

Tax Compliance in Poland

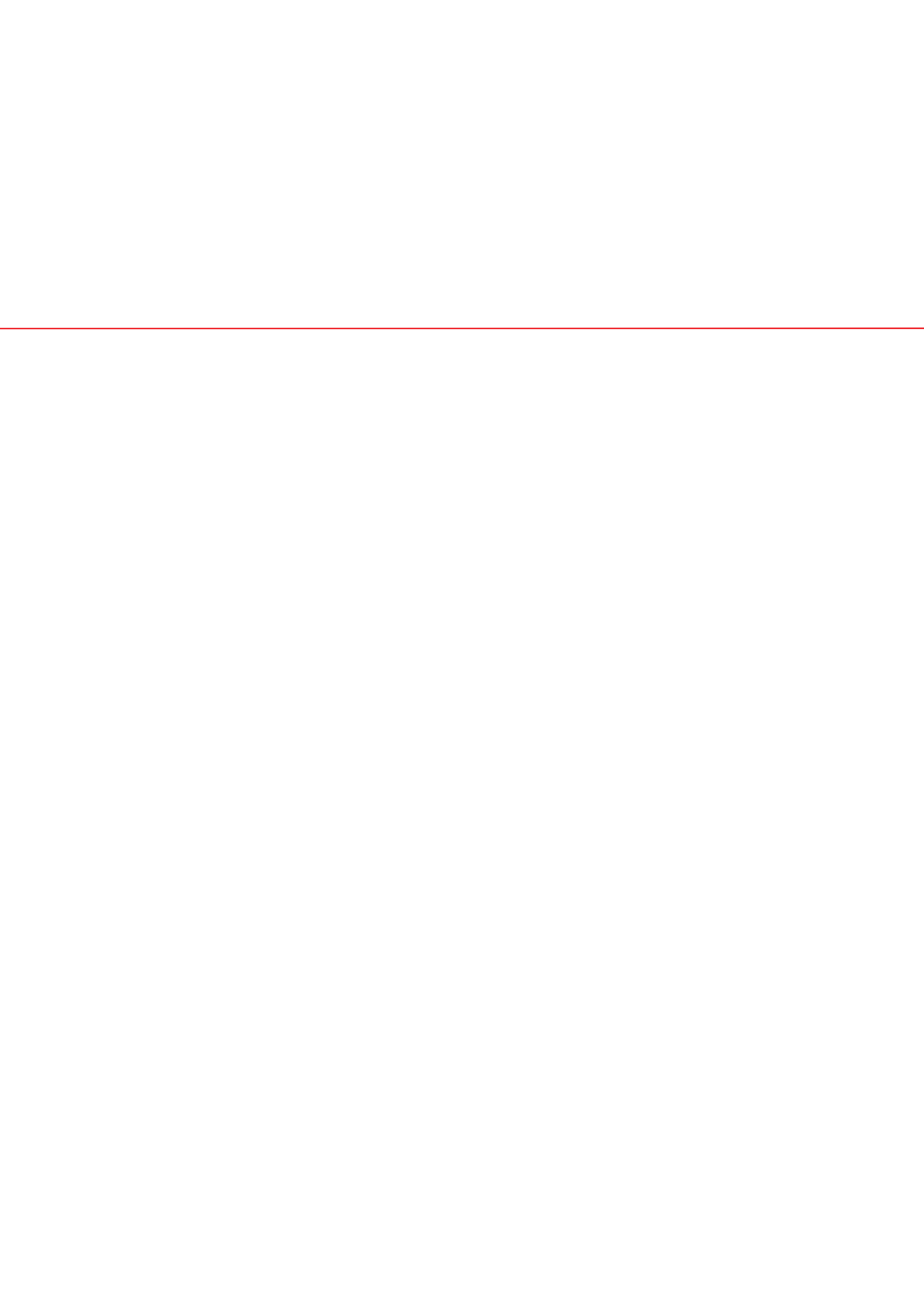
How much time do companies need to duly
comply with reporting obligations?

