

Chapter 7

Fighting the VAT Gap – The Polish Experience

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7.1. Introduction

At the end of the 1960s, Value Added Tax operated in less than 10 countries; today, VAT or GST (a tax of similar obligation) is collected in 174 territories worldwide (OECD, 2022, p. 265). Value Added Tax is one of the most significant taxes in many countries, it also plays an important role in the EU Single Market. In 2021 VAT was responsible for 18% of all EU tax and social security revenues in 2021, making it an important source of financing the government budgets. VAT proceeds also contribute directly to the EU budget, as they are partly allocated to the EU's own resources (European Commission, 2023a, p. 4).

Value Added Tax is collected at all stages of the processes of production and distribution of goods and services, accumulation of the tax being prevented by allowing businesses to deduct the tax they incur on their inputs from the tax they collect on their outputs (OECD, 2022, p. 265). Unfortunately, the structure of the EU VAT system, along with the possibility of refunding input tax, makes it sensitive to tax fraud. According to the latest Commission estimates, Member States lost around EUR 61 billion in VAT in 2021, i.e. about 6% of all VAT revenues (European Commission, 2024, p. 17).

Exploring the importance of VAT for a fiscal system requires not only referring to the generated tax revenues but also considering the so-called VAT gap, understood as the difference between actual income and hypothetical potential income (Bitner, 2023, p. 41). Consequently, EU countries are trying to deal with the phenomenon of lost tax revenues and are involved in actions aimed at both increasing the resistance of domestic VAT systems to fraud, and enforcing tax compliance. Measures implemented by the government are carried out in three areas: the VAT collection mechanism, the reporting obligations and the international cooperation of tax offices (Arak et al., 2019, p. 22).

The subject of this study was an analysis of the instruments that have been implemented in Poland to minimise the VAT gap. The authors posed a hypothesis about the synergy effects of actions in the legislative issue and the actual approach of the national tax authorities initiating tax validation procedures. As outlined in the article, a number of legislative changes have been introduced in Poland since 2013 to minimise the VAT gap. However, was such an action sufficient to achieve its objectives? How have the tax authorities used this new regulations in their operations? In attempting to answer these questions, the authors looked at the procedures applied by the tax authorities to a verification tax settlements. Thus, the procedures in force in Poland are presented, as well as the statistics on their number and types.

To achieve the chapter's goals, methods of a normative, legal and quantitative analysis were used. For the purposes of the research, the authors studied the analyses and reports provided by the Polish Ministry of Finance, Polish Supreme Audit Office (NIK), International Monetary Fund and European Commission together with CASE, and the statistical data about quantity of different tax procedures were also used, collected for the period covering 10 years – from 2013 to 2022. The basis for their use was a request made on 16 December 2023 to the Minister of Finance under the provisions of the Access to Public Information Act (Ustawa z dnia 6 września 2001...).

The chapter is organized as follows. Part 7.2 brings closer the issues of VAT compliance gap, its size and consequences. Part 7.3 analyses the evolution of the VAT gap in Poland in 2008-2021. Part 7.4 focuses on measures implemented in Poland in order to increase tax compliance and enhance the effectiveness of VAT collection processes. Part 7.5 studies procedures for verifying tax liabilities and VAT gap. The Conclusions sum up the main results of the research and discuss the findings of the study.

7.2. VAT Gap

In European Union countries, VAT revenues constitute the largest source of income for the state budgets. In 2019 such revenues accounted for around 21% of total tax revenue in the EU-27 (Binder, 2021, p. 36). This number makes the size and stability of Value Added Tax flows essential for a responsible financial policy.

A significant reduction in state revenues is reflected in the so-called VAT gap which is usually calculated as the absolute or percentage difference between the tax revenue that would be collected in the case of full compliance (assuming an unchanged tax base) and the actual amount of VAT proceedings. The maximum estimated VAT amount that can theoretically be gathered from taxpayers is called VAT total tax liability (VTTL)¹. Such a calculated VAT gap is a measure of overall non-compliance in value added tax (European Commission et al., 2022, p. 4).

VAT compliance gap = VTTL – VAT revenue

(e.g. in absolute terms),

VAT compliance gap (%) = (VTTL – VAT revenue)/VTTL

(e.g. in relation to the benchmark: VTTL).

¹ The VAT compliance gap estimates produced for the European Commission (EC), CASE for EC Taxation and Customs Union Directorate-General's (TAXUD), by the Polish Ministry of Finance (MoF) and by the IMF are generally consistent and bring similar results (European Commission, 2017; Thackray & Ahmed, 2018).

