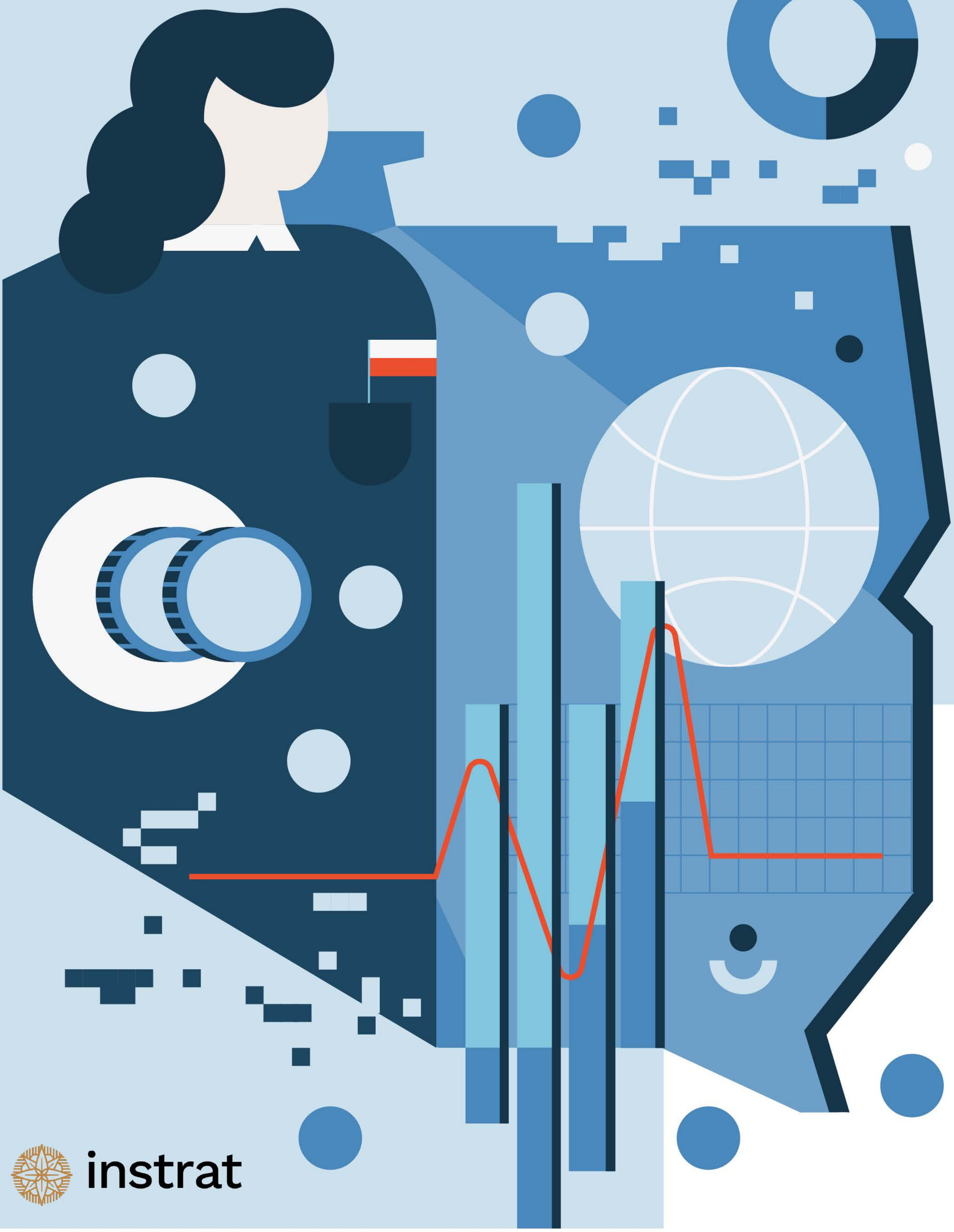
The Polish Deal

and perspectives for tax-based redistribution



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Main conclusions

- The changes in the tax and contribution system announced in the Polish Deal (Polski Ład) will only slightly increase the progressivity of the tax system compared to other OECD and EU countries – after the announced reform, Poland will still be significantly below the OECD average and closer to the level of the Baltic states, South Korea and Mexico.

