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## Forms of taxation and filing systems in the Polish SME sector

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## FORMS OF TAXATION AND FILING SYSTEMS IN THE POLISH SME SECTOR

### Introduction

The SME (small and medium sized enterprise) sector plays a key role in Polish economy. In 2007, it was an important source of added value (47,4% GDP), employed more than half of all employed workers (51,3%) and consisted of 1 777 076 active enterprises (99,8% of all entities).<sup>1</sup> It is expected that its importance in globalizing and integrating economy of the XXI century will still grow.

The key factors influencing the managing conditions of enterprises include: the selected form of income taxation and mandatory filing systems as its function. This system constitutes the fundamental information aggregate on the basis of which the manager takes economic decisions. In turn, the type, size and amount of paid taxes directly shape the cash flow in the enterprise. It should also be noted that at the macro level, the chosen form of taxation and the filing system create structure of budget revenues, of which the SME sector in Poland is an important source.

The main objectives of this paper are: characterization of taxation forms for small and medium-sized enterprises in Poland which leads to the presentation of mandatory filing systems, and also retro- and prospective analysis of the structure and dynamics of changes in these categories in 2005–2007.

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<sup>1</sup> *Report about condition of SME sector in Poland in 2007–2008*, red. A. Żołnierski, PARP, Warszawa 2009.

## The characterization of taxation forms and filing systems used in the Polish SME sector

In the Polish SME sector, the primary factor influencing the filing systems is a form of income taxation. In view of tax solutions, this income may be legally taxed under the following laws:

- 1) Act of February 15, 1992, about the income tax from legal persons<sup>2</sup> [ITLP] – applies to all income earned by legal persons (capital companies),
- 2) Act of July 26, 1991, about the income tax from natural persons<sup>3</sup> [ITNP] – contains the general principles of taxation of income earned by the company of natural persons,
- 3) Act of November 20, 1998, about the flat-rate tax on some parts of income of natural persons<sup>4</sup> [FRITNP] – enables enterprises of natural persons or their companies to establish a simplified flat-tax liability in respect of earned income.

In close connection with the above mentioned tax laws is the Act of September 29, 1994, about accounting [AaA]. It regulates the duties of accountancy for all companies organized as capital companies and other legal persons, and also for companies of natural persons, whose earnings during the preceding year exceeded € 1 200 000.

The first group consists of firms which are taxed in accordance with general principles. They are required to apply one of the first two above mentioned laws according to the selected legal form. The general principles rely on estimating income as the subtraction of expenses from revenue and then taxing this income by a tax scale. Currently, the Polish tax standards for legal persons stipulate a linear scale with a tax rate of 19%. One tax band is used for natural person with the scale presented in Table 1.

Table 1. The tax scale of income tax from individuals in Poland

<i>Range of income</i>	<i>Tax amount</i>
0 – 85 528,00 PLN	18% minus 556,02 PLN
over 85 528,00 PLN	14 839,02 plus 32% from the surplus above 85 528,00 PLN

Source: ITI.

<sup>2</sup> DzU 54/2000, pos. 654, as amended.

<sup>3</sup> DzU 14/2000, pos. 176, as amended.

<sup>4</sup> DzU 144/1998, pos. 930, as amended.

It should be noted that individuals running an enterprise, can choose a linear income tax rate of 19%. But then, they lose the possibility of joint settlement with the spouse and the use of tax reductions.

All legal entities and natural persons, that have surpassed the revenues from the sale of € 1 200 000, taxed in accordance with general principles, are required to keep accounting books according AaA. Application of AaA provides a company to the most informational capacity of maintained filing system. This system includes accounting books harmonized with The International Accounting Standards. Despite the numerous simplifications, which can be used by small firms, these books fairly and faithfully reproduce all the basic financial categories associated with the measurement of business assets, sources of financing, costs and revenues. They give rise to a broad assessment of not only the effects of entrepreneurial activity (financial result) but also of the factors influencing these outcomes (resources, costs and revenues).<sup>5</sup>

