

Poland and its investment  
opportunities

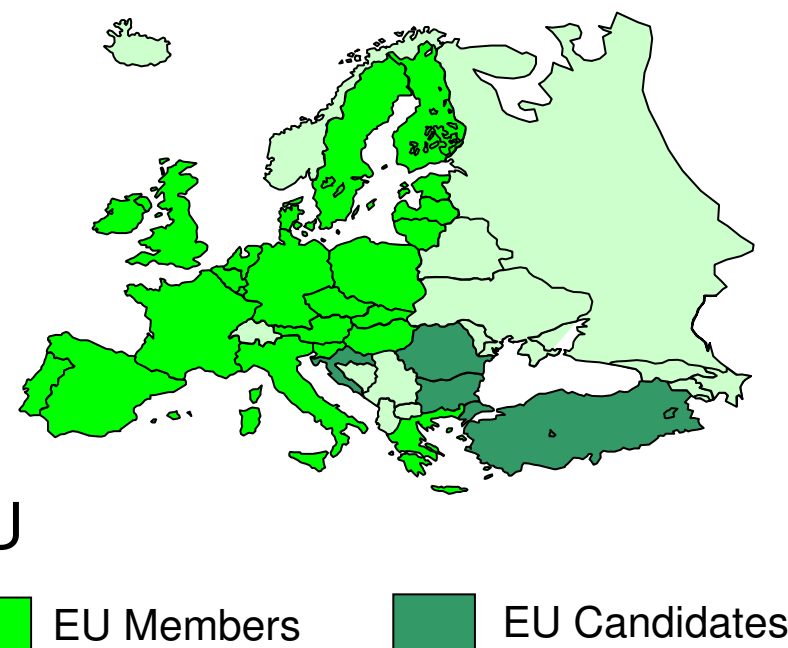
# Taxation in Poland

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# Poland – Member of the EU - business environment changes

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- The government is aware it is in competition with other new EU entrants. Most aspects of Poland's business environment are improving.
- Drivers of changes in the business environment are competition and EU membership triggering administrative reform.
- The strongest existing features are breadth of market opportunities and the strength of the financial system.



# The positive climate for the investment

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- Tax authorities are required to give binding interpretations on applying tax regulations after 1 Jan 2005.
- The rights of State bodies to conduct inspections and audits have been restricted:
  - ↳ 2 bodies may not conduct an audit at the same time,
  - ↳ Duration of all audits may not exceed 8 weeks per year.
- The number of procedures needed to set up a company was decreased by 20% recently and is expected to drop further e.g. investors can apply for the registration, statistical identification number (REGON) and tax identification number (NIP) in one place.

# Tax rates

- **Nominal tax rates:**

- ↳ CIT: 19%
- ↳ VAT: 22%
- ↳ PIT: 19/30/40 %

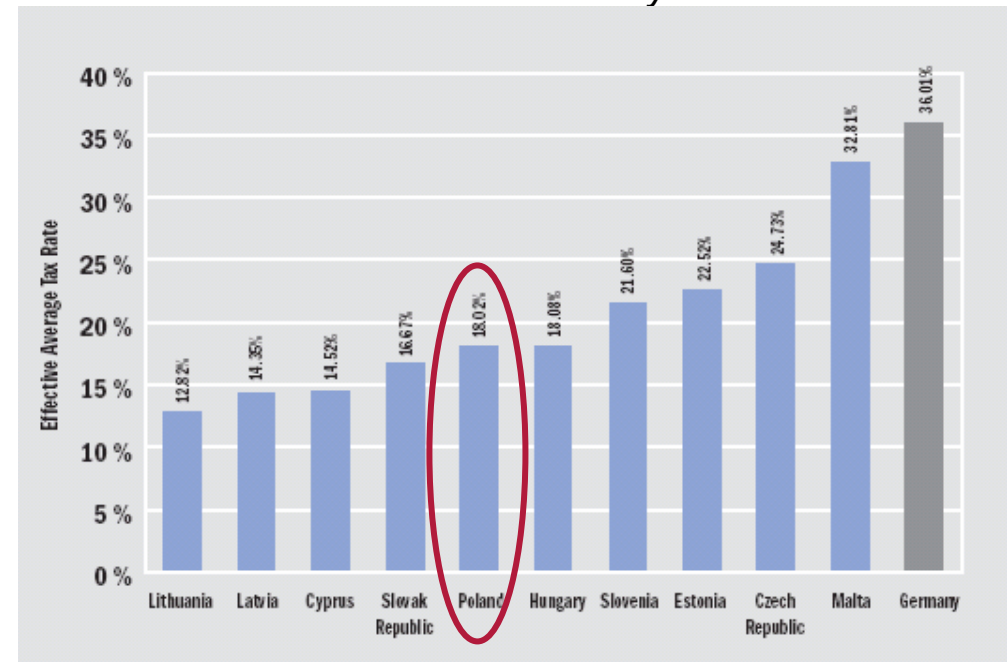
There are no additional regional or local burdens.

