

# EVALUATION OF PRO-FAMILY ASPECTS OF TAX POLICY IN POLAND

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## Abstract

*Demographers indicate that there should be 2.1 children per one statistical woman in order to ensure the exchange of generations. This indicator significantly deviates from the standard in Poland – it amounted to 1.27. It is also worth paying attention to increasing average age of women giving birth and the shift in the moment of first child birth.*

*Alarming demographic phenomena mentioned above explicitly prove non-existence of pro-family policy in Poland. As a matter of fact, economic factors should become an important element of this policy. Therefore, experiences of European Union countries in this field will be presented in the paper. Emphasis will be given to solutions adopted in a tax system. Synthetic findings of research conducted within the European Social Fund will be presented further in the paper. Research covered working age women (aged 18-59). It was carried out in 2007 among 4002 women who inhabited Mazowieckie Voivodeship and Łódzkie Voivodeship. Research technique based on standardised questionnaires was applied in the research.*

*Both comparison with the European Union and research findings indicate the necessity for preparation and implementation of pro-family policy in Poland. The main goals of the policy should focus on:*

- 1) providing incentives for people to have more children,*
- 2) introducing facilities of legal, economic and social nature which would allow women to combine maternity with employment.*

*Not only government but also local authorities, enterprises and non-governmental organisations should participate in implementation of pro-family policy. Additionally, a significant role ought to be played by media. Its tasks should involve propagation of solutions applied in other countries, holding discussions and consultations, informing about the progress in the course of works on formation of a homogenous pro-family policy in Poland. Solutions applied in other countries, opinions on effectiveness of Polish instruments and women's expectations will form the basis for presentation (in the last part of the paper) of recommendations connected with tax policy in Poland.*

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## Introduction

Demographers indicate that there should be 2.1 children per one statistical woman in order to ensure exchange of generations. This indicator in Poland significantly deviates from the standard. In 2006 it amounted to 1.27. A demographic crisis can be also noticed in other countries, especially those of Central and Eastern Europe. The lowest number of children per one woman was noted in Slovakia (1.24). Nevertheless, fertility rates in France (2.0) and Sweden (1.85) (Eurostat: <http://epp.eurostat.ec.europa.eu>) indicate that long-lasting and consistent pro-family policy produces good results. Therefore, in numerous countries the necessity for adoption of pro-family policy in order to reverse these negative trends increases more and more clearly.

Various research conducted in Poland, among others within the framework of a programme “Firma przyjazna mamie” (*Mother Friendly Company*)<sup>1</sup>, shows that Polish women are often afraid to have a child because of economic reasons (low family incomes, high maintenance and children education costs, fear of losing one’s job or not making career after child’s birth, lack of possibilities of undertaking part-time employment, etc.). It is also worth paying attention to an increasing average age of women giving birth in Poland (from the age of 27 in 1995 to the age of 28 in 2003) and a shift in the moment of first child birth (from the age of 23.8 to 25.3) (Kobiety w Polsce: 265). Additionally, an important reason for the delay in making a decision on maternity is the lack of pro-family policy (too short maternity leaves, lack of state support for families with many children, lack of acknowledgement of expenditures on education and children’s medical care in a tax system, weak social infrastructure as regards crèches and nurseries) and lack of employers’ assistance (e.g. in providing part-time employment, more flexible working hours and childcare). A significant role is also played by a typical stereotype of “mother Pole” imprinted in Polish society. According to it, mother Pole takes on duties connected with children’s upbringing, their education, takes care of children when they are ill and faces lack of partnership in a family. On the other hand, women have growing aspirations and expectations due to an increasing level of their education and emancipation (numerous women do not want to spend all days with children and play the role of a “house hen”).

