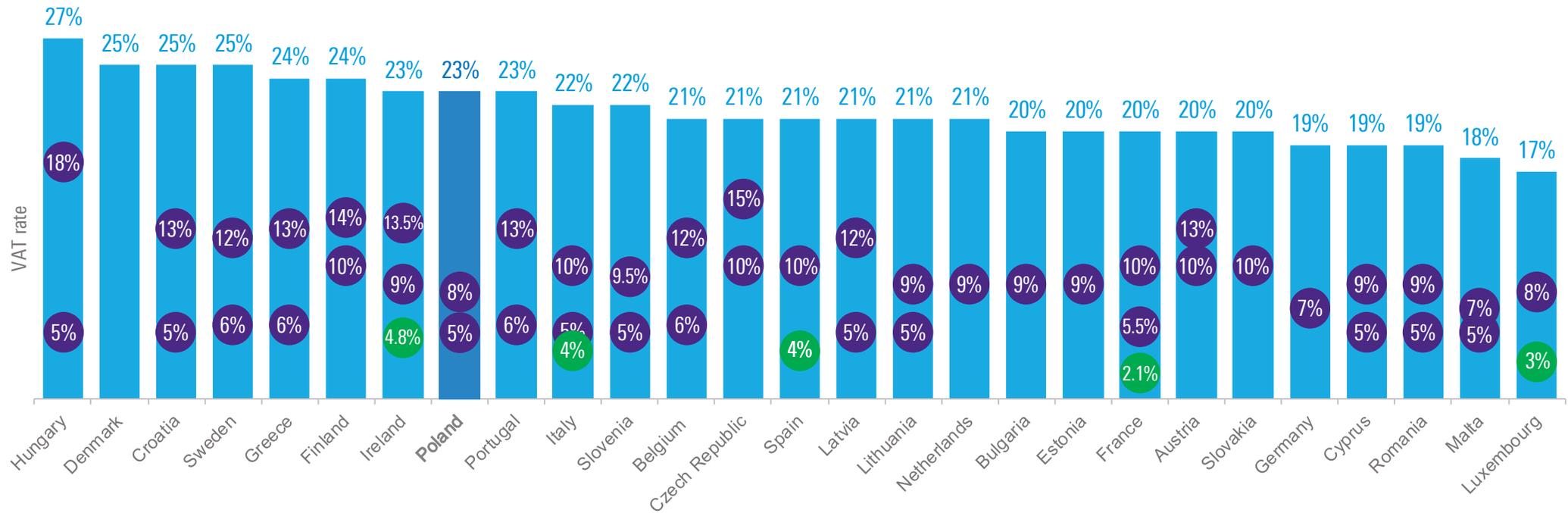


The 0% VAT rate, in addition to exports and intra-EU supplies of goods, applies to transport services related to the import and export of goods (under certain conditions described in the VAT Act), as well as to inward processing services or supplies of aircraft or sea vessels.

Currently, in case the taxpayer has doubts as to the proper VAT rate of performed supplies, it is possible to apply for Binding Rate Information (BRI) to the tax authorities. In such BRI the authorities assess the standpoint of the taxpayer and confirm what VAT rate should be applied for the supply.



Value Added Tax rates in the European Union countries in 2021\*



- Standard rate
- Reduced rate
- Super-reduced rate

Due to COVID-19 epidemic there were multiple temporary changes in VAT rates throughout the EU.

**Exemptions**

Following the EU Directive, Polish VAT law provides exemptions from VAT for certain goods and services, including the medical, financial, insurance, education, public postage, some cultural and similar services, and others, as well as the importation of certain goods and the sale of secondhand goods.

Source: KPMG in Poland based on European Commission.  
\*Rates current at 1st January 2021.



## Input VAT

### General rule

The taxpayer is generally entitled to reduce output VAT (resulting from sales) by the amount of input VAT incurred on the purchase of goods and services related to its VAT-able activity.

Input VAT related to transactions which are VAT exempt or not subject to VAT is not deductible.

If input VAT relates to both types of supplies (taxable and exempt), the taxpayer should use the pro-rata method for determining the amount of deductible input VAT (if the precise assignment of this input VAT to a taxable sale is not possible). Moreover, if input VAT relates to both business activities, as well as activity not subject to VAT (applies mainly to public sector and foundations), the so called pre-pro-rata method for determining the amount of deductible input VAT should be additionally applied (if the precise assignment of part of this input VAT to business activity is not possible).

### The moment of deduction

Timelines for VAT deduction are strictly regulated. As a rule, the right to deduct input VAT arises:

- in the case of domestic purchases of goods or services and import of goods – in the period in which the tax becomes chargeable, but not earlier than upon receiving a VAT invoice or customs document documenting given transaction;
- in the case of intra-EU acquisition of goods – in the period when tax point for a given transaction arises, provided that the taxpayer receives an invoice within 3 months following the one in which tax point for that transaction arose and reports output VAT in the correct VAT return (till September 7, 2021 the Polish VAT law foreseen a rule that both receiving an invoice as well as reporting of output VAT needed to be done within 3 months otherwise deduction of VAT from ICA was no longer neutral – this rule was questioned by CJEU and consequently abolished).
- in the case of import of services, deemed (non-commercial) intra-EU acquisition of goods and other purchases subject to reverse charge – in the period when tax point for a given transaction arises, on the condition that the taxpayer reports output VAT in the correct VAT return.

Input VAT may alternatively be deducted in one of the three following periods.

If VAT was not deducted in the abovementioned periods, the taxpayer may amend the VAT return submitted for a period in which the right to deduct VAT arose in order to include (deduct) this VAT. As of October 2021, the deduction may be done also in the VAT return for one of three following periods. The deduction is however possible only within 5 years from the beginning of the year in which the right to recover input VAT arose.

