This report provides helpful information on the current business environment in Poland. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Republic of Poland

Contents

RBC Royal Bank®

Important to Know

Official language

- Polish

Currency

- Polish zloty (PLN)

Bank holidays

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Source: www.goodbusinessday.com.

Types of Business Structure

Under Polish law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

State enterprise

PP (*Przedsiębiorstwo państwowe*). This is a company solely owned by the state (the Treasury). A PP is a legal entity.

Joint-stock company

SA (*spółka akcyjna*). This is a company with its own trade name and with a predetermined amount of capital divided into shares of equal value. A shareholder's liability is limited to their capital. Its shares are tradable on a public stock market. This requires a minimum paid up share capital of PLN 100,000.

Limited liability company

spzoo (*spółka z ograniczoną odpowiedzialnością*). Participants own a percentage of its capital. A participant's liability is limited to their financial contribution. This requires a minimum paid up share capital of PLN 5,000.

General partnership

spj (*spółka jawna*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

spk (*spółka komandytowa*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Limited liability partnership / Professional partnership

spp (*spółka partnerska*). In a limited liability partnership, all partners enjoy limited liability.

Limited joint-stock partnership

SKA (*spółka komandytowo-akcyjna*). A limited joint-stock partnership allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. This requires a minimum paid up share capital of PLN 50,000.

Sole proprietorship

Jednoosobowa działalność gospodarcza. This is a business owned and run by one individual. No legal distinction exists between the business and its owner.

Cooperative

Spółdzielnia. A cooperative is a registered legal entity that is owned and controlled by its members who have equal voting rights.

Other organizational types

Polish companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Polish companies are entitled to establish a branch or a representative office in Poland. A branch's activities are subject to Polish company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Poland.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have a registered office in Poland.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (PLN) accounts outside Poland and foreign currency accounts both within and outside Poland. Permission from the National Bank of Poland is required before a resident can hold a bank account outside the EEA or the Organisation of Economic Co-operation and Development (OECD).

Non-residents are permitted to hold local currency and foreign currency accounts.

Local currency resident accounts are not convertible. However, local currency non-resident accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures do not require formal identification of the account holder. Individuals must merely be "specified" and only the signatories for legal entities must be identified, not the directors, major shareholders or beneficial owners.
- When recording transactions, however, financial institutions are required to record in detail the identity of the party performing the transaction, the identity of the party on whose behalf and in whose favour the transaction is performed.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Poland, most financial services are exempt from VAT. Factoring, financial advisory and debt collecting services are subject to VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with a number of enterprises using third-party payroll agencies. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Direct debits are available and their use is growing steadily, notably by utility and insurance companies to collect domestic payments. Cheques are not commonly used.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (PLN billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	0.03	0.04	33.3	0.3	0.2	– 20.8
Credit transfers	1,037.8	1,144.2	8.1	2,818.1	3,077.3	9.2
Direct debits	18.2	20.4	11.9	12.6	14.7	16.9
Debit cards	335.5	425.1	26.7	35.0	45.9	31.0
Credit cards	126.3	151.6	20.1	19.9	22.0	10.6
Total	**1,517.8**	**1,741.2**	**14.7**	**2,885.9**	**3,160.2**	**9.5**

Source: ECB Payment Statistics, December 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account, to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (PLN-denominated)	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic and intra-EEA (denominated in EUR) transfers	Real-time settlement, immediate finality	17:00 CET
Non-urgent, low-value domestic consumer payments in PLN and EUR	Some same-day settlement, but most are next-day	16:00 CET for PLN payments 15:30 CET for EUR payments
Non-urgent intra-EEA credit transfers and direct debits denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 22:00 CET for next-day settlement Individual credit transfers = 14:30 CET for same-day settlement SEPA credit transfers = 13:00 CET for same-day settlement or 01:00 CET for overnight settlement SEPA consumer direct debits = 11:00 CET for same-day settlement SEPA B2B direct debits = 12:00 CET for same-day settlement

Central Bank Reporting

The National Bank of Poland (NBP) requires residents to report directly details of all assets and liabilities with non-residents on a monthly or quarterly basis.

Exchange Arrangements and Controls

Poland applies few currency exchange controls. Residents require authorization to invest in countries outside the EEA and the OECD and to sell securities in third countries. Foreign investment is also subject to controls.

Cash and Liquidity Management

Cash and liquidity management is difficult in Poland due to the lack of a clear legal and regulatory framework and uncertain tax treatment. The liberalization of most exchange controls in recent years has made cross-border cash management easier to implement.

Physical Cash Concentration

Physical cash concentration is available from most large Polish and international banks. Resident and non-resident companies can participate in the same cash concentration structure, although, for stamp duty reasons, most structures only include bank accounts held in the name of one legal entity.

