

Poland's Fight Against VAT Fraud: Results and Side Effects

Rafał Trzeciakowski, Economist
Civil Development Forum (FOR), Poland
September 3rd 2019

Between 2015 and 2018 the Polish government introduced several measures aimed at increasing tax compliance and fight with VAT frauds, that often involved selling goods in the shadow economy. As a result not only selling in the shadow economy, but also buying from shady parties has become much riskier.

Selected measures

Detection & control

- Limitation of quarterly VAT settlements
- Standard Audit File – SAF – automatic monthly reporting
- **Split payment** - *mechanism divides the payment for the goods or services into net amount and VAT, directing them to separate accounts*
- **Monitoring of transport of sensitive goods** - *register of transport of selected goods is kept in the IT system by the National Revenue Administration*
- **Limit on cash transactions** *limit for cash B2B transactions has been lowered from the EUR 15,000 to EUR ~3,500 (PLN 15,000).*

Penalties

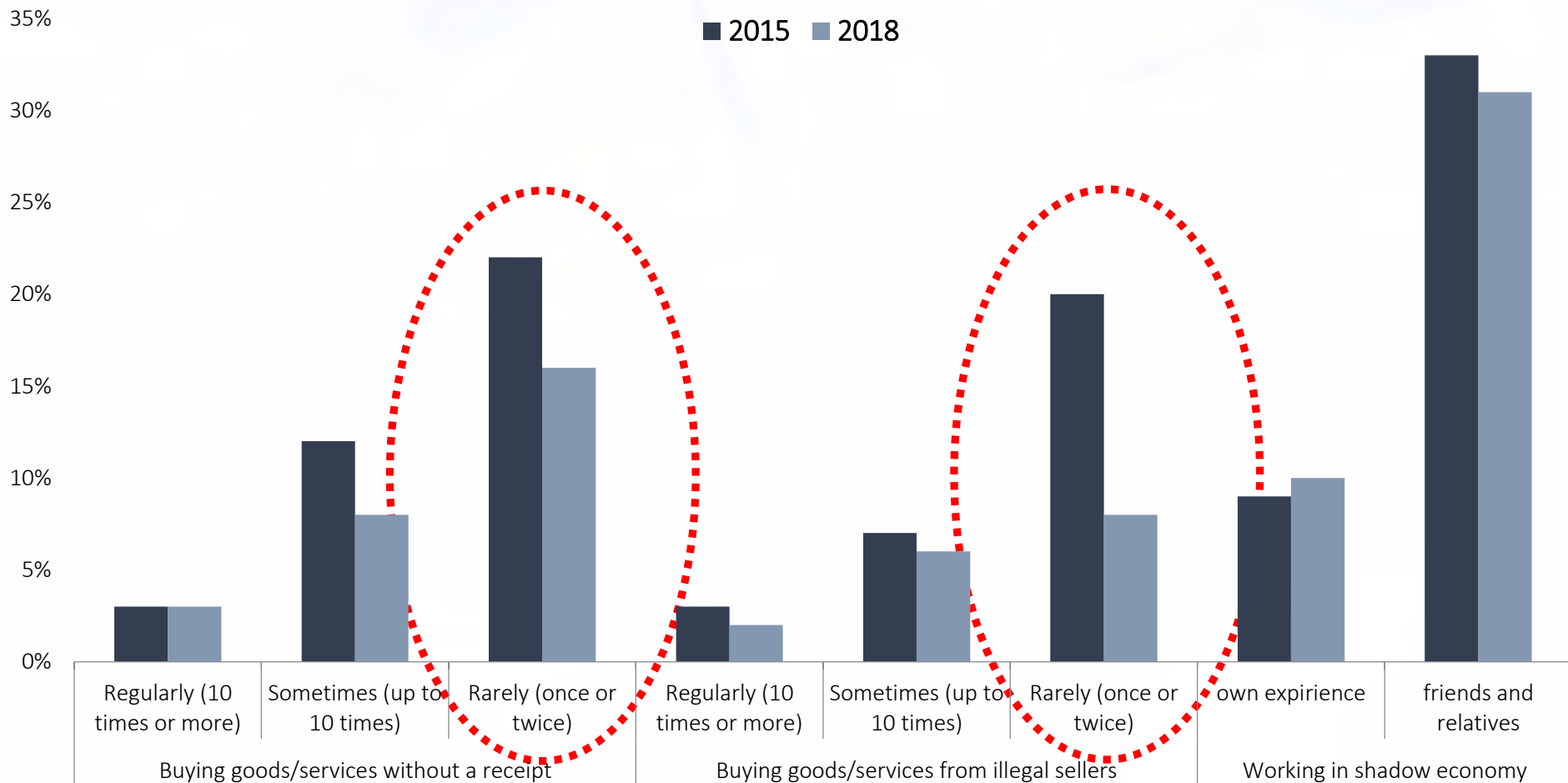
- **Increase of penalties for tax offences** *offenses up to 25 years in prison for falsifying invoices above EUR ~2,3 (PLN 10 million)*
- **Extension of joint and several liability** – *in case of some goods seller and buyer are jointly liable for VAT*
- **Sanctions for unreliable VAT settlement** *in case of heavy irregularities in a VAT settlement, the tax administration can apply fine equal to 100% of VAT*
- **Extended seizure** *prosecutors can take over control of companies if there is suspicion that company assets are a result of crime*

