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Reforming Tax Expenditure Programs in Poland

Carlos B. Cavalcanti
Zhicheng Li

Tax expenditure programs that Poland introduced in 1992 to compensate lower-income taxpayers for the withdrawal of subsidies have proliferated—making the normative tax system difficult for the average taxpayer to understand, reducing the tax base, and benefiting the higher-income taxpayers more than the taxpayers they were originally designed to help.

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Summary findings

Poland has recently begun reforming its tax program. In December 1999 it announced a gradual reduction in the corporate income tax rate, from 34 percent in 1999 to 22 percent in 2004. Value added and excise taxes are being harmonized with European Union directives, which means higher value added tax rates on unprocessed foodstuffs, municipal services, and construction material, and higher excise rates on tobacco and alcohol. The reform of personal income tax law has been delayed, because of concern about the fairness of a rate reduction for higher-income taxpayers and hesitation about the government's proposal to remove or scale down existing tax expenditure programs.

Poland's personal income tax expenditure programs, introduced in 1992, have received growing attention as the cost of the programs has increased. Originally they were intended to compensate lower-income taxpayers for the withdrawal of price subsidies. But most of them are extremely regressive, benefiting higher-income taxpayers.

Tax expenditures are reductions in tax liabilities that result from preferential provisions, such as deductions, exemptions, credits, deferrals, preferential tax rates, and exclusions from taxation. They are effective government spending channeled through the tax system, usually as substitutes for direct government spending to achieve fiscal and political objectives.

Cavalcanti and Li contend that strengthening the administration of Poland's tax expenditure programs is the first step toward making them effective and equitable, limiting their costs, and preventing the tax base from shrinking. They discuss options for increasing the scrutiny of the tax expenditure programs, defining their opportunity costs and effect on the tax system.

Currently these programs enjoy a funding advantage over direct spending programs because they are not subject to systematic review. To limit the expansion of these programs and reduce their less desirable effects on the system, Cavalcanti and Li suggest defining a benchmark tax structure, establishing sunset dates for the programs, forecasting their costs, and reviewing their economic effectiveness, efficiency, and equity by comparing them with direct expenditures and subsidies.

This paper—a product of the Poverty Reduction and Economic Management Sector Unit, Europe and Central Asia Region—is part of a larger effort in the region to understand the quality of fiscal adjustment in Central and Eastern Europe. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Anita Correa, room H4-318, telephone 202-473-8949, fax 202-522-2755, email address acorrea@worldbank.org. Policy Research Working Papers are also posted on the Web at www.worldbank.org/research/workingpapers. The authors may be contacted at ccavalcanti@worldbank.org or zli@worldbank.org. October 2000. (23 pages)

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Reforming Tax Expenditure Programs in Poland[1]

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I. Introduction

Poland has recently began the reform of its tax system. In December 1999, it announced a gradual reduction in the corporate income tax rate from 34% in 1999 to 30% in 2000, 28% in 2001, 24% in 2002, and 22% in 2004. At the same time, the VAT and excise taxes are being harmonized with EU directives, implying higher VAT rates on unprocessed foodstuff, municipal services, and construction material, as well as higher excise tax rates on tobacco and alcohol. The reform of the personal income tax law, however, has been delayed to a later date. There are concerns about the fairness of a rate reduction for higher income tax payers, and hesitations with the government's proposal to remove (or at least the scale down) existing tax expenditure programs.

Indeed, the personal income tax expenditure programs in Poland have received growing attention because the number and the overall cost of these programs increased dramatically in recent years. Originally introduced in 1992, they were used to compensate lower income tax payers for the withdrawal of price subsidies. Over a relatively short period of time, the number and the cost of the personal income tax expenditure programs increased rapidly, rising from PLN 1 billion in 1993 to over PLN 5 billion by end-98. Furthermore, most of the current personal income tax expenditure programs have turned out to be extremely regressive, benefiting higher income tax payers.

[1] An earlier version of this paper was presented at the meeting of the National Tax Association in Atlanta, Georgia, in October,1999.

These unexpected results complicate efforts to reform the tax system. Tax expenditure programs have limited the impetuous for the personal income tax reform by lowering the effective personal income tax for higher income groups. They have also limited the government's scope for unilateral tax rate reductions by narrowing the tax base. Indeed, while the nominal income tax brackets are, respectively, 40%, 30% and 19%, income tax exemptions and deductions allowed under these tax expenditure programs have lowered the effective income tax rate to, respectively, 25%, 16%, and 14%.[2] This is a reduction of over 50% for the two high income tax brackets, and of just under one-third for the lowest income tax bracket.

This paper aims at providing an analysis of these tax expenditure programs, helping make the case for strengthening the administration of these programs. The paper is organized in the following sequence. Section II provides an overview of Polish tax expenditure programs. Section III analyzes the economic efficiency, effectiveness, and equity of personal income tax expenditure programs. Section IV provides estimates of the revenue foregone caused by personal income tax programs and a comparison between tax expenditures and direct expenditures with respect to funding available. Section V provides mechanism for strengthening administration on tax expenditures in light of the experience of the OECD developed countries.