Pools can be denominated in local currency (PLN) and some foreign currencies. Some banks offer cross-border, cross-currency physical cash concentration.

Notional Cash Pooling

Notional cash pooling is permitted in Poland. Resident and non-resident companies and accounts held in the name of different legal entities can participate in the same notional cash pool. However, restrictions on offsetting balances mean that notional cash pooling is rarely offered in Poland.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from one week to over a year. Banks also issue certificates of deposit (CDs), usually for terms ranging from one month to a year. CDs cannot be resold.

Non-bank instruments

Some Polish companies issue domestic commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods.

The Polish government issues Treasury bills through the NBP, usually for maturities of three, six and 12 months. Treasury bills with other maturities are also occasionally issued.

Polish companies have access to European-based money market funds.

Short-term Borrowing

Bank

Overdrafts and bank loans are usually available in Poland to both resident and non-resident companies. Banks will usually charge a margin over WIBOR (Warsaw Interbank Offered Rate) for PLN-denominated facilities and over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Larger companies issue CP both into the domestic and the ECP market. Issues into the ECP market require a rating. CP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Trade bills can be discounted with recourse and factoring (disclosed and undisclosed) is available.

Taxation

Corporate Taxation

- Resident companies are liable to corporate income tax at a rate of 19% on their total income, irrespective of the source of earnings. If a company does not have its registered office or place of management in Poland, it is liable to tax only with respect to income earned in the territory of Poland.
- Tax losses may be offset against the income generated in the following five tax years. The maximum amount of a given year's loss offset in any single tax year may not exceed 50% of this annual loss.

Financial instruments

- There are no specific rules regarding the taxation of financial instruments: therefore, general principles should apply.
- The Polish Corporate Income Tax (CIT) Act stipulates that costs directly connected with the acquisition of financial instruments (such as options, futures or swaps) may be recognized as deductible costs only after (i) the realization of rights attached to these instruments, (ii) resignation from realization or (iii) the sale of rights resulting from such instrument.

Interest and financing costs

- Accrued interest is not regarded as a tax-deductible cost until it is paid or remitted.
- The CIT Act indicates some situations where interest is not deductible at all, for example interest accrued or paid to finance an investment in fixed or intangible assets during the investment period.
- Transfer pricing and thin capitalization rules should be taken into consideration.

Foreign exchange

- The Polish tax system provides specific rules concerning the settlement of foreign exchange differences. A taxpayer has the choice between tax and accounting methods of calculating foreign exchange differences.
- Taxpayers who choose the accounting method are obliged to apply the method for a period of at least three tax years and they are obliged to notify the competent tax office in writing of the choice of such method by the end of the first month of the tax year in which the method will apply.

- There are no specific rules for reporting foreign exchange differences to the tax office.

Advance Tax Ruling Availability

- Taxpayers may apply to the Ministry of Finance for tax rulings. Tax rulings apply to both executed and planned transactions. The taxpayer is obliged to present the state of affairs and his own view on the tax implications.

Withholding Tax (subject to tax treaties and other exemptions)

- Subject to a relevant double tax treaty, withholding tax of 20% is levied on income earned by non-residents from interest, copyrights, royalties, trademarks and know-how (including proceeds from the sale of the property rights). In the case of payments made to EU companies and provided certain conditions are met, the 20% withholding tax is reduced to 5% from July 1, 2009 and to 0% from July 1, 2013.
- Income from interest and royalties paid by one Polish company to another is not subject to withholding tax but is taxed on a general basis at a 19% CIT rate.
- Withholding tax of 19% is levied on dividends and other returns from participating in profits, derived by both resident and non-resident companies (unless a relevant double tax treaty provides otherwise). This includes income from the redemption of shares, income received in connection with the liquidation of a corporate entity and income allocated to increase the initial capital or equity. Also included is income representing the equivalent of funds contributed to this capital originating from other capital of a corporate entity.
- Dividends paid to EU or EEA companies are not subject to Polish withholding tax, provided that the parent company holds at least a 10% shareholding in the Polish company for an uninterrupted period of at least two years. The exemption also applies to distributions on redemption and liquidation proceeds.
- Similar rules as above apply to dividends paid to Swiss companies, although the required minimum shareholding is 25%.
- Under certain conditions (a two-year holding period and a 10% shareholding), dividends paid by one Polish entity to another are not subject to withholding tax and are exempt from tax at the recipient level.
- Unless a relevant double tax treaty provides otherwise, payments made to non-residents for the following services are also subject to withholding tax at the 20% rate: consulting, accounting, market research, legal, commercial, management and control, data processing, human resources and guarantees. Withholding tax of 20% is also levied on income earned by non-residents from entertainment and sporting activities.
- Moreover, withholding tax of 10% is levied on income arising from non-resident maritime enterprises using Polish ports for the transportation of goods and/or passengers and on income earned in Poland by non-resident air transport companies. Income from the aforementioned services received by resident companies is not subject to withholding tax but is taxed on a general basis at a 19% CIT rate.

