

Market expansion with as much as a million in tax relief

I. New relief for the promotion of products as of 1 January 2022

One of the new deductions introduced by the so-called Polish Deal is the relief referred to as expansion relief. It is available to taxable persons (under PIT and CIT) who incur strictly defined expenses to increase the sale of products, to launch new products or to launch products on a new market. Under the new regulations, expansion relief enables the deduction in an annual tax return of the expenses incurred for specific purposes, up to PLN 1 million, which for taxable persons taxed at the rate of 19% would result in a tax reduction of as much as PLN 190 thousand.

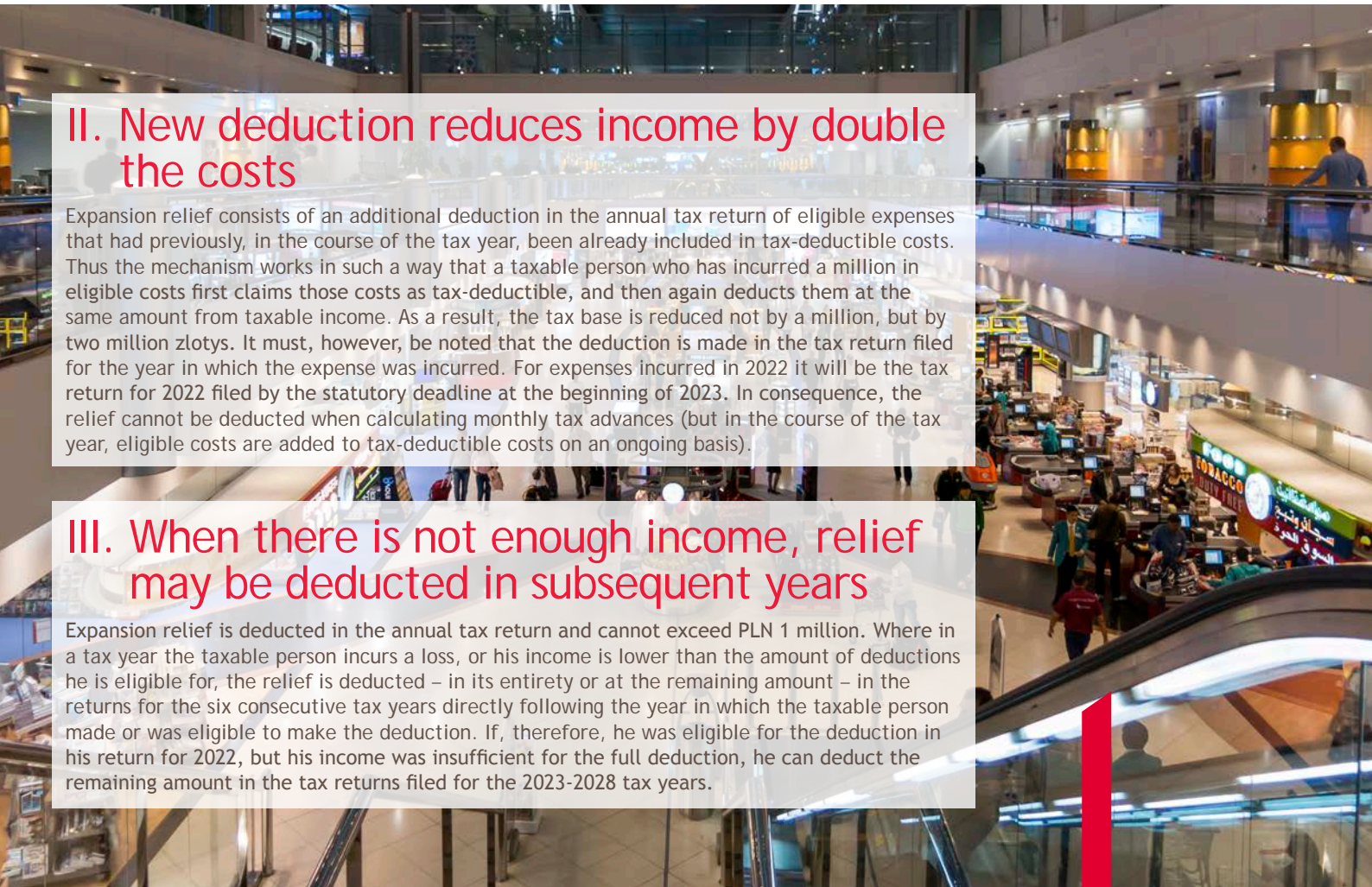
Traders who incur eligible costs for the promotion of their products will be able to deduct as much as a million zlotys in their tax returns for 2022. To retain the relief they will, however, have two years to prove that the promotion increased their revenues from the sale of those products.