II. Tax expenditure programs in Poland

Tax expenditures are reductions in tax liabilities that result from preferential provisions in the tax code, including exemptions and exclusions from taxation, deductions, credits, deferrals, and preferential tax rates. These provisions may, in effect, be viewed as government spending

[2] Prior to 1997 the personal income tax brackets were, respectively, 20, 32 and 44%.

channeled through the tax system. They are often used to achieve certain fiscal/political objectives, substituting government direct expenditures.

Poland has a large number of tax relief programs in personal and corporate income taxes, VAT, excise, agricultural, forest, and real estate taxes. They are primarily defined by the Act of 26 July 1991 on Natural Persons' Income Tax, the Act of 15 February 1992 on Legal Persons' Income Tax, the Act of 8 January 1993 on Goods and Services Tax and Excise Duty, and other binding laws and regulations, although some have also been granted at the discretion of the tax administration. For the purpose of this paper, both tax relief programs defined in the law and those granted at the discretion of the tax administration are regarded as tax expenditure programs.

By the end of 1998, there were over 300 tax expenditure programs in Poland, over 200 of which were personal income tax expenditure programs. The following list provides a breakdown between tax Acts and types of tax expenditures:[3]

- Personal Income Tax
  - Defined by the Act and regulations: 125 tax relief; 13 types of exemptions from income; 16 types of deductions from tax
  - Granted at the discretion of the tax administration: several types of tax relief
- Corporate Income Tax: more than 40 statutory exemptions
- Value Added Tax - 17 categories of statutory and non-statutory exemptions
- Several types of tax relieves in Excise, Agricultural, Forest, and Real Estate Tax

[3] See the "White Paper on Taxes", Polish Ministry of Finance.

The administration of these tax expenditure programs is weak. When new tax expenditure programs are proposed, it is not mandatory to define sunset dates. Most of the programs have been approved with an unlimited effective period. Also, there is no requirement for periodical review of costs and effectiveness. Out of the 200 personal income tax expenditure programs, only 18 of these programs (albeit the largest) have estimates of the costs in terms of forgone revenue. None of the programs have been reviewed for effectiveness.

Unsurprisingly, the increase in size and number of tax expenditure programs has been nothing short of spectacular since their introduction in 1992. The estimates available for the 18 largest personal income tax expenditure programs (Annex Table 2) indicate an increase from just under 1 billion PLN in 1993 to over 5 billion PLN in 1998. This is an annual average increase of over 32%, compared to a 19% increase in direct spending. One of factors accounting for this spectacular increase is that tax exemptions and deductions can be defined outside the personal income tax law and regulations. As mentioned above, tax expenditure program may be introduced at the discretion of the tax administration to accommodate individual cases without legislative approval.[4] These ad hoc tax exemptions granted by the Executive authority make it impossible to actually measure the overall size of the personal income tax expenditure programs, further contributing toward the complexity and the administrative intricacy of the Polish tax system.

[4] These discretionary decisions on tax obligations by the Executive branch include waiving tax obligations, postponing the time limit for paying taxes, spreading tax payment or tax arrears together with interest on arrears into installments, and annulment of tax arrears.

The largest personal tax expenditure program is the housing tax relief program. It accounts for 61% of the 18 largest personal income tax expenditure programs, having increased over three-fold from 0.9 billion PLN in 1993 to 3.1 billion PLN in 1998. Under this program, tax payers are allowed to exclude expenses with the construction of owner-occupied single or multifamily housing property. It also allows housing expenses to be deducted from the income tax under the following circumstances (1) purchase of land or paid transfer of the right of land for the construction of a residential dweling; (2) purchase or construction of residential house, building or apartment in a housing cooperative; (3) reconstruction of attic, drying room or adjustment of other premises for housing purposes and completion of a residential dwelling; (4) payment of debt due to loan drawn by housing cooperatives; and (5) renovation of residential dwelling.

III. Economic effectiveness, efficiency, and equity of the personal income tax expenditure programs.

The literature on tax expenditure programs raise several concerns about their efficiency, effectiveness, and equity.[5] For instance, tax expenditures can cause economic inefficiency if, simply to reduce their tax liabilities, taxpayers engage in unprofitable activities or activities they otherwise would not have chosen. Economic efficiency is also affected by the way tax expenditures interact with tax rates. Finally, some tax expenditures may waste resources by complicating the tax code and discouraging compliance.

[5] See, for instance, Surrey (1973), and McDaniel and Surrey (1985).

The literature also acknowledges, however, that tax expenditure program may be a more effective than direct payments in stimulating certain activities. One example is the itemized deductions for charitable contributions by taxpayers. It might reduce the government tax revenues but this is more than offset by an increase in support to charitable activities.

