

VAT



Reducing the VAT gap: lessons from Poland

CAUSES - REMEDIES
- OUTLOOK

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Key findings

The tax on goods and services (Value Added Tax, hereinafter: VAT) is the Polish state budget's biggest source of revenue, which is why its size and stability is key to responsible financial policy. Tax revenue in Poland amounted to PLN 315.3bn in 2017, including an estimated PLN 156.8bn in VAT revenue. Tax revenue was higher than in 2015 and 2016, boosted by higher VAT revenue, largely from reducing the tax gap. Any increase in the tax gap has a significant impact on the state's finances and means less money for public services.

23.9%

VAT gap in 2015

Since 2008, Poland's VAT gap – defined as the losses to the state budget due to the grey economy and fraudulent VAT refunds in intra-Community transactions (intra-EU transactions) – has grown sharply.

Settling intra-Community transactions creates opportunities for both simple and more complex abuse (so-called tax carousels, carousel fraud). Worryingly, the TAXE 3 Committee estimates that every year EUR 420m from VAT fraud is used to fund terrorism and support radical fighter groups.

According to reports by the European Commission, the Polish VAT gap grew sharply between 2006 and 2011, rising from 0.4% to 1.5% of GDP. In 2012, its size peaked at PLN 43.1bn. In 2016, it had fallen to PLN 34.9bn.

14.0%

VAT gap in 2017

Aware of the scale of fraud and the losses to the State Treasury, Poland has been implementing a multifaceted plan to strengthen the VAT system in 2015-2018 within the framework of the Strategy for Responsible Development. In mid-2016, the Ministry of Finance announced a plan to reduce the VAT gap to around 15% over the next three years. This target was reached significantly earlier.

According to the preliminary estimates by the Ministry of Finance, Poland's tax gap has shrunk noticeably since 2016. It decreased significantly in 2017 to around 14% of potential revenue, down from 23.9% in 2015 and 20% in 2016 (Ministry of Finance 2018b). These calculations have been confirmed by the European Commission and reports by independent experts such as PwC.

The higher VAT revenue results from improvement in Poland's economic climate and the authorities' "anti-fraud efforts". The reinforcement of Poland's VAT system is based on three pillars:

- 01.** Modern Legislation
- 02.** Effective Administration
- 03.** Intensive Cooperation with Businesses

After identifying the areas prone to fraud, numerous legislative efforts were undertaken in Poland in 2016-2017. The so-called fuel package, constantly supplemented and broadened, is an example of a "targeted" solution. Another unique solution is the implementation of the split payment mechanism.

The Ministry of Finance estimates that around PLN 6.6bn was recovered in 2016 and PLN 10.8bn in 2017. In 2018, it plans to recover another PLN 7.7bn, which means a total of around PLN 25bn in 2016-2018¹.

Complex reform of the tax administration, which was equipped with innovative analytical tools through multifaceted cooperation with the IT and banking sectors, has helped tax officials detect irregularities. The number of fiscal controls by the tax control offices (tax and customs controls by the customs and tax control offices since March 1, 2017) has fallen by over one-fifth, from 4,851 in 2016 to 3,214 in 2017. In 2015, tax offices conducted 29,260 tax audits. Irregularities were found at 76.5% of the entities inspected. In 2017, there were over one-third fewer, while the percentage of irregularities detected rose to 83.3%.

The tightening up is not taking place at entrepreneurs' expense. Taxpayers' money is not retained. The average time for a VAT return is being reduced.

This report analyses how the Polish tax authorities have reduced the country's VAT gap. Their reforms and their choice of innovative analytical tools could also be used in other states.

¹ It should be remembered that total VAT revenue calculated in cash was around PLN 4bn higher in 2016 than in 2015. It was PLN 34bn higher in 2017 than in 2015 and was PLN 44bn higher in 2018. How much of this increase in VAT revenue stems from Poland economic situation will become clear after analysing a longer time series. The state authorities' greater effectiveness also increased revenue from central taxes and Social Insurance Fund (FUS) contributions more than the rate of GDP growth (about PLN 6bn in 2016, PLN 35bn in 2017 and PLN 50bn in 2018) would suggest.

Introduction

The tax on goods and services is one of the pillars of Poland's budgetary revenue. If this income is reduced, the state struggles to perform its functions.

THE TAX GAP:

The difference between the tax paid and the tax that would have been paid, had all natural and legal persons declared their actions and transactions correctly, in accordance with the spirit and letter of the law (the provisions' wording and the legislator's intention).

As the irregularities have increased, reducing budgetary revenue, Poland's VAT gap has been in the political and media spotlight. The concept of the VAT gap is not defined in Polish law. It is an academic term used in reports, analyses and comparative studies. Its scope and how it is measured have been formulated by particular tax administrations and international organisations, such as the OECD and IMF². According to the United States' Internal Revenue Service (2018), the tax gap allows the scale of missing tax returns and unpaid tax to be measured. It is defined as the difference between the tax that should be paid and the amount that reaches the state budget (European Commission 2016; Małecka-Ziembińska 2017).

The Slovak Republic's Institute for Financial Policy of the Ministry of Finance has a more extensive definition: "The tax gap is the difference between the tax paid and the tax that should have been paid if all natural and legal persons declared their actions and transactions correctly, in accordance with the spirit and letter of the law (the provisions' wording and the legislator's intention). The tax gap is calculated after taking into account the costs of tax audits by the tax administration" (Institute for Financial Policy 2012).

For many years, organisations measuring the VAT gap warned that it was deepening in Poland, especially

² The IMF recently published a detailed methodology for studying the VAT gap (IMF 2018). The OECD has also considered the tax gap and how it is measured repeatedly (2017). Many countries' tax administrations publish reports on the tax gap and how to measure it, in particular Britain's HMRC (2018). Reports by the US Internal Revenue Service (IRS) are worth mentioning, too(2018).

after 2008 (CASE 2016; 2017; 2018; MF 2018b; PwC 2015; 2017). The European Parliament's experts also note that money from tax fraud is being used to fund terrorism. Every year, EUR 420m in tax extorted from EU countries' budgets may be reaching radical fighter groups, according to data presented by the TAXE 3 Committee (European Parliament 2018).

In Poland, efforts to halt the deepening of the VAT gap, and even reduce it, began in 2015. Both the European Commission's and independent experts' data confirms that the Polish tax administration has succeeded in combating tax fraud. These efforts have been complex and innovative, often involving cooperation with the IT and financial sectors. Broadening the administration's analytical functions – in particular, equipping it with innovative IT-based and comparative tools – has saved billions of zlotys.

This report shows how Poland has reduced the VAT gap, both in terms of methodology and concrete actions. This success is based on a combination of coordinated and innovative efforts, based on three pillars:

- 01.** Modern Legislation,
- 02.** Effective Administration,
- 03.** Intensive Cooperation with businesses.

These three areas should be examined together, as Poland's success was based on coordination. This report examines each of them, highlighting which tools helped reduce the VAT gap. Only an efficient and consolidated tax administration equipped with certain powers and tools (especially IT-based analytical ones), cooperating with businesses and open to new ideas can effectively fight against tax fraud.

The VAT gap – origin and size

The gap corresponds to the state budget's losses due to the grey economy and fraudulent VAT refunds in intra-Community transactions.

VAT CAROUSEL

When goods sold circulate between businesses involved (intentionally or unintentionally) in an international criminal supply chain, the very same products "return" to the first link in the supply chain after several sale transactions (Pabiański, Śliż 2007).

The leaky tax system – the VAT gap and its structure

VAT is the Polish state budget's biggest source of revenue, which is why its size and stability is very important³. Since 2008, Poland's VAT gap, defined as the difference between VAT due (theoretical budgetary revenue) and VAT collected (actual revenue), has increased sharply (PwC 2013).

The gap corresponds to the state budget's losses due to the grey economy and fraudulent VAT refunds in intra-Community transactions. In VAT carousels, organised criminal groups create fictional supply chain of sold goods, documented by fake invoices. Its victims are the state budget, which loses billions of euros, and honest businessmen, who struggle to keep up with who struggle to keep up with their non-compliant competitors.

VAT carousel fraud and intra-Community transactions

When customs borders between EU Member States (at time European Economic Community) were abolished, the EU created a system for collecting VAT on the intra-Community transactions, previously treated as imports and exports. Two basic models were considered: taxing goods in the EU Member State of origin or in the EU Member State of destination. Ultimately, the latter was chosen.

Taxing goods in the EU Member State of origin was rejected because it could potentially disrupt the entire common VAT system. VAT is supposed to tax

³ Tax revenue amounted to PLN 315.3bn in 2017. It was primarily boosted by VAT revenue, estimated at PLN 156.8 billion (MF 2017).

consumption, so taxing the transaction in the Member State of origin, where the product will not be consumed, would disrupt the system. Moreover, because the VAT rate varies between EU Member States, it would naturally favour sellers in countries where the rate is lower than in the Member State of destination.

This problem could have been eliminated by an automatic compensation system between Member States. However, this mechanism's practical complexity (involving funds flowing between Member States) and difficulty harmonising all the tax rates, at least in the short term, led the EU to introduce a transitional system based on taxation in the Member State of destination, which remains in place (Michalik 2017).

The destination principle assumes that VAT taxation takes place where the good bought is ultimately consumed. This system ensures neutrality when it comes to production, as the tax does not favour domestically-produced or imported goods, and all exported goods are exempt from tax. When applying this principle, cross-border trade needs to be monitored and registered by both the importing and the exporting country (Keen 2002).

The system for taxing the sale of goods within the EU somewhat resembles import-export settlement: sales involving the movement of goods are taxed twice, in formal terms. As an intra-Community supply of goods, it is formally subject to tax in the Member State of origin (the seller is taxable person) and, as intra-Community acquisition of goods, it is taxed again in the Member State of destination (the buyer is liable to pay VAT). However, the intra-Community supply of goods is VAT exempt in the Member State of origin (the 0% VAT rate is applied in Poland). Meanwhile, the buyer, with the full right to deduct input VAT, reports the intra-Community acquisition of goods, treating the associated tax as both output and input VAT. As a result, the transaction is effectively settled in the Member State of destination but, based on the principle of tax neutrality, the cost of the tax is not borne by the acquiring entrepreneur/taxable person. In this way, settling intra-Community transactions with the parties establishing the taxation themselves, without effective monitoring by Member States, and combined with the tax refund mechanism, enables both simple and more complex forms of abuse, such as VAT carousel frauds (Michalik 2017).

How VAT carousel fraud works

A VAT carousel (Ožóg 2017) is a network of a dozen (sometimes several dozen) companies that carry out up to several hundred transactions a month, buying goods and immediately selling them on to the next one. Payments are purely artificial and do not reflect real supplies of

goods; the fictional transactions merely serve to extort tax from the tax authorities.