The results of a survey among
Swiss companies in Poland

June 2020

 **E Swiss**
Chamber Poland

 Grant Thornton



Foreword

Ladies and Gentlemen,

This report was inspired by and prepared at the request of the financial officers of member companies grouped in the Chamber.

They strive to correctly settle taxes and fulfil all the reporting obligations so that they can present a company free of compliance risk to their principals.

However, this professional aim most often remains a utopia. Why is that so?

Changes in the **Polish tax law** are so frequent that it is difficult to keep up with them. Consequently, not only do enterprises themselves devote a lot of time to monitoring regulatory changes, but over 80% of them use the services of tax consultants as well (see page 9). As far as medium and large enterprises are concerned (i.e. with turnovers above EUR 10 million and/or more than 50 employees) the rate comes closer to 90%.

An omission or oversight in tax settlements could mean criminal-fiscal consequences both for companies as well as individuals. The problem is not that intended omissions or fraud are prosecuted, but it is rather the vagueness of many regulations and sanctions that are quite often inadequate to the offence; in short: **oppressiveness**.

One of the attributes of a conscientious financial director is, on the one hand, the conviction that through the fault of a capricious and volatile regulatory environment, they will never be able to be 100% sure that they have made certain that the company meets all the expectations and that the Management Board can rest easy.

On the other hand, there is often a **misapprehension from the HQs** (which, in our case, are usually located in Switzerland). There are also claims that the financial officer fails in handling their responsibilities or cannot understand a situation or underestimates risks. HQ also frequently asks why the financial department is so large, and what is the point of engaging those expensive tax experts, especially since their interpretations are not always explicit.

But the numbers speak for themselves. According to the World Bank's Doing Business report, it takes twice as much time to settle taxes in Poland as in high-income OECD countries. **As compared to Switzerland it takes more than five times longer to settle taxes in Poland.**

The report not only shows the regulatory reality that companies have to face in Poland, but also contains instructions from selected financial officers how the related time burden may be reduced. One thing is certain: – acquiring a **high-quality business environment calls for dialogue**. "Social consultations in the course of the legislation process contribute to the stability and predictability of the business environment. Effective social consultations build trust and confidence" (IGCC – business environment rules).

The report is also a declaration to the legislator that the companies grouped in our Chamber are invariably ready to participate in the consultation of tax laws.



Marek Szymański
PRESIDENT
Polish-Swiss Chamber
of Commerce



Ulrich Schwendimann
MANAGING DIRECTOR
Polish-Swiss Chamber
of Commerce

For companies, red tape has primarily two sides. One of them includes the changes in law.

Following Grant Thornton's calculations, the year 2019 saw 21.5 thousand typed pages of bills and regulations entering into force. So many changes in the law put a high burden on all enterprises. However, there is still one more thing, so well-known to Polish enterprises. This is the so-called **reporting obligation**. Not only do an entrepreneur and their employees have to keep up to date with changes in law, e.g. tax law, be able to correctly implement the regulations and settle accounts of their operations, but they have to meet various kinds of reporting obligations towards different institutions as well. They have to submit returns to the tax offices and send the SAF-Ts, they have to complete the data in the National Bank of Poland (NBP) reporting system and send regular reports to Statistics Poland (GUS). They have to report to the State Fund for Rehabilitation of Disabled People (PFRON), Energy Regulatory Office (URE) or local government offices... It's a job that costs a lot of energy, and failure to fulfil these obligations so often subject to drastic penalties. And we have set ourselves the goal of presenting this problem to you.



Marcin Diakonowicz
PARTNER, AUDIT
German Desk Leader
Grant Thornton



Małgorzata Samborska
DIRECTOR
Tax Advisory
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Key conclusions

Survey

4552

The total number of hours (in-house and outsourced) spent by the surveyed Polish companies to fully comply with the reporting obligations towards public governmental authorities.