Another concern raised in the literature is that tax expenditures can contribute to a perception that the tax system is unfair since not all tax payers qualify. For those who do qualify, the value of the tax benefit usually increase with taxable income. Tax expenditures can result in individuals with similar incomes and expenses paying different amounts of tax, depending on whether they engage in tax-subsidized activities or not. This different tax liability for individuals similarly situated is a violation of horizontal equity. Tax expenditures also violate vertical equity if they cause the cost of government to be unfairly distributed among income classes. The disproportionate benefit of tax expenditures to higher income individuals may reduce the level of progressiveness of the tax structure that the statutory tax rate alone would achieve.

An analysis of the Polish personal income tax expenditure programs identifies both horizontal and vertical inequities. These include: (1) paying recipients to engage in activities they would otherwise engage in anyway, providing a windfall gain to some taxpayers; (2) narrowing the tax base, limiting the scope for tax reductions; (3) providing open-ended opportunities for tax exemptions and deductions, making it more difficult to project tax revenues; (4) adding complexity to the tax laws, increasing the cost of enforcing them; (5) reducing accountability of the government action because of the lack of visibility of tax expenditure programs, and by failing to clearly assign responsibility for approving and supervising the implementation of these programs; and (6) increasing the regressivity of income by excluding non-taxpayers, which include some of the poorest groups in society;

Our analysis of equity of Polish tax expenditure programs is based on the data provided by the Ministry of Finance from tax returns and the estimates of the 18 personal income tax expenditure programs. The first observation is that most low income taxpayers were in most cases not able to access the benefits of the 18 tax expenditure programs. Table 1 below provides the evidence by the number of individual taxpayers in each income tax bracket applying for reductions in their tax liabilities. In the first income bracket, only 39% of the taxpayers applied for tax reductions, compared to over 80% in the second and the third income tax brackets. Two factors appear to account for lower income taxpayers benefiting less from tax expenditure programs. Lower income tax payers do not reach the expenditure threshold needed to apply for tax exemptions and deductions. Also, lower income tax payers do not have the time or access to the professional advice needed to benefit from the opportunities provided in tax laws and regulations.

Table 1: Personal Income Taxpayers Applying Deductions in 1997

Income brackets	Total number Of taxpayers	Total number of taxpayers applying deductions	% (3:2)
1	2	3	4
I	22,210,454	8,606,610	38.75
II	1,038,069	839,546	80.88
III	237,206	212,246	89.48
Total (I+II+III)	23,485,771	9,658,402	41.42

Source: Polish Ministry of Finance

A second observation is that the housing tax relief program benefits primarily high-income taxpayers more than to the low-income taxpayers. This is important because it is the largest tax relief program, accounting for 60% of total tax reduction of the 18 personal income tax expenditure programs in 1998. It has also increased over three-fold since its inception, rising from 0.9 billion PLN in 1993 to 3.1 billion PLN in 1998. According to Table 2, in 1998 the average tax savings from the housing tax expenditure program was disproportionaly among high-income and low-income taxpayers. The savings for the high-income taxpayer group was about 7 times to the total average, or 10 times the savings enjoyed by low-income taxpayers. Conversely, the tax reduction for low-income taxpayers was only 60% of the average tax reduction on housing expenditures, or 10% of that of the tax savings enjoyed by high-income taxpayers. Low-income taxpayers were unable to claim the tax exemptions and reductions, even those available for home renovation, simply because they were unable to reach the threshold necessary to apply for exemptions and deductions.

Table 2: Housing tax savings (Article 27a)

Income tax brackets	1993	1994	1995	1996	1997	1998
As percent of total 18 tax expenditure programs (%)[1]						
I (20%)	35	25	22	19	42	38
II (32%)	23	12	9	9	13	12
III (44%)	38	30	15	15	7	13
Total	96	67	47	43	62	62
Average tax savings on housing (in PLN)[1]						
I (20%)	225.7	183.6	207.3	251.4	314.0	329.5
II (32%)	494.6	370.8	468.2	741.0	868.1	1002.1
III (44%)	2281.2	2768.7	2642.0	4612.3	1916.6	3324.2
Total	442.7	374.5	347.7	468.5	407.2	477.3
Average housing tax savings as percent of total average (%)[1]						
I (20%)	51.0	49.0	59.6	53.6	77.1	69.0
II (32%)	111.7	99.0	134.7	158.2	213.2	210.0
III (44%)	515.3	739.2	759.9	984.4	470.7	696.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

1) In 1997, the personal income tax rates were reduced from 20, 32 and 44% to 19, 30 and 40%, respectively.

Source: Polish Ministry of Finance.

We also find that the regressive effect of tax expenditure programs that is reflected at the aggregate level (Table 1) and in the housing tax relief programs (Table 2), is present in other programs. Annex Table 1 provides per capita tax reduction by three income brackets for all 18 of the personal income tax expenditure programs. In every case, high-income taxpayers benefit disproportional from the low-income taxpayers in the tax reduction available. The only tax exemption of which low income taxpayers appear to benefit more than higher income taxpayers is the tax reduction for the expenditure on travel of children to school outside place of resident. Nevertheless, the difference in tax reduction across income tax brackets is small and the absolute amounts are a fraction (4.3%), for instance, of the amounts claimed under the large housing program.

