
Accounting Offices in View of Requirements Introduced by the Polish Deal

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Abstract:

Purpose: The objectives of the Polish Deal include a plan for better and more financially supported healthcare system, lower taxes and higher remunerations. The assumption of the government's development plan is to recover from the crisis generated by COVID-19 pandemics and create better life conditions for all citizens. Accounting offices have been especially interested and obliged to thorough analysis of dynamic taxes modifications. This publication aims at presenting challenges encountered by these entities due to numerous amendment of tax regulations. The specific objective is the analysis of chosen tax modifications presented to citizens and in many cases dealt with by accounting offices.

Design/Methodology/Approach: Critical analysis of literature and legal acts, case studies, logical reasoning.

Findings: In the opinion of many owners of accounting offices, but not only, the regulations should enter into force with a sufficiently long vacatio legis, giving the opportunity to acquire knowledge, test and implement software, and communicate with taxpayers or employees. Too high dynamics of tax changes introduced in a short period of time contributes significantly to the decrease in the quality of services provided and an increase in risk for accounting and bookkeeping offices.

Practical implications: The presentation of changes in the Polish Governance in the area of personal income tax is a valuable overview and source of information for a wide range of practitioners.

Originality/value: In addition to the presentation of the introduced changes, the article presents specific examples of calculations based on the latest provisions of the Polish Order of July 2022.

Keywords: COVID 19, Polish Deal, accounting offices, tax scale, middle class relief, tax payer.

JEL codes: J3, K34, E62.

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1. Introduction

The beginning of 2022 presented the financial and accounting services with new challenges due to tax regulations introduced by so called tax related part of the Polish Deal. This Act of Law implemented number of very important changes in provisions of tax law in more than twenty acts, among others in Personal Income Tax Act and Corporate Income Tax Act.

The Polish Deal presented new tax reductions and exemptions which modified remunerations calculation. In this view accountants, owners of accounting offices have been investing in trainings to get to know all changes in law regulations. However, such actions has not always been sufficient since tax regulations have changed unbelievably fast in the course of last few months.

IT systems used by accounting offices also constituted a problem. It is very important to notice that neither accountants/HR workers, nor IT specialists had time to test new software, parameters or functionalities in a proper way.

The first quarter of each year is a big challenge for accounting offices, however, the beginning of 2022 was one of the most difficult in the history of many entities performing this kind of activity. January is the moment of choosing the form of taxation for natural and legal persons, implementing new provisions of law and amendments, submitting PIT-11 and PIT-4 tax declarations and dealing with ongoing matters (Act of 29 September 1994 on Accounting).

The authors of this article present, review and try to evaluate some changes introduced by the Polish Deal. The main hypothesis formulated in a general way assumes that fast dynamics of tax modifications implemented in a short period of time substantially contributes to deterioration in the quality of performed services. Acts of Law, as well as materials taken from magazines, trade analysis and websites have been the main source of information while working on this publication.

2. The Polish Deal – Presentation and Analysis of Some Modifications

Knowledge concerning taxes and accounting has nowadays a very short expiry date. Accounting offices have to deal with a lot of daily challenges. They are business advisors, who are required to act in a professional and effective way, so that the quality of their services was satisfactory for their clients, and what is most important consistent with the governing provisions of law.

In many companies the 10th of each month is the day when employees are paid remuneration. Notwithstanding this fact, on 7th January 2022 in the evening, the Minister of Finance signed a resolution amending the way of collecting advance income tax . The mentioned decree entered into force on Saturday and remunerations should have been transferred to employees' accounts on Monday morning – so it is

easy to notice that accounting offices had very little time to adjust their actions to introduced changes.

On 8th and 9th January 2022 the Ministry of Finance organized webinars for financial and accounting services, which were to dispel a lot of doubts. In the further part of the study, the most important changes in personal income tax will be indicated, which have become a sudden challenge for financial and HR services, with particular emphasis on accounting offices that provide services for clients. The most significant change introduced by the Polish Deal concerns a tax scale in personal income tax.

Table 1. The tax scale valid since 1st January 2022.

The base for calculating tax in PLN		The tax is
More	To	
	120,000	17% minus tax decreasing amount PLN 5,100
120,000		PLN 15,300 + 32% excess more than PLN 120,000

Source: Source: Article 27 of Law on personal income tax (Act of 26 July 1991).

