Doing business in Poland
2016

In association with:

Grant Thornton
An instinct for growth

HSBC
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Introduction

This guide will cover key aspects of doing business and investing in Poland. Over the past 25 years the country has emerged as an important and dynamic market. With over 38.5 million people, it is the largest market in Central and Eastern Europe and the eighth-largest economy in the European Union. Poland’s convenient location in the centre of Europe makes it the perfect investment destination between Eastern and Western markets.

After the political changes in 1989, Poland transitioned to a market-oriented economy. Since then, Poland has achieved significant economic success, culminating in 2004 in becoming a member of the European Union (EU). Poland’s strong economic foundations have been driven by extensive domestic demand, exports and foreign investment. This was clearly visible in 2009 when Poland remained the only country in the EU that managed to maintain positive GDP growth. During the period of 2008-13, cumulative GDP growth in Poland reached 20.1 per cent and the country now boasts the sixth-largest economy in the EU.

Poland’s real GDP growth averaged 3.4 per cent in 2014 and 3.5 per cent in 2015. This growth rate is expected to remain stable into 2016 and 2017, supported by solid investment and growth in consumption. This indicates that Poland will continue to be a European growth leader in the coming years. Consequently, it is predicted that the central bank may begin to raise interest rates from record low levels towards the end of 2016.

Factors contributing to Poland’s rapid economic growth and attractive foreign investment environment include:

- Well-educated, low-cost labour force
- Large population with strong internal consumption
- Strategic location in the centre of Europe with access to both the eastern and western markets
- Subsidies and tax incentives for investors
- EU structural and cohesion funds

Poland is an attractive destination for foreign investors with its well-educated workforce and competitive labour costs. The labour costs in Poland, despite a visible upward trend, are still significantly lower in comparison to Western European countries. Furthermore, Polish workers have a strong work ethic and are highly qualified; Poland has over 470 academic centres and public education is free. Polish engineers and scientists are highly acknowledged across the world.

Strong internal consumption is one of the key economic drivers contributing to economic stability. The ratio of exports to domestic demand is around 50 per cent.

The country has a very favourable location in the centre of Europe where major trans-European transportation routes intersect. Goods can be easily shipped from Poland to all European countries, reaching a market of more than 500 million consumers. Poland’s major trade partners are, among others, Germany, Russia, China, France, the UK, Italy, Hungary, Ukraine and Spain.

Poland’s investment attractiveness is augmented by a range of subsidies and tax incentives. There are 14 Special Economic Zones (SEZs) in operation and companies willing to invest there can avail a number of incentives, including: tax exemptions, employment benefits and well-prepared investment sites. SEZs will operate until 2026.

Poland’s economic growth is in part due to the sizable resources received from the EU structural and cohesion funds. Poland is the main beneficiary of these funds; the country will receive a total of EUR82.5 billion across the years 2014 – 2020. The second round of EU funding will continue to be invested in transport infrastructure but the highest increase in expenditure will be in innovation and support for enterprises.

While this guide covers some of the most common issues investors might encounter in Poland, certain industries and areas of business activity are subject to special regulation and therefore companies intending to invest in these areas should seek legal advice.

The information in this publication is current at December 2015.
### Country profile

<table>
<thead>
<tr>
<th><strong>Capital City</strong></th>
<th>Warsaw</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area</strong></td>
<td>312,679 sq. km</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>38,478,602</td>
</tr>
<tr>
<td><strong>Language</strong></td>
<td>Polish</td>
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<tr>
<td><strong>Currency</strong></td>
<td>Zloty (PLN)</td>
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<td><strong>International dialling code</strong></td>
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#### National Holidays 2016

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January</td>
<td>New Year</td>
</tr>
<tr>
<td>6 January</td>
<td>Epiphany</td>
</tr>
<tr>
<td>27 March</td>
<td>Easter Sunday</td>
</tr>
<tr>
<td>28 March</td>
<td>Easter Monday</td>
</tr>
<tr>
<td>1 May</td>
<td>Labour Day</td>
</tr>
<tr>
<td>3 May</td>
<td>Constitution Day</td>
</tr>
<tr>
<td>15 May</td>
<td>Pentecost</td>
</tr>
<tr>
<td>26 May</td>
<td>Corpus Christi</td>
</tr>
<tr>
<td>15 August</td>
<td>Polish Armed Forces Day, Assumption of Mary</td>
</tr>
<tr>
<td>1 November</td>
<td>All Saints’ Day</td>
</tr>
<tr>
<td>11 November</td>
<td>Independence Day</td>
</tr>
<tr>
<td>25 December</td>
<td>Christmas Day</td>
</tr>
<tr>
<td>26 December</td>
<td>Christmas (Second Day)</td>
</tr>
</tbody>
</table>

#### Business and Banking hours

- 08:00 to 17:00

#### Stock exchanges

- Warsaw Stock Exchange

#### Political structure

- Parliamentary Republic

#### Doing Business rank 2016

- 25

### Ease of Doing Business

<table>
<thead>
<tr>
<th>Topics</th>
<th>2016 rank</th>
<th>2015 rank</th>
<th>Change in rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>85</td>
<td>80</td>
<td>-5</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>52</td>
<td>49</td>
<td>-3</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>49</td>
<td>54</td>
<td>5</td>
</tr>
<tr>
<td>Registering property</td>
<td>41</td>
<td>39</td>
<td>-2</td>
</tr>
<tr>
<td>Financing</td>
<td>19</td>
<td>17</td>
<td>-2</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>49</td>
<td>46</td>
<td>-3</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>58</td>
<td>96</td>
<td>38</td>
</tr>
<tr>
<td>Trading Across Borders</td>
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<td>1</td>
<td>No change</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>55</td>
<td>55</td>
<td>No change</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>32</td>
<td>31</td>
<td>-1</td>
</tr>
</tbody>
</table>

*Source: World Bank Group (Doing Business)*
Legal overview

Political and legal system
The principles governing the political and socio-economic system in Poland are laid down in the Constitution, as of 2 April 1997. The Constitution sets out that Poland is a parliamentary republic with a democratically elected government. The system rests on the principle of the separation of powers.

The legislative power is executed by the Sejm (the lower house) and the Senate (the upper house) creating a bicameral Parliament. The Sejm has 460 members, while 100 senators sit in the Senate. They are all elected directly by the People for four-year terms of office. The Parliament not only makes law, but also exercises control over government and is authorised to appoint members of the crucial Polish authorities.

Poland has a multi-party system with two main political parties that currently hold sway: Law and Justice (‘Prawo i Sprawiedliwosc) and the opposite Civic Platform (‘Platforma Obywatelska’).

Executive power is exercised by the President and the Council of Ministers. The President is the head of state and represents the country in the international arena. The Council of Ministers is formed of the Prime Minister, Deputy Prime Ministers and other ministers. The Council of Ministers is responsible for both domestic and foreign affairs.

Judiciary power is vested in independent and impartial courts and tribunals and executed by the Supreme Court, common courts, administrative courts and military courts. Additionally, in particular cases the decision of Constitutional Tribunal and State Tribunal shall be required.

The country has three tiers of regional administration, with voivodeships (16), poviats (counties, 380) and gminas (communes, 2478). State administration is divided into government (central) administration, headed by the Council of Ministers, and self-government at local and regional levels.

The Polish legal system is based on the continental (civil) legal system, in which the legislative branch (the parliament) has exclusive law-making powers and laws are formulated into specific pieces of legislation. These written laws form a hierarchy, meaning that lower-ranking laws must comply with higher-ranking laws. Accordingly, starting with the highest rank, the sources of generally applicable law include: the Constitution, international agreements ratified on the basis of prior statutory acceptance, acts of parliament, ordinances and local legislation. Additionally, the sources of European Union Law shall be applicable in accordance with the principles settled by the European Treaties.

Data protection
Regulations on personal data protection in Poland comply with European Union law.

Pursuant to the Act of August 29, 1997 on the Protection of Personal Data (consolidated text – Journal of Laws of 2014, item 1182, as amended), the term “personal data” covers any information relating to:

• An identified person
• An identifiable person

Data protection provisions are also applicable to non-public entities carrying out public tasks and non-public entities which process personal data in connection with their business or professional activity or the implementation of statutory objectives. These entities are referred to as data administrators.

In accordance with the statutory provisions, data processing is only permitted if:

• The data subject provides consent, unless that person’s data is being deleted
• It is necessary for the purposes of exercising a right or fulfilment of a duty stipulated under law
• It is necessary for contract performance, where the data subject is a party to the contract or where it is necessary to undertake certain actions prior to concluding the contract at the request of the data subject
• It is necessary in the performance of statutory tasks undertaken in the interest of the public
• It is necessary to fulfil legally justified objectives realised by data administrators or data recipients, and processing does not infringe upon the rights and freedoms of the data subject

Personal data protection is regulated by the Inspector General for Personal Data Protection (GIODO). An infringement of personal data protection provisions is punishable by a fine, restriction of liberty or imprisonment ranging from one year to three years – depending on the severity of the offence.

Exchange controls
The foreign exchange law is enforced by the President of the National Bank of Poland (NBP).
There are no foreign exchange restrictions between Poland and the Member States of the European Union or countries of the European Economic Area (EEA) and the Organisation for Economic Cooperation and Development (OECD).

