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UNSOLVED PROBLEMS IN POLISH ACCOUNTING IN 1999

Polish accounting legislation is based on Act on Accounting and Income Tax Law. Financial and management accounting must be changed and adapted to making correct financial statements for tax office and useful for businessmen. The paper analyses the specific solutions in Polish accounting as adapted from January 1, 1999: different taxation rates for private firms, constant, purchase method of consolidation procedure, constant and interim differences between net profit and tax income and information about social insurance (paid by an employee and an employer).

1. INTRODUCTION

Accounting provides quantitative information about separate economic units. The information is presented in financial statements, in the currency of the national environment of the separate economic units. There are the bases for making economic decisions by internal and external users, for example: customers, creditors, suppliers, shareholders, banks, financial offices and so on.

The basic regulation in the Polish market economy is the Act on Accounting of September 29,1994, which controls the accounting principles in public, national, private and budgeting enterprises, firms and institutions.

The Polish Act on Accounting of January 8, 1999 (changes in this Act were the twelve amendments introduced from September 29, 1994 to January 8, 1999) has been executed in order to:

1. Get the correct statements, compatible with true financial standing of companies and capital groups. This has been one of the conditions to supply foreign capital to Poland;

2. Adapt Polish regulations of accounting law in European Union countries based on the directives concerning:

- 78/660/EU – annual balance sheets in companies,
- 83/349/EU – annual consolidated balance sheets in companies,
- 86/635/EU – annual and consolidated balance sheets in banks and the other financial institutions,

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- 91/674/EU – annual and consolidated balance-sheets in insurance companies;

3. Adapt Polish accounting solutions and principles content in International Accounting Standards (IAS), if the IAS have not been at variance with the European Union's regulations. We have in Poland a lot of international companies with German and the other capital. At first, companies began work based on IAS but also decided to be based on American Accounting standards. That means, all financial and management accounting must be changed and adopt new principles in making financial statements preparing for managers and accountants the correct income tax for taxation office.

The Polish Act on Accounting has been adapted by the European Committee because it is consistent with the European Union's legislation.

However theory and practice in accounting are often different and Polish employers and accountants have been still exposed to „open" (unsolved) problems connected with – for example:

1. Loopholes in the Polish Act on Accounting and the European Union's directives referring to:

- financial instruments (for example: deposit contracts),
- finance lease (for fixed assets),
- long-term contracts (plant and equipment under constructions) and income summary connected with them;

2. New issues in Polish accounting law concerning:

- legible and clear information prepared in financial statements for external and internal receivers,

3. Excessive costs to keep consistent with the Polish Accounting Act, because:

- accountants must do laborious and time-consuming conversion to adjust balance sheet,
- items to income tax needs (There are two different options in Poland: accounting income measurement and the calculation of taxable income),
- current accounting has to deliver information needed for calculating prepaid income tax (deferred income tax),
- the majority of companies have the obligation to control their financial statements by auditors;

4. Corporation valuation for the restructuring process.

Corporate valuation gains special importance when the company is to override some external and internal barriers of growth. The appearance of the barriers forces such firm to restructuring the business activity throughout multidirectional changes. The results of the changes in: structure of capital, internal organization, merger or acquisition – require to measure their influence on corporate value. Industrial restructuring requires applying all known approaches to corporate valuation: the book value, the discounted cash flow approach and the stock and debt approach. Accountants must remember that the choice of valuation method is especially limited by the aim of valuation and the economic situation of the company.

There are different "open" problems in the Polish market but when the owners of private capital decide to invest their capital in business, they want to have stabile economic conditions accounting law and income tax law.

2. SPECIFIC SOLUTIONS IN POLISH ACCOUNTING AS ADOPTED ON JANUARY 1, 1999

2.1. Different taxation rates for private firms

Every businessperson who gains income from economic activity may choose how to settle with tax office. This situation depends on: the scale and type of the economic activity, the level of income from this activity and detailed book-keeping. The tax-payer may pay income tax as:

1. preemptive tax(ation), or
2. tax (account) card , or
3. a percentage of gross profit – when the sum of income from all (operating, investing and financing) activities is more than 3,339,280 PLN (800,000 EUR) and obligatory keeping of full taxation accounting-book and sum of income in PLN must be counted as the EUR average rate of exchange from September 30 last year before taxation year.

