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CORPORATE INCOME TAX IN POLAND IN COMPARISON TO EUROPEAN UNION COUNTRIES

Abstract

Corporate income tax is an important part of the tax system. It is also important source of budget revenues. In the European Union, Corporate Income Tax is not strictly standardised, which allows the governments of individual countries to pursue their own policy in this regard. The purpose of this paper is to identify similarities and differences in Corporate Income Tax and its construction in Poland and compare it with French, British and German CIT's. In this article subject, object and rates of the tax were presented, which vary depending on the country. Another important part of this work is to present the taxation of dividends in studied countries. Taxation of dividends is a controversial phenomenon and this is the reason why it is often mentioned by economists and politicians. The article also present the share of the corporate income tax in total tax revenues and total budget revenues.

JEL Classification Codes: **H200, H250.**

Keywords: Corporate income tax, CIT, Business taxation.

Introduction

Each country to be able to fulfil the policy of its government imposes certain taxes on its citizens and on the general transactions in the particular area. They are benefits, which provide money to the state or other public-low units, and they are compulsory, public, non-refundable, and unpaid. They are charged on the basis of the relevant regulations (Wolański, 2009, p. 18).

Taxes collected in particular time, in particular state creates tax system (Wach, 2006, p. 16). One of the elements of this system is income tax.

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The subject of this research is corporate income tax (CIT), which is in force in Poland, Great Britain, France and Germany.

The purpose of this paper is to present the differences in taxation of legal entity in Poland, and enterprises in three countries with the highest GDP in the European Union, namely in Britain, France and Germany (GDP and main components, 2015).

The problem of the research is to confront the differences and similarities in the structure and share of CIT in the budget revenues in selected countries and identify solutions used by analysed countries in order to solve the problem of double taxation of income related to the dividend payment.

1. Related work

The concept to show the construction of CIT, in different countries, is not new. Authors of articles often based their research on CIT rates. Sometimes they do not analyse the tax base, which is important because it could include obligatory relief applied by some countries. It may affect a significant distortion of research results (Furman, 2012).

Some research is conducted in order to determine the nature of the fiscal policy by individual countries. It consists mostly on the analysis of tax competitiveness between countries (Cosme, 2015).

Frequent change of tax law inspires subject investigators to continue the analyses related to the CIT. This results in an apparent reproduction already examined subjects. In practice, the variation of tax law significantly hinders the reproduction of old research.

Those article are closely related to the following works: Wach (2006), Skrok (2007) and Kulawik, Lelong, Pawłowska-Tyszko and Soliwoda (2013). Listed authors research had been done many years ago and needs to be updated.

The subject of this study is important because the reduction to only four countries of the European Union allows to make a more detailed analysis of the CIT than it was made in most other studies. In addition, a comparison of the corporate taxation can help companies decide about the possible to expanding business in the analysed countries choosing the one that imposes on companies lowest rates of taxation.

There are following methods used in the paper: in-depth study of literature and analysis of legal acts of individual countries.

Analysing the individual countries is essential to identify subject to CIT. In general terms, subject to CIT are legal entity. It should be noted that English CIT refers to a tax that companies pay on their profits. This means, therefore, that the subject of taxation in each country will be slightly different because as the example of Poland presents, legal entity is a term indicating not all partnerships and not only partnerships (Krajewska, 2010, p. 115).

For the purposes of the analysis the definition of CIT subject is necessary. In general, it could be specified that the subject to taxation is the enterprise's income understood as a revenue surplus over tax deductible expenses, in a particular financial year (Rosiński, 2008, p. 57). However, it is necessary to verify if the source of income or expenses affects the amount of income, which is the basis for taxation and which rates are used in each country. At this point, it could be seen a problem related to the double taxation. Part of the profit can remain in the entity, and some are paid to the owners as a dividend. The owners as natural persons are burdened with a different form of income tax, and dividend, which is already taxed increases their income which is the base for tax charge. Some countries agree to practise double taxation, while others are implementing systems that allow to minimize or totally eliminate it. There are following systems of dividend taxation (Krajewska, 2010, p. 116):