Exchange operations with third countries (non-EU, non-EEA and non-OECD) require exchange control approvals. Currency restrictions apply to trading in securities, acquisition of company stock and trading in receivables. General exchange control approvals are granted by the Minister of Finance by way of ordinance. Individual approvals are granted by the president of the NBP.

International money transfers and domestic transactions involving foreign currencies (in excess of EUR15,000) must take place through authorised banks. It is also mandatory to provide information (at the request of the bank) on the currency transactions completed via the bank, and to report considerable amounts of national or foreign currency taken into and out of the country.

Money laundering regulations
Polish law imposes a duty on 'obliged institutions' (this includes: financial institutions, investment funds, life insurers, notaries, entities providing accounting services and entrepreneurs accepting payments for goods in cash equivalent to EUR15,000 or more) to undertake security measures with respect to all their customers – which include money laundering and terrorist financing risk assessments.

In an effort to counteract money laundering, the Institution of the Inspector General for Financial Information (GIIF) was appointed to receive information collected by the obliged institutions and co-operating units (central and local administration bodies and other state organisational units, NBP, Polish Financial Supervision Authority and Supreme Audit Office) regarding suspicious transactions and activities.

Failure to comply with the statutory requirements carries a fine of up to PLN750,000, imposed by the Inspector General by way of decision. Individuals who, acting on behalf or in the interest of an obliged institution, fail to comply with the statutory requirements may be subject to imprisonment for up to three years.

Intellectual Property Rights
Intellectual Property Rights are protected in Poland under the Act on Industrial Property Rights and the Act on Copyrights and related Rights.

The office responsible for examining and registering applications in Poland is the Patent Office of the Republic of Poland.

Protection granted by the European Patent Office based in Munich also extends to Poland. In turn, the protection of trademarks and industrial designs in European countries is granted by the European Union Intellectual Property Office.
## PATENTS

Patents are granted, irrespective of the field of technology, for inventions which are new, involve an inventive step and lend themselves to industrial applications. They are awarded by the Polish Patent Office.

<table>
<thead>
<tr>
<th>Protection granted</th>
<th>The patent holder enjoys an exclusive right over the use of their invention for a given period.</th>
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</table>
| Infringements      | An infringement may involve:  
  • Production, use, offering, marketing or importing of the patented invention for these purposes  
  • Using the invented method, as well as using, offering, marketing or importing of the products made through the use of this method for these purposes |
| Duration           | Patent protection lasts for 20 years from the date of application to the Patent Office. |
| European Patent    | Obtaining protective rights in Poland does not provide protection in the rest of Europe. In order to protect an invention in more than 30 European countries, an application needs to be submitted with the European Patent Office which awards European patents. |
| Unitary Patent     | Poland (among other 25 EU countries) signed the Agreement for the Unitary Patent, a new single patent right covering the majority EU Member States. The Unitary Patent shall have the Unitary Effect; that is one single right which will be enforceable across through territory through one action in the Unified Patent Court (in contrast to the existing European Patent which operates as a bundle of national patents in each of its designated jurisdictions). However, for the time being, Poland (along with Croatia and Spain) has not signed the Unified Patent Court Agreement, therefore, is not covered by the Unitary Patent. |
### TRADEMARKS

Any sign which can be represented in graphic form can be a trade mark if it is capable of differentiating the goods of one business from those of another business. A trade mark may include a word, drawing, ornament, colour arrangement, spatial form, including the form of the product or its packaging, as well as a tune or other sound.

**Protection granted**  
Applications regarding trademarks are received and examined by the Patent Office of the Republic of Poland.  
By obtaining protective rights, the owner acquires an exclusive right to use the trademark for commercial or professional purposes across Poland.  
In order to obtain trademark protection across the European Union, an application must be made for the registration of a European Union Trade Mark, which may be done directly with the European Union Intellectual Property Office, or via the Polish Patent Office which is obliged to forward the application on to the European Union Intellectual Property Office.

**Infringements**  
A breach of trademark protection involves an unlawful use in commerce:  
- Of a sign identical to the registered trademark with regard to identical goods  
- Of a sign identical or similar to the registered trademark with regard to identical or similar goods if there is a risk of misleading customers, including but not limited to the risk of associating the sign with the registered trademark  
- Of a sign identical or similar to a well-known trademark, registered for any goods if such use takes unfair advantage of, or is detrimental to, the distinctive character or reputation of a prior registered mark

**Duration**  
10 years (registration can be renewed for further periods of 10 years).

### DESIGNS

An industrial design is a new, individualised appearance of a product or its part, resulting in particular from the features of its lines, contours, shape, colours, texture or materials used in the product or in its ornamentation. A product is any object manufactured or hand-crafted, including but not limited to packaging, graphic symbols and typefaces, excluding computer software.

**Protection granted**  
The legal protection of industrial designs takes effect following the filing of the application and depends on effective registration, confirmed by the protection certificate issued by the Patent Office.  
Industrial design protection grants the right of exclusive use of the design in a commercial or business activity. A registration certificate confers its holder the right to exclude third parties from:  
- Manufacturing  
- Offering  
- Marketing  
- Importing  
- Exporting  
- Using the product featuring the design  
- Storing said product for such purposes  

An industrial design may also be registered with the OHIM which grants protection across all EU Member States.

**Infringements**  
An infringement of an industrial design takes place when a competing design does not give a different overall impression to users. Consequently, users of the product may be confused as to its origin.

**Duration**  
Protection under the registration of a national industrial design runs for five years from the date of filing the application, and the holder may extend this period subject to a fee up to the maximum of 25 years from the application date. The protection of an unregistered Community design lasts for a period of three years after the design is first made available to the public.
Business entities

The forms of business allowed in Poland are regulated mainly by the Commercial Companies Code of September 2000.

As Poland is an EU member, the same rules for setting up and conducting business apply to Polish citizens as well as to every national of the European Union (EU) and the European Free Trade Association (EFTA) belonging to the European Economic Area (EEA). The rules applicable to Polish entities also apply to a strictly defined group of non-EU and non-EFTA entities whose residence in Poland is duly regulated.

The following legal forms of business are available in Poland to investors from the EU, EFTA countries and other persons whose residence in Poland is duly regulated:

- Sole proprietorship
- Civil partnership – used for joint investment projects or consortia
- Registered partnership
- Limited partnership
- Professional partnership
- Limited joint-stock partnership
- Limited liability company
- Joint-stock company
- European Company
- European Economic Interest Group

Additionally, foreign entrepreneurs may conduct business activities in the form of a branch office or a representative office in Poland.

The average time needed to establish any type of partnership or company is one to two months. If a company is needed sooner, several alternatives may be considered:

- Purchase of a ready-made company/partnership (shelf company) which has no operations or significant assets
- Undertaking operations while business registration is in progress – this is possible in the case of limited liability companies and joint-stock companies in the process of formation
- Establish the company through electronic filing, possible with limited liability companies, registered partnerships and limited partnerships

Limited Liability Company – ‘Spółka z ograniczoną odpowiedzialnością’ (Sp. z o.o.)

The Sp. z o.o. is the most popular legal form for newly established entities in Poland. It has its own legal personality which is separate from its shareholders. Shareholders are not liable for the debts or obligations of the company.

Formation

To set up the Sp. z o.o. in Poland, one or more shareholders are required. However, it cannot be incorporated by another sole-shareholder company.

Following this, the Management Board must be appointed and the company must register with the National Court Register (KRS). Once the company is registered, it becomes a legal entity.

Capital requirement

The minimum share capital required is PLN5,000. Contributions in cash or in kind are possible but these must be paid up before registration.

Company charter

The rights powers, duties and obligations conferred to the company, the board of directors and its shareholders are indicated in the company’s articles of association. These must be written in Polish.

The articles of association must contain:

- The company name and registered office
- The object of the company’s activity
- The duration of the company
- The amount of share capital and whether a shareholder is permitted to hold more than one share
- The number and nominal value of shares subscribed for by each shareholder

Management

The Sp. z o.o. is managed by the shareholders meeting and the management board. The management board (or board of directors) is appointed by the shareholders for a one year term and can comprise resident and non-resident individuals. A supervisory board or audit committee are optional, unless the limited liability company has a share capital exceeding PLN500,000 and there are more than 25 shareholders.

Filing requirements

Every company registered in Poland must maintain proper records and files at the company’s office. These comprise the relevant licenses, certificates, account ledgers, financial statements and information of the directors, the company secretary and shareholders. As a matter of principle, all entities having their registered office or principal place of business in Poland must keep accounting records and file financial statements on an annual basis.
Joint-stock company – ‘Spółka akcyjna’ (S.A.)
The S.A. is a limited liability company that has its own legal personality. It can be founded by one or more members; however, a limited liability company with one shareholder cannot be the sole founding member of a joint-stock company.

The S.A. is formed as follows:

- The founding members sign the company’s statute in a notarised form
- Make the payments for shares in accordance with the law
- Appoint the management board and supervisory board
- Register the company with the Register of Entrepreneurs (part of the National Court Register)

The minimum share capital required is PLN100,000; contributions in cash or in kind are possible.

The management of the S.A. comprises the shareholders meeting, the management board and the supervisory board.