Survey conducted for the project indicates a large fall in the number of people occasionally buying in the shadow economy. Other available measures confirm shrinking of the shadow goods and services market, but much smaller changes in the shadow labour market.

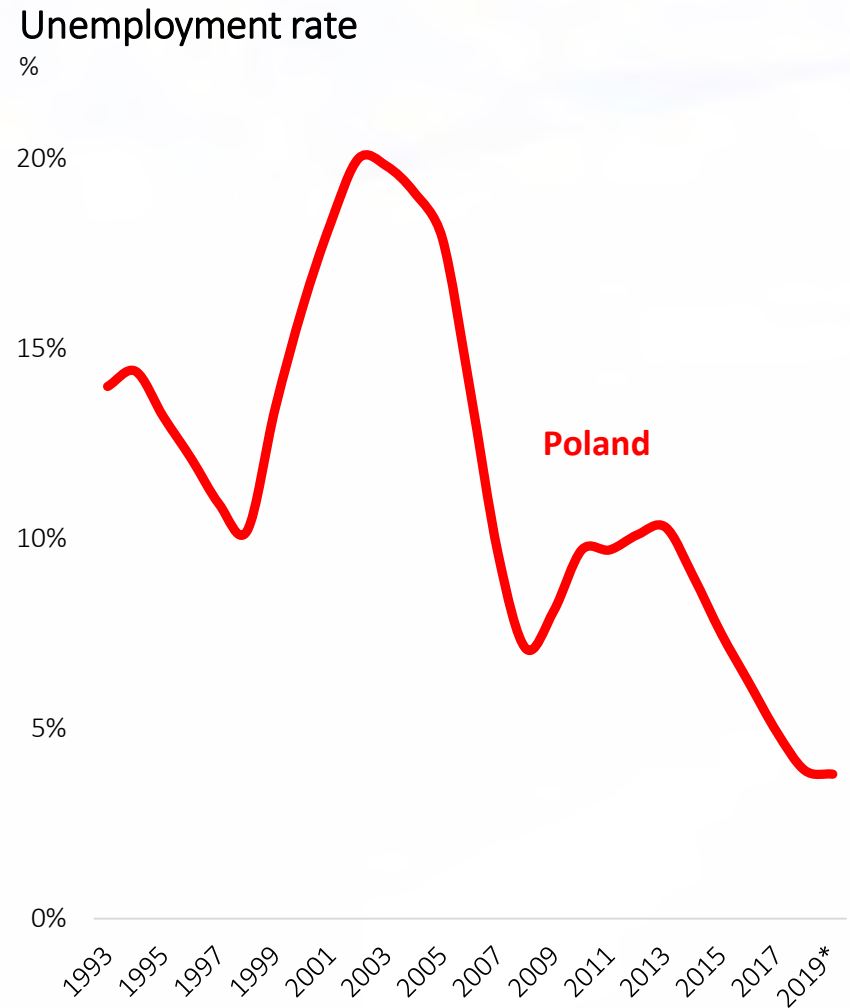
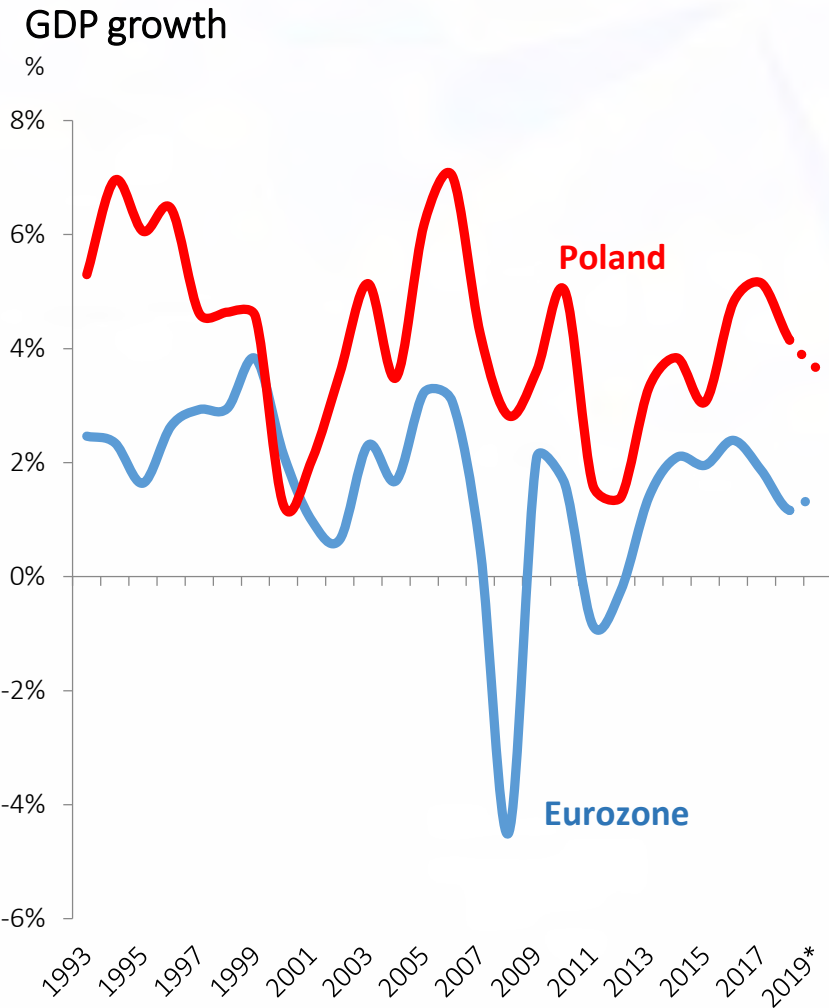
Number of people engaging in shadow economy