Finally, the regressive nature of the tax expenditure programs is reflected in its effect on personal income tax brackets. As indicated in Table 3, tax exemptions and deduction allowed under the tax expenditure programs lowered the effective tax rate for higher income taxpayers by at least 50%, while lower income taxpayers enjoyed only a 29% reduction. The exemptions and deductions allowed to the two highest income tax brackets accounted for 14% of total tax paid in 1997, and a staggering 45% of the tax paid by individuals in these two income brackets.

Table 3: Effective Rates of Personal Income Tax, 1997 (PLN Thousand)

Income Brackets (threshold)	Taxable Income	Exemptions from Income	Deduction from Tax	Actual Income	Tax Paid	Effective Rate of Income Tax (%)	Effective Rate/Tax Threshold (%)
1	2	3	4	5=2+3+4	6	7=(6:5)	8=(7:1)
I (20%)	171,722,513	3,136,473	2,485,172	177,344,158	25,168,838	14	71
II (32%)	27,741,684	1,189,689	896,722	29,828,095	4,733,368	16	50
III (44%)	24,553,612	2,089,551	1,027,193	27,670,356	6,875,381	25	56

Source: White Paper on Taxes, Polish Ministry of Finance, and World Bank staff estimates.

IV. Cost estimates of personal income tax expenditure programs

There is no widely accepted operational methodology for estimating tax expenditure. Most OECD countries involved in administration of tax expenditures define the cost of tax expenditures as deviations from a benchmark tax structure. While this conceptual definition is well established, difficulties arise in making the definition operational. The main problem is that the definition of the benchmark tax structure, and therefore the identification of tax expenditures, are inherently subjective. Reasonable differences of opinions always arise in the interpretation and categorization of tax measures, especially regarding the treatment of inflation and possible double taxation.

Leaving these differences aside, the following are some methodological issues in estimating tax expenditures:

- **Historical estimates of tax expenditures**. Upon the establishment of the benchmark tax structure, tax expenditures can be identified and historical estimates obtained either from taxpayer returns or from using income tax models that simulates changes to the income tax system using the statistical sample of the collected returns.

- **Projections of tax expenditures**. These must rely on estimated relationship between tax expenditures and explanatory economic variables. Using these relationships, the values of the explanatory variables are projected into the future, permitting estimations of the future expected values of tax expenditures. Key explanatory variables are generally those reflecting the state of the economy, so any projections depend on the reliability of the economic forecasts.

- **Aggregation of the tax expenditure estimates**. Estimates for individual tax expenditures, some argue, cannot be added together to determine the cost of several tax expenditure programs. There are two reasons for this: (1) the simultaneous elimination of more than one income tax expenditure would generate different estimates because of progressive income tax rates; and (2) given the interaction of certain tax measures, the revenue impact of eliminating two or more measures simultaneously would differ from taking the independently estimated numbers and simply aggregating them.

Without the establishment of benchmark tax system for the purpose of estimating tax expenditures, the Polish Ministry of Finance calculated the revenue foregone for 18 individual personal income tax expenditure programs from 1993 to 1998 using information from tax returns. This was only a fraction of the overall revenue foregone during that period, albeit a large fraction.

Keeping in mind this simple aggregate estimation rule, and temporarily leaving the simultaneous effects aside,[6] the estimation of the 18 personal income tax expenditure programs (Annex Table 2) provides interesting results. The total revenue foregone for the 18 programs was over 5 billion

[6] As discussed above, these results under-estimate the revenues foregone under tax expenditure programs because they do not account either for the progressivity of income tax rates, or simultaneity.

PLN in 1998, growing from just under 1 billion PLN in 1993, at an annual average growth rate of over 32% during the period of 1993 to 1998. For the same period, the direct budget spending grew at an average rate of 19% annually. The cost of tax expenditure programs has therefore grown much faster than the direct spending programs.

V. Strengthening the administration of tax expenditure programs

Strengthening the administration of tax expenditure programs is an important first step toward ensuring their effectiveness, efficiency, and equity. It will also help limit the costs of these programs, avoiding shrinking of the tax base and complications to the tax system. This section examines therefore these two issues. It first examines options to raise the level of scrutiny of these tax expenditure programs to the levels that direct expenditure programs are currently subject. It turns next to measures aimed at defining the opportunity costs of tax expenditure programs, highlighting their effect on the tax system.

The main point about raising the level of scrutiny over tax expenditure programs is that they enjoy a funding advantage over direct expenditure programs. Tax expenditures are fully funded before any discretionary programs, and they are open-ended entitlement programs. Once tax expenditures are enacted, they usually come under very little scrutiny, and only in rare instances have been repealed. Tax expenditures also reduce the revenue base available to fund spending programs. Finally, tax expenditure programs are not subject to systematic review, as opposed to direct expenditure programs that are appropriated annually. Indeed, tax expenditures are described separately from their budgetary functions, and are not included in the budget tables or added to total outlay.

