Grant Thornton

Foreign reinvestment in Poland

How often do foreign businesses reinvest their profits generated in Poland?

Could the “Estonian CIT” be an incentive for foreign businesses to reinvest?

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Introduction

The past three decades have brought a strong influx of foreign investment into Poland. According to the most recent data from the National Bank of Poland, at the end of 2018 the capital invested by foreign entities in Poland – in the form of fixed assets, stocks or debt instruments – amounted to EUR 200 bn. To put it into perspective, this is about 40 per cent of Poland's GDP and ten times more than the Polish capital invested abroad.

Yet, the incoming foreign investment may be of a varied "quality" – more or less effectively contributing to the development of the local economy. It may serve as a catalyst, bringing the economy to a higher level, but it may also (in extreme cases) actually halt growth. One of the ways to measure this effectiveness is by looking at reinvestment figures, i.e. how much of the profits generated by the enterprise, instead of going back into the foreign owner's pocket, stays in the business and is again invested in its growth. The higher the reinvestment rate, the greater the benefit to the economy.

How willing are foreign businesses in Poland to reinvest? Has there been a change in recent years? What can be done to boost the reinvestment rate?

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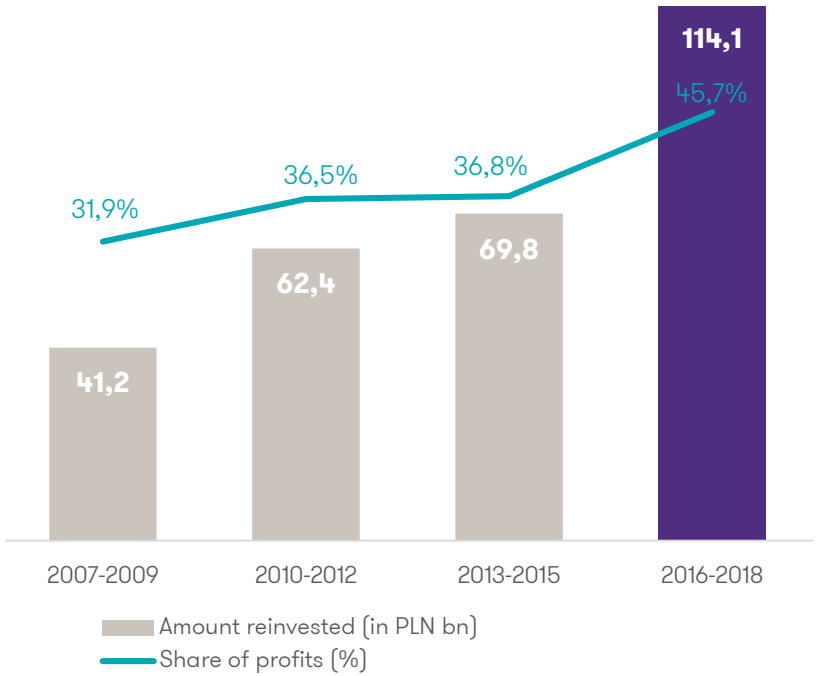
Reinvestment in Poland is on the rise

Foreign businesses are now retaining in Poland almost half of the profits generated here. A decade ago, it was just one third.

Poland is becoming an increasingly attractive destination for foreign investors. According to the most recent available data for 2016-2018, foreign investors retained and reinvested in Poland PLN 114 billion, that is 46 per cent of the total profits earned in that time. The willingness to reinvest is clearly on the rise, because just a decade earlier the reinvestment rate amounted to 32 per cent, and the nominal value of profits which were retained in the country amounted to as little as PLN 41 billion, barely more than one third of the current amount.

This clearly shows that the Polish economy – growing, modernizing and gradually approaching the status of a developed economy, with the maturity and predictability that entails – not only enables investors to earn attractive rates of return, but also reinforces their conviction that the decision to invest in Poland was a right one and that it is a good idea to increase the levels of capital committed in the country, specifically in the form of reinvestment.

Chart 1. Foreign reinvestment in nominal terms and as a share of profits earned in the given period



Source: Own calculations based on NBP data

Germany and Portugal reinvest the most

In three years, German investors reinvested PLN 28 billion in Poland. Relative to earnings, however, the Portuguese reinvest the most – as much as 85 per cent.