2,8

Number of FTPs needed on average to comply with the reporting obligations, with the assumption of continuous work eight hours a day.

208

The number of documents that a medium enterprise (employing 50-250 persons) operating in Poland needs to file, on average, with public institutions annually.

The survey was carried out in April – May 2020, among a group of 32 member companies of the Polish-Swiss Chamber of Commerce. The respondents included both CFOs and chief accountants, while referring to their companies' situation in the calendar year 2020.

Parameters of the companies that responded to the survey:

Turnover

Less than EUR 10 million	25%
EUR 11-100 million	53%
More than EUR 100 million	22%

Headcount

Up to 49 employees	35%
50-499 employees	34%
500 and more employees	34%

Activity type (multiple choice)

Commerce/service	66%
Manufacturing	34%
SSC	22%

Companies that took part in the survey:



Reporting: in-house

Companies in Poland spend over 2.7 thousand hours of their employees' work annually to settle taxes and do reporting. They have to assign 1.7 financial specialists employed full time (1.7 FTPs) for this task alone.

The survey shows that enterprises in Poland devote 2.7 thousand hours on average, i.e. 339 full business days, to meet the formal obligations in the area of tax and finance. Considering the number of business days in a calendar year minus the statutory vacation leave and public holidays (which gives 227 business days in

a year), this means that enterprises need to delegate specialists within their finance teams in the amount of 1.7 full-time positions' time to be able to carry out the reporting obligations (not to mention many other tasks assigned to such teams).

As far as large enterprises are concerned, the reporting obligations are even more burdensome. A large enterprise, on average, devotes over 4.9 thousand hours for reporting annually, which means that they need to fully engage as many as 3.2 specialists (working continuously).

Chart 1. Time spent by the surveyed companies on settling taxes and doing financial reporting towards the financial regulators.

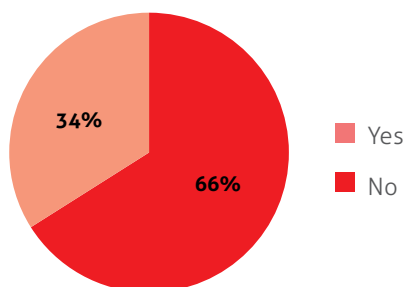
	Hours	Working days	FTP
Micro and small	869	109	0,6
Medium	1029	129	0,7
Large	4927	616	3,2
TOTAL	2709	339	1,7

Reporting: outsourcing

In addition to the above described activities carried out by enterprises in house, certain reporting-related tasks are outsourced. Thirty-four percent of the respondents use that type of support.

Considering the scale of the required reporting-related work, their complexity and the volatility of the related regulations, many enterprises decide to outsource the activities in question. In accordance with our survey, 34 percent of those polled declared that they used the support of outsourcing companies, i.e. specialised shared services centres SSC or business process outsourcing (BPO) entities operating as part of capital groups.

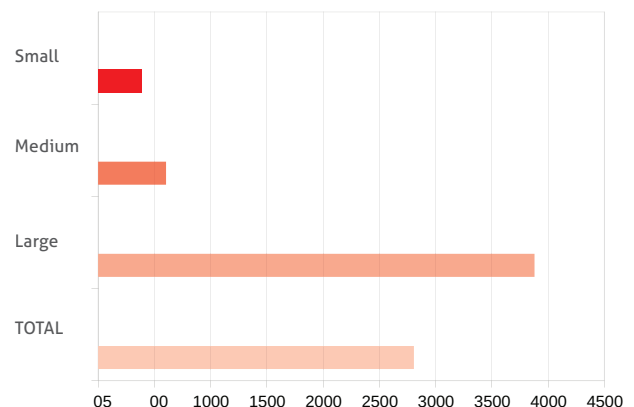
Chart 2. Do you employ BPO or SSC to do reporting-related activities?



