

**DOING
BUSINESS
IN**

Poland



HLB Poland

*doing business in
Poland*

foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms.

It is designed to give some general information to those contemplating doing business in Poland and is not intended to be a comprehensive document. Furthermore, differences in interpretation may have arisen on the translation into English.

You should consult us, therefore, before taking further action.

The information contained in this booklet is believed to be correct at the time of preparation in June 2005.

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contents

FOREWORD

ABOUT HLB INTERNATIONAL

GENERAL INFORMATION

Geography, Location and Climate
Constitution and Population
Currency and Language
Economy and Economic Arrangements
EU Integration
Macroeconomic Situation

INVESTMENT FACTORS

Special Features
Polish Agency for Foreign Investment
Government Incentives
Other Incentives
Sources of Finance
Foreign Exchange Control
Employment Regulations
Employing Foreigners in Poland
VISAS

TYPES OF BUSINESS ORGANISATIONS

Branch Office
Civil Partnership
Professional Partnership
Joint – Stock Company
Limited Joint-Stock Partnership
Limited Partnership
Limited Liability Company
Registered Partnership
Representative Office
Legal, Accounting and Audit Requirements

TAXATION

Personal Income Tax
Corporate Income Tax
Value Added Tax (VAT)
Excise Duty
Tax on Vehicles
Real Estate Tax
Tax on Civil Law Actions
Stamp Duty
Double Tax Treaties

HLB Frackowiak I Wspolnicy SP Z.O.O. Offices

general information

Geographic Location and Climate

The Republic of Poland is located in the Centre of Europe and covers an area of 312,685 sq. km. Poland shares borders with Germany to the West, the Czech Republic and Slovak Republic to the South, Ukraine, Belarus and Lithuania to the East and Russia to the North. The most important cities in Poland are Warsaw, Poznan Bydgoszcz, Łódź, Kraków, Katowice and Gdansk.

Poland generally has a moderate continental climate, but is prone to unpredictable temperature fluctuations from season to season and from year to year. The winter months (from December to March) are generally cold, with snow throughout the country and temperatures from 0°C to a minimum of – 20°C. Summers from July to September are mostly sunny and warm, with temperatures up to 35°C anticipated in the holiday month of August.

Poland is in the Central European Time zone and is one hour ahead of standard GMT. It switches to daylight saving time between April and October.

Constitution and Population

Poland is a parliamentary republic. The supreme law of Poland is the Constitution passed on 2 April 1997 and ratified in a national referendum. The system of government of the Republic of Poland is based on the separation of and balance between the legislative, executive and judicial powers. Legislative power is vested in a bicameral Parliament, composed of the Sejm (lower house) and the Senat (upper house), executive power is vested in the President of the Republic of Poland and the Council of Ministers, and the judicial power is vested in courts and tribunals.

The population of Poland is about 38.6 million people and is one of the largest in Europe.

Currency and Language

Polish is the official language, but people engaged in business usually speak English. The unit of Polish currency is the złoty, denoted as PLN. Each złoty is divided into 100 groszy.

Economy and Economic Arrangements

Poland's economy has been one of the strongest in the Central and Eastern Europe since the beginning of the transition from a planned economy to a market system in the early 90's. The privatisation of small and medium state owned companies and a liberal law on establishing new firms marked the rapid development of a private sector now responsible for 70 % of economic activity.

The dynamic development of the Polish economy was confirmed by Poland's accession into the Organisation for Economic Co-operation and Development (OECD) in 1996 and into the World Trade Organisation (WTO) in 1995. Poland became a founding member of the Central

European Free Trade Agreement (CEFTA) in 1992. In 1993, it was admitted as an associate partner into the Western European Union. In 1998, Poland presided over the Organisation for Security and Co-operation in Europe (OSCE), while in 1999 it became a member of NATO.

EU Integration

Poland entered the EU on 1 May 2004, ten years after applying for membership and six years since beginning negotiations.

Poland submitted an application for membership of the European Union in 1994. In 1998 Poland began to negotiate entry to the European Union. In December 2001 the leaders of 15 EU Member States named ten Central and Eastern European countries, including Poland, eligible for joining EU in 2004. On 16 April 2003 at the foot of the Acropolis, leaders of the 15 current EU Member States and of ten acceding countries participated in a ceremony of the signature of the Treaty of Accession.

Poland's accession to the EU resulted in additional advantages and opportunities for foreign investors:

1. Membership in the EU guarantees stability and dynamic development.
2. Investors gain unlimited access to the EU market with over 460 million customers.
3. The legal environment should soon become fully compatible with Western standards.
4. Poland will be the single largest beneficiary of EU aid among the acceding countries.