Registered partnership – ‘Spółka jawna’ (Sp. j.)
The Sp. j. is a partnership with no legal personality whereby each partner is personally responsible for the partnership’s liabilities with all their assets, jointly and severally with other partners and the partnership.

To form the Sp. j., the deed of a registered partnership does not need to be prepared by a public notary but it must be registered with the Register of Entrepreneurs in the National Court Register.

Professional partnership – ‘Spółka partnerska’ (Sp. p.)
A professional partnership is established by partners for the purpose of performing a profession and thus it is available only to “free professions”, eg architects, civil engineers, chartered accountants, insurance brokers, tax advisors, auditors, doctors, etc. Only natural persons entitled to exercise the “free professions” defined by the laws can be partners in the Sp. p.

The Sp. p. has no legal personality and each partner is liable only for obligations arising from activities conducted and for the actions of people working for the partnership under his/her management. A professional partnership agreement must be concluded in writing and the partnerships must then be registered with the National Court Register. Each partner is entitled to represent the partnership independently, unless stipulated otherwise in the articles of association.

Limited partnership – ‘Spółka komandytowa’ (Sp. k.)
The Sp. k. comprises two types of partners: limited partners whose liability is limited to their respective contributions and general partners who have joint and several liability with the other general partners, and the partnership itself, for the partnership’s debts up to the value of all their assets.

To form a limited partnership, the deed must be prepared by a public notary and the partnership must then be registered with the Register of Entrepreneurs in the National Court Register.

Limited joint-stock partnership – ‘Spółka komandytowo-akcyjna’ (S.K.A.)
The S.K.A. is a hybrid of a joint stock company and a limited partnership. Within the partnership there are two types of partners: a general partner, whose liability for all the obligations of the partnership is unlimited and a shareholder, who is not liable for the obligations of the partnership but is obliged to acquire and pay up the shares.

The minimum capital contribution to the partnership is PLN50,000.

The deed of a limited joint-stock company must be prepared by a public notary and the partnership has to be registered with the National Court Register.

Branch and representative office
Under the terms of the Act on Freedom of Economic Activity, foreign investors may use the following forms of business entity: branch and representative office.

Branch office – ‘Oddział’
The branch office has no legal personality and in legal terms is a part of the foreign company. It may only conduct activities within the scope of business of the foreign investor. Branch offices must be registered with the Register of Entrepreneurs in the National Court Register under the name of the foreign company, with the addition of “branch in Poland”.

The branch office is obliged to keep accounting books that should include all the data necessary to establish the taxable base. The foreign company pays corporate income tax at the standard rate of 19 per cent on the basis of income attributable to the operations of the Polish branch.

Representative office – ‘Przedstawicielstwo’
Foreign entrepreneurs may also establish representative offices in Poland.

The activities of representative offices are strictly limited to the advertisement and promotion of their foreign business. The representative office must be registered in the register of representative offices which is held by the Ministry of Economy. The representative office may employ Polish and foreign nationals.
Taxation in Poland is levied by both the federal and regional governments. The major taxes that affect foreign investors include:

- Corporate Income Tax
- Personal Income Tax
- Value Added Tax
- Tax on Civil Law Transactions
- Excise Duty
- Real Estate Tax
- Bank levy

Corporate Income Tax (CIT) Scope
CIT is governed by the Corporate Income Tax Act, hereinafter referred to as the CIT Act. The current rate of tax amounts to 19 per cent.

CIT is imposed on the following taxpayers:

- Legal persons (in particular capital companies and capital companies in the organisation phase)
- Organisational units without legal personality (other than partnerships)
- Other entities, such as:
  - Limited joint-stock partnerships with their seat or management located in Poland
  - Partnerships without legal personality, which have their registered office or management in another state, where, under the respective foreign tax regime, they are treated as legal persons and are subject to taxation on their worldwide income in that state

Partnerships (apart from limited joint-stock partnership) registered in Poland are not subject to CIT. Income earned by a partnership is allocated to the partners and subject to taxation at the partner level.

Taxpayers having a registered office or place of management in Poland are subject to taxation on all their worldwide income, irrespective of where it is earned (unlimited tax liability). Taxpayers, whose registered office or place of management is outside Poland, are subject to taxation only in respect to income earned in Poland (limited tax liability).

Taxable Income
Taxable income is defined as the difference between total revenue and deductible expenditures. Income generally includes all revenue from sales, provision of services and additional profits acquired from business activities. Dividends, interest, royalties and rent are all included in taxable income. Specific rules apply to non-resident taxpayers.

The Polish CIT Act does not include a definition of revenues. Taxable revenues are generated from various sources and include:

- Received money, monetary values, including foreign exchange differences, revenues due from sales
- Value of things or rights received free of charge or partially free of charge
- Value of liabilities redeemed or expired

Taxable revenues of business entities are usually recognised on an accrual basis, which means that revenue shall be recognised as taxable on the day of releasing things, selling property rights, performing the service in whole or in part.

Taxpayers are allowed to deduct from their taxable income such reasonable and deductible business expenses as provided under law.
In general, business expenses are deductible if the expenses actually arise from, and relate to, the business income of the enterprise. Taxpayers must keep documentation of all expenses.

At the same time, the provisions of the CIT Act identify various types of expenses which are not tax-deductible, for instance: client entertainment costs, donations, part of depreciation charges on expensive cars, certain contractual and administrative penalties and duties. Donations to public benefit organisations and religious institutions are deductible from taxable income, up to ten per cent of the annual tax base.

If the taxpayer’s business is partially exempt from CIT or out of scope of CIT Act regulations, then appropriate allocation of costs to the activity charged with CIT and exemptions may be necessary. In case of expenditures which are linked with the general activity of the company, partial deduction of tax deductible expenses may be necessary.

Depreciation

Tangible fixed assets (including machines, equipment, buildings and structures) as well as intangible fixed assets (e.g. licences, copyrights, rights to inventions and patents) which are used by the taxpayer for the purposes of their business activity with anticipated useful life exceeding one year are subject to depreciation/amortisation.

Since maximum tax depreciation rates are fixed by the CIT Act, tax depreciation rates often differ from the depreciation rates applied for accounting purposes.

Taxpayers who started operating in a given tax year can recognise one-time depreciation charges on the whole initial value of tangible assets, up to an amount not exceeding the equivalent of EUR 50,000.

Land and perpetual usufruct are not depreciated for tax purposes.

Tax year

In principle, the tax year is the calendar year. However, taxpayers can choose a different period, provided that the tax year comprises a period of 12 consecutive calendar months. The taxpayer must notify the head of a competent tax office if selecting a tax year other than the calendar year within 30 days after commencing of the tax year. The tax year should also be declared in the articles of association of the company.

During the course of the year, taxpayers are obliged to make monthly tax prepayments. Simplified tax prepayments are possible based on prior year tax due.

The annual CIT settlement (filing of CIT declaration and payment of tax due) must be completed before the end of the third month of the year following the tax year.

Groups

Tax capital groups can be created only by joint-stock companies or limited liability companies with their registered seat in Poland. A tax capital group is a single consolidated CIT taxpayer formed by separate companies. These companies have to conclude an agreement, in the form of a notarised deed, on the establishment of a tax capital group for a period of at least three tax years. The agreement should be registered with the head of the tax office. A number of additional requirements have to be met to establish a tax capital group.

A tax capital group is represented by one company which pays all income tax and income tax prepayments. All the companies in the tax capital group are jointly and severally liable for income tax liabilities due for the period of the agreement.

Thin capitalisation rules

Thin capitalisation limitations apply when loans are granted to a company by:

- A shareholder owning directly or indirectly at least 25 per cent of shares in the capital of the company
- Several shareholders jointly owning directly or indirectly at least 25 per cent of shares in the capital of the company
- Another company, in the case when the same entity owns directly or indirectly at least 25 per cent of shares of the lender and the borrower

Interest on loans falling under the above thin capitalisation restrictions is not deductible on the portion of the loan exceeding borrower’s equity (1:1 ratio).
Taxpayers may choose an alternative method for calculating the thin capitalisation limitation. The most important aspect of the alternative method is that it determines the limits of tax deductibility on loans granted by related and unrelated entities. The method is based on two thresholds:

- Total tax-deductible interest computed cannot exceed the tax value of assets (with certain eliminations) multiplied by the sum of the Polish central bank’s reference interest rate increased by 1.25 percentage points
- Total interest deductible in a given tax year may not exceed 50 per cent of the profit from operating activities. There are exceptions from this limit for certain types of taxpayers, eg banks. Interest determined in line with first threshold which could not be deducted in a given tax year due to these thresholds may as a rule be deducted in any of the following five consecutive tax years, subject to the limitations defined in the CIT Act

In order to apply the alternative method, the taxpayer has to notify the head of the tax office by the end of the first month of the tax year. The method has to be applied for a period of at least three consecutive tax years.

**Losses**
Losses can be offset against the taxable income of future years. Tax losses are available to carry forward consecutively for a maximum period of five tax years before they expire. However, maximum deduction using tax loss carried forward cannot exceed 50 per cent of this tax loss in any single tax year.

**Withholding tax**
Withholding tax is charged on the following types of income:

- Dividends paid to a non-resident – 19 per cent
- Royalties and selected service fees paid to a non-resident – 20 per cent
- Interest paid to a non-resident – 20 per cent

These rates may be subject to a reduction under applicable double tax treaties.

