

Global Tax Monitor

International Tax News & Developments

Autumn 2000 - Volume 3, Issue 4

A Publication of TAXWARE International, Inc. for corporate clients, tax, technical, and consulting professionals worldwide.

Conducting Business ...

...in Poland



Poland VAT Overview

By Victor Gladun, International Tax Analyst

Value added Tax (VAT) was introduced in Poland in 1993 and was broadly based on European Union (EU) principles. The important differences between the Polish VAT system and VAT in the EU include a wider range of exemptions: rights and licenses are outside the scope of VAT, lack of relief for VAT on bad debts, absence of provisions for VAT grouping.

Scope of VAT

VAT applies to supplies of goods and services in the territory of Poland, as well as to imports and exports of goods and services. Basic foodstuffs (e.g., meat, eggs, milk)¹, financial services, insurance, cultural services, healthcare, training and education, agricultural services, rental of domestic accommodation are exempt from VAT.

Taxable Persons

Persons, legal entities, individuals and entities without legal personality are all taxable under the VAT law, if they supply taxable goods or services in Poland in the course of business. Employees are outside scope of VAT.

VAT Rates

The standard rate of 22% covers all goods and services not specified as having lower rates. Exports, certain farm equipment and materials, some surgical appliances and sales of new domestic property are zero-rated. A reduced rate of 7% applies to certain building materials, processed foodstuffs, domestic passenger transport, certain children's clothes, books and toys.

VAT Registration

VAT registration is compulsory for all legal and natural persons performing taxable activities. Businesses with annual turnover of less than (PLN) 80,000 zloty (USD \$22,600) are exempt from the registration, but may voluntarily register. In practice, foreign businesses that have no permanent establishment but supply services in Poland are not currently pursued for registration.

(BUSINESS cont. on page 2)

Current Tax Developments

Increasing Awareness of the Tax Changes Affecting International Business

Israel The Israeli government has cut the Purchase Tax on over 600 consumer and capital goods. The rates on some of the products would be cut from the existing high of 85% to 5%. The tax on some of the items is to be completely removed. For more information, visit the web site of the Israeli Ministry of Finance at <http://www.mof.gov.il/englishframe.htm>.

Romania Companies operating within industrial parks importing equipment and machinery, raw materials and other goods used in manufacturing process or for investment in developing industrial parks will be exempt from VAT and customs duties effective September 23, 2000. For more information, visit the official web site of Romanian Ministry of Finance at <http://www.mfinante.ro>

South Korea The South Korean government recently passed bills revising the enforcement decree of the VAT Act. The exemption for financial services will now apply to services provided by mortgage-backed security companies, resolution trust companies and the Korea Deposit Insurance Corporation. For Korean tax regulations and up-to-date taxation news, visit the National Tax Service's web site at <http://nts.go.kr>.

Thailand The Thai Chamber of Commerce forwarded a proposal to the government to cut value added tax (VAT) rate from the current 7% to 5% to raise consumer purchasing power and help curb rising gasoline prices. The move by the Chamber of Commerce is based on the report that consumer confidence is waning. A survey by the Thai Chamber of Commerce indicated a steady decline in its consumer confidence index, from 83% in January to 70% in August. Several private groups, including the Thai Industry Federation, have also suggested that the VAT rate be cut. For more information, visit the Thai Ministry of Commerce's web site at http://www.moc.go.th/moc_eng.htm

Croatia Croatia has imposed a new customs fee and value added tax (VAT) on food and beverages. The measure was adopted to stop the money flow out of Croatia as Croatians buy cheaper food and beverages across the borders. Although

the value of duty free items that can be brought in remains at Croatian Kuna (HRK) 300, the regulation is in the form of a quantitative restriction. The quantitative limit is set at 2.2 lbs. for coffee, detergent, meat, sugar, oil, chocolate, fruit and vegetables and up to one liter for non-alcoholic drinks. For more information, visit the web site of the Croatian Finance Ministry at http://www.mfin.hr/index_eng.htm or the Croatian Customs department at <http://www.carina.hr>.

