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**Tax Alert No. 212/07.01.2021**



## **Abolition tax relief in 2021 – unfavourable changes for PIT tax payers**

The latest amendment to the PIT Act of November 28, 2020 limits the abolition tax relief.

### **1. What is abolition tax relief?**

Polish tax residents, who receive income for work performed abroad, as a rule, are obliged to declare a foreign income in Poland applying one of the following methods of avoiding double taxation:

- **Exemption with progression method** – the foreign income is exempt from taxation in Poland; but it maybe taken into account to determine the so-called effective tax rate applied to the other income taxed in Poland; the foreign income is not then taxed in Poland;
- **Tax credit method** – the foreign income is taxed in Poland and the tax payer has a right to deduct proportionally a foreign tax from the Polish tax determined on the total income. This method is generally considered less favourable to taxpayers.

The abolition tax relief introduced several years ago was aimed at equalising the tax situation of taxpayers who gain income in countries with the unfavourable method of double taxation (i.e. tax credit method) with the situation of taxpayers who gain income in countries with a favourable method (exemption with progression).

The taxpayers who obtain income from countries with tax credit method from an employment contract, activities performed in person, non-agricultural business activities, as well as copyrights and related rights (with certain exceptions) may take advantage of the abolition tax relief for 2020.

### **2. What will change from 2021**

The taxpayer, who receives the above-mentioned income in countries with the tax credit method, will be entitled to deduct only a maximum amount of PLN 1,360 as the abolition tax relief.

The abolition tax relief will be granted without limit only if the foreign income is obtained from work or services performed outside the country territory (on land).



### 3. What does the limitation of the abolition tax relief mean in practice

If the income from work is obtained in a country with which the agreement provides for the use of the tax credit method or there is no agreement on the avoidance of double taxation, from the moment of limiting the abolition tax relief:

- income obtained for work in these countries will be taxable in Poland,
- the taxpayer will be obliged to pay the difference between the tax calculated in Poland and the amount of the tax paid abroad, taking into account a maximum of PLN 1,360 abolition tax relief.

As a result of Poland's accession to the MLI Convention, more and more agreements on the avoidance of double taxation concluded by Poland shall provide for the tax credit method instead of the exemption with progression method. As for now the negative effects of limiting the abolition tax relief will apply to Polish tax residents gaining income *inter alia* from the following countries:

- |                           |                      |                                |
|---------------------------|----------------------|--------------------------------|
| • Austria                 | • Norway             | • Saudi Arabia                 |
| • Belgium                 | • Portugal           | • India                        |
| • Denmark                 | • Russia             | • Israel                       |
| • Finland                 | • Slovakia           | • Japan                        |
| • the Netherlands         | • Slovenia           | • Canada                       |
| • the Republic of Ireland | • the United Kingdom | • South Korea                  |
| • Lithuania               |                      | • the United States of America |

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If you are interested in the above information and its impact on your business, please contact:

Anna Misiak [Anna.Misiak@mddp.pl](mailto:Anna.Misiak@mddp.pl) tel. +48 22 322 68 88

Rafał Sidorowicz [Rafal.Sidorowicz@mddp.pl](mailto:Rafal.Sidorowicz@mddp.pl) tel. +48 22 322 68 88

or your advisor from MDDP.

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