Other alarming phenomena are low activity and employment rates in Poland in comparison with other European Union countries. Explicitly significant differences in the levels of these indicators were noted in relation to

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<sup>1</sup> Firma Przyjazna Mamie: 10 powodów, dla których Polki boją się mieć dziecko (*10 reasons for which Polish women are afraid to have a baby*) ([www.firmaprzyjaznamamie.pl/badania](http://www.firmaprzyjaznamamie.pl/badania)), Mieć dziecko w Polsce (*Having a baby in Poland*) ([www.firmaprzyjaznamamie.pl/artykuly](http://www.firmaprzyjaznamamie.pl/artykuly)).

women. In 2004 an activity rate of women aged 15-64 oscillated from 36.0% (Malta) to 76.2% (Denmark). Poland with an activity rate of women at the level of 57.9% occupied the twentieth place among EU-25 countries. Lower indicators (apart from Malta) were noted in Greece, Italy and Spain. An employment rate of women was even lower (46.2%), which placed Poland on twenty third position in the EU-25. Lower rates were noted only in Malta (32.8%) and Italy (45.2%) (Rocznik Statystyczny Pracy 2006,: 414-425).

In the age group of 15-24 differences in employment rates were significant: from 65.4% in the Netherlands to 16.5% in Lithuania. Poland with an employment rate of 18.6% occupied the last but one position among EU-25 countries (Rocznik Statystyczny Pracy 2006: 413, 422-425).

Both comparison with the European Union and research findings within the framework of the European Social Fund<sup>2</sup> indicate the necessity for development and implementation of pro-family policy in Poland. The main goals of the policy should involve:

- 1) providing incentives for people to have more children,
- 2) introducing facilities of legal, economic and social nature which would allow women to combine maternity with employment.

Facilities of economic nature including taxes should constitute an important element of pro-family policy. The paper focuses on such problems. It is divided into four parts. The first part presents evolution of a tax system in European Union countries. The second part displays pro-family aspects of a tax system in the countries mentioned above. The third part discusses Polish tax system, whereas the fourth includes conclusions and recommendations for economic policy.

## **1. Evolution of a tax system in the European Union**

Both fiscal policy and tax policy have been the focus of attention of economists and politicians for a few decades. These issues, apart from such important and current socio-economic problems as unemployment, inflation and women's activation, belong to the most debated public matters. Yet a dozen or so years ago tax reforms introduced in various countries were treated as their domestic issues. However, nowadays the centre of attention has been shifted towards international tax harmonisation.

Changes in income taxes in European Union countries are most frequently argued as follows (Wycisłok 2000: 52):

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<sup>2</sup> „Od bezrobocia do zatrudnienia - mobilność kobiet na rynku pracy” (*From unemployment to employment – women's mobility on labour market*) - project co-financed with the European Union funds within the framework of the European Social Fund; University of Lodz 2008.

- 1) simplification of a tax system leads to decrease of costs connected with maintenance of revenue inspectors and lawyers – for example tax collection is cheaper in the form of salaries and consumption;
- 2) expansion of tax reliefs does not fulfil its function – decrease in the range of tax reliefs reduces the degree of tax distortions and improves tax collection;
- 3) many ruling politicians came to power thanks to election slogans postulating decrease in tax burdens and simplification of their collection.

The goal of income tax reforms introduced in 'old' European Union (EU-15)<sup>3</sup> was to simplify the system and to decrease tax burdens. These reforms focused on:

- gradual reduction of the number of tax rates,
- decrease of tax rates,
- increase of neutrality of a tax system due to eliminating or decreasing numerous tax reliefs and tax exemptions.

Simplification of personal income taxation manifests itself in decrease of the number of tax thresholds. The number of tax rates in legislation hesitates nowadays from 2 to 7, whereas yet at the beginning of the nineties their number in some European countries equalled a dozen or so, or even more. Luxembourg is still an exception with its 17 valid tax rates (from 0% to 38%) (Wach 2005: 222) where high number of tax rates is psychologically justified. In the face of income rise insignificant fluctuations of tax rates allow to tolerate progressive taxation more easily; they anaesthetise taxpayers and counteract attempts of tax evasion. However, nowadays simplification and transparency of a tax system are commonly recognised as more important, which leads to decrease in the number of tax rates.

In literature on public finances two alternative principles of tax collection are taken into account: principle of equivalency and ability to pay principle.