In relation to the tax scale used for incomes generated in 2021, the changes in scale refer to:

- Increasing the tax-free base to PLN 30,000; this amount is a result of increasing the tax decreasing amount to PLN 5,100 which is in the first range of tax scale ($PLN\ 5,100 \div 17\% = PLN\ 30,000$);
- Increasing income threshold from PLN 85,528 to PLN 120,000 which establishes a border between tax rate 17% and 32% in a tax scale.

Since 2022, 1/12 of tax decreasing amount has been PLN 425. This amount is deducted by tax payers while calculating tax advances. It is deducted by tax payers:

- “on application” of a tax payer (PIT-2, PIT-2A, PIT-3) – it is used, among others, by places of employment or banks paying retirements or pensions from abroad, or
- “under the Act of Law” – it is used by, among others, pension institutions while paying retirements or pensions, and agricultural cooperatives paying financial dailies.

What is very important, if PIT-2 or PIT-2A declarations were submitted in previous years and the actual data presented there did not change, there is no need to submit them again to calculate tax advances from 2022.

Since 2022 1/12 tax decreasing amount can be also deducted by a tax payer who calculates tax advances on his own with regard to incomes generated:

- From the employment abroad,

- From retirements and pensions from abroad,
- From personally performed business (e.g., Contract of mandate).

The next crucial change resulted from repealing article 27b of personal income tax act, and consists in elimination of the possibility of deducting health insurance contribution from tax. Since 1st January 2022 there has been no law basis to deduct health insurance contribution. That is why the choice of the form of taxation in 2022 has become so difficult. One of the essential factors while choosing the form of taxation was the mentioned health insurance contribution (Poradnik..., 2022).

This contribution will not be deductible in the course of the year while calculating tax advances or in the tax declaration. It refers both to contributions paid directly by a tax payer and to contributions collected by payer from a tax payer. Despite the lack of the possibility to deduct health insurance contribution, the amount of the contribution collected by a payer from a taxpayer will be declared in PIT-11 for the needs of establishing the limit of an additional child refund.

A relief for employees or tax payers generating incomes from non-agricultural economic activity (The Act of 26 July 1991, op. cit., article 26, paragraph 1, point 2aa), so called middle class relief was introduced in order to compensate for the negative effect of eliminating the possibility to deduct health insurance contribution for specific income range.

The relief is to mitigate the results of new tax regulations and cause that people earning from PLN 5,701.00 to PLN 11,141.00 do not suffer from the Polish Deal since the amount of money they are paid will stay on the same level as before 2022. The relief consists in deduction of individually established amount from income, on the basis of income level.

The relief is for everyone who generated income from employment relationship and non-agricultural economic activity in the total amount from PLN 68,412 to PLN 133,692 annually.

It concerns taxable income under general rules, with the use of a tax scale, however, in case of income generated from non-agricultural economic activity, these are revenues reduced by tax-deductible revenues in respect of running this business excluding health insurance contributions from these costs. The relief amount is set individually. It is calculated on the basis of formulas presented below.

The relief is used in the course of the year while calculating tax advances (by a payer or a tax payer). Finally it is settled in an annual tax return.

Table 2. Formula 1.

Annual income from employment relationship and non-agricultural economic activity (PLN) (A)	Exemption amount
from 68,412	to 102,588
	$[A \times 6.68\% - 4,566] \div$

		0.17
more than 102,588	to 133,692	$[A \times (-7.35\%) + \text{PLN } 9,829] \div 0.17$

Source: Own study based on article 26, paragraph 4a of the Act on personal income taxes (The Act of 26 July 1991).

In the course of the year, while calculating advances (tax), the relief is used by places of employment which have the role of a payer, as well as tax payers who generate income from permanent employment (from abroad) or from non-agricultural economic activity without payer's intermediation (they calculate and contribute tax advances on their own). The relief is used under governing law.

Tax payer does not have to submit any declarations (neither to the payer, nor to the Tax Office). The relief is used for the months when the tax payer generated income from permanent employment in the amount from PLN 5,701 to PLN 11,141. In order to calculate monthly relief amount in case of generated from the permanent employment, the following formula is used:

Table 3. Formula 2.

