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## Method of Management of Personal Income Tax Changes Implemented by the Polish Deal

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**Abstract:**

**Purpose:** The aim of this article is then looking for an answer to the questions connected with correctness of tax regulations implemented since 1st January 2022 and subsequently corrected throughout the first six months of the current year, but also concerning the way crisis situation at the beginning of the year was solved by the creators of tax regulations. The author also attempts to answer the question of what is the main reason for the fact that the announcements of the creators of the Polish Tax Deal missed the reality.

**Design/Methodology/Approach:** The author used the method of analysis of implemented tax solutions and the analysis of the way corrections and changes were made in these solutions, as well as an assessment of financial and social effects of these changes.

**Findings:** New law regulations related to personal income tax, which were implemented on 1st January 2022 occurred to be defective, underdeveloped and incorrect in many areas. First of all, the information saying that only the small part of our society, the one with the highest income would lose due to new tax solutions, appeared to be untrue.

**Practical implications:** Performed analysis and findings ought to lead the authors of tax regulations, as well as the government to a conviction that, in case of implementing next tax solutions in the future, attention should be paid to their appropriate preparation, and check. They also should be implemented in such a way and in such time, not to cause negative economic results and not to lead to negative consequences of social character.

**Originality/ value:** The paper analyzes new legal solutions in the field of personal income tax, trying to answer the questions not only about the positives, but also about the negative sides of this phenomenon. An attempt was made to answer the question of what reasons made the seemingly favorable tax solutions so definitely negative.

**Keywords:** Income tax, health insurance, labor income, legal and public charges, management, crisis management.

**JEL codes:** H12, H20, K34.

**Paper type:** A research article.

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## **1. Introduction**

There are numerous issues, definitions and classifications of management in literature. Notwithstanding the multiplicity of roles and responsibilities of managers, there are four main kinds of still applicable managerial activities, such as planning, organizing, leading (motivating) and controlling (Stoner and Wankel, 1994).

Manager's competencies, skills and creativity are to facilitate optimal development and appropriate financial, spacious and natural resources managing. Orientation directed towards the needs of local community, realization of created by means of agreement tasks, as well as all prophylactic activities, will permanently increase the quality of services and fulfill numerous needs of local community (Majchrzak, 2017).

The crucial aspect of management is, in particular, formulating goals of activity, planning or organizing the course of actions, obtaining and distributing resources (both human and material), which is organization of structures and controlling the realization of goals.

In this sense, management is such kind of leading actions, in which the right to influence the hierarchy and values system, interests and pursuits, attitudes and organizational behaviors result mainly from authority and being at a disposal of material and energetic, or nominal and information resources that are of great significance for an organization's functioning and development (Penc, 2008).

Crisis management is a special kind of management. Basing on management theory, it can be assumed that crisis management is a set of national government and local governments administration activity, directed at organizations resources – executive entities (human, financial, material, information) performed with an intention to prevent, prepare, react and recreate in an effective way in case of challenges and threats which may disturb stability of a certain organization, restrict its functioning, and at the same time contribute to loss of its development skill or even to its survival skills (Lidawa, 2015).

Crisis management performs a fundamental role in solving situations related to risk and tensions under the time pressure. It is a form of management under pressure, in a state of tension. It is connected to liquidation of tense situations by the means of common efforts of different executive entities, in case when they cannot do it as routine activities.

It also refers to activities aimed at tensions decrease, preventing conflicts or counteracting difficult situations of non-conflict character, counteracting escalation of problematic phenomenon and performing activities focused on restoring standard state of matters (Sienkiewicz – Małyjurek, 2015).

Information plays a significant role in crisis situations. The ability to cope with crisis situations depends on information. Multi-faceted meaning of information causes that it is of strategic importance when it becomes the issue of complicated actions resulting from unpredictable events or facts.

Transformations, which take place, cause that crisis situations appear and they constitute astonishment, resulting from the lack of knowledge or lack of predictability of their results sizes and risk appearing along them (Majchrzak, 2021).

One of the basic human needs is the feeling of safety which is very widely understood. It is associated with lack of risk of losing something what is especially valued, for example work or material goods, including the level of incomes. It is some kind of peace and certainty state, connected with keeping beneficial state of status quo for citizens.

