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THE POLISH DEAL'S CHANGES TO THE TAX SYSTEM VERSUS THE COMPATIBILITY OF FISCAL POLICY GOALS[1]

Summary

Purpose – An evaluation of changes in the Polish tax system resulting from the governmental programme called the Polish Deal and an analysis of their consequences for taxpayers with respect to the objectives of a rational and coherent tax system.

Research method – A critical analysis of the pertinent literature and tax laws. Conclusions are formulated using a deductive method drawing on the achievements of tax theory and the analysis of tax laws.

Results – The tax system changes contained in the Polish Deal do not constitute a full-scale reform of the tax system. They were hastily introduced without a thorough analysis of their economic, financial and social consequences. It is disputable whether they will make the tax system fairer as intended and their effects will only be known in the future. Also, they do not ensure compatibility between direct and indirect taxes and do not support the stability of the tax system.

Originality/value/implications/recommendations – Tax system changes that are ill-conceived and disregard the redistributive function of taxes may have consequences other than expected. The main outcome of a tax system revision should be the compatibility between all fiscal policy goals rather than between some of its elements and the stability and transparency of tax laws.

Keywords: taxes, fiscal policy, redistribution, tax reforms

JEL Classification: H21, H32, H71

1. Introduction

A prerequisite to an effective and efficient fiscal policy is a tax system based on the principles of good taxation that have been arrived at through evolution and address three main areas: fiscal, economic and moral, and political [Pietrewicz, 1993, p. 54]. A tax system should also be viewed from the perspective of its economic

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effectiveness and the impacts of taxes, as well as in terms of a spending policy that a given level of taxation allows [Stiglitz, 1988, pp. 119–502]. Respecting taxation principles is essential to taxes achieving their fiscal and non-fiscal goals. An evaluation of the fiscal policy and its consequences, whether intended or not, must be carried out taking into account direct and indirect taxes. The government should be aware of their different characteristics when designing its policies and make sure that they are employed in a complementary manner and protect budget revenues regardless of macroeconomic circumstances. Indirect taxes, which are preferred as an instrument for stabilising budget revenues (especially when inflation is high), are observed to be relatively more vulnerable to economic downturns and adverse external shocks reducing GDP than income taxes. The latter are personalised taxes, so their legal and financial design, as well as their importance for public revenues may vary between tax systems. For evaluating a tax system, the level of quasi taxes is also important, but these have been omitted from the discussion due to space limitations.

This article assesses the consequences of the act of 29 October 2021, which has amended the personal income tax act, the corporate income tax act, and some other acts comprising the Polish tax system. This 140-page document, which was enacted as part of the governmental development programme "The Polish Deal"[2] intended to mitigate the impacts of the COVID-19 pandemic and increase taxation fairness, has proven a big challenge for both ordinary taxpayers and tax consultants. In addition to the new laws being introduced hastily and the tax changes appearing very selective, the fiscal policy objectives the Polish Deal aspires to achieve seem rather vague in the broader context of the national tax system. The debate preceding its enactment was conducted without the public knowing any details about particular regulations. The Polish Deal, which became effective on 1 January 2022, has had a dramatic effect on the financial situation of most enterprises and many individual taxpayers. Even though it deserves credit for introducing more tax reliefs and tax preferences, it has also imposed new liabilities on entrepreneurs. It is also criticised for making Poland's tax system even more complex than it had been before.

2. Fiscal policy goals in practice and according to the public finance doctrine

The Polish tax system and its changes after the early 1990s are described in the literature as a "tax revolution" [Owsiak, 2017, p. 669]. The changes were profound as part of a sweeping effort to overhaul the political and economic system of Poland but fell short of a complete reform that Poland's tax system still needs to be ready for modern-day challenges. Tax system reforms are among the most difficult reforms within the financial system. The outcomes of various tax reforms have been called by J. Żyżyński "a travel into the world of illusion"; he has also noticed that a tax system is

[2] Originally "The New Deal".

a vital factor in the functioning of economies and that the consequences of tax reforms have frequently been different than projected [Żyżyński, 2009, pp. 288–305]. Unfortunately, the discussions on tax system reforms in Poland lack realistic projections of their impact on budget revenues. Such projections are essential because, in addition to the risk of future revenues being overestimated or underestimated to suit current needs, the final numbers will also depend on what input data and macroeconomic indicators are used.