To avoid potential inaccuracies, the VTTL and VAT revenues must be aligned in terms of timing. For this reason, the revenue included in the calculations follows accrual rather than cash accounting. Thus, if ESA 2010 (European System of National and Regional Accounts from 2010) revenue figures are reported without accounting for certain elements such as late payments, they are amended accordingly using data obtained from Member State authorities (European Commission et al., 2023, p. 8).

One should not perceive VAT compliance gap as a straightforward equivalent of VAT fraud (Keen & Smith, 2007, p. 3). Indeed, it reflects tax losses due to the development of the grey zone and VAT refund fraud in intra-community transactions, but it also covers VAT lost due to insolvencies, non-fraudulent bankruptcies, administrative errors, missions and legal tax optimisation². As a consequence, the VAT compliance gap is treated as a direct measure of the revenue administration's performance in collecting the tax due from taxpayers (Thackray & Ahmed, 2018, p. 15).

The consequences of a significant VAT compliance gap are severe for the public sector and the conduct of budgetary policy, both at state and the EU level. From the perspective of the domestic economy the tax gap is a challenge for the sustainability of public finance, both in revenue and expenditure sides (Szczypińska, 2019, p. 69). It also has a negative impact on honest entrepreneurs and their competitiveness (European Commission, 2017, p. 11). Its 'fraud dimension' distorts competition in the business sector and leads to illegal activities in other forms of criminal activity (Andrejovská et al., 2020, p. 8).

7.3. VAT Gap in Poland

In Poland, poor VAT collection has been for years a particularly important issue. The rapidly growing VAT compliance gap threatened the future stability of public revenue, and was a severe problem given the plans for high state expenditure for the coming years.

In the period 2010-2016, the IMF studied the VAT tax gap in Poland, focusing on its sectoral breakdown. The largest contributor to the compliance gap occurred to be the trade and transport sector. Significant gaps were also observed in the professional and other services sectors. These results were expected, as all of the above-mentioned sectors are typically relatively high-risk; (unexpectedly) there also occurred a gap in the utilities sector³. Smaller

² There is also the aspect of so called "VAT policy gap" and "VAT revenue ratio". The VAT policy gap addresses the relative impact of reduced rates and exemptions on revenue losses and compares it to the theoretical revenue that could be levied in a given VAT system (e.g. the potential revenue that could be collected in a VAT system with a uniform rate and the broadest possible base). As an indicator of the additional VAT revenue that could theoretically (i.e. under the assumption of perfect tax compliance) be generated in case of a uniform VAT rate, the VAT policy gap captures the effects of applying multiple rates and exemptions on the theoretical revenue that could be levied in a given VAT system (see more: European Commission et al., 2022, p. 4). The 'VAT revenue ratio' is an indicator that attempts to measure the gap between the revenues that would arise from a theoretically pure VAT system (a single rate with full compliance and full tax collection) and the revenues actually collected. It is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT is applied at the standard rate to all final consumption. The VAT revenue ratio should be considered only as an indicator as some factors may distort the measure (Charlet & Owens, 2010, p. 945). Both the policy gap and VAT revenue ratio fall outside the scope of this research and will not be further discussed.

³ It seemed likely due to data issues, as the industry is generally low risk, but at the same time it is difficult to quantify in national accounts (Thackray & Ahmed, 2018, pp. 7-9).

VAT gaps were observed in public administration, education, health & social services. Next, compliance gaps were generated in administration services, then the construction sector, accommodation and food services and, eventually, in the IT and communication sector (Thackray & Ahmed, 2018, pp. 7-9).

The case study, conducted by Poniowski (2016) tried to identify components of VAT compliance in Poland. Research revealed that in 2013 the highest percentage of uncollected VAT was caused by the practices of issuing unauthorised invoices. The overstatement of the VAT return accounted for 31.8% (PLN 13.54 billion) of non-compliance. Carousel frauds (missing trader intra community, MTIC crimes) contributed 10.6% (PLN 4.52 billion) of the total VAT gap. Next, tax losses were also caused by: errors (7.6% of the total gap, i.e. PLN 3.24 billion), smuggling and transactions on goods subject to excise duties (6.3%, i.e. PLN 2.68 billion) and abuses in the sales threshold VAT exemption (2.7%, i.e. PLN 2.68 billion). The remaining 41.0% of the VAT gap, generated by other illegal activities (unregistered economic activity or revenue misreporting done by micro-enterprises) and natural bankruptcies, were impossible to estimate (Poniowski, 2016, p. 27).