Safety is also referred to a situation in which the state is able to create, develop and protect important values, as well as awareness that in case of threats and their symptoms, the situation in which the citizens find themselves, allows to feel secure (Pietraszewski, 2017). Security understood in such a way disturbs crisis situation referred to as a circumstance negatively influencing the level of people's safety, property, environment, and as causing limitations in competent public administration organs activity due to inadequacy of possessed powers and resources.

In more general approach, crisis situation is understood as a circumstance (phenomenon, state) which is characterized by balance disturbances (psychological, social, economic and military) and entails the necessity of solutions and interventions (Rysz, 2016).

XXI century creates tasks connected with implementation of effective management methods guaranteeing high level of GDP, maintaining strong economic, information and military position for the countries. Such standards require, among others, attention directed at safety threats in different areas of this field. Information, people, material goods, as well as fundamental for human existence energetic resources are especially under threat (Majchrzak, 2021).

## **2. Polish Deal Related to Taxes since 1st January 2022 – Predictions, Announcements and Reality**

Declarations of this program creators made before the 1st January 2022 indicated that this document is complete, coherent, calculated and balanced, and substantially it would make Poles dreams come true. People were assured that 18 million of Poles would benefit from the Polish Deal because of taxes decrease. Citizens were also told that nobody who earned less than PLN 12 800 would actually lose money and that 20 billion of zloty will stay in Poles' wallets due to new tax solutions.

Immediately after the beginning of year 2022, a great discussion related with results of the Polish Deal began. However, it was limited to issues connected with remuneration, and consequently with income tax, since many people signaled that their remuneration was lower than in 2021.

It mainly concerned teachers and academic teachers, who are paid in advance, so they received salary for January at the beginning of the month. It also concerned members of uniformed services who are paid on the same basis. Signals related to lower benefits were also reported by the retired people.

The first days of January 2022 can be characterized as complete disorientation and trials of frantic search for reasons of signaled remuneration decreases. Blame for this state of matters was assigned to people and departments in organizational units which were responsible for calculation of net remunerations and benefits. There were information that new regulations were wrongly interpreted, that new solutions were not read in detail.

The authors of tax solutions in the Polish Deal were probably aware that the truth is completely different, that new regulations contained errors and shortcomings. It occurred that new tax regulation related with the Polish Deal survived only six days in the same shape. On 7th January 2022 there was a Resolution of the Minister of Finance on prolonging the term of tax collection and transferring advance personal income tax by some tax payers (OJ 2022, item 28). Since that day there appeared statements that there were two tax systems in Poland.

One of them resulted from regulations included in the Polish Deal, in force since 1st January 2022 and the other resulting from the possibility to settle personal income tax according to previous rules, in force till 31st December 2021. From the legal point of view, settling income tax according to rules from year 2021 seemed to be impossible, since these regulations had been repealed. Thus, there were no legal basis to use them.

In January 2022 the Prime Minister Mateusz Morawiecki informed that the government does not make any allowances for missteps and ordered the Ministry of Finance to remove mistakes by means of widening the group of people who would not lose due to the Polish Deal. The next groups were to take advantage of the middle-class relief. The Prime Minister announced changes in the relief for lone parents.

Non-profit organizations and companies employing disabled people could also count on corrections in new regulations. Some of the observers and reviewers of the Polish Deal and the ways of changes implementation noticed that resolutions and press conferences of the Polish Prime Minister became the main source of changes in tax regulations.

If it was clear in January 2022 that the discussion concerning the Polish Deal was limited to personal income tax, and if, as a result of tax solutions within this scope, remunerations of 18 million of Poles were to grow, and in many cases right the opposite situation took place, the following question should be asked: What happened? What went wrong? Where were the possible mistakes?

The answer to such questions changed in a significant way. During the first days after the beginning of the new year 2022, it was announced that there had been technical mistakes, for which financial and accounting services in organizational units had been responsible. After a few – several days it was stated that these had been small oversights, which had to be removed.