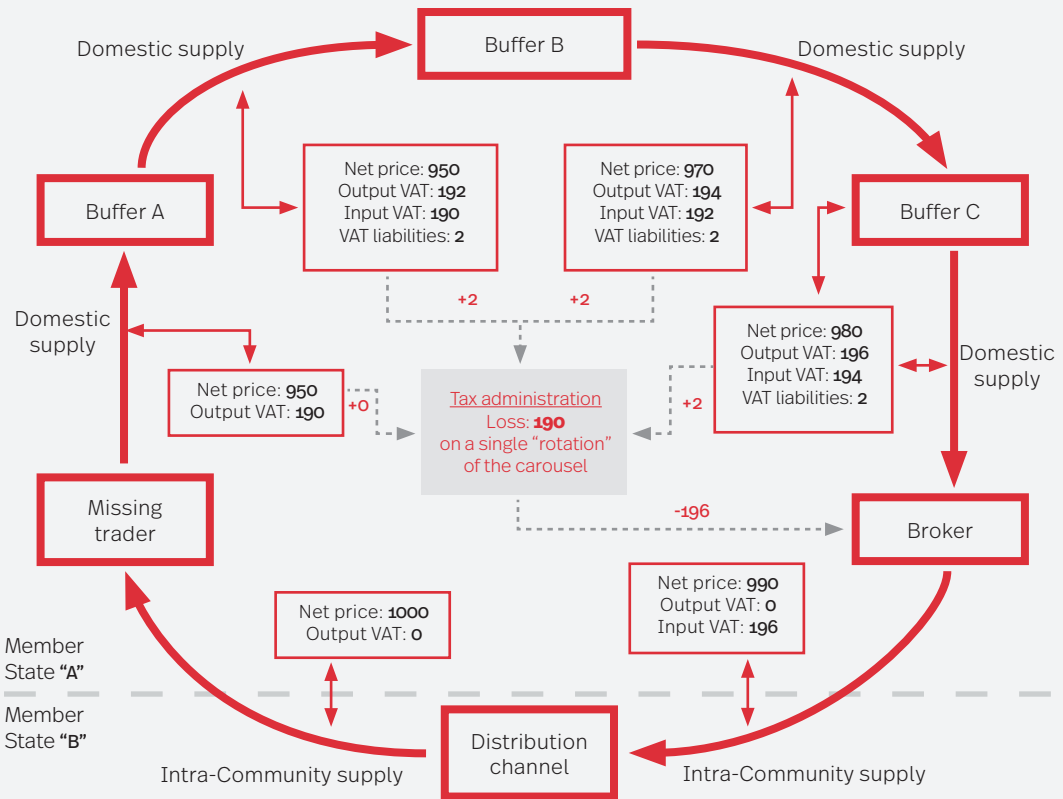
THREE GROUPS OF COMPANIES

- 01.** The missing trader
- 02.** The buffer
- 03.** The broker

The entity bringing the good over from abroad, the “missing trader”, does not pay the VAT due. Another, the “broker”, exports the good and applies for a refund of the tax that should be paid in Poland (Ciechanowski 2014).

“Missing traders” play a key role in carousels. This is a business entity registered as a taxable person for VAT

» **DIAGRAM 1. VAT carousel fraud**



o Source: Pabiański, Śliż (2007).

purposes, which, intending to commit fraud, acquires goods or services (or pretends to) without paying VAT. It then sells them taking into account VAT, without paying the state authorities the VAT due⁴. In case of a tax audit, the unpaid tax cannot be collected as the entity is usually no longer active. The tax cannot be collected from the owner either, as he is either a victim of identity theft, an elderly or homeless person, or a foreigner (Paluch 2016).

Between the fictitious importer and the fraudster requesting an undue tax refund, there is a chain of transactions, which makes it more difficult for the tax administration to connect the two entities. The aim of a buffer is to make the billable transactions more credible. Therefore, established companies that seem credible are often chosen as buffers (Derkacz 2016). A buffer can be accidentally or voluntarily involved in tax fraud. Some business entities consciously agree to cooperate with organised criminal groups. They take a risk, but are rewarded with a margin from fictitious sales or a discount covered by unpaid VAT. A report by ZPiP (Union of Entrepreneurs and Employers) highlights that: “(...) participants of VAT carousel frauds are unfair competition for business entities that operate legally. They can sell goods at a reduced price (because it does not include the unpaid VAT), spoiling the market and displacing honest taxpayers. The loudest cases of VAT carousel fraud involved the sale of steel reinforcing bars, used on a massive scale in all kinds of investments” (ZPiP 2014).

In case of a tax audit, entrepreneurs involved in fictitious sales controlled by organised criminal groups (buffers) are accused of complicity in tax fraud. The invoices they received lose their legal effect resulting in recovery of input VAT previously deducted and, if so-called sensitive goods were being sold, they are also responsible for the output VAT unpaid by the seller (joint and several liability). For honest entrepreneurs, being duped into a VAT carousel fraud can mean bankruptcy.

The last business in the chain sells the goods to a broker. The broker sells the goods to an EU customer (IC supply) without charging VAT as this is a cross-border transaction within the EU. The broker then reclaims the VAT he has paid when purchasing the goods. In doing so, the broker is effectively reclaiming the VAT not paid by the missing trader.

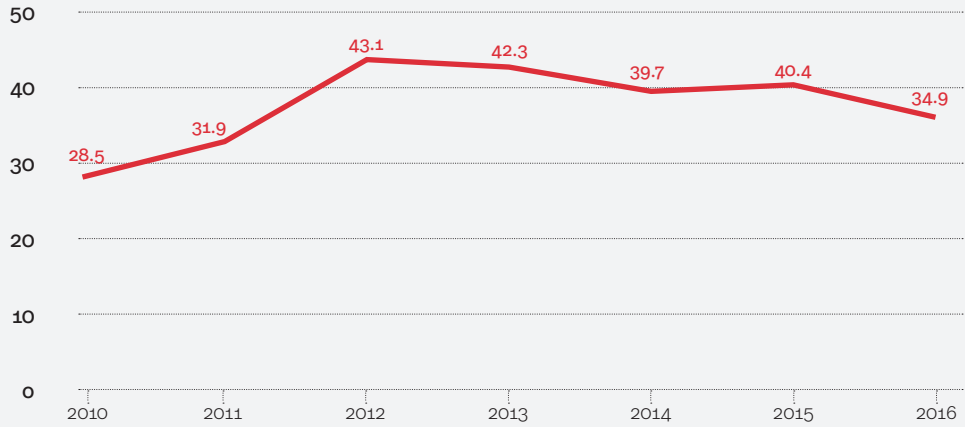
The fictitious purchase of goods based on fake invoices means no right to deduct input tax and VAT sanctions of 100% (since 1 January 2017). The mere fact that the purchase can be proved does not guarantee the right to deduct if the tax authorities show that the buyer knew, or at least should have known, that he was involved in a carousel (lack of due diligence). For sensitive goods listed in Annex 13 of the Polish VAT Act, the buyer may become responsible for the supplier’s output VAT (joint and several liability).

The size of the VAT gap

According to reports by the European Commission, the Polish VAT gap grew sharply between 2006 and 2011, from 0.4% to 1.5% of GDP. In 2012, its size peaked at PLN 43.1bn. In 2016, it had fallen to PLN 34.9bn (CASE 2016; 2017; 2018). The data presented in Chart 1 comes from several studies by CASE that differ slightly in methodology (such as changing ESA95 to ESA2010), so it should be treated illustratively.

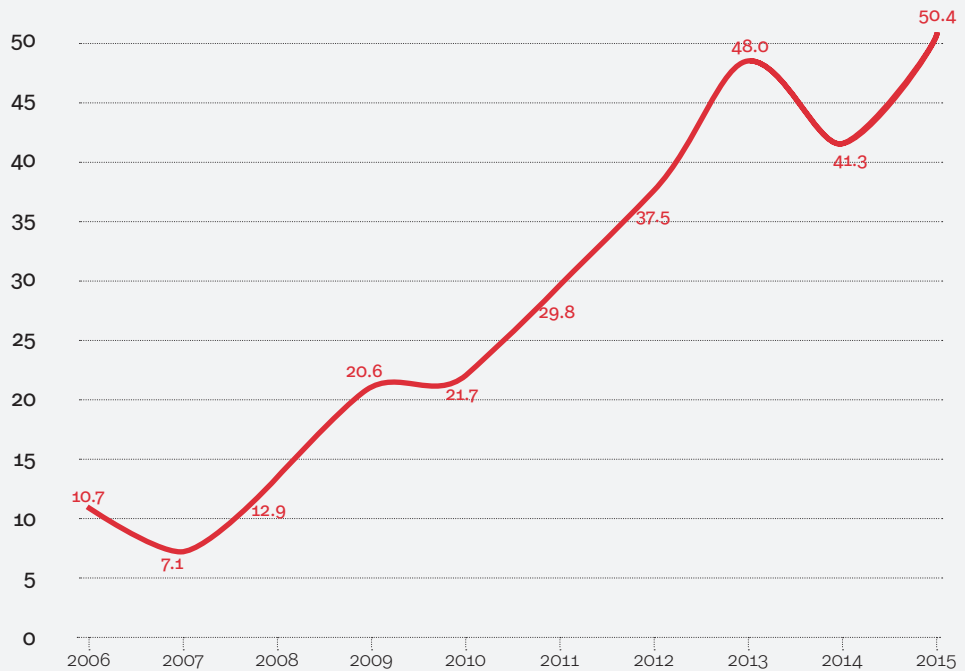
⁴ Commission Regulation (EC) No. 1925/2004 of 29 October 2004, laying down detailed rules for implementing certain provisions of Council Regulation (EC) No. 1798/2003 concerning administrative cooperation in the field of value-added tax (OJ L 331 of 5 November 2004, p. 13–18) – no longer in force.

▼ CHART 1. VAT gap according to CASE (in billions of PLN)



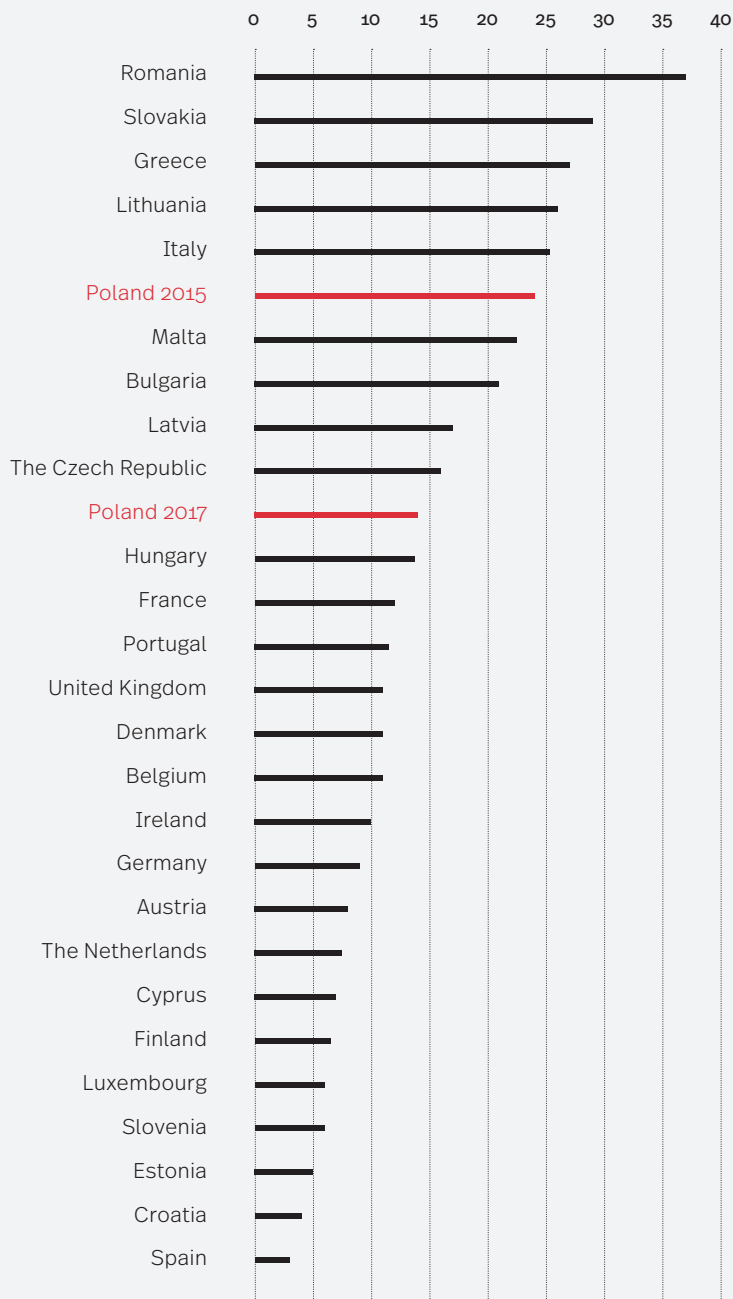
o Source: CASE (2016; 2017, 2018).

