LEGAL AND PRACTICAL CONSIDERATIONS OF TAX LAW FOR ENTREPRENEURS IN POLAND AND THE EUROPEAN UNION

ПРАВОВІ ТА ПРАКТИЧНІ АСПЕКТИ ПОДАТКОВОГО ПРАВА ДЛЯ ПІДПРИЄМЦІВ У ПОЛЬЩІ ТА ЄВРОПЕЙСЬКОМУ СОЮЗІ

UDC 341.1
DOI https://doi.org/1.32782/pma2663-5240-2025.45.37

Wojciech Slomka
dr. nauk technicznych,
Wyższa Szkoła Ekonomiczna w Stalowej Woli, Rektor
slomkawojtek@gmail.com,
https://orcid.org/0000-0001-8968-1882

The article examines the legal and practical aspects of tax law for entrepreneurs in Poland and the European Union, focusing on recent legislative trends affecting small and medium-sized enterprises (SMEs). Drawing on classical economic principles and the Polish constitutional framework, the author outlines the foundations of the Polish tax system, emphasizing the complexity of tax obligations faced by entrepreneurs, especially in the context of income and social security laws. The paper details various forms of business organization and their tax consequences, including personal (unincorporated) and capital (incorporated) entities, with particular attention to the issues of liability, double taxation, and the flexibility to switch between different tax schemes. Special consideration is given to recent innovations such as the Estonian CIT model, which allows for deferred corporate income tax, and policies enabling unregistered business activity for micro-entrepreneurs, thereby lowering administrative barriers.

The study analyzes the impact of anti-tax avoidance rules (notably GAAR) and compliance mechanisms, such as digital tax reporting and the Standard Audit File for Tax (JPK), arguing that while these contribute to a modernized and more transparent tax regime, they also increase the administrative burden on SMEs. The practical implications of frequent legal amendments, especially for partnership structures, are discussed, as are the limitations of recent reforms, such as the abolition relief cap and extended CIT liability. Comparative perspectives are introduced, highlighting differences between Poland and other EU countries, where simplicity, transparency, and legal certainty tend to prevail. The article concludes by emphasizing the need for ongoing tax simplification, enhanced digitalization, more progressive social insurance models, and better coordination with EU law to improve the entrepreneurial climate and competitiveness of Polish SMEs.

Key words: *small and medium-sized enterprises (SMEs), income taxation, tax avoidance and compliance, business legal forms, European Union tax harmonization, administrative burden,*

У статті аналізуються правові та практичні аспекти податкового права для підприємців у Польщі та Європейському Союзі, з особливим акцентом на сучасні законодавчі тенденції, що впливають на малі та середні підприємства (МСП). Спираючись на класичні економічні принципи та конституційні засади Польщі, автор окреслює підвалини польської податкової системи, підкреслюючи складність податкових зобов'язань, з якими стикаються підприємці, особливо в контексті законів про оподаткування доходів і соціального страхування. У роботі деталізуються різні форми організації бізнесу та їхні податкові наслідки, включаючи персональні (неінкорпоровані) й корпоративні (інкорпоровані) структури, з особливою увагою до питань відповідальності, подвійного оподаткування та гнучкості переходу між різними податковими схемами. Окремо розглядаються сучасні інновації, такі як естонська модель податку на прибуток, що дозволяє відкласти сплату корпоративного податку на прибуток, а також політики, які дають змогу мікропідприємцям вести незареєстровану господарську діяльність, таким чином знижуючи адміністративні бар'єри.

У дослідженні проаналізовано вплив правил протидії ухиленню від сплати податків (зокрема, GAAR) й механізмів дотримання податкового законодавства, як-от електронна звітність та стандартний електронний аудит-файл для податків (JPK). Автор стверджує, що, попри модернізацію і підвищення прозорості податкового режиму, ці новації водночас покладають додатковий адміністративний тягар на МСП. Окреслено практичні наслідки частих змін законодавства, зокрема для партнерств, а також обмеження нещодавніх реформ, таких як встановлення ліміту на податкові пільги й розширення зобов'язань з податку на прибуток підприємств. Представлено порівняльний аналіз, зокрема відмінності між Польщею та іншими країнами ЄС, де частіше превалюють простота, прозорість і правова визначеність. У висновках підкреслюється необхідність подальшого спрощення податків, розширення цифровізації, застосування більш прогресивних моделей соціального страхування та кращої координації з правом ЄС задля покращення підприємницького клімату та конкурентоспроможності польських МСП.