The main concepts of changes to the Polish tax system so far [Szczodrowski, 2007, pp. 173–185] include proposals presented in the so-called White Tax Book, a single flat tax regime inspired by the ideas of Robert E. Hall and Alvin Rabushka, tax solutions advocated by the Adam Smith Centre, and measures taken by the government after 2015 to tighten the tax system. In an effort to discourage tax abuses, Polish governments have introduced a number of deterrents. Between 2007 and 2015, the then government designed the uniform control file (JPK) and VAT on precious metals, steel and electronics, and stricter regulations governing transfer pricing documentation and control. Furthermore, international agreements were renegotiated to curb fund transfers to tax havens. The new government formed by the Law and Justice (PIS) party in 2015 adopted a new approach to changing Poland's tax system, aimed to make it more robust to tax avoidance, evasion, and fraud, and to rebuild the tax base [Ministry of Finance, 2017]. Its focus was on corporate income tax[3] and multinational corporations employing aggressive tax optimisation. Plans were also made to "civilize" competition by supporting organisations that did not use aggressive accounting techniques and by offering a range of investment incentives to small- and medium-sized enterprises (SMEs), including higher limits on fixed, intangible, and legal assets that could be deducted from tax liability. In order to increase budget VAT revenues, the JPK, the monitoring of fiscally sensitive goods, a "fuel package", reverse VAT on construction materials and services, the exclusion of some taxpayers from quarterly tax filings, heavier penalties for fake invoicing, lower limits on cash payments, and tighter regulations on taxpayer registration and deregistration were implemented. The tax system improvements proposed by the government in 2021 are widely called tax changes, which they actually are, and not tax reform, as this might wrongly imply a thorough overhaul. This casts a shadow on their functioning from the very start because a tax system is a coherent whole and should be reformed thoroughly.

In the public finance doctrine, taxes mainly have fiscal purposes. Today, however, taxes are also assigned a number of non-fiscal functions. The classical literature [Musgrave, Musgrave, 1980, p. 235] describes a "good tax system" as built on the following principles:

– „The distribution of the tax burden should be equitable. Everyone should be made to pay his or her 'fair share'.

[3] CIT.

– Taxes should be chosen so as to minimize interference with economic decision in otherwise efficient markets. Such interferences impose 'excess burdens' which should be minimized.
– Where tax policy is used to achieve other objectives, such as to grant investment, this should be done so as to minimalize interference with the equity of the system.
– The tax structure should facilitate the use of fiscal policy for stabilization and growth objectives.
– The tax system should permit fair and non-arbitrary administration and it should be understandable to the taxpayer.
– Administration and compliance cost should be as low as is compatible with the other objectives".

This study makes an assumption that all these principles must be respected to ensure the compatibility of fiscal policy goals. This, however, is not easily achieved in practice and it is noteworthy that each country's tax system went a long way to become what they are today. Income taxes, which in the Polish tax system are less important as a source of revenue than indirect taxes, are the main tool used by the government to redistribute wealth and thus an important element of social policy. The Polish debate about insufficiently progressive income tax has been going on for many years. The popularity of linear tax in transforming economies is attributed by A. Krajewska to their distinctive characteristics [Krajewska, 2010, p. 104]. In recent years, the focus of discussions shifted to the role of taxes and quasi-tax contributions with respect to wealth redistribution, social policy and the business environment of small entrepreneurs, but they are also an important instrument of countercyclical macroeconomic policy [Greene, 2010, p. 65 and following; Mackiewicz, 2010]. Economists are stills at odds over the extent of direct and indirect taxation, even though it is rational to expect a tax system to stimulate entrepreneurship and economic growth rather than impede them. In Poland, the suggestion of increased taxation on consumption is considered very controversial [see: Karnowski, Rzońca, 2021]. EU member states and other countries differ significantly in the levels of taxation on consumption, labour and capital [European Commission, 2021, pp. 24–50]. Entrepreneurs indicate that the business environment consists not only of tax rates but also depends on the stability and quality of tax legislation, which has long been criticised as a major weakness of the Polish tax system.