▼ CHART 2. VAT gap according to PwC (in billions of PLN)



o Source: PwC (2017).

▼ CHART 3. VAT gap in EU countries in 2015 (percentage of tax revenue)



o Source: chart by the authors, based on CASE and MF data.

Legislation

USE OF EXISTING TOOLS – INTERIM MEASURES

EU LAW:

EU countries may introduce the reverse charge mechanism based on Directive 2006/112/EC (the VAT Directive). This standard mechanism countering tax fraud is used by many Member States. The VAT Directive only allows them to apply it to a certain catalogue of goods and services. Further derogations require EU bodies' authorization.

The reverse charge mechanism

The reverse charge mechanism involves shifting the tax settlement obligation from seller to buyer. The seller issues a net invoice that does not include VAT and the buyer shows output VAT. By eliminating the importing company's double obligation to pay tax, the regulation removes a given good from the carousel business. However, shifting the tax to the retailer opens the way to other forms of abuse, such as selling goods in the grey economy.

This mechanism's effectiveness is temporary and limited. Aware of its limits, the Polish Ministry of Finance broadened the catalogue of goods and services subject to the reverse charge, responding to signals from the market and the results of tax checks. The mechanism was extended to new categories of goods and services; scrap, and transfer of allowance to emit greenhouse gas in 2011, and electronic devices and mobile phones in 2015.

In practice, this mechanism has driven tax fraudsters in Poland and other EU countries to continue their activities using goods that are not subject to the reverse charge (DLA PIPER 2016; Cwiągła-Małys, Piotrowska 2016).

For example, after the reverse charge for VAT on electronic devices was introduced, the scale of irregularities decreased. Yet organised criminal groups shifted their attention to other electronic goods not subject to the regulation, such as hard drives (HDD), solid-state drives (SSD) and processors. According to a report by ZIPSEE Digital Poland presented to the Ministry of Finance in May 2016, for these products alone, the estimated loss due to VAT fraud is around PLN 400m per year (ZIPSEE Digital Poland 2018).

Responding to this tendency, Poland extended the reverse charge to processors, precious metal goods and some construction services in 2017. Unfortunately, the reverse charge itself did not end VAT fraud in electronics sales. Representatives of the sector called for other tools to be introduced, including an innovative split payment mechanism (ZIPSEE 2017).

Joint and several liability

Joint and several liability for VAT is another “standard” mechanism used by EU countries to combat tax fraud, as set out in Article 205 of the VAT Directive.

The mechanism obliges an entrepreneur to settle tax that was not paid by a contractor involved in a VAT carousel. It is limited to sectors particularly vulnerable to fraud, including fuel, printer toner and digital camera sales. In 2017, the catalogue was broadened to rapeseed oil, hard drives (HDD), solid-state drives (SSD) and stretch film. Joint and

several liability forces entrepreneurs to check their business partners carefully, making it more difficult to involve them in a VAT carousel.

However, a contractor’s joint and several liability ceases to apply when the seller has paid a “guarantee deposit”. Tax fraudsters use this solution, paying the deposit and becoming “trusted entities”, which abolishes the buyer’s joint and several liability. The profits are often much larger than the deposit paid. In some cases, fraudsters can get the deposit back after committing VAT fraud, if the tax authorities have not begun audits or tax proceedings relating to the supplies secured by a guarantee deposit. For this reason, the joint and several liability mechanism’s effectiveness is limited. The Polish Tax Law Advisory Council agrees; in Opinion No. 8/2015, it stated that “In our opinion, the joint and several liability mechanism, both in its present form and after the changes resulting from the amendment to the VAT Act that will enter force on 1 July 2015, is not a very effective tool for combating VAT fraud. Its main flaw is that VAT fraudsters can take advantage of the benefits that arise from being added to the white list kept by the Minister of Finance”.

MORE SEVERE SANCTIONS

Penalty interest

In Poland, interest on unpaid tax is around 8% per year. From January 2016, two interest modifiers started being used, distinguishing between taxpayers who make the correction themselves and cases where the tax administration exposes the irregularities. For taxpayers who correct their incorrect return within six months of submitting it and pay the tax within seven days, the interest is 50% lower. There is also a higher interest rate of 150% the basic rate for delays, which applies to delayed payment of the VAT and the excise duty from 1 January 2016 onwards.

The VAT sanction

The VAT sanction, a special fine reintroduced in January 2017⁵, is an additional incentive to correct VAT declarations. If the tax due is lowered or the refund amount overstated, the tax offices can fine the taxpayer a penalty of 30% of the underpayment. When it results from “false” invoices issued by a non-existent company, confirming non-existent transactions or a false amount, the fine is 100% of the unpaid tax.

Criminal sanctions

Until recently, carousels were “white-collar crimes” that society tended to

accept. People were unaware that “paperwork” or forging “bills” meant involvement in an organised criminal group that exposes the state to losses of hundreds of millions of PLN per year. In 2014-2016, there were rulings against 253 individuals in cases involving at least a high value of unduly refunded VAT. Of these, just 31 were sentenced to imprisonment without conditional suspension⁶.

In 2017, criminal offences linked to VAT fraud were covered by specific criminal law regulations⁷. Sanctions for issuing and using fake invoices (involvement in VAT carousels) were increased significantly.

New crimes – counterfeiting, remaking and issuing fake invoices – were assigned high penalties in the Penal Code, reflecting how dangerous they are for the state. The maximum penalty for fraud over PLN 10m is 25 years’ imprisonment.

Extended confiscation

Introduced in April 2017, extended confiscation aims to help secure assets that come from VAT fraud. If the sentence is more than five years in prison, the perpetrator must prove that assets acquired over the past five years come from legal sources. The provision also allows seizure of the assets of third parties to whom the perpetrator transferred goods without remuneration or sold them for a price much below their market value. Within eight months of this provision being introduced, the prosecutor’s office secured PLN 400m worth of assets.

⁵ Court of Justice of the European Union (CJEU), which in its verdict concerning Polish taxpayer K1 Sp. z o.o. (C-502/07) on 15 January 2009 deemed the additional tax liability provided in Polish legislation not to have the characteristics of a tax, but to be an administrative sanction that does not conflict with European Union law. However, without waiting for the CJEU’s verdict, the Polish legislator decided to repeal the provisions on VAT sanctions from 1 December 2008.

⁶ Reply by M. Warchoł, undersecretary of state at the Ministry of Justice, in response to question no. 1181 concerning the government’s draft law on changing the act – Criminal code and certain other acts (document no. 888).

⁷ Entrepreneurs have called for further protection of criminal law against fraud associated with VAT, highlighting that it not only distorts competition and free market principles, but also invites a shift in activity to the “black economy”. Opinions of this kind were sent to the Ministry of Justice, including by business entities involved in trading liquid fuels, the tobacco industry or spirits. Global Compact Network Poland, an organisation operating within the structure of the UN, also recommended these actions. Source: Explanatory statement to the government bill amending the act – Criminal code and certain other acts, document no. 888 (2016).

NEW AND INNOVATIVE SYSTEMIC ACTIONS

Fuel – the scope of the grey economy

Poland's fuel market is worth around PLN 100bn. Tax contributions to the state constitute about 50% of turnover value, which means that the state's annual revenue from the fuel trade (excise duty, VAT, fuel surcharge) is around PLN 50bn. Crime in the liquid fuel trade, the sector's main problem for years, has been on the increase (Supreme Audit Office, NIK 2017).

Ernst & Young (EY) estimates that in 2013 the Polish state budget lost PLN 4.3-5.8bn due to VAT fraud in the diesel fuel trade. This mainly results from tax losses caused by missing trader and carousel fraud.

According to Poland's Supreme Audit Office (NIK), there was no systemic prevention of illegal liquid fuel sales until Q3 2016, when the fuel and energy packages were introduced. Until then, the authorities were unable to prevent an increase in illegal activities and failed to implement solutions limiting them (NIK 2017).

The fuel package

Established in March 2017 to combat VAT carousels, the National Revenue Administration has focused on strategic sectors most prone to fraud, including electronics, steel, non-ferrous metals and, above all, fuel.

The fuel package, which entered into force in August 2016, restricted the right to sell fuels in Poland to entities registered in the country. Buyers were obliged to pay VAT on fuel within five days of importing it.

It was supplemented by the transport package of April 2017, which imposed an obligation to digitally register the transport of "sensitive" goods, including fuels, alcohol and dried tobacco. Its result is SENT – the road freight transport monitoring system – which has enabled tax administration to monitor fuel transport in Poland in real time. In Q4 2018 geolocalisation using GPS devices installed on trucks has been added. In the first 8.5 months after SENT was launched, over 2.3m transport declarations were registered. Over 260,000 freight transport inspections were carried out, covering 11.4% of the declarations.

Reducing irregularities in the fuel sector

These legislative changes and the tax administration's focus on the fuel sector had an unprecedented effect. In Q1 2017, diesel fuel consumption rose by 15%, while wholesale fuel sales by Poland's two biggest producers (PKN Orlen and LOTOS) grew by around 30% year-on-year. This has continued; according to the Polish Oil Industry and Trade Organisation (POPiHN), legal consumption of diesel fuel in Poland rose by 16% year-on-year in the first three quarters of 2017. The legal market grew by 35% year-on-year. Demand for the free main types of motor fuel (petrol, diesel and LPG) rose by 37%. According to the Ministry of Finance's analysis, entities with a fuel trading license paid about PLN 2.5bn more in VAT in the first half of 2017 than over the same period in 2016.

The introduction of measures to prevent VAT fraud in the fuel trade, especially for intra-Community acquisitions, was justified by the scale of irregularities in previous years. The findings in this area constituted 39.2% in 2015, and in 2016 – 40.0% fiscal control authorities sum of findings (NIK 2018).

Building Ministry of Finance databases – the Standard Audit File for Tax (JPK)

Until recently, the Polish tax administration's analysts worked with monthly declarations submitted on paper, which made advanced analysis difficult.

In 2016, Poland introduced an additional reporting obligation for VAT registers in the Standard Audit File for Tax (JPK) format. Every month, taxable persons send the tax administration structured data on economic transactions in electronic form. The data is collected directly from the taxable person's financial and accounting systems.

The JPK's standardised layout and format (XML Schema) makes it easy to process and analyse. With access to the structured data, irregularities are detected sooner. Officials can quickly confirm whether settlements are correct, i.a. allowing overpaid tax to be refunded faster.

JPKs were introduced gradually, starting with big enterprises in July 2016, followed by small and medium-sized ones (over 100,000 entities in total) in January 2017. Since January 2018, all entrepreneurs have had to submit them (over 1.6m entities in total). To help entrepreneurs, a special app for sending data between the business and the tax office was launched, accompanied by a cycle of training sessions for entrepreneurs (Tuesdays with JPK). If a file contains irregularities, the entrepreneur receives a text message or an

email asking him to correct the file, without facing consequences. There are plans to completely replace the regular monthly VAT declarations with JPKs in 2019, which would simplify tax settlement for entrepreneurs.

