

Dear Sirs,

From 1 January 2022, a package of tax changes introduced as part of the Polish government reform referred to as "Polski Ład" ("Polish Deal) will take effect. The most significant changes are listed below:

1. Increasing the tax-free amount from PLN 8 000 to PLN 30 000

After the introduction of this amendment, the monthly tax allowance will increase from PLN 43.76 to PLN 425.

$(30\,000.00\text{ PLN} \times 17\% = 5\,100.00\text{ PLN} / 12 = 425.00\text{ PLN})$

Where in 2022 an employee has an applicable tax allowance e.g. with an employment contract and at the same time receives a pension, and the total income from these sources exceeds PLN 60 000.00 PLN, then a tax surcharge of PLN 5 100.00 will come out in the annual return for 2022.

2. Increase in the income tax threshold from PLN 85 528.00 to PLN 120 000.00

Basis for calculating tax

above	up to	the tax amount to
	PLN 120 000.00	17% minus tax-reducing amount PLN 5 100.00
PLN 120 000.00		PLN 15 300.00 + 32% over PLN 120 000.00

The application of the tax-free amount (425.00 PLN per month) will be also possible after exceeding the 2nd income tax threshold.

3. No possibility to deduct part of the health insurance contribution (currently at 7.75%) from the income tax

Currently, when calculating the salary, the income tax advance is reduced by the health insurance contribution of 7.75%. From 2022, there will be no such possibility.

4. Tax allowance for the middle class

It is an allowance that reduces the taxable amount of an employment contract (the allowance does not apply to income from civil law contracts) and applies to persons whose annual income is between PLN 68 412.00 and PLN 133 692.00. The amount of revenue will include revenue less 50% of tax deductible costs as defined in Article 22(9)(3) of the Personal Income Tax Act. The allowance is settled in two stages:

- first, every month at the time of salary payment (if the monthly income from all income source types is at least PLN 5 701.00),

- then during the annual tax return, if the employee has earned an income of at least between PLN 68 412.00 and PLN 133 692.00.

Tax allowance calculated on a monthly basis:

for persons with a monthly income between PLN 5 701.00 and PLN 8 549.00 will be calculated according to the following formula:

$$a) (A \times 6.68\% - 380.50 \text{ PLN}) / 0.17$$

for persons with a monthly income between PLN 8 549.01 and PLN 11 141.00 will be calculated according to the following formula:

$$b) (A \times -7.35\% - 819.08 \text{ PLN}) / 0.17$$

A - the amount of total income earned in the month from the employment contract.

The algorithms indicated will be applied to each source of income received in a given month, which may result in a tax adjustment or even loss of entitlement to the allowance in that month.

In a situation where an employee receives in a given month two remuneration payments from different income sources and the first payment does not exceed PLN 8 549.00, the allowance will be calculated according to the algorithm a). If the second payment of remuneration in a given month results in exceeding the amount of PLN 8 549.00, the allowance will be calculated according to the algorithm b), for the first and second payment. There will then be an underpayment of tax from the first payment and the second payment will be reduced by it.

The entitlement to the tax allowance will be lost if income from all sources, including awards, retirement gratuity, etc. in a given month exceeds the amount of PLN 11 141.00.

If an employee does not achieve income in the amount of PLN 68 412.00 or exceeds the amount of PLN 133 692.00 PLN (even by 1 PLN) on an annual basis, they lose the entitlement to the allowance and after submitting their annual return will be obliged to pay additional tax to the Tax Office.

Therefore, each employee should analyse in detail his/her expected income from the employment contract taking into account the different income sources, including jubilee awards, overtime and overtime pay, etc.

The employer (the UW) will not charge the middle class allowance only if the employee requests not to do so. If it turns out that the amount of PLN 133 692.00 in a given year will not be exceeded, the employee will recover the overpaid tax in his/her annual PIT return.

5. Allowance for non-pensioners

Women over the age of 60 and men over the age of 65 with an employment contract or a contract of mandate who, although entitled to an old-age pension, have given up claiming it and are still economically active will be able to benefit from this allowance. Working seniors who do not draw a pension will pay tax only after they exceed the amount of PLN 85 528.00.

The UW will apply the tax allowance once the employee or contractor has declared that they are entitled to the tax allowance.

The tax allowance can also be accounted for by the employee, contractor in his/her annual return.

6. Tax allowance for families with at least four children

It is a relief aimed to **parents** (including foster and legal guardians) who are raising at least four children. It will be applied by the UW subject to a declaration of tax allowance submitted for

each parent and legal guardian. The exemption will cover the amount of income up to PLN 85 528.00 per annum derived from employment contracts and contracts of mandate.

The UW will apply the tax allowance once the employee or contractor has declared that they are entitled to the tax allowance.

The tax allowance can also be accounted for by the employee, contractor in his/her annual return.

7. Tax allowance on return

The tax allowance is applicable to persons who have changed their tax residence to Poland and who have lived and worked abroad for a minimum of three years. For four years after their return to Poland, these employees will pay lower income tax. The tax allowance on return will apply to an amount of income not exceeding PLN 85 528.00.