Ключові слова: *малі та середні підприємства (МСП), оподаткування доходів, ухилення від сплати податків і комплаєнс, правові форми бізнесу, гармонізація податків у ЄС, адміністративний тягар*

A fundamental principle of the Polish tax system Tax Law in Poland for the Small and Medium-sized Enterprise Sector, in line with the economic doctrines of Western free-market economies, is the concept articulated over 240 years ago by Adam Smith in his seminal work *An Inquiry into the Nature and Causes of the Wealth of Nations*. This concept encompasses the following principles: precise definition of the tax; convenience for the taxpayer; low cost of tax collection.

It should be noted at the outset that one of these principles is not fully consistent with Polish tax regulations – namely, the principle of tax neutrality is violated in cases involving the taxation of various types of business income. However, the remaining principles are generally respected by lawmakers and tax policy institutions. Regardless of the perceived complexity of the Polish tax system, the original principles remain relevant. The tax system should be comprehensible to the taxpayer and perceived as a legitimate cost of conducting business activities.

As with all other economic entities, small entrepreneurs in Poland are subject to a statutory obligation to pay taxes. This obligation is grounded in the Constitution of the Republic of Poland, Article 84, adopted on April 2, 1997, which states: "Everyone shall comply with their responsibilities to bear public burdens and benefits, including taxes, as specified by statute". Furthermore, Article 217 of the Constitution stipulates: "The imposition of taxes and other public levies, the specification of taxpayers, the subject of taxation, tax rates, and the principles of exemptions, remissions, and tax reliefs shall be determined by statute". However, the Constitution does not define the term "tax".

According to Article 6 of the Tax Ordinance Act, a tax is defined as a public-law, gratuitous, compulsory, and non-refundable monetary benefit paid to the State Treasury, a voivodeship, county, or municipality, arising from a tax statute. Taxes constitute a primary source of revenue for the State Treasury and serve several functions beyond income redistribution and economic regulation. For example, they may act as incentives for business creation or foreign direct investment. In Polish law, taxes are characterised by their gratuitous nature, obligatory payment, universality, and irrecoverability.

Although this study focuses on the tax burden borne by small businesses, it is important to note that these entities are also subject to other mandatory contributions, particularly those related to the social security system (ZUS). These include contributions to social insurance, health insurance, the Labour Fund, the Guaranteed Employee Benefits Fund, the State Fund for the Rehabilitation of Disabled Persons, and the Company Social Benefits Fund. The level of these non-tax burdens often affects the profitability of business operations, especially when hiring employees.

According to the constitutional principles of the Polish state, taxes are governed by specific tax statutes. These statutes regulate taxes, fees, and non-tax budgetary dues, and define the taxpayer, the taxable object, the moment the tax obligation arises, the tax base, tax rates, and the rights and obligations of tax authorities, taxpayers, payers, and collectors, including their legal successors and third parties. "Tax law provisions" include the regulations of tax statutes, provisions of ratified international treaties on the avoidance of double taxation, and other ratified international agreements concerning taxation, as well as executive acts issued under tax statutes, following the currently binding Tax Ordinance Act of August 29, 1997.

The table below illustrates the so-called *Tax Legislation Package* in Poland. This includes laws regulating taxes, fees, and non-tax budgetary dues, specifying the taxpayer, taxable object, timing of the tax obligation, tax base, tax rates, and the rights and obligations of tax authorities, taxpayers, payers, and collectors, including legal successors and third parties. As evident from the summary, each statute governs a specific type of tax (Chart 1).

Income Tax and Anti-Avoidance Policy for Small and Medium Enterprises in Poland: Legal Overview and Evaluation. Income tax is the fundamental fiscal obligation imposed on all entrepreneurs upon the generation of income. It also constitutes the core tax burden for small businesses. According to Polish legislation, the term "tax" encompasses not only the principal liability but also: a) tax prepayments, b) tax intallments (if permitted by tax law), c) fees and other non-tax budgetary liabilities.

