Bookkeeping Rules

Legal status on 31.12.2016

1. The regulations governing and affecting the bookkeeping rules in Poland

Key issues related to the bookkeeping are regulated in the Polish law in the following acts:

- The Accounting Act of 29 September 1994 ("the Act");
- regulations and announcements given by the Minister of Finance;
- resolutions of the Accounting Standards Committee in the form of National Accounting Standards;
- International Accounting Standards.

1.2 The Accounting Act

The Accounting Act of 29 September 1994 determines the basie rules regarding in particular:

- maintaining books of accounts;
- preparation of financial statements;
- auditing and publication of the financial statements.

Generally the regulations of the Act shall apply to entities whose registered office or place of executive management are located on the territory of Poland.

In case of not covering certain issues by the Act, parties may apply National Accounting Standards issued by the Accounting Standards Committee. In the absence of relevant regulations in National Accounting Standards, International Accounting Standards ("IAS") may be used. The possibility of applying IAS is specified in this guideline in section 3 below.

1.3 National Accounting Standards

In matters not covered by the Act entities can (this is their right, not obligation) use the National Accounting Standards (NAS) and statements of similar nature given by the Committee of the Accounting Standard. However, in the absence of regulations in NAS the entities may apply IAS.

So far the following NAS have been issued by the Committee of the Accounting Standard:

- No. 1 "Cash Flow"
- No. 2 "Income Taxes"
- No. 3 "Unfinished Building Services"
- No. 4 "Impairment of Assets"
- No. 5 "Leasing, rental and tenancy"
- No. 6 "Provisions, accrued expenses, contingent liabilities"

- No. 7, "Changes in accounting principles (policy), estimation of values, correction of errors, events after the balance sheet date - booking and presentation"
- No. 8 "Real estate activity"
- No. 9 "Directors' report"
- No. 10 "Public-private partnership agreements"

Additionally, Committee of National Accounting Standards has issued several statements regarding:

- accounting for rights (permissions) to emissions air pollution;
- assessment the cost of manufacturing for the purpose of balance sheet valuation;
- accounting for the property rights of certificates of origin for electricity produced from renewable sources;
- some of the principles regarding bookkeeping.

Entities required to maintain books of account and prepare the financial statements according to the Act, have also the ability:

- in areas where the Act provides for a variant solutions;
- as well as on the issues described in other regulations;
- to adopt solutions tailored to the their specific individual requirements and needs (depending on activity, legal form, size).

Although the interpretations in the form of NAS and the statements adopted by the Committee of National Accounting Standards are recommendations only, in practice they should be considered in the process of establishment the accounting policy.

Accounting policy should be recorded in written form and updated by the entity manager. Application of the accounting policies in accordance with the Act helps to ensure the proper quality of the financial settlements (i.e. true and fair presentation of assets, financial situation and results of the entity).

1.4 Some principles of accounting

The Act also specifies basie rules governing the bookkeeping (i.e. keeping accounting books and preparing the financial statements). Applying these principles helps to ensure the aceuracy and clarity of the accounting data.

One of the priority principles is obligation to apply the Act in preparing the balance sheet and profit and loss statement in case of a collision tax regulations.

At the same time in accordance with the Act provisions, once maintaining books of accounts and the preparation of financial statements, the entity shall apply the so-called “accrual rule”. The purpose of this rule is to book all the economic events that apply to a given year, regardless of the fact whether they have been notified or not to the entity by its contractors.

Given the above requirement to book all the economic events of the year in the fiscal year, entities also have an obligation to extract transactions that impact on the outcome of the financial year. In this respect “matching principle rule” should be applied. Under this rule, the profit/loss generated in the fiscal year results from: (i) revenues from the sale of products services, goods and financial operations (ii) and relevant, necessary to achieve the revenue costs already incurred and the other cost (estimated, unpaid, or even not notified).

1.5 Tax regulations

The Tax Code provides general provisions regarding tax issues. In the Polish tax system, we might distinguish a few taxes, among which the most common are:

- personal income tax (PIT);
- corporate income tax (CIT);
- value aded tax (VAT);
- real estate tax;
- excise duties;
- tax on civil law transaction (TCLT);
- stamp duty.

■ Corporate income tax (CIT)

Companies (joint-stock company, limited liability company) are subject to corporate income tax. Taxpayers that have their registered office or the management board in Poland are liable for CIT on their global income. If a corporate taxpayer does not have its registered office or effective place of management in Poland, the tax is levied only on the income derived in Poland, unless double taxation treaties state otherwise.