Tratkiewicz (2016), while discussing the results of Poniowski's research, pointed that the unauthorized invoices category may refer not only to the practice of issuing 'empty' invoices used in the process of reporting fictitious costs, but also to fake invoices accompanying the procedure of carousel crimes (MTIC). This would explain the lower than European share of MTIC crimes in the Polish VAT compliance gap, namely 10.6% versus 20% in the EU (European Commission, 2015, p. 113). Regardless of the actual components of this category, Tratkiewicz drew attention to the generally higher influence of total fraud in Poland (43%) than that revealed by studies in several Member States (36%).

Consequently, among the recommended changes actions for combating the non-compliance in VAT in Poland, the priority was given to countermeasures focused on identifying 'empty' and 'sham' invoices. The suggested actions included the efficient verification of new entities registering as VAT payers together with constant risk analysis (and possibly deregistration in the taxpayer database) of already registered taxpayers. The second direction of recommended measures was to limit the grey zone of excise goods, mainly fuels. Reducing the scale of unregistered turnover in the most sensitive sectors was intended to help stop the growth of the VAT gap (Tratkiewicz, 2016, p. 189). As regards the most sensitive sectors, the major projected compliance campaigns targeted the trade and transport sector. The implemented measures had an influence on the observed gap in this sector over the period from 2013 to 2016 and (as presented in the latter part of the study) have been the main drivers of changes observed in the overall VAT compliance gap (Thackray & Ahmed, 2018, p. 26).

The changes in the VAT compliance gap in Poland for the period 2008-2021 are presented in Figure 7.1.

The financial crisis of 2008-2009 and the economic slowdown were reflected in the widening tax gap in Poland (from 16.69 to 22.82%). The following years witnessed expectations to change the situation, as Poland implemented some legal changes aimed at reducing the obstacles in running a business⁴. The year 2010, however, did not bring visible progress in countering the VAT losses. The very moderate reduction of the VAT gap (20.12%) compared to the earlier

⁴ Poland gradually liberalised the provisions of the VAT Act (such as the introduction of quarterly declarations for all VAT taxpayers or the abolition of VAT sanctions). It also modified the rules of the Fiscal Penal Code and other regulations affecting business activities – including restrictions on the frequency and length of tax inspections (Tratkiewicz, 2016, p. 187).

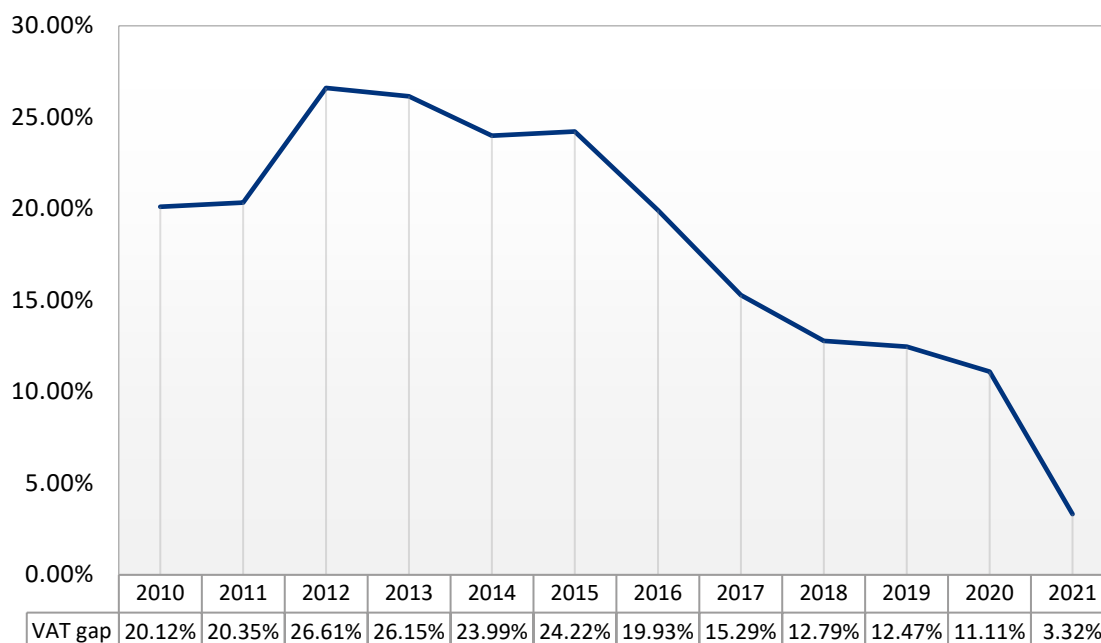


Fig. 7.1. VAT compliance gap in Poland (% VTTL), 2008-2021

Source: own work based on (European Commission et al., 2023).