### Limitations of recovery of input VAT

The VAT on hotel and restaurant services is non-recoverable, except for:

- the purchase of ready meals intended for passengers by taxpayer providing passenger transport services,
- accommodation services purchased for resale (for so called re-invoicing)

Limitations of input VAT deduction applies to expenses related to passengers' cars (e.g. purchase, leasing of passenger cars as well as fuel). Generally, it

is possible to deduct 50% of input VAT, although when a car is deemed to be used only for business purposes and formal requirements are met full deduction is possible.

### Reverse-charge mechanism

If the services are provided in the territory of Poland by a supplier with no seat or fixed establishment in our country, VAT with respect to this transaction should generally be self-charged by the recipient under the reverse charge mechanism. This does not apply to services connected with immovable property, if the supplier is registered for Polish VAT.

If goods are supplied in the territory of Poland by a supplier with no seat or fixed place of business in Poland, VAT with respect to this transaction should generally be self-charged by the recipient under the reverse charge mechanism. This rule does not apply if the supplier is registered for Polish VAT.

If goods are supplied in the territory of Poland by a supplier with no seat or fixed place of business in Poland, VAT with respect to this transaction should generally be self-charged by the recipient under the reverse charge mechanism. This rule does not apply if the supplier is registered for Polish VAT.



## Split payment

In mid-2018 Poland introduced voluntary split payment mechanism. As of 1st November 2019 split payment is obligatory in certain situations.

Application of split payment mechanism means that the purchaser pays the gross amount to the supplier, but only the net amount is transferred to the general bank account of the supplier, whereas the VAT amount is transferred to the technical VAT account where the funds are locked and may be used only for the purpose of paying VAT amounts to the suppliers or payment of tax liabilities or custom duties to the tax authorities or custom agencies.

Obligatory split payment is applicable in case the payment is performed as bank transfer, gross invoice value is at least PLN 15 thousand, and the invoice includes at least one item from attachment 15 to the VAT Act. This attachment lists 150 items subject to obligatory split payment, such as coal, certain metals or scrap, certain electronic goods like computers, processors, hard drives or SSDs, or cellular phones, car parts, construction services, etc.

In case of payment to the supplier, the purchaser applies split payment by choosing special payment option and in the transfer communicate includes:



gross value of payment



VAT amount



invoice number



VAT ID of the supplier

In case the transaction is subject to obligatory split payment, the supplier should include special annotation on the invoice – “mechanizm podzielonej płatności”. However, lack of such annotation does not free the purchaser from verification whether this obligation arose.

Lack of payment via split payment, in case the transaction was subject to this payment method, triggers various sanctions for the purchaser and the supplier.

The supplier may be subject to 30% VAT sanction when the invoice is missing the mandatory split payment annotation. However, no sanction is imposed when despite this lack, the purchaser makes the payment via split payment.

The purchaser may also be subject to 30% VAT sanction in case no split payment has been applied. This sanction is not imposed in case the supplier settles VAT liability with the tax authorities. However, lack of split payment when the invoice included the required remark also triggers income tax consequences, as the expense may not be treated as tax deductible cost in this case. Moreover, fiscal penalties may be imposed for infringing split payment obligation.



## VAT registration requirements

### VAT registration

The application for VAT registration generally must be filed with the Tax Office before the first taxable supply is performed. Once registered, the taxpayers obtain the status of active VAT payers and are indicated on the so-called White List available on the website of the Ministry of Finance.

Taxpayers that intend to perform intra-EU transactions must additionally register for EU VAT. After the registration, they receive an EU VAT number and are included in the EU VIES database.

There are some exceptions to the general obligation to register, e.g. for small businesses.

### Exemption for small businesses

Businesses with total annual sales for the preceding tax year of less than PLN 200 thousand are not required

to register for VAT (but may register voluntarily), unless their sales for the particular year exceed the registration threshold.

The above mentioned exemptions from VAT registration, do not apply to foreign taxpayers (without their seat or place of residence in Poland), and to taxpayers supplying the goods/services specified in the VAT Act (i.e. legal or jewelry services, new means of transport, goods subject to the excise tax with some exceptions and others).

### Fiscal representative

Generally, taxpayers that have no seat or fixed establishment in Poland or other EU country are required to appoint a fiscal representative. However, as of 1st January 2021, this requirement does not apply to the taxpayers with registered seat or fixed establishment on the territory of Norway or the United Kingdom of Great Britain and Northern Ireland.

The fiscal representative is jointly liable with the taxpayer for tax obligation that the fiscal representative settles in the name and on behalf of the taxpayer.

### Removal an active VAT taxpayer from VAT registry

The Head of Tax Office has a right to remove a taxpayer from the VAT register in cases stipulate in the VAT Act, such as among others:

- failure to file a VAT return for 3 consecutive months;
- submission of 6 consecutive months zero VAT returns, with no sales or purchase transactions indicated;
- if it is not possible to contact the taxpayer or his representative;
- if the taxpayer or his representative fail to appear before the tax authorities when ordered to do so.





## White List

Head of the National Revenue Administration keeps a so-called "White List" - a list of VAT taxpayers, i.e. entities registered, deleted or restored to the VAT register. The White List, among others, provides the list of bank accounts of the taxpayer notified to the tax authorities as accounts tied to business activity.

Pursuant to the regulations applicable as of 1st January 2020, if the payment for the transaction between active VAT taxpayers exceeding PLN 15 thousand is not made to the contractor's bank account disclosed in the White List and some additional requirements are met, the purchaser:

- may not include the expense as a deductible cost for PIT and CIT purposes,
- will be joint and several liability with the seller for the unsettled VAT on the transaction.

The purchasers may avoid the aforementioned sanctions by submission of the special notification to the head of the tax office competent for the purchaser (via the ZAW-NR form) or make a payment with the use of split payment mechanism.



**K-Scanner for automated verification  
of business partners' bank accounts  
against the White List**





## Refund of surplus of input VAT

If input VAT exceeds the amount of output VAT in the settlement period, the taxpayer is entitled either to carry forward this surplus to the following settlement period(s) or to apply for a refund.

