

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

POLAND



POLAND – ECONOMIC BOOM DESPITE BAD PR

INTERVIEW:



Dr. Lars Gutheil

"GERMANY AND POLAND HAVE PROVEN
TO BE A CRISIS-RESISTANT DUO" ▶

P. 2



Christian Tegethoff

"RECRUITMENT IS A CHALLENGING TASK" ▶

P. 4



ANALYSIS:

Monika Spotowska

"POLISH DEAL": A REVOLUTION
IN PERSONAL TAXATION ▶

P. 5

"GERMANY AND POLAND HAVE PROVEN TO BE A CRISIS-RESISTANT DUO"

Media reporting in Germany is currently concentrating on the judicial reform and conflicts between the Polish government and the EU. To what extent does this affect the investment decisions of German companies?

Current media coverage has not had any impact on the investment climate. On the contrary, German companies in Poland are very satisfied with the location, more than 95% of the investors confirm in the annual surveys that they would choose Poland again.

In general, one can say that economic relations between our countries are excellent and are not marred by other influences. This also applies to trade between Poland and Germany, which increased again in 2021 despite the pandemic. Poland is now Germany's fifth most important trading partner, ahead of Italy. And this is by no means due to a single sector, but to the broad positioning of both economies. Poland is a lucrative location for the automotive industry, for example, the production of car batteries, as well other economic and industrial sectors such as retail and FMCG - furniture, food, washing machines and electrical items.

How is the German economy represented in Poland? How are they supported by the AHK?

Over 5,000 German companies are active in Poland. Many of these companies have recently expanded their production facilities or are planning corresponding investments. It is noticeable that the activities are becoming more and more sophisticated.

For example, Robert Bosch is planning a new production line for modern brake systems in Mirków. ZF has invested in a new manufacturing facility for electronic components in Cz stochowa. Bayer has expanded its presence with a tech hub in Warsaw, which currently houses over 400 IT experts.

The AHK primarily accompanies medium-sized investors on the Polish market and provides assistance in all phases, from the selection to the implementation of the investment. Of course, we also have a broad portfolio for later stages of activity, such as recruitment, employment law support, help with secondment, taking over payroll and financial accounting and identifying business and sales partners. We also work closely with some companies on dual training in Poland based on the German model.

What factors have made Poland one of the most important production locations for German companies?

On the one hand, the ideal location in the heart of Europe - right next to Germany, on the other hand, the outstanding general conditions in the country. Poland still offers a comparatively large number of well-trained specialists, a large selection of quali-



Based in Warsaw, **Dr. Lars Gutheil** is an Executive Board Member of the German-Polish Chamber of Commerce and Industry.

fied suppliers and a very good working mentality and infrastructure. Since almost all well-known German companies are active in Poland, there is also a very good exchange - and the AHK plays an important role here as well.

The country also quickly caught on in terms of talent development in key areas. For example, Poland has significantly more IT graduates than any other country in Central and Eastern Europe. It is a leader in some digital service areas, and has an increasingly vibrant startup ecosystem. There are also various, very attractive, regional funding opportunities for investors.

What are the current challenges in Poland?

Poland has relied on coal and gas for its electricity for a long time. The country is now faced with the challenge of having to reduce its CO2 emissions in a relatively short period of time. To achieve this, considerable funds must be invested in wind and solar power. It is still unclear if and to what extent nuclear power will play a role.

It is important for investors to get answers quickly, because climate rules are playing an increasingly important role in international supply chains. In addition, Poland has had to contend with inflation in recent months that was well above the European average. This has put pressure on labor costs. In general, we are concerned about growing tax bureaucracy, which poses challenges for small and medium-sized companies in particular.

How will Polish-German economic relations develop in the future?

I am optimistic that the dynamic development of recent years will continue or even gain momentum in 2022. There are early signs that we may soon overcome the global pandemic. Poland and Germany have proven to be an amazingly crisis-resistant duo over the past two years.

If we look at the shares that bilateral trade has in the total trade volume of both countries, there are no other two countries in the EU that are so closely linked. If the Covid-related restrictions are lifted, this could even give a further boost. Poland has very good prospects of playing an important role in the planned restructuring of supply chains for many German and international companies.

The country is already Europe's number one for the production of car batteries, the most important customers are the German OEMs. Products "made in Poland" are also gaining market share in other sectors. A significant part of the added value between our countries is already taking place in the service sector. Poland has a lot to offer here as well, therefore, it is likely to continue to establish itself as a partner for high-quality services, for example in IT services.

"RECRUITMENT IS A CHALLENGING TASK"

What is the current outlook for the Polish labour market?

The official unemployment rate is around 3.5%, and there are hundreds of thousands of vacancies nationwide. Corona only briefly interrupted the high demand for workers in Poland, but by no means ended it.

In fact, the shortage of labour is one of the defining characteristics of the Polish labour market today. This applies equally to all job categories. The reason for this is the high demand, but there are also structural reasons, such as the mass emigration of younger people in particular after joining the EU. Added to this were low birth rates in the 1990s and early 2000s. Meanwhile, it is often warned that Poland is on its way to becoming the oldest nation in Europe.

In a survey conducted by the Polish Statistics Office in the summer of 2021, almost every fifth company described the lack of workers as an obstacle to development. The manufacturing industry is particularly affected, especially, mechanical engineering. There's also a huge demand for personnel in the construction and IT sectors, as well as within logistics companies.

The government has definitely recognized the problem and is trying to take the necessary steps to resolve this issue. Those who are currently past the official retirement age will still be expected to continue to play an active role within Poland's workforce. The current reform package includes tax breaks for employees who choose not to retire. The Polish government also intends to use funds from the European Commission's reconstruction fund to promote the professional development of older people.