The pre-emptive tax(ation) from accounting income is not an obligatory form of taxation, because the taxpayer may choose the other form of settlement with the taxation office. But the taxpayer must inform the tax office about his taxation decision not later than January 20 taxable year.

Pre-emptive tax from the assessable income a taxpayer may pay in 1999 if:

1. In 1998:
   - had income from their all economic activities (operating activity, investing activity and financing activity) not more than 400,000 PLN (about 95,000 ECU), or
   - had income only from the interest in general partnership and the sum of this income of all partners of this partnership does not exceed 400,000 PLN (about 95,000 ECU);
2. Began economic activity in 1999 and has not the account card (without information about their income in 1999).

Table 1

Pre-emptive tax(ation) rates for different economic activities (% of total income)

Activity	Tax rate
Trade activity	3%
Restaurant services	3%
Building operations	5.5 %
Transport services (cars with loads of more than 2 ton)	5.5 %
Service activity (and restaurant services with income from alcohol sale)	8.5 %
Manufacturing goods from supplied raw materials	8.5 %
Commission from commission agent (merchandise broker) based on commission contract	8.5 %

Source: Acts of Polish Parliament 1999.

If the taxpayer takes up different activities and:

1. Changes to individual book-keeping for every type of activity – he pays pre-emptive tax using different rates (See: Example 1a), or

2. Takes book-keeping together for all activities – he pays the maximum rate of the pre-emptive tax (8.5 % on all income from different activities – see: Example 1b),

3. Has not kept any records (or not true records – in the opinion the tax office) – he must pay 20 % from all income from different activities – as pre-emptive tax(ation) (See: Example 1c).

Example 1:

Firm "Golden apples" has income from January 1, 1999 to June 30, 1999 in Poland:

trade activity	100,000 PLN (24,390 EUR)
building operations	100,000 PLN (24,390 EUR)
restaurant services (with sale of alcohol)	100,000 PLN (24,390 EUR)
total incomes	300,000 PLN (73,170 EUR)

a) Pre-emptive tax which firm "Golden apples" must settle with the tax office :

trade activity	3,000 PLN (732 EUR)
building operations	5,500 PLN (1,341 EUR)
restaurant services (with sale of alcohol)	8,500 PLN (2,073 EUR)
total pre-emptive tax	17,000 PLN (4,146 EUR)

b) pre-emptive tax which "Golden apples" must settle with the tax office:

Total income x 8.5 % = 300,000 PLN (73,170 EURO) x 8.5 % = 25,500 PLN (6,220 EURO),

c) Pre-emptive tax which "Golden apples" must settle with the tax office:

Total income x 20 % = 300,000 PLN (73,170 EURO) x 20 % = 60,000 PLN (14,634 EURO).

Every activity is connected with a different kind of risk and a firm ought to make provision based on an estimated level of future loss. For example firms have provision for doubtful assets. The Polish Act on Accounting does not determine the level of the provision and the moment when an allocation to a provision may take place, but obligates to create provisions for doubtful assets. In practice this problem has two issues: the size of the provision and its influence on net profit (in the income statement). Bad debt expenses are not included in determining income from operations in the income statement because they are included as extraordinary items. The bad debt expenses and allowances for doubtful accounts are determined by management as an expression of the achievement of prudence principle. But a tax office often treats provisions for doubtful assets as hidden reserves and in practice all this position is never treated as a cost in the financial statement which is the base of accounts of the income tax from gross profit.

The size of the provisions for doubtful assets has an influence on:

1. Income statement (gross profit/loss, net profit/loss),
2. Sum of items in balance sheet (debts, equities),
3. Financial ratios and rates (liquidity ratio, debt to net worth ratio).

2.2. Net profit and income tax

Constant and interim differences between net profit against tax income are the consequences of the rule introduced by the Accounting Act and Income Tax Law (Table 2).

There are different approaches in Accountancy Law and in Income Tax Law to a definition of:

a) sources of income and costs,

b) the exact time of receiving the income and time of incurring the costs.

Differences in the definitions of sources of incomes and costs may lead to permanent differences between the items in financial statements (based on Accounting Act) and the income taxed (based on Income Tax Law).