Ecuador After being warned by the International Monetary Fund (IMF), Ecuador has agreed not to abolish its financial transactions tax until January 1, 2001, originally set to be removed on August 19, 2000. The Internal Revenue Service appealed the elimination of the tax, claiming that it would endanger attempts at economic recovery and would not have permitted Ecuador to reach the fiscal target outlined in its IMF agreement. The IMF warned Ecuador that it would not approve its economic program if the tax was abolished without raising revenue from other sources. The IMF has listed several tax reforms necessary to meet the country's targeted budget including a broader tax base, and new income tax and value added tax (VAT) rates. Ecuador is slated to submit a tax reform package to Congress this month. Early budget proposals suggest that Ecuador is not considering any tax increases, instead it is proposing improvements in the collection of existing taxes. However, IMF approval of an economic plan may necessitate tax rate increases. The official web site for Ecuador's internal revenue service can be found at <http://www.sri.gov.ec>.

Germany In an interesting example of the effective use of the subsidiarity principle (in the European Union, the principle indoctrinated by the Maastricht and Amsterdam Treaties intended to ensure that decisions are made as closely as possible to the citizen by allowing action to be taken at the Community level only when it is ineffective to do so at the national, regional and local levels), a Franco-German initiative to ward off evasion of VAT in the border regions was agreed to in early September. The so-called "Schwetzingen Declaration," which was agreed to in the town of Schwetzingen, is a declaration of intent on behalf of the French government and the three German *Länder* bordering France (Baden-Württemberg,

(CURRENT cont. on page 2)

(CURRENT cont. from page 1)

Rheinland-Pfalz and Saarland). Since the introduction of the Single Market and the signing of the Schengen Agreement it is believed that organized crime has had a better chance to engage in cross-border VAT fraud. The declaration leads the way for the tax authorities of France and the three German *Länder* to share more information with each other about existing and future tax evasion, thus effectively taking a preemptive stance against fraud (rather than a reactive one). The Schwetzingen Declaration is a result of cooperation efforts that were begun two years ago by the *Land* of Baden-Württemberg in Germany and the *région* of Alsace in France. In a joint press release about the declaration, the parties reinforced the need for cross-border initiatives to combat cross-border crime. It is hoped that the Declaration can serve as an example to other tax authorities in the European Union to foster closer relationships at the regional and local levels. For more information on Schwetzingen, visit the following (German) site at <http://www.schwetzingen.de>.

European Union The European Commission has recently released a proposal (COM (2000) 348 final) which is aimed at improving the operation of the VAT System in the Internal Market through simplification and modernization, standardization of rules implementation and closer cooperation between Member States. The proposal is presented as a review of the program proposed by the Commission in 1996 and is divided into three phases. The first two phases to take place in the year 2000 would then determine the third phase, which would concentrate on priorities next year. The first phase proposed for this year would concentrate on issues that the Commission has already presented for consideration to the Member States and EU institutions: simplifying the mechanism to obtain input tax credits paid in other Member States (8th Directive Refunds) and improving mutual assistance on recovery issues, abolishing the need for the obligation of appointing a tax representative in certain cases, and simplifying the decision-making process of the VAT Committee. The second phase proposed for this year would concentrate on new proposals made or to be made by the Commission: ensuring equal treatment of taxation in the postal services sector, protecting the EU's interest in taxation of digitized goods (for prior coverage see our article in the Summer 2000 - Volume 3, Issue 3 of the *Global Tax Monitor*), proposing measures for the adoption of electronic invoicing rules, revising rules on administrative cooperation and mutual assistance, and setting a minimum VAT rate for at least five years (the amendment to the Sixth VAT Directive to maintain the minimum VAT rate at 15% expires at the end of this year). The third phase to begin in 2001 will be determined by how the Commission assesses the first two phases and after presenting a progress report to be reviewed by the Council. A press release on the issue can be located at [http://europa.eu.int/comm/taxation_customs/publications/official_doc.htm#IP/00/615](http://europa.eu.int/comm/taxation_customs/publications/official_doc/official_doc.htm#IP/00/615) and the proposal is available at http://europa.eu.int/comm/taxation_customs/publications/official_doc/com/com.htm.

Dominica Dominica has increased its sales tax to 5% from the existing 3%. The increase in sales tax was made to offset the impact of income tax breaks given to low-income earners. The hike in the sales tax is not applicable to the purchase of approved school books. For more news on Dominica, visit the web site of the Caribbean News Agency at <http://www.cananews.com>.