The standard deadline for the VAT refund is 60 days from the day when the VAT return is submitted. Under certain conditions, this deadline may be shortened to 25 days. The 25 days deadline applies also in case a taxpayer requests the refund onto the taxpayer's VAT account (technical account used for split payment where the funds may be used for limited purposes).

If no taxable activities were performed in the settlement period, VAT may be refunded generally within 180 days.

The abovementioned deadlines may, however, be prolonged by the tax authorities, if an additional audit regarding the refund is necessary.

## Refund of VAT to non-residents

Foreign taxpayers not registered for Polish VAT, may claim a refund of input VAT incurred on the purchases of goods and services in Poland.

Refunds of input VAT can only be made to foreign taxpayers if this VAT would be refundable to a Polish taxpayer for the purchase of such goods or services. Furthermore, taxpayers from outside the EU can only claim a refund if their home country makes VAT refunds to Polish VAT payers (the reciprocity rule).

EU taxpayers should submit their application for the refund of VAT to the Polish tax office via their local tax authorities. Travelers from outside the EU can also claim a refund of VAT on purchases in Poland.

EU taxpayers should submit their application for the refund of VAT to the Polish tax office via their local tax authorities. Travelers from outside the EU can also claim a refund of VAT on purchases in Poland.

## Reporting and payments requirements

### General information

As a rule, all taxpayers are obliged to file the VAT return and pay VAT liability monthly by the 25th day of the month following a given settlement period (or on the first business day, should the 25th day of the month be a non-business day). The quarterly submission of VAT returns is allowed only in some specified cases, not during the 12-months period after the VAT registration.

Starting from the settlement for October 2020, the VAT return is submitted in a form of SAFT V7M or SAFT V7K file, comprising both VAT return and VAT register (covering information about the purchases and sales). Apart from the information previously collected under VAT registers, the SAFT V7M and SAFT V7K files require entities to disclose a specific set of additional data such as group of goods and services, procedures determining the type of sales transactions, types of sale and purchase documents.

The taxpayers making intra-EU supplies and intra-EU acquisitions of goods or intra-EU supplies of services must file also EC Sales List monthly by the 25th day of the month following a given settlement period (or on the first business day, should the 25th day of the month be a non-business day).

The SAFT V7M or SAFT V7K file, EC Sales/Purchase Listing must be filled via electronic means.

### INTRASTAT Declarations

INTRASTAT declarations must be filed for intra-EU flow of goods. Generally, these should be submitted to the customs chambers on a monthly basis, by the 10th day of the following month (during the COVID-19

pandemic, the deadline for submission of Intrastat declarations is often prolonged by the customs authorities to the 20th day of the month following the reporting period). The obligation to submit INTRASTAT declarations arises if value of arrivals or dispatches of goods exceeds statistical thresholds published annually by the Central Statistical Office. For 2021 the basic threshold for arrivals is PLN 4 million and for dispatches is PLN 2 million.



## Bad debt relief

Polish regulations enable taxpayer to recover VAT charged for the supplies of goods or services, if a debtor (purchaser) does not pay for an invoice within 90 days from the payment deadline date specified in contract or invoice, and the certain formal requirements are met.

At the same time, a debtor (purchaser) is obligated to correct the deducted VAT amount resulting from an invoice if the amount due resulting from this invoice is not paid within 90 days from the due date set forth in the contract or in the invoice.

On 15th October 2020 a judgment concerning the Polish BDR (Case C-335/19) was issued, in which CJEU ruled that the Polish legislation, which make the reduction of the VAT taxable amount subject to the certain formal requirements, is incompatible with the provisions of EU VAT Directive.

As a result of the CJEU judgment, these formal requirements have been abolished. As of October 2021, the relief become available also in situations where the debtor is under liquidation proceedings, ceased to be an active VAT taxpayer or is a natural person (consumer) or a VAT exempt taxpayer. In situations where the debtor is not an active VAT taxpayer, the use of the so called bad-debt relief depends on meeting additional conditions.

Moreover, from 1st October 2021, the deadline for benefiting from the so called bad-debt relief extended from 2 to 3 years (starting from the end of the year in which the invoice was issued).

## Sanctions in VAT (i.e. additional VAT liability)

The tax authority determines the additional VAT liability (i.e. 30% of the amount of the understatement of VAT liabilities /overstatement of the amount of VAT refund), in cases specified in the VAT Act, such as among others:

- VAT liability reported in the VAT return is understated (30%);
- VAT refund amount resulting from the VAT return is overstated (30%).

The additional VAT liability amounts to 100% if the understatement /overstatement results from fraud.

The amount of the additional VAT liability may be limited in certain situations to 20% or 15%. Moreover, in some cases, the additional liability is not imposed.



# How can we help you?

## Polish tax system

Tax Hotline



Comprehensive tax, legal and accounting support



## Mandatory Disclosure Rules

Mandatory Disclosure Rules: support in MDR reporting



## General Anti-Avoidance Rules

Advisory regarding General Anti-Avoidance Rules (GAAR)



## Corporate Income Tax

CIT automation tool



## Withholding tax

WHT reporting



## Transfer Pricing

TPR Assistant : TPR reporting tool



Transfer Pricing advisory services



Advance pricing agreements assistance



## PIT and social security

Payroll related tax and social security assistance



## Posting of workers and immigration issues

Global Mobility Services



## Value Added Tax

K-Scanner : White List compliance tool



Increase the efficiency of VAT settlements



KPMG tax advisors have extensive experience in working for companies from various sectors of the economy. Our expertise is based not only on practice but also on projects developed by the Ministry of Finance. KPMG tax experts constantly follow and analyse changes in the Polish tax system in order to respond actively to the changing regulatory framework. We also realise the importance of technology for today's business, which is why our dedicated Tax Technology Practice supports Clients in improving their performance by automating taxation issues.