Furthermore, Poland has implemented the provisions of the EU Directives on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States.

Income tax exemption applies to dividends, interest and royalty and selected service payments paid by Polish companies to other Polish companies or foreign companies with their registered seats in the EU/EEA if:

- Certain shareholding conditions are met
- The dividend payment had a “real and genuine character” and its only purpose is not obtaining withholding tax exemption

The basic document required to apply reductions or exemptions from withholding tax is a certificate of tax residence of the recipient. Additional documents (as statements of beneficiary of interest, royalties and dividends) may be required depending on specific details of a given transaction.

**Transfer pricing**
Polish regulations on related party transactions are based on the OECD Guidelines for multinational enterprises and tax administrations. The key principle is that enterprises concluding related party transactions, including agreements of a partnership without legal personality, joint undertaking and similar agreements, transactions between a Polish entity and its foreign permanent establishment, should establish prices in line with the arm’s length principle. Otherwise, tax authorities are authorised to assess the income based on arm’s length principle.

Upon request of the tax authorities, taxpayers are obliged to provide transfer pricing documentation within seven days of the request. If the taxpayer does not present the transfer pricing documentation and the arm’s length character of the transaction is successfully challenged, tax authorities will have the right to apply a 50 per cent penalty tax rate on the increased income or decreased tax loss.

The transfer pricing documentation should include inter alia information on the functions to be fulfilled by the entities participating in the transactions, inherent risks, assets employed, method and way of profit calculation, as well as the determination of the transaction price.

The obligation to prepare tax documentation applies to transactions of which the total amount in the tax year exceeds:

- EUR100,000 – if the value of the transaction does not exceed 20 per cent of the share capital
- EUR30,000 – with respect to services, sale or use of intangible assets
- EUR50,000 – in all other cases, including:
  - Entering into agreements of partnership without legal personality (EUR50,000 threshold relates to value of contribution of partners)
  - Joint undertaking and similar agreements (EUR50,000 threshold relates to the value of undertaking/agreement determined by relevant contract)
• EUR20,000 – in the case of payments made for the benefit of entities located in countries treated by Polish law as “tax havens”, as well as in the case of a conclusion agreement of partnership without legal personality, joint undertaking and similar agreements when one of the partners is an entity located in the “tax haven” jurisdiction

Taxpayers have the right to conclude unilateral, bilateral or multilateral advance pricing agreements which confirm the correct choice and application of the transfer pricing methodology. The decision on the agreement is issued by the Minister of Finance and there is an administrative charge due. The decision is binding for a period of up to five years.

Additionally, capital groups in which:

• The dominant company is located in Poland and consolidates financial statements of the group in line with Polish Accountancy Act
• Consolidated revenues exceed EUR750,000,000
• They have a permanent establishment or subsidiary in another country

are obliged to submit information on the profits and tax paid per tax jurisdictions where their subsidiaries and permanent establishments operate (Country-by-Country Report).

Controlled foreign companies (CFC)
As of 1 January 2015, Poland introduced legislation relating to CFC. Polish taxpayers are obliged to charge corporate tax at 19 per cent on income generated by their controlled foreign companies.

CFC restrictions are applicable if the following conditions are met by a foreign subsidiary:

• The foreign subsidiary has its registered seat in a “tax haven” (tax haven jurisdictions are determined by the Minister of Finance in decrees)
• The foreign subsidiary has its registered seat in a country other than a “tax haven”, but in a country with which Poland / EU has not concluded an international tax treaty which could be the basis for exchange of tax information
• The foreign subsidiary meets all of the following conditions:
  – the Polish taxpayer has possessed directly or indirectly at least 25 per cent of equity, voting rights or rights to participate in profits, for an uninterrupted period no shorter than 30 days
  – at least 50 per cent of revenues of the foreign subsidiary in the tax year is generated from dividends, other incomes from the share in profits of legal persons, revenues from the disposal of shares, receivables, interest and similar fees, financial instruments, royalties etc, and at least one of the sources stipulated herein is taxable in the country of the subsidiary with a rate lower than 14.25 per cent (ie 25 per cent less than standard Polish CIT rate of 19 per cent). Exceptions exist to the above general rule

CFC regulations are not applicable if:

• The foreign subsidiary is taxable on its worldwide income in one of the Member States of the EU/EEA, but its income does not exceed 10 per cent of revenues on actual business activity under the condition that a legal basis (eg an international agreement) exists allowing the obtainment of tax information from the country where the foreign subsidiary is taxable on its worldwide income.

The basis for taxation constitutes the part of income of the foreign controlled subsidiary generated in the period during which the Polish shareholder kept at least a 25 per cent shareholding, in the amount reflecting the share in the profits of the subsidiary allocated to the taxpayer after the deduction of:

• Dividends received by the taxpayer from the foreign controlled subsidiary
• Revenues resulting from the sale of shares in the foreign controlled subsidiary

The taxpayer is entitled to a proportional deduction of part of the income tax paid abroad from the Polish tax due calculated according to CFC regulations.

Tax incentives
The Polish CIT Act includes provisions for tax incentives. The most commonly used tax reliefs relate to:

Exemption relating to operations in a Special Economic Zone (SEZ)
Income from operations in SEZs is exempt from corporate tax provided that the conditions stipulated by special permits obtained by the taxpayer are met. The amount of tax credit granted in relation to operations in a SEZ depends inter alia on the amount of money invested, location and size of the enterprise.
R&D Activities
The Amendments to Certain Acts Related to Supporting Innovation Act, which came into force on 1 January 2016, introduces a new tax relief for R&D activities. The tax relief allows taxpayers to deduct certain qualified expenditures incurred for R&D activities from the taxable base. Deductions may be made up to certain limits, depending on the type of activity/taxpayer:

- Employment costs (wages and employer’s social contributions): up to 30 per cent
- Other qualified expenditures (as for example: purchase of services and materials directly linked with R&D activity, expertise, advice, results of scientific research, lease of certain science and research equipment, depreciation): up to 20 per cent for SMEs and up to 10 per cent for large enterprises

Personal Income Tax (PIT)
PIT is regulated by the Personal Income Tax Act.

Individuals liable to tax
Taxation in Poland depends upon the residence status of the individual; non-residents pay tax only on Polish-sourced income, while residents pay tax on their worldwide income.

An individual is considered resident in Poland if:
- He/she has his/her centre of personal or business interests in Poland; or
- He/she stays in Poland for more than 183 days in a tax year

This, however, may be different if a relevant double tax treaty states otherwise.

As a general rule, individuals in Poland are subject to income tax calculated on the basis of a progressive tax rates (18 – 32 per cent). However, there are some exceptions to this rule.

Taxable income
PIT is levied on a broad scope of income that includes the following categories of income: employment income, investment income, rent income, capital gains, director’s fees, and other sources of income.

Employment income
Taxable employment income includes all wages, salaries, overtime pay, bonuses, gratuities, benefits in kind, etc. Remuneration for work carried out in Poland is treated as Polish-sourced income (irrespective of the employer’s location) unless a respective double tax treaty is applied. Employment income is grouped together and taxed at the progressive tax rates.

Investment income
For individuals, investment income (dividends, interest) is generally subject to a special tax regime and taxed at a flat rate of 19 per cent unless specifically exempt. According to most double tax treaties between Poland and other states, withholding tax (WHT) paid abroad may be credited against Polish tax.

Capital gains
Generally, gains on the disposal of investment assets are subject to a special tax regime. They are filed on a separate tax return and taxed at a special flat rate of 19 per cent unless specifically exempt.

Tax deductibles
Donations to public benefit organisations and religious institutions are deductible, up to six per cent of the annual tax base for a taxpayer. Tax relief is also available for parents bringing up children.

<table>
<thead>
<tr>
<th>Taxable income over (PLN)</th>
<th>Taxable income up to (PLN)</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>85,528.00</td>
<td>18 per cent less PLN556.02*</td>
</tr>
<tr>
<td>85,528.00</td>
<td>14,839.02 plus 32 per cent of excess over 85,528.0**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 1,440.0 according to the planned changes in the law that might apply retrospectively from 1 January 2016
** 13,955.04 according to the planned changes in the law that might apply retrospectively from 1 January 2016

Individual responsibilities in relation to Polish Personal Income Tax
The tax year for individuals is the calendar year.

In specific cases, advance payments should be made during the year. Employers are obliged to:

- Calculate, declare and remit advance payments at 18 per cent or 32 per cent tax rates
- Complete the annual tax return for employees who opt for it
- Prepare information about the income derived if the employee submits their own tax return

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Employees receiving remuneration directly from abroad are obliged to pay Personal Income Tax advances themselves, as well as submit annual tax return and settle their annual tax due.

Tax returns
An individual should submit the annual tax return no later than 30 April of the year following a given tax year (or, for non-residents, before leaving Poland if it occurs earlier).

Married couples may file a joint return if they are tax resident in Poland and they have been married the entire tax year and marital community property regime was in force during the entire tax year (this scheme is also applicable for non-residents from an EEA country that derive at least 75 per cent of their global income in Poland). A joint tax return may also apply to single parents with child dependants. The joint tax return offers substantial tax savings if the other person (spouse or child dependant) does not receive any taxable income or if the income is low.