The UW will apply the tax allowance once the employee or contractor has declared that they are entitled to the tax allowance.

The tax allowance can also be accounted for by the employee, contractor in his/her annual return.

8. Deductibility of trade union dues from income

The deduction is made by the employee in his/her annual return. The maximum amount of the income deduction is PLN 300.00 per year and the amount of expenditure should be supported by proof of payment.

To sum up, in order for an employee to benefit from the allowance, a request for the allowance must be submitted to the Payroll Department of the Bursary Office, signed personally by the employee, i.e.:

Application of resignation from the middle class tax allowance

Declaration of fulfilment of the conditions to benefit from the so-called "working pensioners' tax allowance"

Declaration of fulfilment of the conditions to benefit from the so-called "tax allowance for families 4+"

Declaration of fulfilment of the conditions to benefit from the so-called "tax allowance on return"

The above tax allowances can also be accounted for by the taxpayer in the annual PIT return.

All the above mentioned declarations will be available on www.kwestura.uw

Please, find below some examples of salary calculations for 2021 and 2022.

		Remuneration including copyright costs					
		the middle class tax allowance (formula a)		the middle class tax allowance (formula b)		income above the amount of the middle class tax allowance	
		2021	2022 (Polski Ład)	2021	2022 (Polski Ład)	2021	2022 (Polski Ład)
1	Monthly income	8 000,00	8 000,00	10 000,00	10 000,00	16 020,00	16 020,00
2	Sum of social contributions (ZUS)	1 096,80	1 096,80	1 371,00	1 371,00	2 196,34	2 196,34
3	Health contribution 9%	563,31	563,31	715,12	715,12	1 131,28	1 131,28
4	Health contribution 7.75%	535,00	-	668,75	-	1 071,33	-
5	"Copy rights" deductible costs	3 451,60	3 451,60	4 314,50	4 314,50	6 911,83	6 911,83
6	Deductible costs	-	-	-	-	-	-
7	Middle class tax allowance	-	905,29	-	494,59	-	-
8	PIT-2 tax allowance ('free amount')	43,76	425,00	43,76	425,00	43,76	425,00
9	17% rate	17%	17%	17%	17%	17%	17%
10	Advance tax payment to the tax office	8,00	8,00	21,00	224,00	60,00	750,00
11	To be paid	6 331,89	6 331,89	7 892,88	7 689,88	12 632,38	11 942,38
		(1-2-4-9)	(1-2-3-9)	(1-2-4-9)	(1-2-3-9)	(1-2-4-9)	(1-2-3-9)
	Increase/decrease until 2021		0,00		-203,00		-690,00

Remunerations with tax allowance for: pensioner / family 4+ / "on return"		
	2021	2022 (Polski Ład)
Monthly income	6 240,00	6 240,00
Sum of social contributions (ZUS)	855,50	855,50
Health contribution 9%	484,60	484,61
Health contribution 7.75%	417,30	-
Deductible costs	250,00	250,00
Tax allowance for: pensioner / 4+ / "on return"	-	YES
PIT-2 tax allowance ('free amount')	43,76	-
17% rate	17%	-
Advance tax payment to the tax office	412,00	-
To be paid	4 487,90	4 899,89
	(1-2-4-9)	(1-2-3-9)
Increase/decrease until 2021		411,99

		Remuneration with flat-rate deductible costs							
		income below the amount of the middle class tax allowance		with the middle class tax allowance (formula a)		with the middle class tax allowance (formula b)		income above the amount of the middle class tax allowance	
		2021	2022 (Polski Ład)	2021	2022 (Polski Ład)	2021	2022 (Polski Ład)	2021	2022 (Polski Ład)
1	Monthly income	4 000,00	4 000,00	8 000,00	8 000,00	10 000,00	10 000,00	16 020,00	16 020,00
2	Sum of social contributions (ZUS)	548,40	548,40	1 096,80	1 096,80	1 371,00	1 371,00	2 196,34	2 196,34
3	Health contribution 9%	310,64	310,64	621,29	621,29	776,61	776,61	1 131,28	1 131,28
4	Health contribution 7.75%	267,50	-	535,00	-	668,75	-	1 071,33	-
5	Deductible costs	250	250	250	250	250	250	250	250
6	Middle class tax allowance	-	-	-	905,29	-	494,59	-	-
7	PIT-2 tax allowance ('free amount')	43,76	425,00	43,76	425,00	43,76	425,00	43,76	425,00
8	17% rate	17%	17%	17%	17%	17%	17%	17%	17%
9	Advance tax payment to the tax office	233,00	119,00	552,00	552,00	712,00	915,00	1 192,00	1 883,00
10	To be paid	2 907,96	3 021,96	5 729,91	5 729,91	7 140,39	6 937,39	11 500,38	10 809,38
		(1-2-4-9)	(1-2-3-9)	(1-2-4-9)	(1-2-3-9)	(1-2-4-9)	(1-2-3-9)	(1-2-4-9)	(1-2-3-9)
	Increase/decrease until 2021		114,00		0,00		-203,00		-691,00