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TAXATION OF INDIVIDUAL ECONOMIC ACTIVITIES IN POLAND – CURRENT ISSUES

Income tax, which is now one of the key elements of the Polish financial system, has a long and complicated history. Its origins can be traced back to a time when tax obligations took the form of tributes to the ruler to finance the administration, the army and the development of the state. In medieval Poland, taxes were irregular in nature and were levied mainly in emergencies such as wars, invasions or natural disasters. Initially, taxes were paid in kind, e.g. in grain, cattle or forced labour, and their amount depended on the region and the social position of the taxpayer. During the Polish-Lithuanian W Rzeczypospolitej system podatkowy był stosunkowo niespójny, a dochody do skarbu królewskiego pochodziły głównie z ceł, myt i danin nakładanych przez sejm, takich jak podatek od gospodarstw domowych czy pobór od każdej osoby. The royal power had limited control over taxes, which weakened the centralisation of the treasury system. It was not until the Partitions, under Prussia, Austria and Russia, that more structured tax systems based on the experience of the partitioning powers were introduced. A turning point for the Polish tax system was the regaining of

independence in 1918. The authorities of the reborn Republic had to unify the tax system, which in different parts of the country was based on Prussian, Austrian and Russian solutions. In 1920, the Income Tax Act was introduced, which was the foundation of the modern fiscal system. The tax was progressive, meaning that higher incomes were charged at higher rates. The Second World War and the communist period brought further changes in taxation. The communist authorities gradually reduced the importance of income tax in favour of indirect taxes and compulsory tributes to the state. The centrally planned economy was based on a controlled redistribution of income, and taxes acted as a political rather than a purely fiscal tool. It was not until the political transformation after 1989 and the transition to a market economy that the importance of income tax as one of the main sources of state funding was restored. Currently, the tax system in Poland comprises both personal income tax (PIT) and corporate income tax (CIT). Income tax has undergone numerous reforms – from the introduction of tax progression, through the possibility of choosing a flat tax for entrepreneurs, to changes resulting from the reform of the so-called Polish Order. The tax burden and frequent modifications of the legislation remain the subject of public debate, and further evolution of the fiscal system is inevitable in the context of changing economic and social conditions. The history of income tax in Poland reflects the broader political and economic processes that have shaped the state over the centuries. From feudal tributes to the modern tax system, the development of taxation shows how the country's fiscal and social priorities have changed [1, pp. 10-14].

The registration of business activity is connected with the necessity of choosing an appropriate form of taxation. In Poland, entrepreneurs can choose between three basic forms of taxation: general rules (tax scale), flat tax and lump-sum tax on registered income. This choice affects not only the amount of tax due, but also the manner of keeping accounting records and the possibility of taking advantage of tax reliefs.

General rules (tax scale)

Taxation under the general rules means that the entrepreneur settles according to a progressive tax scale. This is the only form of taxation that takes into account the so-called tax-free amount. Income up to PLN 30 000 per year is exempt from taxation. Tax is calculated according to a two-stage scale:

- 12% for income up to £120,000 per annum,
- 32% for income in excess of £120,000 per annum [2].

Entrepreneurs using this form of taxation can deduct tax-deductible costs, which allows for a reduction in the tax base. In addition, they are able to benefit from a number of tax reliefs and preferential tax treatment together with a spouse or as a single parent [3].

Flat tax

Flat tax is a form of taxation that involves a fixed tax rate of 19% regardless of the income earned. As with the tax scale, entrepreneurs may deduct deductible costs, but the number of tax reliefs available is limited. An important limitation of the flat tax is the impossibility of joint accounting with a spouse [4].

Not all entrepreneurs can benefit from this form of taxation. The flat-rate tax cannot be chosen by persons who provide services to their former employer as part of their business activity, if these are the same services as those previously provided under an employment relationship. In such a situation, the entrepreneur must choose another form of taxation at least in the first year of business activity [5].

Flat-rate tax on registered income

A lump sum is a simplified form of taxation in which tax is calculated on revenue rather than income. This means that the entrepreneur is not allowed to deduct deductible costs. When choosing this form, it is also not possible to benefit from preferential accounting with a spouse or IP Box relief [6].