The Personal Income Tax Act does not apply to revenues subject to the provisions on tax on inheritance and donations, actions that cannot be subject of a legally binding agreement or revenues subject to tonnage tax and selected other types of income.

Special exemptions pursuant to double tax treaties (DTTs)
Under the DTTs based on the OECD Model Convention signed by Poland, if all of the following three conditions are met, the salary of an employee will not be taxed in Poland:

• An employee does not stay in Poland for more than 183 days in total during a twelve-month period starting or ending in a given tax year (rolling months)
• The remuneration is paid by the employer who has a place of residence or seat outside Poland
• The remuneration cost is not borne by the employer’s permanent establishment in Poland

If any of the above conditions are not met, the employee’s salary is taxed in Poland.

Value Added Tax (VAT)
Poland’s VAT regime complies with the EU VAT regime. In principle, VAT is levied on certain taxable activities (supply of goods, provision of services, exports of goods, imports of goods and intra-community acquisition and supply of goods).

The following activities are not subject to VAT:

• Transactions involving the disposal of an enterprise or an organised part of an enterprise
• Activities which cannot be the subject to a legally binding agreement

All entities carrying out business activity as defined under the Polish VAT Act shall be deemed taxpayers. Taxpayers include legal persons, organisational units without legal personality and sole proprietors, irrespective of the purpose or effects of their activities.

VAT administration
Before engaging in any activity subject to VAT, taxpayers are obliged to apply for registration to the head of a competent tax office. Taxpayers whose scope of activity will cover intra-community transactions shall include this intention in their application.

Taxpayers without a registered office, permanent place of business or place of residence in a member state of the European Union, if required to register as “active VAT taxpayers”, are obliged to appoint a tax representative. The taxpayer and tax representative are jointly and severally liable for tax liabilities that the tax representative settles for the taxpayer.

Taxpayers are obliged to submit VAT returns on a monthly or quarterly basis. Returns may be submitted electronically.

Taxpayers making intra-community transactions are obliged to submit EC Sales Lists reporting intra-community supply of goods, intra-community acquisitions of goods, triangular transactions as well as supply of services to which the reverse charge mechanism is applicable. The EC Sales Lists are submitted as a general rule for monthly periods, but if certain thresholds are not exceeded they may be submitted on a quarterly basis.

Additionally, taxpayers may be obliged to draw up INTRASTAT information for intra-community goods transactions, on a monthly basis.

Applicable rates
At present, the standard VAT rate is 23 per cent. Additionally, there are reduced rates of eight per cent, five per cent and zero per cent and the exempt rate.

The reduced eight per cent rate applies to supplies of certain foods and beverages, medical accessories and equipment, supplies and services related to residential building, accommodation services and passenger transportation, as well as selected other services.

The reduced five per cent rate may be applied inter alia to unprocessed food and beverages, books and specialist magazines.

The zero per cent VAT rate is applicable, among others, to
exports of goods or on the intra-community supply of goods.

VAT exempt services include financial services (with exceptions) and medical and educational services.

**Deduction of VAT**
Input VAT on purchases of goods and services can be deducted from output VAT arising from sales invoices issued by the taxpayer during the reference period. The right to deduct input VAT is conditional on the use of goods and services purchased for the purposes of activities subject to taxation. If a taxpayer performs both taxable and tax-exempt activities, then it is obliged to assign the expenditures to the particular activities, and where it is not able to assign the expenditure, to apply a pro-rata VAT deduction.

**Refund of VAT**
If input VAT for the reference period exceeds the amount of output VAT, the taxpayer has the right to reduce output VAT in subsequent periods to recover the amount, or to be reimbursed into their bank account.

The basic period for a refund of the surplus input VAT is 60 days. Subject to certain requirements, surplus VAT may be refunded within 25 days.

If a taxpayer didn’t perform any taxable activity during a reference period, they can receive a refund of input VAT within 180 days upon a justified request.

**Other Taxes**

**Tax on Civil Law Transactions (Stamp Duty)**
This tax is levied on certain civil law transactions (eg sales, loans, establishment of company and increase of share capital), amendments to any civil law transactions if they increase the tax base, and decisions of courts and settlements, if they have the same legal effect as a civil law transaction subject to taxation.

The main tax rates are two per cent (eg sale of real estate, things), one per cent (sale of other property rights) and 0.5 per cent (increase of share capital).

In principle, the tax base equals the market value of an object or property right subject to the civil law transaction.

There are a number of exemptions from the tax on civil law transactions, for example a contract of the sale of shares or stock in a joint-stock company made through investment companies or foreign investment companies and on an organised market (stock exchange). Also, most of transactions subject to VAT are outside the scope of this tax.

**Excise duty**
Polish excise duty legislation is generally in line with the provisions adopted in the European Union. Excise duty is payable on excisable goods and passenger cars. Excisable goods are: energy products, electric energy, alcohol and alcoholic beverages and tobacco.

Excise duty is charged on: production of excisable goods, entry of excisable goods to an excise warehouse, imports of excisable goods and intra-Community acquisition of excisable goods, as well as other events or factual states defined by the law, including losses in excisable goods and certain cases of use of excisable goods.

**Bank levy**
Banks and insurers must pay a rate of 0.44 per cent on their assets annually.
Labour

The primary source of legislation regulating employment relations in Poland is the Labour Code. It is accompanied by secondary legislation which includes ordinances stipulating detailed rules of conduct in specific employment situations and a range of special regulations.

Key issues regulated by the Labour Code include:

- Types of employment contracts that may be concluded with employees (indefinite/definite term, probation, replacement, time needed to perform a specific task)
- General rules on the payment of remuneration
- Rights and obligations of contracting parties, working hours, paid leave entitlements
- Entitlements related to parenthood
- Issues related to occupational health and safety
- Employment of minors
- Anti-discrimination provisions

Employment contract

Employment contracts may take the form of a permanent contract or a fixed-term contract.

Both types of contract can be preceded by an employment contract for a trial period of no more than three months.

Once a fourth subsequent fixed-term contract is signed, it is deemed to have become an indefinite term contract. Furthermore, planned changes to employment regulations under fixed term contracts will limit such contracts to 33 months / four consecutive agreements.

An employment contract is concluded in writing and should be signed no later than on the day the employee starts working. If no contract is signed, then the employee should be provided with written confirmation of the contract conditions on the day he starts work at the latest. The contract must specify:

- The parties to the contract
- Employment contract execution date
- The type of employment contract
- Work commencement date
- Type of work
- Place of work
- Wage
- Type of work time

Within seven days of the execution of the employment contract, the employer must also provide the following information to the employee: daily and weekly working hours, frequency of wage payments, holiday entitlement and notice period.
Any changes in employment contract conditions should also be made in writing. The employer should include additional written information about certain engagement terms to the employment contract. Labour Code provisions set out the regulations that should be included in the employment contract and in the additional written information.

**Minimum wage**
The minimum wage rate is decided every year by the Trilateral Commission for Socio-Economic Affairs. The prime minister announces it by 15 September of every year in Monitor Polski.

The state policy on pay, especially the institution of the minimum wage, is there to ensure that one of the key principles of labour law, ie fair pay, is implemented. From 1 January 2016, the minimum monthly wage in was fixed at PLN1,850.

Pursuant to Art. 6 section 2 Minimum Wage Act of 10 October 2002 (Journal of Laws no 200, item 1679 as amended), an employee’s remuneration may only be lower than the minimum wage in their first year of employment and in this case may amount to 80 per cent of the minimum wage.

When calculating the minimum wage, the following components of remuneration are not taken into account:

- Service anniversary award
- Retirement allowance
- Overtime pay

According to Art. 8.1 Minimum Wage Act, if an employee works part-time, the minimum pay applies proportionately to the number of working hours to be completed by the employee in a given month, using the statutory minimum wage as a base.

If, in any given month, a full-time employee were to be paid less than the minimum wage, due to the payment dates of certain pay components or distribution of working hours, then the employer must increase the remuneration so that it is not lower than the minimum wage in a given year.

Apart from its main function, the minimum wage is an important parameter used to determine other employment benefits, such as:

- Night work allowance
- Severance pay due to collective redundancies
- Minimum compensation due to the infringement of the equal treatment in employment principle
- Compensation due to termination of employment related to harassment
- Minimum standby pay
- Minimum benefits base

If the minimum pay increases, so do the following:

- Amount exempt from deductions
- Labour costs
- Social security contributions paid by employers on preferential terms
- Night work allowance
- Minimum incapacity benefit

**Working time and leave**
The statutory maximum working hours in Poland are:

- Eight hours a day
- 40 hours in a five-day working week, over a reference period of no more than four months
- Including overtime, the working hours in any adopted reference period may not exceed 48 hours a week (this limit does not apply to managers of the establishment)

Secondary legislation provides for groups of employees to whom reduced working hours apply (eg employees with disabilities or healthcare employees).

**Holiday leave**
All employees are entitled to an annual unbroken paid holiday leave. An employee who is just starting his working life attains the right, in the calendar year in which the work starts, to holiday leave with every month that passes of 1/12 of the total vacation to which employee is entitled after one year of work. An employee gains the right to the next holiday leave in each subsequent calendar year.

