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Comparision of tax systems of Poland and Slovak Republic

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Introduction

The goal of the tax policy changes in terms of increasing the efficiency of tax systems in both states at the beginning of the 90s' of the last century, was to ensure that tax system of a country supports the development of private entrepreneurship, provides the conditions for unimpeded functioning of the economy and sufficient public revenues. The tax system should be designed to allow full access to foreign capital at clear and pre-determined conditions.

The changes of social systems created the conditions for a radical change in the tax structure. Tax reforms, representing a basic change of tax system of a country, were based on several principles. The budgetary political principle required the flexible taxes, which would follow the increase of the state revenues. Principle of taxation fairness should create equal conditions for taxing of both domestic and foreign companies, as well as the equal treatment in taxation of natural and legal persons. The economic principle shall create the equal competitive conditions through the taxes. The principle of flexibility and efficiency of tax collection required a certain hierarchy of tax authorities for reliable collection and control of taxes and for reduction of tax evasion. The principle of economy openness promotes the requirement of harmonization. The financial – psychological principle requires that the design of tax system corresponds to legal awareness and mentality of the nation.

Tax system of Poland

Poland began the reform of its tax system in the early 90s' of the last century. All the changes were result of a key factor, which was to lay the foundation for the market economy and this was incompatible with the previously existing legislation in the fiscal area.

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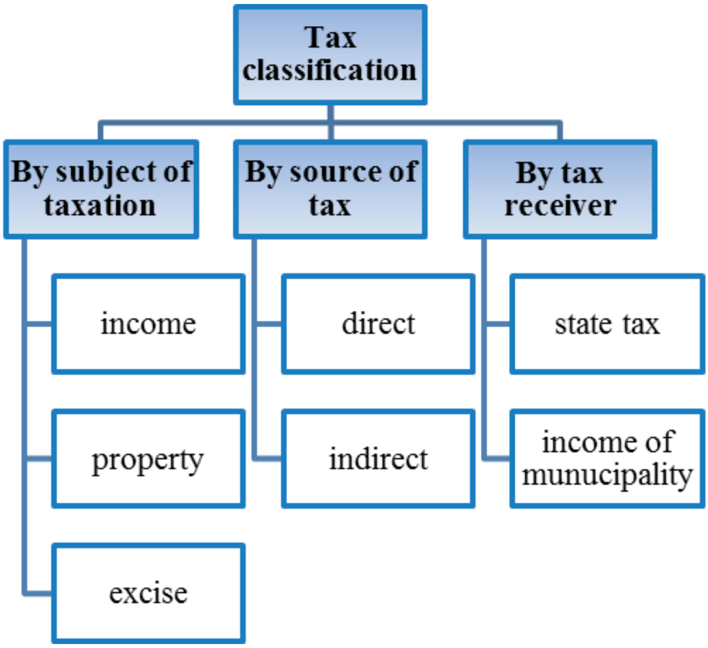
The legal basis for the imposition of tax liability in Poland is the Polish Constitution of the 2nd April of 1997. The article 217 states: "Imposition of taxes and other public levies, determination of subjects of taxation, tax items, tax rates, categories of entities exempt from taxes and principles for providing tax reliefs and tax depreciation can be carried out only by law" [Ustawa z 1997 r.].

The Polish tax system is relatively complex, it contains a number of options for reliefs and exemptions. Classification of taxes in Poland is shown in the following scheme.



Scheme 1. Classification of taxes in Poland

Source: authors own elaboration.