Monthly income from full-time work (PLN) (B)		Exemption amount
from 5,701	to 8,549	$[B \times 6.68\% - 380.50] \div 0.17$
more than 8,549	to 11,141	$[B \times (-7.35\%) + 819.08] \div 0.17$

Source: Own study based on article 32 paragraph 2a of personal income tax (The Act of 26 July 1991).

If the tax payer does not want the payer to use relief while collecting the advance tax, he has the possibility to submit a written request to the payer. In such case the payer stops using such relief no later than the following month from the moment of receiving the request.

In the course of the year the relief is also used by a tax payer who generated income from PLN 68,412 to PLN 133,692 from non-agricultural economic activity. It is very important that in view of the way the advance is calculated, incomes from the beginning of the year are taken into account in this case. If a tax payer at the same time generates income both from non-agricultural economic activity and employment relationship, the revenue amount requirement has to be met in relation to the sum of both incomes.

Formula 1 is used by an entrepreneur to calculate monthly relief amount, where A stands for income earned from the beginning of the year till the month when the advance is calculated inclusive. Final deduction of the relief takes place in a tax refund, in accordance with the principle of self-taxation. In the annual tax refund, the tax payer uses the relief in the amount calculated according to the following formula:

Example 1:

Tax payer income from economic activity, that is, income minus tax deductible expenses, was PLN 80,000 in 2022. Assuming that it is the only income source, the middle class relief will be PLN 4,576.47. $(80,000 \times 6.68\% - \text{PLN } 4,566) \div 0.17$. The income after deducting the relief will be PLN 75,424 due to rounding. $(\text{PLN } 80,000 - \text{PLN } 4,576.47)$. The tax will be PLN 7,722 after rounding. $(\text{PLN } 75,424 \times 17\% - \text{PLN } 5,100)$

Example 2:

Tax payer income from economic activity, that is, income minus tax deductible expenses, was PLN 120,000 in 2022. Assuming that it is the only income source, the middle class relief will be PLN 5,935.29. $(120,000 \times (-7.35\%) - \text{PLN } 4,566) + \text{PLN } 9,829) \div 0.17$. The income after deducting the relief will be PLN 114,065 due to rounding $(\text{PLN } 120,000 - \text{PLN } 5,935.29)$. The tax will be PLN 14,291 after rounding $(\text{PLN } 114,065 \times 17\% - 100)$.

Since 8 January 2022, as a result of Minister of Finance Decree of 7 January 2022 on prolonging the dates of collecting and transferring personal income tax advances by some taxpayers (Decree of the Minister of Finance of 7 January 2011), the rules of deducting income tax advances collected by payers in 2022 have changed. New rules are applicable for income generated in 2022 in the amount of PLN 12,800 monthly.

The Decree prolongs the dates of collecting and calculating income tax advance during the year, however, only from the surplus in relation to the advance from 2021. While deducting personal income tax advance in accordance with the Act principles, wording effective for 31 December 2021, a payer includes tax deductible expenses and 1/12 of tax decreasing amount, provided that at the moment of calculating this advance the payer is entitled to use them.

Extension of time limits applies to income earned from 1st January 2022 to 31st December 2022. If the payer collected the advance in proportion corresponding to the surplus deducted in accordance with the Decree and did not transfer this advance into Tax Office's account, he is obliged to transfer it immediately to the tax payer (it means in the fastest objectively possible time). It refers to advances collected before 8th January of the current year. In case of deducting advances from 8th January, the provisions of the Decree ought to be applied.

Prolongation of time limits is applicable in case of personal income tax advances collected in a month when a tax payer obtained from a payer income specified in article 31 (income from service relationship, employment relationship, outwork, cooperative work relationship, financial allowances from social insurance paid by places of employment and in cooperatives – payments due to share of the balance sheet surplus) or in article 34, paragraph 1 of the act (concerns retirements and pensions, pre-retirement benefits, pre-retirement allowances, teachers compensation benefits, financial allowances from social insurances, structural pensions, social pensions and parental supplementary benefits) or task-specific contract defined in

article 13 point 8 of the Act, in the amount not exceeding PLN 12,800, and this limit is used separately for each source of these incomes.