Macroeconomic Situation

Gross Domestic Product

Poland's economy is one of the fastest developing economies in the European Union. The GDP growth amounted to 5,4% in 2004 (compared to 1,3% in the Euro zone) and was higher than the average of all 25 EU members (1,6%)

The stabilisation programme, reduction of inflation, removal of a number of trade barriers and privatisation of the state sector has resulted in one of the highest GDP growths in Europe. In the period 1994-1997 an annual rate of the GDP's growth amounted to 6.3%. However later years were characterised by lower rate of growth (3.5% in the period of 1998-2001). Gross Domestic Product increased in 2002 by 1.3%, compared with 1% in 2001. Since the second half of 2002 a gradual recovery of the economy has been noted. A rise in exports and an increase in consumer spending have been the key factors behind growth of the Polish economy in 2002. In 2004, GDP grew by 5.4%

The 2001 level of GDP reached USD 176 bn. which translates into more than 4,500 in per capita terms (at the average official exchange rate). GDP per capita in Poland in PPP (Purchasing Power Parity) amounted to USD 9,900 in 2001, as compared to USD 6,780 in 1995. Though the gap between Poland and EU Member States is steadily narrowing, average GDP per capita in Poland is equivalent to 38 per cent of average GDP per capita in the EU countries.

Prices

An important macroeconomic indicator of the Polish economy is the inflation rate. It has been decreasing since the beginning of the transformation and it dropped below 10% in 1999. Average annual inflation in 2004 was 3,5% (0,8% in 2003).

Labour Market

The unemployment rate has been high for a long. It has a structural nature and is a side effect of changes in the economic environment. It is also influenced by demographic factors. In 2001 it amounted to 17.4%, so at the end of 2001 a total of 3.12 million people were registered as jobless. The unemployment rate in 2003 exceeded 20% and it fell slightly to 19,6% in May 2004. This is the result of a slowdown in economic activity, but also a result of a rise in labour productivity, continuation of restructuring process in several industries and an increase in working age population. Unemployment is expected to decrease slowly in the following years and be about 19 % by the end of 2005 as the effects of the economic recovery reach more sectors.

investment factors

Special Features

Before 1989 few foreign companies operated in Poland. Today 91% of capital incoming to the country comes from OECD countries (more than \$41 billion). According to the Polish Information and Foreign Investment Agency (PAIILZ), 996 companies from 35 different countries had started economic activity in Poland by the end of 2003. Foreign companies have so far invested over 70 billions dollars in Poland. The largest share of foreign investments is in manufacturing industry (40%). Next in line is the financial services sector (23%), followed by transport, logistics and data transfers (12,1%). Since the start of the 1990s enterprises from the EU have become increasingly interested in undertaking economic activity in Poland. In 1993 the value of investments from EU countries stood at about 47%, while by 2000 this had risen to 67% of all activity undertaken by foreign companies. The inflow of FDI into Poland amounted to \$6.4 billion in 2003.

It is worth investing in Poland because of:

1. its location,
2. nearly 40 million people domestic market,
3. liberalised economy,
4. the modern banking system,
5. well-educated workforce,
6. low labour costs,
7. the system of supporting investments in full accordance with regulations operating in the EU,

Three fundamental principles relate to foreign investors in Poland:

1. national treatment,
2. non-discrimination,
3. transparency.

Owing to these principles Poland's legislation is considered favourable to foreign investors who are guaranteed the same rights as domestic investors. Poland has imposed a number of new regulations, including those relating to business activity, public aid, regional development, flow of capital and intangible transactions. Poland has thus fulfilled its international liberalisation obligations. The principal act governing business activity in Poland, namely, the Business Activity Law of 19 November 1999, gives to the Polish and foreign entities equal rights in taking up and conducting business activities in Poland. According to the principles of reciprocity, foreign entrepreneurs can launch and conduct business on the basis of the same rules as those for entrepreneurs who have permanent residency or a registered office in Poland, unless international agreements ratified by Poland provide otherwise. If there are no principles of reciprocity, the only form of business activity for foreign entrepreneurs on the Polish territory can be limited partnership, limited liability company or a joint stock company. They are also allowed to join such partnerships or companies, and hold or purchase their shares.

Polish Information and Foreign Investment Agency

Polish Information and Foreign Investment Agency (PAIiZ) was established in 1992 to promote the Foreign Direct Investments (FDI) inflow to Poland. This is the main government agency assisting investors in Poland, which has been founded in order to increase the flow of foreign investment into Poland. It offers professional information and advice, guides investors through the formal procedures and contacts with central and local authorities. Its services are offered for free. The Agency's mission includes creating a positive image of Poland in the world, promoting Polish brands of products and services, thus supporting exports.

Government Incentives

Investment Grants

Foreign investors may obtain special grants, like for example: investment grants covering up to 25 % of investment outlays, employment grants for creating new jobs, training grants and grants for infrastructure development.