A standard CIT rate in Poland is 19%.

As to the rule, tax basis comprises all revenue earned in a tax year, both financial and operational (with some exemptions), net of deductible expenses (tax deductible costs).

Reduced tax rate in Poland is 15%.

Reduced tax rate 15% is applied for small taxpayers. The small taxpayer is defined as entity which incomes from sales within output VAT did not exceeded in the previous year the amount of 1.200.000 EUR or the entity which begins the business activity.

Personal income tax (PIT)

Individuals are subject to personal income tax. As to general rule the progressive taxation rates should be applied (tax rates 18% and 32%).

Tax assessment basis in PLN	Amount of tax
up to 85.528	18% of assessment basis minus free tax amount
above 85.528	15.395,04 plus 32% any amount exceeding 85.528

Simultaneously, individuals conducting business activities might choose under certain conditions a flate tax rates (19%) or other simplified methods of tax settlements with the authorities.

Value added tax (VAT)

Generally VAT is imposed on supply of goods, the provision of services and the import of goods into Poland. Currently in Poland are 4 VAT rates. The basie rate is 23%, which is applied to majority of goods and services. The other rates are as follow:

- **8%** applies to certain goods and services, e.g. gastronomy services, services of hotels, construction, modernization and rebuilding of buildings within the framework of social housing program, some of the food products;
- **5%** applies to supply of books and branch magazines as well as to certain (basie) food products.
- **0%** applied generally to export, intra-Community supply of goods and international transport services.

Real estate tax

Real estate tax is levied by the local authorities (municipal tax), with the rate depending on area of the building, land area or the value of a construction. According to the current regulations real estate tax should not exceed the following maximum rates:

- PLN 0,89 per 1m2 for land used for business activities; or
- PLN 22,66 per 1m2 for buildings used for business activities; or
- PLN 4,61 per 1 m2 for buildings used for healthcare services; or
- 2% of the construction cost for buildings.

- **Stamp duty**

Stamp duty is imposed on certain activities undertaken by public administrations, such as issuing certificates, permissions, powers of attorney and other documents issued by the central and local authorities.

- **Tax on civil law transaction (TCLT)**

A tax on civil law transactions is levied on certain contracts (and amendments to such contracts if they result in an increase in the base of TCLT), such as sales, loan and donation contracts, mortgages, and the establishment of usufruct, and partnership or company deeds. However, a transaction is not subject to TCLT if at least one of the parties to the transaction is subject to or exempt from VAT. Although TCLT liability will arise in certain VAT-exempt transactions (such as the sale of real estate exempt from VAT).

1.6 Invoicing

Transactions between VAT taxpayers must be documented by a VAT invoice. In general invoices should be issued till the 15. day of the next month following the month of release of goods or carrying out a service.

The amount of VAT due should be always presented in Polish currency (PLN) even if the amount of payment is presented in foreign currency.

1.7 Electronic documents

According to the Polish law, taxpayers have the opportunity to submit tax returns and issue invoices in electronic form. For the purposes of electronic flow of both documents, the Polish Law provides specific provisions regarding requirements that must be met.

E-returns

In the case of e-returns, apart from properly installed and set-up software (Adobe Reader and Plug-in), it is also necessary to have a qualified electronic signature (except of certain personal income tax returns submitted by individuals). Currently, at the local market there are five firms authorized to grant electronic signatures accepted by the Polish tax authorities.

It is also important for the person authorized to sign e-returns to file (one-time procedure only) a statement (UPL-1 form) to the competent tax office in hard-copy. In addition, it should be noted that the person signing the e-returns must have a tax identification number (NIP) or PESEL. In practice, it may be more difficult for no-residents to meet the above condition.

Beginning from 2017 VAT returns and the corrective VAT ruturns ought to be sent only as e-returns.

E-invoices

Recently regulations regarding e-invoicing have been significantly simplified. The main conditions that need to be fulfilled in order to enjoy e-invoicing are as follows:

- to obtain the prior approval of this method of sending invoices by the invoice’s recipient;

- and to ensure the authenticity and integrity of the content of the invoice.

2. Entities subject to the applying to provisions of the Accounting Act

2.1 Legal basis and the obligation to maintain books of account

The most important legal act regulating accounting in Poland is the Accounting Act of 29. September 1994 (hereinafter referred to as the Act).