Companies that use that type of support, declare that they outsource 2.8 thousand hours of work on financial reporting on average, i.e. over 1.7 full time employed expert's work working eight hours a day annually. As far as large enterprises are concerned, it is nearly 4 thousand hours, i.e. over 2.4 FTPs.

Therefore, if the number of declared hours (2.8 thousand) is multiplied by the percentage of those outsourcing the reporting tasks (34%), the average number of hours across the group of the surveyed enterprises will amount to 954 hours annually.

Chart 3. How many hours annually do you outsource to BPO and SSC in individual areas? (answers from the respondents who answered yes to the previous question)



Reporting: taxes

A vast majority of companies also choose to support their financial teams with the services of tax consultants. They award, on average, 313 hours of support to tax consultants annually. Additionally, the companies have to spend as many as 364 hours on monitoring changes in the tax law.

Another form of outsourcing a part of the tax settlement-related work is to use the services of tax consulting companies. In accordance with the survey, 81% of the respondent companies have established permanent cooperation with such providers. Annually, they outsource tasks taking 313 hours on average to tax advisors. For one-half of the companies the cost of such regular services does not exceed PLN 50 thousand annually. For 23% of the companies, the cost ranges between PLN 50-200 thousand, while 27% of companies pay even bigger sums for that kind of service.

The need for support from tax advisors is mainly attributable to the high volatility of the tax law in Poland. In accordance with Grant Thornton's calculations, the years 2018-2019 saw 518 typed pages of amendments entering into force. This means that as much as 31% of tax laws content has been „replaced“ with new content. Many companies are unable to monitor regulatory changes on their own, which is why they seek support from external experts in this regard.

Chart 4. Do you permanently engage tax consultants?

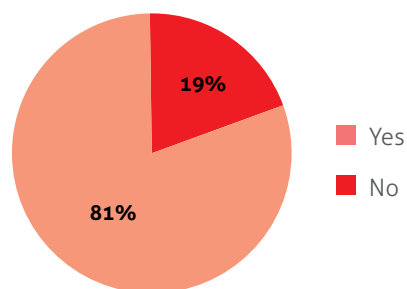
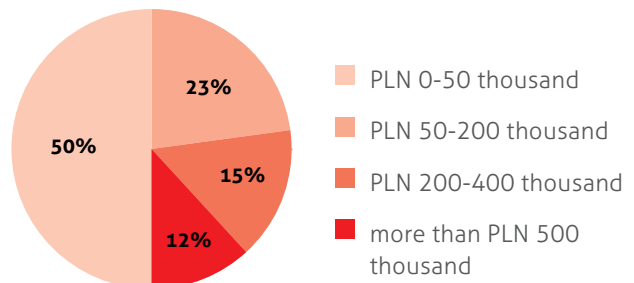


Chart 5. If yes, what is the cost per year?



Average number of hours assigned: 313

Average number of hours spent on monitoring changes in the tax law: 362

Reporting: IT programming

Considering the high volatility of tax regulations and the digitalisation of tax processes, companies increasingly often also need a regular support from IT programmers to have the IT financial systems updated.

Recent years saw the intensive digitisation of financial processes, including tax processes. Firstly, companies are digitising their accounting processes themselves, increasingly introducing the automation of accounting processes and shifting from paper to digital. Secondly, the Polish tax administration is also going through a digital revolution. The imposition of the obligation to report input/output VAT settlements within the Single Control File on Polish companies has initiated a long process of transferring all financial reporting to the digital space, which will spread over years.

Both of the above-described phenomena mean that the financial departments of Polish companies must increasingly often cooperate with IT services in order to be able to automate accounting processes and implement the regulatory changes to their ICT systems.

Chart 6. Do you regularly engage external IT experts for the implementation of changes in financial systems?