Investors who benefit from the investment grants are eligible also for other forms of support, such as: tax relief in Special Economic Zones (SEZ), local tax relief etc., however the total value of grants and other kind of public aid offered to the investor cannot exceed 50% of the investment outlays. According to the Law on Financial Support for Investment of 20 March 2002 (effective from 19 May 2002), financial support for entrepreneur may be granted for a new investment if:

1. value of new investment is not lower than EUR 10,000,000 or
2. value of new investment is not lower than EUR 500,000 if the investment is related to the development and modernisation of the existing business and to the maintenance of at least 100 jobs or 50 jobs in the event of investment in one of the support areas for not less than 5 years, or
3. at least 20 new jobs for at least 5 years have been created as a result of new investment, or
4. new investment has introduced a technological innovation,
5. new investment benefits environmental protection.

Other Incentives

There are also other forms of incentives for investors as well as grants and tax reliefs in Special Economic Zones (SEZ), like grants for hiring unemployed and disabled persons, custom duty exemptions, local tax reliefs.

Sources of Finance

There are many ways of raising finance for running a business in Poland. Major international banks and many financial institutions are represented in Poland. Polish banks also present a very attractive and competitive offer. The Warsaw Stock Exchange is active, attracts many foreign investors and has close relations with other financial markets. The European Union is also a source of funds for Poland through different programmes and initiatives.

Foreign Exchange Control

Foreign exchange control is imposed mainly on some financial operations within non-EU and non-OECD countries (Polish National Bank authorization is required). Exchange control in relation to EU and OECD countries is limited (e.g. for international bank transfers of more than EURO 10,000 a document stating legal title of the transfer should be enclosed).

Foreign entities (natural persons and legal entities) aiming to purchase real estate in Poland are obliged to get a permit from the Ministry of Internal Affairs.

Employment Regulations

The principal acts governing employment have been combined in a Labour Code, which lays down the basic laws applying to all employees and firms, covering the working time, health and safety, trade unions, minimum wage, employee representation, labour disputes and courts, etc. The working week lasts 40 hours, 8 hours a day.

Employing Foreigners in Poland

The regulations concerning employing foreigners in Poland changed after Poland's integration with the EU. The general rule is based on the admission of foreigners' work in Poland based on obtaining the proper permit. The province governor, whose jurisdiction covers the seat of the employer who applies for a permit, is empowered to grant a permit. There are several exemptions to this rule.

Following groups of foreigners are not obliged to obtain a work permit:

- citizens of the European Union member states and of the states with which the EU has signed an agreement on freedom of movement of people;
- members of families of the said foreigner, who either work or run business in Poland;
- citizens of the EU members states whose residence in Poland is sanctioned under the regulations on residence law applicable to EU member states, on right of residence for students and individuals who have finished employment or running a business.

VISAS

There are several types of visas in Poland:

1. Residency visa - authorizes entry to and stay in Poland without the right to take up any employment or any other gainful activity. It is issued for a specified time. The total time of the foreigner's stay in Poland on the basis of his visas cannot exceed 6 months within a 12 month period, counting from the date of the first entry
2. Residency visa with a work permit - it entitles the holder to take up employment. It can be granted to a foreigner who has received a work permit from the voivode.
3. Repatriation visa - it is issued to a foreigner of Polish origin who wants to resettle in Poland.
4. Transit visa - it is issued to give the holder five days to cross the territory of Poland. It can be valid for single, double or multiple entries.

Visas are issued:

1. outside Poland: by Polish diplomatic missions and consulates,
2. in Poland: by the voivodes with jurisdiction over foreigners' place of residence,
3. at the border: by the commanders of the Border Guards control posts.

types of business organisations

The principal forms of business structures are:

1. Branch Offices
2. Civil Partnership
3. Professional Partnership
4. Joint Stock Company
5. Limited Partnership
6. Limited Joint - Stock Partnership
7. Limited Liability Company
8. Registered Partnership
9. Representative Office

Branch Office

To carry out business activity on the territory of Poland foreign entrepreneurs may set up branch offices. The rights of the entrepreneurs are regulated on the basis of the principle of reciprocity with other countries and international agreements ratified by Poland.

A branch office does not have its own legal personality. It operates as a part of the foreign company conducting business in Poland.

The establishment of a branch office must be registered in the Register of Entrepreneurs.

Civil Partnership

A civil partnership may be established under the regulations of the Civil Code. It must be established by at least two persons (natural persons or legal entities) who take on an obligation to pursue a common, particular economic goal. A deed of the partnership must be in writing. Each partner is obliged to register the partnership in the Business Activity Register (ewidencja działalności gospodarczej) as an entrepreneur carrying out a business activity in the form of civil partnership (on official forms of the National Court Register). Members are jointly and severally liable for the liabilities of the partnership. A Civil Partnership does not have its own legal personality.