The firms of natural persons that do not exceed the designated level of income, should provide filing system according to art. 24a. §1 ITI. It says that they shall keep the so-called income and expenditure tax book (Revenue and Disbursement – RaD). The basis of the RaD records are the amounts of revenue and expenditure. As a result, an accountant may at any time determine the profit (revenue minus costs), which is the basic category of taxation. Although there are fairly significant differences in the perception of costs and revenues by the AaA and ITI, but Revenue and Disbursement, like accounting books, can reliably characterize the factors influencing the financial result. In the case of assets and sources of financing, the situation is different. The taxpayer is required to keep same other records and procedures concerning the assets (such as records of fixed and intangible assets, records of equipment, mandatory annual inventory etc.), but this filing system is devoid of important information, inter alia, about:<sup>6</sup>

- claims and liabilities arising from current and long-term business,
- cash in the company,
- current status, quantity and value of materials, finished products or goods.

If this information is stored in the company, this is done only voluntarily.

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<sup>5</sup> J. Jaworski, *Changes in Information Needs and The Policy of Simplification in Accounting for Small Enterprises in Poland*, in: *The Impact of International and National Regulation of Financial Reporting and Auditing to Changes in Accounting practice*, red. I. Sobańska, A. Szychta, Wyd. UŁ, Łódź 2007, p. 354.

<sup>6</sup> J. Jaworski, *How to Use Revenue and Disbursement for Management of Small Enterprises*, „Accounting” no 9/2008, p. 24.

For some firms of natural persons, the Polish law allows further simplification in the filing systems by selection of other, alternative forms of taxation, differing from general principles. Taxpayers, whose income in the preceding year exceeded € 150 000 (according to the average rate of The Polish Central Bank on 31 December), or starting a business, can choose a flat-rate income taxation. Selected activities such as operation of pharmacies, loans secured (pawnbrokers), buying and selling foreign exchange (exchange offices), some professions such as lawyers or accountants and also trade excise goods and in the last, services listed in Annex 2 to FRITI: brokering the sale of fuel, financial intermediation, advertising services, detective and a few others are excluded from this rule.

Tax rate depends on the type of business and tax base is a recorded revenue. FRITI lists five percentage rates (20, 17, 8.5, 5.5 and 3%). In this form of taxation, in addition to revenue records, the taxpayers are obliged to carry out cards of staff salaries, fixed and intangible assets records and an annual inventory of materials, finished products and goods. It means that the filing system in the flat-rate taxation has more limited capacity than RaD – it does not include costs level. The income can be calculated only by using optional records.

Another form of flat-rate taxation is a tax card. Taxpayers choosing this taxation form should be guided by a comprehensive Annex no. 4 to FRITI. In this document, there are listed 95 activities, mainly in the service sector, which may be subject to the tax card. The critical factor in choosing this form of taxation is the number of employees. The maximum number for a particular type of activity is set out in Annex no. 3 to FRITI. The taxpayers can not employ more than 2-5 workers depending on their activity.

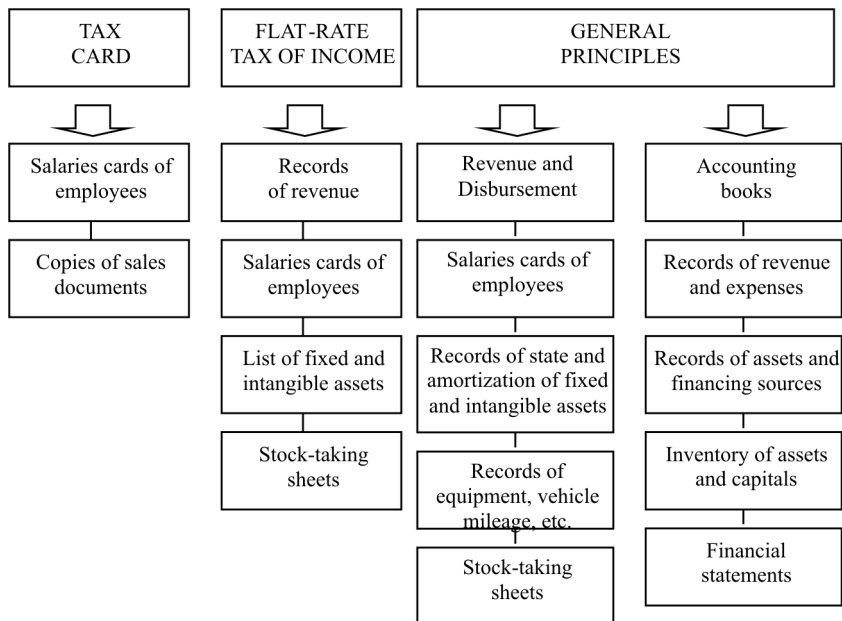
Tax amount in tax card depends on the activity type, number of employees and population of a territorial community where the business is conducted. Determining the amount of tax does not require any special records. Then, companies which chose this taxation form only keep salaries cards of their employees. In addition, they are required to keep copies of sales documents. Some of these firms are also required to register revenue by electronic (fiscal) cash registers. Thus, in terms of information capacity, the tax card is the least efficient filing system.

