Land Ownership

The issue of land ownership remains a thorny one in Poland. Under the communist regime, private land ownership was strictly controlled, though unlike other communist countries, Poland did allow limited ownership by farmers.

A Law on Land Ownership and Expropriation was passed by the *Sejm* on July 27, 1990. Its major objectives were to transfer administration of land to local municipalities, to define criteria for land ownership, and to restore the market value of land. The new law, however, does not allow foreigners to purchase land owned by the state or by municipalities. These restrictions on foreign land ownership were not imposed by the communists. Rather, they were adopted, following World War I, by a revived Polish state intent on resisting foreign encroachments of any kind.

Despite these restrictions on the foreign purchase of public land, foreign persons can "own" the *use* of the land through lease agreements, tenancy, or perpetual tenancy, the latter being defined as a land-lease agreement effective for a period of 99 years. It is generally recognized, however, that these are stop-gap provisions and a new law will eventually be introduced to permit foreign ownership of land owned by the state or by a municipality. The proposed legislation will not affect the disposition of private real estate, which can already be bought by foreigners. Under legal precedents established since 1920, foreign nationals can purchase land, buildings and apartments from Polish citizens with prior approval from the Ministry of Interior. Where arable land is concerned, however, the purchase requires special permission from the Agriculture Ministry.

Tax Reform

Under the communist regime, Poland did not have a tax system as it is known in western countries. Since the state owned all the means of production, any income and profits from its enterprises automatically went into the government treasury. Surpluses were then used either to cover government operating costs, or were returned to industry in the form of bonuses, investment, research and development expenditures, and the like. There was also no need for personal income taxes, though the small private sector was obliged to pay various levies.

The move to a market-based economy has necessitated the complete reform of Poland's tax system. The objectives of the reform are to encourage entrepreneurial activity and productivity. At the same time, the government intends to introduce a fair, equal, and stable tax system that will encourage diversified development of the Polish economy (see sidebar).

Poland's *Sejm* has introduced a universal income tax which took effect at the beginning of 1992. It replaces a number of existing taxes. Eventually, Poland will also replace the current turnover tax with a value-added tax modeled on that used in the European Community.

The growth in the number of taxpayers, coupled with a general climate of resistance to the new taxes, has made it necessary to impose new controls on tax verification and stiff penalties for tax evasion. A distinct department dealing with tax collection has been created within the State Treasury. It has the power to check tax returns and deal with violators. The new tax laws are fundamental to the whole reform effort. Without a coherent and effective system of taxation, the government will be unable to make up for the revenues it foregoes as it proceeds to privatize Polish industry.

The most significant tax reforms introduced in Poland, 1990-91, included the following:

- termination of various tax breaks and loopholes;
- strict limits on the tax holidays offered to new investors, including foreign investors (see Section VI);
- accelerated depreciation schedules for purchase of machinery and equipment, especially in regions hit by high structural unemployment;
- carrying forward of losses for up to three years;
- equalization of tax burdens for corporations and for private individuals registered as businesses;
- standardization of taxation principles for corporations and individuals registered as businesses;
- tax standardization to include a turnover tax levied on importers of foreign goods equivalent to that paid by domestic producers;
- waiver of tax penalties on wage increases in private and privatizing companies which exceed legal limits (taxes to be maintained for state-owned enterprises to enhance their prospects for privatization);
- standardization of the criteria governing local property taxes and road levies.