Professional Partnership

A professional partnership is established in order to perform a liberal profession in a partnership conducting business under its own business name. Partners must be qualified to pursue a given profession (i.e. attorneys in law, public notaries, dentists, chartered accountants). A Partner is not

liable for the debts and liabilities of the partnership incurred by the pursuit of a profession by other partners, or resulting from the actions or omissions of the partnership's employees who, at the time of providing a service related to the company's business, were commissioned by and answerable to another partner. It may be provided in the deed of partnership that the liability of one or more partners for the debts and obligations of the partnership is the same as that of a partner in a registered partnership. A partner is liable with his whole property, jointly with other partners, for all of the outstanding taxes of the partnership and the partners resulting from the operation of the partnership.

Joint-Stock Company

A company must be founded by at least one natural person or a legal entity. However it may not be established solely by a single - member limited liability company.. The minimum initial capital is 500,000 PLN. The value of a single share cannot be lower than 1 PLN. The Company is liable for its debts and obligations with its whole property. The company is controlled by the management board and the supervisory board. In order to obtain capital the joint stock company has the ability to issue shares, which may be subject to public trading. Shareholders are not liable for the company's debts and obligations. The company has to be registered at the District Court (Commercial Court) in the region in which the company is established and which will be its principal place of business.

Limited Joint-Stock Partnership

The company must be established by at least two persons for the purpose of running the company under its business name. The minimum capital is 50,000 PLN. The company does not have a legal personality. There are two kinds of partners in companies like this: at least one partner is liable for the company's obligations without limitation (General Partner) and a shareholder, whose liability for the company's financial obligations is limited only to the amount of the contribution that he has brought in. A notarised form is required for the status of the partnership. It should be signed by at least all general partners, whereupon the partnership should be registered at the National Court Register.

Limited Partnership

A Limited Partnership is established for the purpose of conducting business under its own business name. The company must be established by at least two persons. At least one person in this partnership is liable for the debts and obligations of the partnership without limitation (the general partner). The liability of at least one partner is limited (the limited partner). A limited partnership has no legal personality. A notary deed is required to establish a limited partnership. The entity is subject to registration in the National Judicial Register.

Limited Liability Company

A limited liability company can be established by one or more persons for the purpose of conducting a business and any other purpose allowed by law. The deed of company formation should have the form of a notarial deed. The minimum capital is 50,000 PLN and the minimum value of one share is 500 PLN. A limited liability company has a legal personality. The Company is liable for its debts and obligations with its whole property and shareholders are not liable for the company's debts and obligations. The company is managed by its bodies: the management board, supervisory board and the shareholders' meeting.

A limited liability company may be established by any foreign natural person or legal entity. However it may not be established solely by another single - member limited liability company. The formation requirements of a limited liability company include:

1. Articles of Association or a Founding Deed (for a single- member company). It must be executed in a notarised form before a notary in Poland),
2. Entry in the Court Register (a limited liability company is entered into the Register of Entrepreneurs in the National Court Register),
3. Registration with the Statistical Office (Entrepreneurs are required to hold the REGON statistical number),
4. Opening of a bank account,
5. Registration with the Revenue Office. Taxpayer's Identification Number (NIP),
6. Registration with the Social Security Office (Zakład Ubezpieczeń Społecznych),

Registered Partnership

Registered partnerships are set up through a partnership agreement, which specifies the rights and obligations of partners. They may be founded by a legal or natural person. Registered partnerships are entered in the commercial register, however they do not have legal personality. Each of the partners has unlimited liability for the liabilities of the partnership. Every partner has the right to represent the partnership and enter into agreements on its behalf.

Representative Office

A foreign entrepreneur may set up representative offices in the territory of Poland. A representative office operates for and on behalf of the business of the foreign entrepreneur within the territory of Poland and is a part of the organisational and functional structure of his or her business. Therefore, the entrepreneur conducting the business activity is considered to be the foreign investor him or herself. A representative office must be entered in the Register of Representative Offices of Foreign Entrepreneurs, kept by the Minister of the Economy.

Legal, Accounting and Audit Requirements

Polish accounting is regulated by the Accounting Law of 29. September 1994. The aim of accounting regulation is to present a true and fair view of the company's financial position and results. However in cases when there is not an appropriate national standard, International Accounting Standards can be applied.

Companies can keep accounting records by themselves or they can obtain such services from another company, entitled to perform such services. Documentation and financial statements are to be made in the Polish language and maintained in Polish currency.

The accounting year in Poland lasts 12 sequential months, but it does not have to refer the calendar year. In that case the company should inform the appropriate tax office.

At the end of their financial year companies are obliged to prepare a balance sheet, a profit and loss account and notes to financial statements. Additionally, companies which must have annual audits are obliged to prepare a cash-flow statement.

State enterprises, joint-stock companies, banks, insurers, investment and pension funds are required to have an annual audit. Other companies must be audited if two of the following three conditions

are met in the preceding year:

1. average number of employees was higher than 50 in the given year,
2. the total of net revenues and financial income exceeded EUR 5 million,
3. total assets at the end of the year exceeded EUR 2,5 million.