- **Effective average tax rate in Poland at the subsidiary level is 18.0%.**

- **Compared with other major countries in the region only Slovak Republic has lower effective tax rate (16.7%) than Poland.**

- **The effective average tax rate was calculated as a combination of equally weighted types of depreciable assets and sources of finance.**

*Effective average tax rate in new EU member states at the subsidiary level*



# Key differences in the tax system

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- Tax losses can only be carried – forward, but
  - ↳ The carrying period is limited to five years
  - ↳ The maximum offset of a loss in each year is limited to 50% of the total loss
  - ↳ No group loss relief
- CIT is payable monthly with a final settlement 3 months after each fiscal year end (Ministry of Finance plans to give up monthly tax returns)
- Other taxes (PIT, VAT) payable by companies 20 - 25 days after month end.

# Tax treatment of investment returns for EU investors

## ■ Treatment of dividends:

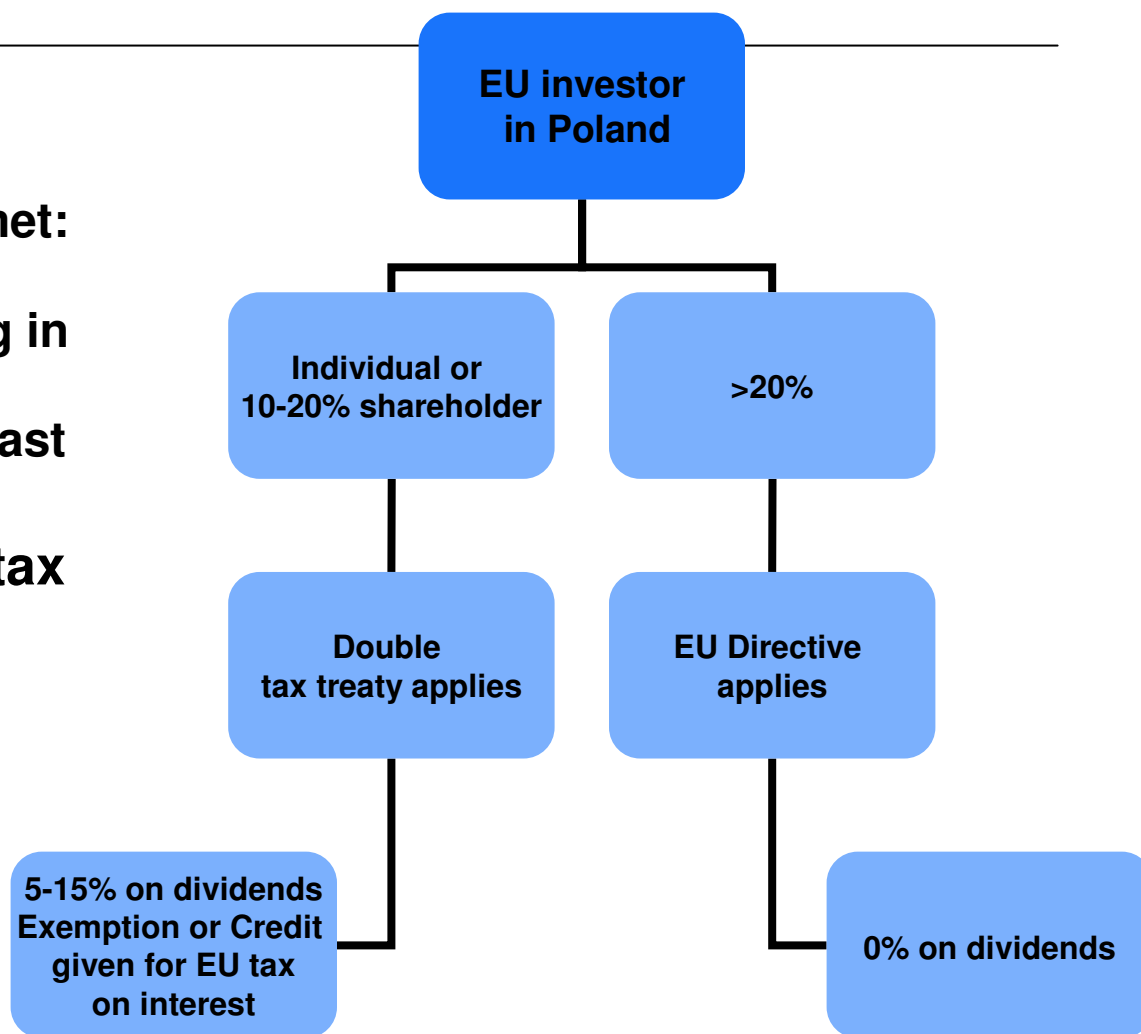
⌚ No Polish withholding tax assuming 2 conditions are met:

- ☞ The EU company has at least a 20% shareholding in the Polish company
- ☞ The investment has at least a 2 year holding period

■ Poland has no capital gains tax regime. Any gains would be charged at the investor's tax rate.

## ■ Treatment of interest:

- ⌚ 10% rate will apply from 1 July 2005
- ⌚ 5% from 1 July 2009
- ⌚ 0% from 1 July 2013
  - ☞ 25% shareholding requirement



# Investment incentives in Poland

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- Inbound investors (in Poland) can receive grants for new investments, expansions, hiring, training, research and development activities and environmental expenditure.
- Cash grants are available from regional, national, EU structural funds, as well as direct Communities programmes from Brussels.
- Poland is the largest beneficiary of EU structural funds of the 10 new accession countries with €12,810m over 2004-2006.
- In addition to EU aid, Poland also provides additional aid to investors primarily through CIT reliefs in Special Economic Zones.
- Investors' applications for EU funds go most frequently through a competitive process (i.e. projects receiving the highest score in a given application round are awarded grants). Deadlines for submitting applications depend on the type of grants which the investor is seeking to obtain.

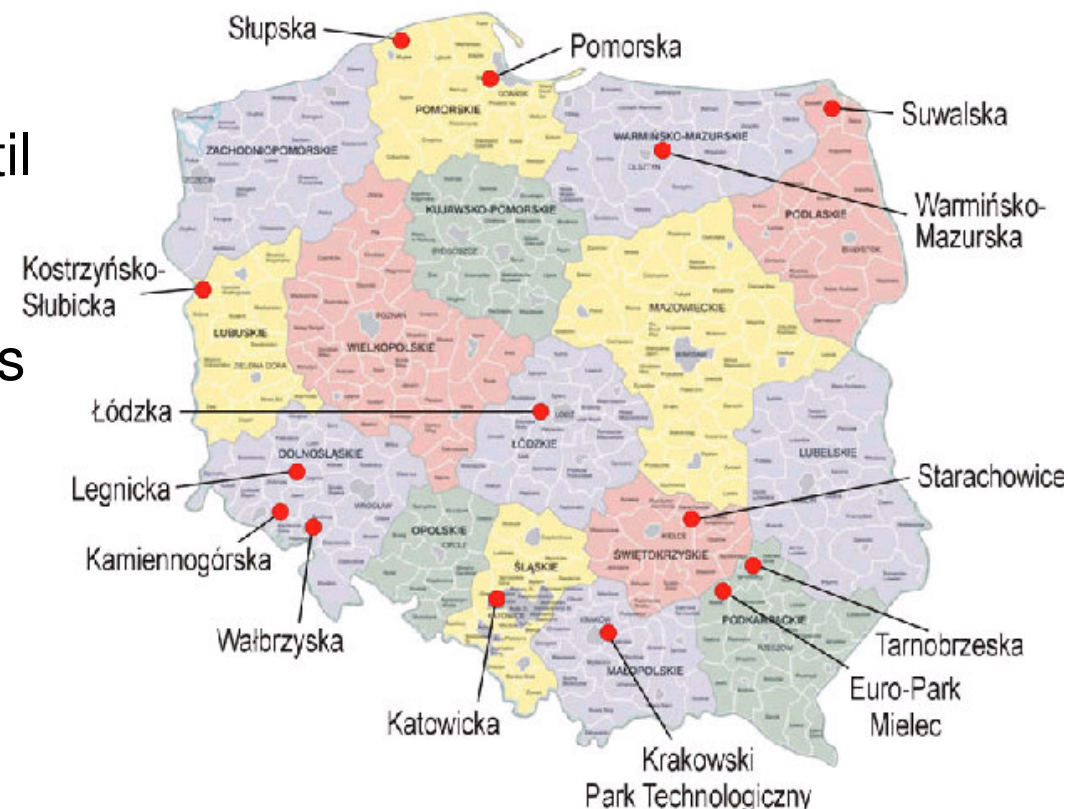
# Investment incentives for manufacturers