The split payment mechanism

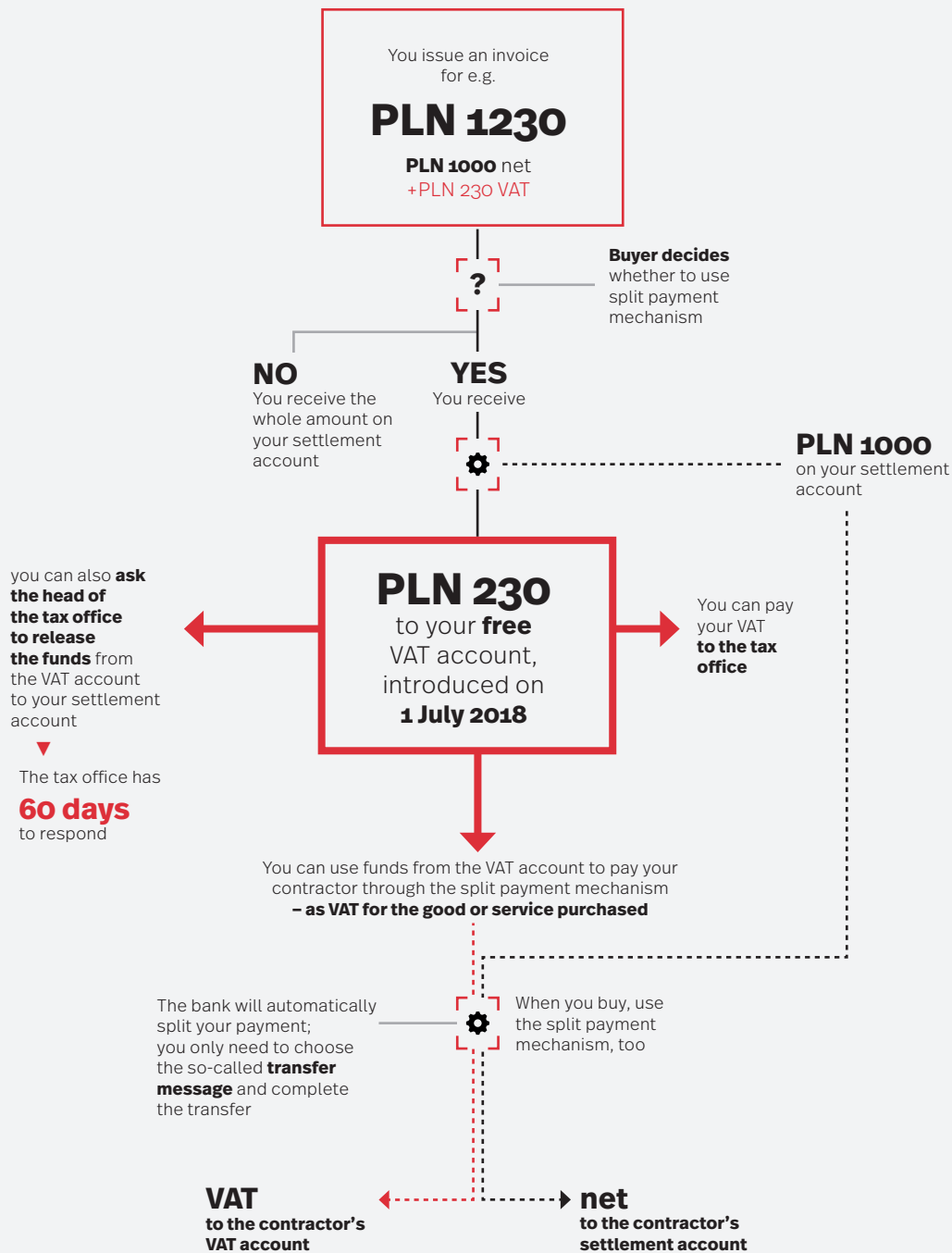
Poland's split payment mechanism entered force on 1 July 2018. When buying a product, a buyer only transfers the net amount to the seller's account. The amount equal to VAT goes directly to the taxable person's VAT sub-account, which the entrepreneur uses to pay amount of VAT due to its suppliers and settles accounts with the tax office. This has made carousel fraud much less viable. Within a few years, it could completely wipe out fraudulent tax refunds using fictitious intra-Community transactions. The Ministry of Finance estimates the new measure could save the budget PLN 80bn over ten years.

The solution is voluntary. The entrepreneur buying the good or service can choose whether to pay the contractor the usual way or as a split payment, which protects him from a business partner's dishonesty. Transferring it to the VAT account, the taxpayer will not be subject to joint and several liability for his contractor's tax debts, the VAT sanction or the higher interest rate for delays. The split payment mechanism also benefits the seller: VAT refunds are processed within just 25 days (rather than the 60).

EU LAW:

the solution is innovative, with no equivalent in the VAT Directive. Poland's split payment mechanism is original; it was not modelled on concrete solutions used in other EU countries.

DIAGRAM 2. The split payment mechanism



o Source: Ministry of Finance.

Administration

THE NATIONAL REVENUE ADMINISTRATION – CONSOLIDATION AND NEW POWERS

KAS'S MISSION:

Stable, effective and balanced public finances and high-quality services (MF 2017b).

The reform of the tax administration

Building a modern, effective tax system is a pillar of Prime Minister Mateusz Morawiecki's Strategy for Responsible Development. Established in March 2017, the National Revenue Administration (KAS) consolidated the tax administration, Customs Service and fiscal control, which previously operated separately. The aim of the reform was to create a framework for coordinated efforts and knowledge sharing. The new institution's priority is to support the actions aimed at closing loopholes in the tax system, while reducing the burden of tax audits on entrepreneurs (MF 2017b).

The reform's impact was visible within less than a year: there are fewer checks, but they are more effective. The number of fiscal controls by tax control offices (tax and customs controls by customs and tax control offices since 1 March 2017) fell by over one-fifth, from 4,851 in 2016 to 3,214 in 2017. In 2016, PLN 2.3bn was collected following tax inspections; only in the first three quarters of 2017, PLN 2.38bn was already collected. In 2015, tax offices carried out 29,260 tax audits, with irregularities detected in 76.5% of cases. In 2017, there were over one-third fewer tax audits, but the percentage of irregularities detected rose to 83.3% (NIK 2018).

KAS's new priority is to find and secure criminals' property, which should be used to pay their tax arrears. The value of the property secured by the tax administration is growing systematically. In cases involving VAT fraud, it has tripled from around PLN 63m in 2015 to almost PLN 183m in 2017.

KAS's spectacular success

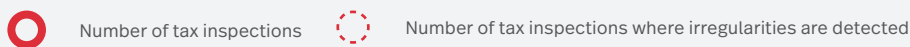
Close cooperation between KAS officials and the police, including the Police's Central Bureau of Investigation, the Polish Border Guard, Internal Security Agency (ABW) and the Central Anti-Corruption Bureau (CBA), led to the arrest of numerous organisers of VAT carousel frauds in 2017 (NIK 2018).

In February 2017, the biggest attempted VAT refund scam was thwarted. The criminals had been expecting almost PLN 318m from the tax authorities. The carousel was made up of business entities operating on the

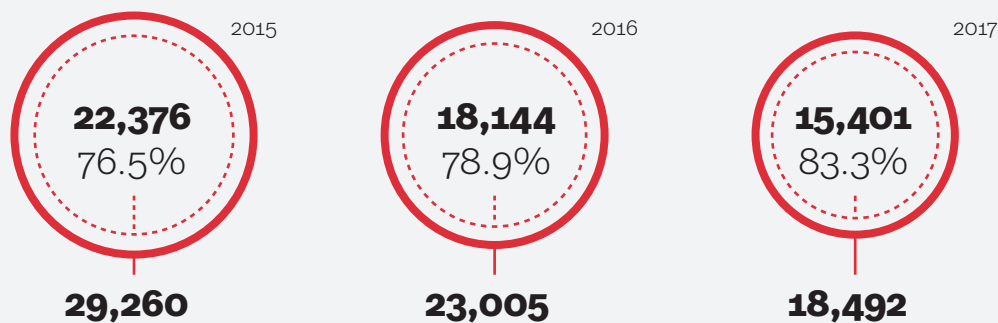
food market; rather than leave Poland, the goods moved between their two warehouses. The huge turnover reported by the business entities, which lacked the money to cover even a fraction of the reported invoices, gave them away.

The biggest VAT carousel broken up in 2017 was made up of over 200 business entities; 170 of those Polish and 55 foreign. The fictitious turnover occurred between eleven EU countries. The criminals issued fake invoices for PLN 570m, extorting over PLN 108m in VAT. They sold electronics, including hard drives, toners and drones. The recovered property was packed on to 300 pallets.

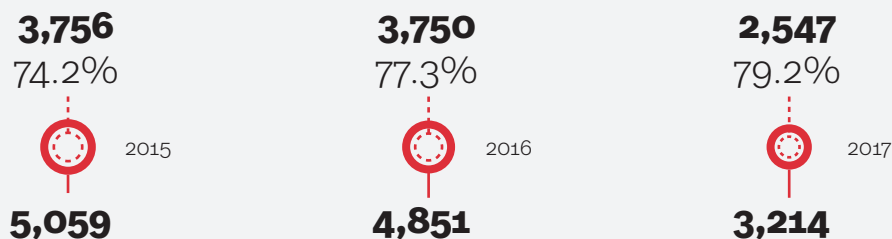
DIAGRAM 3. Tax audits/fiscal controls in 2015–2017



TAX OFFICES



TAX CONTROL OFFICES /CUSTOMS AND TAX CONTROL OFFICES



CHANGES IN HOW VAT IS SETTLED AND DOCUMENTED

Making it easier for the administration

A broad package of changes reducing Poland VAT leakage entered force on 1 January 2017. Exchange of information between the tax administration and entrepreneurs was improved; it reaches administration faster, in a form easier for it to analyse. Limiting accelerated VAT refunds gave the tax administration more time to analyse data and spot irregularities.

Limiting quarterly settlements

The catalogue of entities eligible for quarterly VAT settlements was significantly reduced. The privilege was limited to “small taxpayers” with less than EUR 1.2m in sales the previous year. For the first year after a VAT taxpayer is registered, monthly settlements are required.

Limiting accelerated refunds

Accelerated refunds of excess input VAT (in 25 rather than 60 days) were limited to taxpayers settling invoices via a Polish bank who did not exceed the declared tax surplus limit the previous year. For the first year after a business is established, it cannot apply for accelerated refunds.

Mandatory online declarations

Since the start of 2017, business entities involved in sales with other EU countries and trading goods used to extort tax refunds (products subject to the reverse charge, including copper, steel, scrap metal, gold in the form of raw material or a semi-finished product, as well as smartphones, tablets, notebooks and game consoles) have had to file online declarations. Since January 2018, all entrepreneurs have had to file them.

These tools saved the state budget as much as PLN 1.4bn in the first half of 2017 (NIK 2018).

THE DEVELOPMENT OF KAS'S ANALYTICAL FUNCTIONS

Lack of analytical tools and system solutions

The VAT carousel frauds were effective because it was easy for them to operate, they were viable and there was no organised programme for combating them. Public officials did not have IT tools to quickly detect frauds and identify the perpetrators.

Poland's tax administration lacked the analytical tools to distinguish between

fictitious and real turnover. Its Achilles heel was its low computerization and lack of staff and tools for big data analysis. According to the OECD (2013), Poland ranked 22nd in the EU in terms of the percentage of the tax administration's total outlay spent on IT (around 1%). This was twenty-five times less than in the top three; in Norway, Finland and Austria, it was around one-quarter. To make matters worse, entrepreneurs were unaware of the risk of being pulled into a VAT carousel and did not realise that fictitious turnover is a crime that leads to penalties.

The scope of KAS's analysis

Advanced big data analysis has made KAS more effective, helping officials monitor links between entrepreneurs and spot fictitious turnover.

The tax administration and taxpayers experienced a breakthrough in 2016-2017, as reporting obligations were digitised and analytical processes automated. In addition to registry data, the Polish tax administration analyses online VAT declarations and standardised reports (the JPK). Since January 2018, 1.6m entities, or 97% of VAT taxpayers, have filed them online every month. The number of taxpayers that do not file JPKs is small and declining systematically.

Specialised software called JPK Analyser is key to detecting fake invoices. In 2017 alone, the JPK Analyser protected the State Treasury against losses of hundreds of millions of PLN.