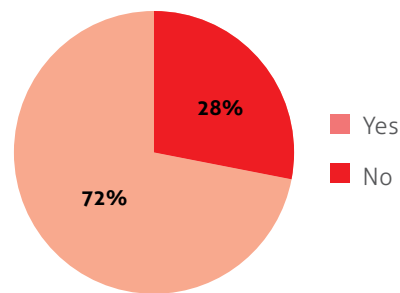
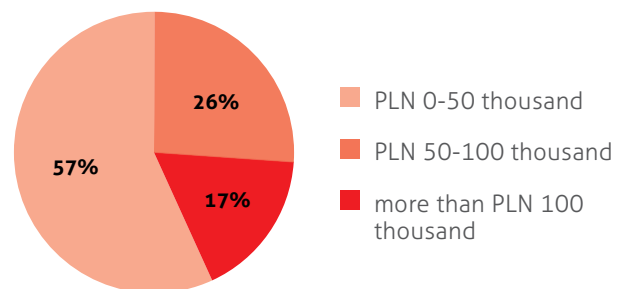


Chart 7. If so, what is the cost per year?



Average number of hours spent on IT implementations annually: 214

Reporting: total

IN-HOUSE

2709

Hours spent on average annually by the surveyed companies in Poland to do the financial reporting...

OUTSOURCING

954

hours spent on reporting outsourced by the surveyed companies (to BPO and SSC)...

PROVIDERS

527

hours awarded to tax consultants and IT programmers supporting the financial systems ...

REGULATION

362

... hours spent on monitoring changes in the tax law.

TOTAL: 4552 hours = 2,8 specialists employed full time (full time positions)

Time needed to do settlements and reporting by specific types:

VAT	37%
PIT+CIT	26%
Transfer pricing	10%
Statistics Poland reporting	10%
Standard Audit File	6%
Withholding Tax	5%
Other reporting	3%
National Bank of Poland reporting	2%

Printouts and other forms, returns

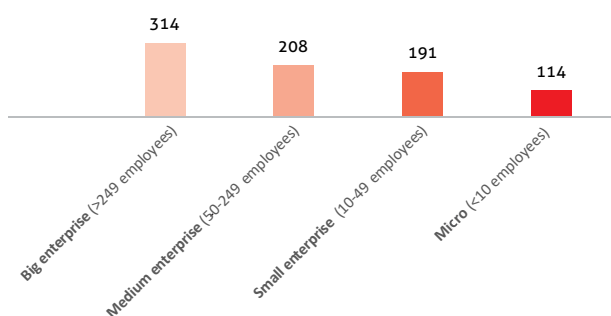
In 2019, a medium-sized company operating in Poland had to file 208 printed forms, on average, with public institutions. Even micro-enterprises had to submit more than 100 returns.

Regardless of what kind of company we are talking about, be it a micro-, small, medium or large enterprise, the number of documents they have to fill in and file with the authorities goes into the hundreds. Following Grant Thornton's estimates, a statistical Polish large enterprise currently has 314 forms to fill in annually. The accounting department has to fill in and submit one return daily on average to the fiscal authorities.

While large companies can afford such an effort, because they can afford support from accounting experts, smaller companies cannot avail themselves of such a service, and, as far as they are concerned, the obligation is a considerable one.

Chart 8. The average number of reporting components (printouts and other forms, returns, etc.) that a statistical company of specific category had to file with the public institutions in 2019.

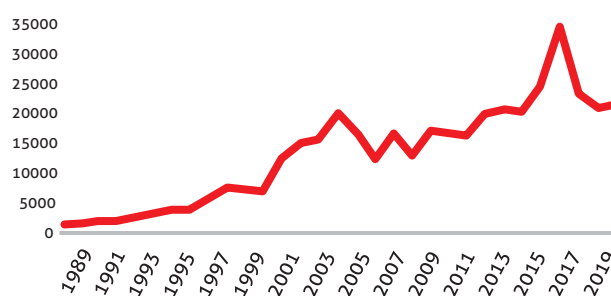
Source: Report by Grant Thornton „2019 Companies Reporting“



The high volatility of Polish law is another problem. In 2019, new laws of top priority were passed in the amount of 21.5 thousand typed pages (2.5% more bills and regulations as compared to 2018 - one of the highest results in history). In 2019, an entrepreneur or a citizen who wanted to be certain that he or she was up to date with changes in the law would need to spend 2 hours and 52 minutes every business day just on reading the legislation (with the optimistic assumption that it takes 2 minutes to read one page of legislation). However, even this would be insufficient, as the vast majority of legal acts were merely modifications of pre-existing legislation. In order to know their significance, one would theoretically have to read the consolidated texts of legal acts as well, and this would require up to several hours a day.