Presenting these kinds of opinions and holding services calculating personal income tax advances and net remunerations responsible for what had happened did not withstand a clash with reality. The problem occurred to be so serious that at the beginning of February The Minister of Finance, Tadeusz Kościński resigned. The Prime Minister Mateusz Morawiecki took managerial role in the Ministry of Finances and immediately dismissed Vice Minister of Finance, Jan Sarnowski. On 24th January 2022, a new vice minister, Artur Soboń appeared to whom the mission of repairing all imperfections of the Polish Deal was entrusted by the Prime Minister.

Notwithstanding the attempts to rescue the solutions presented in the Polish Deal, a crisis team was appointed in the Ministry of Finance. The team met every day to develop subsequent corrections of government's program. It was probably a consequence of the Prime Minister, Mateusz Morawiecki's statement from 21st January 2022.

The Prime Minister said that if somebody had any doubts if in the new system he was going to receive higher or the same remuneration earning up to PLN 12 800 and in the end of the year would notice any difference, there is a possibility of settling tax according to rules in force in 2021. If it occurred that in 2022 any Pole's tax status would decline anyhow, it would be possible to receive a refund. At the same time the Prime Minister demanded introducing fast corrections to the Polish Deal.

At that time, the representatives of a crisis team stated that promises of the Polish Prime Minister were not possible to realize and this objectives would not be performed. Such state of matters was to be confirmed by the Vice Minister of Finances, Artur Soboń at the session of Economic Committee of the council of Ministers.

The work of crisis team was assessed by some members of this assembly in the following way, it begins with formulating a problem, after that the discussion quickly gets off the track in the direction of subplots to come back to the starting point and conclusions after few hours. There is no solution to the formulated

problem, and the ones which appear are so complicated that the Polish Deal seems to be a model of order and transparency in comparison with them.

On 20th February 2022 former Minister of Finance, Tadeusz Kościński gave an interview in which he stated that the act concerning the Polish Deal had been flawless. These were external conceptions which had been wrong. He also stated that the conception of revoking Polish Deal had not been taken into consideration.

Describing the background for development of the Polish Deal and the role of Ministry of Finances, he confirmed that he did what he had been told and was not eager to assess if it had been a mistake. Moreover, he emphasized that the Prime Minister had been mainly the commissioner. He collected all ideas from the leader of the governing party, from other ministries and other institutions, e.g. Polish Economic Institute.

According to T. Kościński, the role of Ministry was only calculating the prices and creating the act. The former Minister of Finance, in his assessment of the Prime Minister's role in the process of creating the Polish Deal, stated that the Prime Minister's role is to listen to his supervisors, politicians' role is to listen to society, and each minister is to listen to instructions from supervisors and fulfill them (Onet, 2022).

On 24th March 2022 the government informed about the subsequent changes in the Polish Deal. It was announced that middle-class relief would be liquidated and in this place there would be a decrease of percentage rate of income tax in the first period from 17% to 12% within the personal income tax from people generating revenue on the basis of contract work. Such solution was to be implemented from 1st July 2022, however, in an interview for a newspaper *Dziennik Gazeta Prawna*, the Vice Minister, Artur Soboń stated that the 12% rate would be in force in an annual settlement in reference to the whole year 2022.

There is no doubt that tax changes concerning only one solution, which is personal income tax of only the people who generate revenue from contract work, disability pensions and pensions occurred to be underdeveloped, contained mistakes, omitted a lot of issues, did not include many situations of taxpayers, and tax results of these solutions occurred to be different from expected.

### **3. Actual Regulations of the Polish Deal, Concerning Personal Income Tax**

The Polish Deal implemented the following changes within solutions concerning personal income tax. They came into force from 1st January 2022:

- Firstly, tax free amount is PLN 30 000 annually, which is PLN 2 500 monthly. It means that, for example the retired, who get pension lower or equal gross PLN 2 500 do not pay income tax.