%

■ 2015 ■ 2018



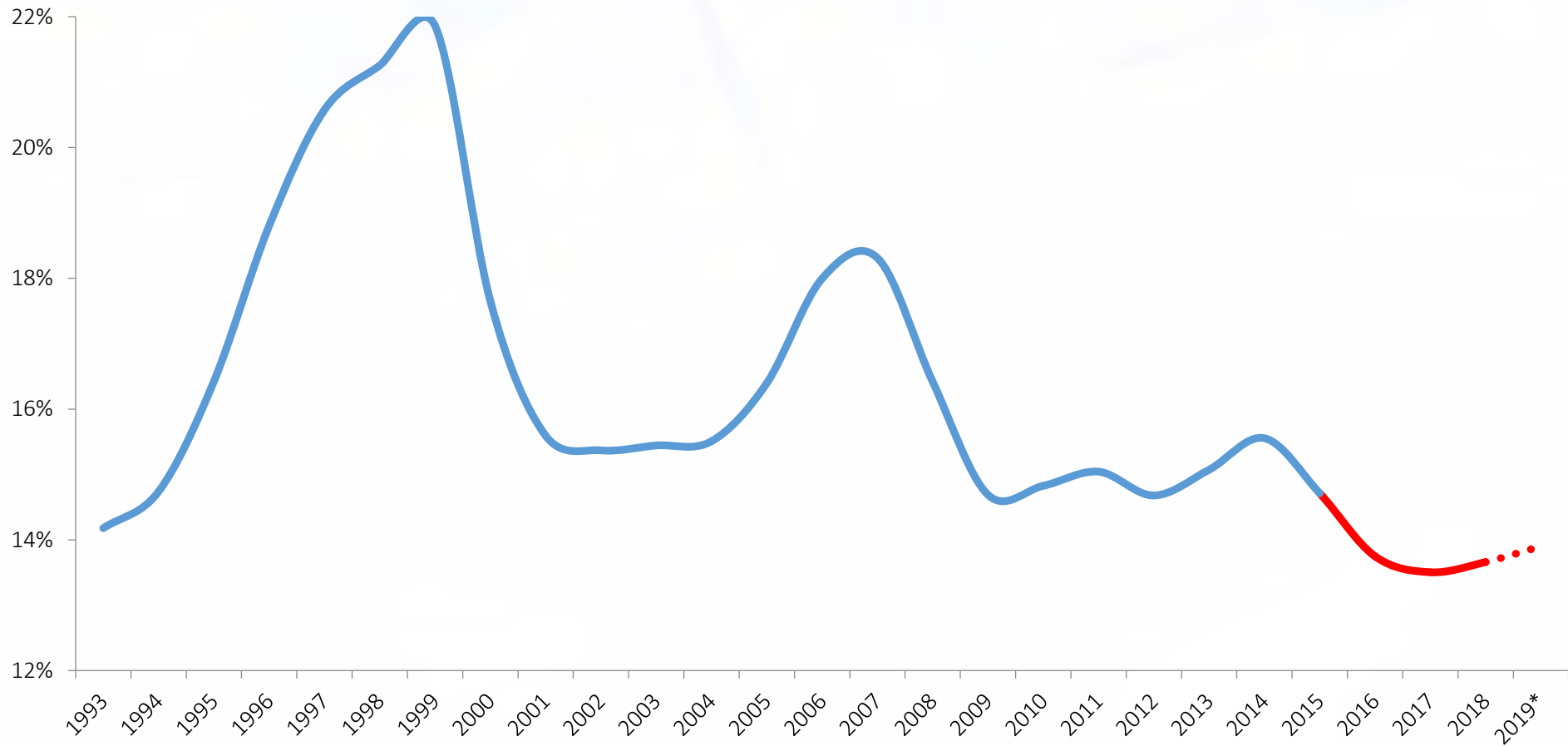
Strong growth of the main Polish trading partners supported growth of the Polish economy, which coupled with decreasing working age population caused the fall of unemployment rate to historical lows.



The new regulatory burden and increased penalties coupled with