**Paweł Barański**

**Partner, Head of Tax and Legal**

# Statutory financial statements and reporting requirements





# Key features of financial statements prepared by entities in Poland

## The reporting obligations and mandatory audit of financial statements prepared by entities in Poland

The statutory financial statements of entities in Poland consists of the following elements:

- balance sheet,
- profit and loss accounts,
- notes to the financial statements, including the introduction to the financial statements, as well as additional information and explanations.

Moreover, the financial statements prepared by entities which are subject to the mandatory annual audit also include a statement of changes in equity and a cash flow statement.

The financial statements of the following entities are subject to mandatory audit:

- A** The annual consolidated financial statements of capital groups, and the annual financial statements of certain other entities regardless their size, including but not limited to, banks, joint stock companies and payment institutions;
- B** The annual accounts of limited liability companies, general partnerships, limited partnerships, civil-law partnerships, and undertakings of natural persons which have satisfied at least two of the following three criteria during the preceding financial year:
  1. Employment – at least 50 people (average annual employment, expressed in FTEs);
  2. Balance sheet total – at least EUR 2.5 million (i.e. the total assets in the balance sheet at the end of the financial year amounted to the PLN equivalent of at least EUR 2.5 million);
  3. Sales revenue – at least EUR 5 million (i.e. net revenue from the sales of goods and products, services and financial operations for the financial year amounted to the PLN equivalent of at least EUR 5 million);
- C** Regardless of the size of the entities, the following are also subject to mandatory audit:
  - Financial statements of companies acquiring other entities, for the financial year in which the merger occurred;
  - Annual financial statements of undertakings prepared in accordance with the IAS;
  - Annual consolidated financial statements of investment funds with separate subfunds as well as individual annual financial statements of the subfunds.



## Mandatory disclosures applicable to companies listed on the Warsaw Stock Exchange

In 2020, the number of companies listed on the Warsaw Stock Exchange (WSE) exceeded 430, of which more than 330 companies were listed on the primary market while the remaining 100 entities were listed on the OTC market. Approximately 50 of all companies listed on the WSE are foreign entities.

Companies listed on the WSE have the option of preparing their financial statements in accordance with the IAS. In practice, most companies listed on the WSE do apply the IAS. However, the obligation to prepare financial statements in accordance with the IAS applies to consolidated statements of capital groups and banks listed on the WSE.

Companies, including parent undertakings listed on the Warsaw Stock Exchange, are obliged to prepare and publish a number of documents with a pre-determined content. The most important of them are the quarterly, semi-annual and annual reports. The content of such reports and their publication dates are presented below:



### QUARTERLY FINANCIAL REPORTS

#### Content of the statements

- Condensed financial statements for the last quarter
- A concise description of the issuer's material achievements or failures for the last quarter

#### Publication dates

- No later than 45 days after the end of the quarter



### SEMI-ANNUAL FINANCIAL REPORTS

- Semi-annual financial statements
- Semi-annual directors' report on the issuer's activities, containing a description of the main risks to the company
- Auditor's report on the review of the financial statements for the period of six months

- No later than two months after the end of the six-month period



### ANNUAL FINANCIAL REPORTS

- Annual financial statements
- Letter from the President of the Management Board discussing the issuer's most important achievements or failures for the financial year and the growth prospects for the next financial year
- Annual directors' report or manager's report on the issuer's activities
- Non-financial report
- Auditor's report on the audit of the financial statements for the financial year

- No later than four months after the end of the financial year



XBRL tool for WSE - listed companies



## Polish accounting standards vs. IAS

### A Legal foundation

The Polish Accounting Act of 29 September 1994, with subsequent amendments (hereinafter: the Polish Accounting Standards or PAS), sets out the accounting rules and procedures for the audit of financial statements by auditors. The provisions of the Accounting Act apply to entities which have their registered office or place of management in Poland.

### B Differences between PAS and IAS

Excluding the new IFRS16 (in force since the beginning of 2019), the Polish Accounting Standards do not deviate significantly from the IAS. Although there are some differences between those standards, they do not generally have a significant impact on the financial position or performance of entities. Some selected differences between the PAS and the IAS are presented in the table below.



PAS

IAS

## IMPACT ON FINANCIAL STATEMENTS

**Recognition of revenue**

- No detailed guidelines as to when revenue is to be recognised
- In general, it is recognised when taking over responsibility for goods or performing a service
- Detailed guidelines for recognition of revenues, also those arising from agreements related to repurchase, commission sales, licenses and other elements related to sales, such as guarantees and the right to return goods
- A significant difference in the amount of recognised revenue is possible

**Valuation of stocks**

- Possibility to capitalise forex differences
- Possibility to apply the LIFO stock costing method
- No possibility to capitalise forex differences
- No possibility to use the LIFO stock costing method
- Possible impact on P&L account and balance sheet

**Tangible fixed assets**

- Possibility to use one-off depreciation
- No detailed guidelines for general overhauls
- Fair value valuation not possible
- No possibility to use one-off depreciation
- General overhaul costs must be recognised during the useful life
- Fair value valuation possible
- Possible impact on P&L account and balance sheet

**Valuation of intangible assets**

- Fair value valuation not possible
- Fair value valuation possible
- Possible impact on P&L account and balance sheet

**Deferred tax**

- An undertaking may chose not to recognise deferred tax if not subject to audit
- Obligation to calculate deferred tax
- Possible impact on P&L account and balance sheet

**Payments with long maturities**

- In principle, they are recognised at nominal value
- Recognised at fair value (discounted)
- Possible impact on P&L account and balance sheet

**C Introduction of IFRS16**

The introduction of the IFRS16 at the beginning of 2019 created a significant difference in the approaches used in the two sets of standards (IAS vs. PAS) to the accounting treatment of operating leases and rental arrangements. PAS recognise all principal instalments and lease payments as operating expenses of a given period, thus burdening the company's performance in the financial year, whereas under the new IFRS16, all leases (including rental arrangements) are, as a rule, recognised in the balance sheet as the right-of-use asset corresponding to the lease-related liability.

