

Split payment - the influence on start-up activities

Value Added Tax (VAT) is one of the most important sources of state budget inflows, which is almost 40% of budget revenue. The main goal of the newly introduced tool - Split Payment - is to seal the tax system in Poland. The purpose of the poster is to present the split payment mechanism and the impact of the obligation on start-up activities.

SPLIT PAYMENT MECHANISM

$$1230 = 1000 + 230$$

GROSS = NET + VAT

Split payment consists of dividing the amount of the liability by the purchaser into two parts - net amount and VAT amount. The net amount is credited to an ordinary settlement account, while VAT is credited to a special VAT account.

The split payment mechanism was introduced into Polish tax law to prevent tax fraud. It prevents crimes related to VAT and, at the same time, increases state budget revenues. It is nothing more than sealing the Polish tax system.



An optional split payment mechanism was introduced into Polish tax law on 15 December 2017. The obligatory split payment has been functioning in Polish tax law since 1 November 2019. It concerns transactions which fulfill two cumulative conditions:

- the invoice value exceeds 15 000 PLN gross;
- the transaction concerns goods or services which are interchangeable in Annex 15. to the Goods and Services Tax Act.

The entrepreneur may not freely dispose of the funds deposited into the VAT account. Payments that can be made using VAT account concern mainly settlements with state institutions for taxes and social security contributions. The transfer of funds from the VAT account to another bank account is possible after the entrepreneur submits a written application and receives the consent of the head of the tax office. The period for issuing this permission is up to 60 days.

WHAT IS A START-UP?

developer of new products and services

newcomer to the market

financially unstable company

a company that takes high risk

innovative company

a company which has been active on the market for less than 5 years

a company registered as a VAT payer



Advantages of the split payment for start-ups

The possibility of obtaining VAT compensation more quickly - the standard refund period for VAT is 60 days. If it is indicated that the refund is to be sent to the VAT account, this period is reduced to 25 days.

The possibility of reducing VAT liability - this right will be available to entrepreneurs who will pay the VAT amount fully from their VAT account before the statutory due date. The amount reducing the VAT liability results from the formula set out in the Goods and Services Tax Act.

Entrepreneurs, who pay their liabilities using split payment are protected against additional VAT liabilities. These penalties may be imposed by the tax authorities where a VAT return is not submitted or where significant errors are detected in it.

Disadvantages of the split payment for start-ups

The use of split payment can contribute to blocking additional funds in the VAT account. These funds can not be used for the continuation of business activities, including subsequent business transactions. This may lead to serious financial difficulties for start-ups and make their business development significantly more difficult.

Failure to use the obligatory split payment to settle certain transactions is punishable by high legal sanctions.

Entrepreneurs can use the VAT account free of charge. The obligation to set up and maintain the VAT account is imposed on the Polish commercial banks. Due to their losses, likely, the fees for maintaining already existing settlement accounts will gradually increase.

Conclusions

Despite of the many clear benefits of the split payment method, it may harm the financial situation of start-ups. Blocking additional funds on the VAT account or increasing bank charges can impair their financial liquidity, prevent further business transactions, and hamper market development.