an attack on the rule of law in Poland have made running businesses riskier. Despite cyclical upswing in the economy, private investment rate has fallen to the lowest levels since at least 1993.

Private investment rate

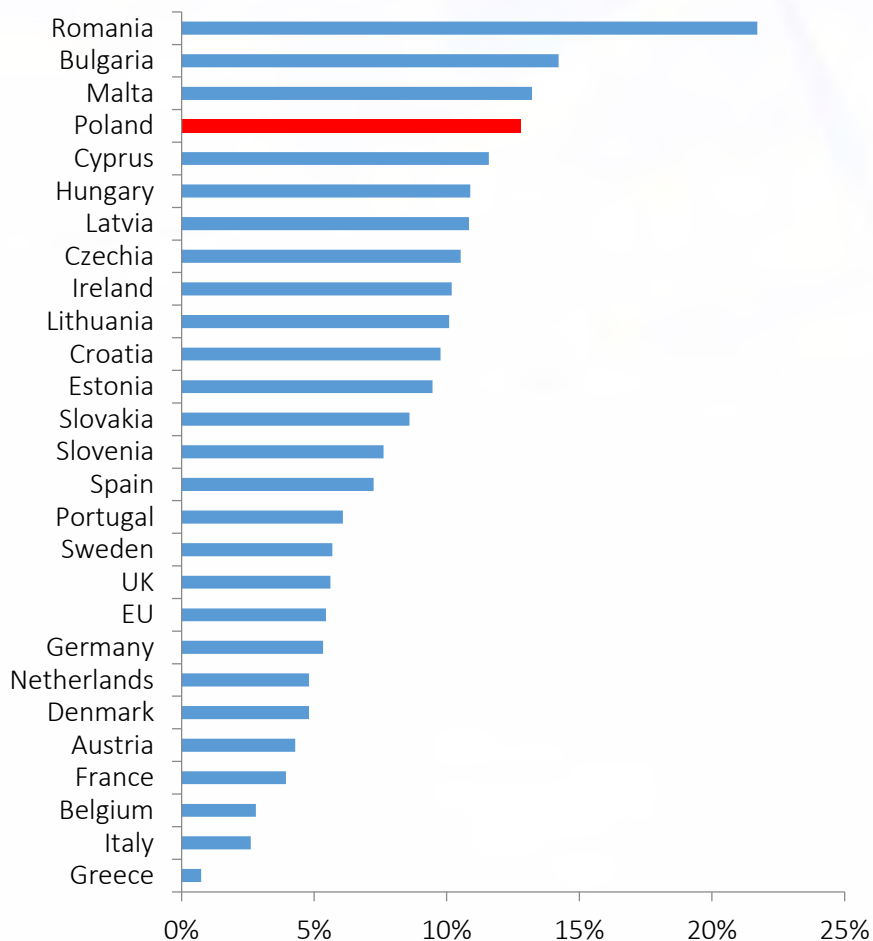
Investment rate of corporations and households, as % of GDP