The amount of income tax owed is determined by the chosen form of taxation, selected at the commencement of business operations. For small enterprises, the selection of a specific tax form, such as the tax card system (PIT-16), is submitted alongside the application for registration in the Central Registration and Information on Business (CEIDG). Alternatively, entrepreneurs must notify the tax office within 20 days of the end of the month in which income was first generated, or by the end of December if income was realised in that month. Identical procedures apply to tax card-based taxation.

It is important to note that income taxation within the SME sector in Poland, much like in other EU member states, is accompanied by increasingly robust anti-tax evasion mechanisms. The Polish government has undertaken a proactive role in educating taxpayers about their responsibilities. Initiatives include the introduction of domestic reverse charge mechanisms, joint liability for the purchase of sensitive goods, split payment systems, VAT sanctions, deregistration of VAT taxpayers without prior notification, the Standard Audit File for Tax (JPK), and the STIR system (teleinformatics clearing house system). These measures are largely designed to close the so-called "VAT gap".

Additionally, the government seeks to limit income tax optimisation strategies often employed by SMEs through legislative measures. These include fiscal obligations that serve as administrative penalties for the abuse of legal loopholes, as well as the introduction of a General Anti-Avoidance Rule (GAAR), discussed in this paper. Economic crimes, especially those related to tax fraud, are prosecuted vigorously. The issu-

Chart 1

Tax Legislation Package of the Republic of Poland

Tax Statute	Type of Tax
Act on Goods and Services Tax (Journal of Laws 2020, item 106)	Value Added Tax (VAT)
Act on Excise Duty (Journal of Laws 2020, item 722)	Excise Duty
Personal Income Tax Act (Journal of Laws 2020, item 1426)	Personal Income Tax
Corporate Income Tax Act (Journal of Laws 2020, item 1406)	Corporate Income Tax
Act on Lump-Sum Income Tax on Certain Revenues Earned by Individuals (Journal of Laws 2020, item 1905)	Tax card, lump-sum tax on recorded revenues, lump-sum income tax on revenues of clergy members
Gambling Act (Journal of Laws 2020, item 2094)	Gambling Tax
Tonnage Tax Act (Journal of Laws 2020, item 1443)	Tonnage Tax
Inheritance and Donation Tax Act (Journal of Laws 2019, item 1813)	Inheritance and Donation Tax
Agricultural Tax Act (Journal of Laws 2020, item 333)	Agricultural Tax
Forestry Tax Act (Journal of Laws 2019, item 888)	Forestry Tax
Civil Law Transactions Tax Act (Journal of Laws 2020, item 815)	Civil Law Transactions Tax
Local Taxes and Charges Act (Journal of Laws 2019, item 1170)	Real Estate Tax, Transport Vehicle Tax
Act on Tax on the Extraction of Certain Minerals (Journal of Laws 2020, item 452)	Tax on the Extraction of Copper and Silver
Act on Tax on Certain Financial Institutions (Journal of Laws 2019, item 1836)	Tax on Certain Financial Institutions
Act on Retail Sales Tax (Journal of Laws 2019, item 1433)	Retail Sales Tax
Act on Special Hydrocarbon Tax (Journal of Laws 2018, item 2269)	Special Hydrocarbon Tax

ance of false invoices can result in imprisonment for up to 25 years, while the admission of tainted evidence in criminal proceedings may lead to asset confiscation or state-imposed management of a company.

Legislators also exhibit sensitivity to the economic condition of taxpayers. This was particularly evident during the COVID-19 pandemic (2020–2021), when tax enforcement was relaxed through economic stimulus packages aimed at preserving business liquidity and maintaining employment. Such instances reflect the regulatory function of taxation. However, any relaxation of enforcement should be carefully balanced with robust legal oversight, as regulatory laxity may inadvertently encourage economic crime.

Of further interest is the phenomenon of deliberate tax avoidance by entrepreneurs in pursuit of financial gain. Tax benefit is defined as the elimination, postponement, or reduction of tax liabilities, or the artificial creation or inflation of a loss. This may also include deliberate overpayments or unjustified claims for tax refunds. On April 19, 2016, the Polish Senate adopted amendments to the Tax Ordinance Act, introducing the General Anti-Avoidance Rule (GAAR).