The approach to reinvesting by investors from different countries varies widely. In our analysis, we have considered 20 countries with the highest levels of investment in Poland (as at the end of 2018). As it turns out, in nominal terms the highest amounts of profits are reinvested by businesses from Germany. In 2016-2018, they retained an impressive PLN 28.3 billion in the Polish branches of their businesses. By comparison, the total direct investment in Poland amounted PLN 147 billion, which means that as much as one fifth of the total foreign capital invested in Poland originated from reinvestment by German businesses.

If, however, we consider the reinvestment rate, correlating the amount reinvested to the total profit generated in Poland, it turns out that the most "loyal" foreign investor in Poland is Portugal. Businesses from Portugal reinvested a remarkable 85 per cent of their profits (retaining in Poland PLN 1.2 billion out of PLN 1.4 billion earned in that time).

Table 1. Reinvestment by foreign businesses in Poland in 2016-2018, by country of origin

Amount (in PLN bn)		Share of profits	
Germany	**28.3**	**Portugal**	**85.3%**
Netherlands*	**22.2**	**Malta**	**68.4%**
Luxembourg*	**13.4**	**Cyprus***	**63.1%**
France	**8.2**	**Germany**	**56.9%**
Cyprus*	5.9	Czechia	54.8%
UK	5.5	Sweden	54.4%
Italy	4.2	Hungary	54.4%
Switzerland	3.8	Finland	49.1%
Austria	3.4	Switzerland	48.6%
Spain	3.4	Italy	47.4%
Sweden	3.0	Austria	46.4%
USA	2.9	UK	42.9%
Belgium	1.5	Luxembourg*	41.7%
Denmark	1.3	USA	40.1%
Finland	1.2	France	38.9%
Portugal	1.2	Denmark	38.8%
Czechia	0.7	Netherlands*	38.1%
Malta	0.5	Spain	37.8%
Hungary	0.3	Belgium	36.4%

Source: Own calculations based on NBP data

*Data may be overstated due to the favourable tax regimes in those countries. A portion of reinvestment may in fact be attributable to entities registered in those countries by Polish investors or investors from other countries.

Reinvestment is a gem for the economy

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Reinvestments by foreign businesses greatly benefit the Polish economy. It is much easier to convince a company already doing business in Poland to retain its earnings here, than to find a brand new foreign investor and convince them to build a factory in Poland. That is why Polish authorities should devote their efforts not only to seeking new investors, but also to creating the right conditions and incentives for the existing investors, in order to convince them to leave in Poland as much of their profits as possible.

In these efforts, special consideration needs to be given to the businesses which are already seen to be willing to reinvest, their actions showing that they treat their presence in Poland as a long-term venture. They are here to stay, to grow, they are not after short-term gains or using their Polish branches to finance current operations of the head office. It is gratifying to see that this is how the Polish market is treated by investors from Germany – Poland’s main trading partner. Both in nominal and relative terms (compared to earnings), their reinvestment rates are very high. It shows that they are investors the Polish economy can count on now and in the future.

Marcin Diakonowicz
Partner
Audit
German Desk Leader

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The entertainment sector leading the way

Foreign investors in the media and entertainment sector retained 3/4 of their profits in Poland. In nominal terms, trade reinvests the most.

Significant differences in the approach to reinvesting can also be observed between different business sectors. In nominal terms, the highest amounts of profits are retained in Poland by foreign investors in trade – in 2016-2018, they reinvested PLN 21.3 billion. However, relative to earnings, the list is topped by the media/film/entertainment sector. In the period under consideration, foreign owners decided to keep as much as 73 per cent of their earnings in their Polish businesses – PLN 4.46 billion out of PLN 6.1 billion profits.

The lowest rates of reinvestment, on the other hand, are observed in the construction sector – in 2016-2018, foreign construction businesses reinvested in Poland a modest PLN 22 million, which is just 0.3 per cent of their PLN 7.4 billion profits. The energy sector makes for an interesting case. In the period under consideration, negative reinvestment figures were reported (PLN -1 billion). It means that foreign energy companies transferred more money out of Poland (in the form of dividends and debt payments) than their total profits in the given period.