The principle of equivalency, also called benefits principle, is based on the assumption that taxpayers should finance public activities as much as they profit from them. Thus, a tax is neutral in its nature and is treated as a return for state services and benefits directed towards citizens. The principle derives from the times when a state was perceived mainly as a "night guard" and was expected, above all, to guarantee security. However, the principle became less useful when a state, for economic, social and political reasons, started to interfere in income redistribution on a greater scale.

In contrast, second base of tax collection, i.e. ability to pay principle, means that tax burdens allocated to financing state activities should be imposed

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<sup>3</sup> The paper will focus mainly on EU-15 countries treated as a point of reference for evaluation of changes undergoing in Poland. Experiences of new member countries will be also taken into consideration.

according to citizens' ability to pay. The higher paying ability of a taxpayer, the higher degree to which a taxpayer can resign from satisfying his own needs. Taxpayers with the same paying capacity should participate in financing public sector to the same degree (horizontal equality), whereas taxpayers characterised by different paying capacity ought to pay different taxes (vertical equality). In such situation tax collection is justified not by citizens' income but by their paying ability.

Adopting ability to pay principle as a basis for tax collection is most often justified by fairness, fiscal efficiency (taxes should be imposed on persons who are capable of paying them) and the need for using taxes to fulfil various social tasks. In practice, there arises a problem of defining paying capacity, how to measure it, in what way and to which degree private situation of a taxpayer influences his paying capacity, and whether his paying capacity should be taken into account in determining a tax rate. A current level of one's income is most often accepted as the basis for defining one's paying capacity.

Progressive taxation is an important element of tax systems based on ability to pay principle which take into account the need for income redistribution. In recent years influence of taxes on economic effectiveness has become more important in evaluation of tax systems. This induces to a more careful use of progressive taxation and more thorough analysis of its negative effects such as weakening of job motivation, hindering development of entrepreneurship, decreasing saving tendencies, providing incentives for tax evasion and development of illegal activities. Drawbacks of progressive income taxation listed above are noticed by economic politicians, which is reflected in decrease of PIT progression. Nevertheless, these changes are relatively slow (Table 1). In a few EU-15 countries the upper PIT rate still reaches 50% (Austria, Belgium) or exceeds 50% (Finland, the Netherlands and Sweden). A homogenous trend in the case of changes of the bottom tax rate still cannot be noticed. Nevertheless, most countries tend to decrease their tax rates.

**Table 1. Evolution of PIT rates in the European Union countries in 1996-2005**

Country	Tax rate (%)							
	1992		1998		2000		2007	
	initial	the highest	initial	the highest	initial	the highest	initial	the highest
Austria	10	50	10	50	0	50	0	50
Belgium	25	55	26	57	25	55	25	50
Denmark	25	68	8	49	6	40	5.5	59 <sup>a)</sup>
Finland	7	39	6	38	5.5	38	0	57 <sup>a)</sup>
France	5	57	10	54	9.5	54	6	48
Germany	19	53	.	.	25	51	15	42
Great Britain	20	40	20	40	10	40	10	40
Greece	5	40	5	40	5	45	15	40
Ireland	27	48	26	48	24	46	20	42
Italy	10	51	18	45	18.5	45.5	23	43
Luxembourg	10	50	6	32	6	46	8	38
Netherlands	13	60	9	60	9	60	2.5	52
Portugal	15	40	15	40	14	40	10	40
Spain	20	56	17	48	15	39.6	9	45 <sup>a)</sup>
Sweden	20	50	25	60	20	60	20	56.5 <sup>a)</sup>

<sup>a)</sup> including local tax.

Source: own elaboration based on: 1998 - The OECD Tax Data Base. Eurostat. Centrum Informacji Europejskiej; 2000 - European Tax Handbook 2000. International Bureau of Fiscal Documentation. Amsterdam 2000; 2007 - Taxation Trends in the European Union. Office for Official Publications of the European Communities. Luxembourg 2007.

A postulate of taxpayer's ability to pay is taken into account in various elements of PIT structure, mainly in defining a tax base, types and range of tax exemptions in relation to a family situation, level and extent of tax rates. Taxpayer's ability to pay is also taken care of by means of defining an income tax-free amount, thus, eliminating income indispensable to satisfy basic living needs or decreasing tax due with a fixed amount. Tax-free income, defined as a social minimum, is the result of a political compromise which takes into consideration civilisation, cultural and social factors, as well as the level of social benefits financed by the state budget.