Poland currently uses following types of taxes, divided into direct and indirect taxes [Głuchowski 2014]:

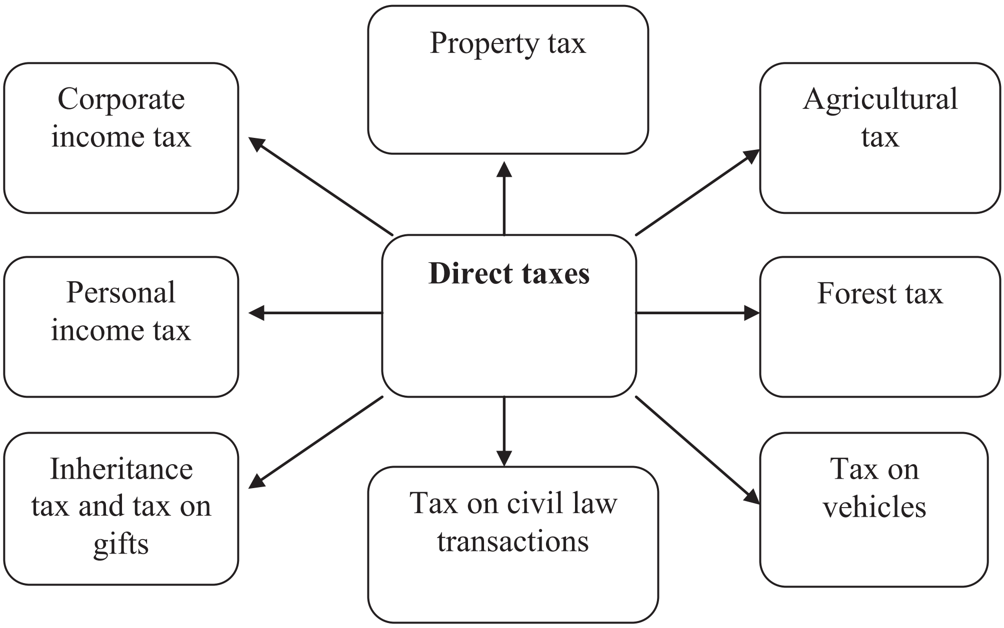
Direct taxes:

1. personal income tax (PIT),
2. corporate income tax (CIT),
3. inheritance tax and tax on gifts,
4. tax on civil law transactions,
5. agricultural tax,
6. forest tax,
7. property tax,
8. tax on vehicles.

Indirect taxes:

1. Value added tax,
2. Excise taxes,
3. tax on hazardous games and on games.

The distribution of direct taxes in respect to their source is illustrated in the following scheme.



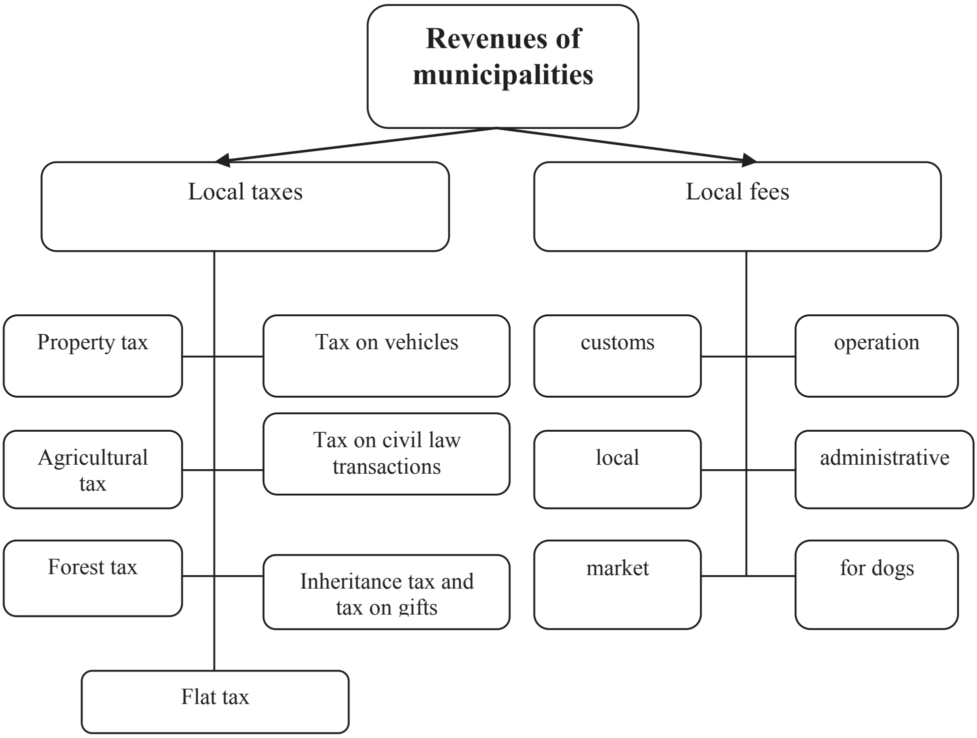
Scheme 2. Distribution of direct taxes in respect to their source

Source: Authors own elaboration.

