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UPDATE

on COVID-19

The Belt and Road Initiative Tax
Administration Cooperation Mechanism

EDITOR'S NOTE:

At this critical moment in the world's fight against the COVID-19, the Special Edition of the BRITACOM Update on COVID-19 is issued, aiming to provide a platform for BRITACOM Council Members, Observers and other stakeholders to exchange views and share experience in responding to the outbreak. Issue 17 is an essay on Polish Government's Tax Response to COVID-19 Pandemic. Later we will share more experience of tax administrations from countries and regions and views of international organizations and tax experts with you. If you would like to make contributions to the Special Edition, please contact us via email secretariat@britacom.org or britacom@163.com.

Polish Government's Tax Response to COVID-19 Pandemic

I. Introduction

The rapid spread of COVID-19 is the challenge for all the countries and their economies. The suggestions presented in media show that the COVID-19 pandemic will result in recession. This seems a fairly obvious observation resulting from the growing number of infections in most countries, closing schools and workplaces and promoting social distancing measures, as well as sharp declines on global stock exchanges¹. Undoubtedly, the impact of the pandemic on economy will be very significant, given the scale of the pandemic and the vulnerability of economy².

Poland declared its first case of a person infected with COVID-19 on 4 March 2020. As of 5 May 2020, 14,431 people in Poland were infected, among which 716 people died, and 4,280 people recovered³. The Polish government has introduced containment measures including closure of schools, universities, restaurants (with the exception of take-out and delivery services), and all non-essential retail trade and service outlets; bans on large gatherings; border controls; and travel restrictions. Staff of public sector institutions are working remotely⁴.

Probably, the recession in Poland will not be as deep as that in other European countries, but it will cause a slower growth anyway, especially in the first half of the year⁵. Poland, like other countries, has adopted a number of measures that can stop the negative consequences of the pandemic and ensure a quick economic recovery.

II. The "Anti-crisis Shield"

The special Anti-crisis Shield (Tarcza antykryzysowa in Polish) Act implemented by the Polish Parliament, which came into force on 1 April 2020, offered a wide range of possible measures provided as counter-measures to the COVID-19 pandemic. Also, some additional package of legislative laws related to protective shield act was adopted later. The special Anti-crisis Shield

¹ Ramelli S. & Wagner, A. F. (2020). *Feverish Stock Price Reactions to the Novel Coronavirus*. Swiss Finance Institute Research Paper No. 20-12. Available at SSRN 3550274.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3550274 (Accessed 7 May, 2020).

² Leiva-Leon D., Pérez-Quirós, G. & Rots E. (2020). *Real-Time Weakness of the Global Economy: A First Assessment of the Coronavirus Crisis*. London: Centre for Economic Policy Research.

https://cepr.org/active/publications/discussion_papers/dp.php?dpno=14484, (Accessed 7 May, 2020).

³ https://en.wikipedia.org/wiki/COVID-19_pandemic_in_Europe#Poland, (Accessed 7 May, 2020).

⁴ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P>, (Accessed 7 May, 2020).

⁵ <https://uni.wroc.pl/en/will-the-covid-19-pandemic-cause-a-breakdown-of-the-global-economy/> (Accessed 7 May, 2020).

program consists primarily of the following five areas: financial safety of employees and protection of jobs, finance of business, healthcare, enhancing financial market soundness, as well as public investment plan.

The protective shield act includes special measures like tax measures (e.g. payment deferrals, rate reductions), economic stimulus measures (e.g. loans, moratorium on debt repayments), as well as employment-related measures (e.g. state compensation schemes). The primary objectives of the Anti-crisis Shield are concerned with the purpose on support for companies to enhance business cash-flow and save jobs.

1. Postponing Certain Tax-related Obligations

Postponing certain tax-related obligations is caused mostly by logistic and operational difficulties due to the pandemic. No new obligations should apply in that period, especially such requiring implementing new procedures within a company⁶. These solutions respond to problems, e.g. the need to adapt activities to the new situation and the lack of employees (holidays, and remote work). It is also connected with reducing the financial burden, which will help ensure the liquidity of companies and save jobs.