Chart 9. The number of pages of legislation (laws, regulations and international agreements) published in the Polish Journal of Laws (Dziennik Ustaw) in a specific year.

Source: Survey by Grant Thornton, www.BarometrPrawa.pl



Sanctions for errors in settlement and reporting

Omissions in tax settlements or reporting may entail fines to the tune of millions of Euro. Regardless of whether you are a corporate body or an individual, you may face such a fine.

The main sanctions that taxpayers in Poland face for improperly complying with tax reporting obligations are those provided in the Fiscal Criminal Code. In particular, sanctions are imposed for tax evasion, failure to disclose the object or the basis of taxation to the competent fiscal authority or failure to submit a declaration or return, or the submission of a declaration, however, an incorrect one, and for unreliable or erroneous bookkeeping. A penalty may also be imposed for failure to notify the fiscal authorities of a person appointed to calculate and withhold taxes and remit them in due time to the fiscal authority.

An advantage to these forms of liability is the possibility to declare and exercise the so-called "active repentance", i.e. to correct an error on one's own initiative and notify the authorities of this fact, thus averting penalties. A disadvantage is the risk of personally facing a typically "criminal" sanction, i.e. penalty of the deprivation of liberty or, for example, a ban on conducting

a specific business activity, practicing a specific profession or holding a specific position. Such a penalty cannot be "shifted" to the company on behalf of which the individual concerned was acting.

The range of penalties is enormous - a fine theoretically may range from PLN 260 up to nearly PLN 25 million. The amount of the fine depends on the circumstances of the case, in particular, the degree of culpability, e.g. whether the individual concerned was acting in good faith or whether they exercised due diligence, i.e. whether there are appropriate tax procedures in place at the company and whether guilt can be attributed at all to a specific individual. As far as minor cases are concerned, a fine of PLN several hundred or several thousand should be expected.

Importantly, punishing an individual does not exclude punishing the entity concerned, i.e. taxpayer.

In addition, recently, the Polish legislation has also introduced administrative penalties that may be derived from legal acts other than the Fiscal Criminal Code, e.g. under the STIR regulations or for failure to implement the internal tax schemes reporting (MDR). In the latter case, the penalty may even exceed PLN 21 million, even though regulations are extremely unclear and vague on many points.

Experts commentaries

- **How do you assess the workload associated with tax settlements and other financial reporting in Poland?**
- **What tax and financial reporting related areas are the most burdensome for you?**
- **What should be changed going forward to make regulations more company-friendly?**

Digitalisation will bring relief



Łukasz Zarzeczny
Financial Director,
Axpo Polska Sp. z o.o.

Many studies have shown that settling taxes in Poland requires much more work than, on average, in the EU. In recent years, the workload has significantly increased in connection with new requirements and closing

loopholes in the tax collection system. In addition to other reporting requirements that financial departments have to fulfil, this has become an increasing burden for companies.

The digitalisation of processes by enterprises is definitely one way to reduce the time required to perform this work. While the uniformisation and the elimination of duplicated requirements by the tax authorities (like the SAF-T or VAT returns) will definitely bring us closer to this goal.

Organisational and financial effort



Alicja Ciwińska
Financial Manager,
Franke Polska Sp. z o.o.