Some of the OECD member countries provide useful experiences on how to strengthen the administration of tax expenditure programs (Box 1). They have established tax expenditure accounting, periodically reviewing their performance for economic effectiveness, efficiency and equity. They have also treated tax expenditure programs with the same scrutiny and control as direct expenditure programs, de facto limiting their expansion.

Box 1. Tax Expenditure Reporting in OECD Countries

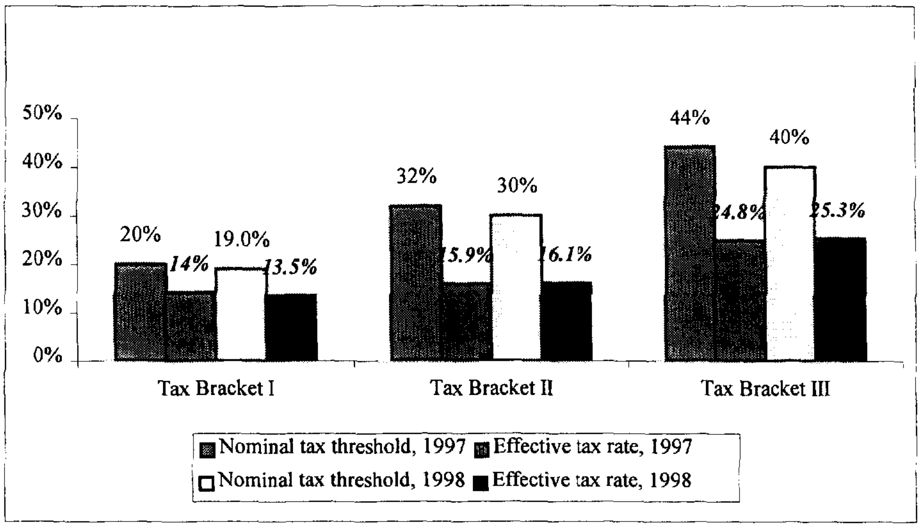
Tax expenditure reporting was first introduced in Germany and the United States in the late 1960s, with other countries following their example in the late 1970s (Austria, Canada, Spain and the United Kingdom) and during the 1980s (Australia, Belgium, Finland, France, Ireland, Italy, the Netherlands, and Portugal). The periodicity of the reports on tax expenditure programs and their links to the budget process vary significantly across countries. In seven of the 14 OECD countries that report on tax expenditure programs --- Austria, Belgium, France, Germany, Portugal, Spain and the United States— the authorities are legally obliged to produce a tax expenditure reports. In the majority, the report is currently produced annually, the exceptions being Germany (biennial), Italy and the Netherlands (sporadically). In Australia, Belgium, Finland, France, Portugal and Spain the tax expenditure report is linked explicitly to the budget process. Austria and Germany produce 'subsidy reports' which use a broad concept of subsidy, including all forms of support through both direct and tax expenditure. In the other countries, tax expenditure reports have mainly been produced as separate documents. In the United States, the tax expenditure report is produced as part of the government's budget but is not integrated into the budget process.

One useful example of successful tax expenditure administration is the Canadian experience of integrating tax expenditure programs into the budget review process, including them into the overall expenditure envelopes for each government function (e.g., the economic development envelope, and the social development envelope). The system works as follows. At the planning stage, the federal tax and direct expenditure programs are divided into "envelope" targets. The

Minister responsible for the programs under these envelopes is also responsible for meeting this target. They must cutback some programs if they wish to expand others or pursue new initiatives. This avoids the risk of ministers escaping direct expenditure limits by proposing new or expanded tax expenditure programs. While, under this system, ministers responsible for government functions can still propose new or expanded tax expenditure programs, the fiscal cost of these programs are debited against the overall envelope spending limit. This effectively provides a level playing field between direct and tax expenditure programs.

A second, and equally important, reason for subjecting tax expenditure programs to the scrutiny and control usually applied to direct expenditure programs is the effect of these programs on the tax system. The number and size of these programs affects the tax rates required to generate a desired net tax revenue. Figure 1 below illustrates how tax expenditure programs reduce the effective tax schedule across income tax brackets, reducing the overall tax revenue under the existing tax rates. Also, when tax expenditure programs compete on a level playing field with direct expenditure programs, policy makers have a yard stick against which they can measure the opportunity costs of these programs.

Figure 1: Personal Income Tax Thresholds and Effective Tax Rates - 1997,1998



Strengthening Polish tax expenditure administration involves several systematic improvements. These include (a) defining a benchmark tax structure; (b) establishing sunset dates; (c) estimating and forecasting their costs; and (d) reviewing their economic effectiveness, efficiency and equity, comparing with direct expenditures and subsidies. Taking these steps would contribute toward limiting the expansion of tax expenditure programs and reducing less-desirable effects on the tax system. As mentioned above, there has been an exponential growth in the number and size of tax expenditure programs in Poland since they were first introduced in 1992. From five tax expenditure programs, totaling 0.9 billion PLN in 1993, they have increased to over three-hundred, adding to just over 5 billion PLN in 1998. This is equivalent to a 32% annual average increase in the size of these programs. Also, the presence of tax expenditure programs adds to the complexity of the tax system, making the normative tax system harder for taxpayers to comprehend. This in turn affects the progressivity of the tax system and the level of compliance. Integrating, therefore, tax expenditure programs into the budget process should allow the cost of these programs to be better accounted, and help make the tax system more transparent and simple.