Numerous regulations speeding up and automating data analysis have been introduced since January 2017. Newly-registered businesses, often used as

“missing traders”, have been monitored especially closely.

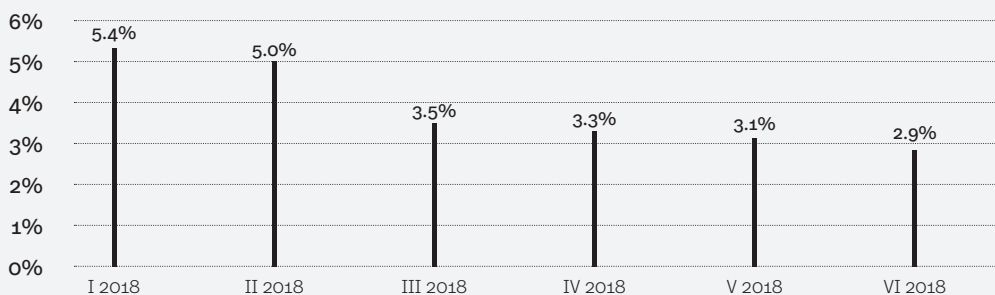
The JPK Analyser

As the first data in JPK format came in, officials set about automating the analytical process. Aplikacje Krytyczne Sp. z o.o. (Critical Applications Ltd.), a company owned by the Ministry of Finance, was established in June 2016 to provide KAS's analytical centre with IT solutions.

This led to the JPK Analyser, a programme that spots fictitious turnover by comparing data in the VAT taxpayers' register, JPKs and tax returns.

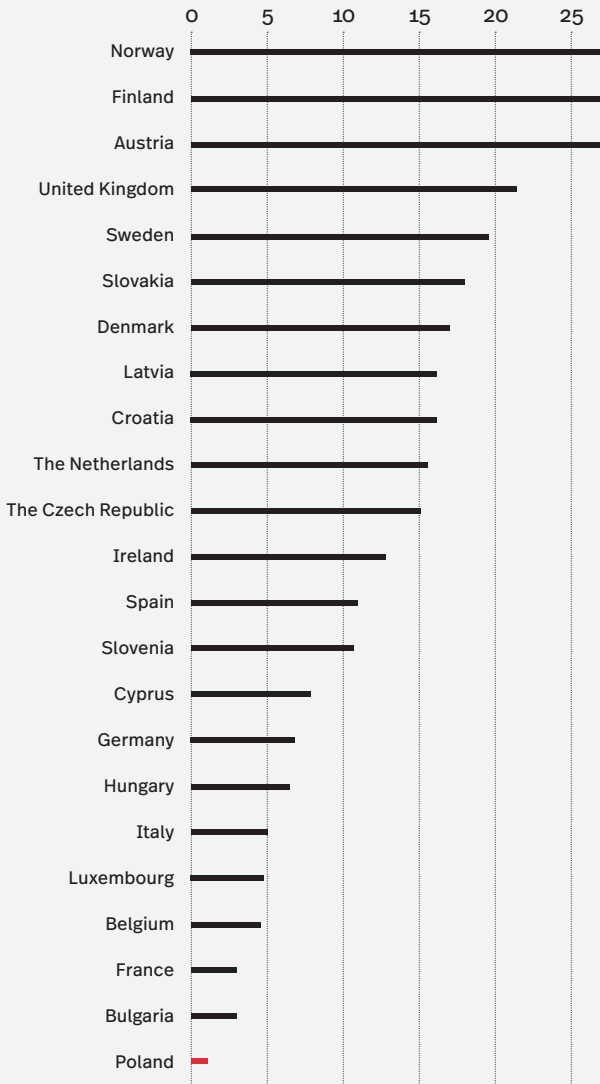
The programme compares a taxpayer's and his contractors' JPKs and identifies companies removed from the VAT register in Poland and certain other EU countries (the Czech Republic, Slovakia, Hungary, and, since 2018, United Kingdom, Ireland and Spain). It generates reports on irregularities, which are sent on to the Tax Office of the potential fraudster. The reported entrepreneur receives a text message or an email asking him to correct the file. If he does not respond, a tax audit occurs. In the future, messages might also be sent to the entrepreneur's business partners, with a warning that their contractor may be dishonest.

▾ CHART 4. Percentage of entities that did not file a JPK_VAT in the first half of 2018



o Source: Ministry of Finance data (published at a press conference).

▸ **CHART 5.** Share of expenditure on the tax administration spent on IT (%)



o Source: OECD (2013).

The effectiveness of big data analysis

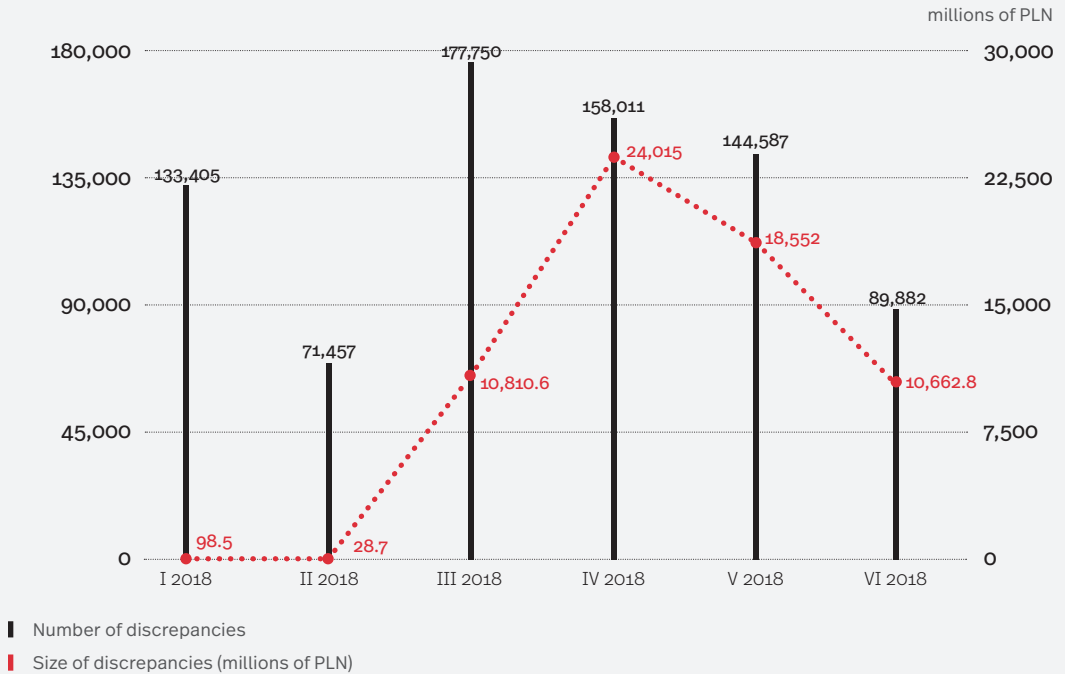
Big data analysis has proved to be an effective tool for combating VAT fraud involving fake invoices. With every month, the number of fake invoices detected is falling, which means that criminals are less likely to attempt fraud on Polish territory.

In the first half of 2018, almost 2bn invoices were analysed. 155,400 invoices issued by 55,800 entities not registered for VAT purposes were identified. 316,200 notifications concerning possible irregularities were sent out, including over 153,600 emails and over 80,200 text messages. These gave taxpayers the chance to check their VAT settlements themselves and correct them, without facing negative consequences.

Checks involving the JPK_VAT boosted the amount of VAT due in the corrections filed by over PLN 574m. In 2017-2018, information in the JPK_VAT helped identify irregularities and collect over PLN 2bn worth of arrears.

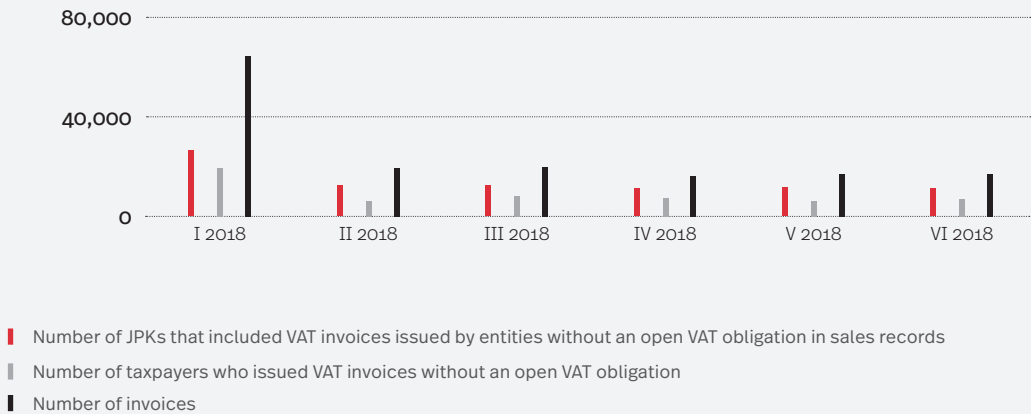
After analysing the discrepancies between declarations and JPKs, 70,000 cases were examined by the tax offices, which led to over 20,000 cases of violation of the law being identified between February and November 2017. This protected the State Treasury from losses of almost PLN 343m.

➤ **CHART 6. Automatic reports in 2018**



o Source: Ministry of Finance data (published at a press conference).

➤ **CHART 7. Taxable persons without open VAT obligation issuing invoices**



o Source: Ministry of Finance data (published at a press conference).

Monitoring auction websites

The reports of ZIPSEE Digital Poland and PwC identified new electronics on auction websites, offered below manufacturers' price. The phenomenon has its source in two types of tax fraud. The first one involves so-called "post carousel electronics". Offered devices are subject of transactions within the VAT carousel and are "liquefied" by the fictitiously trading entrepreneur (missing trader) right before his disappearance from the market.

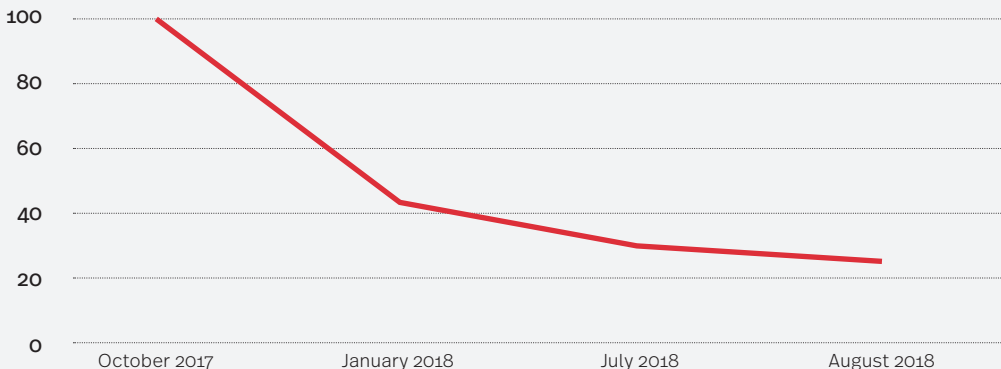
The second type of irregularity is the reaction of criminals to the increasingly widespread application of reverse charge mechanism. In this case, the fraudsters take advantage of the accumulation of VAT at the retailer level.

THE SCHEME OF FRAUD IS AS FOLLOWS:

dishonest entrepreneurs buy electronics in a reverse charge system without paying VAT due (output VAT = input VAT), and sell the goods cheaper than their honest competitors. Then they disappear from the market without paying VAT.

The Polish tax administration constantly monitors auction websites where goods previously used to extort VAT are sought out, in particular mobile phones and tablets. Monitoring confirmed the widespread practice of applying the VAT margin scheme on trade in new goods. On just one of the Polish websites, 208 sellers offering goods worth over EUR 1m were identified. After warnings were sent to auction websites, irregularities dropped by 57% by November 2017. This trend has continued; by August 2018, they had fallen by another 70% compared to October 2017.