Capital Gains Tax

- Chargeable capital gains are calculated by deducting the costs and expenses of purchase and sale from the sale proceeds and are taxed in the same way as other income. If the sales price differs substantially from market value, tax authorities may require a valuation from an independent expert.
- Capital losses are deductible from ordinary business income.

Tax on Civil Law Transactions

- The sale or exchange of goods and property rights, loan agreements, surety ship agreements and company agreements (increase of share capital) are subject to tax on civil law transactions (TCLT).
- In Poland, civil law transactions are subject to TCLT only if:
  - the objects that are the subject of the transaction are located in Poland;
  - the property rights that are the subject of the transaction are executable in Poland; or
  - the objects or property rights are located/executable abroad, but the acquirer has its place of residence or its registered office in Poland and the transaction is concluded in Poland.
- The TCLT rates are:
  - on the sale of immovable property, movables, right of perpetual usufruct (the right to use property owned by another party) — 2%;

- on sale of other property rights — 1%;
- on loan agreements — 2%; and
- on company agreements (increases of share capital) — 0.5%.

- Transactions are not subject to TCLT if at least one party to the transaction is, by virtue of this transaction, subject to Polish VAT or VAT exempt. (However, there are some exemptions.)
- Loans granted by non-resident entrepreneurs and those carrying on activity in the field of crediting and granting loans are exempt from TCLT.
- The TCLT rate is 20% in circumstances where the taxpayer fails to pay TCLT and subsequently shows evidence in the course of tax control that a loan agreement has been concluded.
- Pursuant to the amended TCLT Act that came into effect on April 22, 2010, disposals of securities by foreign (non-Polish registered) investment companies are exempt from TCLT, provided that they purchased the securities on the regulated market.

Thin Capitalization

- Poland operates thin capitalization provisions with a debt-to-equity ratio restriction of 3:1. Any excess interest is not tax deductible.
- Thin capitalization restrictions are applicable to interest on loans as well as debt securities, irregular deposits and bank accounts.
- Polish bank debt guaranteed by a parent company does not fall within the thin capitalization rules.

Transfer Pricing

- Polish transfer pricing legislation operates by reference to the arm's length principle and follows the OECD guidelines. The arm's length principle is applied to transactions between related entities if one is a Polish and the other a foreign taxpayer. Entities are broadly considered to be related where one participates in the control of the other entity or where a third company participates in the control of both.
- Polish transfer pricing regulations can also apply to transactions that are undertaken between related entities that are both resident in Poland.
- The tax authorities have the power to require taxpayers to submit transfer pricing documentation relating to transactions with related parties or entities located in tax havens within seven days.
- The reporting requirement only applies to transactions for which the aggregate amount as specified in the contract, payable or actually paid in the tax year, exceeds certain monetary thresholds.

Sales Taxes / VAT

- All resident legal entities are subject to VAT, as are non-residents who sell, import or export goods and/or services on Polish territory. All companies with a turnover exceeding PLN 100,000 must register for VAT. The standard rate of VAT is 22%, although a reduced rate of 7% applies to certain goods and machines used in agriculture and forestry, health care appliances, transportation services, certain children's articles and building materials for housing purposes (the social housing programme). Exports are zero-rated. Certain goods and services, including insurance and banking, are exempt from VAT (see below).
- Input VAT is recoverable by offsetting it against output VAT or by refunds to the taxpayer's account, provided that it refers to supplies that are subject to VAT.
- Financial intermediary services are exempt from VAT. However, some financial services are not VAT exempt (e.g. factoring, financial advisory or debts collecting services).

Financial Transactions / Banking Services Tax

- There are no specific financial transactions and/or services tax that apply to services, loans, money transfers, letters of credit and/or foreign exchange, etc.

Payroll and Social Security Taxes

- There is no payroll tax in Poland.
- Aggregate social security contributions of 28.74% to 31.40% of base salary are payable by employers and employees. Employer contributions vary between 14.93% and 17.59% and are payable at the rates shown below.

Fund	Employer contribution (% of base salary)
Pension	9.76
Disability	4.50
Accident	0.67–3.33*

*From April 1, 2009.

- In addition, employers are also required to contribute 2.45% of employees' wages to the labour fund to cover unemployment and 0.10% to the fund to cover unpaid wages. The contributions are deductible for corporate tax purposes.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com). Data as at May 5, 2010.

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