Annex Table 1. Available Tax Relief by Per Taxpayer (in PLN thousand)						
		1994	1995	1996	1997	1998
1	**Losses from previous year**	**782.3**	**986.5**	**561.2**	**1,486.9**	**746.1**
	Tax bracket I	349.3	400.2	283.4	278.8	183.3
	Tax bracket II	303.2	1,068.4	993.0	1,091.2	524.0
	Tax bracket III	1,708.1	1,802.4	1,283.2	10,901.7	5,772.7
2	**Donation**	**54.1**	**248.8**	**287.8**	**129.8**	**104.1**
	Tax bracket I	13.2	142.6	195.0	37.7	36.2
	Tax bracket II	25.0	367.5	549.5	167.7	143.1
	Tax bracket III	397.9	1,914.2	2,149.5	2,145.9	1,178.0
3	**Social insurance premiums of taxpayer and his employees**	**349.8**	**415.9**	**534.7**	**573.8**	**587.3**
	Tax bracket I	199.8	252.1	353.4	382.9	402.6
	Tax bracket II	337.7	444.7	595.4	680.3	673.4
	Tax bracket III	611.5	855.4	1,115.3	1,399.4	1,445.0
4	**Pensions, permanent burdens, alimony;**	..	**303.8**	**265.5**	**1,028.4**	**1,557.3**
	Tax bracket I	..	139.9	193.2	261.9	300.7
	Tax bracket II	..	715.2	731.1	1,255.4	1,138.9
	Tax bracket III	..	..	518.9	6,287.9	10,104.0
5	**Membership fees for organizations the affiliation to which is obligatory for taxpayer**	..	..	..	..	**67.9**
	Tax bracket I	..	..	..	..	31.2
	Tax bracket II	..	..	..	..	70.1
	Tax bracket III	..	..	..	..	692.4
6	**Rehabilitation expenditures**	**78.1**	**139.7**	**135.0**	**172.1**	**210.4**
	Tax bracket I	61.8	72.3	128.4	166.7	197.3
	Tax bracket II	111.0	73.9	209.5	255.3	349.9
	Tax bracket III	277.2	2,601.6	83.3	280.4	654.6
7	**Purchase of equipment and research aids and professional publications**	..	**84.3**	**98.8**	**112.9**	**139.4**
	Tax bracket I	..	62.2	75.2	98.9	130.5
	Tax bracket II	..	90.3	120.6	139.5	149.2
	Tax bracket III	..	197.6	198.8	225.7	202.2
8	**Investment expenditure in areas of high structural unemployment**	..	**6,459.0**	**6,939.2**	**11,940.3**	**16,335.0**
	Tax bracket I	..				2,576.3
	Tax bracket II	..				
	Tax bracket III	..	6,459.0	6,939.2	11,940.3	17,211.7
9	**Investment relief**	**6,112.3**	**6,354.9**	**6,743.3**	**6,155.7**	**7,681.7**
	Tax bracket I	105.1		287.7	308.8	691.8
	Tax bracket II	410.6		1,009.4	893.0	967.9
	Tax bracket III	7,335.1		11,446.0	9,204.5	10,285.7

10	**Relief for education of school students**	**3,528.4**	**5,300.5**	**3,318.1**	**4,947.4**	**5,400.8**
	Tax bracket I	6,123.2	4,634.6	1,726.7	2,955.6	2,271.6
	Tax bracket II	2,690.4	11,455.2	3,686.7	8,230.1	4,705.8
	Tax bracket III	2,610.8	..	5,418.6	14,398.2	11,080.6
11	**Travel of children to school outside place of residence**	..	**48.5**	**52.4**	**50.0**	**63.4**
	Tax bracket I	..	46.8	52.1	50.3	63.7
	Tax bracket II	..	58.4	51.3	41.8	58.5
	Tax bracket III	..	139.8	102.0	62.5	54.6
12	**Education of children in non-public schools**	**119.0**	**225.4**	**145.8**	**212.0**	**230.3**
	Tax bracket I	61.8	164.5	98.4	179.5	194.5
	Tax bracket II	129.8	271.5	226.5	374.9	313.7
	Tax bracket III	337.4	482.2	511.3	415.9	451.7
13	**Paid health performances**	..	..	..	**62.8**	**68.3**
	Tax bracket I	..	..	..	59.2	63.7
	Tax bracket II	..	..	..	74.7	80.1
	Tax bracket III	..	..	..	88.0	112.8
14	**Supplementary education and supplementary vocational training of taxpayer**	**37.5**	**96.2**	**107.2**	**104.7**	**114.5**
	Tax bracket I	34.7	89.4	103.1	106.2	111.9
	Tax bracket II	47.0	126.7	112.5	98.6	127.3
	Tax bracket III	60.7	158.3	227.5	84.4	139.2
15	**Education of taxpayer in higher-education schools**	..	..	..	**224.5**	**278.1**
	Tax bracket I	..	..	..	219.9	273.7
	Tax bracket II	..	..	..	279.1	319.5
	Tax bracket III	..	..	..	297.1	320.8
16.1	**Small housing relief – for house or dwelling renovation of residential**	**132.1**	**147.9**	**210.6**	**244.8**	**246.9**
	Tax bracket I	107.9	124.6	170.7	227.4	234.2
	Tax bracket II	179.2	214.4	318.9	363.9	328.3
	Tax bracket III	328.8	406.0	933.8	534.2	514.9
16.2	**Large housing relief – for residential house or dwelling construction of**	**1,036.1**	**995.0**	**1,378.9**	**975.0**	**1,464.1**
	Tax bracket I	390.7	482.3	553.2	644.2	796.8
	Tax bracket II	1,053.2	1,337.9	2,064.9	2,048.4	2,596.0
	Tax bracket III	6,169.4	6,578.7	10,569.9	3,698.1	6,645.5
17	**Stocks (individual capital gain?)**	**318.5**	**363.0**	**571.1**	..	..
	Tax bracket I	230.0	283.2	484.5	..	..
	Tax bracket II	326.3	386.7	642.3	..	..
	Tax bracket III	572.8	687.3	1,053.5	..	..