Extended deadlines of deducting personal income tax advance expires at the moment of generating incomes specified in article 31 and article 34, paragraph 1 of the Act and from task-specific contracts defined in article 13, point 8 of the Act, in a month in which the amount of advance settled according to the principles as of 31st December 2021 is higher than the amount of advances settled on the basis of the Polish Deal (Individual situation of a tax payer is taken into account at this moment. If he quit the middle class relief, the advance is calculated without this relief.)

When a tax payer obtaining income from a payer who does not deduct amount constituting 1/12 of the tax decreasing amount specified in article 27 paragraph 1 of the Act (so did not submit PIT-2 to this payer) submits a written request not to extend the time limits described in article 31, article 38 paragraph 1, article 41 paragraph 1 and article 42 paragraph 1 of the Act, the principles of the decree are not applicable not later than a month following the month in which the payer receives this request.

The most frequently encountered cases when a tax payer may submit such request are the following situations:

- When he has two separate employment relationships in different companies (the request may be submitted in the company which does not cover the tax-free amount in advances);
- When he has employment relationship and at the same time runs his own business (accounted according to the scale) or settles private lease;
- When he is a retired or a pensioner and receives benefits from pension authority (the request may be submitted in a company).

It is very important to emphasize that the Decree does not change taxation rules – it only modifies the technique of collecting income tax advances. The result of the Decree is just change of the time limit of tax advance deduction. The Decree defines which part of the advance is not deducted in a particular month, and in which month this part of advance is to be possibly deducted. It concerns the months in which income (in the whole month) was maximally PLN 12,800 (separately for each case).

The Polish Deal has introduced many changes so far. However, recently the Parliament has decided to implement next, new tax rules – concerning also remunerations. Subsequent modifications were implemented with the Act of Law of 9th June 2022 amending the Act on personal income tax and some other acts (OJ 2022, item 1265). From 1st July 2022 a new tax scale presented in a table 4 is in force.

Table 4. *Tax scale since 1st July 2022.*

Tax calculation base in PLN		The tax is
More	To	
0	120,000	12% minus tax decreasing Mount PLN 3,600
120,000		10,800 zł + 32% sur plus higher than 120,000 zł

Source: Article 27 of Law on personal income tax (Act of 26 July 1991).

New tax scale PIT stands for personal income tax amount decrease in the first range of the tax scale from 17% to 12%. It will result in principle in lower tax liability of each tax payer taxing income according to the tax scale. Following the change's entry into force, the income tax in the amount of PLN 120,000 (that is on the border of tax scale ranges) is going to be PLN 10,800 instead of current amount of PLN 15,300.

That is why taxpayers generating income at least on this level will gain PLN 4,500 per year on a new tax scale construction with a reduced rate. Lower tax is going to be collected right after the moment the Act enters into force, already at the stage of tax advances collection, with the use of 12% rate. However, the final profit of this change is going to be appreciable while calculating income tax, so for the current year.

Sustaining the free amount on the level of PLN 30 000 means a new tax decreasing amount. The new tax decreasing amount (resulting in tax free amount of PLN 30,000) is PLN 3,600 ($\text{PLN } 30,000 \times 12\% = \text{PLN } 3,600$).

The consequence of a different tax decreasing amount of PLN 3,600 is also corresponding with the amount decreasing monthly tax advances of PLN 300 ($112 \text{ of tax decreasing amount } \text{PLN } 3,600 = \text{PLN } 300$).

Income tax decrease is related to middle class relief liquidation. Since 1st July 2022 it is not going to be applicable and the obligation to charge it in relation to income earned in the period January – June 2022 is no longer enforceable. There is no need to perform any corrections in case when this relief had already been charged for the previous months either. The middle class relief, even though cost-effective for some taxpayers, was perceived as very problematic in tax settlement process. The Ministry of Finance decided that decreasing taxes for everyone will be a better solution than the middle call relief.

However, there is one legal loophole, namely: the middle class relief can be exceptionally used while settling fiscal year 2022 if such solution is going to be more profitable for a taxpayer than the rules in force since 1st July 2022. In such case the head of a competent tax office will be obliged to return the difference to the taxpayer.

Since 1st July 2022 the obligation of double calculation of income tax advances has also been not applicable (as a result of waiving article 3a of the Act on personal

income tax). Consequently, the obligation of deducting personal income tax advances according to rules valid in 2021 was also abolished, as well as according to changes introduced by the Polish Deal in January 2022.