The introduction of the IFRS16 had a significant impact on both the balance sheet items and the financial performance of many entities in Poland. The estimated impact of the IFRS16 on increased debt and improved EBITDA for selected sectors is presented in the table below:

**FS Converter: Financial statement generator****Impact on financial performance**

INDUSTRY	DEBT INCREASE	EBITDA INCREASE
Retail	98%	41%
Professional services	42%	15%
Health care services	36%	24%
Transport	24%	20%
Telecoms	98%	41%
<b>Total</b>	<b>22%</b>	<b>13%</b>

\*Source: KPMG Poland based on data presented at the IFRS Foundation Conference



## The impact of forex differences on financial statements

The official currency in Poland is the Polish zloty (PLN). Poland applies a free-floating exchange rate system. In the last ten years, the value of the zloty in relation to the US dollar and the euro has decreased, but this trend has taken a significantly different pace for each of the two currency pairs. Naturally, the fluctuating exchange rates of these currencies had a major impact on the performance of Polish companies involved in the export or import of materials, goods or services, and companies that took out foreign currency loans. In particular, this was the case with entities which did not use financial instruments to hedge their forex position, a practice which is not very common in Poland.

Undertakings which have their registered office in Poland and prepare their annual financial statements in accordance with the IAS have the option to choose a currency other than the Polish zloty for the presentation of their financial statements. However, in practice this is rare. On the other hand, undertakings which prepare their annual financial statements in accordance with the PAS should use the Polish currency to present their statements and other financial data.

### PLN vs. USD

The lowest average monthly PLN/USD exchange rate in the last ten years was recorded in May 2011, whereas the highest average monthly exchange rate was recorded in December 2016. Ultimately, the difference between these rates was 53%. The value of the US dollar also proved to be more volatile than that of the euro. The highest annual increase in the value of the US dollar compared to the same month of the previous year was 26% while the highest decline reached 18%.

### PLN vs. EUR

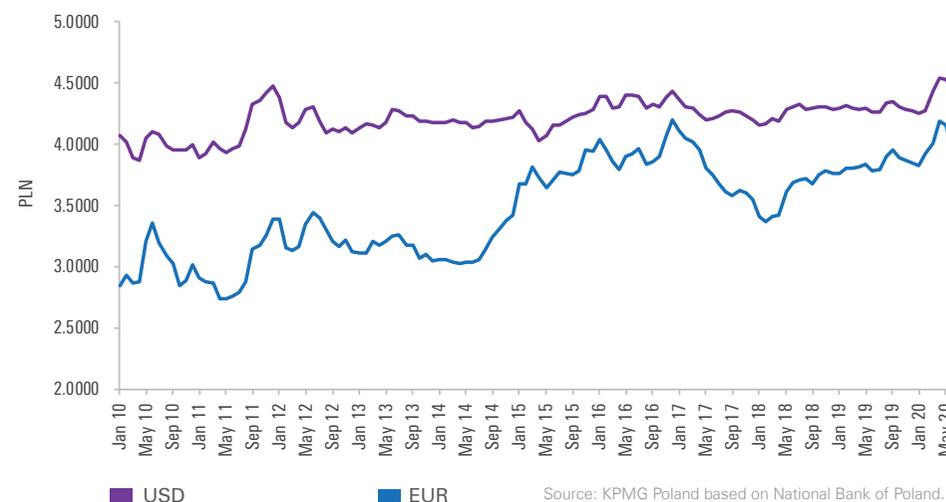
The lowest average monthly exchange rate between the Polish zloty and the euro in the last ten years was recorded in April 2010, while April 2020 saw the highest average monthly exchange rate. Ultimately, the difference between these rates was 17%. The value of the euro has been much more stable in comparison with the US dollar. The highest annual increase in the value of the euro compared to the same month of the previous year was 12% while the highest decline reached 9%.

### Polish zloty versus the US dollar and the euro in the last 10 years

	 USD	 EUR
Lowest average monthly exchange rate	2.7149	3.8704
Highest average monthly exchange rate	4.2049	4.5450
Highest nominal difference	1.463	0.6746
Highest nominal difference, in %	53%	17%
Highest annual increase versus the same month of the previous year, in %	26%	12%
Highest annual decrease versus the same month of the previous year, in %	18%	9%

Source: KPMG Poland based on National Bank of Poland.

### Average monthly exchange rates: USD and EUR





# How can we help you?

KPMG in Poland offers independent audit and assurance services, as well as comprehensive support in financial statements preparation.

KPMG's support in preparing financial statements



Financial statement audit



FS Converter: Financial statement generator



Financial services audit



XBRL tool for WSE - listed companies



Other assurance services



In 2020, KPMG topped the ranking of key audit firms in Poland for the seventh time. We are proud to have the largest number of licensed auditors with extensive knowledge and experience in various sectors of the economy. Our teams also provide full support in the preparation of financial statements. KPMG specialists identify potential risks and provide valuable information, enabling our Clients to manage their business effectively.

**Marek Gajdziński**  
Partner, Head of Audit

Which investment  
destination to  
choose?





## Southern Macroregion



EUR **13** billion  
the largest use of EU funds

Source: Ministry of Development Funds and Regional Policy. The data refer to contracts signed under the operational programmes for 2014–2020, excluding nation-wide projects, as of 31st August 2021. Data converted at the National Bank of Poland's exchange rate of 31 August 2021.



**207** km / **100** sq. km  
The highest density of public roads in Poland

Source: GUS/Statistics Poland, 2020 data.