Source: The Ministry of Finance of Poland

Annex Table 2. Poland: Analysis of 18 State Tax Expenditure Programs and Direct Expenditures (in PLN thousand) 1/

		Tax expenditures					Direct Expenditures			
		1994	1995	1996	1997	1998	1995	1996	1997	1998
1	**General Public Services (budget expenditure classification sections: 91, 92, 99)**						**5219287**	**6912328**	**8514748**	**9,840,851**
	no items									
2	**Defense affairs and services (98)**						**5249403**	**6003348**	**7275010**	**8,358,713**
	no items									
3	**Public order and safety affairs (93)**						**3380410**	**4318285**	**4901833**	**5,575,735**
	no items									
4	**Education affairs and services (79, 81)**	**52155**	**156427**	**254307**	**405116**	**418677**	**12484480**	**8325973**	**10229842**	**11,260,686**
	Growth rate	*391.7%*	*199.9%*	*62.6%*	*59.3%*	*3.3%*	..	*-33.3%*	*22.9%*	*0*
	As percentage of direct expenditures	..	*1.3%*	*3.1%*	*4.0%*	*3.7%*				
A	*personal income tax*	*52155*	*156427*	*254307*	*405116*	*418677*				
1	Relief for education of school students	20966	29100	56029	106904	134556				
2	Travel of children to school outside place of residence	0	14143	22525	21503	24665				
3	Education of children in non-public schools	13765	18322	23634	40875	39639				
4	Supplementary education and supplementary vocational training of taxpayer	17424	62261	85509	56642	44301				
5	Education of taxpayer in higher-education schools	0	0	0	99227	98138				
6	Membership fees for organizations the affiliation to which is obligatory for taxpayer	0	0	0	0	13741				
7	Purchase of equipment and research aids and professional publications	0	32601	66610	79965	63637				
	Donation									
5	**Health affairs and services (85)**	**3941**	**17602**	**40564**	**136831**	**152688**	**13131841**	**16742047**	**18891724**	**20,919,735**
	Growth rate		*346.6%*	*130.5%*	*237.3%*	*11.6%*	..	*27.5%*	*12.8%*	*0*
	As percentage of direct expenditures	..	*0.1%*	*0.2%*	*0.7%*	*0.7%*				
A	*personal income tax*	*3941*	*17602*	*40564*	*136831*	*152688*				
8	Rehabilitation expenditures(disable persons)	3941	17602	40564	67380	72294				
9	Paid health performances	0	0	0	69451	80394				
6	**Social security and welfare affairs and services (86, 95)**	**321289**	**324235**	**438522**	**655249**	**860318**	**23831401**	**28374317**	**32121716**	**34,509,824**
	Growth rate		*0.9%*	*35.2%*	*49.4%*	*31.3%*	..	*19.1%*	*13.2%*	*7.4%*
	As percentage of direct expenditures		*1.4%*	*1.5%*	*2.0%*	*2.5%*				
A	*personal income tax*	*321289*	*324235*	*438522*	*655249*	*860318*				
10	Social insurance premiums of taxpayer and his employees	136453	188942	260174	322401	362973				
11	Pensions, permanent burdens, alimony;	0	1142	1674	142021	266082				
12	Investment expenditure in areas of high structural unemployment		12595	15058	21791	16090				
13	Investment relief	172079	121556	161616	169036	215173				

