

## Opinion of the Chief Expert of the Union of Entrepreneurs and Employers on Political Economy regarding Poland's tax policy

The economy of the Republic of Poland is still in the period of its greatest slowdown in decades. It seems that the impact of the pandemic on the economy is weakening (hopefully permanently) and the prospects of development are looking rather good. Further recovery of economic activity can be expected, supported not only by private, but also public investments. Perhaps, in the longer term, we will benefit from the redevelopment of supply chains (should this take place) and a partial reallocation of production back to Europe. Much was said on this subject at the beginning of the pandemic, but it is hard to say how it will all end.

The actual impact of all these factors that will support development in the years to come depends to a large extent on the conditions for both investment and entrepreneurship that will be created in Poland. The tax system is a major factor influencing those conditions. In particular, the level of taxation, the degree of complexity and transparency of the tax system and the predictability of taxes due, especially in the short and medium term, seem to play an important role here.

The tax burden on Poles and Polish companies has been slowly and inexorably growing recently as a result of various types of newly introduced taxes and para-taxes. Moreover, opinions have emerged that with the adopted model of social policy and the scale of fixed state expenditure (especially in the context of the current demographic situation), further tax increases are almost inevitable. OECD analyses show that in order to maintain the current level of debt in the coming decades, it will be necessary to either significantly reduce state expenditure or drastically increase taxes (by as much as up to 15% of potential GDP).

Given that the lion's share of costs will be to keep the pension system afloat (which will probably pay pensions anyway with ever lower replacement rates), it will become increasingly difficult to curb expenditure. Especially since the political power of pensioners is growing by the year. In this situation, maintaining additional, new obligations will be progressively problematic – as well as withdrawing from them. In the short term, new taxes are becoming a remedy, and in the medium term – perhaps – the acceptance of higher levels of public debt. However, one should keep in mind that there is no consensus as to where the actual limit of the acceptable debt level is. And while it seems that the Polish economist Marcin Piątkowski is right that a certain increase in debt limits would not be dangerous – a violation of the debt limit mechanism presently built into the constitution, and yet nonetheless partially circumvented, may turn out to be dangerous. Other limits of debt, in the current model of policy making in Poland, may not be established before the collapse of public finances.

It is therefore to be feared that the tax burden will slowly increase in the medium term. However, this does not in any way justify the government's current short-term initiatives or the quite chaotic introduction of new and often politically motivated new levies (even if some of them could be justified). Let us try to prevent taxes from increasing in the future – but above all else, let us make sure that they do not increase unnecessarily, merely in order to achieve current political goals! Still, it should be emphasised that the model of tax policy in place in recent years, and especially since the outbreak of the pandemic, is worrying not only because the tax burden, including the burden on entrepreneurs, is growing.

It seems that objections of an even more serious nature regard to the other two factors determining the quality of the tax system that I have mentioned. With the successive introduction of sectoral taxes, the transparency of the system decreases. Furthermore, in virtually no case in which evidence-based policy could be applied in relation to the newly introduced instruments (the trade tax or the sugar tax), ex post analyses of their effectiveness are not planned, and it is difficult to expect that (in the case of a negative assessments) could influence or could have influenced the authorities' decisions.

Chaotic and sudden changes and amendments introduced to the tax system – and this applies not only to taxes, but also to new legal regulations – also limit the predictability and thus the safety of economic activity. In conditions like these, those will benefit most who efficiently move in the world of state capitalism by means of using their influence and contacts, insider knowledge, and effective lobbying. As well as those willing to take higher risks in return for greater benefits. When thinking about long-term development, it is worth rethinking the tax system in a different way – shaped as it is today, it may soon become a very serious barrier to development. And absolutely no one would want that...

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