Under this provision, tax authorities may initiate proceedings to assess whether a tax benefit was obtained in a manner inconsistent with the purpose and intent of tax legislation. The statute specifies that any action primarily undertaken to obtain a tax benefit, where such benefit contradicts the objective of the law, is invalid. Artificial actions – those that a rational economic actor would not undertake absent tax motives – are deemed ineffective. Factors considered include unjustified splitting of transactions, use of intermediaries without economic rationale, self-cancelling or offsetting elements, transactions that restore an initial state, and disproportionate economic risks compared to non-tax-related benefits.

Tax authorities are authorised to assess outcomes based on hypothetical scenarios in which such transactions had not occurred. A notable feature of Polish tax law, however, is that taxpayers are permitted to amend their tax declarations after the initiation of proceedings, allowing them to settle the original tax debt with accrued interest instead of facing punitive measures.

Finally, under the Polish Entrepreneurs' Law, the legislature operates under the principle of trust in the entrepreneur. This presumption holds that businesses act lawfully, ethically, and under good business practices.

Poland's approach to income taxation for SMEs is, in theory, grounded in a commitment to legal clarity, equity, and compliance. The incorporation of the GAAR and a suite of technological tools marks a significant modernisation of tax administration. These initiatives mirror global best practices in tax governance.

However, the practical complexity of navigating these regulations may place a disproportionate burden on small enterprises with limited administrative capacity. The risk of harsh penalties – even for procedural errors – can undermine the business environment, especially in the absence of widespread professional tax advisory support for SMEs. A balance must be struck between closing tax loopholes and maintaining a supportive, predictable legal framework that encourages entrepreneurship.

The legislative flexibility demonstrated during the pandemic illustrates the system's potential responsiveness to macroeconomic shocks. Yet, ongoing dialogue between policymakers and SME representatives is necessary to refine and humanise the tax environment, ensuring it does not become a barrier to innovation and economic resilience.

Legal Form and Taxation: Unregistered Business Activity. The legal form of a business plays a fundamental role in determining its tax obligations and the structure of its operations. Legal forms in Poland can be broadly classified into two categories: personal (unincorporated) and capital (incorporated) entities.

Personal forms include: Sole proprietorship (individual business activity), registered at the local municipality office; Civil law partnerships (*spyłka cywilna*); Professional partnerships (*spyłka partnerska*); Limited partnerships (*spyłka komandytowa*).

Capital forms, on the other hand, encompass: Limited liability companies (*spyłka z ograniczoną odpowiedzialnością, sp. z o.o.*); Joint-stock companies (*spyłka akcyjna*).

These are registered with the National Court Register (*Krajowy Rejestr Sądowy, KRS*). Small entrepreneurs in Poland can operate either as sole proprietors or through limited liability companies. The choice between these forms carries significant legal and financial implications, particularly regarding liability. In sole proprietorships, the entrepreneur bears unlimited liability with their shareholder's assets, while in limited liability companies, liability is confined to the company's share capital.

Taxation and Legal Form. The selected legal form determines the applicable type of income tax: Personal Income Tax (PIT) is applied to individuals (sole proprietors and partnerships); Corporate Income Tax (CIT) applies to legal entities such as limited liability and joint-stock companies.

In unincorporated forms, taxation is single-layered – the business income is taxed only once at the owner's level. In contrast, incorporated forms face double taxation – first at the corporate level and then at the shareholder level (e.g., dividends).

Changing the Form of Taxation. Entrepreneurs have the right to change their form of taxation during their business activity. Beginners typically start with general taxation rules (progressive PIT rates) and may later switch to a flat-rate tax as their income increases. However, because estimating future income can be difficult at the start, this sometimes leads to higher tax burdens, evident only during annual tax settlement.

To change the legal or tax form, the entrepreneur must notify the Central Registration and Information on Business (*CEIDG*) using the CEIDG-1 form. This can be done at the local municipal office or online.

Deadlines for Changing the Form of Taxation are very restricted. Depending on the chosen taxation method, statutory deadlines must be observed:

1. For switching to the flat-rate tax or lump-sum taxation on registered income: by the 20th day of the month following the first revenue-generating month in the tax year, or by the end of the tax year if the first revenue occurred in December.

2. For selecting the tax card method: by January 20 or before commencing business, with submission of the additional PIT-16 declaration.

3. To opt out of the tax card and switch to another method, by January 20 of the new tax year.

If a taxpayer starts a business during the tax year, the chosen tax form applies from the date of CEIDG registration. If no form is selected or deadlines are missed, the default method will be general taxation based on progressive rates.