Vacation entitlement is as follows:

- 20 days – if the employee has been working for less than 10 years
- 26 days – if the employee has been working for at least 10 years

Employee entitlements contained in the generally applicable labour legislation are the minimum entitlements.

The employer may set a higher minimum leave entitlement within internal company labour law.

In the case of a worker employed in part-time employment or part of the year, his holiday entitlement is calculated proportionally (respectively to the working time or period of employment with the employer during the year).

The working period on which vacation entitlement depends includes time spent in education, depending on the type of school finished, eg:

- Basic vocational school – length of course but not more than three years
• Secondary vocational school – length of course but not more than five years
• Secondary school of general education – four years
• Vocational college – six years
• Higher education institution – eight years

The above periods cannot be added together.

Additional leave entitlements
The employer is obliged to grant an employee a leave of absence in the following circumstances:

• Two days – on their marriage or birth of their child, or death and burial of the employee’s spouse or child, father, mother, stepfather or stepmother
• One day – on the marriage of the employee’s child or death and burial of the employee’s sister, brother, mother-in-law, father-in-law, grandmother, grandfather, as well as any other person who is the employee’s dependant or under their direct care
• In other situations provided for under labour law

Parental leave
On 2 January 2016, new legislation related to parental leave was enacted.

<table>
<thead>
<tr>
<th>Maternity Leave</th>
<th>Parental Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>One child</td>
<td>More than one child</td>
</tr>
<tr>
<td>20 weeks</td>
<td>31-37 weeks</td>
</tr>
</tbody>
</table>

A person who has worked at least six months overall is also entitled to unpaid parental leave of 36 months, of which one month is dedicated to the other parent. The leave may also be used in up to five parts, until the end of the calendar year when the child is six years old.

Social security
The national social insurance system in Poland is comprised of several elements, including:

• Retirement insurance, which is used for old-age pensions and to cover insufficient funds to pay out capital pensions
• Disability insurance, which is used towards:
  – Disability allowance, training allowance, survivor’s pension, supplements to survivor’s pensions for orphans, carer’s allowance
  – Old-age pensions granted by official decision instead of disability allowance
  – Funeral allowance
  – Back-to-work schemes
  – Benefits to be paid by the Social Insurance Institution (ZUS) which are subject to financing from the state budget
• Sickness insurance, which is used towards:
  – Sick pay
  – Maternity pay
  – Attendance allowance
  – Compensation benefit
  – Rehabilitation benefit

A person who has worked at least six months overall is also entitled to unpaid parental leave of 36 months, of which one month is dedicated to the other parent.
• Accident insurance, which is used towards:
  – Industrial injury pension and pension supplements
  – One-off compensation
  – Sick pay, due to incapacity for work caused by an industrial injury or occupational disease
• Health insurance, which is used to pay for the costs of primary healthcare and hospital treatment
• Labour fund, which is used towards mitigation measures of the effects of unemployment, ie:
  – Unemployment benefit
  – Subsidised employment
  – Public works
  – Training and retraining of the unemployed
  – Development of careers guidance
  – Development of IT systems and labour market research
• Guaranteed employee benefits fund, whose objective is to protect employees against loss of remuneration due to employer insolvency. Used to satisfy claims related to job remuneration and other contractual remuneration components

Social insurance contributions are deducted from wages and amount to:

<table>
<thead>
<tr>
<th>Type of insurance</th>
<th>Rate (%)</th>
<th>Rate payable by the employee (%)</th>
<th>Rate payable by the employer (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement</td>
<td>19.52</td>
<td>9.76</td>
<td>9.76</td>
</tr>
<tr>
<td>Disability</td>
<td>8.00</td>
<td>1.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Sickness</td>
<td>2.45</td>
<td>2.45</td>
<td></td>
</tr>
<tr>
<td>Accident</td>
<td>0.67-3.80</td>
<td>-</td>
<td>0.67-3.80*</td>
</tr>
<tr>
<td>Health</td>
<td>9</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Labour Fund</td>
<td>2.45</td>
<td></td>
<td>2.45</td>
</tr>
<tr>
<td>Guaranteed Employee Benefits Fund</td>
<td>0.10</td>
<td>-</td>
<td>0.10</td>
</tr>
</tbody>
</table>

*The accident insurance rate varies for individual contribution payers (employers) and is determined depending on the level of occupational risk and its potential consequences.

Probation
Probationary periods vary depending on the type of employment contract concluded. However all contracts are subject to a maximum probationary period of three months. As from 22 February 2016, it will be possible to conclude more than one probationary contract if the type of work changes. For the same type of work it will be possible to repeat the probationary contract but only after three years from termination or expiration of the previous employment.

Dismissal
Under Polish labour law, termination of employment can only take place in the following situations:

Agreement between the parties – may be used to terminate any contract and it makes no difference which party takes the initiative. This means that any contract of employment with any employee may be terminated in this way, even if the employee enjoys special protection against dismissal. This includes pregnant women or employees on maternity leave, workers close to retirement age, etc. The sole condition is that the parties agree about the timing and conditions of termination.

Notice of termination – a contract is terminated with notice when either the employer or employee notifies the other party that he intends to terminate the work relationship with notice. The employment contract is then terminated at the end of a specified period, ie at the end of the notice period. An employment contract can only be terminated by the employer if the conditions set out in the Labour Code have been met. One of these is that the employer has to give specific, genuine reasons for the termination.

Notice periods
The length of the notice period depends on the type of contract and the position held by the employee. During the notice period, the employee is entitled to receive his normal salary.

• Employment contract for a trial period
  – Three working days, if the contract is concluded for not more than two weeks
  – One week, if the contract is concluded for more than two weeks but less than three months
  – Two weeks, if the trial period is three months

• Employment contract for an indefinite term
  – Two weeks, if the employee has worked for the employer for not more than six months
  – One month, if the employee has worked for the employer for at least six months but less than three years
– Three months, if the employee has worked for the employer for at least three years

- Employment contract for a fixed term – two weeks, but on the condition that the contract was concluded for at least six months and the parties stated clearly in the contract that it could be terminated with notice – as from 22 February 2016, notice periods for all definite term contracts (including replacement/substitution) will be the same as for indefinite term contracts (depending on employee’s duration of service in the company)

Notice of changes
Notice of changes to work conditions or pay make it possible for the employer to change – under rules specified in the Labour Code – engagement conditions in the employment contract to conditions less favourable to the employee. Employment contract notice provisions apply to notices of changes to work conditions or pay. This means, among other things, that the employer should give reasons for the change. A notice of change can also lead to the termination of the employment contract should the employee not accept the proposed new conditions.

Termination without notice
An employment contract can be terminated without notice, with immediate effect, by the employer as well as the employee, in the presence of circumstances provided for in labour law. These circumstances may be due to the fault of the employee (termination for cause, eg in disciplinary action) or for reasons beyond their control (eg long-term absence).

A written declaration of will to terminate the employment contract without notice does not mean that the relationship of employment no longer applies. Instead, it takes effect as of the date the declaration is effectively received by the addressee in such a way as to enable them to properly read its contents.

The employer may not terminate the contract for cause if a month has passed since they became aware of the circumstance underlying the termination.

An employment contract may not be terminated without notice for reasons beyond the employee’s control if the employee is absent due to providing child care.

Severance pay and compensation
Polish labour law provides for the following types of severance pay and compensation paid out to employees upon termination of employment:

- Severance pay upon retirement – paid out to employees who retire due to old age or disability. It is a one-off benefit and amounts to the equivalent of the employee’s single month’s pay
- Bereavement allowance – paid out to eligible family members if the contract expires due to the employee’s death. The amount depends on seniority with a given employer and can range from one month’s to six months’ pay
- Severance pay for employees laid off without cause (pursuant to the Collective Redundancy Act) – from one month to three months’ pay depending on seniority with a given employer
- Termination pay – amounting to one month’s pay in lieu of each month of the notice period if it is shortened unilaterally by the employer
- Compensation for wrongful termination – paid out following a court decision in the amount awarded by the court if the termination of an employment contract was unlawful (with or without notice)

Collective redundancy
Polish law provides for the special protection of employees where an employer with 20 employees or more needs to lay off 10 people or more within 30 days. There is a statutory procedure in place which requires that the employment office must be notified of collective redundancies so as to prepare the labour market for the resulting increase in unemployment.

Moreover, certain employee groups have been granted special protection rights due to their personal or occupational status, eg pregnant women and those on maternity leave, union activists, members of councils and organisations existing in the workplace whose main objective is the protection of workers’ rights. These protection rights include a total ban or restriction on contract termination. The law also provides for obligatory severance pay for laid off employees, the amount of which depends on the duration of
The right to organise trade unions is broadly guaranteed under the Polish Constitution.
The primary source of law on financial accounting and reporting is the Accounting Act of 29 September 1994. The Accounting Act specifies the procedure for auditing financial statements by certified auditors and the principles governing the provision of bookkeeping services. The Act has been amended to bring its provisions closer to the standards as set out in IFRS. The main changes to the Act were introduced in 2001 and came into force on 1 January 2002.

The Act is accompanied by regulations issued by the Polish Minister of Finance, with the most important including:

- Regulation on Accounting for Financial Instruments
- Regulation on the Preparation of Consolidated Financial Statements of Capital Groups

Moreover, the Minister of Finance has published separate regulations governing the accounting of banks, credit unions and investment funds.