- Secondly, income tax relief is PLN 5 100 on an annual basis, which is PLN 425.00 monthly. Till the end of the year 2021 this relief (an amount decreasing fixed task) was PLN 43,76. The right to use the tax decreasing amount is applicable for every tax payer (worker) from only one source of incomes.
- Thirdly, the upper limit of the forts tax period was increased to the amount of PLN 120 000. After exceeding this amount, there is an income tax rate of 32% (instead of 17%). This limit was PLN 85 528 till the end of year 2021.
- Fourthly, middle class relief entitled for months in which the workers revenue from employment relationship would be from PLN 5 701 to PLN 11 141 by a particular employer. While using the middle class relief, the amount of generated revenues in a tax year is very important. It has to be at least PLN 68 412 and cannot exceed PLN 133 692. This solution is of a difficult to define character, almost bizarre, dangerous for taxpayers, unstable and unpredictable. However, it is worth emphasizing that if a taxpayer fulfilled all conditions entitling to middle class relief, he undoubtedly would receive tax benefit.
- Fifthly, tax deductible cost was increased. Flat-rate tax deductible costs related to service relation, employment relationship, cooperative employment relationship, outwork are for example PLN 250 monthly, and are increased with many contracts and for non-resident workers.

Moreover, new reliefs for natural persons were implemented in the Polish Deal:

- Relief for return from foreign countries, which is applied for revenues generated from 1st January 2022 and exempts revenues of an amount to PLN 85 528 annually from income tax (plus PLN 30 000 of free from tax amount). People who moved their place of residence to Poland after 31st December 2021 will take advantage of relief.
- Relief for parents who have at least four children. This relief exempts from an income tax revenues of a total amount of PLN 85 528 (plus PLN 30 000 of free form tax amount).
- Relief for taxpayers aged more than 60/65 years old. It concerns seniors, who despite of rights to pension temporary resign from this privilege and continue professional activity. Such people would not pay income tax from regular employment or within a commission contract to the amount of PLN 85 528 annually.

All these solutions actually implemented from 1st January 2022 are beneficial for workers and pensioners, however, in many cases, received net revenue in 2022 occurred to be lower than in 2021. Authors and defenders of the Polish Deal rightly claim that tax results presented and implemented since 1st January 2022 have to bring a positive effect.

Then, where are the reasons which caused lower remunerations in comparison with the year 2021? The answer to this question is very simple. Politicians and authors of

the Polish Deal rightly claim that tax changes are beneficial for taxpayers. However, they do not convey everything. The taxpayer is not interested only in tax changes. The taxpayer's subject of interest is the amount of public and legal burdens which influences the difference between gross and net revenue, irrespectively of the fact if it is called a tax , a contribution, a donation or a benefit, etc.

The basic problem occurred to be the health insurance contribution in the amount of 9% of basis for its calculation. This problem does not concern the contribution amount, since it remained at the level of 9%. It concerns the rules of its settling. Till the end of the year this contribution (or at least a significant part of it, which is 7,75%) could be deducted from the charged income tax. Since the year 2022 this possibility has been liquidated.

Such solution caused that income tax payers are forced to pay income tax in the amount of 7% and health insurance contributions in the amount of 9%. The taxpayers rightly considered that gross charge of their revenue is 26% (in case of the first tax rate in the amount of 17%) and 41% (in case of the second tax rate in the amount of 32%). It occurred that higher tax free amount, income tax relief or middle class relief did not help. Information that nobody who earns less than PLN 12 800 would lose money in net remuneration or in pension, occurred to be impossible to be realized.

It is hard to believe that mathematical formula did not work in this case, since mathematical specification of a new solution's results within health insurance contribution is very simple and obvious. This claim concerns mainly pensioners, since their pensions are not charged with social insurance (pension, disability pension, sickness). Their income is not decreased by tax deductible costs. In case of a pensioner, the revenue, which is his gross pension is equivalent with the income and constitutes the base for establishing the amount of income tax and the same base for establishing the amount of health insurance contribution. ,

Mathematical calculation of the amount of net pension in the new conditions is so simple that the mistake in this process seems to be impossible. In case of generating revenues from contract work, the situation is a bit more complicated. Social insurance contributions and tax deductible costs appear at this point. It obliges income tax payers to settle income to taxation and the basis for calculating the amount of health insurance contributions. However, it seems that such calculation does not exceed abilities of people with average mathematical knowledge.