**Table 2. PIT in the European Union countries in 2006**

Country	Tax rates in %	Income tax-free amount (Euros) <sup>a)</sup>
Austria	0. 0-23. 23-33.5 and 50	10000
Belgium	25. 30. 40. 45 and 50	6800
Cyprus	0. 20. 25 and 30	10000
Czech Republic	12. 19. 25 and 32	1265
Denmark	5.5 and 6 and 15 + 16.5-23.5 +11.4-12.5	4940
Estonia	24	1305
Finland	0; 9; 14; 19.5; 25.5 and 32.5	12000
France	0; 5.5; 14; 30 and 40	4334
Germany	0; 15-23.97; 23.97-42 and 42	7664
Great Britain	10. 22 and 40	6880
Greece	0. 15. 30 and 40	10000
Hungary	18 and 38	442
Ireland	20 and 42	1520
Italy	23. 33 and 39	7500
Latvia	25	0
Lithuania	33 (27) or 15	1000
Luxembourg	0-38	9750
Malta	0. 15. 20. 25. 30 and 35	7130
Netherlands	34.15; 41.45; 42 and 52	1825
Poland	19. 30 and 40	698
Portugal	10.5; 13; 23.5; 34; 36.5 and 40	9750
Slovakia	19	30
Slovenia	16. 33. 37. 41 and 50	442
Spain	15. 24. 28. 37 and 45	3400
Sweden	0. 20 and 25 + 27 - 34	32850

<sup>a)</sup> a tax-free amount in 2005 according to K. Wach. Systemy podatkowe krajów Unii Europejskiej. Oficyna Ekonomiczna. Kraków 2005, pp. 41-44.

Source: K. Wach. Jak założyć firmę w Unii Europejskiej. Oficyna Ekonomiczna. Kraków 2006. pp. 391-393.

Data from Table 2 shows that very significant differences in the level of a tax-free amount exist in the European Union countries: from 32.850 Euros in Sweden to 30 Euros in Slovenia. In the EU-25 only Latvia does not have any tax-free amount. Additionally, it can be clearly noticed that new member countries from Central and Eastern Europe have introduced very low levels of tax-free income.

Effective tax burdens are highly influenced not only by PIT rates and a tax-free amount but by other components of the structure of taxes such as a tax

base, range of tax reliefs and tax exemption, possibility of joint taxation of spouses. All these elements fulfil particular motivational, allocation and redistributive functions.

Tax legislation is frequently based on a wider definition of a tax, since such concept allows to comprehend the whole income situation and, to a greater degree, takes into account taxpayer's ability to pay and limits income tax erosion. Therefore, a wider concept of income sources is a common feature of PIT adopted in the European Union countries.

Out of taxable incomes one should mention those coming from the following sources: hired labour, pensions, self-employment, enterprise management, farming, forestry, estate (mainly income coming from rent and lease).

Income, i.e. revenues after deduction of costs of revenue equisition, constitutes the basis for taxation. If a taxpayer's income comes from more than one source, the sum of revenues from all sources constitutes the basis for taxation. Generally, income coming from a given group of sources is calculated separately due to differences in costs of revenue equisition. Tax legislation of a particular country defines very precisely what expenditures can be deducted from generated revenue. Additionally, there exists possibility of compensation of losses and profits acquired from various sources. Tax reliefs at the stage of income calculation fulfil mainly motivational and allocation function.

An important role in personal income taxation is also played by preferences connected with the way of income spending. One frequently applies tax reliefs concerning housing construction and repair, preferential treatment of savings and money for purchase of shares and bonds, tax reliefs for education of children and expenditures connected with professional training of a taxpayer, as well as tax reliefs for health expenditures and gifts. These preferences are treated not only as manifestation of the use of a stimulating function of taxes but also as a redistributive interaction at the stage of income spending.