- The potential reform will considerably reduce the tax and contribution arbitrage between forms of employment when achieving above-average income, restoring the difference in the average amount of the tax wedge between business activity and income from labor (based on the contract of employment or mandate contract) to the level of other developed OECD and EU countries.

- The effects on the public finance sector is intended to be neutral as a target – it is an important assumption that should be maintained in order to build public support and employers' confidence in the changes introduced. The key effects on the public finance sector are summarized below.

- The proposed changes are a step in the right direction, as the foregoing regressiveness of the tax system has led to significant income inequalities in the scale of OECD and EU which threaten further economic development. As a result of reducing the tax burden on persons with the lowest income (around the minimum wage), labor supply may also increase.

- Charging mandate contracts in the case of persons insured with multiple social insurance titles may bring up to PLN 4 billion to the public finance sector, but the most important benefit of this reform will be simplification of the system of calculating contributions for employees receiving income from more than one employer.

Key figures

As a result of the reform of the three major elements of the tax and contribution system predicted in the Polish Deal, the public finance sector can:

LOSE

about PLN 21.4 billion

due to increasing the tax-free amount and raising the second tax threshold for income from labor (Rzeczpospolita, 2021)

GAIN

about PLN 14 billion

due to the change in the system of calculating health contributions for persons conducting business activity in the form of the sole proprietorship (from lump-sum to flat rate) (Rzeczpospolita, 2021)

GAIN

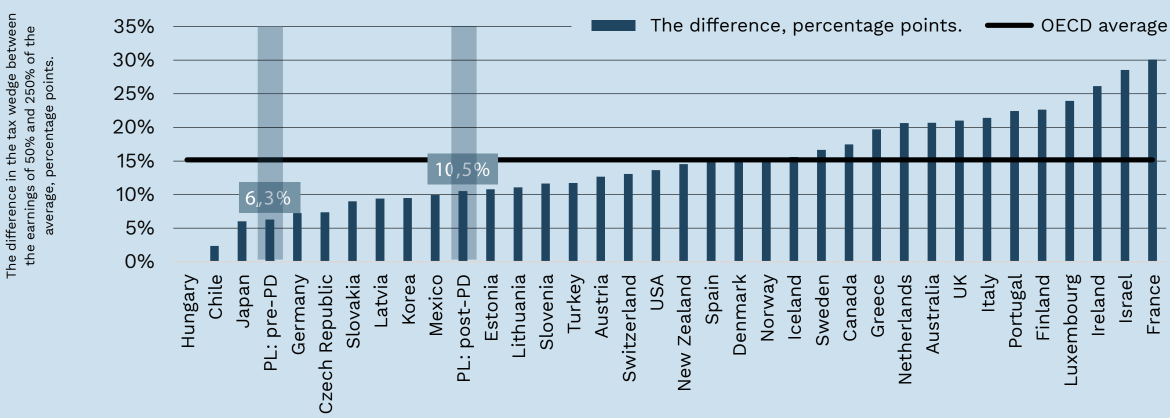
even PLN 4 billion

due to charging mandate contracts in the case of persons insured with multiple social insurance titles (Rzeczpospolita, 2020)

7 positions

Poland will go ahead by this number of positions in the ranking of OECD countries with progressive tax systems, as a result of the reform of tax thresholds (including the increase of the tax-free amount)

Chart. The difference between tax and contribution wedge of income of 50% and 250% of the average income based on the contract of employment – Poland before and after the reform in comparison with OECD countries.



Source: Instrat internal analysis. Disclaimer – see below in the text.