Venezuela Venezuela published several major changes to its value added tax (VAT) system. The new rate of 14.5%, a reduction from the previously existing 15.5%, was published in Official Gazette No. 37,002 and is effective as of August 1, 2000. Venezuela also published its decision to eliminate VAT from the free port of the State of Nueva Esparta, which includes the islands of Margarita and

(CURRENT cont. on page 3)

(BUSINESS cont. from page 1)

Representative Offices

Under the VAT law, representative offices are theoretically treated in the same way as Polish entities. However, the operating licenses given to these offices under business law normally forbid them from trading. Offices forbidden from trading are normally not required to register for VAT as they are not making taxable supplies.

VAT Recovery

Registered business can recover input VAT incurred in the course of its business as a credit to offset the output tax or for repayment. It is necessary to hold a valid tax invoice to evidence for an input tax claim. Under certain circumstances foreign tourists may recover VAT on purchases.

Partial Exemption

Taxpayers making taxable supplies can recover the input VAT while those making exempt supplies cannot. Companies that make both taxable and exempt supplies (in Poland, with its wide range of exemptions, there are many of these), must calculate the proportion of the input tax that can be recovered.

Methods for Calculating Recoverable Input Tax

Input tax is recovered depending on the use of the related costs. Input tax on costs, which have been used or are to be used wholly in the making of taxable supplies, is fully recoverable. Input tax on costs, which have been used or are to be used wholly in the making of exempt supplies, cannot be recovered. The input tax on costs incurred on both exempt and taxable supplies is split in the proportion of taxable supplies to the total turnover for the period in question to determine the recoverable amount.

Place of Supply of Services

Services are deemed to be supplied where physically performed. This rule works well for physical services such as construction or work on goods. However, it is ambiguous for intellectual services, where the place of performance can be different from the place where the benefit of the services is actually enjoyed. Also for completely global services such as telecommunications and data sharing, the place of physical performance can be difficult to define.

Export of Services

Exports of services are zero-rated. However, exports of services are defined solely as services performed by a Polish taxpayer outside Poland. A service performed inside Poland, even when charged to a foreign company, is not considered to be an export. In addition to the relief for exports, some types of cross-border services are subject to zero-rating even when physically performed in Poland. These include legal representation and consulting services supplied to foreign customers, exported goods including work on goods for export, some services with respect to exports, international transport of goods and passengers, building and related technical design services, bookkeeping and related services and data processing and delivery. Services performed outside Poland are outside the scope of VAT even when supplied to a Polish customer.

Time of Supply

The tax point generally arises at the time of delivery of goods or provision of services. If a tax invoice is issued within 7 days, it can override the basic supply date as the actual tax point. Advance payments generate a tax point only when they reach 50% or greater of the value of the supply. For leasing/rental services VAT is charged at the earliest payment date, payment maturity, or 30 days from the service having been provided. For telecommunications services and supplies of electricity, the tax

(BUSINESS cont. on page 4)

Where to Watch — Ongoing Tax Changes

An outlook on future tax changes around the world

Chile A strong anti-tax avoidance law was presented by the Chilean government to Congress on August 24, 2000. The law, part of the government's campaign against tax evasion, contains several modifications to the existing value added tax (VAT) system. First, the new law proposes to apply VAT to the sale of fixed assets of a company regardless of the time that has transpired between the acquisition of a good and its subsequent sale. Second, the law proposes to eliminate recovery of credit for the VAT charged on transactions where the invoice was "lost" or when the invoice was issued by taxpayers who have been involved in fraud related to VAT. Third, the new law proposes that the recovered VAT credit generated from the purchase of fixed assets must be returned to the government if the taxpayer has not generated an equal amount of VAT debit within 36 months. Fourth, the law proposes that VAT refunds given to exports must be requested through the tax administration, rather than through the Department of the Treasury, as is the current law. Lastly, the 50% additional tax that is applied to certain luxury items, such as those made of gold, will be reduced to 30%. The entire text of the proposed law can be found at the Chilean government's official internal revenue service web site at <http://www.sii.cl/>.

China China's central government is considering further wide-ranging tax reforms to improve the new tax system introduced in 1999 and to tackle its deflation problem. Proposed changes include shifting the value added tax burden away from producers to consumers, expanding the range of consumption tax and imposing of a 50% inheritance tax by the end of the year. For details visit China Taxation News, the official newspaper of State Administration of Taxation of China at <http://www.ctaxnews.com.cn/>.

Dominica Finance Minister George Ambrose disclosed in July that a value added tax (VAT) system will be introduced next year. VAT would then replace the existing consumption tax, sales tax and the hotel occupancy tax. He also hinted at a regional approach in implementing the VAT system as a number of OECS (Organization of Eastern Caribbean States) countries had expressed interest in implementing the VAT system. For more news, visit the web site of the Caribbean News Agency at <http://www.cananews.com>.