The Southern Macroregion consists of the Małopolskie and Śląskie voivodships. The largest cities of the area include Cracow, the historical capital of Polish kings, and Katowice. In total, this southern part of the country is more densely populated than any other macroregion in Poland, with a population of nearly 8 million people, mainly in urban agglomerations. There are 57 universities in the area, including the oldest Polish university, which translates into a large number of students (nearly 290 thousand in 2019), with over 23% of them following degree programmes in technical and natural sciences. High qualifications entail relatively high salaries. In 2019, the Southern Macroregion had the second highest average salary of EUR 1 233 per month.

Considerable urbanisation levels translate into the highest density of public roads, by a nearly half higher than in the country as a whole. Moreover, the number of express roads and motorways is constantly rising, some of which are part of the Baltic-Adriatic corridor of the Trans-European Transport Network (TEN-T), directly connecting the macroregion with the Czech Republic and Slovakia, and indirectly with the countries in the centre and south of the continent. In 2020 the Southern Macroregion had the densest network of express roads and motorways from all macroregions in Poland.

Industry is the strongly dominant economic sector in this part of the country. Małopolskie and Śląskie voivodships receive as much as 18% of all investment expenditure in Polish industry, and 35.4% of the population are employed in this sector. No other region of Poland can boast a similarly high figure. Investments are supported by EU funds, which amounted to over EUR 13 billion in 2014–2020 under the agreements signed with the EU.

### Southern Macroregion in numbers (2020)

	<b>Population</b>	7 902 771
	<b>Population density (population per 1 sq. km)</b>	287
	<b>Gross domestic product per capita*</b>	13 500 EUR
	<b>Unemployment rate (BAEL)</b>	2.7
	<b>Average monthly gross wages and salaries in the enterprise sector</b> Converted at the NBP's average annual exchange rate for 2020	1 233 EUR
	<b>Express roads and motorways (per 100 sq. km)</b>	2.01 km
	<b>Number of students*</b>	288 424
	<b>Number of universities (public and non-public)</b> As of September 2021	57
	<b>Maximum aid intensity under the Polish Investment Zone</b> Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively	25-35%
	<b>Key sectors</b>	Energy and raw materials Automotive BPO/SSC

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon  
\* data for 2019



## North-Western Macroregion



3 out of 5

largest trade seaports in Poland



EUR 1.0 billion

the largest share of capital expenditure on trade and repair of vehicles in the country

\*Source: GUS/Statistics Poland, 2020 data.





The North-Western Macroregion is made up of three voivodships: Wielkopolskie, Zachodniopomorskie and Lubuskie. This vast area is inhabited by more than 6 million Poles, making it, despite its relatively low population density, the second most densely populated macroregion in Poland. Nearly one third lives in the agglomerations centered around Poznan and Szczecin. The share of the unemployed is clearly the lowest in the country: it stood at 2.3% throughout 2020.

Among the most important sectors that generate jobs are wholesale/retail trade, transport, hospitality and catering: 29%. The North-Western Macroregion attracts the largest share of real estate services (51%) and trade and vehicle repairs (35%) investment outlays in the country. The macro-region also has the second highest percentage of workers in the manufacturing sector at 35.4%.

Poznań is connected to Berlin by the North Sea-Baltic Sea TEN-T corridor. The north-western part of Poland is an excellent location thanks to access and good connections with the neighbouring German market, as well as with the whole world through the mouth of the Oder River that serves as a gateway. Three of the five largest Polish cargo ports are located along its banks.

### North-Western Macroregion in numbers (2020)

	<b>Population</b>	6 191 642
	<b>Population density (population per 1 sq. km)</b>	93
	<b>Gross domestic product per capita*</b>	13 500 EUR
	<b>Unemployment rate (BAEL)</b>	2.3
	<b>Average monthly gross wages and salaries in the enterprise sector</b> Converted at the NBP's average annual exchange rate for 2020	1 103 EUR
	<b>Express roads and motorways (per 100 sq. km)</b>	1.58 km
	<b>Number of students*</b>	193 870
	<b>Number of universities (public and non-public)</b> As of September 2021	52
	<b>Maximum aid intensity under the Polish Investment Zone</b> Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively	25-35%
	<b>Key sectors</b>	Retail and wholesale trade Automotive Tobacco and alcohol

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon  
\* data for 2019



## South-Western Macroregion



25.3%

the highest percentage of students pursuing degree programmes in technology and natural sciences

\*Source: GUS/Statistics Poland, 2019 data.



EUR 14.1 thousand  
above-average GDP per capita

\*Source: GUS/Statistics Poland, 2019 data.





The Dolnośląskie and Opolskie Voivodships form the South-Western Macroregion with a population of under 4 million people. Wrocław, the fourth largest Polish agglomeration in terms of population, is the largest city in this area. The GDP per capita for the entire macroregion is the second highest in the country..

The South-Western Macroregion attracts a large share (17%) of all investment outlays in industrial processing in Poland. A relatively large proportion of the population, i.e. 10%, is employed in professional, scientific and technical activities. Technology and natural sciences play a very important role in education. As many as a quarter of the students of this macroregion are participants in these majors. No other part of the country has such a high percentage of students in these degree programmes. In 2020, the macroregion recorded the unemployment rate of 3.1%, slightly below the nationwide level.

The road infrastructure in this macroregion is varied. While 1.75 km of motorways and expressways per 100 sq. km is a high figure in comparison with the rest of the country, the overall density of public roads is below the average. The South-Western Macroregion borders both Germany and the Czech Republic, constantly developing the main connecting transport routes.

### South-Western Macroregion in numbers (2020)

	<b>Population</b>	3 868 095
	<b>Population density (population per 1 sq. km)</b>	132
	<b>Gross domestic product per capita*</b>	14 100 EUR
	<b>Unemployment rate (BAEL)</b>	3.1
	<b>Average monthly gross wages and salaries in the enterprise sector</b> Converted at the NBP's average annual exchange rate for 2020	1 242 EUR
	<b>Express roads and motorways (per 100 sq. km)</b>	1.75 km
	<b>Number of students*</b>	159 022
	<b>Number of universities (public and non-public)</b> As of September 2021	38
	<b>Maximum aid intensity under the Polish Investment Zone</b> Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively	25-35%
	<b>Key sectors</b>	Metal mining Automotive Electromobility

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon  
\* data for 2019



## Northern Macroregion



**11.6** billion EUR

high use of EU funds

Source: Ministry of Development Funds and Regional Policy. The data refer to contracts signed under the operational programmes for 2014–2020, excluding nation-wide projects, as of 31st August 2021. Data converted at the National Bank of Poland's exchange rate of 31st August 2021.



