

# ECONOMIC COMMENT

18 April 2018

## New (not that costly) government projects

During the weekend Law and Justice (PiS) convention PM Mateusz Morawiecki announced new plans for the government actions. Since 2019, CIT tax rate for small companies will be cut to 9% from 15% while social security contributions by small companies will be linked to the sales revenues. The government intends to assign / earmark more funds for roads and additional support for elderly people and families. We calculated that new measures might cost PLN4.5bn per year (c0.2% of GDP) which is fairly low. According to our estimates, in 2019 the spending rule will allow public expenditures to rise by at least PLN30bn. Part of this will be consumed by programs that have already been introduced (like lower retirement age) but the cost of new ideas looks moderate so there should not be problem finding capacity for them.

### Lower CIT for small companies

PM Morawiecki announced another cut of CIT rate for „small and medium” companies. We assume that he meant entities with annual sales revenues below €1.2mn – just like it was when the first CIT reduction was introduced. Since the beginning of 2017, small companies pay 15% CIT instead of 19%. In line with PM's declaration, this would be cut further to 9%. When the previous tax reduction was being prepared, the Ministry of Finance estimated that 90% (that is c400k) of CIT payers will be eligible for the tax relief. Shortfall in tax revenues due to the lower tax rate was then estimated at PLN270mn per year (merely a 1% of total annual CIT revenues). Given the fact that this coming cut will be twice as large as the previous one, and CIT revenues rose 13% in 2017, we estimate the cost of this change at **PLN400-450mn per year**.

When introducing the first CIT cut, the government was reassuring that more efficient tax collection will fully cover the cost for state budget but we do not have any data confirming if that was actually the case. PM Morawiecki pointed to higher total CIT collection in 2017 as a proof that higher revenues are likely despite lower tax rate for the majority of tax payers. However, this was recorded in a year when the economic growth accelerated sharply helping to boost tax revenues. Also, note that the change in tax rate concerns numerous entities that in fact are very small and their share in total revenues in corporate sector is moderate. The Ministry of Finance said it does not have estimates of CIT cut because final shape of this idea is to be yet decided.

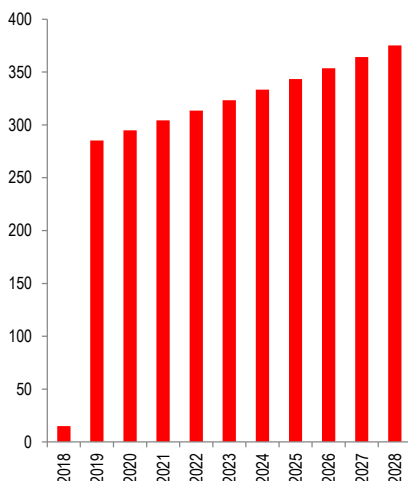
### Small company, small social security contribution

Declaration to reduce social security payments (ZUS) for small companies through linking the amount of the contribution with sales revenues seems to be the same project the Ministry for Development proposed already a year ago (the threshold for entities eligible is the same – monthly revenues cannot exceed PLN5.3k per month). According to the Ministry, 180k out of 500k entitled by the revenue criteria could take advantage of this relief (the proposed solution will not be attractive to companies operating for less than two years that already pay lower ZUS contributions). Cost of this program based on individual tax payers data presented in the proposal from last year amounted to **cPLN300mn per year** (and rising in the next years). In the initial analysis, the shortfall of cash inflow into social security fund was supposed to be covered by subsidy/loan from the central budget.

### School kit for pupils

Annual one-off PLN300 subsidy for each child attending school, regardless of parent's income, would cost **cPLN1.3bn** in 2019, according to our estimates. Based on our demographic

Cost of decreased social security contributions, PLNmn



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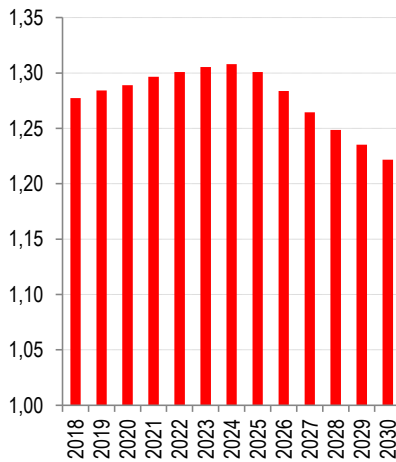
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Cost of subsidy for pupils,  
PLNbn



forecasts, we estimate how this amount will change in the next years – it should rise slightly until 2024 and then fall to PLN1.2bn in 2030.

#### Minimum pension for women who gave birth to 4+ children

One of the government proposals is to give the right to a minimum state pension to women who gave birth to at least four children. Currently, this right is granted to women with a 20+ years of professional experience (years of employment, but also of studies and the period of living off social benefits as long as the non-work items do not exceed 25% of total career time).

The government did not provide cost estimates for this proposal and an exact calculation seems to be a challenge. We do not even know if the new regulations would cover all women (including those that gave birth to babies long time ago) or only those ones that would have children in future. Still, rough estimates suggest the cost will not be high.

In 2017 women getting a retirement benefit no higher than the minimum state pension (PLN1000) represented c8.5% of all retired women (or 260k). Out of this 3.8pp received pension of PLN900-1000, 3.1pp of PLN700-900, 1.3pp between PLN500-700 and 0.3pp below PLN500. We estimate that they were getting cPLN820 on average. The ratio of fourth and next births in the total number of births is regularly going down (it stood at 4.4% in 2016) but we assume that it was at c12% of currently retired women. Assuming that there are 10% of childless women in the group, it would mean that nearly 11% of currently retired women could expect additional cash through adjustment to the minimum pension. This would cost **cPLN50bn per year**, in our view, which is negligible amount.

What we should include, is the cost of minimum pension for retired women that are not receiving any social security support (for example, because they have not worked a single day). We estimate this would cost around **cPLN300mn per year**.

As the time passes, costs will be falling down along with lower share of women that gave birth to four or more children. The guarantee of minimal pension is another enhancement for lower economic activity among women. At the same time, we do not think this program will lead to higher fertility rate in the years to come.

#### More funds for roads

PM Morawiecki said that PLN5bn will be earmarked to building and renovating local roads. These funds are likely to be utilized within several years with cPLN1.5bn already in 2018. Thus, we assume additional cost of **cPLN2bn per year** starting from 2019.

#### Availability+

The aim of the next proposition is enabling elderly and disabled people communication in the public environment. The government intends to spend PLN23bn in 2018-2025 on the programme with not only state funds being utilized but also EU funds, Norway Grants and these of European economic area. Poland will contribute PLN8.2bn with only **PLN344mn** from the state budget.

#### Other proposals

Other ideas of the government which were mentioned during the convention of PiS, like support in trade by farmers, cash premiums for mothers who quickly decide to have a second child, free medicines for the pregnant, vouchers for youth for cultural and sports activities and 'complex solutions aimed at families, elderly people, the juvenile and the young'. No details were released at this time.

#### Conclusion

We estimate the implementation of all the new projects starting from 2019 may increase general government deficit **by cPLN4.5bn per annum** (0.2% GDP), so insignificantly. We estimate that in 2019 the spending rule will allow for a growth of public expenditures by at least PLN30bn, so by much more than the estimated cost. Some of this fiscal space will most likely be utilized by already launched programs (like the lowering of the retirement age), but in our view the costs of new proposals are moderate and look manageable within the limits set by the spending rule.

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