

THE STRUCTURE OF FOREST TAX IN POLAND

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Abstract

Since the end of World War II, the number and size of forests covering Poland has been steadily growing. At present, forests cover about 30% of the country. 82.9% of the forests are public, and 17% are private. Since the introduction of the forest tax, and regardless of changes in laws, forest tax is related to liability of the ownership, possession or management of forests. One does not have to be the owner of taxable property. Tax receipts are the largest group among the own revenues of communes in Poland. The highest revenue, especially in the cities, comes from real estate tax. In rural or village communes, forest tax has had quite a large impact on revenues.

Keywords: forest tax, local tax.

1. Introduction

The main challenge of political changes in Poland was tax reform. This has had quite an influence not only affecting economic and legal systems, but also political not to mention public awareness of taxation. On the other hand, there has been a change in the management of funds raised from taxes. The degree of freedom public authorities have had in managing and redistributing these resources has also changed. The degree to which public figures can intervene in matters of public income – both household and business – has been limited in the new democratic system, and the expenditure of public funds shall be subject to the criteria of economic rationality. The tax burden has to be a compromise between the interests of society, the economy and the tasks of public authorities. Such attitudes can be achieved if fiscal awareness is developed in society and one that is manifested in the payment of taxes and the perception of the State as a civil society.

The design of a new tax system in the new political reality was necessary also for the sake of restoring local government in Poland. It became essential to provide financial support for the communes which meant financing them – to some extent – from local tax sources. (Owsiak 2005, pp.468 – 470). Income tax revenues are the largest group among own revenues of communes

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in Poland. The highest revenues coming in urban communes from real estate tax. In small rural communities agricultural and forest tax can provide quite satisfactory benefits.

The purpose of this paper is to place the forest tax in the present tax system and to assess its performance in the view of changing legislation in light of increasing forestation in Poland.

2. Characteristics of the tax system in Poland

The tax system in each particular country, including the period and form of taxation, comprises various taxes involving certain elements such as tax rates, incentives and exemptions (Szczodrowski 2007). The definition of the tax in Polish legislation is recorded in the Tax Ordinance Act of August 29, 1997. On the basis of Article 6 of the Act, the tax is a public, unpaid, compulsory and non-refundable cash liability toward the State Treasury, county or local government, resulting from tax regulations (Journal of Laws of 1997 No. 137, item 926). Economists use the expanded definition, which emphasizes that the tax is a pecuniary, free of charge, compulsory, non-refundable, general, one-sided provision imposed by the State or other public body under the law. The elements listed in the definition are vital to identify and distinguish taxes from other public charges. The lack of any or its replacement means that this benefit is no longer a tax, but simply a fee. (Podstawka (Ed.) 2010, pp.221).

Elements of tax structure is divided into two groups: *obligatory* tax elements (subject and object of the tax, the tax base, tax rate, tax scale) and *optional* elements, such as subject and object exemptions examination, incentives, tax period, fiscal records, tax return. (Modzelewski (Ed.) 2007).

In literature there are many types of taxes, due to the use of different types of segmentation criteria. Most often they are divided as follows: according to the subject of taxation (income, revenue, wealth, consumption), taking into account the criterion of the tax charged therein relation to the total income of the taxpayer (direct, indirect), and by powers of taxation: the central (government) and local (commune). The latter criterion is defined as a right of the State or a commune to levy taxes, fixing their rates, setting exemptions, revenues collection, as well as the right to decide who the beneficiary will be of revenue from these taxes. If taxes supply the local budgets they are called *local* taxes. In Poland, only communes implement tax revenues. However, if tax revenues feed the State budget, are called *central*. Such a division of taxes to local and central is empowered by the Act of November 13, 2003 on revenues of local governments (Journal of Laws 2003, No. 203, item 1966).

Table 1. Classification of taxes

TAX	Central	Local	Direct	Indirect
VAT	x			x
Excise duty	x			x
Gaming	x			x
Personal Income	x		x	
Corporate Income	x		x	
Real Estate		x	x	
Inheritance and Donations		x	x	
Transportation		x	x	
Agricultural		x	x	
Forest		x	x	
On Civil Law Transactions		x	x	
The Tax Deduction Card		x	x	

Source: own study based on (Owsiak 2005) and (Podstawka(Ed.) 2010).