3. Tax law changes effective from 1 January 2022 and their consequences (intended and unplanned)

The provisions of the Polish Deal, most of which became effective on 1 January 2022, have introduced many changes to personal and corporate taxes to build a tax system where tax rules are fair, social justice is respected, and taxes are assessed proportionally to a taxpayer's ability to pay. These objectives are aligned with the ruling by the Constitutional Tribunal of 28 October 2015 (K 21/14), stating that tax laws should primarily ensure that the amount of tax to be paid is within the taxpayer's financial capacity. In other words, they need to respect an individual's ability to pay [*Uzasadnienie do projektu Polskiego Ładu*…].

Other important changes that the Polish Deal has brought in include a minimum tax rate of 10% for the payers of CIT and tax capital groups whose income share of revenues from sources other than capital gains is below 1%, or which incurred a loss in the reported fiscal year [Ustawa z 15 lutego 1992 o podatku dochodowym od osób prawnych, art. 24ca]. This minimum rate must be paid annually, but an option is available to deduct the amounts paid from the "regular CIT" in a tax return filed for three successive years. Thus, the measure ensures the payment of CIT by organisations that have avoided paying it while offering protection from taxation.

The minimum CIT rate does not statutorily apply to:

- entities which started operations in the year when it was introduced and in the next two fiscal years,
- financial entities;
- entities whose revenues decreased by at least 30% compared with the previous fiscal year;
- entities where all shareholders, stockholders or partners are natural persons who do not hold shares, stocks or participation units in other entities;
- entities with the bulk of operating income in the reported fiscal year coming from i) international sea or air transport services, ii) the mining of fossils whose prices are directly or indirectly linked to prices quoted in international markets;
- entities belonging to a group of at least two companies, one of which directly owned a 75% share in the equity of the other companies throughout a fiscal year, i) if all companies have the same fiscal year, and ii) if their joint income in the fiscal year exceeds 1% of their joint revenues.

The minimum CIT rate has been devised as an instrument for the tax administration struggling with corporations paying a fraction of CIT due or avoiding the payment of it. According to a report published by the Union of Entrepreneurs and Employers [August, 2021], more than 62% of the CIT payers in Poland do not pay it at all. As much as one-third of CIT revenue is contributed by the largest companies owned by the State Treasury. Many corporations benefit from privileges that were granted to them for establishing operations in Special Economic Zone or receive more in state aid than they pay in taxes.

The corporate income tax paid by the Auchan retail chain between 2015 and 2019 constituted only 0.004% of its revenue. For Orange Polska, Carrefour Polska, and Decathlon Sp. z o.o., the numbers were 0.12% 0.16%, and 0.86%, respectively [www3]. Other corporations managed to evade the payment of CIT. This leads to a somewhat radical conclusion that CIT in Poland is a voluntary rather than mandatory tax.

The Estonian CIT regime, which was introduced before the Polish Deal was launched, has been modified as well. It is advantageous for taxpayers because on principle it does not require an organisation to pay it until its profits earned in the period preceding its use, or losses incurred, are respectively shared or refunded. As a result, it increases the organisation's liquidity and improves its capacity to invest by deferring the payment of income tax. The Estonian CIT rates applicable in 2022 are as follows:

– 10% for start-ups and small taxpayers,
– 20% for all other companies.

The amended CIT law has made the Estonian CIT available to more categories of taxpayers. From 1 January 2022, it is also possible for limited liability companies, joint-stock companies, simple joint-stock companies, limited partnerships and limited joint-stock partnerships to register for this tax during the fiscal year provided that they satisfy the requirements laid out in The Corporate Income Tax Act [Ustawa z 15 lutego 1992 o podatku dochodowym od osób prawnych, art. 28j], namely*:*

– all shareholders, partners, or stockholders of the applying entity are natural persons (Polish taxpayers and/or foreign tax residents in Poland);
– the entity has had at least three full-time employees with regular employment contracts or other contracts involving the payment of social security contributions for most of the fiscal year*;*
– small taxpayers (i.e., entities with revenue of up to €2m) are required to have at least one employee in the first fiscal year after becoming an Estonian CIT payer;
– the entity does not own other entities' shares or stocks;
– the bulk of the entity's revenue comes from business operations (passive income from receivables, interests, warranties, and guarantees, etc., may not exceed 50% of revenue);
– the entity does not prepare its financial reports under the International Accounting Standards.