Pressure on reducing PIT rates as well as drive for ensuring grater neutrality of a tax system voiced by representatives of liberal trends have led to decrease in the number and range of tax reliefs within the last twenty years. Tax rates decrease, whereas a tax base extends at the same time, which prevents the share of PIT revenues in budgetary revenues from decreasing in any significant way. For years the very share has amounted to about 26% of budgetary revenues (compare Krajewska 2004: 66).



## 2. Pro-family aspects of tax systems in the European Union countries

The level of family tax burdens is significantly influenced by principles of taxation of spouses, children, singles and lone parents which operate in a particular country. Theoretically one postulates various ways of family taxation. The following possibilities are most often mentioned:

- family income accumulation in order to determine a tax base (such solution is profitable for families with one working spouse);
- separate taxation of particular family members (such solution is perceived as neutral, because it does not influence the level of tax burdens in case of getting married);
- family income accumulation followed by division of income into two in order to determine a tax base of each spouse, i.e. so called splitting (income tax calculated on the basis of a tax base determined in such a way is multiplied by two);
- family income accumulation followed by taking into account the number of children and their age for taxation purposes, to determine a tax base (in practice one can apply various ways of consideration of family members, e.g. a child can be treated as an adult or as  $\frac{1}{2}$  of an adult, etc.), subsequently splitting is applied according to the rules mentioned above;
- possibility of choosing the way of family taxation (individual taxation of particular family members or income accumulation and splitting).

Yet a quarter of a century ago joint taxation of spouses was applied in most countries in West Europe, because one perceived it as a solution which took into consideration a family situation of taxpayers (Komar 1994: 69). The process of tax rates decrease and simplification of a tax system, noticed in recent years, coincides with extension of a tax base manifesting itself in increase of the number of business entities burdened with obligation of tax paying. In practice it results, among others, in diverting from family income accumulation for taxation purposes and directing towards extension of a PIT base (OECD Economic Surveys: Poland 2000: 164).

In 2005 joint taxation of spouses was possible only in five (out of 25) European Union countries (the Czech Republic, France, Luxembourg, Germany and Portugal), whereas possibility of making choice (joint or individual taxation) was available according to tax legislation in five further countries: Estonia, Spain, Ireland, Poland and Slovakia (Table 3).

Apart from possibility of joint taxation of spouses, which – according to experiences of the European Union – undergoes further and further limitation, tax legislation of most countries predicts various possibilities of allowing for family status of taxpayers. This manifests itself, among others, in deduction of

a particular amount per one child from income (or a tax). This amount either increases or decreases in various tax systems together with increase in the number of children. Age of children (expenditures on education) and family health situation are also taken into consideration. Tendencies to increase tax neutrality observed in the European Union countries led to elimination of pro-family tax reliefs in some countries (Denmark, the Netherlands and Great Britain). Their functions were taken over by social benefits (Majewicz 1994: 170).

**Table 3. Pro-family aspects of tax systems in the EU-25**

Country	Way of spouses' income taxation <sup>a)</sup>	Evolution of social and pro-family elements of a tax system <sup>b)</sup>
Austria	separate	- reduction of income taxes for people with low incomes - profitable treatment of children in a tax system (increase in tax reliefs in 1998-2005)
Belgium	separate	- reduction of income taxes for people with low incomes - profitable treatment of children in a tax system
Cyprus	separate	- reduction of PIT rates - increase in amount of tax reliefs
Czech Republic	joint	- no changes
Denmark	separate	- no changes
Estonia	optional	- gradual increase in tax reliefs connected with income and family situation - tax reliefs concerning expenditures on education
Finland	separate	- increase of a tax-free amount - reduction of PIT rates - reduction of tax burdens of taxpayers with the lowest income
France	joint	- reduction of PIT rates - consideration of the number of children while determining a tax base - reduction of tax burdens of taxpayers with the lowest income
Germany	joint	- reduction of PIT rates - taking into consideration a family situation of a taxpayer - gradual increase of a tax-free amount
Great Britain	separate	
Greece	separate	- reduction of PIT rates - pro-family tax reliefs (connected with the number of children) - increase of a tax-free amount - indexation of tax brackets