year of the crisis, was very worrying – especially that it occurred despite Poland returning to higher economic growth and improving individual consumption (which is perceived as the most important component of the VAT base). The subsequent years did not show any improvement in the tax compliance – the VAT gap gradually increased until it reached the record level of 26.61% in 2012 (and 26.15% in 2013) (European Commission, 2023b, Table II).

The VAT compliance gap failed to be significantly reduced in 2014-2015, when it was approximately 24%. The audits of the Supreme Audit Office (Naczelna Izba Kontroli – NIK) found the Polish measures applied in 2010-2015 insufficient. NIK pointed at the low effectiveness of the tax apparatus in counteracting VAT compliance gap and stressed that in the given period the VAT gap in Poland was on average, 24%, while the average in the EU was 14% (NIK, 2019, p. 6).

In the years that followed, the Polish authorities introduced a number of intensive operations, aimed at tightening the tax system and making it more resistant to tax fraud⁵. The initiatives resulted in a significant reduction in the VAT compliance gap from 19.93% in 2016, through 12.79 in 2018 to 11.11% in 2020.

In 2021, the VAT compliance gap in Poland amounted to 3.32% of the VTTL; this meant a 7.79 percentage points decrease in relation to 2020. This is a significant number, as the average VAT gap decline in the EU was 4.3% in this period (European Commission et al., 2023, p. 22).

The next part presents closer the measures implemented in Poland in order to increase tax compliance and enhance the effectiveness of the VAT collection system.

⁵ Remedial actions aimed at countering the VAT compliance gap were carried out mainly in 2016-2018, although some measures started before 2016. These initiatives are analysed in Section 7.5 of the chapter.

7.4. VAT Compliance Measures Implemented in Poland

After 2013, Poland – recognising that the VAT compliance gap was significantly higher than the EU average, undertook several institutional and compliance measures. A programme for 2015-2018 for tightening the VAT system was developed as part of the Strategy for Responsible Development.

Diagnosing the most critical problems in VAT tax compliance and the effectiveness of tax administration brought a wide proposal of countermeasures. The planned solutions were aimed at improving tax collection, both strengthening the tax enforcement process and enhancing voluntary payment of tax liabilities. Additionally, in order to strengthen the effectiveness of tax administration, a much broader use of IT systems and databases to identify and analyse risk areas was projected. A core ‘sealing package’ of compliance measures was introduced in December 2016. The authorities believed that the sealing package would significantly increase the effectiveness of the VAT system: their forecasts suggested PLN 389 million of additional VAT revenues in 2017 and PLN 3 billion in 2018 (Thackray & Ahmed, 2018, p. 30).

Understanding the urgent need to modernise the tax administration, Poland decided to consolidate its tax administration, customs services, and fiscal audit services into the single National Revenue Administration (*Krajowa Administracja Skarbowa* – KAS) with new, wider powers and improved tools. Since March 2017, with the Ministry of Finance at the central level, all departments related to these areas are concentrated under the Head of KAS and its deputies.

The following initiatives for reducing VAT compliance gap were aimed at: (1) extending VAT reporting obligations, (2) monitoring, and (3) implementing measures targeting large-scale intra-Community VAT fraud.

In 2016, Poland introduced a national version of the Standard Audit File for Tax (SAF-T, *Jednolity Plik Kontrolny* – JPK). JPK is company data generated by an IT system in a defined electronic format, submitted monthly to the tax office. SAF data is stored on a centralised national database, which can be used for advanced risk analytics. The transaction-level data created by the SAF regime represents a valuable resource for advanced risk analytics. Merged with micro-data from taxpayer register entries and payments and returns, it can be used in such analytics as benchmarking, risk profiling and machine learning. Consequently, the tax officials can verify whether the taxpayer is not committing fiscal crimes and whether he/she fulfils the tax obligations. Initially, the reporting obligation was introduced for large enterprises, but its scope was gradually extended leading to its widespread use by all 1.6 million taxpayers. By October 2020, it had entirely supplanted regular monthly VAT returns (European Commission et al., 2023, p. 34).