**EUR 148.8** million

the largest share of investment outlays is in the real estate sector

\*Source: GUS/Statistics Poland, 2020 data.





The Northern Macroregion has a population of nearly 6 million. It consists of three voivodships: Kujawsko-Pomorskie, Warmińsko-Mazurskie and Pomorskie, with Gdańsk and Bydgoszcz being the largest urban centres. However, even counting together these cities have less than a million inhabitants and the whole area has a relatively low population density. The macroregion is very diverse in terms of development, which is demonstrated by the maximum amount of aid within the Polish Investment Zone: in the Warmińsko-Mazurskie Voivodship, it can reach up to 50% of the tax exemption for investors.

The northern part of the country is a traditional sea gateway to global markets. The port of Gdansk is the second largest container port in the Baltic Sea. Gdansk is also one of the key ports in the Baltic Sea, being at the same time the 4th largest transshipment port after the Russian ports located in the Gulf of Finland. The second local port is located in Gdynia: it receives a large number of ships thanks to factors such as well-developed ferry transport.

The real estate sector plays a very important role in the north of Poland. The three voivodships attract the second largest share (18%) of all investment outlays in this area. Investments in all sectors are supported by EU funds, which are eagerly embraced by local companies and residents. The Northern Macroregion is also the second largest beneficiary of EU funds in the 2014-2020 financial perspective, implementing programmes for EUR 11.6 billion (as of the end of August 2021).

### Northern Macroregion in numbers (2020)



**Population**

5 825 108



**Population density (population per 1 sq. km)**

96



**Gross domestic product per capita\***

11 700 EUR



**Unemployment rate (BAEL)**

3.1



**Average monthly gross wages and salaries in the enterprise sector**

1 136 EUR

Converted at the NBP's average annual exchange rate for 2020



**Express roads and motorways (per 100 sq. km)**

1.13 km



**Number of students\***

186 693



**Number of universities (public and non-public)**

48

As of September 2021



**Maximum aid intensity under the Polish Investment Zone**

35-50%

Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively



**Key sectors**

Petrochemicals  
Fish and meat processing  
Paper and cardboard production

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon

\* data for 2019



## Central Macroregion



1.85 km / 100  
sq. km

the second highest density of  
express roads and motorways

\*Source: GUS/Statistics Poland, 2020 data.



14.5%

a high percentage of people  
working in agriculture

\* Source: GUS/Statistics Poland, 2020 data.





The macroregion made up of Łódzkie and Świętokrzyskie Voivodships, inhabited by 3.7 million Poles, is located in central Poland. It has the third most populous city in Poland, Łódź. This area also includes Kielce, a city of around 200 thousand inhabitants.

The Central Macroregion can offer low labour costs. With an average monthly salary of EUR 1 093 in the enterprise sector in 2020, it has the second lowest pay level among Polish macroregions. This macroregion still has a large proportion of people working in agriculture: as much as 14.5%. At the same time, the unemployment rate stood at 3.5% throughout 2020, and was higher than the national average.

The Łódzkie and Świętokrzyskie Voivodships have a well-developed road infrastructure, with 146 km of public roads per 100 sq. km. Of this figure, as many as 1.85 km are express roads and motorways, which is the second highest density in the whole Poland. This macroregion is home to the intersection of two key motorways: A1 from north to south and A2 from east to west.

### Central Macroregion in numbers (2020)

	<b>Population</b>	3 662 596
	<b>Population density (population per 1 sq. km)</b>	122
	<b>Gross domestic product per capita*</b>	12 000 EUR
	<b>Unemployment rate (BAEL)</b>	3.5
	<b>Average monthly gross wages and salaries in the enterprise sector</b> Converted at the NBP's average annual exchange rate for 2020	1 093 EUR
	<b>Express roads and motorways (per 100 sq. km)</b>	1.85 km
	<b>Number of students*</b>	118 446
	<b>Number of universities (public and non-public)</b> As of September 2021	35
	<b>Maximum aid intensity under the Polish Investment Zone</b> Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively	35%
	<b>Key sectors</b>	Pharmaceuticals Energy Construction and assembly production

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon

\* data for 2019



## Eastern Macroregion



**11.3** billion EUR  
strong use of EU funds

Source: Ministry of Development Funds and Regional Policy. The data refer to contracts signed under the operational programmes for 2014–2020, excluding nation-wide projects, as of 31st August 2021. Data converted at the National Bank of Poland's exchange rate of 31st August 2021.



**15.9%**  
the highest percentage of  
people working in agriculture

\*Source: GUS/Statistics Poland, 2020 data.





Three Voivodships are located alongside Poland's eastern borders: Lubelskie, Podkarpackie and Podlaskie. In total, they are inhabited by well over 5 million people, which, given the large area, make this the least densely populated macroregion, with 85 people per 1 sq. km. The largest cities in the Eastern Macroregion are Lublin and Białystok.

The eastern voivodships of Poland can offer the lowest labour costs. In 2020, the average pay in the enterprise sector in this macroregion was EUR 1 023. At the same time, due to the high unemployment rate in the entire Eastern Macroregion, investors can count on the highest income tax exemption (CIT/PIT): even up to 50% for large companies and up to 70% for the smallest businesses. At the same time, a decision to grant support within the Polish Investment Zone may be issued in this region for the longest period of time, which means that the exemption can be enjoyed for 15 years.

