

ECONOMICS*Sociology*

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THE SELECTED ISSUES OF TAX LEGISLATION ON EMPLOYMENT COSTS CALCULATION IN HEALTHCARE IN POLAND

ABSTRACT. The paper concentrates on the influence of tax law on employment costs calculation for small health institutions. Tax provisions concerning the employment costs in small enterprises are described, demonstrating the existing differences in interpretation of the date of costs deduction. The general tax interpretation referring to the day of expenses, definitions of direct and indirect costs should be issued. Thus, the study proved that amendments to the current law is necessary. For the cases of deduction in a simplified way it is recommended to issue the accounting vouchers in the month employees worked under the assumption the services are performed in the same period as the labour is accomplished.

Introduction

Changes in the Polish medical market have a multidimensional nature. One of their effects that we must take into the consideration is the growing number of small enterprises in the Polish medical market. According to the Supreme Chamber of Control two third of the physicians (in 22 controlled) hospitals are hired as self-employment (Zarzecka-Sawicka, 2015). It means they are small enterprises acting under the conditions of free market economy. The defining attribute of free market economy is competition. Also health institutions acting within the today's health care systems have to face competition from other entities. There are number of factors influencing competition like the number of enterprises, costs imposed on them. One of the factors that clearly determines enterprise functioning is employment cost. Another important feature of free market is the amount of taxes the small enterprises must pay. An important component of tax systems is income tax. Physicians doing their small business may pay lump-sum taxes, or personal income taxes. Regulation of these taxes may influence employment costs calculation.

The aim of this article is to determine the influence of tax law on employment costs calculation by small enterprises providing health services. The analysis is limited only to businesses done by natural persons, including micro entrepreneurs and self-employed (also known as sole proprietorship). The analysis concerns also companies (providing health services) owned by natural persons. According to the Polish law such companies are paying PIT.

The accountancy principles concerning the employment costs and costs allocation are described. The next section presents briefly the lump-sum tax imposed on medical activity in Poland and its influence on employment costs calculation. Personal income tax provisions concerning employment costs in small enterprises are given. The tax interpretation doubts on employment costs are discussed. The provisions for taxpayers keeping accounting books or the Tax Book of Revenues and Expenditures are analysed considering the existing differences in interpretation of costs deduction date.

1. Employment costs calculation in accountancy

Important aspect of the proper business management is costs employment calculation. The accountancy theory and practice consists of following issues which should be taken into consideration when employment costs calculation is discussed: accountancy concepts, classification of expenses, costs allocation methods.

We have to take into consideration following accountancy principles which are applied by employment costs calculation:

- accrual basis,
- matching,
- conservatism,
- materiality.

One of the most important accountancy concept is accrual basis of accounting. Revenues are recognized as soon as a product has been sold or a service has been performed regardless of when the money is received. The costs are reported as the expenses are run regardless of when the money is actually paid. The transaction has to be recorded even if the invoice has not been issued but its value has been reliably estimated (Revsine *et al.*, 1999; Baker *et al.*, 1989; Walińska, 2013; Helin, 2014).

According to matching principle expenses should be matched with revenues. Wages for employees are reported as an expense in the period when the employees worked but not in the period when the employees are paid. However, discussed principle states that the expense is occurring as the sales are occurring. So if the sales occurs in future period at least the direct costs including wages also should be reported in future period. If we are not able to measure the future economic benefit of some expenses we charge such amounts to expenses in the period that the expenses are run (Alexander, Britton, 1999; Świdarska, Więclaw, 2012; Walińska, 2013; Gmytrasiewicz, Karmańska, 2002).

The next accountancy principle which may influence the employment costs calculation is conservatism principle. The revenues and assets should be not overestimated and the expenses and liabilities should be not underestimated (Johnson, Whittam, 1998; Olchowicz, 2009). Under this principle for the purpose of the financial profit/loss, should be taken into account (Helin, 2009):

- decreases in the value-in-use or commercial value of assets, including in the form of depreciation or amortization charges;
- only those other operating income and extraordinary gains that are certain;
- all other operating expenses and extraordinary losses incurred;
- provisions for risks, impending losses and consequences of other events known to the undertaking.

Another accounting principle is materiality principle. This principle allows to simplify the recording, valuation if an amount is insignificant. The literature data proposes indicators to decide whether an amount is insignificant (Sołtysiński *et al.*, 2015). Under this concept only such information is required to be included that is essential to the decisions being taken by the users of accountancy reports (Pandlebury, Groves, 1999). Simplification is necessary

in classifying the various and numerous economic events into manageable number of categories (Bernstein, Wild, 1998).

The costs can be classified due to different criteria like their reporting in financial statements, direct and indirect costs.