Another change to the tax system involves the introduction in 2023 of regulations governing the so-called hidden dividend, which especially focus on transactions taking place between a company and its shareholder or a shareholder-related party (a spouse, children, and other family members).

The following will be considered as a hidden dividend:

– costs calculated in relation to the taxpayer's profit (not revenue);
– non-market price transactions;
– payment for the use of assets that previously belonged to the taxpayer and are now owned by their partner or related parties.

The rules applying to controlled entities have been changed too. The matter of tax on foreign-controlled company's income is laid out in art. 30f of the Personal Income Tax Act and art. 24a of the Corporate Income Tax Act. The articles establish the tax rate on a Polish taxpayer's income from a controlled foreign company at 19% and provide that controlled foreign companies registered in tax havens automatically fall under the CFC regulations [Controlled Foreign Company].

The list below summarises the Polish Deal's changes to the Personal Income Tax Act[4]. Among those introduced on 1 January 2022, the most important are:

- a ban on deducting the mandatory health contribution from income tax. Many categories of taxpayers are now required to calculate its amount in relation to their actual incomes (table 1);
- a "middle-class relief" introduced for taxpayers with a gross income of between PLN 68,412.00 and 133,692.01 to make the new health contribution rules less costly for them. Under the PITA, the relief can be used by full-time employees and entrepreneurs paying taxes according to the tax scale;
- tax allowance increased to PLN 30,000 for taxpayers paying taxes according to the tax scale. Now, all taxpayers including entrepreneurs with income below that level will not pay income tax at all;
- the lowest income rate of 17% raised to apply to incomes of up to PLN 120,000 (previously PLN 85,528); only taxpayers with incomes above that level will pay income tax according to the higher rate of 32%;
- the exemption of old-age pensioners with pensions of up to PLN 2,500 from income tax;
- the lump-sum tax rate reduced by 3% for engineers, IT specialists, physicians, etc., and by 14% for some medical professions; the rate applying to some IT services has been cut from 15% to 12%;
- "a returning-taxpayer relief" for taxpayers who did not have Polish tax residence for at least 3 years and become tax residents in Poland. The relief exempts from income tax an annual amount of PLN 85,528 maximum and can be exercised over 4 consecutive years. Taxpayers may take advantage of it in the first year after becoming a tax resident or in the next year.

TABLE 1.

The amounts of health contribution calculated in relation to a taxpayer's income from 1 January 2022

Tax regime	Health contributions in 2022
Tax scale	9% of income, not less than PLN 271 PLN
Lump sum tax	Contingent on annual income (PLN): up to 60,000 – 305.39 from 60,000 to 300,000 – 598.99 above 300,000 – 916.18
Flat tax	4.9% of income, at least PLN 271
Tax card	PLN 270

Source: created by the authors based on: [Ustawa z 26 lipca 1991 o podatku dochodowym od osób fizycznych].

[4] The PITA.

To support legal employment, the Polish Deal establishes that after 1 January 2022, only employers will be held accountable for illegal work arrangements. It also offers tax amnesty to employers and employees, which releases an employer who paid an employee 'under the table" before 1 January 2022 and the employee from having to pay income tax on unreported wages. In all cases, if such an illegal arrangement continues beyond that date, the employer will have to pay the tax due and all contributions. Moreover, the taxable income of the employer will be increased by an amount equal to a minimum wage for each month of illegal employment.

The Polish Deal has also changed the VAT law. From 1 July 2022, it will be possible for two or more entities to form a so-called VAT group to settle VAT as a single entity. This option is available to entities which:

– are linked financially, economically, and organisationally and are based in Poland or have Poland-based branches,
– sign an agreement establishing a VAT group, and
– register as a VAT payer.