7	**Housing and community amenity affairs and services (70, 74)**	**1208090**	**1662406**	**2729479**	**2712089**	**3117216**	**1037892**	**1283881**	**1943464**	**1,993,588**
	Growth rate	**31.4%**	**37.6%**	**64.2%**	**-0.6%**	**14.9%**	..	**23.7%**	**51.4%**	**2.6%**
	As percentage of direct expenditures		**160.2%**	**212.6%**	**139.5%**	**156.4%**				
A	*personal income tax*	*1208090*	*1662406*	*2729479*	*2712089*	*3117216*				
14	Small housing relief – for house or dwelling renovation of residential	311884	540202	955842	1267507	1307704				
15	Large housing relief – for residential house or dwelling construction of	896206	1122204	1773637	1444582	1809512				
8	**Recreational, cultural, and religious affairs & services (83, 87, 88)**	**44063**	**1021632**	**1819621**	**218378**	**152798**	**865623**	**1060074**	**1324861**	**1,467,857**
	Growth rate	***191.7%***	***2218.6%***	***78.1%***	***-88.0%***	***-30.0%***	..	***22.5%***	***25.0%***	***10.8%***
	As percentage of direct expenditures		***118.0%***	***171.7%***	***16.5%***	***10.4%***				
A	*personal income tax*	*44063*	*1021632*	*1819621*	*218378*	*152798*				
16	Donation	44063	1021632	1819621	218378	152798				
	(for mixed purposes: education, health, social assistance, religious, public safety, etc.)									
9	**Fuel and energy affairs and services (-)**									
	no items									
10	**Agriculture, forestry, fishing, and hunting affairs and services (40, 45)**						**1561671**	**2158055**	**2343758**	**2,562,740**
	no items									
11	**Mining and mineral resource affairs and services, other than fuels; manufacturing affairs and services**									
	and construction affairs and services (01, 31)						**221547**	**312678**	**211932**	**261,036**
	no items									
12	**Transportation and communication affairs and services (50, 59)**						**1350406**	**1988206**	**2225017**	**3,227,383**
	no items									
13	**Other economic affairs and services; general labor affairs (96)**	**140434**	**367650**	**915029**	**0**	**0**	**2738220**	**2510856**	**2695799**	**2,129,184**
	Growth rate		***161.8%***	***148.9%***	..	..	..	***-8.3%***	***7.4%***	***-21.0%***
	As percentage of direct expenditures									
A	*Personal income tax*	*140434*	*367650*	*915029*	*0*	*0*				
17	Bonds (capital gain and dividends)	140434	367650	915029	0	0				
14	**Expenditures not classified by major group (61, 64, 66, 77, 89, 90, 94, 97)**		**24399**	**155853**	**281424**	**351655**	**20090839**	**28851652**	**32995984**	**37,648,476**
	Growth rate	***81.4%***	***10.9%***	***538.8%***	***80.6%***	***25.0%***	..	***43.6%***	***14.4%***	***14.1%***
	As percentage of direct expenditures		***0.1%***	***0.5%***	***0.9%***	***0.9%***				
A	*Personal income tax*	*21998*	*24399*	*155853*	*281424*	*351655*				
18	Losses from previous year	21998	21443	17807	68991	48804				
19	Other	0	2956	138046	212433	302851				

	Total	**1791970**	**3574351**	**6353375**	**4409087**	**5053352**	**90941473**	**108529022**	**125463756**	**139,494,772**
	Growth rate		*99.5%*	*77.7%*	*-30.6%*	*14.6%*		*19.3%*	*15.6%*	*11.2%*
	As percentage of direct expenditures		*3.9%*	*5.9%*	*3.5%*	*3.6%*				
	As percentage of Personal Income Tax Revenue	*10.3%*	*15.2%*	*24.3%*	*14.7%*	*14.6%*				
Source: Ministry of Finance of Poland.										
1/ According to Article 27a of Natural Persons Income Tax.										

Annex Table 3. Poland: Estimates of Revenue Loss through Tax Expenditures, 1998

(14 Tax Exemptions from Income plus 18 Tax relief programs, in PLN thousand)

1. Scholarship for secondary school students	16,999
2. Scholarship of high school students	381,390
3. Scholarship for student with good results	3,189
4. Scholarship for foreign students and student study overseas	39,513
5. Social assistance in cash	1,603,801
6. Family benefits	4,513,625
7. Children allowance	541,410
8. Funeral benefits	696,973
9. Benefits for veterans, soldiers, miners, war camp workers	678,537
10. Alimenty	635,340
11. Pre-payment for buying a car	60,000
12. Benefit for flat	497,331
13. Flat expenses for professional soldiers	78,328
14. Expenses on solider uniforms	223,884
Sum of above 14 programs	9,970,320
Estimate of revenue loss from the above 14 programs by 19% tax rate	1,894,361
Sum of 18 PIT tax relief programs from Annex 2, according to Acticle 27a.	5,053,352
Total	6,947,713
Total State direct expenditures	139,494,772
Total State personal income tax revenue	34,644,500
Revenue loss from PIT (32 programs)/Direct Expenditures	5.0%
Revenue loss from PIT (32 programs)/Total State PIT Revenue	20.1%

Source: Ministry of Finance of Poland.

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