### Evaluation of Pro-family Aspects of Tax Policy in Poland

Hungary	separate	- tax reliefs concerning education
Ireland	optional	- reduction of PIT rates - extension and individualisation of tax brackets
Italy	separate	- reduction of PIT rates - an amount of tax reliefs dependent on the number of children (since 2002) - reduction of tax burdens of taxpayers with the lowest income
Latvia	separate	
Lithuania	separate	- a tax-free amount dependent on the number of children
Luxembourg	joint	- reduction of PIT rates - increase of a tax-free amount (since 2001)
Malta	joint	
Netherlands	separate	- reduction of PIT rates excluding the highest one
Poland	optional	- a tax relief concerning children (since 2007)
Portugal	joint	- reduction of PIT rates - tax reliefs concerning education and health
Slovakia	optional	- reduction of PIT (introduction of 19% flat tax)
Slovenia	no data	- increase in tax reliefs concerning children - reduction of the lowest PIT rate (from 17% to 16%) - indexation of tax brackets
Spain	optional	- reduction of PIT rates - increase in amount of tax reliefs (among others those connected with the number of children) - reduction of tax burdens of taxpayers with the lowest income
Sweden	separate	- reduction of PIT rates

Source: a) K. Wach. Systemy podatkowe... op. cit. p. 46; b) own elaboration based on: Structures of the Taxation Systems in the European Union: 1995-2004. European Commission. TAXUDE4/2006/DOC/3201.

### 3. Characteristics and evaluation of a tax system in Poland

Personal income tax was introduced in Poland in 1992.<sup>4</sup> This is a progressive tax with three tax rates. In 1992-1993 tax rates amounted to 20%, 30% and 40% for defined tax ranges. For some time (in 1994-1996) tax rates increased reaching: 21%, 33% and 45%, since 1998 they have been at the level of: 19%, 30% and 40%.<sup>5</sup> A tax-free amount is relatively low. In 2007 it amounted to about 700 Euros, i.e. about 130% of a monthly salary.

In Polish tax system there are not in principle any clear tax reliefs connected with a family situation of a taxpayer. However, it contains instruments which either directly or indirectly influence a financial situation of a family. These instruments involve:

- 1) possibility of joint tax settlement based on a total sum of spouses' incomes. In this case an income tax is fixed as a double amount of a tax calculated from a half of total income of spouses. Lone parents upbringing underage children as well as older children (till the age of 25) who study and have no income can settle their income tax on the same terms;
- 2) annual increase of tax thresholds which influence tax rates. However, one has to admit that there were periods (driven by a difficult state budget situation) when indexation of tax thresholds was suspended<sup>6</sup>, which in circumstances of inflationary price increase led to increase in tax burdens;
- 3) exemption from taxation of various allowances and forms of family-oriented aid such as: alimony for children, family and nursing allowances, child-raising and childbirth allowances, one-time allowance for giving birth to a child paid from the funds of trade unions or communes, welfare benefits, benefits in kind, scholarships and other listed in the Act;
- 4) possibility of applying income deductions before taxation (and since 1997 tax deductions) concerning a taxpayer's expenditures which

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<sup>4</sup> This tax replaced five previously existing taxes: 20% tax on wage fund paid by enterprises, salary tax, equalization tax, agricultural tax and up to now income tax.

<sup>5</sup> Effective tax rates are by a few (a dozen or so) percentage points lower than nominal ones, since taxpayers make use of available tax reliefs.

<sup>6</sup> It is worth emphasising that although in the Act on Income Tax indexation of tax thresholds was predicted in 1993, it was suspended under a budget act in order to save the state of public finances. In circumstances of high inflation (34.3%) freezing of tax thresholds meant serious increase of tax burdens. The Constitutional Tribunal declared that the government's decision was illegal. Indexation of tax thresholds took place in the following years up till 2001, inclusive.

improve a financial situation of a family. Among 11 titles allowing for decrease in tax burdens, the most important role was played by housing reliefs.<sup>7</sup> Pro-family reliefs contain tax reliefs concerning expenditures on travel to primary, vocational and secondary schools situated far from a place of residence as well as children's paid education in private schools. Unfortunately, these tax reliefs were gradually eliminated. In 2004 tax reliefs for parents paying fees for education in private schools were liquidated, whereas since 2004 tax reliefs concerning education in high schools and tax reliefs for parents whose children travelled long distances to primary and secondary schools have been abolished.

