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Poland Economics

Tax system overhaul

OUR TAKE

Polish government has presented a tax system overhaul that would lead to a change of PIT brackets. The change, however, is supposed to be neutral for the budget, as lower proceeds from PIT are set to be compensated through higher CIT and other measures.

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During a press conference Primer Minister Tusk and Finance Minister Domanski announced the planned changes in tax system. The main goal of the proposed changes is to lower taxes for individuals through overhaul of the Personal Income Tax brackets. The government's plan (Figure 1) envisages an increase of the taxable amount under 12% rate to PLN 130k (from PLN 120k) and new 24% tax rate between PLN 130k and PLN 150k income (previously income above PLN 120k was tax at 32%). At the same time, PM Tusk suggested that an increase in tax free allowance (from PLN 30K to PLN 60K) is highly unlikely in the next two years (19th August, money.pl) as Poland is facing the burden of high defence spending. The tax free allowance cost was estimated at PLN 58.6bn.

Figure 1. Proposed changes in the PIT brackets

Taxable earnings (PLN thousands)		Tax rate
Current brackets	New brackets	
0-30*	0-30*	0%
30-120	30-130	12%
	130-150	24%
120+	150+	32%

*PLN 30k is the tax free allowance

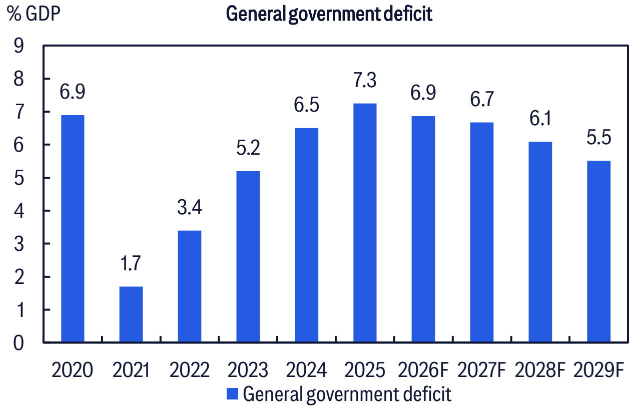
Source: Citi Handlowy, Chancellary of the Prime Minister

We estimate that changes in PIT brackets would result in lower income from PIT by about PLN 8bn annually. Nevertheless, the government suggests that changes in the tax system would prove neutral for the budget, as it will be compensated by: 1) increase in CIT rate to 19% from 22% for companies with income over EUR 50mn and for tax capital groups; 2) increase in solidarity levy (for individuals earning over PLN 1mn) by 1pp to 5%; and 3) restore the EUR 250k revenues limit for companies choosing lump-sum tax on registered revenues. Our back of the envelope calculations suggest that increased income from the CIT may well cover the lower proceeds from PIT. Thus, we think that government assumption is not unrealistic, that tax system overhaul would prove neutral for the budget, though we note that some companies may try to stay below the EUR 50mn revenues limit, or individuals may seek to remain below PLN 1mn earnings threshold (since 2021 proceeds from the solidarity levy decreased gradually).

The key question is whether President Nawrocki would approve the changes in the tax system. In the past the President did not agree to sign bills that would raise taxes (with the exception of higher CIT for banks), especially for individuals. The government proposal is mostly beneficial for upper-middle class and at the same time may (negatively) target highest-earning individuals and entrepreneurs using lump-sum tax scheme. The President's chief of the cabinet Szefernaker suggested (19th August, 300polityka) that government's proposal *"further complicates already complicated tax system"* and suggested that the President already presented a programme that calls for an increase in taxable earnings at 12% rate to PLN 140k as well as 0% rate up to PLN 140k for parents with at least two children.

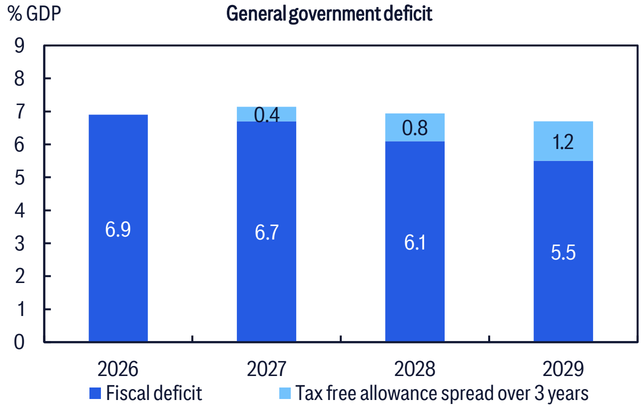
We expect that fiscal stance in Poland will remain in the headlines over the next couple of weeks. By the end of August the government is supposed to present the draft of the 2027 budget, and we believe that it is unlikely to call for material fiscal consolidation. Our forecast calls for fiscal deficit at 6.7% of GDP in 2027 where the slight improvement from 7.3% deficit in 2025 is coming mostly through higher nominal GDP.

Figure 2. 2026 is likely to see a sharp increase in EU fund inflows to Central Europe



Source: Statistics Poland, Citi Handlowy Forecasts

Figure 3. Hungary stands out as a country that can benefit most from EU funds, followed by Poland and Romania



Source: Statistics Poland, Citi Handlowy Estimates

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