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- There are no incentives specifically aimed at manufacturers.
- Incentives are open to all qualifying businesses i.e. investors who satisfy one or more of the following conditions:
  - ⌚ invest a minimum of € 10 million, or
  - ⌚ invest a minimum of € 500,000, where the investment involves the development or modernization of an enterprise and maintains a minimum of 100 jobs for five years, or
  - ⌚ creates at least 20 new jobs for a minimum of five years, or
  - ⌚ introduce technological innovations, or
  - ⌚ make investments which improve the natural environment, or
  - ⌚ invest within an industrial or technology park.
- Support granted to an entrepreneur can be earmarked for:
  - ⌚ subsidizing qualifying expenditure e.g. purchase of land and other tangible assets
  - ⌚ creating new jobs - up to € 4,000 per job over 2 years. However, as a % of total salary this cannot exceed the relevant limit for regional state aid.

# Special Economic Zones

- There are 14 Special Economic Zones (SEZ) in Poland covering an area of 6,000 ha.
- They were set up for a fixed period of time, in most cases until 2017.
- Large investors can receive corporate income tax exemptions up to 50% (65% SME's) of total qualifying investment depending on location of investment.
- EU funds and SEZ exemptions are subject to public aid limitations.



# Conclusions

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- Poland is a low risk country in which to do business especially compared to ME European competitors, and the ex-Soviet Union.
- EU membership and competition with new accession countries is a spur to improvement of the business environment i.e. quality of legislation, reduced bureaucracy, improved infrastructure, reformed court system.
- The vast majority of investors in Poland are prospering, and many existing investors are increasing their investments here.

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# Forms of doing business in Poland

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## TYPES OF COMPANIES AVAILABLE TO INVESTORS

**LIMITED LIABILITY COMPANY**  
(PLN 50,000 share capital)

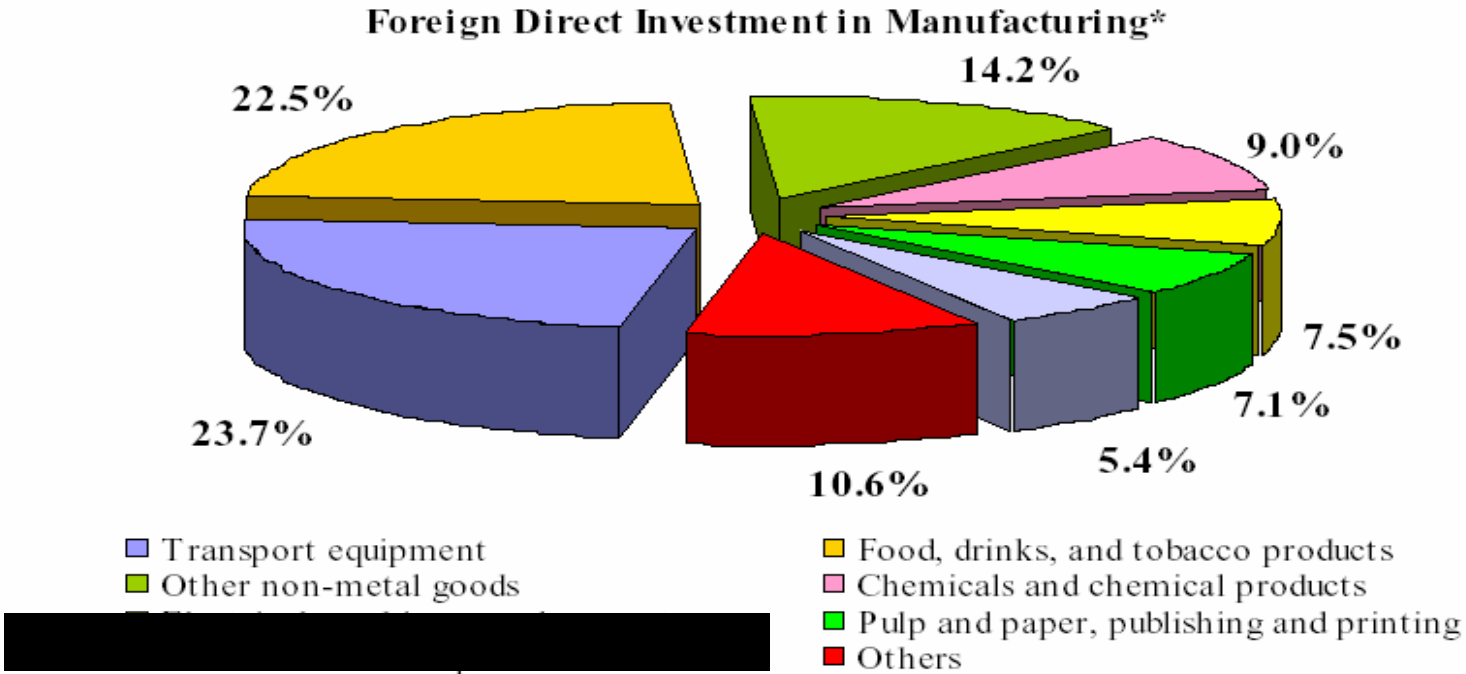
**JOINT - STOCK COMPANY**  
(PLN 500,000 share capital)