3. Forest tax in the tax system

The local tax is the most important area of the socio-economic system. Ever since a new Local Government in Poland came in, these taxes have been subject to small, cosmetic changes. Property taxes, which include real estate tax, agricultural tax and forest tax, was charged to the owned or managed property. Forest tax is a direct tax charged to the communes. In scientific studies forest tax is also indicated as an eco-tax.

In Poland there are only a few taxes that could be considered as eco-taxes. Environmental protection is financed largely from environmental fees founded to support activities in this area with emphasis on investment. There are no taxes in the Polish tax system containing the term 'eco', although attempts have been made for its introduction (in 2006 and 2009 – a draft law on an environmental tax on cars to replace the excise duty tax on cars). Like other taxes the eco-tax is a public payment that must be related to the environment, and thus have a positive effect on its condition. At the same time, allocation of funds coming from this tax needn't be definitely related to environmental protection. If the value of the benefit is disproportionately small for the amount of the tax burden, it is an eco-tax, and when it is a corresponding amount it becomes an eco-fee. Literature gives the definition of eco – tax as a financial burden imposed by public authorities on households and businesses, without providing feedback, which is subject to taxation or the phenomenon that influences negatively on the environment. In Poland

there are four fiscal burdens referring to this definition. These are: the excise duty tax on environmentally damaging consumer goods, transportation tax, agricultural tax and forest tax. The last three are local taxes (Małecki 2011, pp. 79-81).

Forest tax ever since its introduction into the tax system in Poland, was governed by two Acts. The first was the Act of September 28, 1991 on Forests (Journal of Laws No. 101, item. 444), another in the Act of October 30, 2002 on forest tax (Journal of Laws No. 200, item. 1682). In the meantime, in 1997 under Article 1 of the Act of July 4, 1996 amending the law on agricultural tax, the forests, the local taxes and fees as well as on environmental protection (Journal of Laws No. 52, item 286) made changes in the tax structure of the forest, non-forest and forest land for agricultural tax needs. Legislation in force until 2002 imposed the tax on individuals, legal organizational units without legal identities, owners or possessors, State Treasury and communes owners of forests. Tax liability including forests under the management of the State Forests (PGL Lasy Państwa) and being part of the Agricultural Property Stock of the State Treasury (Zasób Własności Rolnej Skarbu Państwa) were to be paid by the State Forests and the Agricultural Property Agency of the State Treasury. In 2003 parties liable to pay tax excluded those who were exempted from the agricultural tax and included the companies without legal identities.

Until the end of 2002 all forests were taxed with the exception of those not related to forest management, land used for recreation centers, building or leisure plots and were excluded from administrative decisions concerning forestry for purposes other than forestry. Since 2003 legislation has declared that the subject of tax specified in the Act are all forests with the exception of those used for performing other economic activities than forestry activities. At the same time, legislation indicates that for the purpose of forest tax, article 1, paragraph 2 of the Forest Tax Act, forest is land classified in the list of land and buildings register as forests. According to article 1, paragraph 3 of the Forest Act, management is an activity belonging to business owners or forest managers for: the arrangement, protection and management of forests, the maintenance and expansion of forest resources and crops, the managing of wild animals, as well as sourcing – with the exception of for purchasing purposes – wood, resin, trees, tree stump grinders, bark, pine needles, animals and forest floor, and the sale of these products in its raw state. Most significant from a tax point of view is the classification of the area – whether it has been classified as a forest in the land and buildings register. When the forest is being used for other activities than forest management, it is charged with a real estate tax. (Podstawka (Ed.), pp. 331).

Initially forest tax exemptions were applied to only four subjects; forests belonging to nature reserves and national parks, areas which are protective

forests, forests with trees up to 40 years of age and the forests were included in the register of monuments. Under the Decree of the Minister of Environment of June 27, 2000 on the publication of the consolidated text of the Forest Act (Journal of Laws No. 59, item 679) the first two objective exemptions are not included. However, in 2003 under article 7 paragraph 1 point 3 the list of exemptions was expanded on ecological grounds.

Since 2003 the level of taxation or forest tax has been dependent on forested surface area as recorded in the register of land and buildings, and measured in hectares. Before the end of 2002 the basis for this tax was the calculation of hectares covered by the prominent species of trees as well as an evaluation of the classes these species, according to a general plan or simplified forest management plan.