As mentioned in the previous parts of the chapter, the second group of VAT compliance measures targeted the trade and transport sector. As a consequence, in addition to gathering transactional data, from 2017 Poland started to monitor movements of goods and third-party data through the Electronic Transport Supervision System (SENT). The SENT system was created to track the transport and turnover of sensitive goods such as alcohol, cigarettes, medicines, environmentally hazardous substances, and fuel. It was next used to monitor all entities related to the turnover of the mentioned goods, i.e. the supplier, the buyer and the carrier.

In 2018 the government initiated a clearing house IT system designed to combat tax fraud by fostering data exchange between tax authorities and banks (STIR). This measure was aimed

directly at organised criminal groups, particularly at purchasing taxpayers that were complicit in missing trader frauds. As a consequence clearing houses and the KAS analyse money transfer data provided by the banks, using algorithms from banking practice and anti-money laundering experience, and identify high-risk transactions. The results of this risk analysis are then reported to the tax administration on a daily basis. STIR enables quick reactions from tax authorities to attempts to make illegal use of the financial system. The system allows the head of the National Tax Administration for temporary account blockage in cases of detected fraud (for 72 hours, with the option of extending it by three months after meeting strictly defined conditions).

July 2018 saw the voluntary introduction of the split payment – specific measures designed to combat carousel frauds (MTIC crimes). Under the system, the payments for goods or services are made to two separate accounts. After receiving the invoice, the buyer transfers an amount equivalent to the net amount to the taxpayer's bank account; the VAT amount is paid to a separate account devoted to tax settlements. The direct purpose of the split payment system was to prevent the issuer of the invoice from freely disposing of the amount equivalent to VAT. Moreover, the risk of the disappearance of such a taxpayer and the unsettled tax amount were to be eliminated (Michalik, 2016, p. 61). The split payment system was initially limited to business-to-business transactions, but since November 2019, the use of the mechanism was made mandatory for invoices surpassing PLN 15,000 (ca. EUR 3,300) for some goods or services.

In 2019 the Polish Ministry of Finance introduced an additional instrument aimed at verifying the business partners: the White List of Taxpayers. The White List is an instrument intended to prevent entrepreneurs from (unconsciously) participating in transactions with disappearing taxpayers, as it allows for checking whether the entity is an active or exempt VAT payer (or why registration was refused or removed from the register as a VAT payer). What is important is that the law obliges taxpayers to verify whether the seller's bank account number is consistent with the White List.

One more mechanism is worth mentioning in this analysis: reverse charge mechanism (RCM), intended to prevent VAT fraud in the field of sensitive goods and services. Reverse charge is a solution that is beneficial only from the point of view of tax authorities. There are no measurable benefits or losses for the entities carrying out the transaction, apart from some formal difficulties related to fulfilling this obligation. A reverse charge applies only to business-to-business transactions. The RCM results in transferring the VAT settlements obligations from the supplier to the purchaser. The vendor does not include the VAT due on the invoice. The customer has to declare and settle VAT coming from the transaction (and still retains the right to deduct VAT on purchases). Consequently, at each stage a business is in a net nil tax situation, and the opportunity to commit MTIC fraud is removed (Andrew & Baer, 2023, p. 22).

Poland first implemented the reverse charge mechanism in April 2011. It initially covered domestic trade of recyclable scrap and greenhouse gas emission rights. The RCM mechanism was then gradually extended to other sensitive products (in 2013, 2015, and 2017). What is interesting for the purposes of this study, after the changes in 2015 when the reverse charged covered (among others) steel & steel products, scrap metal, waste, precious metals, and products of electronics category (portable computers, mobile phones, video game consoles), the VAT compliance gap consistently decreased by 3.6% year-over-year on average (European Commission et al., 2023, p. 35). The year 2017 brought the extension of RCM onto silver, platinum, gold (regardless of fineness), base metals, non-ferrous metals, jewellery made of

precious metal, as well as processors (with the threshold of uniform transaction of PLN 20,000). Additionally, the reverse payment mechanism also covered construction services (Redakcja Portalu Podatkowego, 2024).

At present, this mechanism is primarily relevant for transactions between Poland and other countries⁶. The domestic reverse charge mechanism, discussed above, was replaced by the mandatory split payment mechanism in November 2019⁷.

