



Building a better working world



Higher taxes for Polish taxpayers and some foreign companies (New Polish Deal)

How to minimize the negative effects of the rising taxes?

With the work on the New Polish Deal accelerating and the first proposal published on 26 July 2021, the new regulatory framework will affect multiple areas of life, in particular income taxes.

The proposed tax changes are scheduled to take effect on 1 January 2022.

What changes are expected?

- ▶ The effective tax rate for employees will increase by 7.75%* as a result of health insurance tax deductions being canceled
- ▶ Personal service contracts should be treated as employment contracts for the purpose of social security charges
- ▶ Progressive health insurance contributions for the self-employed as an ultimate tax charge (no longer deductible from tax)
- ▶ A company established in a foreign jurisdiction will be required to pay income tax on its worldwide income as long as its board members are Polish tax residents living or established in Poland
- ▶ A lower flat tax rate for self-employed IT and ITC specialists (12% instead of 15%) if they elect the specific regime
- ▶ The lower threshold of the upper 32% tax bracket to be raised from PLN 85,528 to PLN 120,000
- ▶ The tax-free amount possibly increased to PLN 30,000 annually for each person working under an employment contract
- ▶ The scope of the existing innovative R&D and IP Box allowances to be extended
- ▶ Remote work to be regulated (including a remote work allowance or fixed benefit)
- ▶ A special Investor Desk supporting foreign companies to be implemented

* of the healthcare contribution assessment basis

Impact of the changes

- ▶ Each employee earning over €35 000 (PLN 160 000) gross per annum will receive a lower take-home salary from 2022 onward - see the calculations below
- ▶ Increased employment costs of well-qualified labour - both foreign and domestic
- ▶ Companies established abroad to be taxable on their worldwide income
- ▶ Pressure on employers to compensate the increase of taxes for mid-level and executive staff (staff insisting on gross-ups) even stronger due to the rising inflation rate



Calculation #1 - Employment gross salary of €50 000 per annum - €4 166 gross per month

| Year | 2021 | 2022 and next years |
|---|--------------------------------|--------------------------------|
| Gross salary | €50 000.00 | |
| Take-home salary | €32 977.19 | €31 729.15 (€-1 248.04) |
| Employer's total cost | €57 686.82 | |
| Employer's total cost to equalize 2021 net salary | €59 946.85 (€+2 260.03) | |

Calculation #2 - Employment gross salary of €120 000 per annum - €10 000 gross per month

| Year | 2021 | 2022 and next years |
|---|-----------------------------------|--------------------------------|
| Gross salary | €120 000.00 | |
| Take-home salary | €78 557.41 | €72 017.19 (€-6 540.21) |
| Employer's total cost | €130 640.82 | |
| Employer's total cost to equalize 2021 net salary | €142 483.81 (€+ 11 842.99) | |

As the calculations show, the higher the gross annual salary, the higher the projected loss in terms of net salary.

Call for action

Given the planned amendments scheduled for 1 January 2022, it is advisable to:

- ▶ Review the current employment policies and remuneration structures in terms of the impact of and the opportunities and risks arising from the new law
- ▶ Verify various secure cooperation models with well-qualified labour staff and management to ensure compliance
- ▶ Carry out a simulation of total cost increases, response-to-change scenarios, handouts and consultations with representatives of head offices or decision-makers or business owners
- ▶ Analyse current assignment policies (gross-to-net calculations and TEQ Policy) in terms of:
 - ▶ Host country salaries in Poland
 - ▶ The Cost of Living Allowance due to the rapid growth of inflation in Poland (over 5% per annum)
- ▶ Review the existing incentive programs or introduce an incentive program in terms of eligibility for a stock option plan with preferential tax rates and the employer's nil costs
- ▶ Look for opportunities to improve cost-effectiveness - a review to discover sources of potential cost savings

How can we help you?

If you choose to work with us, you will:

- ▶ Learn the impact of the changes, identify potential response-to-change scenarios and get a road map of eventual changes
 - ▶ Be ready to respond to your employees' doubts, worries and expectations
 - ▶ Receive tailored and end-to-end support to help you embrace potential changes inside your organization to:
 - ▶ Ensure compliance with the Polish law and market practice; and
 - ▶ Be recognizable as a competitive and modern company on the Polish labour market
- If you need professional and comprehensive support to adapt to the changes, we will be pleased to help you analyse the current structure and documents, identify the tax consequences, propose appropriate changes and, if needed, help you effectively communicate with your employees who might feel affected by the planned amendments.

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