The employment costs can be differently reported in financial statements. The costs can be classified into expenses disclosed by function or by nature. In case of expenses disclosed by function following types of cost can exist:

- manufacturing cost of products and services,
- cost of sales,
- general administrative expenses.

The employment costs may be part of manufacturing cost of services or the general administrative expenses in the health care institutions. Manufacturing cost of services include the salaries of physicians and nurses. The general administrative expenses consist of the employment costs involved with the management and administration of health care institutions. As the cost of sales include the costs of retail sales of medicines (Hass-Symotiuk, 2012) they are not the scope of the article.

Expenses disclosed by nature include following costs (Kiziukiewicz, 2010):

- depreciation and amortization,
- consumption of materials and energy,
- third party services,
- taxes and charges,
- salaries,
- social security and other benefits,
- other sundry expenses.

One type of the costs are salaries. They include all kinds of wages and allowances which are received by the employees from all types of job: job contract, order contract, specific-task contract (Hass-Symotiuk, 2012).

Important classification for analysed topic is the division of the costs into two types:

- direct costs,
- indirect costs.

Direct costs can be traced directly to a cost object such as a product or service on the basis of documentation (Kiziukiewicz, 2010). Indirect costs have to be allocated to a product, service, or other cost object. Other authors distinguish between direct costs and overhead expenses (Johnson, Whittam, 1998). When employment costs are analysed in medical business we have to assume the indirect costs appear mostly.

For employment costs calculation important role plays the methods of costs allocation. There are a lot of methods of costs allocation described in the literature data like sample calculations or ABC. One of the method is allocation costs based on machine hours or direct labour hours. Another method of costs allocation is ABC (Activity Based Costing). The premise is that the production process is supported by activity. Each activity cause an enterprise to incur costs. Costs are collected into a separate cost pool for each identified activity. Then a measure (cost drivers) for each activity has to be determined and the cost of the activity is allocated to the product or service that required the activity (Jaruga *et al.*, 2010; Drury, 1998).

2. Employment costs and lump-sum taxes

The types of lump-sum taxes imposed on small business owned by physicians in Poland are following:

- charter tax,

- revenue lump-sum tax.

Both taxes indicates conditions which have to be fulfilled by the taxpayer. For the charter tax they can be classified into following groups:

- the range of provided service,
- the limits in employment and the usage of other subjects' service,
- no conduction of specific kinds of taxpayer's or spouse's activity.

The first group of the conditions are involved with the range of provided service. Among these conditions we may distinguish: no providing of other economic activity, providing service only for natural person who do not conduct any economic activity, doing economic activity by the taxpayer only in the territory of the Republic of Poland. The next conditions involved with this form of taxation concern restrictions imposed on the taxpayers in the range of employment and the usage of other subjects' service. The physicians and nurses are not allowed to hire another physicians and nurses. The exception concerns only one worker learning his profession or one subsidiary medicine worker. There are no limitation in employing the workers who are not involved with medical activity like accountant, cleaning woman or man, receptionist etc. Among these conditions we may indicate also: the prohibition of the usage of other enterprises' services. One of the conditions for taxpayer is no using of other subjects' service. According to law taxpayers cannot do business and use the service of parties whom they do not employ by the employment contract and use the service of other companies excluding specialist service. Another group of conditions relate to no conduction of specific kinds of taxpayer's or spouse's activity. We can distinguish two situations: no conduction of health activity by taxpayer's spouse, no production of good taxed by excise duties. One of the result of those conditions is the prohibition of paying the charter tax by the physicians hired as self-employment at hospitals or other health care institutions. The breach of this conditions make the physicians pay Personal Income Tax (Bielik, 2012; Witczak, 2013).

The tax base and tax rate is calculated in simplified form. The tax depends on the number of working hours of a taxpayer in a month. The more hours the physicians, nurses are doing their business the more tax they have to pay. The taxpayers do not have to keep any tax books for income calculation purposes. They have to keep evidences necessary for calculating the income tax of the employees (Bartosiewicz, Kubacki, 2011).

Revenue lump-sum tax is another income tax form which can be chosen by the physicians or nurses doing their business. Like the chart tax the provisions describe conditions which have to be fulfilled by the taxpayer. One of the condition refers to the limit of revenues earned in tax year by the taxpayer. The limit of revenues amounts 150000 euro. Others are similar to those one regulated by the charter tax. They include the limits in employment and the usage of other subjects' service. The physicians and nurses are not allowed to hire another physicians and nurses at all. They cannot employ even worker learning his profession or subsidiary medicine worker. There are no limitation in employing the workers who are not involved with medical activity like accountant, cleaning woman or man, receptionist etc. Similarly like the Charter tax taxpayers physicians hired as self-employment at hospitals or other health care institutions cannot pay revenue lump-sum tax (Witczak, 2013).

