The impact of the Polish Deal on labour market

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1 January 2022 marks the date of entering into force Act of 29.10.2021 amending law on personal income tax, law on corporate income tax and certain other laws (Journal of Laws 2021, item 2105). The law commonly referred to as the Polish Deal is the most significant and challenging tax reform in Poland over the past few years due to its complexity and effects on the Polish workforce. The Polish Deal has introduced changes to rules of calculating personal income tax and health insurance contributions and had an enormous influence on the Polish labour market.

One of the most important amendments introduced by the Polish Deal was a change in the rules of calculation of the health insurance contributions, which led to a decreasing amount of earned income, especially for workers with higher earnings. Before the introduction of the Polish Deal, health insurance contributions could be deducted from tax amounts, either in case of employees or individuals running their own business as sole traders (self-employed). Importantly, health insurance contribution was relatively low in case of self-employed i.e., it was calculated on the basis of the average income in Poland. The Polish Deal has drastically changed rules of payment of health insurance contributions i.e., new provisions have removed the possibility to deduct health insurance contributions from tax amount. Apart from that, the Polish Deal obliged the self-employed to calculate the health insurance contribution based on the received income which led to the contribution’s increase.

New rules of calculation of health insurance contribution resulted in seeking by the self-employed tax optimizations. One of them was changing the manner of taxation from standard principles to a so-called « lump sum on registered income » taxation regime which granted self-employed the possibility to calculate health insurance contributions based on a formula which takes into account not only income of self-employed, but also average remuneration in Poland. One of the disadvantages of such a form of taxation is however linked with losing the right to deduct costs linked with running the business. For that reason, some sole traders were considering closing their business and commencement of employment under employment contracts which seemed to be more beneficial from the financial perspective. Introduction of the Polish Deal also created problems for entities engaging highly-qualified employees who in order to protect themselves from financial losses demanded an increase of their remuneration and they were more willing to leave their employers and commence employment in entities offering higher compensation packages.

The Polish government in order to make the Polish Deal less troublesome for Polish citizens have introduced some additional privileges, including an increased
amount of tax-free amount (increase from PLN 8,000 up to PLN 30,000) or additional relief for middle class i.e. individuals earning in the given year from approx. PLN 68,500 up to PLN 133,700 were given the opportunity to submit additional declarations that released them from payment of higher income tax. Despite mentioned efforts, introduction of the Polish Deal received genuinely negative response from Polish tax experts and HR-specialists. One of the biggest concerns linked with the introduction of tax reform was the fact that changes were established too quickly without necessary consultations. It should be noted that the initial draft of the Polish Deal was presented by the Polish government on 26 July 2021 while the final version of the Polish Deal was signed by the President of Poland on 16 November 2021 leaving payroll specialists not enough time to prepare for the tax revolution. The most difficult challenge for HR specialists was implementation of the relief for the middle-class which constituted an entirely new tax institution.

Due to ambiguity of the new provisions, the first few months of 2022 passed under issuing various and often mutually exclusive interpretations of the Polish Deal which led to concerns of payroll specialists. In connection with controversies, financial impact of Russia’s aggression on Ukraine, including increased level of inflation in Poland, Polish government has decided to re-assess the adopted solutions and has introduced further amendments to the Polish Deal. The most significant changes have been introduced by the Act of 9 June 2022 amending the law on personal income tax and certain other acts (Journal of Laws 2022, item 125). One of the most major changes was liquidation of the relief for the middle class from 1 July 2022 as well as reduction of the personal income tax rate from 17% up to 12% in the first income bracket (up to PLN 120,000 on yearly basis). According to tax specialists, a decrease of the tax rate will eliminate the consequences of liquidation of the relief for the middle class. New regulations also gave the self-employed a right to deduct part of health insurance contributions from their income and as a result, lower the applicable income tax.

While there is no doubt that recent changes are beneficial for Polish citizens, many HR specialists are still afraid of possible audits that may take place in the upcoming years. Making any mistakes in calculation of personal income tax and health insurance contributions may have long-term consequences. Employing entities which make incorrect calculations of public burdens may be held liable for mistakes during an audit of competent authority. Possible claims which may be brought against employing entities are time-barred, however in the event of making decisions obliging employing entities to pay missing contributions or tax, they will be obliged to pay also statutory interest. At the same time, individuals responsible for calculation of tax and social security contributions may receive a fine for infringement of the applicable provisions. For that reason, making final annual tax declarations in 2023 will constitute a big challenge for payroll specialists in Poland.