The audit must be performed by an independent auditor who has a license to perform audits, before the financial statements are approved at the meeting of shareholders. Entities that are obliged to have their financial accounts audited are also obliged to publish their financial statements together with an auditor's opinion in the Commercial Bulletin (Monitor Polski B).

taxation

The legal basis for tax obligations is regulated by the Constitution of the Republic of Poland. There are eleven major tax and duties in the tax system, but investors should note that the Polish tax system is subject to continuous modification and amendments making it comparable with EU directives and legislations. There are also other sources of constant changes of the Polish Tax Law such as court decisions or rulings of Ministry of Finance with major influence over system of taxation.

Polish system of taxation was introduced in the early 1990s. It divides taxes into two groups:

1. direct taxes, which include in particular:
 - 1.1. personal income tax,
 - 1.2. corporate income tax,
 - 1.3. inheritance and donations tax,
 - 1.4. tax on civil law actions,
 - 1.5. real estate tax,
 - 1.6. tax on vehicles,
2. indirect taxes:
 - 2.1. value added tax (VAT),
 - 2.2. excise tax,
 - 2.3. betting and gambling tax.

The most important taxes from the fiscal point of view are value added tax, corporate income tax, excise tax and personal income tax.

Personal Income Tax

The subject of taxation is income earned in a given tax year by a natural person. Natural persons being residents of Poland are taxed on the whole of their income, irrespectively of the location of the source of revenue (so called unlimited tax liability on worldwide income and capital gains). Those who are not domiciled in Poland are obliged to pay tax on the income earned or arisen from sources located in Poland only.

Sources of revenue may include:

1. contract of employment, membership in cooperative,
2. individual economic activities,
3. lease, sublease, tenancy and similar contracts,
4. capital gains
5. activity carried on personally
6. special types of agricultural activity
7. other sources.

In the course of each tax year, tax pre-payments are made to tax offices and personal income tax returns are filed. Annual tax return should be filed and tax balance paid by 30 April of the year following the year of assessment. Tax rates are expressed as percentages and make up a progressive income tax scale. Taxes in 2005 will be collected according to the tax rates listed in the table below:

Taxable Base		Tax Payable
Over	Up to	
	PLN 37.024	19% minus PLN 530,08
PLN 37.024	PLN 74.048	PLN 6.504,48 + 30% of the surplus over PLN 37.024
PLN 74.048		PLN 17.611,68 + 40% of the surplus over PLN 74.048

Some kinds of income are not subject to the tax scale. As of January 1, 2004 individuals carrying on non-agricultural business activity may choose either progressive scale or the flat-rate tax of 19%. Taxpayers who decide to pay flat-rate tax can not apply any tax allowances or deductions but it is still very profitable especially for the taxpayers who are on the third level of the tax scale.

Corporate Income Tax

Corporate income tax applies to legal entities, such as capital companies, capital companies in organisations, foundations or associations, tax capital groups and other organisational units (organisational units without legal personality except from partnerships). If a taxpayer is resident in or location of the management board is within the territory of the Republic of Poland, it is liable for tax on the whole of its income, irrespective of the place where it was earned. If a company is not resident of Poland or does not have a management board in Poland, it is taxed in Poland only with respect to income earned within the territory of Poland.

The subject of corporate income tax is the income earned in a given tax year, irrespective of the source of revenue. Income refers to the surplus of the total revenue over the tax deductible costs of earning the revenue.

The tax year, is usually, the calendar year, but the company could choose another 12 consecutive months provided that tax office was informed. The accounting period is corresponding to the tax year.

The term "deductible tax costs" refers only to those expenses which were incurred by the taxpayer for the purpose of acquiring revenue and are not specified in the relevant legal acts as expenditures which, by virtue of the provisions of the Corporate Income Tax Act, do not constitute a tax cost (e.g. costs of discontinued investments or representation and non-public advertising cost in the amount given by the law). There are also some basic principles which should be taken into consideration:

1. tax deductible costs may be deducted only in the tax year they relate to
2. if it is impossible to establish to which tax year the cost refers to, the cost should be deducted in the year in which it was paid

Taxpayers are obliged to maintain accounting records in a way which makes it possible to calculate the amount of income, the tax base and the amount of tax due in a given tax year. Income tax pre-payments are calculated by taxpayers and paid on a monthly basis by the 20th day of the following month. The annual settlement is made and filed no later than up to the end of third month after the end of the tax year together with the underpayment of tax (situation that the sum of prepayments made during the year is actually lower than calculated annual tax).

If the total costs incurred to obtain revenue exceed the total revenue, the difference between the two totals constitutes a loss. The taxpayer can deduct this loss from future income for five consecutive years. Only half of the original loss may be deducted in any of the five years.

The standard corporate tax rate in 2005 is 19 %.