II. New deduction reduces income by double the costs

Expansion relief consists of an additional deduction in the annual tax return of eligible expenses that had previously, in the course of the tax year, been already included in tax-deductible costs. Thus the mechanism works in such a way that a taxable person who has incurred a million in eligible costs first claims those costs as tax-deductible, and then again deducts them at the same amount from taxable income. As a result, the tax base is reduced not by a million, but by two million zlotys. It must, however, be noted that the deduction is made in the tax return filed for the year in which the expense was incurred. For expenses incurred in 2022 it will be the tax return for 2022 filed by the statutory deadline at the beginning of 2023. In consequence, the relief cannot be deducted when calculating monthly tax advances (but in the course of the tax year, eligible costs are added to tax-deductible costs on an ongoing basis).

III. When there is not enough income, relief may be deducted in subsequent years

Expansion relief is deducted in the annual tax return and cannot exceed PLN 1 million. Where in a tax year the taxable person incurs a loss, or his income is lower than the amount of deductions he is eligible for, the relief is deducted – in its entirety or at the remaining amount – in the returns for the six consecutive tax years directly following the year in which the taxable person made or was eligible to make the deduction. If, therefore, he was eligible for the deduction in his return for 2022, but his income was insufficient for the full deduction, he can deduct the remaining amount in the tax returns filed for the 2023-2028 tax years.



IV. Sales revenue must grow within two years

A taxable person may only use the deduction if in a period of two consecutive tax years (counting from the year in which the expenses were incurred) he increases his revenues from the sale of the products covered by the deduction compared to the revenues from the sale of such products determined as at the last day of the tax year preceding the incurrance of the costs. And so when a taxable person wants to make a deduction in his tax return for 2022 (of eligible expenses incurred in 2022), the point of reference will be 31 December 2021. The provisions do not, however, specify by how much the sales revenue should grow. As a result, the condition will be met by any, even the smallest increase in sales. It should also be remembered that this refers to an increase in revenue from the sale of products defined as a disposal of products in exchange for consideration to an unrelated party.

V. Deduction for new products that have generated sales revenue

Expansion relief may also be deducted when in a period of two consecutive tax years the taxable person generated revenues from the sale of products he didn't previously sell or from the sale of products he didn't previously sell in a given country. And so it may be used whenever a new product is launched, providing that revenues were generated from its sale (no amount of revenue is specified). The same applies when a product was already sold, but is launched in a country where the taxable person did not sell it before. This too refers to revenues from the sale of products, defined as the disposal of products in exchange for consideration to an unrelated party.

VI. Revenues exempt and taxed abroad not eligible for relief

A taxable person who in a tax year applies tax exemptions applicable to SSE (Special Economic Zones) or tax exemptions resulting from the Act on support for new investments, is eligible for relief only with respect to tax-deductible costs incurred in order to increase revenues from the sale of products, which the taxable person did not include in his calculation of income exempt under those regulations. In addition, the amount of the deduction is calculated only on those revenues where the resulting income is subject to taxation in the Republic of Poland. This refers to where the sales revenues are taxed rather than to where the products were sold.

VII. Only eligible expenses may be deducted

Expansion relief may only be deducted on expenses directly specified in the regulations. They include expenses incurred for: taking part in trade fairs and the related costs of exhibition space, purchase of airline tickets, accommodations and food for the taxable person and his employees; all promotional and advertising activities, including purchase of advertising space, webpage set up, publications, brochures, product catalogs and leaflets; adaptation of product packaging to client needs; commodity certificates and trademark registrations; taking part in tenders. As this is a closed list of eligible costs, no deductions may be taken on expenses from outside the list.