Amortisation and Tax Form Transitions. The choice of tax form also affects depreciation rules. A taxpayer moving from a lump-sum method to general taxation must maintain a register of fixed assets, deducting any prior depreciation calculated under the lump-sum system. Conversely, under lump-sum taxation, depreciation is not a deductible expense, so maintaining an asset register is not required.

Unregistered Economic Activity. Entrepreneurs who have not conducted business for the last six months and generate monthly revenue below 50% of the minimum wage may conduct unregistered business activity. They are exempt from registration, tax reporting, and income tax obligations associated with business activity – unless the activity requires a license or the individual is a shareholder in a registered company. In such cases, tax obligations follow personal income tax rules, as for any natural person.

A significant legislative innovation affecting small businesses is the introduction of the Estonian CIT in 2021, officially referred to as the "lump-sum tax on income of capital companies". Its core principle is to defer corporate income tax until profits are distributed to shareholders. The Estonian CIT is chosen for four years, with the possibility of extension.

Eligibility conditions include: Revenue not exceeding PLN 100 million; Shareholders must be natural persons; The company must cooperate with at least three unrelated business entities.

The relationship between legal form and taxation is critical in shaping the financial strategy of small enterprises. Entrepreneurs must weigh not only tax burdens but also legal liability, compliance costs, and growth prospects. The flexibility in tax form selection allows businesses to adjust as they grow, but also requires diligent attention to deadlines and statutory obligations.

The introduction of the Estonian CIT demonstrates a progressive move towards supporting business reinvestment and liquidity. However, it is accompanied by strict criteria, indicating the government's cautious approach in balancing tax incentives with oversight. Meanwhile, the option for unregistered business activity lowers the entry barrier for micro-entrepreneurship, promoting grassroots economic activity without overwhelming administrative demands.

Overall, the Polish tax system for SMEs is characterised by increasing complexity but also growing flexibility and targeted relief mechanisms. Policymakers must continue to simplify compliance and provide clarity to help entrepreneurs make informed decisions and foster a transparent tax culture.

Since 2021, Polish tax legislation has undergone significant changes affecting the taxation of partnerships, especially general partnerships (*spyłka jawna*) and limited partnerships (*spyłka komandytowa*). These entities, traditionally taxed at the level of individual partners, may now become subject to corporate income tax (CIT) depending on the composition of their shareholders and the structure of income reporting.

As of January 1, 2021, limited partnerships became independent taxpayers under the CIT regime. This reform introduces double taxation for such partnerships: profits are taxed at the partnership level, and again when distributed to individual partners. In contrast, general partnerships remain transparent for tax purposes unless they include legal persons as partners, in which case, they too may become subject to CIT.

The amendment also introduces a partial tax exemption for limited partners, allowing a 50% exemption from income derived from the partnership, up to a cap of PLN 60,000 per annum.

Another significant development is the restriction of the abolition relief (*ulga abolicyjna*), introduced under the amendment of October 28, 2020, and effective as of January 1, 2021. Taxpayers are still permitted to deduct abolition relief from their income tax; however, the deduction cannot exceed PLN 1,360 annually. Originally enacted by the Act of July 25, 2008, the abolition relief aimed to mitigate the effects of the proportional deduction method by equating its outcome with the more favourable exemption with progression method. The relief applies to foreign income, including employment, personal services, copyright income, and business activity. Additionally, the 2021 amendment enhanced consumer protection for sole proprietors. Entrepreneurs operating under individual business activity who purchase goods or services not directly related to their business (even if invoiced) are now treated as consumers. Consequently, they benefit from the protections under Article 385 of the Civil Code and Article 38a of the Consumer Rights Act.

The 2021 tax reforms introduced a more complex and restrictive framework for small business owners, particularly those operating in partnership structures. While the extension of CIT liability to partnerships may be justified on grounds of tax transparency and anti-abuse measures, it has drawn criticism for increasing compliance costs and discouraging the use of partnerships as a flexible business model. In effect, entrepreneurs who selected these forms for operational simplicity now face comparable tax burdens to corporations, but without the accompanying legal benefits, such as limited liability. The reduction of abolition relief also represents a significant policy shift. While the cap on deductions may be seen as part of a broader strategy to align domestic and international tax treatment, it disproportionately affects Polish tax residents employed abroad. Critics argue that this change undermines fairness for expatriate workers, especially those in lower-income brackets.