3. Discussion

New regulations in the first year always make big challenges for business entities. However, it is worth emphasizing that accounting offices had to prove great organizational flexibility in the first part of the year 2022. At the turn of few months, great changes were performed which significantly influenced tax settlements. Notwithstanding the number of client taxpayers serviced by the office, it had to face the challenges caused by the Polish Deal.

Whereas, training companies competed in the offer of certain trainings, since workers from widely understood HR and financial departments had to get to know a lot of new, complicated provisions. Accounting offices' workers dealing with calculation of payments for clients faced a lot of difficulties in the first half of the year 2022. Many people refer to this period as to the most complicated in their professional carriers.

The examples presented in the article allow for a positive verification of the hypothesis that the Polish Order had a significant impact on the quality of services provided by accounting offices. A lot of time was devoted to the analysis of regulations, which often very quickly lost their relevance, or their interpretation and implementation were associated with great difficulties. Permanent race against time, blaming accountants /HR/ owners of accounting offices for incorrect interpretation of regulations and tax calculations, influenced not only the quality of services, but also a decline in authority.

According to many accounting offices' owners, however, not only, provisions should be introduced in much more extended *vocatio legis*, allowing to gain knowledge, test and implement software and communication with taxpayers or workers. It has to be highlighted that the Polish Deal introduced changes in more than 20 Acts of Law and is composed of 260 pages, with explanations more than 600 pages.

The greatest revolution in tax law for almost 20 years has caused that accountants/HR workers/ owners of accounting offices have been burdened with the excess of changing provisions, sometimes standing in contradiction towards each other. However, it is obvious that passiveness is a straight way to collapse of the company even if it has been prosperous before. The key to success is the high quality of services performed for current clients and getting new ones. It is especially difficult against numerous changes in tax law.

Finding right solutions in a complex maze of regulations is a great challenge for entrepreneurs and that is why they decide to find solutions in accounting offices' services. These entities maintain books of account and revenue and expense ledger for different clients settling accounts in accordance to various taxation forms. The Polish Deal has introduced changes in all taxation forms and clients expect decisions which form would be most profitable for them.

All the more, it is worth paying attention to the activities of the Accountants Association in Poland, which called for a change in the date of entry into force of the Polish Order, arguing its position with the security of business transactions, good for taxpayers, accountants and human resources (SKWP, 2022).

Accounting offices in their everyday operations face a lot of challenges and one of them is personnel change, since running such business in Poland is not easy. Today the office is not only responsible for tax records and settlement, it becomes a business partner for a client. In January many accounting offices noted a growing number of clients. They decided for a change since their current offices did not advice in the context of the Polish Deal. The quality of services, accessibility, using new technologies in client service and up-to-date knowledge are the key elements while performing this kind of business activity.

However, the risk of professional burnout cannot be forgotten. It affects accounting offices' workers and owners. Following some forums it is easy to encounter entries such as: 'our greatest problems are frequent changes of provisions'. Additionally, complicated regulations of the Polish Deal caused that accounting offices, in large numbers, started to insure themselves from penal and fiscal responsibility, even though there is the following clause on a website of National Revenue Administration: 'We understand that introducing so important changes may cause some complications. That is why we ensure that no unaware mistakes (including those made by accountants) connected with new regulations are not going to be met with sanctions' (GOV, 2022).

4. Conclusions

According to owners of accounting offices the regulations should enter into force with a sufficiently long *vacatio legis*, giving a chance for:

- gaining knowledge,
- testing and implementation of IT software,
- appropriate time for communication with taxpayers or employees.

The Polish Order has introduced changes to more than 20 acts, it has over 260 pages, and with explanations – over 600. Too high dynamics of tax changes introduced in a short period of time may significantly affect the quality of services provided by accounting offices (Klamut, 2012, p. 11).

Accounting and tax knowledge currently has an extremely short expiry date in Poland. Accounting offices have to face many challenges of everyday life, they are business advisors who must act professionally and effectively so that the quality of their services satisfies their clients and, above all, complies with applicable regulations. Doubts related to the Polish Government resulted in a significant increase in interest in fiscal penal liability insurance.

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