**PARTNERSHIPS**

- Limited partnership
- Limited joint-stock partnership
- Registered partnership
- Professional partnership
- Civil law partnership
- Sole proprietorship

- Limited liability company route is the most common method of setting up a business in Poland for foreign investors.
- Joint stock company has more obligations plus requires a substantially higher initial starting capital.

# Foreign direct investment in manufacturing



\* FDI of over USD 1 million

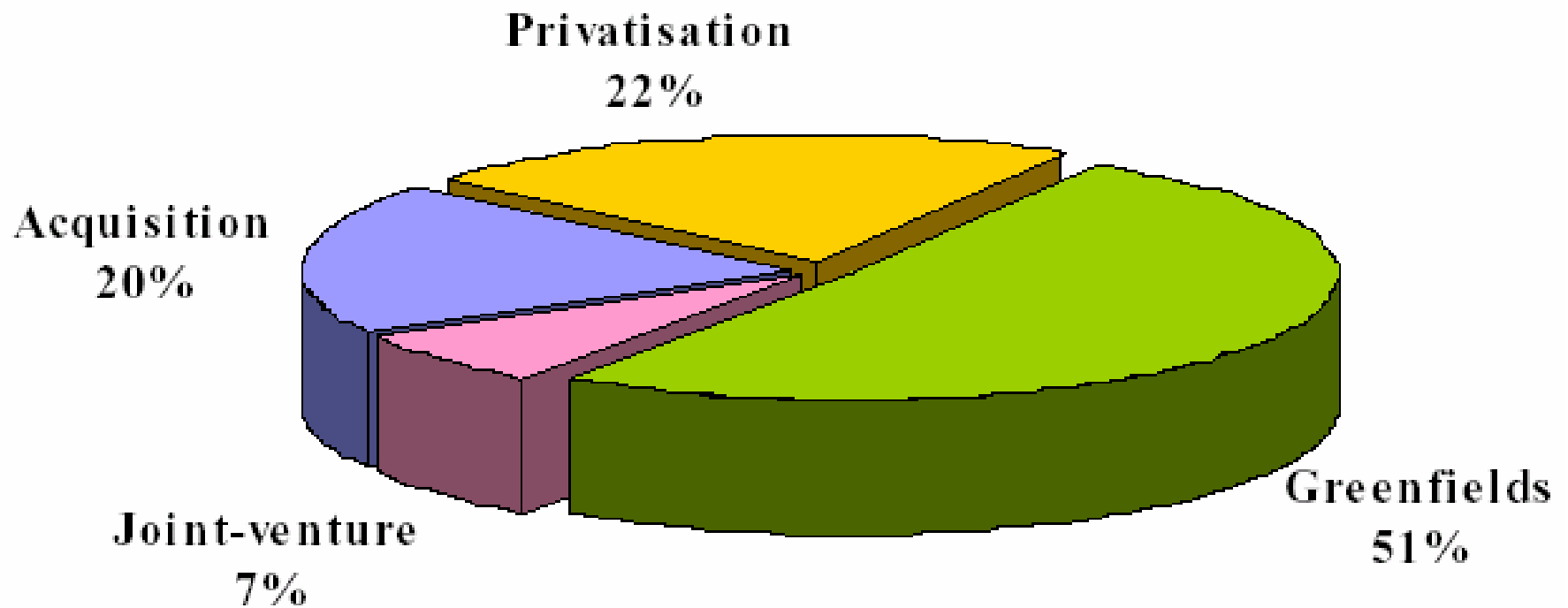
Source: PAIIZ FDI Report, 2004

**Manufacturing accounts for 40% of total FDI in Poland.**

# Forms of market entry in Poland

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## Forms of Foreign Direct Investment in 2003



Source: PAIz FDI Report 2004

# Market entry strategies - overview

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- The most popular and easiest form of market entry in Poland is greenfield investment
  
- M&A/privatisation can play a role if a suitable target can be found
  
- Privatisation will continue to decline in importance as the State's „legacy assets” are sold off
  
- Irrespective of the form of market entry, the manufacturing industry is positioned to take advantage of the following key factors – none of which are expected to disappear in the medium term:
  - ⌚ Lower labour costs
  - ⌚ Lower production costs
  - ⌚ Wide range of investment incentives from Polish government and EU funds
  - ⌚ Access to big market

# Greenfield investment

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- Dominant form of FDI in Poland – increase from 23% of all FDI in 2001, 37% in 2002 to 51% in 2003;
- Supported by government as most favourable for the economy due to:
  - ⤵ Job creation in the industry, its suppliers and the local area;
  - ⤵ Industry modernisation,
  - ⤵ Know-how transfer,
- In order to promote investment, legal and administrative burdens are being lifted;
  - ⤵ reduction of barriers and restrictions in site planning and zoning regulations;
  - ⤵ reduced number of procedures, reduced time and costs for starting up a business.

# Overview of different market entry strategies

STRATEGY	PROS	CONS	BALANCE