Following registration, a VAT group must appoint a representative for VAT purposes.

4. A critical analysis and evaluation of the legislative changes with regard to the compatibility of Poland's fiscal policy goals

Contrary to expectations, the measures contained in the Polish Deal seem unlikely to considerably raise budget revenues. Whether this was the authorities' intention is not quite clear, however, because the personal income tax changes were promoted as aimed to increase the fairness of taxation. Either way, the new solutions received a broadside from the upset entrepreneurs. A survey commissioned by Konfederacja Lewiatan, an association of employers, revealed that they were contested by 82% of the biggest companies in Poland and by 71 and 72% of small and medium-sized enterprises, respectively [www 2]. This resentment was confirmed by a survey conducted by inFakt, in which as many as 81% of the respondents expressed their dissatisfaction with tax changes, especially with increased taxes, contributions and operating costs [www 1]. While the cuts in taxes paid by the low-income citizens (who spend the bulk of their earnings on current consumption) and the availability of the EU funds will predictably stimulate the growth of the Polish economy, the magnitude and timing of this effect are uncertain.

The proposed tax changes are costly for the national budget and require the collectability of taxes to be improved to prevent a deficit increase. Therefore, new rules will have to be added to the existing legislation to tighten the tax system. This will make it even more intricate, making enterprises, especially the small and medium-sized ones, more reluctant to invest.

There is also a risk that the Family Care Capital offering support for child-raising will result in women becoming less active in the labour market or withdrawing from it. A similar effect can be brought about by tax-exempt pensions which, while making life more affordable for many old-age pensioners, may make them less willing to continue employment beyond retirement age. This will be a major problem for the Polish economy because most pensioners have a considerable capacity for occupational activity and could mitigate the labour shortage problem.

One objective of the Polish Deal was to increase the amount of funding for healthcare and new housing construction. The GDP share of healthcare spending is projected to exceed 6% by 2024 and 7% by 2027. This may be insufficient as Poland's healthcare system still awaits structural reform. The plans to improve the availability of medical services may also be thwarted by a heavier tax burden on medical personnel employed based on civil-law contracts, which may perpetuate the permanent understaffing of medical establishments. All these inconsistencies show that the Polish Deal's changes to taxes are incoherent and incompatible with other public policy goals.

An important component of the Polish Deal is financial compensation for subnational governments for the smaller share of income tax revenues they will receive due to increased tax allowance. A safety mechanism making them less vulnerable to economic and legislative changes has been created, which will trigger additional intergovernmental transfers in cases when their shares of PIT and CIT drop below a certain level.

Table 2 contains a short review of changes to the tax legislation introduced by the Polish Deal, as well as their objectives and outcomes

TABLE 2.

An outline of tax law changes contained in the Polish Deal

Change	Goal	Outcomes
Uniform and non-deductible health contribution	fiscal	More funding for healthcare; the use by medical personnel of civil law contracts will be less advantageous.
Tax allowance raised to PLN 30,000	social	More taxpayers exempted from income tax
The amount of income taxed at the lowest rate **of 17%** increased to PLN 120,000. Above that level, a 32% rate will apply	social	Better protection of the middle class from increased tax burden. The change was made following wage increases in recent years
A middle-class relief for the following categories of taxpayers to compensate them for non-deductible health contributions: • persons with employment contracts and a monthly income of between PLN 5,701 and 11,141, • self-employed persons paying taxes according to the tax scale, with a **monthly** income of up to PLN 13,000.	social	Better protection of the middle class from an increased tax burden. The relief is available to civil servants, employees with employment contracts, outworkers, and employees of cooperatives with an income of between PLN 68,412 and 133,692 (the monthly advance