Table 2. Reinvestment by foreign businesses in Poland in 2016-2018, by selected business sectors

	Amount (in PLN bn)	Share of profits
Media, film, entertainment	**4.46**	**73.0%**
Telecommunications	**3.97**	**61.0%**
Banking	**12.48**	**54.7%**
Automotive	**10.39**	**53.5%**
Food and tobacco products	8.21	52.4%
Pharmaceutical manufacturing	1.53	48.9%
Retail and wholesale	**21.33**	46.1%
Plastics manufacturing	3.24	45.4%
Real estate services and transactions	5.77	35.0%
Transportation and warehousing	2.59	34.3%
Chemicals manufacturing	1.36	20.7%
Insurance and pension funds	0.23	4.4%
Construction	0.02	0.3%
Energy	**-0.99**	-

Source: Own calculations based on NBP data

Estonian CIT could be an incentive

Estonian CIT is a tax measure aimed at encouraging taxpayers to reinvest their profits. Is it really a good idea to prevent foreign businesses from accessing it in Poland?

As of January 2021, the Polish tax system will have a new solution, very advantageous from the point of view of many businesses – the so-called Estonian CIT, announced by the Prime Minister in the autumn of 2019 (and also advocated, albeit in a broader form, by Grant Thornton in its reports). With this new measure, as long as the enterprise – meeting certain conditions – does not consume its profits, but puts them back into the business, it does not have to pay CIT. Thus, it is a tool that directly supports reinvestment in enterprises.

In Estonia, one of the key arguments raised in favour of introducing this "deferral of tax obligation until the time of profit distribution" was an increase of the investment rate relative to GDP. In recent years, it has been record high in Estonia compared to other EU member states, driving economic growth. Estonia has also experienced a significant influx of foreign direct investment.

In Poland, the scope of the Estonian tax is to be much narrower than in Estonia – only some enterprises will be eligible, provided they meet numerous conditions and incur expenditure on specific categories of fixed assets, mainly machines, effectively excluding enterprises from sectors where significant expense is laid out in other areas, e.g. buildings.

What is more, the Estonian CIT model currently contemplated by the Polish government practically excludes foreign investors. This is because the solution, according to the current draft regulations, will be available to entities whose shares are held exclusively by natural persons. As a matter of principle, the investment model of foreign entities is different. The investment is made by the "parent company", establishing a subsidiary, rather than directly by shareholders (natural persons). This rules out a vast majority of mid-sized foreign companies (large companies are not eligible for the Estonian tax at all). Which is regrettable, because the new measure could be a stimulus to action and higher reinvestment levels.

Małgorzata Samborska
Partner
Tax Advisory

In addition, there is a risk that the Estonian CIT will be perceived as a sort of tax relief, treated as an exception from the rule of universal taxation, and consequently – eligibility for it will be interpreted narrowly by tax officials, and the risk of the eligibility being challenged will be high, increasing the number of taxpayers "dropping out" of the scheme. There will also be a risk for the taxpayers whose eligibility for this form of taxation is unquestionable, related to the level of taxation, because certain issues of key importance from the point of view of the taxpayer are formulated in a vague manner, leaving extensive leeway to the discretionary powers of tax officials. For instance, there is a concept of "expenses unrelated to business operations", which are taxed in the same way as profits. While this term is also in use in Estonia, it refers to expenses which are really far from the business, and no-one can guarantee that Polish tax authorities will take the same approach.

We unfortunately have already seen this with the introduction of the "All of Poland is a Special Economic Zone" concept in 2018. Indeed, throughout the country enterprises can obtain a decision on investment support. The concept was good and conducive to boosting reinvestment rates, but subsequent official interpretations, including the general tax ruling by the Ministry of Finance, have increasingly constrained the types of income which can be exempt from taxation and investment costs which can be regarded as eligible, making this solution less and less attractive. In other words, the idea is good, but its implementation not so much.

We look forward to hearing from you

Media contact:

Jacek Kowalczyk
Head of PR & marketing
T +48 505 024 168
E Jacek.Kowalczyk@pl.gt.com

Marcin Diakonowicz
Partner, Audit
German Desk Leader
T +48 602 239 777
E Marcin.Diakonowicz@pl.gt.com

Małgorzata Samborska
Partner
Tax Advisory
T +48 661 538 580
E Małgorzata.Samborska@pl.gt.com

About us

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