▼ **CHART 8.** Increase in entities on one of the Polish auction websites selling new products (electronics: phones) in the VAT margin scheme (September 2017 = 100)



o Source: Ministry of Finance's internal data(unpublished).

HOW THE TAX ADMINISTRATION COOPERATES WITH ENTREPRENEURS

The principle of partner cooperation

KAS differs from its predecessors in its focus on cooperation with taxpayers as partners. The administration is becoming more and more business-friendly and the scope of cooperation is increasing. This applies particularly to combating VAT frauds, which are not only bad for the State Treasury, but also disrupt competition. New platforms for joint action are being established, such as the Key Taxpayers Service. New functions are being added, including centralised tax information, tax warnings and explanations, and a jointly-created catalogue of VAT taxpayers' best practices. The tax administration is also offering entrepreneurs new tools for verifying their business partners' honesty.

Key Taxpayers Service

To meet the biggest taxpayers' needs, a Key Taxpayers Service is being established. Its task is to provide ongoing administrative support on a partnership basis. Constant cooperation with companies with the highest revenue and turnover prevents them from being involved, even unwittingly, in VAT fraud. In 2017, the worked with more than 600 biggest taxpayers in Poland. In 2019, this will rise to over 3000 entities.

KAS restored the VAT register's effectiveness as a tool for verifying contractors

Centralisation of services and easier access

KAS was established to facilitate contact between taxpayers and the administration. This was achieved by centralising services, with a single, Polish helpline (the National Revenue Administration Information Centre (KIS)) and a single virtual window for filing requests for individual tax interpretations (individual tax rulings). Almost 35,000 of them are issued each year. Making a single administrative body (KIS) responsible for them has eliminated cases of different tax offices interpreting the same taxpayer's situation in different ways.

Tax warnings and explanations

To help build a partnership with taxpayers, the tax administration has launched a new form of communication with citizens: tax warnings and explanations published on the Ministry of Finance's website.

The warnings inform taxpayers about the risk of being pulled into a tax carousel and the legal consequences of operating in the grey economy. In 2017, they concerned irregularities in the transport of lubricating oils, fuel and electronics sales, and slot machines, among other things. The explanations focus on the practical application of tax law, accompanied by examples. These include e.g. how the VAT reverse charge is applied in the construction sector.

Help verifying contractors

To protect entrepreneurs from being entangled in VAT fraud, KAS provides them with tools to help verify their contractors' honesty when it comes to taxes. Until recently, entrepreneurs who wanted to verify a contractor's honesty could only check whether he is registered as an active VAT taxable person (able to issue a valid invoice) on KAS's website. Other information on business partners was protected by tax secrecy. In 2017-2018, the credibility of the list of active VAT taxable persons was restored. Entrepreneurs were also given new tools to check their business partners' credibility: a white list of VAT taxable person and a catalogue of due diligence activities put together with entrepreneurs.

Until recently, the register of active VAT taxable persons was a faulty tool for verifying contractors' honesty. Officials did not check whether newly-registered entities are capable of doing what they say they do. This made it easier for VAT fraudsters to use companies registered in the past ("shelf companies"), which were bought to commit crimes (serving as a missing trader).

KAS has restored the VAT register to verify contractors. Since the start of 2017, tax offices have checked whether all newly-established business entities are able to do what they say they do, such as whether the data provided is correct, whether the headquarters' address exists and whether it has the infrastructure needed to operate.

Business entities listed in the past are also being verified, based on existing and new criteria. In 2017, 110,327 taxable persons were removed from the list; in 68% of cases (75 668), because they had stopped operating. Removed were also those who:

- 01.** did not respond to the office's summons or could not be contacted;
- 02.** provided false information in their registration form or tax return;
- 03.** accepted an invoice that they knew was false.

New ways to verify contractors

The data in the register is supplemented by a black list of VAT taxpayers published on the Ministry of Finance's website. It

contains information about potentially dangerous contractors; entities that have been denied registration or removed from the register.

From 2019, a white list of trusted VAT taxpayers will be published, too. Updated daily, it will contain information on the date they were registered, removed or re-added, along with their name, address, identification number and information on bank accounts that the tax authorities have been notified about and monitor. If payments are made to a different account, VAT cannot be deducted and the expense cannot be considered a deductible cost in the income tax. As of 2018, the tax administration has also been enabled to inform entrepreneurs, on their request, whether their contractor declares and pays his taxes honestly and on time.

The VAT taxable persons' guide

Aware of the risk of entrepreneurs unwittingly being pulled into fraud involving VAT refunds by organised criminal groups, the Ministry of Finance started negotiating with entrepreneurs and industry organisations in 2017. This resulted in a jointly-prepared catalogue of methods for checking whether the transaction proposed could be a part of an artificial chain of contracts, characteristic for VAT carousel frauds. In April 2018, these were published as a guide entitled *Methodology for assessing due diligence by purchasers of goods in domestic transactions*, the use of which protects taxable persons against tax responsibility for their business partners' dishonest practices.

The "Safe Transaction" campaign

In June 2018, the Ministry of Finance launched the "Safe Transaction" educational campaign in cooperation with social partners and state institutions.

The campaign helps clarify the mechanisms used in VAT fraud and raise awareness among entrepreneurs about protecting themselves from unwittingly being pulled into tax fraud. It also draws attention to the benefits of exercising due diligence in business.

Cooperation with businesses – thinking outside the box

The MinFinTech competition

The Polish tax administration is constantly looking for skilled programmers and analysts to create, implement and run new digital tools automating data analysis. Following in the footsteps of the world's biggest government agencies (the FBI, CIA, NASA), KAS was the first tax administration globally to organise a competition for IT and CS specialists.

The competition launched in October 2017. During the 24-hour marathon for programmers (hackathon), almost 2,000 participants worked on challenges put forward by the Ministry of Finance which included developing elements of the JPK Analyser and software solutions to identify entrepreneurs selling "post carousel electronics" on auction websites.

A second edition took place in November 2018. This time, officials worked with programmers and analysts to seal Poland's sea and land borders against drug, weapon, alcohol and cigarette smugglers. Their aim was to create an algorithm making it easier to analyse x-ray photographs of containers entering Poland.

The Ministry of Finance, which was the first to treat analysts, programmers and SMEs as partners, is sharing its experience and encouraging other administrative bodies to launch similar initiatives. Based on the tax administration's positive experience, the Polish government established the GovTech programme in 2018, which encourages and

helps other ministries and local government units to cooperate with start-ups and small software houses.

Cooperation with the banking sector – STIR

The JPK analyser helps officials spot VAT carousels after around 2 months of their activity. Since 2018, a real-time "early warning system" for VAT fraud, based on big data analysis, has been introduced: the STIR (IT System of the Clearing House) programme. The development of STIR programme results from cooperation between KAS and the banking sector. AML directives require financial institutions to counter money laundering using big data analysis. They will now do so using software provided by the tax administration, which enables them to check transfers for characteristics of tax carousels.

If irregularities are found, the bank notifies the tax administration, which can demand that the account used to pay fictitious invoices be blocked for 72 hours. This prevents the fraudsters from withdrawing money from the bank, which protects their honest contractors from responsibility for the unpaid tax.

The STIR act entered force 2018 and started bearing fruit in the first month after its launch. By combining data from declarations and JPKs, analysts at the KAS in Kujawsko-Pomorskie Voivodship spotted the creation of "fake invoices". Using information from the STIR system, they soon found the bank accounts being used and froze the funds obtained from fraud – PLN 37m in total.

Preparing for STIR: the limit on cash payments and the gambling act

The introduction of STIR was preceded by preparatory steps in 2017, which guarantee that analysing bank account balances provides a reliable measure of real cash flows and turnover. The upper limit for cash transactions between business entities was lowered from EUR 15,000 to PLN 15,000.

To make it more difficult to legalise revenue from VAT fraud (impact of funds

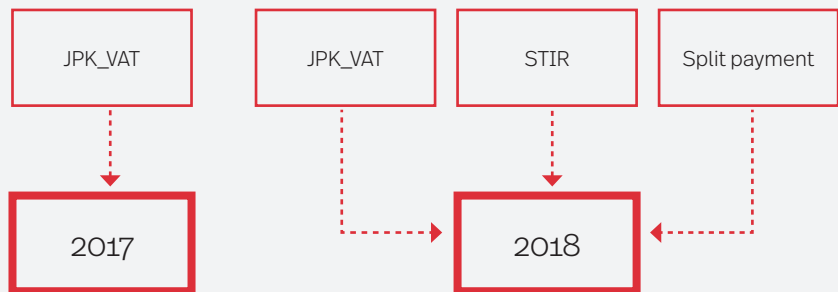
from unverifiable sources), Poland's gambling market was reformed thoroughly. The state-controlled company Totalizator Sportowy was granted a monopoly over slot machines and online gambling. The new provisions were accompanied by mass inspections at illegal casinos. Slot machines were withdrawn from 95% of locations. Within a month of the regulation entering force in April 2017, illegal activity was detected at just 450 of the 10,000 casinos inspected.

DIAGRAM 4. JPK_VAT, STIR and the so-called VAT split payment

Estimated financial impact of legal and IT tools for reducing the VAT gap.

So far, the main impact resulted from the monthly JPK_VAT and a wide range of checks using the data received.

Further development of automated verification tools and advanced analytical methods, beyond JPK, STIR and split payment, is likely to boost budget revenues in 2018.



Revenue
Year-to-year
– expected value

PLN 6.5bn

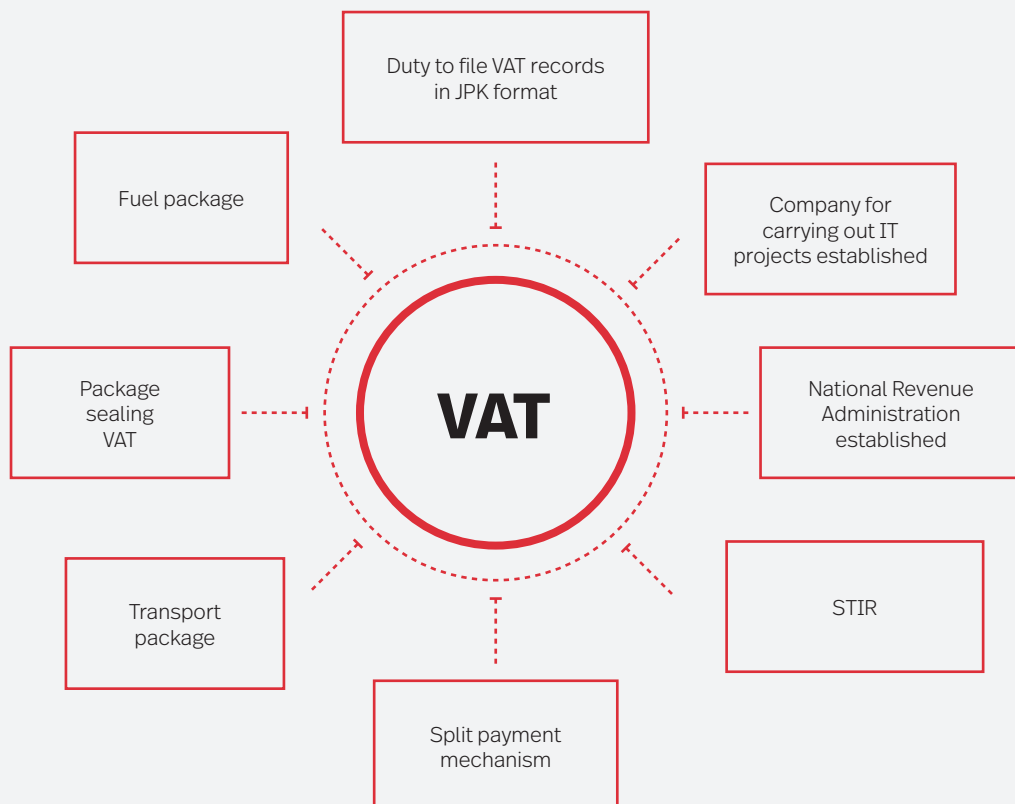
PLN 7.6bn

▼ **TABLE 1. STIR in numbers**

| STIR INFORMATION RESOURCES PROCESSED IN ANALYTICAL PROCESSES | |
|---|---------------|
| Number of banks and credit unions in the system | 617 |
| Number of qualified entities reported to STIR | 3.4m |
| Number of settlement accounts reported to STIR | 9.1m |
| Number of accounts covered by transaction reporting | 6.9m |
| Number of transactions reported | 6.3bn |
| Number of entities in high risk classes, in terms of use of the financial sector for tax fraud | 25,900 |

o Source: Ministry of Finance's internal data (unpublished)

▼ **DIAGRAM 5. Package of changes for combating VAT fraud**



o Source: NIK (2018).