7.5. Procedures of Verification Tax Liabilities and the VAT Gap

The introduction of the above-mentioned methods of verifying the correctness of VAT settlements should be considered together with the methods of ascertaining taxpayers' settlements. In Poland, similarly to many other countries, VAT is based on the self-assessment method (Ebrill et al., 2001). This means that taxpayers themselves calculate the amount of tax to be paid and the tax authority can verify it. If any errors are identified on the part of the taxpayer, the tax authority determines the correct amount of tax to be paid.

The changes to the Polish legislation aimed at minimising the VAT gap focused primarily on the faster transmission of information to the tax authorities and an increase in the amount of information (e.g. JPK files). This increased data resource undoubtedly facilitated the checking of taxpayers, but did not, however, exclude the obligation to take specific actions when mistakes in tax settlements were revealed. Polish regulations (Tax Ordinance Act) indicate that the submitted declaration (JPK file) is binding for the tax authority until it issues a decision specifying a different amount of tax (Ustawa z dnia 29 sierpnia 1997..., art. 21 § 2). This means that the tax authorities must initiate and carry out the procedure set out in the tax law to challenge taxpayers' accounts.

The procedures for verifying taxpayers' settlements in Poland were introduced with the enactment of the Tax Ordinance Act in 1997 and have practically remained unchanged. The national legislation foresees three basic types of verification. The first are the verifying activities which give the tax authorities leeway in starting or conducting them. The collection of evidence regarding taxpayers' accounts in this procedure does not require any formal rigour from the tax authority. The verifying activity is the least formalised procedure in Polish tax system (Mariański, 2010). There are no deadlines for the tax authorities to complete the actions undertaken. The collection of information is in no way documented or communicated to the taxpayer (Łoboda & Strzelec, 2017). Moreover, the taxpayer has no legal instruments to influence the course and conclusion of this procedure. This is one of the important objections formulated regarding how verification activities are regulated (Nieżgódka-Medek, 2024).

The other two groups of tax verification procedures are control procedures (tax audit and fiscal audit) and tax proceedings. These two procedures are more formalised than the above

⁶ As mentioned earlier in this chapter, VAT is one of the main contributors to the EU Member States' budgets. However, the tax exemption on intra-Community supplies allows fraudsters to make tax-neutral acquisitions from other Member States and resell the products without paying the tax collected to the tax authorities (MTIC fraud). Currently, the reverse charge mechanism applies to the VAT settlements of cross-border services for entrepreneurs from the European Union. (Stiller & Heinemann, 2024, p. 73).

⁷ In April 2024, the Polish Ministry of Finance introduced a reverse charge for stock exchange transactions involving gas, energy and CO2 emission allowances. The solution is intended to increase the competitiveness of the Polish stock exchange system. Its nature is temporary; the regulations are to be in force until the end of February 2025.

described verifying activities. The law introduces specific documentation obligations on the part of the tax authorities, both during the procedure itself and at its conclusion. Tax audit requires a post-audit protocol, a fiscal audit results with a written outcome. In case of tax proceedings, a decision is required. Each of these procedures is time-limited; their extension is allowed, although it imposes additional obligations on the tax authorities to inform taxpayers of the reasons for the extension and the completion time of a particular procedure. In a tax audit, the taxpayer has a direct influence on the course of the procedure. They may challenge those actions of the tax authority, which, in their opinion, are inconsistent with the tax law. At the same time, a distinction must be made between control procedures (tax and fiscal audit) and tax proceedings. While control procedures aim exclusively at verifying taxpayers' settlements, tax proceedings are of a jurisdictional nature (Masternak, 2009). Tax proceedings always result in issuing a tax decision. Moreover, they can be initiated either after verification activities or control procedures. It is therefore a necessary step that allows the tax authorities to change the settlement and the amount of VAT.

For many years, the tax authorities in Poland have mainly used verification activities to check taxpayers' settlements. Control procedures were used less frequently, as presented in Figure 7.2. The difference is incomparable – while about 2.5 million verifications are carried out annually (right scale), the number of control procedures has been systematically decreasing, amounting to about two thousand per year in 2020-2022 (left scale).