What role do foreign workers play in Poland?

Employing hundreds of thousands of Ukrainian migrant workers is helping alleviate employers' plight. For simple jobs, in particular, companies rely heavily on migrants from the neighbouring country, who do not need a visa to enter the country, but require a work permit to take up employment. Even during the Corona period there was no long-term mass exodus of Ukrainian employees. Even in 2020, almost as many employments were approved as in the previous year.

Due to the generally positive experiences with these foreign workers, Poland relies on various recruitment programs – primarily to attract highly qualified people for high-tech industries. These are aimed in particular at IT specialists from Belarus, the Republic of Moldova, Russia and Ukraine.

Western European expats hardly play a role in Poland. Almost all international companies place their subsidiaries in the hands of local executives, it is not common for French, British or German managers to be sent to Poland. However, technical specialists are used in the course of investment projects, for example in the context of production facilities or technology transfer through training.



Christian Tegethoff

Managing Director,
CT Executive Search

What makes executive recruitment in Poland special?

The tense situation on the labour market makes many recruitment projects in Poland a challenging task. In Poland, we are mainly working for medium-sized, Western and Northern European clients who are active in the mechanical and plant engineering, automotive, construction-related, IT or trade sectors.

Typical vacancies include managing directors, plant managers, finance directors, sales managers or production-related management personnel. We look for candidates with experience in international companies who can integrate into multinational structures. Such candidates are practically never unemployed, but must be identified and approached in their current positions. Good candidates have many options in Poland, so companies have to woo them with attractive conditions and promotion opportunities.

We can fall back on experienced specialists in Warsaw. Due to this local competence, we are able to process research-intensive assignments quickly and efficiently. However, companies must be prepared for the fact that there are only a few qualified and motivated candidates for some positions. Personnel decisions should then be made at short notice so that the desired candidate can actually be brought on board.

“POLISH DEAL”: A REVOLUTION IN PERSONAL TAXATION

The “Polish Deal” is a socio-political programme of the government. It involves a number of changes that will have a far-reaching impact not only on businesses, but also on ordinary citizens.

A real tax revolution is underway in Poland this year. It has tremendous impact on the fiscal burdens of employees, managers and the self-employed - a form of employment popular in Poland among managers and specialists as well.

Changes to the tax-free amount and the increased tax threshold are among the good ones. The legislative changes have led to a historic increase in the tax-free amount from 8,000 to 30,000 zloty for all taxpayers who calculate their income tax according to the tax scale. The tax threshold has also been raised from 85,528 to 120,000 zloty, above which the higher tax rate of 32% applies. This increases the number of people who can claim the lower rate of 17%.

However, very few taxpayers will benefit from this programme because health insurance contributions can no longer be deducted from income tax. This change affects all taxpayers. So far, the health contribution used to be almost unnoticeable because 85% of it was deducted from income tax, thus, reducing the tax burden.

ANALYSIS



Monika Spotowska

Associate Partner,
Rödl & Partner, Warsaw

To compensate for the inability to deduct health insurance contributions from income tax, the Polish legislature has introduced the so-called middle class relief into the tax system. However, only persons who are gainfully employed by legal entities, as well as sole proprietors who calculate tax according to general principles (tax scale) and whose annual income is within the range of 68,412 to 133,692 zloty can enjoy this benefit. This means that, for example, those hired on the basis of civil law contracts (e.g., managerial contracts) or the self-employed who calculate tax according to principles other than the tax scale (i.e. sole proprietors who pay the flat rate tax of 19% or those who have opted for flat-rate taxation of their income) are not entitled to the relief.

The rules of calculating the health insurance contribution by sole proprietors are also changing. One of the more recent developments is related to the contributions paid by the self-employed, which now depends on their income or income from their business activities, and the taxation rate chosen for this type of activity. It used to be possible to pay flat-rate contributions, which were relatively low and independent of the income generated from business activity and the chosen form of taxation (tax scale, linear taxation or flat-rate income tax). Since it is no longer possible to deduct the health insurance contribution from income tax, this form of relationship has become less attractive. Those who are self-employed will now have to weigh the benefits of their preferred form of taxation. As a rule, the choice of the form of taxation of business income must be made by 20 February.

Another point of consideration is health insurance. Those who receive health insurance as part of their employment package, for example, managing directors, are now left with an additional fiscal burden of 9% of their salaries because it is no longer tax deductible. In this case, the tax burden can reach even 41% of the remuneration paid.

To make things easier for taxpayers, new tax benefits have been added to the Income Tax Act, including tax exemptions for families with at least four children, employed seniors and people relocating to Poland. The new benefits are modelled on the so-called relief for the young, i.e. those up to the age of 26, already known in the Polish tax system. The income tax exemption is up to 85,528 zloty per year. Sponsors who promote sport, culture or science or who buy listed buildings can also receive support from the Polish Treasury.

Comment

The Polish Deal overhauls the Polish income tax laws in a way that is unfavorable to a large group of taxpayers. In addition, many mistakes and inaccuracies have escaped the attention of the Polish legislator. The regulations have already been amended many times, some even before they came into force. The legislation is still subject to amendments, and work to that effect is in process. These are difficult times for taxpayers, but also for tax advisers, accountants and HR consultants who support them, all of whom have to adapt to the new regulations.



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MOSCOW

CT Executive Search LLC
Central Office
Shlyuzovaya nab. 8,1
115114 Moscow, Russia
Telephone: +7 499 678 2111
E-Mail: office@ct-executive.com

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