Impact

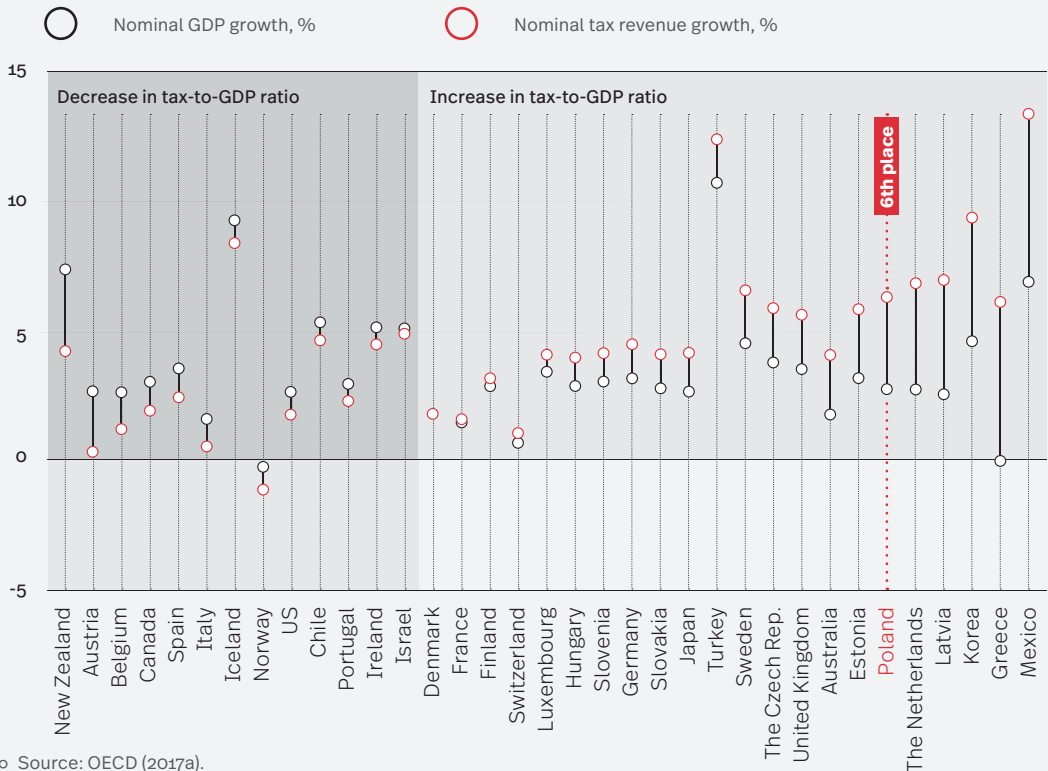
OECD, EUROSTAT, European Commission, PwC and Ministry of Finance calculations

According to the OECD's Revenue Statistics 2017 report, the first effects of the limiting Poland VAT "leakage" were visible as early as 2016. Poland ranked 6th among OECD

states in terms of increase in budgetary revenue in relation to GDP between 2015 and 2016 (OECD 2017). The impact of the reinforcement of the VAT system was also noted in a report by the European Commission (CASE 2018).

Estimates for 2017 are even more optimistic. According to PwC's forecasts, Poland's VAT gap decreased from 2.9% of GDP in 2016 to 2% in 2017. The VAT gap was around PLN 39m, PLN 13m less than the previous year (PwC 2017).

➤ **CHART 9. Relative changes in nominal tax revenue and nominal GDP, %, 2015-2016, Poland and OECD member countries**

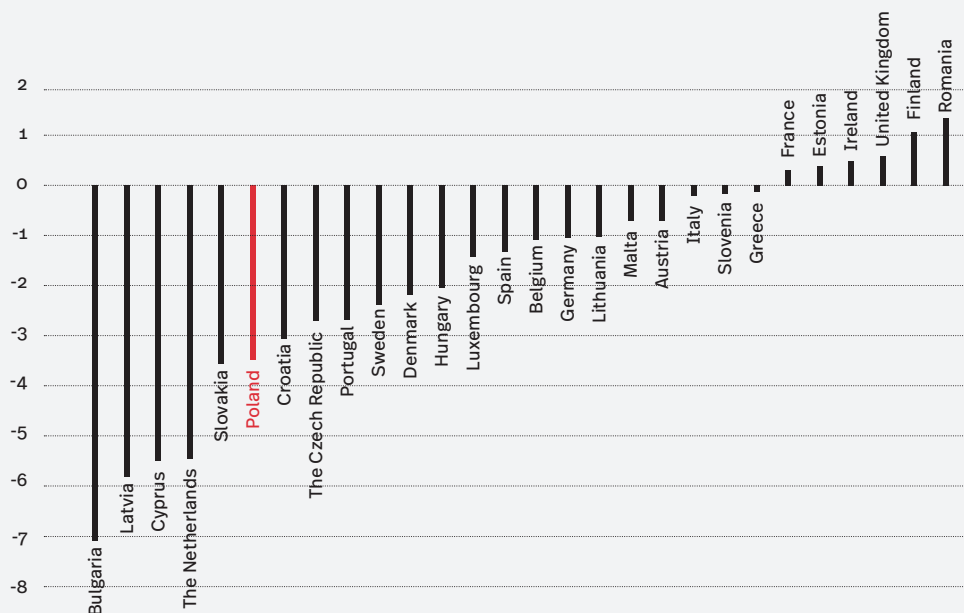


Ministry of Finance data

According to the estimates of the Polish Ministry of Finance, in 2017 VAT revenue was PLN 30,217,091,000 higher than in 2016; 23.9% in nominal terms and 21.4%

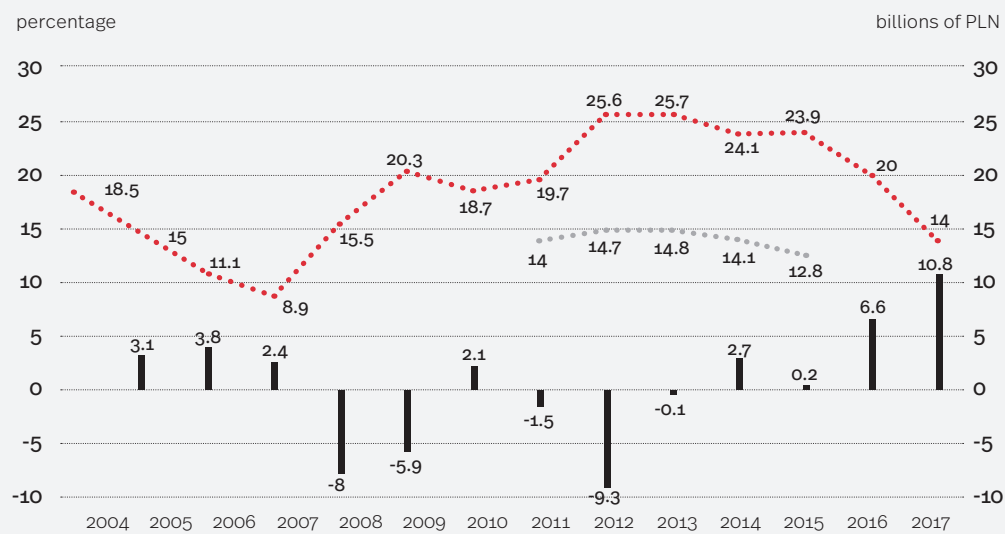
in real terms. In 2017, revenue from the tax on goods and services (VAT) amounted to PLN 156.8bn in Poland, PLN 13,3bn more than forecast in Poland's budget act. This means that 109.3% of VAT revenue forecast in the budget act for 2017 was collected.

▼ CHART 10. Change in the VAT gap in 2016 (in percentage points, compared to 2015)



o Source: CASE (2018).

▼ CHART 11. VAT gap (as a percentage) and the compliance effect (in billions of PLN)



■ compliance effect (right axis) ■ VAT gap in Poland (as a percentage) ■ average VAT gap in the EU (as a percentage)

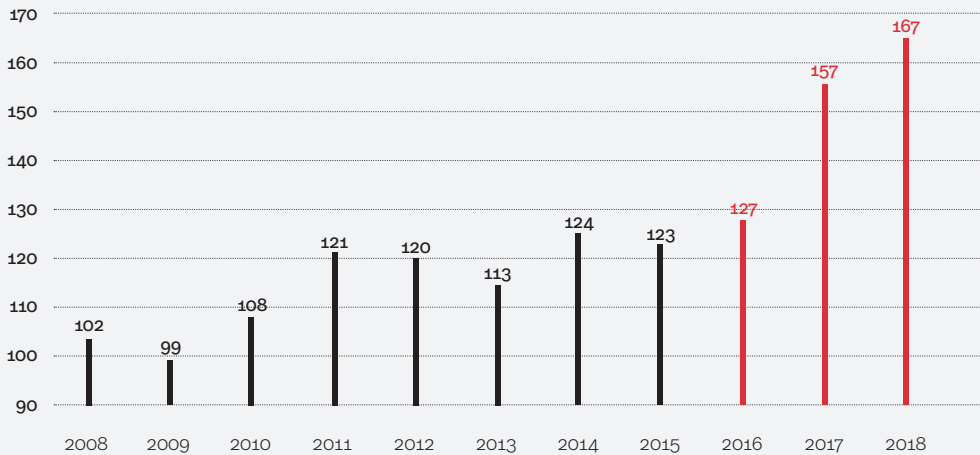
o Source: MF (2018b).

Each year, the Ministry of Finance presents an action plan for collecting VAT and official estimates on its effectiveness in its Multiannual Financial Plan of the State (MFPS) (MF 2018b). Based on the European Commission's methodology for estimating the VAT gap, it is estimated that in 2017 the improvement of VAT revenues only due to better compliance by taxpayers with the applicable regulations (the so-called compliance effect) amounted to PLN 10.8bn.

The positive effect of reinforcement of the tax system is not limited to the budgetary results. There is also an appreciable preventive effect, stopping outflow of funds from the state budget, as taxpayers demand less money in refunds. Despite the good business climate, they demanded PLN 1.1bn less in 2017 than in 2015.