The second important problem concerns people generating incomes from more than one source. It occurred that income tax relief in the amount of PLN 425 monthly can be used in reference to only one revenues source, and health insurance contribution should be paid from all sources. If such situation concerns people working on the basis of two employment relationships, it should be remembered that, due to governing law regulations, such person can take advantage of income tax relief by



only one employer. It causes that by the second employer income tax advance is higher of at least PLN 425, and consequently net remuneration is decreased. It also concerns pensioners who collect pensions and work at the same time. Governing provisions cause that income tax relief is connected with pension. It means that a pensioner loses the right to take advantage of such relief in case of generating additional incomes from work.

In both cases there is an obligation to pay health insurance contributions from each source of revenues. On 1st July 2022 new regulations entered into force. Income tax percentage rate was decreased from 17% to 12%, middle class relief was liquidated and income tax relief was established on a level of PLN 300 monthly. Other corrections have also been made. For example, the possibility to settle a tax by lone parents according to the rules in force since 1st January 2022 has been restored.

#### **4. Conclusions**

The Polish Deal is a project of changes concerning many social and economic areas. Defined foundations and projects refer to a great number of issues, and the issue of taxes constitutes only a part of this large project. However, it occurred that it was taxes issue, especially personal income tax issues, which dominated nationwide discussion concerning the Polish Deal.

In the first days of the year 2022, taxpayers noted that the Polish Prime Minister's announcements did not meet the reality. Correction of tax solutions took place in the first ten days of January. And already in January people who were responsible for the Polish Deal became aware of the necessity of changes which had to take place irrespectively of official statements.

The subsequent corrections of the Polish Deal caused a lot of problems for accountants and financial advisors and liquidation of efforts only deteriorated the situation. It was not clear which regulations are legally binding, some of them changed overnight causing the accountant's work performed one day was out of date the other day. Great instability of new tax solutions, instability of tax law became a problem for every interested person, not only for professionals such as tax advisors or accountants, but first of all for taxpayers.

Changes implemented in the first six months of 2022 caused that accountants calculated taxes according to the rules implemented since 1st January 2022 without taking into consideration changes, for the first time, and for the second time, with these changes. They worked on two the same factual situations and simultaneously on two sets of tax regulations, on two versions of the same legal regulations.

It seems that the final results of tax Polish Deal will be known in the time of final settlements of incomes generated in 2022, so in the first months of 2023. Assuming that income tax advances were established according to more beneficial for a

taxpayer rules from 2021, and the final income tax settlement has to be performed according to regulations in force in 2022, part of taxpayers may be astonished by the necessity of paying large sums of money, considered as under – compensation of income tax. The representatives of authorities mention so called ‘fuse’, but finally it is difficult to say what it really means and how it functions.

There is still a question which will be answered in few months: will the fundamental changes in force since 1st July 2022, considering mainly decreasing income tax percentage rate in the first income group – from 17% of the amount PLN 120 000 to 12%, with simultaneous liquidation of so called middle class relief, cause that new tax solutions bring benefit, or at least no loss for people whose monthly revenues do not exceed the amount of PLN 12 800.

There are no doubts that in the first days of January 2022 there were circumstances, which can be referred to as instant and unpredicted, of crisis character. It can be also said that the first weeks of year 2022 were full of chaotic actions, having a little in common with coordinated group of activities used to solve a serious social problem of nationwide scope. Some attempts of problems solutions appeared after few weeks of the Polish Deal implementation.

However, changes in force since 1st July 2022 allowed for removing shortcomings permanently. Some regulations have been ordered and first of all, the range of social tension has been limited. These activities, however, did not have much in common with the rules of rational management, or even crisis management. The problem had been ignored for too long, the reaction of authorities to mistakes and irregularities was delayed. Maybe this is the reason why the results of negative solutions referred to income tax in the Polish Deal will be perceptible in the first months of 2023.

Performed analysis and findings ought to lead the authors of tax regulations, as well as the government to a conviction that, in case of implementing next tax solutions in the future, attention should be paid to their appropriate preparation, and check. They also should be implemented in such a way and in such time, not to cause negative economic results and not to lead to negative consequences of social character.

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