European Union The European Union's Directorate General for Taxation and Customs has recently published a brochure covering taxes in the European Union. The publication is currently only available on-line in French, but should be translated into the official languages soon. To view the publication, direct your browser to: http://europa.eu.int/comm/taxation_customs/publications/taxation/tax_brochure.htm

Grenada Finance Minister Anthony Boatman said that they are considering the reintroduction of the controversial VAT. This comes on the heel of the recommendations of the International Monetary Fund (IMF) to increase the revenue stream. The reintroduction of VAT is not seen as an immediate move as they did not have the adequate knowledge on its operation. For information on Grenada, visit the official web site of the Grenada Industrial Development Corporation at <http://www.spiceisle.com/users/gidc/>.

India A Committee of the State Finance Ministers, that was formed to monitor the ongoing sales tax reform, has accepted to formally endorse a proposal to exempt information technology products from sales tax. At a meeting of the Information Technology Ministers', the states consented not to levy sales tax and other duties on information technology products for the next three to five years. The duty incentives were accepted to boost the information technology sector. The following is a list of products that would benefit from the exemptions: word processing machines, electronic

Web Site Tax Resources

Highlighting Practical Tax Resources on the World Wide Web



Web Site Tax Resources outlines topical sites on the Web which are of particular interest to anyone wanting to stay current with hot issues facing the global business community. Topics may vary from Internet sites for tax authorities, to new sites in the field of indirect taxes.

In this issue: Poland

The official web site of the Lower House of the Polish Parliament can be seen at <http://www.sejm.gov.pl>.

The General Customs Inspectorate can be found at <http://www.gic.gov.pl>.

<http://www.finest.com.pl> is an informational web site publishing original Polish tax legislation and updates.

<http://www.mofnet.gov.pl> is the official web site of the Polish Ministry of Finance.

<http://www.polandonline.com> is an informational web site providing legal documents and tax information for foreign investors.

<http://www.stat.gov.pl> is the official web site of the Polish Statistical Office.

typewriters, electronic calculators, computer systems, peripherals, electronic diaries, electrical equipment for telephone and telegraphy, microphones, multimedia speakers, headphones, answering machines, radio communication receivers, liquid crystal displays, light emitting device panels, printed circuits and optical cable fiber. For more information, visit the official web site of the Finance Ministry of India at <http://www.finmin.nic.in/>.

Uganda The Ugandan Finance Ministry may be considering a proposal to reduce the VAT rate on tourism. VAT is levied at 17% on tourism and tour operators have warned that the imposition of VAT on tourism makes Uganda one of the most expensive tourist spots in Africa. The Minister of State for Tourism Jovino Akaki told the parliament that tourism was still the fastest growing sector of the economy although it grew by only 10% last year as opposed to 14th% in 1998. For more information on trade and business in Uganda, visit the web site of Orientation Uganda at <http://ug.orientation.com/en/home.html>.

(CURRENT cont. from page 2)

Coche, in Official Gazette No. 37,006 and is effective as of August 3, 2000. Venezuela also published the National Merchant Marine Reactivation Law on June 26, 2000 in Official Gazette No. 36,980. Under the new law, the temporary or final importation of ships and navigational accessories are exempt from VAT, import taxes and service fees. The exemption includes oil rigs, drilling platforms, as well as the raw materials, accessories, replacement parts, and equipment necessary for the naval and shipyard industry so long as it is directly involved in the construction, modification, or major repair of ships and navigation accessories. Publication of these new laws can be found at Venezuela's internal tax administration official web site: <http://www.seniata.gov.ve>.

Vietnam The Vietnamese Finance Ministry has announced recently that wholesale sales of unprocessed domestic farm produce will be exempt from value added tax to raise the consumption of farm produce. The tax exemptions will apply to organizations and individuals wholesaling rice, maize, cassava, potato, fresh vegetables and fruit, trees for timber and oil, cattle, poultry and gees and aqua-culture products. For more economic information, visit the web site of Vietnam's Economic Information Network at <http://www.vneconomy.com.vn>.