– classical system of taxation – enterprise profit is taxed regardless of the purpose, and additionally the income tax is imposing on revenues of shareholders,
– modified system of taxation – double taxation is like in the classical system, but the basic difference is the lower tax rate on dividend compared with tax rate on retained earnings in the enterprise,
– partial deduction system – enterprise income tax rate is unchanged, but the tax rate of personal income tax which is applied to shareholders, is reduced (Head & Krever, 2009, p. 413),
– partial assignment system – company incomes are subject to corporate income tax, and a dividend is subject to the progressive personal income tax reduced by previously paid taxes,
– the initial system of taxation – dividend is subject to CIT but only as a part of enterprise income, however it is not subject to other taxes,
– system of total assignment – dividend is taxed as a shareholder's income and it is not a subject to CIT,

The issue of double taxation is the issue of economists debate. The economic fact is its use in most civilized countries in the world nowadays.

Income from CIT is paid directly to the country budget. To determine the significance of the examined tax, it is necessary to examine the size of the budget income and the share of this tax in combination with other budget receipts.

For the purpose of this paper the following hypotheses were posed:

• **H1**: In each researched country there is a group of CIT subjects, which are equivalent for Polish legal entities in law.
• **H2**: The income, understood as a difference between revenues and incurred costs, is a CIT object in each researched country.

- **H3**: Each country included in the research has certain mechanisms to avoid or minimise the effects of double taxation of profits paid out as dividends.
- **H4**: Revenues from CIT in researched countries budget are low and do not exceed 20% of all tax budget revenues

2. Corporate Income Tax In Poland

Subject to CIT are: legal persons, share-holding companies, some organizations that do not have legal personality and organizations that do not have legal personality, but their main office or board of directors is located in a different country and according to law of that place, they are treated as legal persons (Ustawa *o podatku dochodowym od osób prawnych*, Art. 1, ust. 1–3).

Subject of Corporate Income Tax are all revenues, regardless of the place where they are earned, but only when the board of directors or taxpayer's main office is in Poland (Ustawa *o podatku dochodowym od osób prawnyc*h, Art. 3, ust. 1). If the board of directors or taxpayer's main office is located outside of Polish territory, then the subject to taxation is income earned on Polish territory (Ustawa o *podatku dochodowym od osób prawnych*, Art. 3, ust. 2).

Income which is subject to CIT, is a difference between revenues and tax deductible expenses after excluding exempt income (Ustawa *o podatku dochodowym od osób prawnych*, Art. 18, ust. 1, pkt 1).

CIT which is in force in Poland, is a flat tax, whose rate is 19% (Ustawa *o podatku dochodowym od osób prawnych*, Art. 19).

In Poland, CIT initially charges incomes of legal persons, and next, all incomes from dividends of shareholders. This means that there is a classical system of taxation in Poland (Wach, 2006, p. 58).

Budget revenues from CIT in years 2012–2013 amounted to 25.1 billion PLN (Sprawozdanie z wykonania budżetu państwa, 2012) and 23 billion PLN (Sprawozdanie z wykonania budżetu państwa, 2013).They were consecutively accounted for 10% and 9.5% of tax revenues.

Expected budget revenues from CIT in years 2014 – 2015 amount 23 billion PLN (Załącznik do Ustawy Budżetowej, 2014) and 24,5 billion PLN (Załącznik do Ustawy Budżetowej, 2015).These revenues are consecutively accounted for about 9.4% and 9% of tax revenues.

Analysing the amount of budget revenues from CIT it can be noticed that these revenues in years 2012–2015 in value terms are at the similar level. In years 2013–2015 the share of the CIT in total tax revenues consecutively decreased by 0.5%, 0.1%, 0.4%, in comparison with previous year.

CIT rate, which remains at the same level and changes in public budget connected to it may also mean the stability of Polish fiscal policy. It should be noted that this approach is focused on the CIT and further analyses are required to compare it to other forms of taxation.