From a comparative perspective, Poland's tax system has become increasingly complex and rule-bound, particularly for small and medium-sized enterprises (SMEs). Countries such as Estonia or Ireland, often lauded for their entrepreneur-friendly tax codes, emphasise simplicity, deferred taxation, and low compliance barriers – all areas where Polish legislation still lags. Despite recent attempts to modernise the tax code (e.g., through the Estonian CIT model), the coexistence of multiple overlapping tax regimes and frequent legal amendments creates uncertainty and hinders long-term planning for businesses.

Other scholars, such as Gajewski (2022), have highlighted the adverse impact of unstable tax policy on entrepreneurial activity in Poland, stressing the importance of predictability and coherence in tax law as a fundamental pillar for economic growth [1].

Within the European Union, small entrepreneurs benefit from the principle of free movement of goods, services, people, and capital, which enables them to freely choose the location and legal form of their business activity. While Article 26(2) of the Treaty on the Functioning of the European Union (TFEU), as amended by the Treaty of Lisbon (2009), does not explicitly reference entrepreneurial freedom, the Member States have consistently emphasised the importance of entrepreneurship, especially among small and medium-sized enterprises (SMEs) [2].

However, relocating business operations solely to benefit from lower nominal tax rates in another EU Member State may be misleading. The effective tax burden must be assessed comprehensively, taking into account not only corporate or personal income taxes but also mandatory social security contributions. A notable example is Denmark, which is often cited as having one of the highest income tax rates in the EU. Nevertheless, due to low social insurance contributions, the overall fiscal burden on micro-enterprises can be more favourable than in other jurisdictions perceived as tax-friendly, such as the UK.

Moreover, currency fluctuations and tax-free thresholds play a significant role in determining actual tax advantages. For instance, a newly established micro-enterprise in the UK may earn up to J10,000 annually (approximately PLN 52,700) without incurring income tax liability. In contrast, in Poland, the tax-free threshold as of 2024 remains at PLN 30,000, meaning that the equivalent income in Poland would trigger a tax obligation if other allowances are not applied.

Some EU Member States provide clear and standardized rules for micro-enterprises, treating them analogously to employees or providing them with tailored legal frameworks. For example, in Denmark, Slovakia, and the UK, tax systems offer predictable thresholds and reporting requirements, simplifying compliance and minimising risks. In contrast, Poland maintains a system that exposes micro-entrepreneurs to significant risks resulting from incorrect income forecasting, which is similar to the German approach. In Germany, both employees and self-employed individuals are required to pay income tax advances, with amounts determined by their declared affiliation to one of six tax classes [3].

This framework may create unintended disadvantages for micro-entrepreneurs in countries like Poland, where tax policy lacks adequate flexibility and predictability. As a result, Polish entrepreneurs may be more vulnerable to financial penalties due to estimation errors or delays in income realisation. The issue of over-complexity and legal uncertainty in Polish tax law has been widely criticised in the literature. According to Gajewski, the absence of a coherent, pro-entrepreneurial tax framework impairs long-term investment and undermines trust in legal institutions.

A 2014 report by the World Bank's Paying Taxes ranking, which assessed 189 countries based on the ease of tax compliance, placed Poland at 78th position. Despite later reforms, the country continues to struggle with bureaucratic rigidity and frequent legislative changes, which stand in contrast to more entrepreneur-friendly jurisdictions within the EU.

The Polish taxation system, particularly for micro-enterprises, remains overly complicated and prone to sudden regulatory changes. Although recent reforms have aimed to broaden the tax base and reduce avoidance, they have done so at the cost of legal certainty and fiscal neutrality. In comparison, countries like Denmark and the UK pursue more symmetrical approaches, where tax and insurance obligations are harmonised and transparently calibrated to income levels.

In my view, Poland should adopt simplified regimes for micro-entrepreneurs, perhaps by introducing flat-rate taxation with opt-out options based on income brackets. The lack of clear segmentation between employees, contractors, and business owners causes legal ambiguity and contributes to administrative inefficiency. Drawing from the practices in Denmark or Estonia, where digitalisation, clear compliance thresholds, and deferred taxation models are successfully applied, Poland could redesign its tax system to support long-term entrepreneurial activity rather than penalise short-term forecasting errors.