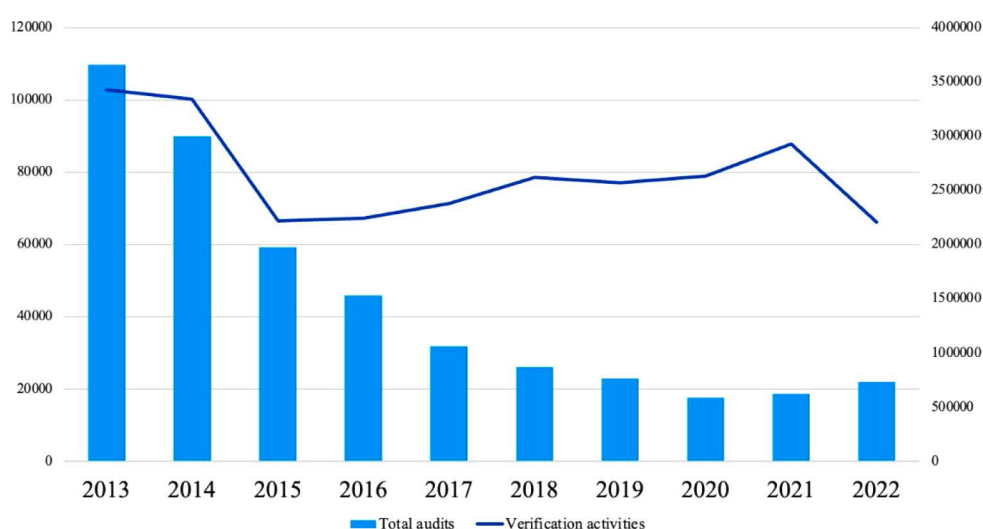


Fig. 7.2. Number of completed verification activities and audits combined in Poland, 2013-2022

Source: own compilation based on Ministry of Finance response to 16 December 2023 request for public information, 2023.

The presented statistical data clearly indicate that the Polish tax authorities prefer simple settlement verification procedures, in which the taxpayer has little influence on the course of actions taken by the tax authorities. This may also be justified by the fact that after a number of verification activities, which revealed mistakes, taxpayers were correcting their settlements on their own. This allowed tax authorities to minimise the number of control procedures.

Analysing the statistics of verifying activities undertaken in the area of VAT, one can see that their number has been increasing since 2015 (Figure 7.3).

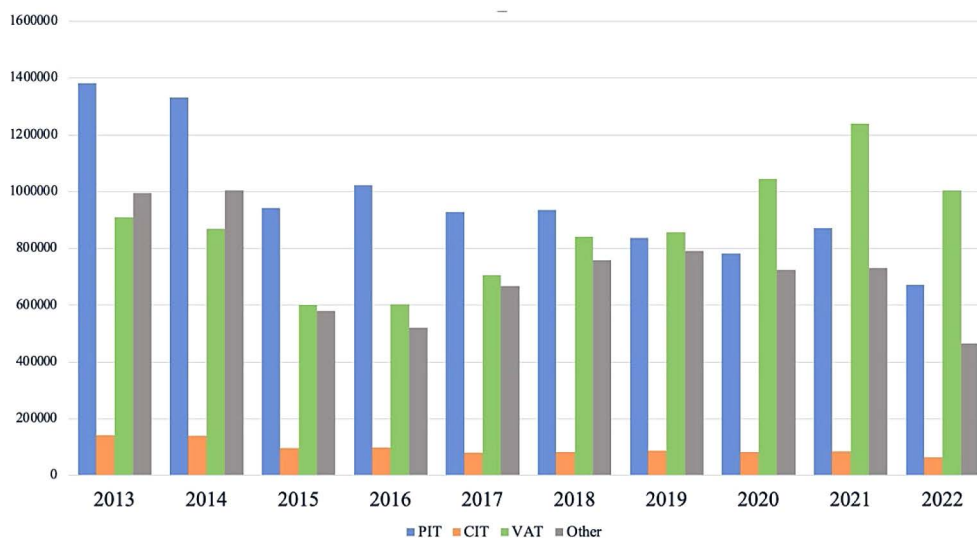


Fig. 7.3. Number of completed verification activities in Poland, 2013-2022, segmented by type of tax

Source: own compilation based on Ministry of Finance response to 16 December 2023 request for public information, 2023.

This has simultaneously resulted in a decrease in their number in the area of other taxes. The increase in verifying activities from 2015 can be easily linked to the introduction of JPK files in 2016, which enabled the tax authorities to verify the correctness of tax settlements more quickly. In the following years, only in the VAT area did the tax authorities have the possibility to check taxpayers practically on an ongoing basis. This reduced the focus on other types of tax liabilities, while it also made it possible to increase VAT revenue by minimising the VAT gap. This relation can also be seen in the statistics related to detected irregularities in the settlement of this tax. Figure 7.4 shows the increase in the detected irregularities after 2015.

