

Are you aware of all deductions you can make in your Polish tax return for year 2008?

The Polish tax filing deadline is fast approaching. There have been a number of important changes in the tax regulations which apply to income received in 2008. It may therefore be advisable to make sure you do not miss out on any tax saving opportunity offered by these new regulations.

Below are some of the tax saving possibilities introduced:

Joint taxation of non-resident spouses

The possibility of joint taxation is now open to spouses who have their residence in different EU member states, as well as Iceland, Liechtenstein, Norway and Switzerland.

Filing a joint return with a spouse whose income is considerably lower can bring relevant tax savings in Poland.

Two of the key conditions which need to be met in order to benefit from joint taxation are:

- spouses' revenues which are taxable in Poland constitute at least 75 per cent of the total revenues for the tax year,

- the tax domicile in one of the countries mentioned above is confirmed with a certificate of residence, enclosed with the tax return.

Deducting social security contributions paid abroad

Deducting social security contributions paid in the EU member states, as well as Iceland, Liechtenstein, Norway and Switzerland, will now be possible. Such a deduction can be applied in the tax calculations from 2008. According to Polish law:

- obligatory social insurance contributions can be deducted from income,
- obligatory health insurance contributions can be deducted from tax up to an amount equal to 7.75 per cent of this contribution base.

Due to differences in the social security systems in various countries, applying this deduction should be preceded by an analysis of the foreign law in this respect and may require collecting documentation confirming the payment of the contributions abroad. We are prepared to assist you with these procedures.

Pro-family tax relief

The tax for 2008 can be reduced by the amount not exceeding 1,173.70 PLN per each child raised by the taxpayer. As opposed to the previous years the right to this relief will also apply in the case of children over the age of 18 who are studying at an institution either in Poland or abroad.

Furthermore, in the tax calculations for 2009 (but not 2008) also the legal custodians and foster parents will be entitled to this relief.

Abolition relief

Taxpayers with their tax residence in Poland, deriving certain kinds of income in a country where the agreement on avoidance of double taxation stipulates the proportional tax credit method (such as the Netherlands, Belgium, Denmark, the USA, Russia), or a country with which Poland has not signed an agreement, will be entitled to apply the so-called abolition relief. This means that their Polish tax can be reduced by an amount equal to the difference between the tax computed using the proportional credit method and the tax computed using the exemption with progression method.

In practical terms this comes down to extending the usage of the exemption with progression method.

Saving tax in 2009

We would also like to remind you that the present regulations allow the reduction of the personal tax burdens below the nominal tax rates.

Below we set out several possible options:

- 50 per cent costs of earning income – in the case of transferring copyrights,
- 20 per cent costs of earning income – in the case of personal service agreements and task contracts („umowa o dzieło”),
- 20 per cent flat rate tax, regardless of the amount of derived income, for foreign service providers and company board members,
- lack of social security contributions for company board members if the payment of their remuneration is based solely on a shareholders’ resolution.

If you wish, we stand ready to:

- examine the possibility of optimizing your tax affairs,
- present you with estimate calculations of tax savings,
- prepare tax returns.

Should you be interested in the matters raised in this alert, please, do not hesitate to contact us.

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