The list of recording obligations in particular forms of taxation in the Polish SME sector is presented in Graph 1.

## The structure and dynamics of changes in taxation forms and recording obligations in the Polish SME sector

The analysis of the current and past structure of taxation played a key role for forming tax and accounting laws. This analysis is also important for recognizing the main directions in the growth of the SME sector. Table 2 presents these data and their structure for the years 2005–2007. The dynamics of them is presented in table 3.

Year 2005 was the first period of the new definition of enterprises from SME sector in Poland and Europe.<sup>7</sup> This year, SME sector has also been divided into three subsectors: micro, small and medium-sized enterprises.



Graph 1. List of recording obligations in forms of taxation in Poland

Source: Own elaboration based on T. Martyniuk, *Forms of Tax Filing Systems of Small Entities*, ODDK, Gdańsk 2003.

<sup>7</sup> See: Act from July 2, 2004, about the freedom of economic activity, DzU 155/2004 pos. 1095, as amended.

The first noticeable feature is the systematic increase in the number of enterprises of the SME sector in 2005–2007. In the first year, an increase was 2.1%, in the second it accelerated to 3.6%.

The Polish SME sector is dominated by companies taxed under the general principles. Their share in the total number of firms approximates 70%. The remaining 30% companies are taxed at a flat-rate. In 2006 and 2007 this proportion shifted slightly decreased.

Among companies, which are flat-rate taxed, changes in the last two years are visible. In 2006, there was a sharp drop in the number of card tax payers (nearly by half). In turn, the percentage of companies, which chose the flat-rate revenue taxation increased to 136%. In 2007, the continuation of the same phenomenon was noticeable, but at much a smaller scale.

Analyzing the changes in the applied filing systems, the increasing importance of Revenue and Disbursement is noticeable. In 2005, this form of record was applied in 61.1% firms, while during 2007 it reached 62.8%. The share of accounting books was not subject to significant change and approximates 8%.

The flat-rate tax forms occur mainly in the smallest companies. Despite the decrease their associative share exceeds 30% in analyzed years. The use of tax card dropped from 14.1% in 2005 to 6.9% in 2007. In turn, the importance of the flat-rate income tax increased (by more than 40% within 2 years).

Small and medium-sized enterprises are taxed under general principles at 100%. About a third of firms use Revenue and Disbursement. The remainder is required to keep accounting books. These books are almost exclusively used for medium-sized enterprises. During examined period, there were no significant changes in this regard.

Table 2. Taxation forms and recording obligations and their structure in the Polish SME sector for the years 2005–2007 [in thous.]