There is possibility to establish so called "Tax Capital Group" by at least two capital companies (limited liability company or joint stock company) provided several conditions are fulfilled (concerning shares of a dominant company in dependent companies, initial capital in companies, minimum ratio of profitability of the whole group and other conditions). Tax capital group is jointly taxed, transfer pricing provisions do not apply to, dividends paid between companies creating such group are not subject to withholding tax.

Poland requires transfer pricing to be on the arm's length principle. Transfer pricing restrictions are implemented where one entity participates (directly or indirectly) in the management or controls or holds stock of another company. Taxpayers are obliged to prepare formal documentation for transactions with related companies. If a taxpayer does not submit appropriate tax documentation within 7 days from the tax authority request and the tax authority assesses taxpayer's income at a higher amount (or the loss at a lower amount), then the difference will be taxable at a penal rate of 50%.

Poland introduced thin capitalisation regulation; if the company is financed by means of loans from the shareholder, part of the costs of interests may not be tax deductible. Provided that the relation of the amount of loan (from the shareholders who have at least 25% of share capital) to the initial capital is higher than 3 (ie. loan exceeds share capital three times), the interests from the portion of loan exceeding the threefold of the initial capital do not diminish the tax base.

On dividends and other capital gains the 19% flat-rate tax is imposed. The Polish taxpayer is not liable to any other taxes on dividend received and the dividend is not included in its taxable revenue. Tax on dividends is deducted from the calculated annual tax and consequently it may be stated that receiving dividends by Polish CIT payers is not taxed. If dividend is received by entity incorporated abroad dividends are also subject to 19% withholding tax unless a relevant tax treaty provides otherwise.

As of May 1, 2004 Poland has implemented the Parent- Subsidiary Directive. Consequently there is exemption from withholding tax in case several conditions are met:

1. dividends are paid to a company resident in EU but without Polish domicile

2. the beneficiary is subject to income tax on its worldwide income in any EU Member State
3. the beneficiary has held at least 20% of the initial capital of Polish company for an uninterrupted period of 2 years (but the period do not have to be fulfilled before payment is done)
4. beneficiary has to provide the Polish payer with the certificate of tax residence.

Value Added Tax (VAT)

Value added tax is imposed on the sale of goods and services provided within the territory of Poland. As of May 1, 2004 Poland joined the EU, the Polish VAT act has been modified and changed Polish regulations in line with the VI Directive. According to the Polish VAT regulations VAT applies to:

1. supply of goods and services for consideration in the territory of Poland
2. export and import of goods
3. intra- Community acquisition of goods realized for consideration in Poland
4. intra-Community supply of goods

Taxable persons are legal persons, organizational entities without legal personality and natural persons independently carrying out economic activity whatever the purpose or results of that activity.

Every entity which perform activities subject to VAT is obliged to register for VAT before undertaking its first taxable activity. Registered VAT payers have the status of "active VAT payer" and this way they are entitled to deduct the amount of input tax from the amount of output tax, to the extent in which the goods and services are used for performing taxable transactions.

Prior to making intra-Community transactions, taxpayer is obliged to announce his intention to appropriate inland revenue to be registered as an EU VAT payer.

Companies without registered office or place of residence in Poland may also claim a refund of input VAT if they are not registered for VAT purpose in Poland.

Foreign citizens can also be subject to VAT if they carry out activities that are subject to taxation, within the territory of Poland, on a regular basis, if they are registered in Poland for VAT purposes.

The standard VAT rate is 22 %. In certain cases, reduced rates of 0 % and 7 % may apply if the specific provision give the right to apply it. The 7 % rate, for example, applies to the hotel services, 0% rate is applicable to exports of goods outside EU and intra-Community supplies of goods.

The tax provisions also specify cases of tax exemption – both subject-related, e.g. the turnover during the year is lower than EUR10,000 and object-related, which are connected with financial services, health care services etc. The base for taxation is the net turnover.

Taxpayers are obliged to file tax returns to the tax office on a monthly basis by the 25th day of the month following the month in which the tax obligation arose. There are additional statistical requirements of filing INTRASTAT declaration and sales and purchase lists for taxpayers who trade in goods with other EU countries.

Polish Act on the Goods and Services Tax provides with individual rulings with respect to:

1. small entrepreneurs
2. supply of tourists services
3. supply of second-hand goods
4. investment gold
5. tax refund for tourists
6. entities supplying electronic services to non-taxpayers within EU

Although the new Polish VAT Act has been in force since May 1, 2004 there are still many problems and disputes about interpretations of the VAT law. A few provisions of the Polish VAT act are not in line with VI Directive and ETS rulings, sometimes interpretations issued by tax bodies vary dramatically depending on region of Poland or attitude towards VI Directive and domestic regulations.

