







Weekly Briefing

Poland Economy briefing:
Poland Latest Economy Development Issues
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Discussing the issues of economic development in Poland two items are worth talking: the effectiveness of tax reclaiming, introducing the new fiscal policy and the draft of the VAT Act, and concentration of oil market in Poland.

Last year, the Ministry of Finance managed to enforce almost 40 percent of the tax reclaiming, and it counts 7.5 percentage points more than a year earlier. In the years 2014-2015 the effectiveness rate of enforcement remained below 25%, in the next two years it soared to almost 32% (in 2016) and nearly 40 percent (in 2017).

In 2015, the tax office managed to recover PLN 2.94 billion of unpaid taxes, in 2016 - by PLN 190 million more (PLN 3.13 billion in total), and in 2017 - PLN 3.73 billion, or 600 PLN million more than a year earlier. *The figures look impressive and undoubtedly optimistic, if you take into account such criteria as tax equality and efficiency necessary for the state budget* - comments Zbigniew Błaszczyk. As was reminded by him in 1999 the effectiveness rate of enforcement was at the level of 48%. The major problem with the tax collection was created by the empty invoices (those that do not confirm actual business operations) and from carousel transactions (multi-stage). According to Michał Roszkowski, the improvement in the enforcement rate may also be the result of the fight against excise fraud, especially in the area of trade in fuel, cigarettes and alcohol. It is not without significance to counteract tax optimisation from income taxes. On the other hand, Zbigniew Błaszczyk draws attention to the fact that the execution rate itself, without other comparative data, does not give a full picture of the recollection status. *The indicator shows only the percentage of money recovered from issued executive titles. The head of the tax office can pursue a policy of "economical" issuing of execution titles, which means that he releases titles selectively - where he sees the chances of effective execution, which guarantees achievement of imposed economic goals* - explains Zbigniew Błaszczyk.

The draft of the VAT Act introduces a rule according to which in the case of sales registered with the use of a cash register, an invoice for a cash register receipt for a purchaser using a Tax Identification Number is issued only when the revenue is documenting this sale. As we read in the explanatory memorandum of the act, these changes are a reaction to the observed dishonest practice consisting in issuing invoices to affiliated companies, in return for a property gain, to fiscal receipts generated by the cash register, and not received by customers. By issued invoices, the companies deduct VAT, despite the fact that they have not purchased goods or services and thus overstate tax costs.

Thanks to new solutions, the tax office will be sure that the invoice issued to the taxpayer and used by him on the basis of a receipt document the purchase made by this taxpayer.

The critical issues were introduced for the e-commerce. The companies trading on the internet with electronics or audio and video equipment will lose the VAT exemption. According to the Ministry of Finance, the changes are to help tighten the tax system and simplify regulations.

The general deficit in 2017 amounted to 1.5 percent of the GDP against 2.3 percent GDP in 2016 after as stated in the preliminary estimation of the Central Statistical Office. This is the best result since the statistical office publishes comparable data namely since 1995. As reported by the Central Statistical Office, In turn, the debt of the public finance sector in 2017 was 50.6% GDP against 54.2 percent GDP in 2016 after correction. The deficit of the entire public finance sector in 2017 was the lowest in history, and public debt for the first time in history fell not only about GDP but also in absolute terms.

According to the Ministry of Finance, the low deficit is the effect of a better cash result of the state budget (by approx. PLN 21 billion). The increase of budget revenues influenced these dynamics. The revenues grew thanks to the best economic situation in the world primarily. Poland has gained a lot from it due to develop export industry, social transfers of the government (they affected Polish families consumption, and some of it returned to the budget in the form

of VAT), low unemployment rate and the tightening of the tax system (which is undoubtedly a success of Mateusz Morawiecki's government).

The final issue is the further debates over the consolidation of the petroleum industry in Poland. At the current stage that is Lotos, not Orlen, may be the acquiring party in the planned transaction aimed at combining both companies. The basic scenario assumes that the Gdansk group will issue shares that shareholders of Orlen concern. This will allow the principal shareholder the State Treasury to carry out the entire operation easier and faster. In the situation when Orlen takes over Lotos, the State Treasury's shares will increase from the current 27.5% to over 33 percent, which would require the announcement of a tender offer. In turn, if the acquirer is Lotos, the involvement of the primary shareholder would have decreased from 53.2 percent and it would not be necessary to block and possibly spend any money in the summons.

The second undoubted advantage resulting from the acquisition of Orlen by Lotos is a higher chance of voting on the general meeting of the Gdansk group necessary to carry out such a resolution operation. If necessary, the State Treasury or its subsidiaries could even try to increase their involvement in Lotos at a much lower cost than in Orlen.

For the energy department, which oversees both fuel concerns, investments made in Poland are of particular importance. In this context, one should remember the dissatisfaction expressed recently by representatives of the ministry from Orlen's announcement of the demand for subsidiaries of the subsidiary Unipetrol. As a result, the Płock concern increased its stake in the Czech company from 63% up to 94 percent at the cost of PLN 3.5 billion.

Conclusions

The most critical issue, as discussed in the briefing is the improvement of VAT collection. As Prime Minister Morawiecki declares, it may bring PLN 15-20 billion to the budget this year. For the government, VAT sealing is one of the most critical topics for Poland in the upcoming years.

It should be remembered that the current government has taken over the state finances at the end of 2015 in a situation where the VAT gap was close to 24% of its revenues. Achieving a reduction of the tax gap for five years to 5% of VAT receipts are considered to be possible, only if two new instruments to combat “VAT manipulation” of this tax will be proved valid.

There are two necessary instruments introduced by the government: first the so-called split payment (split payment), a solution that will come into force on July 1, 2018, and the IT System of the Clearing House (STIR), which has been in power since January 1, 2018.

STIR is a solution based on which the Ministry of Finance will have an insight into the entrepreneurs' bank accounts and operations performed on their bank accounts. Precisely the accounts of enterprises will be monitored by the clearinghouse, which will prepare the so-called risk indicators of their use for fraud and tax fraud. The effects of these works will be transferred to the Ministry of Finance on a daily basis. In turn, a team of professionals will work in the finance departments of the Ministry of Finance, which will examine whether, on the basis of the so-called risk indicators, entrepreneurs' accounts have no suspicious transactions.

The second solution here is the so-called split payment. This means the sum of the VAT amount resulting from a given transaction into a separate bank account, the owner of which will still be the entrepreneur, but with a limited possibility to dispose of funds collected on them. In this case, the entrepreneur will be able to use the funds from this account for transactions between VAT accounts, also concerning tax offices, and if large sums are accumulated on it, he will be able to use them for other purposes, but after verification by tax authorities.

If these two instruments prove to be effective, there is a good chance that in 2020 VAT revenues in Poland will reach about PLN 200 billion, and they will be nearly PLN 80 billion higher than the average inflow in 2008-2015), which amounted to approx. PLN 120 billion.

The second important issue is the concentration of oil companies in Poland. As discussed above from the technical point of view the Lotos Groups will take over the Orlen Group. The questions here is what is the strategic goal of the so-called centralisation of the oil industry in Poland. There are two main reasons: first the growing needs of diversification of natural resources sources (mainly of those from Russia) and having better and stronger negotiation's position vis a vis partners from, e.g. the Middle East or the United States. And second, having the better position in investments mainly in the region of the Baltic States and the Visegrad Group.