However, in 2007 new tax reliefs, i.e. 1145.08 zł for each child, were introduced. Parents are granted one common limit for each child, however, they can divide it between themselves freely. This tax relief applies only to parents and guardians who pay taxes of 19%, 30% and 40%. If they run their own business and pay only a lump-sum tax or 19% flat PIT, the relief does not apply to them. Farmers who do not pay PIT but agricultural tax (and alternatively forest tax) are not also entitled to this relief. The poorest taxpayers will not also benefit from this relief if their tax is lower than the available relief.

#### **4. Evaluation of pro-family aspects of tax policy in Poland and recommendations**

Comparison of pro-family aspects of tax policies adopted in various European Union countries shows that solutions available in Poland are not family-friendly and clearly differ from the ones applied in other countries, because:

- 1) a tax-free amount is very low,
- 2) bottom tax rate (19%) is high in comparison with the lowest PIT rates in other European Union countries,
- 3) family-oriented tax reliefs were gradually limited (and subsequently liquidated), this concerned reliefs connected with children's travel to schools, expenditures on paid education of children in primary, vocational and secondary private schools, expenditures on paid

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<sup>7</sup> Nevertheless, it should be mentioned that housing reliefs appeared to be most profitable to the richest taxpayers who could afford expenditures on building a house, its extension or repair.

education in high schools. Possibility of deduction of a tax relief on children, introduced in 2007, is a step forward, however, insufficient.

**RECOMMENDATION 1 – Polish tax system requires serious changes in order to take into account taxpayers' ability to pay and their family situation more thoroughly.**

Since 2007 there exists possibility of deducting from PIT an amount of 1145.08 zł annually per each raised child (which means that income of 6026.74 is tax-free). Research conducted among 4000 women shows that it would not influence significantly a decision on childbirth. Only 18% of respondents answered in the affirmative, whereas as many as 32.7% did not answer the question (Krajewska 2008: 36).

**RECOMMENDATION 2 – In order to increase population growth in Poland, one should introduce much higher PIT reliefs (reflecting real costs of children's upbringing) or implement other attractive elements of pro-family policy (higher family allowances directly connected with a financial situation of a family, privileges for women taking up jobs after maternity leaves, etc.).**

Present tax system does not provide incentives which would incline women with small children to take up a job. A low tax-free amount, a relatively high (19%) bottom tax rate, costs connected with providing childcare, resignation from a child-raising allowance make fixed costs of job taking high. This leads to a "poverty trap" described in literature which takes place when unskilled workers can worsen their financial situation while taking a job (Begg, Fischer, Dornbusch 1993: 311).

**RECOMMENDATION 3 - In order to increase women's activity on labour market, a tax system should take into account taxpayers' paying capacity to a greater degree, which ought to manifest itself in increasing a tax-free amount, allowing for a family situation of a taxpayer and decreasing the bottom tax rate for those with the lowest incomes.**

In Polish tax system it is not possible to deduct expenditures on education, retraining, change of occupation in order to reconcile work with childcare. However, it is worthwhile to consider seriously the purpose of introducing such reliefs. Research clearly shows that according to 40% of respondents such reliefs

would significantly facilitate women's mobility on labour market (Krajewska 2008: 31).

**RECOMMENDATION 4 - In order to increase women's activity on labour market, it is advisable to introduce possibilities of tax deduction of expenditures connected with supplementing one's education (retraining).**

Conducted research shows that decrease in income tax and simplification of tax procedures would significantly increase women's activity on labour market and their tendency to start their own business. Such declarations were made by almost half of respondents (47.4%) (Krajewska 2008: 31), which should be taken into consideration while working on reforms of a tax system.

**RECOMMENDATION 5 – Simplified taxation forms (a tax card, recorded lump-sum, choice of 19% tax rate instead of settling income on general principles) should be propagated more in order to incline women to self-employment and to start their own business. Procedures connected with registering a firm should be also simplified.**

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