European Commission

Poland: New tax benefit solutions improve incomes of families

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AGNIESZKA CHŁOŃ-DOMIŃCZAK – EUROPEAN SOCIAL POLICY NETWORK JULY 2022

In January and July 2022, significant changes were made to the Polish tax and benefit system. On the tax side, the most important changes include a reduction of the base rate, and an increase in tax-free quotas and in the threshold from which tax rates increase. Families with 4 or more children will have higher tax exemption quotas. The healthcare contribution is no longer deducted from the tax paid. On the benefits side, families with children aged between 12 and 35 months will be eligible for new social benefits (the Family Care Capital) or additional benefits to cover ECEC expenditure.

Description

In 2022, new personal income tax measures were introduced in Poland – the first change was implemented in January and then, following some criticism, it was amended from 1 July (but can be applied retroactively to income from January, if the tax payer so chooses). The most important changes, including specific measures for parents, are the following:

- the basic tax rate was reduced from 17% to 12%;
- the healthcare contribution (9% of income) can no longer be deducted from personal income tax – before the change, 7.75% of the income paid for the healthcare contribution was deducted;
- the tax-free quota was increased from 8,000 zł (€1,702) to 30,000 zł (€6,382);
- the tax income threshold from which the 32% tax rate is applied was increased from 85 528 zł (€18,197) to 120,000 zł (€25,532);
- a "zero" Personal Income Tax applies to people who are employed and are above retirement age, and to parents with 4 or more children, whose annual income is below 85,528 zł (€18,197); and
- the maximum limit of a child's income from work that still allows for a parent's tax preference was increased from 3,089 zł (€657) to 16,061.28 zł (€3,417).

This reform increases the net income of less wealthy households, for whom the increased tax free quota and the reduced tax rate for the first income band largely make up for the non–deductibility of the healthcare contribution.

There are also new tax preferences for families:

- survivors' pensions for minor children will no longer be added to the parents' income - the child as a separate taxpayer will also benefit from the tax-free amount of 30,000 zł (€6,382);
- no health insurance contribution will be levied on survivors' pensions of children under 18 years of age; and
- maternity benefits granted to parents and legal guardians will be tax exempt up to 85,528 zł (€18,197).

With regard to the benefit system, new benefits for families include:

- The Family Care Capital: a new benefit for parents of children aged 12 to 35 months – up to 12,000 zł (€2,553), i.e. 500 zł (€106) a month for 24 months or 1,000 zł (€212) a month for 12 months, provided they have one or more children already. The benefit, available from January 2022, is administered by the Social Insurance Institution. Parents can use the benefit to finance ECEC, but it increases the family income if they take care of a child at home.
- Families with children below 3 years of age in ECEC care (who are not eligible for the Family Care Capital)

can receive benefits to co-finance ECEC expenditure. Co-financing can be granted: for the first and only child in the family; for the first child in the family where the next child is covered by the Family Care Capital, for a child under 12 months of age and after reaching 36 months of age (if children are still in ECEC care). The co-financing will amount to a maximum of 400 zł (€85) per month per child in a nursery, children's club or with a child minder, but not more than the amount of the fee paid by parents for the ECEC service. It is estimated that approximately 110,000 children will be covered by this support. The measure entered into force on 1 April 2022.

By the beginning of June, nearly 472,000 children had already benefited from this measure, and the amount spent on it was over 1.83 billion zł (€389 million). The ECEC institutions have (to date) received over 96 million zł (€20.4 million) in childcare subsidies (i.e. 20 times less).

Families can apply for these benefits online, through the Ministry of Family and Social Policy portal, the Social Insurance Institution portal or via electronic banking.

Outlook and commentary

Since 2016, the Polish government has consistently implemented policies resulting in greater use of cash transfers as the main tool of family policy in Poland. As a result, the risk of poverty for children in Poland fell below the national rate for the total population (from 22.4% in 2015 to 13.5% in 2020 for children aged less than 18 years; compared with 17.6% in 2015 to 14.8% in 2020, for the total population [EU-SILC 2020]). However, the impact of these policies on fertility, expected by the government, has been limited, as the total fertility rate increased from 1.32 in 2015 to 1.39 in 2020 (Eurostat).

Changes in the tax system will increase the net incomes of most households with children, including lone parents. According to estimates of the Centre for Economic Analysis (CenEA), more than 80% of households with children will see their monthly net income increased by 100 zł (€21), that is 4.2% of the net minimum wage, or more. This is expected to have an impact on the at-risk-of-poverty rate of households with children and of children. For just some families that have relatively high earnings (in particular dual-earner families with fewer than 4 children), the net income will be reduced, as the tax rate together with the healthcare contribution for high income earners will increase from 33.75% (32% + 1.75%) to 41% (32% + 9%).

The new benefits for families increase the predominance of cash transfers in family policy in Poland. According to experts' opinions, the additional payment of 500 zł (€106) a month for taking care of a child at home will not result in people deciding to have more children but will delay the return of women to the labour market. One of the main challenges for families which is not addressed by the reform is the need for financial support for housing. There should also be state incentives encouraging men to care for children.

Further reading

Ministry of Finance (2022a): Tax manual for families 4+

Ministry of Finance (2022b): The new #LowTaxes

Ministry of Family and Social Policy (2022): Family Care Capital

Act of 17 November 2021 on family care capital

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