By the end of 1996 the forest tax rate for one hectare for the fiscal year for each half-year amounted to the equivalent of 0,125 mł of softwood sawmill wood, calculated as the average selling price of wood obtained by forest districts in the previous six months. In the following years (1997-2002) the tax rate was determined as the cash equivalent for 0,200 mł of wood calculated as the average selling price of wood obtained by the Forest District for the first three quarters of the year preceding the tax year. For protected forests, nature reserves and national parks forests and forests, which do not have the plan or simplified forest management plan, forest tax for 1 ha of forest and forestry land was established on the basis of land records for the fiscal year at a determined rate – the cash equivalent of 0.3 quintals of rye. The average selling price of wood and the average purchase price of rye was stated by GUS President and announced in Monitor Polski 20 days after the end of the third quarter.

Since the beginning of 2003 forest tax of 1 surface ha (according to the land and building register records) has been calculated as the monetary equivalent of 0,220 mł of wood determined on the basis of the average sales price of wood obtained by the Forest Districts for the first three quarters of the year preceding the fiscal year, and published annually by GUS (Polish Central Statistical Office) in Monitor Polski within 20 days after the completion of the third quarter. For protected forests, nature reserves and national parks forests it has been established that the amount of tax is reduced by 50% tax rate.

Table 2. Forest tax rates in the years 2003-2013

Year	Rate: zł/1 ha	Change yoy in %
2003	24,47	
2004	23,69	-3,19%
2005	26,48	11,78%

2006	28,9	9,14%
2007	29,42	1,80%
2008	32,4	10,13%
2009	33,56	3,58%
2010	30,04	-10,49%
2011	34,02	13,25%
2012	41,07	20,72%
2013	41,01	-0,15%

Source: own study based on GUS press releases.

Average sales prices of wood obtained by the Forest Districts in the years 2002-2012, and consequently tax rates per 1 ha were not stable year-by-year. In 2012, the tax rate increased over 20%. Despite the decline in the years 2004, 2010 and 2013, the graph below shows an upward trend.

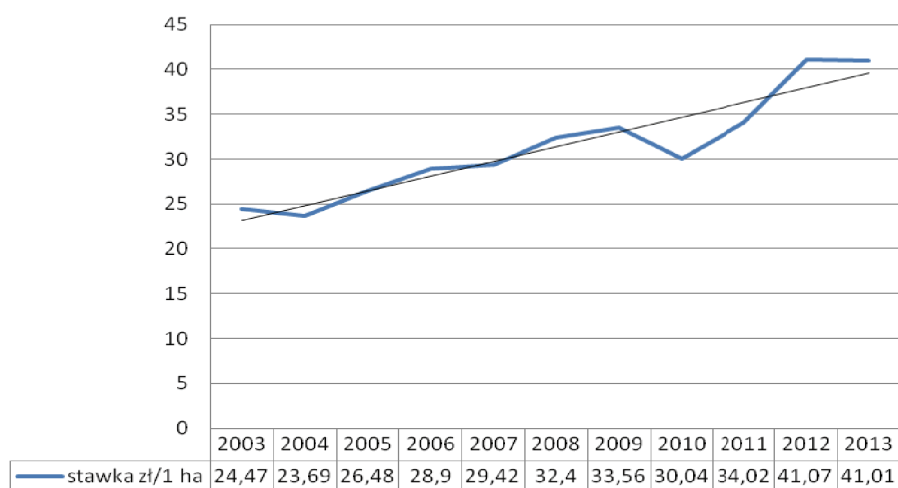


Figure 1. Forest tax rates between 2003-2013

Source: own study based on GUS press releases.

The commune council, by resolution, may reduce the average sales price of wood, which is the basis for calculating forest tax in the community. The price does not include V.A.T..

In view of the current Act, the entities obligated to pay the forest tax are natural persons and legal organizational units including unincorporated companies owning forests provided that the forest is self-contained, where the obligation to pay forest tax is imposed on the holder of a self-contained, forest

owners, and those owned by the State or local governments. If the forest is jointly owned, or is in the possession of two or more entities, it is the subject of a separate forest taxation and the tax burden jointly and severally liable for all owners or holders. When the one obliged to pay forest tax is a natural person, it shall pay on a quarterly basis, while the legal person – each month. The obligation to provide information on forests and forest tax declaration also applies to taxpayers benefiting from exemptions under the laws on forest tax, including the resolution of the commune council. Tax liability arises on the first day of the month following the month in which the legal title of the forest was in possession of the taxpayer. It expires on the last day of the month in which circumstances justifying the obligation cease to exist.

