

Memorandum of the Union of Entrepreneurs and Employers: in light of the dramatic increase in operating costs, we need a set of laws for micro-enterprises

Overview:

- **Polish entrepreneurs have been struggling with numerous crises and skyrocketing operating costs since 2020. This impacts directly their financial situation. In 1Q 2022, 161 thousand companies suspended business activity, while 104.3 thousand shut it down.**
- **This year, Polish companies await further increases in energy prices and other operating costs, as well as a further, second in a row, minimum wage increase.**
- **The smallest companies run by micro-entrepreneurs have found themselves in a particularly difficult situation. If we want to avoid a wave of bankruptcies, we need a package of solutions to improve the financial situation of micro-enterprises.**
- **The problem of flat-rate social security premiums excessively burdening the smallest of companies can be solved by eliminating the time restrictions on the so-called “little ZUS plus”. Indexation of the income threshold entitling to take advantage of preferential conditions should also be taken into consideration (presently it amounts to PLN 120,000).**
- **In order to reduce non-wage labour costs for micro-enterprises, we suggest exempting them from the obligation to pay premiums to the Labour Fund, as well as a reduction by half of the amount of pension premiums paid by micro-enterprises for their employees.**
- **Further changes in the regulations introduced with the “Polish Deal” ought to be considered. We suggest the health premium micro-enterprises be reduced from 9% to 6%, while the limits and amounts of deductible contributions from income in the case of taxpayers settling with flat tax and a lump sum on registered revenues be increased.**
- **We also suggest that in the case of employees employed by micro-enterprises, the sick leave be paid from the first day the employee’s inability to work.**

Introduction – a hard time for Polish companies

Recent years have not been easy for Polish entrepreneurs, the smallest companies of the SME sector in particular. The COVID-19 pandemic was first to pose a serious threat, along with the

restrictions that followed. It led to numerous enterprises being shut down, while those that survived oftentimes struggled with financial liquidity. The situation was further aggravated with the largest tax law amendment in years: the new Polish Deal. The provisions therein were ill-considered and harmful, and thus led to immense chaos among entrepreneurs, accountants, and the tax authorities alike. Despite the fact they were largely improved over the fiscal year, 1Q 2022 was a period of high uncertainty for Polish businesses, and even now plenty of tax norms raise questions – and for good reason. Moreover, 2022 was a time of skyrocketing gas, electricity, and fuel prices. In many cases, there were multiple increases for entrepreneurs. This, of course, was associated with considerable inflation, especially after the Russian invasion of Ukraine in February 2022. The war was also meant disrupted supply chains (a problem already since the pandemic). The inflationary spiral also translated into an increase in wages, and thus in 2023 we are dealing with a record-high increase in minimum wages and social security premiums for entrepreneurs. All this converts into a substantial increase in operating costs. Recent years have undoubtedly been extremely difficult for Polish entrepreneurs, for SMEs in particular.

Statistics reflect the problems signalled above. The Ministry of Development and Technology stated that 161 thousand companies suspended business activity in 1Q 2022, whereas 104.3 thousand shut it down (nearly 29% more than in the same period in 2021). Furthermore, as many as 69% of entrepreneurs believe that the conditions for doing business deteriorated in 1Q 2022 [1]. The data also indicate a highly disturbing fact: presently close to one in seven companies, one in six among micro-enterprises, have suspended operations[2]. Many companies will never return to the market and will be removed “ex officio” from the registry of CEIDG (the Polish Central Registration and Information on Business).

Other data suggest that from the beginning of January 2022 until the end of October last year, CEIDG received 157.7 thousand motions to terminate sole proprietorship – 17.1% more than in the same period in 2021[3]. At the same time, CEIDG received 278.1 thousand motions to suspend sole proprietorship – 31.1% more than in the same period a year before[4]. Polish companies are ever more often forced to shut down operations and urgently need help, not through direct subsidies, but systemic changes that will help reduce the costs incurred by the smallest entities operating on the market.

An aid package for the Polish SME sector

1. “Relief to start” & “Small ZUS”

Among benefits for new enterprises, there are three of major importance: “Relief to start”, “Small ZUS” and “Small ZUS+”. New entrepreneurs (or resuming operations after 60 calendar months from their last suspension or shutdown) can benefit from a relief for starting the company for 6 full calendar months. During this period, they do not pay social security contributions (however, they still have to pay health insurance).