The settlement of taxes and reporting to tax authorities and state institutions, such as Statistics Poland (GUS) or the National Bank of Poland (NBP) is a very complex undertaking, one that requires a lot of work and

entails employing additional personnel to handle legal requirements associated with tax reporting and settlement, as well as day-to-day and frequent cooperation with tax advisors to properly interpret the law. The relevant legal requirements represent a big challenge for integrated financial and operational systems, which were not designed to handle them. Their modification poses a big challenge for the central IT departments of our companies and is a serious cost burden for companies.

Poland is a European leader when it comes to introducing new and detailed tax reporting regulations, which is a big accomplishment of the Polish government

and at the same time a huge financial challenge for companies, given the relatively short deadlines set for implementing them by taxpayers.

I see big possibilities of introducing company-friendly changes that will result in providing the required tax information to the government administration by:

- a) limiting the number of audit files i.e. SAF-T Invoice (JPK Faktura) because the data included in this file is also included in the new standard audit file JPK V7M used for reporting the VAT tax;
- b) creating a standard information system for tax and government authorities – at least when it comes to reporting to tax offices and Statistics Poland, because a lot of the same information is reported twice to the same institutions (also as regards the Statistics Poland reports, the same data has to be re-entered in separate reports);
- c) consolidating reporting of trading in goods concerning the EU VAT tax and Intrastat to create a standard reporting system without duplicating this information in two reports.

Poland's uphill battle



Bartłomiej Cedro
Tax Manager,
Nestlé Polska S.A.

The Polish system of tax reporting has been undergoing substantial modifications for some time now. Some of these modifications are triggered by international regulations initiated by the EU or the OECD, but others, and here I am referring to

many burdensome measures and obligations, are of our own making. I am specifically referring to the mandatory disclosure requirements (MDR) whose scope is much broader than what is required under the relevant EU Directive, while penalties for infringements are disproportional and much more severe than in the neighbouring countries. One should bear in mind that the objective of this legislation was to fight against aggressive tax planning; it wasn't the obligation to report standard business transactions, such as the payment of a dividend to a foreign shareholder.

Administrative obligations imposed on Polish taxpayers of tax deducted at the source arising from, among others, the definition of the real beneficial owner of income and the duty of care are another problematic area. Let us note that for over one year now, those Polish taxpayers who have been trying to fulfil this obligation had to base their analyses on the tax explanations provided by the Minister of Finance in a document that continues to have the status of a draft. The nature of drafts is that they may be different from the final version. Postponement of the new tax collection mechanism does not have to accept the interpretation that the entrepreneur had adopted. In addition, interpretation proceedings conducted by tax authorities to issue an opinion on the application of a WHT exemption have been dragging on, thus adding to Polish taxpayers' uncertainty and risk of doing business.

I believe that in the areas mentioned above there is a necessary and urgent need to change regulations and to introduce effective administrative procedures that will allow entrepreneurs to reduce

uncertainty. More broadly, I would suggest basing tax regulations concerning cross-border transactions on the accomplishments of the international doctrine, instead of creating rules specific for Poland which foreign partners sometimes find difficult to comprehend.

Reforms with a plan, not by surprise



Tomasz Dankowiakowski
Financial Director,
Geberit Sp. z o.o.

The need to modify and adjust financial and accounting systems to the changing tax regulations (SAF_V7 reporting, identification and monitoring of transactions with tax-deductible cost limits, transactions subject to WHT...) are the most burdensome and ones that generate the biggest formal and business risks. A problem in this regard is not only the scale and depth of the required modifications, but first and foremost the time-limits for implementing them.

A tax law that is stable and made in a predictable way – first announcing and then postponing the dates on which amendments are introduced (split payment, SAF_V7 return, the new VAT matrix) only adds work (often a lot of it). Perhaps it would be better to initially accept somewhat less ambitious plans in return for an opportunity to successfully implement them?

My dream would be to modernise our tax system based on a medium- / long-term agenda developed and consulted with the parties concerned so that all of them, instead of being surprised by the implementation of the split payment mechanism, for instance, or (perhaps eventually) a central invoice register, could

prepare themselves for such changes well in advance.

