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Interesting changes in taxation for entrepreneurs - decision to be taken by 22. February 2021

From 1st January 2021, most entrepreneurs running a business individually or as partners in a civil/general partnership of individuals may choose a lump-sum as a form of taxation of revenue from business activity. It can be a very attractive alternative for taxation at progressive tax scale or 19% flat tax rate. Income taxed at lump-sum tax regime is not subject to 4% solidarity tax.

The deadline for choosing that option is, in principle, 22nd February 2021.

Changes in 2021

1. Higher revenue cap enabling the of the lump-sum tax and quarterly lump-sum payment

A lump-sum taxation was previously addressed to entrepreneurs who, in the preceding year, earned revenue from business activity not exceeding EUR 250,000. **The revenue cap is now increased to EUR 2,000,000.** In the case of civil and general partnerships, to determine whether a partner is entitled to lump-sum regime, sum of revenues of all partners should be taken into account.

If the amount of revenues for the preceding year did not exceed **EUR 200,000**, the entrepreneur may additionally choose to pay the lump-sum tax on a quarterly basis.

2. Extension of the type of businesses entitled to apply the lump-sum tax/exclusions from lump – sum taxation

As a rule, revenues from service activities may be taxed at a lump-sum tax. This also includes revenues from so-called "professionals". The definition of "professionals" has been extended by including i.a.: architects, construction engineers, construction appraisers, insurance agents, brokers, agents of investment companies, investment advisers, legal professions and accountants.

On the other hand, the list of services, rendering of which excludes the possibility of applying lump-sum taxation, was significantly reduced. Currently, the list includes i.a. services related to pharmacies, currency exchange offices, trade in parts and motor vehicles accessories and the production of excise goods.

The lump-sum taxation is still not applicable to the entrepreneurs who, as part of their business activity, receive revenues from the provision of services or the sale of commercial goods or products to the former or current employer, corresponding to the activities performed in the current or previous tax year under the employment relationship.



3. Reduced lump-sum tax rates

The most important changes include:

- **17%** rate of revenues earned by professionals (previously 20% rate),
- **15%** rate of revenues from the provision of services, which so far were mostly taxed with the 17% rate (e.g. IT) or which were excluded from the lump-sum tax before 2021 (e.g. financial intermediation and business consultancy, performed outside "professional services"),
- **8.5%/12.5%** rate of revenues from rental and accommodation as part of business activities, which equalized the situation of entrepreneurs and private renters.

4. Social security and health care contributions and loss settlement after choosing of lump-sum tax regime

After choosing lump-sum tax regime:

- it is possible to deduct paid social security contributions (deduction from the revenues) and paid health care contributions (deduction from the tax due up to 7,75% of the base for the contributions),
- entrepreneur does not lose the right to settle the loss from business activity incurred within last 5 years.

5. Lump-sum tax regime – formal selection/declaration is required

If the first business revenue is earned in January 2021, the taxpayer has to submit a written statement on the election of the lump-sum tax regime **by 22nd February 2021**. The statement should be submitted to the head of the relevant tax office or by updating data in CEIDG.

If the first revenue is earned at a later date, the deadline for submitting the above mentioned statement is as follows:

- by the 20th day of the month following the month in which the taxpayer earned his/her first revenue, or
- by the end of December, if the first such revenue is earned by the taxpayer in December.

Failure to meet the above deadlines makes it impossible to apply the lump-sum tax to revenues earned in 2021.

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