**Accounting standards**

Business entities are obliged to comply with the adopted accounting principles in order to present a true and fair view of their assets, financial position and financial result. Events and transactions are recognised in accounting records and disclosed in the financial statements according to their economic substance. The adopted accounting principles should be applied in a consistent manner, with a uniform approach to grouping similar transactions in all periods and measuring assets and liabilities in such a way that the data reported in all years presented are comparable.

The accounting principles should include:

- Determination of the financial year
- Methods of measuring assets and liabilities and determining the financial result
- The accounting system (chart of accounts, list of accounting books, description of the data processing system)
- Data protection system (of accounting books and underlying documents)

Within the adopted accounting principles, businesses are allowed to apply simplifications, as long as they do not have a negative impact on the true and fair presentation of assets, financial standing and the financial result of the business.

Management of the entity bear the responsibility for the fulfilment of the requirements of the Accounting Act.

In matters not regulated by the Accounting Act, businesses may apply Polish National Accounting Standards issued by the Polish Accounting Standards Committee. Where there are no national standards, IFRS may be applied.

**IFRS**

Banks and public companies are obliged to produce IFRS-compliant consolidated financial statements. Their separate financial statements may be prepared under IFRS.

Moreover, separate and consolidated financial statements of entities that are part of a group in which the parent (Polish or foreign, public or otherwise) prepares IFRS-compliant consolidated statements may be prepared under IFRS. The decision is up to the approving body (supervisory board or general meeting of shareholders) of such entities.

Financial statements of branches of foreign enterprises may be IFRS-compliant if the foreign enterprise prepares financial statements in compliance with IFRS.

If a company intends to go public, it may elect to prepare its consolidated and separate financial statements under IFRS.

Preparing financial statements according to IFRS is otherwise
not allowed. The accounting principles stipulated in the Accounting Act apply.

Accounting records and financial statements
As a matter of principle, all entities having their registered office or principal place of business in Poland must keep accounting records. This also applies to branches and representative offices of foreign enterprises, but does not apply to partnerships whose total revenue and finance income does not exceed the equivalent of EUR1.2 million. The latter may comply with the provisions of the Accounting Act if they choose to do so.

The financial year is the calendar year or any other period of 12 consecutive calendar months. If the financial year is changed, the first year following the change shall be longer than 12 months. Businesses which start operations in the second half of their adopted financial year may combine the accounting books and financial statements for that period with those of the following year.

Accounting books must be kept in Polish and in Polish zloty.

As a matter of principle, accounting books should be kept by the entity, but the act provides for subcontracting this duty to a business authorised to provide bookkeeping services.

Accounting books, as well as most of the underlying documents, are to be stored for no less than five years.

Financial statements are prepared at the date of closure of the books of accounts and at another balance sheet date, in line with the principles for measurement of assets and liabilities and determining the financial result specified in the Accounting Act. Polish branches of foreign enterprises, too, are obliged to prepare financial statements.

Financial statements include:
- Balance sheet
- Profit and loss statement
- Statement of changes in equity
- Cash flow statement
- Notes

The Accounting Act specifies the applicable reporting templates as well as the minimum content of the notes.

Simplified financial statements
The Accounting Act defines a small entity and a micro-entity.

Small entities are business entities which in the year for which the financial statements are prepared and in the preceding year did not exceed at least two out of the three following figures:
- Total assets of PLN17 million at the end of the financial year
- Revenues of PLN34 million for the financial year
- Annual average employment of 50 FTEs

Micro-entities are business entities which in the year for which the financial statements are prepared and in the preceding year did not exceed at least two out of the three following figures:
- Total assets of PLN1.5 million at the end of the financial year
- Revenues of PLN3 million for the financial year
- Annual average employment of 50 FTEs

Micro-entities are business entities which in the year for which the financial statements are prepared and in the preceding year did not exceed at least two out of the three following figures:
- Total assets of PLN17 million at the end of the financial year
- Revenues of PLN34 million for the financial year
- Annual average employment of 50 FTEs

Groups
Consolidated annual financial statements of groups are prepared by parent entities which have their registered office or principal place of business in Poland. These statements include the data for the parent entity and its subsidiaries of all levels put together in such a way as if the group was a single entity.

The parent is not obliged to prepare consolidated financial statements if, in the year for which the financial statements are prepared and in the preceding year, the combined data of the parent and all its subsidiaries:

1. Before consolidation eliminations - did not exceed at least two out of the three following figures:
   - Total assets of PLN38.4 million at the end of the financial year
   - Revenues of PLN76.8 million for the financial year
   - Annual average employment of 250 FTEs

2. After consolidation eliminations - did not exceed at least two out of the three following figures:
   - Total assets of PLN32 million at the end of the financial year
   - Revenues of PLN64 million for the financial year
   - Annual average employment of 250 FTEs

A parent which is controlled by another entity does not have to prepare consolidated financial statements if:

- The immediate controlling entity holds 90 per cent or more shares of this parent and all the other shareholders of this parent consent
- The immediate controlling entity will prepare consolidated financial statements covering the parent and all of its subsidiaries
The parent does not have to produce consolidated financial statements either when all its subsidiaries are exempt from consolidation (e.g. they were acquired exclusively with a view to subsequent disposal or there are restrictions in exercising control over them, or their financial data is insignificant for the consolidated statements as a whole).

Most businesses are also obliged to produce a report on activities, which includes important information on their assets and financial standing, evaluation of their performance and description of threats and risk factors.

Financial statements and the report on activities are prepared in Polish and in Polish zloty.

The management and members of the supervisory board (or another supervisory body) are responsible for ensuring that the financial statements and the report on activities comply with the requirements stipulated in the Accounting Act.

Filing and submission of statutory financial statements

Financial statements are signed off by the person who prepared them and by management. If the management board is formed by more than one person, all of its members must sign the financial statements off. A refusal to sign requires written justification attached to the financial statements.

Annual financial statements must be duly approved by an approving body within six months of the balance sheet date. If the entity is subject to a statutory audit, its annual financial statements must be audited by a certified auditor prior to approval. Entities which are obliged to audit their annual financial statements may only distribute their net profit (cover their loss) after the certified auditor has expressed an (unqualified or qualified) opinion about those statements and after said statements have been approved by the approving body.

Annual financial statements are to be submitted to the court register within 15 days of approval.

In the case of public companies:

- Separate and consolidated quarterly reports are submitted no later than 45 days after quarter-end (and in the case of reports for the final quarter of a financial year – no later than within 60 days of that quarter-end)
- Separate and consolidated semi-annual statements are submitted no later than two months after half-year-end (reports are only submitted for the first half of the financial year)
- Separate and consolidated annual statements are submitted no later than four months after financial year-end

Approved annual financial statements must be stored indefinitely.

Audit requirements

Obligations for statutory audit are set out in the Accounting Act. The principles governing the performance of audit are provided for in the Certified Auditors Act. Moreover, certified auditors are obliged to comply with National Standards on Auditing, which are soon to be replaced by International Standards on Auditing. Audit activities are supervised by the Audit Oversight Commission.

Annual consolidated financial statements are subject to a mandatory statutory audit.

The obligation to audit separate annual financial statements applies to banks and insurance companies, credit unions, public companies, investment funds, retirement funds and joint-stock companies.

Other entities are subject to mandatory statutory audits if, in the year preceding the financial year for which the financial statements are prepared, at least two of the following criteria were met:

- Annual average employment of no less than 50 FTEs
- Total assets at the end of the financial year of no less than the equivalent of EUR2.5 million
- Revenues and finance income for the financial year amounted to no less than EUR5 million

Audits must be performed by a certified auditor and the certified auditor must express an opinion in writing on whether the financial statements comply with the accounting principles adopted by the entity and whether they provide a true and fair view of the audited entity’s assets, financial standing and its financial result.

Appointing the auditor is a prerogative of the body approving the entity’s financial statements, usually, the supervisory board or the general meeting of shareholders. The entity’s management board must not choose the auditor.

The contract for the audit engagement may only be terminated if there is a reasonable cause. Differences of opinion regarding the application of accounting principles or auditing standards between the entity and the auditor may not constitute grounds for terminating the contract. Every time a contract for audit (or review) engagement is terminated, the Audit Oversight Commission must be notified.

If a given audit (or review) of financial statements was performed in violation of the independence principle, it is invalid under the applicable law.
Trade

Foreign Direct Investment
With its low inflation rates and sustainable economic growth, Poland offers stable conditions for doing business. According to the National Bank of Poland data FDI stock equalled EUR171.7 billion at the end of 2014. In the World Investment Report, Poland was listed in the top 20 FDI receivers globally. In recent years, foreign investors’ interest has focused on industries such as automotive, consumer electronics and home appliances, IT, as well as business support services.

Poland’s government is supportive of FDI and has implemented a long-term strategy around supporting foreign businesses through financial grants and the creation of Special Economic Zones. Furthermore, it founded the Polish Information and Foreign Investment Agency (PAlilZ) to help improve conditions for FDI.

In general, the same investment rules apply to domestic, European and other entities. However, there are a few industries subject to investment restrictions. These include the mining sector, financial services sector and energy sector.