Lump sum rates depend on the type of business and amount to, among other things:

- 3% for commercial activities,
- 5.5% for construction activities,
- 8.5% for rental and lease services,
- 12% for the provision of hardware consultancy services,
- 14% for architectural and engineering services. [7]

The choice of this form of taxation is beneficial for entrepreneurs with low business costs and high revenues.

Until 1 January 2022, there was a possibility for entrepreneurs to use the tax card, a result of as the introduction of the so-called Polish Deal, the possibility to choose the tax card as a form of taxation for new entrepreneurs and for those who wanted to change the current form of taxation was eliminated. Currently, only those entrepreneurs who used this form of taxation before 2022 and continue to do so without interruption may use the tax card [8].

The tax card is a simplified form of business taxation, involving the payment of a fixed amount of tax irrespective of the income earned. *The amount of tax is determined by the head of the tax office on the basis of criteria such as:*

- type of activity carried out,
- number of employees,
- the number of inhabitants in the locality where the activity is carried out.

Entrepreneurs using the tax card are exempt from bookkeeping, which is a significant simplification compared to other forms of taxation [9].

The high cost of Social Security contributions and their impact on small businesses

The increase in social security contributions is a major burden for micro-entrepreneurs and sole traders. Social Security rates are increasing every year and the lack of flexible solutions makes it difficult for small businesses to maintain liquidity. The high burden may result in the abandonment of the business or moving to the grey market.

Unclear and frequently changing tax legislation

The tax system in Poland is characterised by frequent changes and complicated interpretation of regulations. Many entrepreneurs complain about the lack of stability

and the need for tax advice to avoid accounting errors. The instability of tax law makes it difficult to plan long-term business strategies [10].

Administrative burden of doing business

Running a business involves numerous administrative duties, such as bookkeeping, filing tax returns and reporting to various institutions. The time-consuming nature of these duties poses a significant problem, especially for small businesses that cannot afford to employ an accountant [11].

Problems of tax audits and tax interpretations

Tax interpretations often vary from one tax office to another, leading to uncertainty among entrepreneurs. In addition, tax audits can generate stress and additional costs related to possible financial sanctions. Entrepreneurs fear that unclear regulations can be used to their disadvantage during an audit.

Business income taxation in Poland has undergone a long evolution, adapting to the country's historical and economic changes. From feudal tributes, through the tax systems of the partitioning powers, to the modern multi-level fiscal system, Polish taxation has reflected different stages of the country's development. Currently, entrepreneurs have a choice of three main forms of taxation: tax scale, flat tax and lump sum. Each has its advantages and limitations, affecting the amount of taxes paid, the range of reliefs available and the level of accounting formalities.

The introduction of the Polish Deal significantly affected the taxation system, changing the rules for calculating health contributions, abolishing the tax card for new entrepreneurs and introducing new income thresholds. These changes have had major consequences for small businesses, which face rising costs of Social Security contributions, unclear tax regulations and increased administrative burdens. An additional problem is tax audits and ambiguous tax interpretations, which introduce an element of uncertainty in the conduct of business.

In conclusion, the tax system in Poland requires further improvements in terms of legal stability, transparency of regulations and reduction of bureaucratic burdens. Future reforms should take into account the needs of micro-entrepreneurs and provide them with a more predictable business environment.

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FORMS OF INCOME TAXATION FOR SOLE PROPRIETORSHIPS IN SELECTED CENTRAL AND EASTERN EUROPEAN COUNTRIES

Income tax, which today constitutes one of the pillars of financial systems in states, has a long and complex history. Its roots go back to times when tributes and levies for rulers were the primary form of financing administration and the military. In the Middle Ages and early modern period, taxation was irregular and depended on the decisions of the monarch, who imposed it mainly in times of crisis, such as wars or natural disasters. Initially, taxes took the form of tributes paid by subjects in kind, labor, or money, with their amount and collection method varying by region and political system.

In Central and Eastern Europe, where feudal systems dominated for a long time, levies were primarily an obligation of peasants, who paid them to their feudal lords or directly to the ruler. As societies evolved and states began to centralize power, it became necessary to introduce more standardized and systematic forms of taxation. A breakthrough moment was the gradual replacement of feudal obligations with regular taxes imposed on the population, including the first forms of income tax. In the 19th and 20th centuries, with the development of capitalism and the emergence of modern