Form of taxations / Filing systems	SME sector		Medium ent.		Small ent.		Micro ent.	
	Num.	%	Num.	%	Num.	%	Num.	%
<i>2005</i>								
GEN. PRINCIPLES	1 162,5	69,3	14,3	100	47,1	99,6	1 101,1	68,2
Inc. tax from leg. pers.	126,5	7,5	12,1	84,6	37,6	79,5	86,7	5,3
Inc. tax from nat. pers.	1 036,0	61,8	2,2	15,5	9,5	20,1	1 014,4	62,8
Including:								
Acc. books	138,7	8,3	13,7	96,5	31,5	66,6	93,5	5,8
Rev. and Disburs.	1 024,0	61,1	0,5	3,5	15,9	33,6	1 007,6	62,4
FLAT-RATE TAX	287,2	17,1	0,0	0,0	0,1	0,2	287,1	17,8
TAX CARD	227,1	13,5	0,0	0,0	0,1	0,2	227,0	14,1
<b>OVERALL</b>	<b>1 676,8</b>	<b>100</b>	<b>14,3</b>	<b>100</b>	<b>47,3</b>	<b>100</b>	<b>1 615,2</b>	<b>100</b>
<i>2006</i>								
GEN. PRINCIPLES	1 196,4	72,9	14,7	100	44,2	99,5	1 137,5	69,5
Inc. tax from leg. pers.	124,7	7,3	12,4	84,4	24,8	55,9	87,5	5,3
Inc. tax from nat. pers.	1 071,7	62,6	2,3	15,6	19,4	43,7	1 050,0	64,2
Including:								
Acc. books	148,2	8,7	14,3	97,3	30,6	68,9	103,3	6,3
Rev. and Disburs.	1 048,0	61,2	0,4	2,7	13,6	30,6	1 034,0	63,2
FLAT-RATE TAX	391,1	22,8	0,0	0,0	0,1	0,2	391,0	23,9
TAX CARD	124,6	7,3	0,0	0,0	0,1	0,2	124,5	7,6
<b>OVERALL</b>	<b>1 711,9</b>	<b>100</b>	<b>14,7</b>	<b>100</b>	<b>44,4</b>	<b>100</b>	<b>1 637,0</b>	<b>100</b>
<i>2007</i>								
GEN. PRINCIPLES	1 257,8	70,9	15,5	100	45,2	100	1 197,1	69,9
Inc. tax from leg. pers.	132,8	7,5	13,0	83,9	25,0	55,3	94,8	5,5
Inc. tax from nat. pers.	1 125,0	63,4	2,5	16,1	20,2	44,7	1 102,3	64,3
Including:								
Acc. books	143,4	8,1	15,0	96,8	29,3	64,8	99,1	5,8
Rev. and Disburs.	1 114,4	62,8	0,5	3,2	15,9	35,2	1 098,0	64,1
FLAT-RATE TAX	398,2	22,5	0,0	0,0	0,0	0,0	398,2	23,2
TAX CARD	117,9	6,6	0,0	0,0	0,0	0,0	117,9	6,9
<b>OVERALL</b>	<b>1 773,9</b>	<b>100</b>	<b>15,5</b>	<b>100</b>	<b>45,2</b>	<b>100</b>	<b>1 713,2</b>	<b>100</b>

Source: GUS Reports: *The Activity of Non-financial Enterprises, 2005–2007*, www.stat.gov.pl.



Table 3. The dynamics of changes in taxation forms and recording obligations in the Polish SME sector for the years 2005–2007