I sincerely believe that this could lead to the creation of many innovations or initiatives that will support or outright strengthen measures undertaken by the tax authorities.

I am still hoping for a fuller unification of financial and tax accounting... so that it would not be necessary, in the case of standard business transactions, to work against different deadlines depending on whether we are doing accounts or taxes like when we have to determine a separate foreign exchange rate for business records, CIT or VAT taxes each time.

More obligations generate higher costs



Emilian Dziemiańczuk
Financial Director,
Hilti (Poland) Sp. z o.o.

Tax changes are increasingly far-reaching and complex and require a significant engagement of expert resources. The number of changes and the short time given to implement them (specifically when it comes to the VAT) generates a significant

workload and makes it harder to manage human resources, thus increasing the costs of doing business. A bigger workload and unpredictability lessen the attractiveness of the financial and accounting professions and create challenges in building clear career paths and recruiting experts.

Compliance with regulations entails higher operating costs arising from the higher demand for tax and accounting experts. Implementing changes in an environment of integrated systems of the SAP type is

also a big challenge on account of the fact that changes in Poland far exceed the requirement and standards adopted by other European countries. This calls for engaging people with IT experience and knowledge.

Current VAT amendments and unclear MDR rules represent the biggest complication today. In addition, tax experts have provided radically different interpretations of the MDR, which makes it difficult to develop effective solutions in a company.

From the Ministry of Finance's perspective, the implementation of a detailed map of changes to be consulted with the business community (social consultations) in advance, would significantly contribute to the better planning of resources in companies. In some situations, even the MoF has eventually decided to postpone the implementation of changes which represents poor planning in terms of earlier invested capital. In addition, a shorter and more consistent interpretation by the MoF would contribute to reducing the time dedicated to tax related matters in Poland.

and shared services centres. The introduction of significant changes and reporting requirements often entails carrying out an in-house project that takes up a lot of time of employees, consultants and advisors.

Cooperation at the stage of drafting amendments and a pilot approach, with which business is so familiar, would allow to better specify the expectations of the Administration bodies and to introduce them faster, while Entrepreneurs would benefit from a smaller number of amendments. The time allotted to Entrepreneurs to implement changes, given the increasing dispersion of financial processes support, requires extra effort on the part of the Finance Department as well as other departments, apart from generating additional costs.

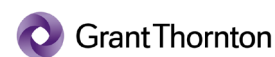
Business should be treated as a partner



Cezary Pisowodzki
Financial Director,
Syngenta Polska Sp. z o.o.

In my opinion, the answer lies in partnership and cooperation between the competent bodies of the Administration and Entrepreneurs at each stage of amending the law. Drafting and then implementing amendments entails great effort on both sides. Entrepreneurs, irrespective of their size, are increasingly resorting to standardized financial processes

About us



The Polish-Swiss Chamber of Commerce is the biggest platform for Polish-Swiss business contacts. It groups and represents the large majority of Swiss companies operating on the Polish market. It assists in developing Polish-Swiss business contacts and promotes Switzerland in Poland and Poland in Switzerland.

The Chamber facilitates the exchange of information and experiences and promotes inspiring meetings. By driving projects addressed to various sectors and professionals, the Chamber supports its member companies in the implementation of their business objectives.

The Polish-Swiss Chamber of Commerce with its registered seat in Warsaw was incorporated in 1998.

The Chamber is a voluntary association organised under the Polish law and is not supported from public subsidies. At present, the Chamber groups approximately 200 members, an updated list of whom is available at: www.swisschamber.pl

Grant Thornton is one of the leading auditors-advisory firms worldwide, present in 140 countries and employing over 56 thousand people. We have been operating in Poland for 27 years. A team of 700 employees support our clients in areas such as: audit, tax consulting, transactional consulting, payroll and HR outsourcing and accounting outsourcing.

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