The second solution is called “Small ZUS”. It allows new entrepreneurs in a full period of 24 months from starting their business or making use of the “Relief to start” to pay social security contributions in a preferential amount. By default, contributions are paid from a declared base not lower than 60% of the forecast average gross salary, whereas in the case of “Small ZUS”, the basis may be an amount not lower than 30% of the minimum remuneration. The amount of the premium for individual insurance is an appropriate percentage of the declared basis, for instance: pension insurance in the case of “Small ZUS” in the lowest amount will amount to 19.52% multiplied by 30% of the minimum wage.

It is possible to make use of preferential ZUS contributions as part of the “Small ZUS+” programme aimed at companies that obtained revenues maximum PLN 120,000 the year before. They can make use of the same benefits as in the case of “Small ZUS” for a maximum of 36 months in the next 60 calendar months of conducting business activity. Importantly, the time of using the small ZUS is also included in this period. Therefore, in most cases, this program allows you to extend the small ZUS by an additional year.

PROPOSED SOLUTION

The Union of Entrepreneurs and Employers proposes to eliminate time restrictions for the possibility of taking advantage of the “Small ZUS” programme.

JUSTIFICATION

The “Small ZUS” programme helps new companies in their initial period of operations, when most of them try to scale up, build a customer base and capital necessary for further functioning. This is a very beneficial solution that facilitates difficult beginnings. Nevertheless, there is a very large group of companies on the market that even at a later stage do not get high revenues. These are usually sole proprietorships, craftsmen or small commercial companies. Many of these people value independence and do not want to work “full-time”. They are devoted to their passions, making them their profession. Moreover, many companies that usually obtain higher revenue have temporary financial difficulties, caused, for example, by a decrease in the number of projects.

Unfortunately, these entities can only benefit from preferential conditions for a limited time according to the rules of “Small ZUS” and “Small ZUS+”. When they have to start paying insurance contributions in full, it often turns out to be impossible, because after paying fees and taxes from the revenues obtained, only a small amount remains, which does not allow them to support themselves and their families.

This problem has become particularly evident in recent years. Initially, the COVID-19 pandemic was a considerable blow in a major way to the smallest entrepreneurs, who had no sufficient capital to survive trying times, let alone pay public levies and taxes. The previous year, on the other hand, was characterised by inflation and massive increases in operating costs in the form of prices of gas and electricity or rental costs to name a few. In 2023, there has also been a record increase in social security premiums, which are, after all, related to average salaries and wages. Therefore, in order to enable economic activity also for these entities, we propose that the “Small ZUS” programme have no time constrictions. We postulate that entrepreneurs ought to be able to decide each month whether they can afford to pay premiums only from the base amounting to 30% of the minimum wage, or whether they can afford to pay a higher contribution.

2. Reduction of the disability pension paid by micro-enterprises

One of the social insurances that is a heavy burden for employers is disability insurance. The premium amounts to a total of 8% of the base and is paid by employees in the amount of 1.5% and by employers in the amount of as much as 6.5%.

PROPOSED SOLUTION

The Union of Entrepreneurs and Employers proposes to reduce the disability pension premium paid by micro-entrepreneurs for themselves and for their employees by half (to the level of 3.25%). The other half of this premium could be reimbursed from public funds.

JUSTIFICATION

Employers pay 6.5% of the disability pension premium on behalf of their employees. For the smallest companies, this is a very large amount, which considerably increases labour costs. Considering the amount of the minimum salary in February 2023, a monthly premium per single employee amounts to approx. PLN 225. In the case of the average salary in the enterprise sector in December 2022 (PLN 7,329.96), the disability pension premium paid by entrepreneurs for their employees comes up to as much as PLN 475. Lowering the disability pension premium will significantly reduce employment costs. Especially since in the case of even the lowest salary,

which currently amounts to PLN 3,490, the employee receives a net amount slightly above PLN 2,700, while the employer's total cost exceeds PLN 4,200. Therefore, in the case of even the minimum wage, the state receives approx. PLN 1,500 per month in the form of various premiums and taxes.

3. Premiums to the Labour Fund and the Solidarity Fund

In recent years, operating costs have been growing drastically. In 2023, entrepreneurs' social security contributions increased at a record-breaking level, payments for utilities, such as gas and electricity, are rising as well, as are rental costs. Both the minimum and the average wage are on the rise. All this translates into ever larger difficulties with maintaining financial liquidity by the smallest entities. A solution partially mitigating the increase in costs may be to waive the collection of premiums to the Labour Fund and the Solidarity Fund from micro-enterprises.

