

Ministry of Finance updates explanations on youth relief

I. Youth relief is limited and does not cover small contracts

Youth relief is an exemption from personal income tax on income from: regular employment; contractual employment based on a contract for services; post-graduate internship; student internship; maternity benefits – received by the taxable person before reaching the age of 26, up to an amount that does not exceed PLN 85 528 in a tax year. The exemption only applies to income taxed on the tax scale. This means that youth relief does not cover, for example, income from contractual employment based on a contract for services: earned in the territory of the Republic of Poland by a person subject to limited taxation in Poland, taxed with 20% flat-rate income tax (Article 29 par. 1 point 1 of the PIT Act), as well as income that does not exceed PLN 200, taxed with 12% flat-rate income tax (Article 30 par. 1 point 5a of the PIT Act).

II. Eligibility for relief is based on age, limit, type and timing of income

To recap: in the period from 1 August 2019 to 31 December 2020 the relief applied only to income from regular employment and contractual employment based on a contract for services. As of 1 January 2021, youth relief also applies to income from a post-graduate or student internship, and as of 1 July 2022 to maternity benefits (the change that applies to maternity benefits covers income earned from 1 January 2022). Eligibility for youth relief is based on the fulfilment of all of the conditions relating to: the taxable person's age, type of income (including form of taxation), income limit, timing of income.

III. Eligibility for tax exemption up until 26th birthday

The Ministry of Finance explains that the age condition must be met at the time the income is earned. Owing to the fact that the Tax Ordinance provides that the time limits specified in years run out at the end of the day of the last year that corresponds to the starting day of the time limit, and if there is no such day in the last year – on the day immediately preceding that day, then in the Ministry's opinion this means that eligibility for youth relief – providing that the other conditions are met – is in effect inclusive of the taxable person's 26th birthday. It is, however, important to note one thing. In a situation where the 26th birthday falls on a Saturday or a public holiday, under the provisions of the Tax Ordinance there is no 'postponement' of the date of birth to the day following the holiday. What is more, income earned after the 26th birthday is not eligible for youth relief, even if it originates from contracts concluded prior to that day or work performed prior to that day.

On 30 December 2023 the Ministry of Finance published explanations on youth relief, i.e. personal income tax relief for natural persons under 26. Among others, they clarify the date up until which the relief may be applied and what new obligations have been imposed in this respect on tax remitters in 2023.





IV. Not all income earned by an under 26 is exempt

The following income is excluded when determining income subject to exemption under youth relief: income subject to taxation with flat-rate income tax (e.g. severance pay for reducing the period of notice for an employment contract for management activities, concluded with a state or municipal company); income exempt from taxation (e.g. benefits arising out of occupational health and safety regulations, business travel allowances, foreign income accounted for in accordance with the exemption with progression method based on double-taxation treaties); income with regard to which the collection of tax has been waived based on the provisions of the Tax Ordinance.

V. Relief applies to both Polish and foreign income

Youth relief applies to income from: regular employment; contractual employment based on a contract for services; post-graduate internship; student internship; maternity benefits – irrespective of where the source of such income is located. In consequence, youth relief applies to income earned in the territory of the Republic of Poland, as well as abroad. At the same time, income earned abroad that is exempt from taxation based on double-taxation treaties or other international agreements is not considered in the calculation of the amount of income subject to youth relief.

VI. Spouses cannot split the youth relief limit

The annual youth relief income limit is PLN 85 528. In cases where in addition to youth relief a taxable person applies repatriation relief or family 4+ relief, including from non-agricultural business activities, the annual income limit for all of those types of relief is PLN 85 528. Each taxable person is eligible for this income limit. For married taxable persons – irrespective of how they file (separately or jointly) – the PLN 85 528 income limit applies separately to the taxable person and to the spouse (when other conditions are met). A portion of the limit unused by one of the spouses in a given year is not accounted for as part of the income limit of the other spouse, and does not increase the limit for which the taxable person or spouse is eligible in the following years (the relief does not “carry over” to the next tax year).

VII. For many tax remitters taxable person monitors the limit

Where a taxable person earns income subject to youth relief from more than one tax remitter, the taxable person himself monitors the amount of the limit used by all of the tax remitters. This is because exceeding the limit may lead to an additional payment in the annual tax return. To avoid this, the taxable person may – at any time of the tax year – submit to the tax remitter a request for the non-application of the relief during the calculation of advances.

VIII. No employee costs within the limits of exempt income

The introduction of youth relief has led to limiting the ability to claim tax-deductible costs to the amount of taxable income (lump-sum standard employee deduction). Where youth relief is used, tax-deductible costs of regular employment and contractual employment based on a contract for services are claimed at an amount that does not exceed the taxable portion of income from a given source. The limit applies to lump-sum deductions, as well as to actually incurred costs. Whereas it does not apply to flat-rate percentage based costs, which are only calculated on taxable income.

IX. Limited copyright costs

The application of youth relief will also affect the tax-deductible costs of income from the use or disposal of copyrights by authors and related rights by performers, as defined in separate regulations, as well as from other titles to which 50% deductible costs are applied. Where youth relief is applied to employment income, the sum of: total deductible costs at the rate of 50% and income from employment subject to youth relief, repatriation relief and relief for families 4+ may not exceed PLN 120,000 in a tax year.



X. No deduction of ZUS premiums paid on exempt income

Premiums (Polish social insurance premiums) calculated based on, among others, income exempt under the PIT Act, are not subject to income deduction. As a result, premiums paid using the taxable person's funds on income covered by youth relief are not deductible. This rule applies both in the course of the year during the calculation of tax advances and in the annual tax return. If the taxable person does not know the amount of premiums collected by the tax remitter on income covered by youth relief and knows only the total amount of social insurance premiums paid, he deducts the portion of the total premiums paid that corresponds to the share of taxable income in the total income covered by youth relief and total taxable income.



XI. Tax remitter applies relief by law, unless taxable person requests non-application

Personal income tax remitters who are employers, principals or entities that offer post-graduate and student internships, apply youth relief by law. This means that if at the time of receiving income from regular employment, contractual employment based on a contract for services, post-graduate/student internship or maternity benefits the taxable person meets the conditions for youth relief (neither the age or income limit has been exceeded), the tax remitter applies youth relief, which means that such income is not included in the tax advance calculation base. Only if the taxable person submits to the tax remitter a request to collect advances without applying youth relief (PIT-2), then regardless of the fact that the taxable person meets the conditions for youth relief, the tax remitter will begin to calculate and collect tax advances no later than as of the month following the month in which he received the request. As of 2023, a request for the non-application of youth relief (submitted by the taxable person in writing or in another manner adopted by the tax remitter) will also apply to income earned in the following years (also after the legal relationship between the taxable person and tax remitter is terminated), unless the taxable person withdraws the previously submitted request or ceases to meet the conditions for the application of the relief (e.g. reaches the age of 26).

The information presented herein does not constitute comprehensive information or opinion. Consult your adviser before making any decisions.

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