Under current law subject exemptions include forest stand under 40 years old and forests individually inscribed in the register of monuments and ecological sites. There are also subjective exemptions from this tax including mainly institutions such as:

- Institutions of higher education, higher military academies and colleges, public and private schools, education facilities and teacher training centers, authorities conducting schools, and organizations that manage, operate or use school property,
- institutions of the Polish Academy of Science (PAN) as well as research and development units,
- tax sheltered businesses, organizations engaging in professional forestry activity granted a tax shelter or organizations engaged in professional activity or having been reported to the local authorities in charge, with the exception of forests held by dependent entities other than those with tax shelters or organizations engaged in professional activity.

Due to the exemption for research and development units, communes are entitled to the reimbursement of lost income. However, under the Act of September 9, 2000, the tax on civil law transactions tax authority has the right to give tax relief by postponing payment terms, the distribution of tax in installments or redemption in whole or in part of tax arrears or default interest. The commune council is entitled to introduce other exemptions in a resolution. However, since the beginning of 2003 they may be only objective, referring to the different types of forests (Podstawka (Ed.), pp.333).

4. Forest tax and forest resources in Poland

In relation to the expansion of humans, forested areas have been in decline. Significant deforestation associated with Poland's turbulent history took place in the XIX and XX centuries. Even at the end of the XVIII century forest coverage in contemporary Polish border areas was approximately 40%. After

the Second World War losses were so large that in 1946 forests covered only 20.8% of our country. Since the end of the Second World War Polish forests coverage is seeing a steady increase. According to the National Afforestation Program by the year 2020 forests will cover 30% of the country and in 2050 – 33%

In Poland, 82.9% of forests are public, while 17.1% are privately owned. Every year forest coverage is growing and presently sits at 30%. (Leśnictwo 2012).

Poland is very diverse in terms of forest coverage in the context of the administrative division of the Districts. 26.8% of public forests consist of 40 year old trees, and 31.1% in private forests. In the scale of some Districts, forest tax revenues are lower due to forest areas being managed by national parks, nature reserves and forests which are protected or exempt. Protected forests, according to article 15 of the Law on forests, are forests with the following elements: protecting the soil from washing away or sterilization, containment of landslides – protecting groundwater resources and surface waters, regulating relations in the basin, limiting the emergence and spread of volatile sands. Protected forests are seeded areas and animal reserves or areas of foliage protected on a permanent basis because of previous destruction by industry. They are important from a natural and scientific point of view, and have particular importance in the security and defense of the State. They are located within the administrative boundaries of cities just 10 km from the border of cities with a population of over 50 thousand residents, and are also situated in health resort areas under the Act on health resorts.

State-owned forest have been classified as protected forests at the request of the CEO of State Forests and supported by the minister of the environment. Forests which are not owned by the State Treasury can be declared protected forests by the mayor after consultation with the owner and with the agreement of the commune board. Such a decision must also specify the boundaries of a protected forest.

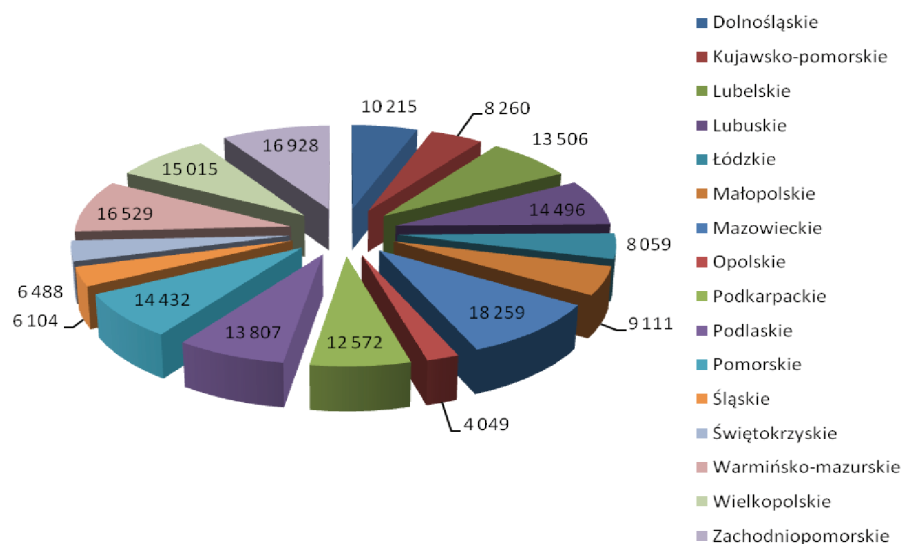


Figure 2. Communes' budget revenue (including income of the state cities with Poviát status communes) for forest tax by Districts in 2011 (in thousand zł)

Source: own study based on the (Leśnictwo 2012, GUS, Warszawa 2013).