The Act specifies entities which are obliged to maintain books of account. They include in particular:

- commercial partnerships and companies (including organizations) and civil partnerships,
- natural person, civil partnerships established by natural person, general partnerships established by natural person and professional partnerships, if their net revenue from the sales of goods for resale, finished goods and financial transactions for the prior financial year amounted to at least EUR 1 200 000 (in Polish zloty),
- foreign person, branches of a company, foreign entrepreneurs representation (in the meaning of The Freedom of Economic Activity Act provisions).

In the case of natural persons, civil partnerships of natural persons, registered partnerships of natural persons and professional partnerships may apply the accounting policies set out in this Act also from the beginning of the subsequent financial year if their net revenue from the sales of goods, products and from financial transactions for the preceding financial year amounted to less than the equivalent of EUR 1,200,000 in the Polish currency. In such event, the said persons or partners shall be required to notify the tax office competent for income tax matters before the beginning of the financial year . That amount shall be translated into the Polish currency at the average rate of exchange announced by the National Bank of Poland, as at 30 September of the year preceding a given financial year.

In that case, person or partners are obliged to notify this fact before the beginning of the financial year to the Tax Office relevant to income tax matters.

2.1 Branches of foreign entrepreneurs

■ General regulations

A foreign entrepreneur branch is one of the forms of conducting a business by a foreign company. Branches of foreign entrepreneurs are obliged to maintain books of account.

■ Bookkeeping

Books of accounts shall be mantained: in the Polish language, in the Polish currency.

The branch is also obliged to prepare the financial statements to which general rules (section: reporting) and specific rules are applied. Specific rules concern in particular:

- approving of the financial statements. It is considered to be approved when financial statement of foreign entrepreneur (which includes financial statement data of this branch) is approved.
- publishing the financial statement,
- filing the financial statements with the National Court Register - annual financial statement of the branch should be submitted and, in the case of a branch of a credit institution or financial institution the following documents shall be translated into Polish by the certified interpreter:
- the annual financial statement of a credit or financial institution,
- a copy of the resolution or approval authority for approval of the annual financial statement of credit institutions or financial,
- a copy of the resolution or the provisions of the approval authority of a credit institution about appropriation of profit or loss offset.

■ Taxation principles

According to the branch taxation special attention shall be paid to:

- Income Tax

Taxpayer of Corporate Income Tax is a branch of foreign entrepreneur.

- Personal Income Tax

In case when branch acts as a taxpayer, it means it is obliged to count, collect and pay to the Tax Office an advance for income tax from salaries of employees. A branch shall use given Tax Identification Number and meet a payer's obligations.

- VAT

A branch of foreign entrepreneur is a taxpayer.

- Social Insurance

In case of engaging employees, the branch shall be registered for the social insurance purpose. Obtaining the Tax Identification Number will be necessary.

2.2 Representation of foreign enterpreneur.

■ General Regulations

The representation is another possible form of conducting business by foreign entrepreneurs. The representation is obliged to maintain book of accounts.

■ Bookkeeping

Books of accounts shall be maintained:

- in the Polish language,
- in the Polish currency,
- in its premises or outside the premises and by the entity entitled (accounting office).

The Income of representation

Income includes (among other things) cash received from foreign entrepreneur for the purpose of financing the costs of representation (assets received free of charge and other income).

The costs of representation
The costs of conducting business include (among other things) costs concerning realization of statutory representation tasks, that is advertising and promotion and administrative costs.

The principle of conservatism
Representations may not use the principle of conservatism.

Financial result
Representations calculate financial result as a difference between income and costs. This difference - after the approval of annual financial statement - increases income or cost in next financial year. The positive difference may be allocated for increasing the statutory fund.

Financial Statement
Representations are obliged to prepare the annual financial statement as at the day of ending the financial year and for every other balance sheet date. Financial Statement consists of:
- balance sheet,
- profit and loss account,
- notes to the financial statement.

- **Principles od taxation**

According to the branch taxation special attention shall be paid to:

Income Tax
According to prevailing opinion, if representation conduct only business in promotion and advertising area, it is not a taxpayer of Corporate Income Tax in Poland.

Personal Income Tax
If representation acts as taxpayer, it is obliged to count, collect and pay to Tax Office an advance for income tax from salaries of employees and shall use given Tax Identification Number and meet a payefs obligation.

VAT
If representation conducts business only in the area of representation and promotion, registration for the purpose of Value Added Tax in Poland shall not be necessary.

Social Insurance
In case of engaging employees, the representation shall be registered for the social insurance purpose. Obtaining the Tax Identification Number will be necessary.