Further breakdown of taxes in Poland can be done by e.g. the tax receiver, as follows [Filip, 2009]:

- taxes collected by tax and customs offices, which are revenues of the state budget and consist of:
  - value added tax,
  - excise tax,
  - tax on hazardous games and on games,
- taxes that partially represent the revenues of local authorities and consist of:
  - personal income tax,
  - corporate income tax,
- taxes that are partially revenues of municipalities and consist of:
  - personal income tax paid as a flat tax,
  - tax on civil law transactions,
  - inheritance tax and tax on gifts,
- tax collected by municipal authorities, which are revenues of municipalities and consist of:
  - property tax,
  - agricultural and forest tax,
  - tax on vehicles,
  - fees: customs, local, market, operation and administrative fee.

The following scheme shows the taxes and fees, which represent the revenues of municipality's budget (JST).



Scheme 3. Revenues of the municipalities (JST)

Source: Authors own elaboration.

Personal income tax was introduced on the 1st January 1992. It covers any income of natural persons – residents, as well as income of natural persons – non-residents from sources located in Poland. The subject of this tax is every income, which is based on employment contracts, provision of services, self-employment, the property ownership and the possession of capital.

The valid legislation of the personal income tax allows numerous exemptions, e.g. in case of insurance payments, parts of social security incomes and certain types of winnings. The tax reliefs, i.e. the possibility of reducing the tax base or the tax amount, cover the expenses on education, health care or housing.

Corporate income tax is used to tax income of the legal entities. The subject to corporate income tax is income of legal entity derived from any source. Revenues are reported as net of costs required for obtaining these revenues. The Polish legislation defines a list of expenditures (over 50 items), which from the fiscal view are not considered to be the costs required for obtaining the income.

Tax on goods and services is a Polish version of value added tax. The Act defines all activities that are subject to VAT, taking into consideration mainly the sale of goods and services. The base for VAT calculation is the net value of taxable activity (i.e. the value before tax). There are numerous exemptions from VAT, which apply not only to export, but in some cases also to domestic sales.

Excise tax is widely used in Poland and applies to many product groups, including alcoholic beverages, tobacco products, fuels and lubricants and other consumer goods.

The gambling in casino, numerous competitions, lotteries and cash prize drawings are subject to specific fiscal liabilities that are qualified as **tax on hazardous games and on games.**

All properties are covered by **property tax**. It concerns the owners of properties – both natural and legal persons. The agricultural land is a subject to **agricultural tax** and forests are subject to **tax on forests**.

Tax on vehicles is paid by all owners of trucks, tractors, trailers and buses.

Tax on civil transactions is charged on all sales contracts, goods exchange contracts and legal claims, loan contracts, guarantees, determinations of income/pension and other.

Inheritance tax and tax on gifts applies to taxing of inheritance, donation and transfer of assets mainly in the form of property, money and legal entitlements, earned by natural persons.

The taxes used in Poland have a different fiscal importance. In terms of income, the most significant ones are tax on goods and services (VAT), excise taxes, income tax and property tax. In general, the Polish fiscal system is in line with the standards of the European Union (as to the forms of taxes, defining the subject and object of taxation, etc.).

The tax system that applies in Poland has been designed the way to conform the standards of the European Union and all ongoing changes are executed in line with the requirements of the Union directives.