Corporate Headquarters
27 Congress Street
Salem, MA 01970 USA
T +1.978.741.0101 F +1.978.741.0222
email: info@taxware.com
<http://www.taxware.com>

TAXWARE International Limited
The Lansdowne Building
2 Lansdowne Road
Croydon, Surrey CR9 2ER, UK
T +44 (0) 181 263 6050 F +44 (0) 181 263 6100
email: europesales@europa.taxware.com

(**BUSINESS** cont. from page 2)

point is the payment maturity date under the contract. For construction services the tax point is the earliest date of payment, the maturity date, or 30 days from the provision of the service. For continuous supplies of services the authorities normally accept the tax point as the periodic invoice dates or periodic payment dates, whichever occurs first.

Gifts, Donations and Entertainment

All donations of goods and services are taxable as a sale and output tax is due on their imputed market value. This also covers free supplies during corporate entertainment or business promotions.

Discounts

Discounts are treated quite generously under Polish law. A supplier may discount supplies to non-connected customers and VAT will be due only on the discounted figure.

Property

Land is exempt from VAT, but buildings developed on real estate are potentially taxable. Where a sale of a building attracts VAT, the value of the land it stands on is deducted from the tax base. Sale or rent of buildings is generally standard-rated. However, the first sale of new domestic property is zero-rated. Rental of domestic property is exempt from VAT. Construction services are standard-rated, but lower rates exist for some construction materials.

Returns

According to the VAT Law, taxpayers should file the returns and submit payments on a monthly basis by the 25th day of the month following the month in which the tax point arose.

¹ The Polish Parliament adopted a controversial 3% VAT rate for farming goods. It is expected that new VAT rate for farming products will become effective starting January 1, 2001.

Victor Gladun is an International Tax Analyst with TAXWARE International, Inc. He can be reached at victorg@taxware.com.

Contributors to this issue of the *Global Tax Monitor*

Tina Burford, Graphic Designer, Editor in Chief
Torsten Fetzner, Manager of International Tax Research, Editor in Chief
Dori Cross, Assistant Graphic Designer, Editor
Prashant R. Kamalapuram, International Tax Counsel, Editor
Victor Gladun, International Tax Analyst
Ying Chen, International Tax Analyst
Naomi Dalzell-Martinez, Esq., International Tax Counsel

Fax Back – Registration Form

To register your name on the following distribution lists, please fill out the form below and return it by fax to: EU Marketing
(in the U.K.)+44 (0) 181 263 6100; (in the U.S.)+1.978.741.0222

- Global Tax Monitor**
Please enter my subscription to receive this international newsletter.
Note: GTM will become Email distributed, so please remember to add your Email address.
- globaltax-request@member.taxware.com**
Please enter my Email address to subscribe to this international Internet list server (on-line discussion group)

Welcome to the ranks of the informed! (please print)

Name _____
Title _____
Company _____
Address _____
Telephone _____
Fax _____
Email _____

(The above subscriptions are free services sponsored by TAXWARE International, Inc.)

About the Publisher

TAXWARE International, Inc.

TAXWARE International, Inc. is the leading developer of transaction based, worldwide commercial tax software—we have been helping companies with tax compliance for over 20 years.

We provide solutions for Sales, Use, Property and Excise taxes as well as worldwide VAT. We are the system of choice for Internet Electronic Commerce. Our software operates seamlessly with leading financial and accounting packages on multiple hardware platforms.

Our annual user group conference features speakers from around the globe, hosting the International Taxation Track, which includes the most popular and best attended conference sessions. For more information on TAXWARE's User Group Conference visit our web site.

Recognized for customer support and client-focused product development, the company has shown explosive growth over the last five years. TAXWARE is privately held with headquarters in Salem, Massachusetts and has offices in Los Angeles, San Mateo, Cincinnati, Chicago, New York, Philadelphia, Austin and London. For more information call 978.741.0101 or visit us on the web at <http://www.taxware.com>.

The *Global Tax Monitor* is a bimonthly publication. If you have ideas or suggestions, please forward your comments to: info@taxware.com, attn: Editors, GTM.

Disclaimer: The information contained in this newsletter is provided for general information only. Every effort is made to ensure the accuracy of the information contained in this publication. Readers should seek the advice of a competent, professional tax counsel before any specific action is contemplated. The publisher is not engaged in rendering legal or accounting advice or other professional services. The publisher, editors, and authors expressly disclaim any and all liability and responsibility to any person or organization in respect of any possible consequences, in whole or in part, based on the contents of this publication.

Copyright © 2000 TAXWARE International, Inc. All rights reserved.