3 Adoption and applying of IAS

Foreign entities have the possibility of applying to the International Accounting Standards (IAS). Note, however, that the possibility of applying IAS depends on the fulfilment of certain conditions. IAS can be used in particular by the:

- issuers of securities admitted to or issuers of securities intending to apply for admission to or issuers of securities pending admission to trading on one of the regulated markets of the European Economic Area,
- entities being members of a capital group, in which a parent company prepares consolidated financial statements under IAS,
- **branches of a company, if the entrepreneur prepares financial statements in accordance with IAS.**

A decision in respect of the preparation of financial statements in accordance with IAS shall be taken by an approving body.

Annual financial statements prepared in accordance with IAS are subject to annual audits.

Entities which do not apply IAS for matters not regulated by the Act and domestic standards may apply IAS.

4 Keeping the books of accounts

4.1 Keeping the books of accounts in the Polish language and currency

Books of accounts shall be kept in the Polish language. In practice, it means that all descriptions of transactions, account names, the reports automatically created by the computer system (e.g. balance sheet, trial balance, profit and loss account) should be prepared in Polish. Nevertheless the computer system used for keeping the books of accounts may be managed in any foreign language.

Simultaneously, books of accounts shall be kept in the Polish currency. It means that business transactions expressed in foreign currencies shall be booked in a manner allowing to determine of the amount of the transaction in both Polish and foreign currency.

It should be emphasized that Polish tax regulations provide specific provisions in respect of calculation of foreign exchange differences as well as valuation of the transactions conducted in foreign currency. In practice, transactions expressed in foreign currency should be entered into the system in manner enablish their settlement both for tax purposes (mainly corporate income tax and VAT) and accounting purposes as well.

4.2. Place of keeping the books of accounts

Generally, the books of accounts are maintained by the entity. However, the bookkeeping may be outsourced to a local business entity or the business entity from certain countries (including the EU and EFTA), which are licensed to provide such services.

The business entity is not limited in choosing the place of keeping the books of accounts (e.g. the registered office of an entity, a representative or branch office of legal person) located in Poland, as well as abroad. If the branch (business unit) - as a part of business entity - is not entitled to prepare the separate financial statement, it can be authorized (by the business entity) to keep the books of accounts for itself or for whole business entity. This kind of authorization does not determine the obligation of preparation the financial statements for the branch (business unit) or for whole business entity.

In practice, due to numerous additional requirements imposed by the Polish accounting law in respect of maintaining books of accounts as well as amendments of tax system, smali and medium-sized enterprises outsource this services to a professional accounting offices.

4.3 Books of accounts maintained on server located off-site the place of bookkeeping

Computerized book of accounts, accounting information resources in the form of separate electronic data files, databases or the individual separate components are regarded as equivalent of the books of accounts, irrespective of the place of their origin and storage.

An entity may maintain the accounting system information resources in this form, providing that the entity is in the possession of software enabling to obtain readable information in respect of entries made in the books of accounts, by printing it out or transferring it into another data medium.

Books of accounts maintained by using a server located off-site the places of bookkeeping are considered as kept in the proper way when at least the following conditions are met:

- the entity takes control over the books of accounts and all made entries;
- the entity ensures identity of books of accounts and the copies of the reports/data received by the wired or wireless links;

- books of accounts should be kept in reliable, error-free and in verifiable manner and on an ongoing
- basis;
- booking entries can be linked with the books of account;
- the books of accounts, accounting documents, stocktaking documentation, financial statements and other should be stored in a proper manner and protected against forbidden modifications, unauthorized distribution, damage or destruction;
- the books of accounts are always available in place of keeping the entity's books of accounts;
- the business entity owns the document printed out in the form of books of accounts or saved the contents of the books of accounts on another electronic data medium - if the entity is in the possession of software enabling to obtain readable information for the period not shorter than 5 years.

4.4 Outsourced accounting services

If the books of accounts are not kept in the registered office of entity (branch, business unit), the entity's manager is required to:

- inform a relevant tax office about the place where the books of accounts are kept - within 15 days from the date when the books have been moved outside the registered office of the entity (branch, business unit);
- ensure access to the book of accounts for auditing by authorized external control bodies in the registered office of the entity (branch, business unit).

This situation may happen if the place of keeping the books of accounts is not the same as the registered office of an entity. In other words, the tax office should be notified about the fact of keeping the books of accounts in the offices of the branches (business units), other offices (not the headquarters or places of management) or if it has been outsourced to a business entity licensed to provide such services.

The entity's manager is responsible for the fulfillment of accounting obligations specified in the Act even if the place of bookkeeping is outsourced to an external entity.