Due to the varying ages of forests and tax exemptions the amount of revenue generated by the forest areas in different Districts does not arise directly from the multiplication of the forest area and the tax rate applicable in that tax year. Tax revenues for the Districts that have the highest income from the forest tax and its forested areas is shown in the following table.

Table 3. Income from forest tax in relation to forest area by District in 2011

District	Order of the amount of forest tax	Order of forest cover	forest area (thousands of hectares)
Mazowieckie	1	15	810,2
Zachodniopomorskie	2	4	808,3
Warmińsko-Mazurskie	3	6	743,5
Wielkopolskie	4	12	765,3
Lubuskie	5	1	686
Pomorskie	6	3	663,4
Podlaskie	7	7	617,3
Lubelskie	8	14	579,4
Podkarpackie	9	2	671,6
Dolnośląskie	10	8	590

Małopolskie	11	9	434,7
Kujawsko-Pomorskie	12	13	420,2
Łódzkie	13	16	384
Świętokrzyskie	14	10	327,8
Śląskie	15	5	392,1
Opolskie	16	11	249,5

Source: own study based on the [Leśnictwo 2012, GUS, Warszawa 2012].

The largest forest tax payer in the country manages the majority of forests, State owned National Forests, which in 2011 paid into the budgets of communes nearly 140 million zł in forest tax. It is worth noting that in the same tax year National Forest achieved revenues from the sale of wood worth almost 6.61 billion zł.

Table 4. Sizes of forested areas in Poland and forestry tax revenues in 2011

District	Forest area (thousands of hectares)	Managed by National Forests (thousands of hectares)	Managed by National Parks (thousands of hectares)
POLAND	9143,3	7076,6	183,9
Dolnośląskie	590	550,2	9,7
Kujawsko-pomorskie	420,2	366,8	-
Lubelskie	579,4	323,3	12
Lubuskie	686	666,3	4,6
Łódzkie	384	246,3	0,1
Małopolskie	434,7	199	27,1
Mazowieckie	810,2	417,5	26,9
Opolskie	249,5	232	-
Podkarpackie	671,6	486,8	40,2
Podlaskie	617,3	380	32,7
Pomorskie	663,4	571,8	9,8
Śląskie	392,1	302,5	-
Świętokrzyskie	327,8	223,8	7,1
Warmińsko-mazurskie	743,5	680,7	-
Wielkopolskie	765,3	661,5	4,9
Zachodniopomorskie	808,3	768,2	8,9
Forest tax (in thousand zł)	187 831	139 317,8 ^a	3 128,139 ^b

^a (Generalna Dyrekcja Lasów Państwowych 2012)

^b estimated value (area x tax rate)

Source: Leśnictwo 2012, GUS, Warszawa 2013.

5. Conclusions

Following the establishment of the forest tax, it became clear that legislation – from the beginning of the introduction of the forest tax and regardless of changes in laws – attached tax liability to ownership, possession or management of forests so as they would be liable for the forest tax; meaning you do not have to be the owner of the taxable property to be liable. The Forest Tax Act does not allow for changes in consideration of the person or the taxpayer and the tax does not depend on its material conditions. It will also not be taken into account whether taxed forest generates income. Communes located in conservation areas would like to receive from the State some form of compensation for the loss of tax revenues. The amount of this compensation is estimated on up to 1 billion zł per year. One idea that has emerged is to raise forest tax rates to cover the communes' legal costs. This means that the existing rate would have to rise from about 40 zł to more than 110 zł per hectare of forest. Forest owners are opposed to this idea [Bartman 2012]. Currently a project is underway to organize grants or subsidies which are a kind of eco-“janosikowe”.

Although forest tax does not seem to bring in a significant income to communes, it is a relatively stable and certain income.

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