As a result of a consumption boom and increased tax compliance, tax revenue to GDP ratio has increased from 33.3% GDP in 2015 to 36.1% GDP in 2018, but at the cost of weak investment, likely undermining long-term growth prospects.

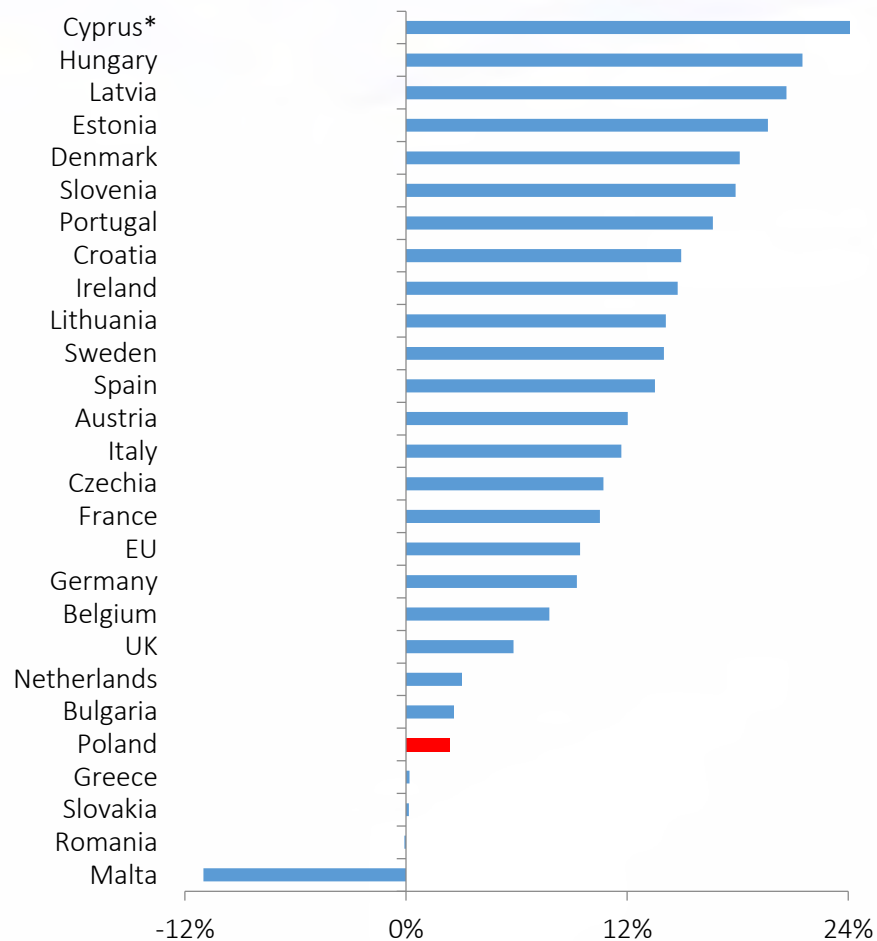
Consumption

% change 2015-2018



Investment

% change 2015-2018



Rafał Trzeciakowski

Economist

rafal.trzeciakowski@for.org.pl

Civil Development Forum (FOR)