Excise Duty

As of May 1, 2004 new Excise Duty Act, harmonized with the EU law, came into force. The excise goods are divided into:

1. harmonized excise products – ie. products subject to excise duty by EU provisions (tobacco, alcohol, mineral oils etc)
2. non-harmonized excise products – ie. product subject to excise duty by Polish provisions (perfumes and beauty products, salt, passenger cars).

Provisions concerning both kinds of excise products differ fundamentally but the scope of excise is similar. Excise duty is levied on and payable by producers, importers of excise goods and units carrying out intra-Community acquisition of goods.

Unfortunately some provisions of Excise Duty Act are said not to be compliant with European Treaty for example obligation to impose excise on intra-Community acquired second-hand passenger cars.

Tax rates are usually expressed as percentage rates or given amount of tax per unit.

Tax on Vehicles

Tax on vehicles is payable by owners of vehicles or by the entity without legal personality, in whose name the vehicle is registered. The tax applies to e.g. lorries with the load capacity from 3.5 to 12 tonnes, and over 12 tonnes, saddle tractors and ballast tractors, trailers and semi-trailers, buses. Tax rates depend on the type of vehicle. The tax is paid in two installments payable by the 15th February and 15th September each year.

Real Estate Tax

Real Estate tax is imposed on land, buildings and building constructions. Persons obliged to pay real estate tax include the owner and the leaseholder renting a real estate from the State Treasury or from local administration bodies. The tax rate is expressed as an amount calculated for the usable area of the building, the area of the land and the value of building constructions. Tax rates are defined by the local administration bodies, but they may not exceed the maximum rates given in the tax regulations. The payments are made in 4 instalments.

Tax on Civil Law Actions

The obligation to pay the tax on civil law actions (a kind of stamp duty) arises in the case of such legal actions as e.g. sale, conclusion of a partnership agreement, making additional contributions to a partnership, granting a loan or an exchange. The obligation to pay the tax applies jointly and severally to all parties that performed the legal activities and the tax rates are defined separately for each of the activities.

However, there are civil law actions (e.g. sale) which are not subject to this tax if by way of this legal action at least one of the parties of this action is liable to value added tax or is exempt from value added tax.

Below there are specified the most important titles which are subject to tax on civil law actions together with appropriate tax rate

1. Loan agreement - tax rate amounts to 2 % but if the loan contract is signed by the shareholder of the company and company or loan is granted for the purpose of developing business activity it is exempted from tax
2. Sales contract – tax rate is determined by the subject of sale and equals either 1% or 2%
3. Articles of partnership – tax rate amounts to 0,5%
4. Right of free use of objects or property rights handed over to the company – tax rate equals 1 %.

Stamp Duty

Stamp duty is paid on administrative documents such as bills of exchange or bills of lading. The obligation to pay stamp duty also arises when permits are issued or licences to perform activities specified in them. The entities that are obliged to pay stamp duty include all bodies that issue documents and file applications, as well as all entities that submit applications to perform official actions or issue certificates or permits.

Double Tax Treaties

Poland is a party of number of agreements concerning the avoidance of double taxation, the structure of which are based on the model OECD agreement. Agreements regulate e.g. rules governing the taxation of capital gains, interest rates, dividends, licence fees or income from hired labour.

According to the provisions of the Polish tax law the rate of withholding tax is 19% on dividend or other capital gains. All revenue from immaterial services provided for a Polish taxpayer (e.g. advisory, management, research), interest, licence fees or income from hired labour is taxable in Poland at the rate of 20%. The reduced rate provided for in a double tax treaty could be applied only if a foreign taxpayer supplies the required certificate of his tax residence issued by a competent tax authority.

According to the Constitution, in the Polish legal system all regulations stemming from the agreements ratified by Poland take precedence over regulations included in other acts of law in case of a discrepancy between a given act and such an agreement.

The table below lists examples of withholding tax rates from agreements on the avoidance of double taxation concluded by Poland.

Recipient country	Withholding tax in Poland		
	DIVIDENDS (%)	INTERESTS (%)	ROYALTIES (%)
ALBANIA	5/10 (a)	10	5
AUSTRALIA	10	10	10
AUSTRIA	5/15 (b)	0/5	5
BELORUS	10/15 (i)	10	0
BELGIUM	5/15 (u)	5	5
BULGARIA	10	0/10 (k)	5
CANADA	15	0/15 (k)	0/10 (c)
CHINA	10	0/10 (c)	7/10 (e)
CROATIA	5/15 (a)	0/10 (k)	10
CYPRUS	10	0/10 (k)	5
CZECH REPUBLIC	5/10 (n)	0/10 (k)	5
DENMARK	0/5/15 (w)	5	5
ESTONIA	5/15 (a)	0/10 (k)	10
FINLAND	5/15 (a)	0	0/10 (c)
FRANCE	5/15 (b)	0	10 (l)
GERMANY	5/15 (b)	0/5 (k)	5
GREECE	19	10	10
HUNGARY	10	0/10 (k)	10
INDIA	15	0/15 (k)	20 (r)
INDONESIA	10/15 (n)	0/10 (k)	15
IRELAND	0/15 (a)	0/10 (k)	0/10
ISRAEL	5/10 (d)	5	5/10 (e)
ITALY	10	0/10 (k)	10
JAPAN	10	0/10 (k)	0/10 (f)
JORDAN	10	0/10 (k)	10
KAZAKHSTAN	10/15 (n)	0/10 (k)	10