- Deadlines for filing Corporate Income Tax (CIT) return and making final payments for 2019 are postponed till 31 May 2020 (for CIT taxpayers), and till 31 July 2020 (for non-governmental organizations: taxpayers achieving only tax-exempt income, as well as taxpayers operating in the public benefit sphere, if their revenues from this activity account for at least 80% of all revenues).
- The deadline for advance payments of Personal Income Tax (PIT) advances on employment salary for March and April 2020 is postponed to 1 June 2020.
- Filing the annual PIT return and settling the related tax liability after the statutory deadline, but no later than 31 May 2020, will be treated as filing a voluntary disclosure statement. Tax authorities will not initiate any legal proceedings against individual taxpayers and will discontinue any pending ones.
- Extension of the deadline to 30 September 2020, for submitting a statement on the preparation of local transfer pricing documentation for entities whose tax year or financial year started after 31 December 2018 and ended before 31 December 2019.
- The implementation of the new Value-added Tax (VAT) matrix is postponed to 1 July 2020.
- Selected domestic supplies that contribute to combating COVID-19 will be temporarily VAT zero rated.

⁶ https://www.garrigues.com/en_GB/new/polish-governments-tax-response-fight-covid-19-pandemic.

- Extension of the deadline for submitting a payment notification to an account will not be included in the VAT register (from three days to fourteen).
- Postponing of the obligation to file the new Single Audit File (SAF, declaration and records) from 1 April to 1 July 2020 for all taxpayers (voluntary filing available from May 2020). Employers have more time to work on adjusting accounting and IT systems to the SAF, and IT experts — to do their clients' work related to its implementation.
- Extension of deadlines for tax schemes reporting, including the suspension of ongoing deadlines, but no later than 30 June 2020.
- The implementation of Retail Sales Tax is postponed to 31 December 2020.
- Postponing of the deadline to pay tax on revenues from buildings for March to May, 2020 till 20 July 2020. Reducing the current financial burden by taxpayers who meet certain conditions will be possible, by postponing the deadline for payment of tax on building revenues (the so-called minimum tax on commercial real estate). This action is dedicated to entrepreneurs, who pay PIT and CIT.
- Extension of the deadline for financial reporting — depending on the type of businesses. The deadlines for private and public sector entities as well as non-governmental organizations will be extended by 2 or 3 months, with the preparation of financial statements, the audit by audit firms, approval and making those reports public.
- Tax exemption from 1 July 2020 for transactions of sale and conversion of virtual currencies (within the meaning of Article 2, clause 2, point 26 of the Act of 1 March 2018 on counteracting money laundering and terrorist financing).
- Postponement by three months (to 13 July 2020) of the deadline for reporting the information to the Central Register of Beneficial Owners.

The Minister of Finance will be able to (during the pandemic) issue a regulation implementing different deadlines in relation to: transmission of data, information, declarations, reports, statements, requests, applications, contributions, fees and charges, as well as other deadlines for fulfilling the obligations to register and to draw up, approve, make available and transmit to the competent register, unit or body certain reports or information to assist operators in fulfilling their information and reporting obligations.

Furthermore, taxpayers may apply for deferral of payment of VAT liabilities, including possible payment in instalments and waiver of arrears. Enterprises which are unable to pay taxes on time due to the COVID-19 outbreak can apply for a tax relief or forgiveness of arrears.

2. Loss Carryback

Companies are entitled to carry back tax losses incurred in 2020 and set them off against 2019 income, if the company's turnover dropped by more than 50%. It should be noted that only the maximum of PLN⁷ 5 million loss incurred may be carried-back. This solution can help to ensure increasing the liquidity of entrepreneurs.

3. COVID-19 Donations Deduction

Donations made to health care providers, the Material Reserves Agency and the Central Sanitary and Anti-Epidemic Reserve Base, related to COVID-19 from 1 January to 30 September 2020, are the subject to an extraordinary deduction. The deductible amount will depend on the timing of the donation, as follows:

- By 30 April 2020 — deductible amount shall be equal to 200% of the donation;
- In May 2020 — deductible amount shall be equal to 150% of the donation; and
- From 1 June to 30 September 2020 — deductible amount shall be equal to 100% of the donation.