Tax system of the Slovak Republic

The basic legislative source of the tax system is the Constitution of the Slovak Republic, where in Title III, Article 59, Section 1, 2 is stated: "Taxes and duties shall be national and local. Taxes and duties may be levied by a law or on the basis of law."

The basic instance in tax administration and thus also in the tax system of the Slovak Republic is the Ministry of Finance of the Slovak Republic, which is the central state administration authority in the area of finance, taxes and duties, customs, financial controls and other. The Tax Directorate of the Slovak Republic, as the central body of tax administration and also the appellate body in relation to the tax authorities and municipalities, reports to the Ministry of Finance of the Slovak Republic [Babcak 2015].

The tax system of the Slovak Republic is structured based on the impact on taxpayers. Taxes are classified according to their membership to income, property and excise taxes. Due to the mismatch between the original intent and the principles of fiscal decentralization, a motor vehicle tax has been introduced as a state property tax (instead of formerly local optional property tax) since the 1st of January 2015 and it is regulated by a new separate Act No. 361/2014 of the 26th November 2014 on Taxation of motor vehicles and its amendments and supplements. All other property taxes remain under the local property taxes [Burak et al. 2012, 2014].

The most important criteria for the tax classification in the Slovak Republic include:

1. ***object of taxation:***

income – personal income tax, corporate income tax, tax on income from employment (wage) etc., property – real estate tax on land, on construction buildings, on apartments, motor vehicle tax etc.,

consumption – value added tax, excise tax on alcoholic beverages, tobacco, products, mineral oil, electricity, coal and natural gas.

2. ***taxpayer:***

natural person – personal income tax,
legal person – corporate income tax,
natural and legal person – value added tax and local taxes.

3. ***regularity of tax collection:***

single tax – certain types of local taxes,
regular tax – periodically repeated at certain time intervals. income tax, value added tax etc.

4. ***method of determining the tax base, by units in which the tax base is expressed:***

value tax – tax base expressed in monetary terms,
specific tax – tax base expressed in technical terms.

5. ***method of tax collection and payment:***

pre-paid tax – tax on interest on deposits etc.
tax collected based on the tax return.

6. ***link to taxpayer's own income:***

direct taxes – taxes which reduce a part of taxpayer's income based on determined estate possession, thus they represent a specifically addressed tax liability of a legal or natural person,

indirect taxes – taxes included in price of purchased goods and services.

The principles of tax systems in developed market economies were used as a base for formation of the current tax system of the Slovak Republic.

Table 1. Tax system of the Slovak Republic valid in 2016

<table>
<tr><th colspan="4">Classification of Taxes</th></tr>
<tr><th colspan="2">Direct</th><th colspan="2">Indirect</th></tr>
<tr><th>Income (Pension)</th><th>Property – local and state tax</th><th>Universal</th><th>Selective</th></tr>
<tr><td rowspan="2">Personal income tax</td><td>Property tax</td><td rowspan="2">Value added tax</td><td>Excise tax</td></tr>
<tr><td>a) on land</td><td rowspan="2">a) on alcoholic beverages</td></tr>
<tr><td rowspan="2">Corporate income tax</td><td>b) on construction buildings</td><td rowspan="11"></td></tr>
<tr><td>c) on apartments</td><td rowspan="2">b) on tobacco products</td></tr>
<tr><td rowspan="9"></td><td>Dog tax</td></tr>
<tr><td>Tax on public space usage</td><td>c) on mineral oil</td></tr>
<tr><td>Accommodation tax</td><td rowspan="2">d) on electricity</td></tr>
<tr><td>Tax on vending machines</td></tr>
<tr><td>Tax on non-winning gaming machines</td><td>e) on coal</td></tr>
<tr><td>Tax on entry and parking of motor vehicle in historical part of city</td><td rowspan="4">f) on natural gas</td></tr>
<tr><td>Nuclear facility tax</td></tr>
<tr><td>Local fee for municipal waste and small construction waste</td></tr>
<tr><td>Motor vehicle tax – state tax</td></tr>
</table>

Source: Authors' own elaboration based on relevant Acts.