KOREA	5/10 (b)	0/10 (k)	10
LATVIA	5/15 (a)	0/10 (k)	10
LITHUANIA	5/15 (a)	0/10 (k)	10
LUXEMBURG	5/15 (a)	0/10 (k)	10
MALAYSIA	0	15	15
MALTA	5/15 (n)	0/10 (k)	10
MOLDOVA	5/15 (a)	0/10 (k)	10
MOROCCO	7/15 (a)	10	10
NETHERLANDS	5/15 (s)	0/10 (k)	5
NORWAY	5/15 (a)	0	0/10 (c)
PAKISTAN	15 (g)	0/20 (k)	15/20 (o)
PHILIPPINES	10/15 (a)	0/10 (k)	15
PORTUGAL	10/15 (p)	0/10 (k)	10
ROMANIA	5/15 (a)	0/10 (k)	10
RUSSIA	10	0/10 (k)	10
SLOVAKIA	5/10 (n)	0/10 (k)	5
SLOVENIA	5/15 (a)	0/10 (k)	10
SOUTH AFRICA REPUBLIC	5/15 (a)	0/10 (k)	10
SPAIN	5/15 (a)	0	0/10 (c)
SRI LANKA	15	0/10 (k)	0/10 (l)
SWEDEN	5/15 (a)	0	10
SWITZERLAND	5/15 (a)	10	0/10 (j)
TUNISIA	5/15 (a)	12	12
TURKEY	10/15 (a)	0/10 (k)	10
UKRAINE	5/15 (a)	0/10 (k)	10
UNITED KINGDOM	5/15 (b)	0	10
UNITED STATES	5/15 (b)	0	10
UZBEKISTAN	5/15 (n)	0/10 (k)	10
VIETNAM	5/15 (a)	10	10/15 (t)
YUGOSLAVIA (o)	5/15 (a)	10	10
OTHER COUNTRIES	19	20	20

(a) – lower tax rate – when the parent company holds over 25 % share of the company which pays the dividend;

(b) – lower tax rate – when the parent company holds over 10 % share of the company which pays the dividend;

(c) – lower tax rate is applicable to copyright licences, while the higher rate applies to licences from rights to inventions, trademarks, rights to use industrial machinery, business or scientific facilities, as well as information connected with the experience acquired in industry, business or science;

(d) – lower tax rate – when the parent company holds over 15 % share of the company which pays the dividend;

(e) – lower tax rate applies to licences for the use or the right to use industrial, commercial or scientific facilities;

(f) – lower tax rate applies to licences from rights connected with cultural activities;

(g) – tax rate – when the parent company holds at least 1/3 of shares of the company which pays the dividend;

- (h) – tax rate – when the parent company holds over 25 % share of the company which pays the dividend;
- (i) – lower tax rate – when the parent company holds over 30 % share of the company which pays the dividend;
- (j) – 0 % rate is for cases where Switzerland does not impose tax on royalties paid to non-residents;
- (k) – 0 % rate applies to interest rates paid to government units, local government units, central banks, interest on loans, credits, interest on credit sales of industrial and commercial goods, scientific equipment;
- (l) – 0 % rate applies to copyright licences, while 10 % rate applies to licences from rights to inventions, trademarks, rights to use industrial machinery, commercial or scientific facilities, as well as information related to the experience acquired in industry, business and science;
- (m) – the agreement with Yugoslavia concerns the newly created Yugoslav republics;
- (n) – lower tax rate – when the parent company holds over 20 % share of the company which pays the dividend;
- (o) – lower tax rate applies to know-how licences, while higher tax rate applies to copyright licences, invention rights licences, trademarks;
- (p) – 10 % rate applies when the parent company has held at least 25 % share of the company that pays the dividend for 2 years in an uninterrupted manner; 15 % share applies to other dividends
- (r) – lower rate applies to certain dividends paid to government units or companies
- (s) – 5% rate applies if the recipient of the dividend is a company which owns at least 10% of a payer's shares
- (t) – the lower rate applies to know-how, patents and trademarks
- (u) – the lower 5% rate applies either if commercial company is holding directly at least 25% of the share capital of a payer or if commercial company is holding at least 10% of the share capital of the company paying and the value of capital investment exceeds or is equal to EUR 500 000 or
- (w) - 0 % of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25 percent of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of no less than one year and the dividends are declared within that period; / 5 % of the gross amount of the dividends if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, when such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State;

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