



Uniwersytet
ŁÓDZKI



WYDZIAŁ PRAWA
I ADMINISTRACJI

Wojciech Sztuba

*Effective corporate taxation in the context of differences in income
recognition between tax law and accounting law*

*/Efektywne opodatkowanie przedsiębiorstw a różnice w ujęciu dochodu
przez prawo podatkowe i bilansowe/*

- SUMMARY -

Doctoral thesis
in the Department of Substantive Tax Law
under supervision of
prof. zw. dr hab. Włodzimierz Nykiel

Łódź 2015

The growing mobility of capital in the wake of globalization has a major effect on how countries with free-market economies raise their revenues. The focus is clearly shifting from taxation of income onto taxation of consumption and labour. But even though corporate income taxes ("CIT") are becoming less and less important as a source of revenue to finance state expenses, countries do continue to compete on this arena, including on nominal tax rates. Today, multinationals choose to site their projects less on the basis of geography but more in reliance on comparisons of competition drivers, such as internal market, legal and political stability, labour costs, education and, last but not least, business taxation.

On the most general plane, this thesis seeks to assess the competitiveness of the Polish system of business income taxation. It is assumed as a starting point that taxation levels across countries cannot be rationally compared unless through the use of effective tax rates because nominal rates do not in themselves reveal much about the actual tax charge on the business bottom line. The present paper analyses a number of well-known methods of calculating the effective CIT rate, used mainly in econometrics and statistics, but finds that none of them is free from weaknesses. Above all, these methods omit deferred taxes, without which any measurement of only current income tax expense will distort the picture of actual tax burden. As a result, the method considered the most authoritative and useful given the purpose of this thesis is the effective tax rate (ETR) method. ETR is computed in the same way as it is done by thousands of firms in Poland and abroad which use International Financial Reporting Standards to prepare their financial statements. ETR takes account of changes in deferred tax assets and liabilities, therefore generally eliminating measurement distortions that arise from temporary differences between tax and accounting recognition of income or loss.

The main purpose of this thesis is to define the actual relationship between nominal and effective income tax rates on businesses in Poland using the ETR methodology. No such research has been done before. Given the purpose of the work but also its effectiveness, a monographic study of a sample of companies listed on the Warsaw Stock Exchange is considered to be the most appropriate research method. The data has been analysed in detail and interpreted, and additional complementary research has been done in the form of interviews with individual representatives of selected companies and a comparative analysis of the results of an independent survey of the effective taxation of 250 medium-sized and large Polish enterprises. The outcome of the research corroborates the author's working thesis statement that the average ETR varies substantially above the nominal CIT rate of 19%. The

average ETR for 194 WSE-listed companies over three consecutive years was 20.3411%. The thesis also carefully presents and analyses how different industries and origin of capital display different sensitivities to ETR drivers.

The research results are used in an attempt to explain the observed differences between effective and nominal tax rates to the extent their causes are attributable to tax law and accounting law. This analysis focuses in particular on the regulations of the Polish Corporate Income Tax Act. It has also be found out that there is a major factor in accounting law that causes permanent differences to arise between accounting and tax recognition of profit or loss. Taking into account global and European trends in the development of corporate taxation, including the EU proposals for CCCTB and the OECD Base Erosion and Profit Shifting guidelines, the author discusses possible directions for potential future changes of the Polish system of taxation.

The thesis winds up with postulates *de lege ferenda*. Certain changes to Polish tax law are suggested with a primary view to limiting "excessive" differences between effective and nominal income taxation. "Excessive" differences are taken to mean those which harm Poland's competitive position on the international investment market but which do not have a sufficient fiscal or economic justification. Such differences are "excessive" also in the sense that they are more common in Poland than in a number of other European countries that are important competitive benchmarks for the Polish economy. Some foreign tax jurisdictions endorse a rule that the accounting balance sheet is an authoritative source of data for tax purposes. This authoritativeness rule, which is described in more detail in the thesis, brings the tax base closer to accounting profit/loss. The Polish tax system does not have such a rule and, therefore, facilitates overrepresentation of differences between accounting and tax recognition of income, a feature that deteriorates Poland's investment competitiveness. If such differences are not sufficiently justified by important fiscal or systemic considerations, it is advisable to restrict them by making changes to relevant laws and regulations.

A handwritten signature in blue ink, appearing to read 'Lopce & Chelwa', with a long horizontal flourish extending to the right.