Change	Goal	Outcomes
		tax payments are calculated for incomes ranging from PLN 5,701 to 11,141).
Annual tax allowance of PLN 1,500 for single parents, replacing the preferential tax settlement	social	This solution only benefits the low-income taxpayers. **Parents** with incomes above the national average wage **will pay more in income tax than before**.
The range of tax card users limited to taxpayers who used this tax regime in 2021 (the extension does not apply to physicians with civil law contracts); taxpayers choosing a different tax regime will not be permitted to go back to it.	economic	Increased budget revenue
Management board members and **proxies** paid **for their service** subjected to a mandatory and non-deductible health contribution of 9%.	fiscal	More funding for health care
Health contributions having been made non-deductible and linked to the taxpayer's tax regime: • taxpayers paying taxes according to the tax scale (17 and 32%) will pay a contribution of 9% of their income; however, they can use the middle-class relief to reduce its cost; • taxpayers paying a flat tax rate (19%) will pay a contribution of 4.9% of their income; • taxpayers paying lump-sum tax will pay a contribution of 9% of their **revenue** in a fiscal year; the tax card users will pay a contribution of 9% of the minimum wage.	social and fiscal	Linking the health contribution to taxpayers' income from non-agricultural activity seems a fairer solution than that existing before. The amount of the contribution will progressively increase with the level of income.
The exemption of the following categories of taxpayers from income tax: • pensioners who continue to work past retirement age; • the parents of at least 4 children.	social	More seniors may choose to work beyond retirement age.

Source: created by the authors based on: [Ustawa z 15 lutego 1992 o podatku dochodowym od osób prawnych; Ustawa z 26 lipca 1991 o podatku dochodowym od osób fizycznych].

Even though the Polish Deal became effective as of 1 January 2022, its numerous flaws and loopholes cause that it is still being corrected and improved by the government.

Since its inception, the Polish Deal has been a catalogue of various ideas and concepts intended to guide the functioning of Poland until 2030. Its flaws, especially the weaknesses of the proposed tax solutions, have necessitated corrections to individual reforms in some areas, such as the restoration of single parents' right to file tax returns jointly with a child or scrapping of the middle-class relief, which are to become effective as of July 1, 2022.

The way the Polish Deal is seen is certainly influenced by the interests of the parties assessing it. Because of the multitude of solutions influencing tax, social and housing areas it contains, it seems that a multi-criteria analysis making use of synthetic indexes calculated as the totals (adjusted by weights) of partial criteria might provide a more balanced evaluation of its characteristics.

The main evaluation criteria (health; lower taxes and a high standard of living of the population; family and housing; better conditions for investment and infrastructure development) were rated using four partial criteria on a 0–10-point scale, where 0 was the worst and 10 was the best. However, as the scoring vectors were not dominated, all of them could be rated as the best depending on individual preferences. To prevent this, the partial criteria were assigned the following weights: effectiveness (f_1=20%), efficiency (f_2=25%), availability of funding (f_3=30%), a synergy effect (f_4=25%).

$$\text{Max } \{ \sum_{i=1}^{4} w_i \, f_i \, (x) : x \in \{w1, w2, w3, w4\}$$

TABLE 3.

The results of the multi-criteria analysis of the Polish Deal

Main criteria	Effect	Partial criteria scores				Synthetic index
		Effectiveness	Efficiency	Availability of funding	Synergy effect	
Health	1E 1 = GDP share of health expenditure increased over 6 years	8	8	7	8	7.70
	E 2= more funding allocated to investments, digitization, new staff and modern therapies	6	6	6	8	6.50
	E 3 = increased number of specialist physicians	7	7	7	9	7.50
	E 4 = higher salaries for medical staff	6	8	6	8	7.00
	E 5 = the establishment of the Hospital Modernization Fund and the Medical Fund	7	7	7	8	7.25