The low population density, the high afforestation and large areas used for agricultural as well as insufficient investment levels mean that the Eastern Macroregion has the smallest number of expressways and motorways. Despite this fact, the density of public roads is only slightly lower than the country average. This macroregion borders as many as five countries: EU member states (Lithuania and Slovakia) and non-EU countries (Belarus, Russia, Ukraine). The North Sea-Baltic Sea TEN-T transport corridor passes through this area.

### Northern Macroregion in numbers (2020)

	<b>Population</b>	5 389 773
	<b>Population density (population per 1 sq. km)</b>	85
	<b>Gross domestic product per capita*</b>	9 700 EUR
	<b>Unemployment rate (BAEL)</b>	4.5
	<b>Average monthly gross wages and salaries in the enterprise sector</b> Converted at the NBP's average annual exchange rate for 2020	1 023 EUR
	<b>Express roads and motorways (per 100 sq. km)</b>	0.69 km
	<b>Number of students*</b>	162 726
	<b>Number of universities (public and non-public)</b> As of September 2021	45
	<b>Maximum aid intensity under the Polish Investment Zone</b> Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively	50%
	<b>Key sectors</b>	Dairy and cheese making Tyre production Aerospace production

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon

\* data for 2019



## Mazowieckie Voivodship Macroregion



EUR **22.5** thousand  
the highest GDP per capita

\*Source: GUS/Statistics Poland, 2019 data.



**66.9%**  
the highest percentage of people  
employed in the service sector

\*Source: GUS/Statistics Poland, 2020 data.





The country's capital, together with the surrounding poviats (country-level administrative units), represents an independent macroregion of the Mazowieckie Voivodship. Warsaw alone is home to nearly 1.8 million people, and

Radom, the second largest city in the region, has a population of slightly over 200 thousand. In total, the number of inhabitants of the voivodship significantly exceeds 5 million, which, given its small area, translates into the second highest population density among all Polish macroregions. This macroregion has the largest number of students (321.6 thousand in 2019) at 67 non-public and 21 public universities.

The region comprising the capital city is the heart of Poland, which is confirmed by high investment intensity. In 2019, the macroregion attracted as much as 35% of all investment outlays in Poland. No other place has seen so much money invested in the TSL (Transport, Shipment, Logistics), IT and communication, construction and HoReCa sectors. Worth noting is that the Mazowieckie Voivodship Macroregion has the highest percentage of people employed in services: as much as 66.9%.

The inhabitants of the region produce the highest GDP per capita, which also means that they earn the highest salaries and wages in the country, at an average of EUR 1 428 in 2020. However, the economic and social growth varies between Warsaw and the surrounding poviats. In some poviats, entrepreneurs can receive a tax relief of up to 35% for new investments under the Polish Investment Zone mechanism.

### Mazowieckie Voivodship Macroregion in numbers (2020)

	<b>Population</b>	5 425 028
	<b>Population density (population per 1 sq. km)</b>	153
	<b>Gross domestic product per capita*</b>	22 500 EUR
	<b>Unemployment rate (BAEL)</b>	3.4
	<b>Average monthly gross wages and salaries in the enterprise sector</b> Converted at the NBP's average annual exchange rate for 2020	1 428 EUR
	<b>Express roads and motorways (per 100 sq. km)</b>	1.31 km
	<b>Number of students*</b>	321 578
	<b>Number of universities (public and non-public)</b> As of September 2021	88
	<b>Maximum aid intensity under the Polish Investment Zone</b> Support for medium-sized and small/micro enterprises is increased by 10 and 20 percentage points respectively	10-35%
	<b>Key sectors</b>	Business services Media and ICT Food production

Source: KPMG in Poland based on GUS/Statistics Poland / Eurostat / POLon

\* data for 2019

# Contact



KPMG SP. Z O.O.  
ul. Inflancka 4A  
00-189 Warsaw  
T: +48 22 528 11 00  
E: kpmg@kpmg.pl

## Paweł Barański

Tax and Legal  
Partner  
E: pbaranski@kpmg.pl

## Alina Wołoszyn

Deal Advisory  
Partner  
E: awoloszyn@kpmg.pl

## Marek Gajdziński

Audit  
Partner  
E: mgajdzinski@kpmg.pl

## Dariusz Dobkowski

Legal  
Partner  
E: ddobkowski@kpmg.pl

## Honorata Green

Tax  
Partner  
E: honoratagreen@kpmg.pl

## Rafał Owczarek

Deal Advisory  
Partner  
E: rowczarek@kpmg.pl

## Grzegorz Cimochoowski

Business Advisory  
Partner  
E: gcimochoowski@kpmg.pl

## Iwona Galbierz-Sztrauch

Financial Services Advisory  
Partner  
E: igalbierz@kpmg.pl

## KPMG.pl

## KPMG offices in Poland

### Warsaw

ul. Inflancka 4A  
00-189 Warszawa  
T: +48 22 528 11 00  
E: kpmg@kpmg.pl

### Cracow

ul. Opolska 114  
31-323 Kraków  
T: +48 12 424 94 00  
E: Cracow@kpmg.pl

### Poznań

ul. Roosevelta 22  
60-829 Poznań  
T: +48 61 845 46 00  
E: poznan@kpmg.pl

### Wrocław

ul. Szczytnicka 11  
50-382 Wrocław  
T: +48 71 370 49 00  
E: wroclaw@kpmg.pl

### Gdańsk

al. Zwycięstwa 13A  
80-219 Gdańsk  
T: +48 58 772 95 00  
E: gdansk@kpmg.pl

### Katowice

ul. Francuska 36  
40-028 Katowice  
T: +48 32 778 88 00  
E: katowice@kpmg.pl

### Łódź

ul. Składowa 35  
90-127 Łódź  
T: +48 42 232 77 00  
E: lodz@kpmg.pl

© 2021 KPMG Sp. z o.o., a Polish limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG Sp. z o.o.