4. Bad Debts

To tackle with the current financial situation and to reduce the current financial burden, one of the measures is the suspension of application of the provisions in PIT and CIT, concerning so-called "bad debts" to taxpayers whose income is at least 50% lower compared with the previous year, so that the debtor is not obliged to adjust tax deductible costs and input VAT in case of payment delays.

5. Real Estate Tax

The municipal councils have the possibility to introduce an exemption from the property tax for the indicated groups of entrepreneurs for part of 2020, whose liquidity has deteriorated due to negative economic consequences caused by COVID-19. Their second possibility concerns extending, by order of the executive bodies, the deadlines for payment of property tax instalments payable in April, May and June 2020 — but no later than 30 September 2020.

6. Suspension of Tax Proceeding/Inspections

It's possible to apply for suspension of any opened and ongoing tax proceedings on the grounds of personal or public interest. However, the nationwide state of epidemic should be sufficient for suspension, as most tax proceedings are not active currently due to the quarantine.

⁷ The abbreviation of Poland's currency unit.

7. Exemption from Social Security Contributions

Exempting from the obligation to pay social security contributions due for the period from 1 March to 31 May 2020 on certain conditions, among others, for entrepreneurs and/or their employees. The aim of the exemption from social security contributions is to enhance business cash-flow.

8. Wage Subsidy Paid to Employers

For qualifying companies that meet the criterion of recorded losses and decrease in turnover, the government will subsidize employees' salaries up to 40% of the average statutory wage. Employers must pay the same percentage of the employees' salaries whereas employees must agree to decrease their salaries by one fifth. The subsidy will be provided on condition that employers will not make any employees redundant.

9. Subsidies for the Self-employed

The Polish government will subsidize remunerations of people employed on commission and specific-task contracts, as well as self-employed people, up to 80% of the minimum statutory wage, if their income has fallen by at least 15% compared with the previous month, provided that the income in the previous month was less than PLN 15,681 (300% average salary).

10. Deduction of R&D Costs from Income

R&D costs can be deducted from income, which are aimed, among others, at development of products to counteract COVID-19. The deduction from the income of such eligible costs incurred in 2020 is already available during the payment of income tax advances this year. The solution is intended for CIT and PIT taxpayers who achieve revenues from business activities applying the uniform tax rate of 19% and conduct R&D activity used to counteract COVID-19. These are available for large enterprises, sole proprietorships, and small and medium enterprises.

III. Process of Building the Future

What is more, the Polish government have announced the plan of "defrosting" the economy. On 20 April 2020, Poland entered the first of four stages of the government's planned return to a "new normality" and the defrosting of the Polish economy. It means an increase in the number of people allowed to do groceries, visit churches, and participate in recreational activities, and also the re-opening parks and forests, loosening restrictions on the movement of minors above 13 years old without their parents⁸. From 4 May 2020, shopping malls, furniture and construction stores as

⁸ More information see, <https://polandin.com/47727754/economic-defrost-planned-postmay-holiday-govt>.

well as hotels are open with certain limitations. This is the second phase of "defrosting" the economy. The next phases will depend on the number of infections.

The Polish government presented also the idea of introducing the Estonian CIT into the Polish tax system. Under the Estonian CIT model, an enterprise's profit is not taxed when it is generated, but when it is distributed to the owners. Because it is charged on profit that leaves the enterprise, and can finance shareholders' consumption, this is an incentive to keep profit within the company⁹. Deferral of tax payment until the moment of distribution of profits is a highly investment-friendly approach¹⁰. This solution may be effective in encouraging the entrepreneurs to invest and develop their businesses.

Additionally, Ministry of Finance of Poland has created the "Głos podatnika" (taxpayers' vote) portal. By using this portal, taxpayers and enterprises can propose changes in law.



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⁹ Leszczyłowska A., Łożykowski A. (2020). *Could the Estonian CIT model be a lesson for Poland?*, mBank – CASE Seminar Proceedings No. 163/2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3586509, 7.5.2020.

¹⁰ Ibidem.