Taxation of SMEs in Poland Since 2020: Trends, Challenges, and Future Directions within the EU Legal Framework. Small and medium-sized enterprises (SMEs) are the backbone of the Polish economy, constituting over 99% of all enterprises and employing more than two-thirds of the workforce [4]. Recognising their vital role, Polish tax policy has undergone significant adjustments since 2020 aimed at supporting SME growth, improving compliance, and aligning with broader European Union (EU) tax frameworks. This paper outlines key developments in Polish

SME taxation since 2020, evaluates the effectiveness of current regulations, and proposes a direction for future reforms, with particular attention to coherence with EU tax law.

The evolution of Polish SME taxation since 2020 is notable. Poland has introduced several measures aimed at simplifying taxation and lowering the tax burden on SMEs. These include the implementation of a lower corporate income tax (CIT) rate, new lump-sum taxation options, and digital tax reporting obligations.

One of the landmark reforms was the reduction of the CIT rate for small taxpayers (defined as businesses with annual revenues not exceeding EUR 2 million, later increased to EUR 2.5 million) from 19% to 9%. This measure was designed to stimulate entrepreneurship, enhance profitability, and encourage reinvestment among small and medium-sized enterprises (SMEs).

In 2021, Poland adopted the so-called Estonian CIT, a system in which corporate income is only taxed when profits are distributed. This model benefits SMEs by improving cash flow and incentivising long-term investment. The Estonian CIT became available to entities with revenues not exceeding PLN 100 million and meeting specific ownership and employment criteria [5].

Also significant was the expansion of the lump-sum tax on registered income (ryczałt od przychodyw ewidencjonowanych), which became more accessible for service providers and liberal professions in 2021. Rates were simplified and adjusted based on the type of service, reducing administrative burdens and enhancing predictability for micro-entrepreneurs [6].

Poland also advanced its tax administration through digital tools like the National e-Invoice System (KSeF), introduced on a voluntary basis in 2022 and made mandatory starting in 2024. These systems aim to reduce VAT fraud and facilitate real-time tax reporting [7].

Despite positive steps, several challenges remain:

a. Complexity and Legal Uncertainty: Frequent legislative changes, often rushed and poorly communicated, have created uncertainty for SMEs.

b. High Burden of Social Security Contributions (ZUS): The relatively high fixed social insurance costs disproportionately impact micro and small businesses.

c. Disparities in Tax Treatment: Different taxation systems (general CIT, lump-sum, Estonian CIT) create complexity and room for tax arbitrage.

Polish tax reforms must be examined in light of EU tax harmonisation efforts. Although direct taxation remains largely a national competence, the EU promotes coordination to avoid harmful tax competition and ensure fair taxation.

The European Commission's SME Strategy (2020) emphasises simplification, fairness, and digitalisation as guiding principles. Poland's reforms broadly align with this vision, particularly in digitalisation and simplified regimes. However, preferential tax treatment (like low CIT rates or Estonian CIT) must be carefully managed to avoid contravening state aid rules under Articles 107–109 TFEU [8].

EU directives such as ATAD (Anti-Tax Avoidance Directive) and DAC (Directive on Administrative Cooperation) have affected Polish SME taxation, especially in regard to reporting obligations and transparency. Polish SMEs operating internationally must now comply with cross-border disclosure rules and Controlled Foreign Corporation (CFC) regulations, adding compliance burdens [9].

To enhance effectiveness and equity, Polish SME taxation policy should move in the following directions:

– Stability and Predictability: Legislative processes must be more transparent and allow adequate time for consultation and implementation.

– Further Simplification: Expansion of flat-rate tax regimes and harmonisation of definitions for SMEs across tax statutes would ease compliance.

– Social Insurance Reform: A progressive model of social contributions, based on income rather than flat rates, would better reflect SMEs' capabilities.

– EU law harmonisation: Poland should continue aligning its practices with EU best practices, particularly concerning digital taxation and green incentives.

Poland has made substantial progress in modernising and simplifying SME taxation since 2020. Through measures such as reduced CIT rates, Estonian CIT, and digital reporting systems, the government has enhanced the business climate for smaller firms. Nevertheless, challenges related to complexity, compliance, and social insurance remain. As Poland navigates its future tax policy, a balanced approach aligned with EU standards will be crucial to ensuring a fair, competitive, and growth-oriented environment for SMEs.

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