



Weekly Briefing

Poland Economy briefing:
Poland Latest Economy Development
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The latest decision by the Polish Parliament of the appointment of special VAT investigation committee should be further discussed and elaborated. The further VAT investigation should be perceived at least from three perspectives: growing role of the state in the national economy, the current prior local elections context, and the big picture of VAT collection in the European Union. According to the Chancellery of Prime Minister Michał Dworaczyk the newly established committee examine and assess the correctness of the previous governments and actions related to ensuring VAT excise income and possible negligence in this respect. The period examined by the committee is from December 2007 to November 2015 (period of the opposition party the Civic Platform's government). In 2007 Poland was the leader of the European Union with the lowest VAT gap, and in 2015 this gap was one of the highest in the Union – as published by the European Commission. In 2007 Poland was the second, after Holland, the country with the lowest VAT gap. As was said by M. Dworczyk PLN 262 billion less was allocated to the Polish budget in connection with VAT fraud. *This money has not evaporated, this money was stolen by someone ... he moved from Poland* - he said.

The committee's task would be to check where there was incompetence, bad will, and maybe political decisions that led to the fact that the money did not enter the state budget. In accordance with the resolution of the Sejm, the work of the committee is to refer in particular to actions, negligence, and omissions of the government, and in particular, the minister competent for the budget, public finances, and financial institutions, and public officials subordinated to the minister. In February and March this year The Ministry of Finance boasted an increase in VAT revenues by 12 and 27 percent. As a result, in the January-April period, VAT has only brought the state coffers by 11% more than a year earlier, which is much less than the increase in inflation in this period and less than the

growth in consumer demand, which is the main source of the VAT. The VAT seal has slowed down its dynamics. However, other tributes are growing extremely fast and the budget surplus may remain until November 2017. Only in April 2018, VAT revenues grew only by 2.8 percent. In the same period, in terms of year to year, income from PIT grew by 17.9 percent, and CIT by 15.4 percent.

Karol Pogorzelski, senior economist at ING Bank believes that this is a disturbing signal and difficult to interpret unambiguously. *However, it may be that measures to improve tax collection have achieved the best results in the first year of their entry into force, and now their effectiveness is much lower* – as he said. In turn, Mariusz Korzeb, an expert of the Federation of Polish Entrepreneurs, says that the tax office should focus on maintaining what has been achieved so that VAT revenues will not start to fall. One the solution is the split payment. Split payment will contribute to the improvement of the VAT collection system and budget revenues from this tax will continue to grow - Deputy Minister of Finance and Head of the National Tax Administration Marian Banaś told the Polish Press Agency.

The mechanism of split payment, which came into force on July 1, 2018. The company account also has a VAT account, which the bank opened for the entrepreneurs free of charge. The account is influenced by amounts, being the equivalent of the VAT, from each invoice issued by him, if the payment is made in the so-called split payment. Deputy Minister emphasizes that the decision to use split payment will not be taken by every businessman, because he is not obligatory. *Everyone has to calculate what is more profitable for him: whether, as now, pay the entire amount to one account of the seller, or apply a split payment mechanism, which will make VAT be transferred to an additional account* - he said. He added that entrepreneurs who will join the system will be treated by the tax office as taxpayers who have kept the so-called "due diligence". He explained that for the entrepreneurs, for example, the so-called joint and several liabilities, which entitles the tax office to investigate unpaid

VAT (in a given amount, both from the recipient and the supplier of the goods). Deputy Minister Banaś also said that in the case of entrepreneurs who decide to use VAT accounts, increased interest for delay in the amount of 150% will not apply, otherwise the company may expect a reduction in the liability amount (so-called discount) and refund of the tax difference within an accelerated period of 25 days.

According to the Ministry of Finance, those who enter the split payment give a sign that they want to act fully honestly and we approach them that way. Moreover, the split payment will help everyone to function. As noted by the Deputy Minister of Finance the charge of some business representatives that split payment will increase payment delays, because companies will not be able to move money from VAT accounts, but they will have to wait for tax refunds. According to the deputy minister, the more taxpayers will decide on a split payment, the returns will be faster and the liquidity of entrepreneurs will not be a problem. The head of KAS is also convinced that revenues to the state budget from VAT will continue to grow. Perhaps not at the double-digit rate, as last year, because the comparative base is definitely higher, but of course we assume that the plans contained in the budget act will be fulfilled. The source of the increase in VAT revenues is, among others, the reduction of the VAT gap. he also reminded that in 2015 it was around 24, 5 percent, and now 14 percent, which means an improvement of over 10 pp in two years. Deputy Minister Banaś also stressed that VAT receipts depend on the pace of economic development, so if Poland develops as it has been so far, revenues from the tax on goods and services will grow. The GDP growth, however, in the coming years depends, inter alia, on from the current level of investment.

Conclusions

The Parliamentary Legislative Committee rejected on Tuesday amendments to the opposition to the resolution regarding the establishment of a VAT inquiry committee. The amendments assumed an extension of the period to

be examined by the committee. Representatives of all opposition clubs proposed to extend the period to which the commission would deal. It was proposed that the first year for which the analysis could be made was 2005 and the last year 2017. None of the amendments received the support of the legislative commission. According to the justification for the draft prepared by the Law and Justice deputies, the change of government in 2015 brought a definite reversal of the trend, the VAT gap began to decrease dynamically. According to National Bank of Poland estimation, within two years it decreased by approximately nine percent, which means that it amounts to approximately 15 percent and ranks around the European Union average. The improvement of VAT collection yielded about 0.7 percent last year. GDP. To completely close the gap in this tax, however, you need twice as much. The revenue from VAT increased in 2017 by a record PLN 30 billion. As compared to 2016, the increase amounted to PLN 3,5 billion, and in 2015 there was a decrease of PLN 1.1 billion. From the government's point of view, for which the increase in tax collection is a priority, such an increase is undoubtedly a great success.

As calculated by the analysis of economists of Credit Agricole Bank Polska, the tightening of the tax system brought about PLN 12, 4 billion, while the rest is primarily the effects of economic recovery. Because of last year, the so-called tax base, for example, the number of goods and services subject to taxation, which resulted from the growing domestic demand. At the same time, in this basket of goods and services that we bought, the share of goods with the highest 23% increased. rate, which has a strong impact on VAT revenues for the budget.

The decision taken by the Polish Parliament should be perceived as the sign of the growing role of the state in regulating the national economy. Narrowing of the VAT gap is one of the symbols that built the state role in the economy. From this perspective, the state budget has the amount of money, that allows the government to provide more social benefit for the common citizens. On the other hand, the decision of limiting the period 2005-2015 taken by the Parliamentary Legislative Committee brings the political doubts. The opposition

parties accused the government of using the VAT issues for the political purposes, especially before the local elections in Poland.

The final important issue is narrowing the VAT gap in the European Union. As said by Prime Minister Mateusz Morawiecki in Davos: *There is a need for decisive action on the VAT gap in the EU, similar to the one taken by Poland.* In 2017 Poland increased the VAT revenue by PLN 30 billion. - Natural growth has given growth of 5-10 billion, but twenty-several billion come exclusively from sealing. The European Union is struggling with the VAT gap at the level of EUR 155-160 billion. In this case, Poland might serve as a good example in the European Union.