Form of taxations / Filing systems	SME sector		Medium ent.		Small ent.		Micro ent.	
	No	%	No	%	No	%	No	%
Changes 2005/2006								
GEN. PRINCIPLES	33,9	102,9	0,4	102,8	-2,9	93,8	36,4	103,3
Inc. tax from leg. pers.	- 1,8	98,6	0,3	102,5	-12,8	66,0	0,8	100,9
Inc. tax from nat. pers.	35,7	103,4	0,1	104,5	9,9	204,2	35,6	103,5
Including:								
Acc. books	9,5	106,8	0,6	104,4	-0,9	97,1	9,8	110,5
Rev. and Disburs.	24,0	102,3	-0,1	80,0	-2,3	85,6	26,4	102,6
FLAT-RATE TAX	103,9	136,2	0,0	-	0,0	100,0	103,9	138,7
TAX CARD	-102,5	54,9	0,0	-	0,0	100,0	-102,5	51,9
<b>OVERALL</b>	<b>35,1</b>	<b>102,1</b>	<b>0,4</b>	<b>102,8</b>	<b>-2,9</b>	<b>93,9</b>	<b>21,8</b>	<b>101,3</b>
Changes 2006/2007								
GEN. PRINCIPLES	61,4	105,1	0,8	105,4	1,0	102,3	59,6	105,2
Inc. tax from leg. pers.	8,1	106,5	0,6	104,8	0,2	100,8	7,3	108,3
Inc. tax from nat. pers.	53,3	105,0	0,2	104,9	0,8	104,1	52,3	105,0
Including:								
Acc. books	- 4,8	96,8	0,7	104,9	-1,3	95,8	- 4,2	95,9
Rev. and Disburs.	66,4	106,3	0,1	125,0	2,3	116,9	64,0	94,7
FLAT-RATE TAX	7,1	101,8	0,0	0,0	-0,1	-	7,2	101,8
TAX CARD	- 6,7	94,6	0,0	0,0	-0,1	-	- 6,6	94,7
<b>OVERALL</b>	<b>62,0</b>	<b>103,6</b>	<b>0,8</b>	<b>105,4</b>	<b>0,8</b>	<b>101,8</b>	<b>76,2</b>	<b>104,7</b>

Source: GUS Reports: *The Activity of Non-financial Enterprises*, 2005–2007, [www.stat.gov.pl](http://www.stat.gov.pl).

## Findings and conclusions

The Polish SME sector is characterized by very different forms of income taxation. Apart from similar, but different for legal and natural persons, general principles, there are two types of flat-rate income tax. Choosing the form of taxation is limited by legal regulations. The main factors determining the applicability of the chosen method are: the type and size of business activity and adopted organizational form of the enterprise. As practice shows, under these conditions, for emerging companies or managed by inexperienced managers (as often happens in small enterprises), the choice of the proper method of taxation may be a difficult task.

In 2005–2007 the number of enterprises in the SME sector in Poland increased by over 5%. At the end of 2007, it amounted to 1 774 000 companies. The

most prominent increase was in medium-sized enterprises (2.8% in 2006 and 5.4% in 2007) and in the smallest firms (acc: 1.3 and 4.7%).

In applied form of taxation for the period 2005–2007, there were no significant changes. The proportion of companies taxed under the general rules grew marginally, and the number of companies opting for a flat-rate income tax decreased. Noticeable changes occur only in the latter form of taxation. The number of companies using the tax card decreased by a half, while at the same pace the number of firms using flat-rate tax of revenue rose considerably.

Approximately 60% of companies use Revenue and Disbursement for determining taxable income. Less than 10% are required to keep accounting books. The remaining 30% manage company accounts by simplified filing systems related to the flat-rate tax forms.

The observed tendencies will be strengthened in 2008. The income band to qualify for flat-rate forms of taxation was reduced in 2008 (from € 250 000 to € 150 000). And the income level which obliges natural persons to keep accounting books was increased (from € 800 000 to € 1 200 000).

The number of companies that are taxed at flat-rate, including in particular the tax card can therefore be expected to be further reduced. The number of companies that are taxed under the general principles is likely increase. The number of companies operating accounting books will decrease. The Revenue and Disbursement will become the dominant filing system.

## **FORMY OPODATKOWANIA I SYSTEMY EWIDENCYJNE W POLSKIM SEKTORZE MŚP**

### **Streszczenie**

Głównym celem artykułu jest prezentacja form opodatkowania dochodu stosowanych w sektorze MŚP w Polsce, a także analiza struktury i dynamiki zmian tychże kategorii w latach 2005–2007. W pierwszej części artykułu scharakteryzowano zasady ogólne opodatkowania dochodu osób prawnych i fizycznych, a także dwie podstawowe formy zryczałtowane (ryczałt od przychodów ewidencjonowanych i karta podatkowa). Omówiono również podstawowe obowiązki ewidencyjne przedsiębiorstw wynikające z wybranej formy opodatkowania. Druga część artykułu poświęcona została analizie danych statystycznych form opodatkowania i systemów rachunkowych funkcjonujących w sektorze MŚP w ww. okresie.

*Streszczenie Jacek Jaworski*