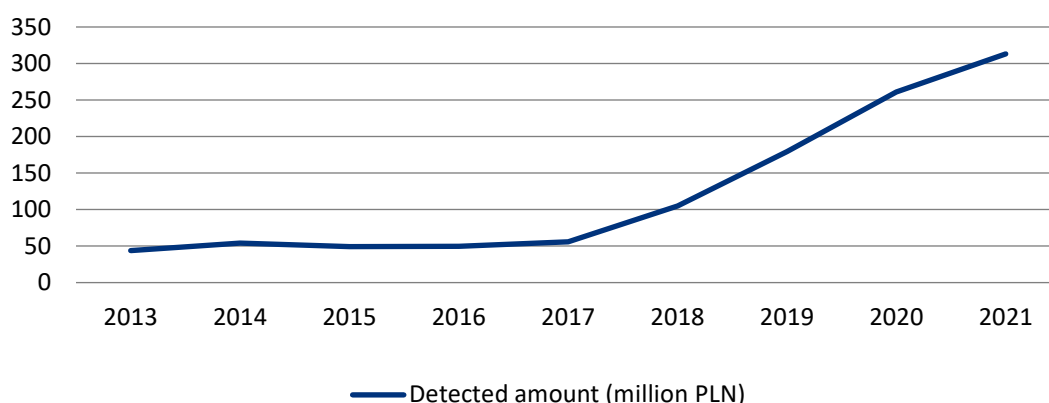


Fig. 7.4. VAT evasion detected in Poland, 2013-2021 by tax

Source: own compilation based on Ministry of Finance response to 16 December 2023 request for public information, 2023.

Both the introduction of JPK files and the increase in the number of auditing activities after 2015 contributed to a noticeable improvement in the settlements’ errors in taxpayers. The increase in detected irregularities from 2017 onwards, shown in Figure 7.4, can be interpreted

as the postponement of the effect of the activities undertaken by the tax authorities from 2015 to 2016.

Summarising the presented statistical data, an important observation was that the mere introduction of additional obligations on taxpayers did not automatically result in an increase in VAT budget revenues and thus in a minimisation of the VAT gap. The Polish experience shows that it was necessary to increase tax authorities' activity in widely understood procedures involving the verification of taxpayers' settlements. Only the combination of these two instruments brought the expected results of an increase in the number of detected irregularities and thus minimising the VAT gap. It is also important to note that in most cases, taxpayers are willing to submit corrections to their tax settlements on their own, without the need for tax decisions. This can be interpreted as the existence of non-compliant settlements to date, which are so obvious to taxpayers that a possible dispute with the tax authority would be doomed to failure.

7.6. Conclusions

In recent years, the European Union has experienced a technological revolution in VAT taxation. IT solutions, particularly online reporting and big data analyses seem to answer many problems – both specific to the common European market (such as tax refund frauds by organised criminal groups) and general ones (e.g. issues related to limiting the grey zone). Implementing new technologies may also lead to significant relief for entrepreneurs whose activities have been hampered by the conventional tools used to tighten the tax system.

The literature indicates that investment in IT systems in tax administration translates into higher VAT collection rates. Greater emphasis should therefore be placed on the efficiency of the tax system, i.e. better access to data to enable reliable analysis, the implementation of which may lead to more effective identification of tax crimes or fraud. Countries that invest heavily in tax administration IT systems are also characterised by low VAT gaps, e.g. Sweden, the Netherlands, Denmark, the United Kingdom, Austria and Finland (Szczypińska, 2019, p. 72).

Undoubtedly, legislative changes in Poland related to introducing new forms of electronic data transfer to tax authorities align with the above assumptions. Nevertheless, more detected irregularities and the related increase in VAT revenue would not have occurred without tax authorities' increased involvement in verifying taxpayers' settlements. The presented figures unambiguously indicate that the legislative changes have only led to increased stock of current information on taxpayers' settlements. This, in turn, translates into a growing number of widely understood control procedures, of which checking activities – the most straightforward and least formalised procedure in the Polish tax system – were the most frequently used by tax authorities. Consequently, the proposed hypothesis on the necessity of synergy of legislative changes combined with the activity of tax authorities was falsified.

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