The ratio of budgetary revenue from VAT to GDP was 7.9% in 2017, 1.1 percentage points higher than in 2016. As a result, according to approximate figures by the Narodowy Bank Polski (the central bank), Poland's VAT

▾ CHART 12. VAT revenue, cash basis

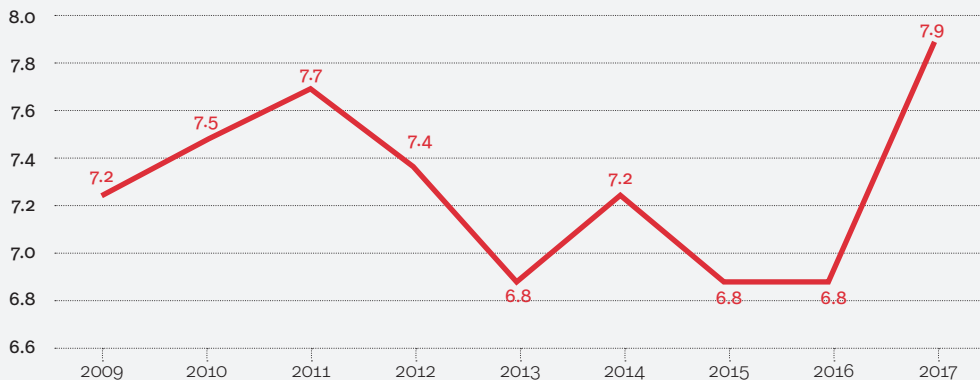


■ In 2008-2015, nominal GDP growth amounted to around 40%, while VAT revenue increased by approx. 21%. As of January 1, 2011, VAT was raised by 1 percentage point, or around 5%.

■ +23%.

○ Source: Ministry of Finance data.

▾ CHART 13. Budgetary revenue from VAT (cash basis) in relation to GDP (as a percentage)



○ Source: Ministry of Finance data.

gap decreased by over 9 percentage points in 2016-2017 (RPP 2017).

According to EUROSTAT data, Poland came second in the EU in terms of the

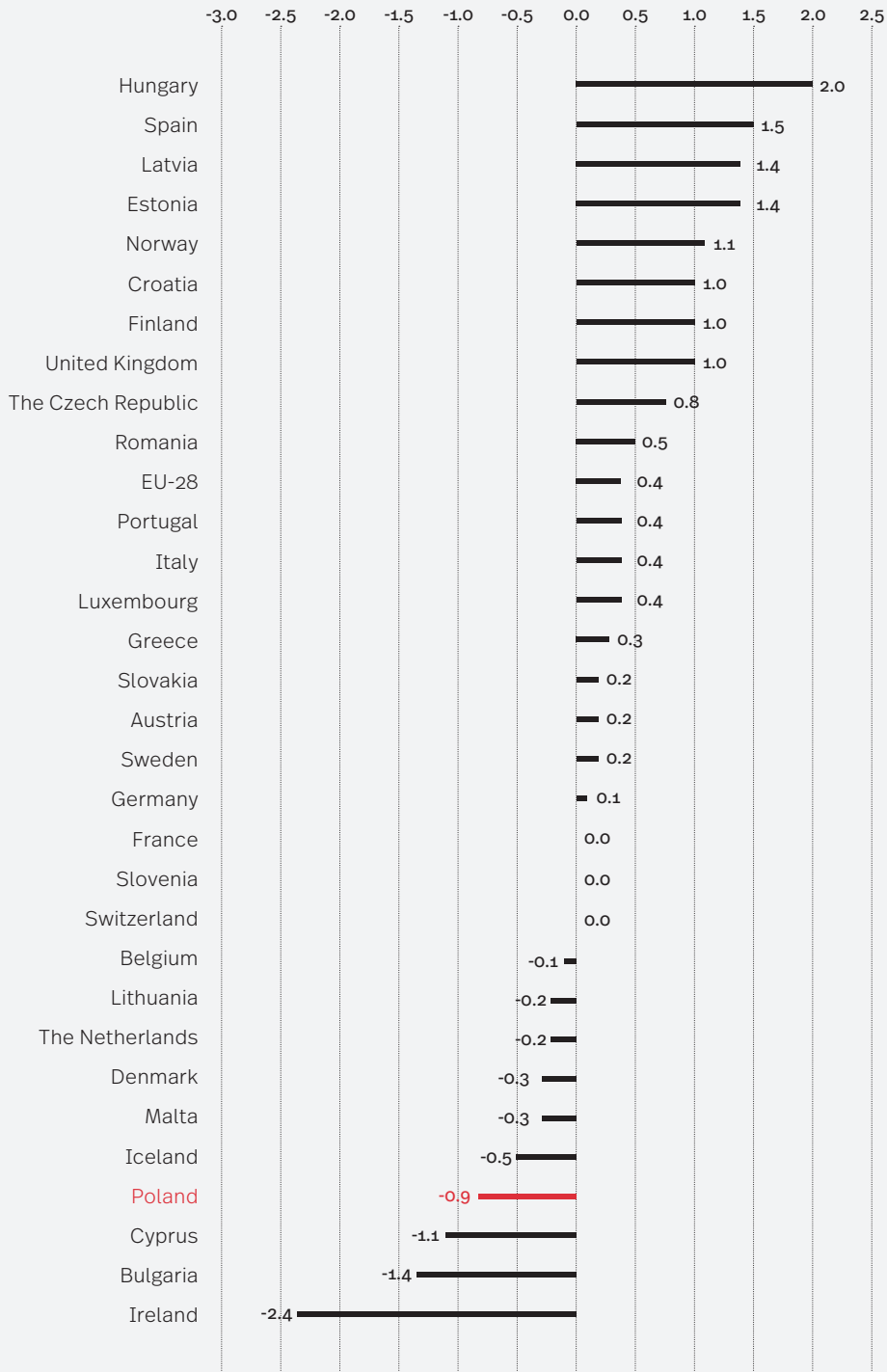
increase in VAT revenue in relation to GDP in 2017. In 2008-2015, only three other countries had ranked below Poland.

▾ **CHART 14.** Change in VAT revenue in relation to GDP, 2016-2017



o Source: EUROSTAT data, chart by the author.

▾ CHART 15. Change in VAT revenue in relation to GDP, 2008–2015



o Source: EUROSTAT data, chart by the author.

The VAT system is reinforced at the expense of entrepreneurs

Limiting Poland VAT “leakage” is not taking place at entrepreneurs’ expense. Taxpayers’ money is not being held on to: in the first half of 2017, the average time for VAT refunds fell by over a week year-on-year (from 43.19 to 36.3 days). The value of suspended refunds more than halved, from PLN 3.4bn in the first half of 2016 to PLN 1.6bn in the first half of 2017. Entrepreneurs in the construction sector, which is subject to the reverse charge mechanism introduced in January 2017, are in a particularly good situation: they receive tax refunds within 15 days.

Impact of economic growth on increasing VAT revenue

The higher budgetary revenue from VAT is not only a result of improved tax collection. The good business climate in Poland has increased the tax base – the value of the goods and services on which tax can be imposed. Moreover, Poland’s economic growth in 2017 was primarily driven by private consumption, which grew by 4.8%, buoyed by the good situation on the labour market, the higher minimum wage and the government’s “Family 500+” programme. These boosted consumption, which helped increase revenue from indirect taxes.

According to very cautious estimates by economists at CréditAgricole (2018), limiting Poland VAT “leakage” in 2017 increased budgetary revenue by around PLN 12.5bn. Meanwhile, the Ministry of Finance estimates

▸ **TABLE 2.** How long it takes to get a VAT refund in days

| COMPARISON IN MONTHS | I–VI (FIRST HALF OF THE YEAR) | I–IX |
|---|-------------------------------|------------------|
| 2014 | 60.42 | 62.37 |
| 2015 | 56.57 | 44.6 |
| 2016 | 43.19 | 43.13 |
| 2017 | 36.3 | 38 |
| Improvement in 2017 (compared to 2016) | 6.89 days faster | 5.13 days faster |

o Source: Ministry of Finance’s internal data (unpublished).

that it recouped PLN 6.6bn in 2016 and PLN 10.8bn in 2017. In 2018, it plans to recoup PLN 7.7bn, which gives a total of around PLN 25bn in 2016-2018⁸.

The Ministry of Finance estimates that total revenue from PIT, CIT, VAT and FUS (Polish Social Insurance Fund) contributions will increase by almost PLN 150bn in 2019 compared to 2015. This is significantly above the rate of GDP growth over this period. It means revenue of almost PLN 180bn from VAT, 120bn from PIT, almost 45bn from CIT and 185bn from FUS contributions.

VAT revenue is expected to grow by almost PLN 60bn compared to 2015, while revenue from FUS contributions is likely to be PLN 42bn higher. Excluding the good business climate, only the combined effect of the tax authorities’ coordinated actions could generate an additional PLN 50bn in 2019, according to preliminary estimates by the Ministry of Finance.

⁸ It should be remembered that total VAT receipts calculated in cash were around PLN 4bn higher in 2016 than in 2015, those in 2017 PLN 34 billion higher than in 2015 and those in 2018 44 PLN billion higher. However, the economic situation’s impact will only be measurable after analysing a longer time series. The authorities’ greater efficiency also boosted revenue from central taxes and Social Insurance Fund (FUS) contributions than would result only based on GDP growth rate by about PLN 6 billion in 2016, PLN 35 billion in 2017 and PLN 50 billion in 2018.

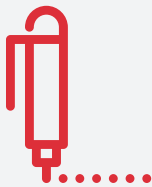
Summary and future outlook

Aware of the scale of fraud and the losses experienced by the State Treasury, Poland has implemented a multifaceted plan to reinforced the VAT system in 2015-2018.

➤ VAT PILLARS



01. Legislation



02. Administration



03. Cooperation with Businesses

In mid-2016, the Ministry of Finance announced a plan to reduce the VAT gap to around 15% over the next three years. This target was reached much sooner. According to preliminary estimates by the Ministry of Finance, the tax gap in Poland has decreased noticeably since 2016. It decreased significantly in 2017 to 14% of possible revenue. In 2015 and 2016, it had amounted to PLN 40bn and PLN 34bn (23.9% and 20%) (MF 2018b).

THE REINFORCEMENT OF POLAND'S VAT SYSTEM IS BASED ON THREE PILLARS:

- 01. Modern Legislation
- 02. Effective Administration
- 03. Intensive Cooperation with Businesses



FIRST PILLAR: LEGISLATION

From 2015, Poland introduced a range of coordinated legislative solutions to combat tax fraud. In addition to developing legal tools used by other EU countries (the reverse charge mechanism, joint and several liability), which have a limited effect, the Polish

authorities formulated and implemented innovative systemic solutions. New, effective solutions were introduced in areas where organised criminal groups involved in VAT fraud are active (the fuel and transport packages). The legislative foundation for the

innovative single control file (JPK) system was laid and the National Revenue Administration (KAS) was equipped with modern analytical tools. These efforts were supplemented with a new model for settling VAT: the split payment mechanism.



SECOND PILLAR: ADMINISTRATION

In 2017, the Polish tax administration underwent much-needed and comprehensive reform, resulting in establishing the National Revenue Administration (KAS). The new organisational framework has improved cooperation between the services that make up KAS. Equipping them with modern analytical

tools led to a breakthrough. By analysing data from JPKs, combined with the STIR system, which enables officials to check whether invoices correspond to real sales, KAS has fought organised criminal groups involved in VAT fraud. Poland's modern tax administration meets taxpayers'

expectations, offering a range of new tools that enable entrepreneurs to verify contractors' honesty. The administration helps taxpayers carry out their duties by regularly publishing tax explanations and warnings, along with other informational campaigns.



THIRD PILLAR: COOPERATION WITH BUSINESSES

By working with the IT and banking sectors, KAS has honed its analytical tools. The tax administration remains open to

cooperation with new professional milieus, especially among Poland's skilled IT specialists. Its analytical tools are constantly

being improved and their scope broadened.

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List of abbreviations

ABW – Agencja Bezpieczeństwa Wewnętrznego / Internal Security Agency
 CBA – Centralne Biuro Antykorupcyjne / Central Anti-Corruption Bureau
 JPK – Jednolity Plik Kontrolny / Standard Audit File
 KAS – Krajowa Administracja Skarbowa / National Revenue Administration
 NBP – Narodowy Bank Polski
 NIK – Najwyższa Izba Kontroli / Supreme Audit Office

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