



# Tax Alert

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## “The Polish Deal” – proposed changes to the Polish tax system

### Important changes for employers

#### Changes to the tax scale

The Polish Deal provides for an increase in the tax-free amount to PLN 30 000. All persons whose income is subject to taxation according to the tax scale will benefit from the increased free amount.

The proposed regulations also provide for an increase in the income threshold from which a higher 32% PIT rate will be applied to 120 000 PLN. Income up to PLN 120 000 will be subject to 17% PIT.

Tax scale	Income threshold	Tax free amount
17%	Income up to PLN 120 000	PLN 30 000
32%	Income exceeding PLN 120 000	

Currently, the maximum tax-free amount is PLN 8 000. The tax-free amount may only be claimed by persons with income not exceeding PLN 127,000, while the tax-free amount is reduced accordingly in the case of income exceeding PLN 8,000.

On the other hand, a 17% PIT rate currently applies to incomes up to PLN 85 528, while incomes exceeding this threshold are taxed at a higher 32% PIT rate.

#### Health insurance premiums not deductible from PIT

The proposed regulations provide that health insurance premiums cannot be deducted from PIT. The change will affect, among others, employees, contractors and other persons receiving income taxed according to the 17-32% scale.

Lack of the possibility to deduct health contributions from PIT in many cases will result in a decrease in net remuneration. The effects of this change will be felt most strongly by those who receive income from titles other than employment contracts and employees whose annual salary exceeds PLN 133,692.

Employees whose annual salary does not exceed PLN 133,692 will be able to take advantage of an additional relief, the so-called middle class relief, which will compensate for the lack of possibility to deduct health insurance premiums.

The health insurance premiums amount to 9% of the assessment basis (as a rule, the amount of remuneration). Currently, 7.75% of the contribution assessment basis can be deducted from PIT. The effective cost of the contribution - what is to be paid over and above the tax amount - is only about 1-1.25% of the salary.

#### Middle-class relief

The Polish Deal provides for the introduction of a new relief for persons earning income from an employment contract, contract of supervised employment, service relationship or co-operative employment relationship, whose annual remuneration is between PLN 68 412 and PLN 133 692.

The so-called middle class relief will reduce the PIT tax base. The relief will be applied already during the year, when calculating the PIT advance payments. Depending on the amount of the salary, the amount of the relief will be from several to several thousand PLN. For example:

Annual salary	Amount of relief
70 000	631
102 589	13 444
133 692	4

## Board members covered by healthcare contributions

The Polish Deal envisages that board members remunerated on the basis of a resolution will be subject to a health insurance contribution. The health insurance contribution will be calculated at a rate of 9% on the amount of the entire remuneration paid on account of the appointment. The contribution will not be deductible from PIT.

Currently, board members receiving remuneration based on a resolution are not required to pay health insurance premiums. The change will result in a significant decrease in the net remuneration of board members.

## Flat rate for cars

The proposed regulations provide for changes in the application of a lump sum for the use of a company car for private purposes by employees. The lump sum under the new rules is to amount to:

- PLN 250 per month - for cars with an engine power of 16 kW, electric and hydrogen-powered vehicles, and
- PLN 400 per month - for other cars.

Currently, the amount of the lump sum depends on the engine capacity, and a lower rate applies to cars with engine capacity of up to 1600 cm<sup>3</sup>.

## Tax and social security penalties for illegal employment

The Polish Deal introduces mechanisms to counteract 'illegal employment'.

Illegal employment within the meaning of the proposed regulations is employment by an employer of a person without confirmation in writing, within the required time limit, of the type of agreement concluded and its terms and conditions, and failure to register the employed person or the person performing paid work on the basis of other title to social insurance.

The income of a person employed "illegally" will be exempt from PIT. At the same time, the entity that "illegally" employed the person:

- will not be able to include the remuneration paid to him/her in tax deductible costs, unless he/she has disclosed this remuneration to the relevant authorities;
- will be obliged to recognize taxable income in the amount of that undisclosed remuneration;
- will be obliged to finance the employee's social (employer's and employee's share) and healthcare contributions;
- will not be able to deduct the amounts of the contributions paid as tax deductible costs.

Currently, there is no tax legislation that addresses the issue of "illegal employment" in such detail.

Contact us:



**Piotr Andrzejak**

Partner, attorney-at-law,  
tax advisor

① +48 660 617 037

✉ [piotr.andrzejak@sksglegal.pl](mailto:piotr.andrzejak@sksglegal.pl)



**Małgorzata Krok**

Associate, attorney-at-law,  
tax advisor

① +48 883 391 694

✉ [malgorzata.krok@sksglegal.pl](mailto:malgorzata.krok@sksglegal.pl)