Differences in the definitions of the exact time of the income and the costs arising are the reasons for the temporary differences appearing between the items in financial statements and the income taxed.

Table 2

Statement items in Act on Accounting against Income Tax Law in Poland in 1999

Position or item	Accounting Act	Income Tax Law
Budgetary grants and subsidies	+	-
Charitable donations, gifts	+	-
Forfeitures, fines	+	-
Revenues from real properties which are used free of charge by the other firm in the size of the rent if it is a payable contract	-	+
Compensation (paid as a cost or a loss)	+	-
Tax on capital gains	+	-
Depreciation from cars costing more than 10,000 EURO	+	-
Marketing costs if exceeding 0.25 % of all incomes (revenues)	+	-
Membership fees for non-obligatory organization	+	-
Future cash and non-cash receipts	+	-

Source: Acts of Polish Parliament on Accountancy and Income Tax, as of 1999
Interpretation:
+ the item is accepted by law (Accountancy Law or Income Tax Law)
- the item is not accepted by law (Accountancy Law or Income Tax Law).

2.3 New principles in social insurance paid by employee and employer

Polish Social Insurance Institution has a new obligatory procedure for all employees and employers. Up till now only employers have paid all social insurance, but from January 1, 1999 everything is new on this field.

Table 3

Obligatory rates used for social insurance (%)

Gross salary rate	123.0164
Pension contribution (paid by employee)	9.76
Pension contribution (paid be employer)	9.76
Disability insurance (paid by employee)	6.50
Disability insurance (paid by employer)	6.50
Sickness insurance (paid by employee)	2.45
Employers' liability – accident insurance (paid by employer)	1.62
Contribution to National Health Service (paid by employee)	7.50

Source: Acts of Polish Parliament 1999.

Example 2

I. Obligatory sum paid as social insurance by employee John Kowalski (in EUR):

1. Basic salary (before grossing = before January 1, 1999) 800.00
2. Basic salary (after grossing) = after January 1, 1999) item 1 x 123,0164 % 984.13
3. Deduction from gross salary:
a. pension contribution (item 2 x 9.76 %) 96.05
disability insurance (item 2 x 6.5 %) 63.96
sickness insurance (item 2 x 2.45 %) 24.11
b – sum of insurance premium 184.12
c – costs of income (salary) 74.06
4. Base of account the contribution to National Health Service (item 2 – item 3b) 800.01
5. Base of account income tax paid by employee (item 2 – item 3b – item 3c) 725.95
6. Deduction for income tax (item 5 x 19 %) 137.93
7. Reduction in tax 32.90
8. Contribution to National Health Service (item 4 x 7,5 %) 60.00
9. Prepaid advance for income tax (item 6 – item 8) 77.93
10. Net salary for employee 592.08
11. Total sum pas as obligatory social insurance by employee (item 3b) 184.12

II. Obligatory social insurance paid by employer Firm "Light Future" (in EUR) – because they have employee John Kowalski:

1. Basic position (John Kowalski's gross salary) 984.13
2. Pension contribution (item 1 x 9,76 %) 96.05
3. Disability insurance (item 1 x 6,5 %) 63.96
4. Accident insurance (item 1 x 1,62 %) 15.94
5. Sum of insurance contribution (item 2 + item 3 + item 4) 175.95
6. Contribution on Labour Fund (item 1 x 2,45 %) 24.11
7. Total sum to be paid as obligatory insurance social by employer (item 5 + item 6) 200.06

3. CONCLUSION

The international market, foreign capitals, consumers' needs and national tax offices influence the theory and practice of the Polish accounting. Poland's plans to become a member of the European Union are connected with additional changes which would be needed to adapt Polish accounting legislation to the requirements of European Union Directives. New changes based on these directives have been made, and they should become effective in 2001.

The aim of this paper was to present the most important Polish solutions which have been new (as reforms and reorganizations) to Polish employers and employees since January 1, 1999.

Polish economists have been active in the second phase of adapting the accounting legislation, but we have still a lot of unsolved problems and new issues in Polish economic terminology (for example: stabilization of taxation system for employees and employers, accounting income measurement and calculation of taxable income, valuation of corporations for restructuring purposes, new principles in insurance procedures. Of course we will also continue to restructure the financial sector, banking and insurance.

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