Government incentives
Poland offers a range of investment incentives to foreign investors. Key incentive measures include:

Government grants
Grants are given based on a bilateral agreement concluded between the investor and the Ministry of Economy in the form of a subsidy. The agreement specifies the terms that the investor must comply with for the subsidy to be paid out in line with the principle that the subsidy is paid out proportionately to the extent of compliance with contractual provisions. Support may be sought by companies planning investments in sectors of prime importance for the Polish economy:

- Aviation
- Automotive
- Electronics and home appliances
- Food processing
- Biotechnology
- Research and development (R&D)
- Modern services

Moreover, support may be offered to companies planning investments in other business sectors if they create 200 or more new jobs with a minimum investment outlay of PLN750 million, or if they create 500 or more new jobs with a minimum investment outlay of PLN500 million. The amount of the subsidy depends on such factors as the number of jobs created, location, business sector and the amount of investment outlay.

Investment incentives in Special Economic Zones
Special Economic Zones are designated geographic areas of Poland where business can be conducted under preferential conditions. The aim of Special Economic Zones is to promote growth in the least-developed areas of the European Union by supporting new investments and job creation. When launching a business in a Special Economic Zone, the entrepreneur may be eligible for the following incentives:

- Income tax exemption
- Real estate tax exemption
- Site prepared for investment purposes at a competitive price
- Free support covering formal aspects of the investment process.
The maximum amount of regional aid that may be provided to the entrepreneur depends on the investment outlay, cost of taking on new employees, location of the investment and size of the enterprise applying for tax exemption.

**European Union subsidies**

EU subsidies are earmarked as support measures for EU Member States economies. Subsidies are available for new investments or innovative undertakings. The amount of aid depends on the business sector in which the investment is planned, the amount of investment outlay and the location. Specific eligibility criteria and the funds available are announced in individual calls for proposals.

**Imports**

The majority of imports are generated by trade with EU Member States, with major partners including Germany, Italy, the Netherlands, France and the Czech Republic. In turn, key business partners from outside of the European Union are Russia and China, together accounting for some 20 per cent of all imports.

The European Union is a single trading area, this means that all goods (subject to narrow exceptions), whether made in an EU Member State or imported from outside, can circulate freely. Although Member States’ customs authorities have the right to check goods at the border, there is a unified customs law in the EU which removes all fees and barriers within the Union.

There is an external tariff for goods imported from outside the EU. While there are certain minor differences in interpretation and administration, the tariff was supposed to be applied and interpreted uniformly.

The Community Customs code contains all the general rules and procedures applicable to the trade of goods between EU and non-EU countries. The code is supplemented by a detailed Customs Regulation which is directly applicable in all Members States.

**Import restrictions**

As part of the EU, Poland enforces the following prohibition on imports: pirate or counterfeit items, certain chemical products, genetically modified organisms and restrictions on the importation of live animals and animal products.
Capital markets
The centre of Poland’s capital market is the Warsaw Stock Exchange, which is comprised of the regulated main market and the alternative stock market – NewConnect. In addition to the above, the capital market in Poland also includes a bond market – Catalyst.

The Warsaw Stock Exchange is the largest stock exchange in Central and Eastern Europe. It has a capitalisation of over one trillion zlotys. Alongside its capitalisation, the Warsaw Stock Exchange is also notable due to its high liquidity of shares and derivative instruments. The Warsaw Stock Exchange has also been a leading European exchange by the number of IPOs for several years.

The main market, designed for large caps, features more than 480 companies representing 23 business sectors, of which 50 are registered abroad. The listed companies make up indices which are defined on the basis of business size or business sector. The best known index is WIG20, which reflects the performance of the 20 top-listed companies. In turn, the NewConnect market is dedicated mainly to small caps. At present, there are 420 companies listed in this market, and its main index is NCIndex30.

The Catalyst bond market is used for trading in corporate, co-operative, municipal and Treasury debt instruments. As at December 2015, there were over 180 issuers with an issue value of PLN573.68 billion.

Banking system
The Polish banking system is made up of commercial banks, co-operative banks, branches of foreign banks and credit unions
These organisations focus mainly on domestic business and, consequently, the recent financial crisis did not have a significant impact on the Polish banking system compared to those of other EU Member States.

In recent years, increasing concentration in the banking sector has occurred. The five largest banks have increased their market share up to nearly 50 per cent in terms of assets, loans and deposits. Most commercial banks (approximately 60 per cent) are controlled by foreign investors, notably from Italy, Germany, the Netherlands and Spain.

Alongside commercial banks, there are 570 registered co-operative banks and their assets constitute nearly 10 per cent of the entire Polish banking system. Co-operative banks are organised in two associations – ‘Spółdzielcza Grupa Bankowa’ and ‘Bank Polskiej Spółdzielczości’. Within the framework of the banking system there are also nearly 1,900 credit unions (‘Spółdzielcza Kasa Oszczędnościowo-Kredytowa’) in operation, with 2.6 million members. Moreover, the banking system includes 17 branches of foreign banks and credit institutions, which mainly deal with international corporations.

**Insurance industry**

At present, there are 59 insurance providers operating in Poland. A large majority, ie 70 per cent of insurance companies, are foreign-owned. Shareholders are mainly from Austria, France and the Netherlands. The total assets of insurance companies in 2013 amounted to PLN168 billion, with PLN102 billion in life insurance, and PLN66 billion in property insurance.

The leader in the life insurance market is PZU Życie SA, with gross premiums written last year amounting to PLN8.8 billion, which translates into a market share of nearly 30 per cent. Following this, OPEN LIFE TU Życie S.A., holds a significant market share of eight per cent while TUnŻ Warta S.A., ING TUnŻ S.A. and AMPLICO LIFE S.A. hold approximately seven per cent of the market each.

With regards to non-life insurance, the market leader is PZU SA, which reported gross written premiums totalling PLN8.2 billion, which corresponds to more than 30 per cent of all premiums.

**Investment management industry**

Currently, there are 59 investment fund companies which manage almost 640 investment funds. The most common types of investment funds in Poland are debt, shares as well as cash and money market funds. They account for 90 per cent of all investment funds, with the largest among them being debt securities funds. They hold a market share of 30 per cent. Other funds include securitisation funds, real estate funds and capital protection funds.

The total amount of assets held by investment funds in Poland exceeds PLN224 billion, at the end of October 2015. The largest investment funds in Poland are PZU TFI and Pioneer Pekao TFI. Other important players in this market include: Ipopema TFI, PKO TFI, BZ WBK TFI, Skarbiec TFI and ING TFI. All the above-mentioned funds combined currently hold more than half of all the assets.

In recent years, the financial crisis has had a negative impact on the investment fund industry. In 2007, the fund industry reached a record high in assets under management, but in subsequent years, capital has declined. At present, investment fund companies have 2 million clients, and the total funds held are lower than before the crisis began.
Infrastructure

The overall quality and reliability of infrastructure is a critical factor for business across all sectors.

At the beginning of its economic transformation, Poland had relatively poorly developed public infrastructure, especially in terms of transport, which posed a serious obstacle to business development. In recent years, particularly since Poland joined the European Union and gained access to EU funds, the country has significantly caught up with Western Europe. Since EU accession, the Polish public finance sector has spent between PLN60 billion and PLN80 billion, i.e. EUR14-19 billion, a year on infrastructural investment projects. Key parts of Poland’s infrastructure include:

Roads
Road infrastructure projects account for the majority share of investment outlay in recent years. As of the end of October 2015, Poland had 3,049 km of roads for high-speed traffic, i.e. 1,553 km of motorways and 1,472 km of expressways, which corresponds to a threefold increase over a period of eight years. The current multi-annual government plan assumes that the road network will increase in the coming years by an extra 4.2 thousand kilometres, including approximately 500 km of motorways. Most of those projects are currently under development.

Air transport
Poland has also significantly expanded its air transport network in recent years. At present, there are 13 airports in operation nationwide, which handle over 27 million passengers a year in total. The country’s busiest airport is Warsaw Chopin Airport.

Railway
Rail transport continues to pose challenges to the government. While the railway network density is sufficient, the length of rail lines exceeds 19 thousand kilometres and there are over 1,600 railway stations, a considerable percentage of railway lines require renovation. Consequently, the maximum speed on many lines is low and travel times are long. Accordingly, the government is planning to invest EUR10.5 billion from EU funds on rail investments for the period 2014-20; one in eight euros that Poland receives will be earmarked for rail infrastructure. In December 2014 new Alstom Pendolino high-speed trains were put into service between Gdańsk, Warsaw and Kraków.

Electricity
While the electricity grid itself is quite well developed, business often struggle to connect to it for bureaucratic reasons. According to the World Bank’s Doing Business survey, the time needed to obtain an electricity connection to a warehouse in Poland takes an average of 133 days. As a result, Poland ranks 49th in the world in this respect.

Telecommunications
Due to large investment from the EU, Poland’s telecommunications services are undergoing rapid modernisation. Poland’s national broadband plan targets are fully harmonised with the targets set by the European Commission’s Digital Agenda for Europe (DAE). Poland’s national broadband plan foresees that 100 per cent of households and companies should have access to internet connectivity of which at least 30 Mbps by 2020 and 50 per cent of households and companies have access to internet connectivity of 100 Mbps by 2020. National broadband plans mainly focuses on promoting broadband investments and expansion through initiating regulatory measures.