In 2016, the tax system of the Slovak Republic consists of nine Acts on taxes, which define twenty existing tax types and one fee. The tax system valid in the Slovak Republic in 2016 is illustrated in table 1.

Personal income tax as a direct tax paid to the state budget is regulated by the Act on Income Tax. This legislation governs the taxation of all incomes achieved in the Slovak Republic by natural and legal persons, also the tax base and incomes exempt from income tax. Subject to personal income tax is income from employment, income from business and from self-employment and income from capital and other incomes. The Act on income tax defines in addition to taxable income, also the income exempt from tax and conditions under which such income is not taxed [Pavliková et al. 2014].

Corporate income tax is paid by entities registered in the Commercial Register, which were established to perform the business activities and the subject of this tax are all types of incomes, with the exception of those that are specifically listed in the Act. Taxpayers, who are not established for business activities, e.g. professional chambers, interest groups of legal entities, civic organizations, political parties and movements and state-recognized churches pay tax only from the incomes which derive from business activities [Banociova 2014].

Local taxes and local fee for municipal waste and small construction waste are regulated by the Act on local taxes and local fee for municipal waste and small construction waste. This act regulates the procedure of taxing property (property tax on land, on construction buildings and on apartments), dogs, usage of public space, accommodation, vending machines, non-winning gaming machines, entry and parking of motor vehicle in historical part of city and nuclear facility. These taxes are governed by the relevant provisions of Act on local taxes and fees and belong to budgets of municipalities.

Motor vehicle tax is a state tax. The subject of this tax are both freight and passengers motor vehicle, which are used for business activities. The Act lists the types of vehicles that are exempt from taxation. The exemption concerns e.g. emergency vehicles, fire trucks, vehicles used exclusively in agricultural production and in forest production etc.

Value added tax (VAT) is regulated by the Act, which requires VAT registration in case that entity carries out business activity, which is not exempt from VAT and when entity achieved turnover for not more than twelve preceding consecutive calendar months in the amount of 49,790 EUR. There are numerous exemptions from VAT, which are applied not only to export, but also in some cases of domestic sale [Banociova 2009].

Excise taxes are levied on selected types of products, which negatively affect the environment or human health such as e.g. wine, spirits, beer, tobacco products, mineral oils etc. and the burden is imposed on the final consumer.

Conclusion

The tax system of Poland with its constellation ranks among the most sophisticated tax systems. It is constantly evolving and changing, depending on the needs of the economy. It can be described as complicated, mainly due to its numerous peculiarities, exceptions and links to regulations. Nevertheless, it cannot be evaluated as a tax system that would be set ideally. One of the reasons is that the needs of society and the satisfaction of taxpayers are not (and never will be) in balance. But it is important to think about how to amend and improve the tax system in the future so that it considers the interests of the society as well as of individuals and thus at least approach the ideal state. The same applies to the tax system of the Slovak Republic.

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Porównanie systemu podatkowego Polski i Republiki Słowackiej

Streszczenie

Polska i Republika Słowacka uległy zasadniczym zmianom na początku lat 90. ubiegłego wieku. Wspomniane zmiany miały znaczący wpływ na obszary polityczne, gospodarcze i społeczne obu krajów. Zmiany polityczne spowodowały ustanowienie nowych zasad legislacyjnych i doprowadziły do wdrożenia niezbędnych reform podatkowych. Nowe systemy podatkowe musiały odzwierciedlać warunki rynkowe i kładły duży nacisk na uproszczenie systemu podatkowego. Oba kraje postanowiły zastosować obowiązujące elementy prawa podatkowego, które odzwierciedlają równość wszystkich form własności i akceptują rynkowe formy funkcjonowania gospodarki. Celem tego artykułu jest wyjaśnienie obowiązujących systemów podatkowych w Polsce i na Słowacji.

Słowa kluczowe: system podatkowy, podatki bezpośrednie, podatki pośrednie, podatki dochodowe, podatki lokalne, podatki uniwersalne, podatki selektywne.