PROPOSED SOLUTION

The Union of Entrepreneurs and Employers proposes to abolish the obligation to contribute to the Labour Fund and the Solidarity Fund for micro-enterprises.

JUSTIFICATION

Operating costs, which are growing year-to-year, make it impossible for many of the smallest enterprises to stay on the market. Others require capital so that they can carry out further investments and consequently develop. Relieving entrepreneurs of costs related to premiums to the Labour Fund and the Solidarity Fund will allow the smallest companies to develop and, as a result, will stimulate the Polish economy. We emphasise that this proposal of ours applies solely to the smallest micro-enterprises. This solution is therefore designed with the most vulnerable entities in our economy in mind. One should also stress that contributions to the aforementioned funds are paid only by entrepreneurs, and not the employees.

4. Lowering the health insurance premium for the self-employed and micro-enterprises

One of the most controversial changes introduced in the Polish Deal regarded health insurance regulations. The new solutions do not allow companies to deduct health insurance premiums according to the same rules as in 2021. Therefore, a significant part of the benefits resulting from the introduction of a higher tax-free amount or the increased tax threshold is squandered.

PROPOSED SOLUTION

The Union of Entrepreneurs and Employers proposes that in the case of micro-enterprises and people who are self-employed, the health insurance premium be reduced from 9% to 6% if using tax scale. We also propose to increase the limit of reducing the tax base in the registered lump sum to 75% and to increase the amount that can be deducted from the tax base (income) to PLN 14,000 of the value of paid health insurance premiums in the case of flat-rate tax.

JUSTIFICATION

Costs related to health insurance for the self-employed and the smallest enterprises constitute often a rather large part of their budgets. During times of very high inflation and operating costs going up, it seems reasonable to enable the smallest entrepreneurs to reduce these costs.

5. A change in the rules for paying sickness benefits

Employees who are unable to work are entitled for the first 33 days to a so-called “sick pay” paid by their employers. It is only from the 34th day onwards that “sickness benefits” are covered by the Social Insurance Institution (ZUS).

PROPOSED SOLUTION

The Union of Entrepreneurs and Employers proposes that from the very first day of inability to work, people employed in a micro-enterprise be entitled to sickness benefits.

JUSTIFICATION

Since the vast majority of employees’ absence from work takes place due to illnesses that last less than 33 days, the costs of sickness benefits are mostly charged to entrepreneurs, and not the Social Insurance Institution. This is despite the fact that employees pay appropriate sickness insurance amounting to as much as 2.45% of the contribution assessment base. Many of them will never take advantage of sickness benefits throughout their professional careers, but only of sick pay.

Summary

The Union of Entrepreneurs and Employers presents these proposals in the hope of starting a broad public debate on the current social and health insurance system, which inhibits entrepreneurship and impacts the smallest companies on our market. The economic situation of our country, which has been struggling with constant crises over the past three years, significantly affects the SME sector, micro-enterprises in particular. Countless statistical data confirm this

argument indicating that growing numbers of entrepreneurs are forced to suspend or shut down business operations. **The total cost of implementing all the postulates listed in this document is estimated at approx. PLN 20-25 billion annually.** This would be real help for the smallest companies in Poland. We fear that the lack of decisive action may result in streets full of empty shop windows and abandoned premises, and thus a serious crisis in Polish micro-entrepreneurship.

[1] <https://www.money.pl/gospodarka/firmy-zwijaja-zagiel-dramatyczne-dane-6835208485485248a.html> (accessed on 1st February 2023)

[2] <https://forsal.pl/biznes/firma/artykuly/8641001,jednoosobowa-dzialalnosc-gospodarcza-koszty-prowadzenia-w-polsce-raport.html> (accessed on 1st February 2023)

[3] <https://www.money.pl/gospodarka/kryzys-uderzyl-w-male-firmy-masowo-sie-zamykaja-z-miesiaca-na-miesiac-jest-gorzej-6850203369155392a.html> (accessed on 1st February 2023)

[4] <https://www.infor.pl/prawo/gmina/dzialalnosc-gospodarcza/5638794,jednoosobowe-firmy-likwidacja-2022-prognozy-2023.html> (accessed on 1st February 2023)