Greenfield	<ul style="list-style-type: none"> <li>▪ Control...</li> <li>▪ Control...</li> <li>▪ ....and control!</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial and operational risks</li> <li>▪ Time required for licences and permits</li> <li>▪ Need to handle government relations and administrative issues</li> </ul>	<ul style="list-style-type: none"> <li>▪ Dominant market entry strategy in Poland (51% of FDI by value chose this form)</li> </ul>
M&A or privatisation	<ul style="list-style-type: none"> <li>▪ Time saved</li> <li>▪ Buying established company</li> <li>▪ Certainty of pricing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Difficult to negotiate transfer of control</li> <li>▪ A lot of due diligence is required</li> <li>▪ Post-integration difficulties</li> <li>▪ Corporate governance risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ 20% of FDI in Poland is in the form of M&amp;A;</li> <li>▪ 22% privatisation</li> </ul>
Joint venture	<ul style="list-style-type: none"> <li>▪ Financial risk sharing</li> <li>▪ Polish partner handles government relations and administrative issues</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate governance risk</li> <li>▪ Technology and brand transfer issues</li> <li>▪ Risk of lack of control</li> </ul>	<ul style="list-style-type: none"> <li>▪ 7% of all FDI in Poland chose this form of market entry</li> </ul>

# Real estate – impact of the EU

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- Limited acquisition restrictions
  - ⌚ Generally, the EU citizens and companies of the European Economic Area do not require any permit for acquisition of real estate or shares in companies which own real estate in Poland
  - ⌚ Exceptions
    - ☞ Acquisition of agricultural and forest real estate until 2016
    - ☞ Acquisition of „second houses”, i.e. housing or recreational real estate not designated for permanent residence until 2009
  - ⌚ In this case a request for a permit needs to be submitted to Minister of Internal Affairs and Administration; the permit should be granted within 2 months.
- Land acquisition rules are no longer an impediment to a foreign investor seeking to do business in Poland. The playing field has been levelled.

# EY in Poland

- Ernst & Young Poland currently employs over 950 personnel, in seven cities throughout Poland and is the largest of the Big 4 in Poland.
- Services similar to any Ernst & Young practice in mature Western European markets i.e.:
  - ⌚ Tax advisory services
  - ⌚ EU advisory services
  - ⌚ Audit
  - ⌚ Bookkeeping, etc.