Main criteria	Effect	Partial criteria scores				Synthetic index
		Effectiveness	Efficiency	Availability of funding	Synergy effect	
Lower taxes and a high standard of living of the population	E1 = better financial situation of people with minimum incomes	10	10	8	7	8.65
	E 2 = introduction of a tax-free amount of income comparable to that in Germany, France or Ireland	10	10	8	7	9.15
	E 3 = old-age and disability pensions of up to PLN 25,000 exempted from income tax	10	10	9	9	9.45
	E 4 = PIT relief for returning emigrants	7	7	7	9	7.50
Family and housing	E 1 = Housing loans without own contribution and no formal requirements to build a house up to 70 m2	7	7	7	7	7.00
	E 2 = the development process shortened to several weeks and savings of at least several thousand PLN for the house owner	7	7	7	7	7.00
	E 3 = the extension of programmes addressing families' needs	6	5	5	5	5.20
	E 4 = more flexible work arrangements for parents,	4	4	8	7	5.95
	E 5= personalised support from labour offices for young mothers	5	5	5	5	5.00
Better conditions for investment and infrastructure development	E 1 = public issue of development bonds	9	9	9	8	8.75
	E 2 = the establishment by the Bank Gospodarstwa Krajowego of a fund dedicated to financing the modernization of the country	10	10	8	9	9.15
	E 3 = more development opportunities for smaller towns	8	8	6	8	7.40
	E 4 = finalisation of the expressway network in Poland	6	6	5	7	5.95
	E 5 = implementation of infrastructure projects such as the Central Communication Port or a high-speed railway connecting the largest cities	9	9	6	9	8.10
	E 6 = investment projects improving the quality of life of Polish citizens (hospitals, schools, cultural and sports facilities in Polish municipalities).	9	9	5	7	7.30

Source: created by the authors.

The highest values of the synthetic index were obtained for Effect W1 of "Health", Effect W3 of "Lower taxes and a high standard of living of the population', Effects W1 and W2 of "Family and housing", and Effect W2 of "Better conditions for investment and infrastructure development".

While the implementation of the Polish Deal has revealed many flaws in its design, a range of its solutions is advantageous to society. But its long-term benefits will depend on whether sufficient funding will be available in the future to operate it.

5. Conclusions and recommendations for fiscal policy practice

The effects of the Polish Deal need to be considered in the context of the principles of a good tax system developed by the finance theory and the classical tax theory and those proposed by R.A. Musgrave and P.B. Musgrave, among which fair taxation, transparent tax laws and changes thereof, and the stability of the tax system are especially important. Unfortunately, the changes introduced by the Polish Deal are inconsistent with the principles. One of the biggest issues is that taxpayers have a problem understanding how they improve taxation fairness and progressivity. There is also a high degree of anxiety over who will benefit from the changes and who will lose out. The hastiness with which the changes were implemented and the uncertainty about their impact (financial and non-financial) on the budget and taxpayers are also worrying. Instead of explaining how the new laws would advance wider fiscal and social objectives, the government only presented uncoordinated and impromptu arguments. The need for remedial action has apparently been realised by the Parliament, which has enacted new laws, such as the middle-class relief and special grants for subnational governments compensating them for reduced revenues, to make changes more palatable to organisations and ordinary taxpayers.

The fact that lump-sum taxes were altered in a way ignoring the need to support small and medium-sized enterprises while the range of entities eligible for the Estonian CIT was extended is also indicative of the incompatibility of the new tax laws. Their main drawbacks can be shortly summarised as follows: incompleteness, vagueness, and misalignment with the fiscal and social policy goals. As a result, they widen the gap between the Polish tax system and the principles of stability and transparency. The fast pace of legislative work has increased the risk of higher costs (measurable and non-measurable) having to be paid in the future. The intricacy of the fiscal system emerging from the New Deal requires new regulations to be developed to mitigate its impacts, which is already happening. The same approach could be observed in the case of the Family 500+ programme which failed to achieve its demographic goals, but this did not discourage the Parliament from extending the family policy without linking its benefits to any income limits and without evaluating the effectiveness of the previous measures.

However, the Polish Deal should be credited for its efforts to tighten the CIT and VAT systems and for attempting to address various social and economic issues within the family, tax, and housing policies. It is only regrettable that its explanatory memorandum does not set clear and compatible objectives of the changes being made, let alone present them in an understandable manner.

The introduction of new tax laws on 1 January 2022, which caused some groups of employees (teachers, the uniformed personnel) to receive lower wages than a month before, was immediately followed by a public outcry. Several days later, the government conceded that some of the regulations would have to be corrected. Thus, the making of the Polish Deal has become a hard lesson in how not to improve a tax system.

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