Due to several discrepancies between the accounting regulations and the tax law as well as a number of duties of reporting to external bodies such as the Polish National Bank or the Central Statistical Office, the issue of bookkeeping is often outsourced to a professional, full-service providers. In practice, the preparation of tax returns, financial statements and a number of other reports in the Polish language is associated with numerous time-consuming administrative tasks. To meet the expectations of customers, accounting offices offer comprehensive services including: the tax compliance, bookkeeping and other reporting services.

Because of specialization and innovative IT solutions, the outsourcing gives the possibility to:

- optimize the administrative costs within the company;
- improve and take control of the company's finances;
- mitigate the risks associated with tax settlements;
- focus the company on its core business.

In practice, more and more entities decide on the implementation of the electronic flow of documents both for external purposes (i.e. tax authorities and clients) as well as internally within the entity.

5 Financial reporting

5.1 Financial statement

- **A balance sheet date**

The financial report shall be prepared as at the day of closing the books, which means in particular:

- at last day of each financial year,
- at the last day of the entit/s operations,
- at the date which precedes a change in legal status or the date of demerger, merger, division of entities.

Elements of financial statements

Financial statements includes:

- balance sheet,
- profit and loss account,
- notes to the financial statements.

Financial statements which are subject to annual audits also include:

- cash flow statement,
- statement of changes in eguity.

■ **Audit of financial statements**

Examination of the financial statements by the auditor is mandatory for:
- joint stock companies,
- other entities which in the prior financial year for which the financial statement was prepared, met at least two of the following conditions:

- the average annual number of employees, by full-time equivalents, reached or exceeded a level of 50 persons;
- total assets as at the end of the financial year reached or exceeded the Polish currency equivalent of EUR 2,500,000;
- net sales of products and goods for resale, plus income on financial transactions for the financial year reached or exceeded the Polish currency equivalent of EUR 5,000,000.

■ **Other**

Annual financial statements shall be prepared within three months since the balance sheet date.

In the case of some entities an annual report shall be prepared together with the annual financial statements.

Financial statements and an annual report shall be prepared in the Polish language and the Polish currency.

5.2 Financial statements of consolidated entities

Elements of consolidated financial statement

The obligation to prepare consolidated financial statements relates to parent holding companies.

Consolidated financial statements include the following:
- a consolidated balance sheet,
- a consolidated profit and loss account,
- a consolidated cash flow statement,
- a statement of changes in consolidated equity,
- notes to the consolidated financial statements.

An annual report of the capital group shall be enclosed to the annual consolidated financial statements of the group.

Exemption from preparing consolidated financial statement

The Act provides the possibility to exempt an entity from preparation of consolidated financial statements. In particular, note the following condition relating to the level of employment, the balance sheet and income. A parent company is not obliged to prepare consolidated financial statements, if as at the balance sheet date of the financial year and as at the balance sheet date of prior financial year, the total data of the parent company and all of its subsidiaries at every level (before consolidation eliminations) meet at least two of the following criteria:

- average annual number of employees, by full-time equivalents, did not exceed 250 persons;
- total assets did not exceed the Polish currency equivalent of PLN 38.400.000;
- total net sales of products and goods for resale, plus income on financial transactions did not exceed the Polish currency equivalent of PLN 76.800.000;

  and after consolidation adjustments:
- average annual number of employees, by full-time equivalents, did not exceed 250 persons;
- total assets did not exceed the Polish currency equivalent of PLN 32.000.000;
- total net sales of products and goods for resale, plus income on financial transactions did not exceed the Polish currency equivalent of PLN 64.000.000;

5.3 Deadlines of preparing financial statements and institutions to which financial statements shall be filed with

The most important deadlines are listed below.

- preparing financial statement - 3 months since the balance sheet date,
- approving financial statement - 6 months since the balance sheet date,
- approving financial statement of foreign entrepreneur branch - date of approving financial statement of a parent company,
- filing financial statement with the National Court Register - 15 days since the date of approving financial statement,
- filing financial statement with the Tax Office - 10 days since the date of approving financial statement.

5.4 Other reporting obligations

Except for preparing financial statements, polish law obliges selected units to additional reporting obligations, in particular preparing statistical reports to the National Bank of Poland and the Central Statistical Office.

Reports are filed with the National Bank of Poland and the Central Statistical Office via Internet.

Information on the reporting to the Central Bank:
http://nbp.pl/home.aspx?f=/statystyka/sprawozdawczosc/bilans_platn/spr_bil_platn.html

Information on the reporting to the Central Statistical Office:
www.stat.gov.pl

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