



Revision of personal income tax in Poland: increase in the tax-free allowance for the lowest earners

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A new tax-free allowance is in force in Poland since January 2017. It replaces the universal and flat rate allowance, which was low and non-indexed. The new benefit is higher for low earners and decreases with income, down to zero. The reform has been well received though it involves budgetary costs.

Description

The Polish personal income tax (PIT) follows a progressive scale – 18% for annual incomes under PLN 85,528 (EUR 19,662) and 32% for higher incomes – and includes a number of possibilities for tax relief, among them a tax-free allowance. In 2007-2016, the latter was fixed and unique for all taxpayers: PLN 3,091/EUR 711 per year (or PLN 258/EUR 59 per month), resulting from the annual deductible tax figure set at PLN 556.02/EUR 128 and applied universally.

Both the level and stability of the tax-free allowance raised concern among experts and social policy makers. They noticed that the level was very low by international standards (compared to the countries implementing this instrument). But more importantly, it was lower than the subsistence minimum for singles (calculated at PLN 544-6/ EUR 125-6 per month in 2014-2015), and lower than the social assistance thresholds. Based on these arguments, in October 2014 the Ombudsperson sent a petition to the Constitutional Tribunal questioning both the level and lack of indexation of the tax-free allowance. The Tribunal, in its judgment of October 2015, accepted the arguments and ordered the introduction of relevant changes to the PIT within a year.

In response to this requirement, in November 2016 the parliament adopted an amendment to the Act on Personal Income Tax, effective from January 2017. The new rule increases the tax-

free allowance for the poor and reduces it for the well-off; it also foresees an annual revision of its level.

Under the new provision, if a taxable income is up to PLN 6,600/EUR 1,517 per year, the amount annually deductible from the tax is PLN 1,188/ EUR 273, and this means that no income tax is levied. For taxpayers with annual incomes from PLN 6,600 to PLN 11,000/EUR 2,529, the deductible amount is being reduced gradually, following a specific formula, down to PLN 556.02/ EUR 127.83. For those in the income brackets from PLN 11,000 to PLN 85,528 a year, it is equal to the former PLN 556.02. It will also be gradually reduced for those with taxable incomes up to PLN 127,000/ EUR 29,195 according to another formula. There is no possible tax deduction above this income limit. Also, the amount of tax which can be deducted, and thus the level of the tax-free allowance, set out by the amendment, shall be revised each year by the Minister of Finance.

Under the new rule, the level of tax-free income – which translates into PLN 550 per month – is roughly equal to the subsistence minimum and higher than the social assistance threshold (per capita) applied to larger households. Taxpayers with monthly incomes below this level will be the main beneficiaries, specifically those with monthly incomes above PLN 258.6 who will not pay taxes whereas they did in the past. The more affluent will benefit from the new rule less and less, and the very rich will no

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longer receive an allowance. Recipients of the minimum pension (PLN 1,000 from March 2017) paid for the full year and workers paid the minimum wage (PLN 2,000 from January 2017) will have the same potential for tax deduction as in the past.

According to the Ministry of Finance (MF), 2.5-3.5 million taxpayers (out of a total of 25 million) will benefit from the reform. The Centre for Economic Analysis (CenEA 2016) gives more precise estimates based on a simulation model using the 2014 household budget survey. These show that, on average, the disposable income of those gaining from the reform will increase by 0.13%. Childless families of employees would benefit the most (0.15-0.22% increase in income).

The new rule will be neutral for about 20 million taxpayers, or 80% of the total. Affluent taxpayers will lose out. The MF estimates their number at 660+ thousand, of which 250 thousand will not have any tax-free allowance, while for the rest this allowance will be positive but lower than in the past. CenEA shows that all losers are in the highest income decile group, and their disposable incomes would go down by 0.7%.

The new tax rule would reduce the state budget revenue by PLN 800 million (CeneA) or PLN 1 billion (MF), compared to the total 2017 revenue at PLN 325.4/EUR 75 billion, enlarging the planned deficit.

Outlook & Commentary

The new tax-free allowance is welcome. Although the rule is quite complicated, it is in response to previous requests and it is favourable to the poor. The main criticism concerns the legislation process, which lasted only two days altogether, with no serious debates or analyses presented to the public. The changes to the PIT which were finally adopted came from the Senate at the very last moment. Previous proposals were different, with a unique and higher tax-free allowance (the presidential draft of 2015), possible step-by-step increase (Convergence Programme of April 2016), or no changes at all (the original version of the amendment, the 2017 state budget). This doubtful way of proceeding resulted in some ambiguities in the law (concerning the income brackets, for instance). Also, its timing poses a problem for taxpayers, who need to change their calculation procedures in a rush.

Further reading

Ustawa z dnia 29 listopada 2016 r. o zmianie ustawy o podatku dochodowym od osób fizycznych [...] (Act of 29 November 2016 amending the Act on Personal Income Tax [...])
<http://isap.sejm.gov.pl/DetailsServlet?id=WDU20160001926>

Initiative of the Ombudsman of 2014 and its results
https://www.rpo.gov.pl/sites/default/files/Wniosek_do_TK_ws_wysokosci_kwoty_wolnej_od_podatku.pdf
<https://www.rpo.gov.pl/pl/content/wyrok-trybunalu-ws-wysokosci-kwoty-wolnej-od-podatku>

CenEA (2016) Informacja prasowa CenEA: Zmiany w kwocie wolnej od podatku za 800 mln rocznie [CenEA press release: Changes in the tax-free allowance for the total of (PLN) 800 million a year]
http://www.cenea.org.pl/images/stories/pdf/press_releases/press29112016.pdf

Changes in income taxes from 1 January 2017
<http://www.rsmpland.pl/en/tax-alerts/2268>

Media news (in English):
<http://www.warsawvoice.pl/WVpage/pages/article.php/37363/news>
<http://www.warsawvoice.pl/WVpage/pages/article.php/37376/news>

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