The taxpayers have to keep tax book for evidence of revenue. However, they do not have to keep any tax books for expenses calculation purposes. They have to keep evidences necessary for calculating the income tax of the employees.

Due to limitation of hiring the professional medical employees the problem of employment costs calculation does not appear in the most small medical enterprises paying lump-sum taxes. If workers are hired by taxpayers paying revenue lump-sum tax they cannot be involved in performing medical services. So their wages do not influence costs of services and belong to administrative costs. Those taxpayers who hire worker learning for his

profession or subsidiary medicine worker very often accomplish only one-day treatment. Thus the costs of employment are matched with the revenues for performed services. The taxpayers do not have to keep tax books, that is why for the profit calculation purposes keeping the additional evidence is advisable. The additional evidence should be used for monthly evidence of revenues and expenditures including the salary costs. However, there are treatment lasting longer than one day. The treatment can even last several days or weeks and overcome period of month. Such an example is root canal treatment (dentists may choose tax card as the taxation of their income). If the such cases are rare and the payment for treatment are not significant due to materiality principle the businessman do not have to expense the employment cost over one period. If the materiality principle do not allows to simplify the valuation due significant amounts of revenues or expenses the employment cost should be expensed over one period or matched with the services. Matching the costs with the services requires additional records (which in fact are not required by the law) and calculations so the knowledge as well. Therefore the settlement of the employment over one period in proportion to the duration of the treatment seems to be sufficient. Of course the taxpayer do not have to keep the additional records or make additional calculation. It is only advisable for the management purposes.

3. Tax provisions and employment costs in PIT

Analysing the influence of tax provisions and employment costs in PIT following issues appear:

- self-employment in PIT,
- definition of costs in PIT,
- the day of costs deduction.

3.1. Self-employment in PIT

Physicians doing their small business hire other physicians or nurses as self-employment. This way of employment includes some tax risks which can influence the measuring of the employment costs. The risk is caused by the formulation of provisions in case of self-employment. Taxpayers business shall not be recognized as non-agricultural business if the following conditions are jointly met:

- liability to third parties for the results of these activities and their performance, excluding liability for committing torts, is incurred by the person who commissions the actions;
- they are performed under supervision and at the place and time determined by the person commissioning the activities;
- the person who performs the activities does not incur the economic risk related to the conducted activity.

In other words if one of this conditions would be breached the physicians or nurses (or other occupation) would be not recognised as self-employment. They will be treated as the workers. It means the payment for those entities should be taxed as other workers and social security premiums should be calculated as well. It could increase the level of cost employment for physicians or nurses doing their business and hiring other physicians or nurses as self-employment (Witczak, 2011). Moreover, the tax administration has over 5 years for the control of tax liabilities (Brzeziński, 2007; Adamiak, 2012). The results of the tax control and recognizing the physicians or nurses not as self-employment but as the workers can be the interests dated from the time of paying the employees' wages (Kosikowski, C. Etel, 2013; Dzwonkowski, 2014).

3.2. Definition of costs in PIT

The tax laws do not include the definition of costs. It states that the tax deductible expenses include all expenses incurred to earn revenue, or maintain or secure the source of revenue.

The costs incurred to earn revenue are costs incurred with intention, willingness to earn revenue. This intention, aim must be firstly objectively possible, real and secondly the facts should indicate that the expenses could allow to earn predicted revenue (Bartosiewicz, Kubacki, 2015). The part of the definition *maintain or secure the source of revenue* focuses on the future, the costs are to ensure the functioning of enterprise and earning the revenues in the future (Pawlik, 2007).

In some literature data and administrative court rulings an opinion is given that the expenses should be rational and economically justified. Cost rationality should be assessed in terms of their relevance to the real needs and the scope of the taxpayer's business and if they are necessary for the earning of revenues (Pietrasiewicz, Romańczuk, 2009).

Taking into the consideration the discussed interpretation of taxable cost there are no doubts the employment costs are deductible expenses. They are incurred to earn revenues and ensuring the functioning of business (Twardoch, Hanuszek, 2015).

3.3. The day of costs deduction

The provisions in Personal Income Tax concerning the data of costs deduction were changed in 2007.

Till the end of 2006 there were two possible ways of cost deduction:

- accrual basis,
- the date of incurring the expenditure (cash basis).

According to the accrual basis the tax-deductible costs were only deductible in the tax year to which they matched (WSA Łódź, 2013).

The second possible way of cost deduction was the date of incurring the expenditure. The costs should have been deducted only in the tax year in which they are incurred. It meant that an expense was deducted on the date on which it was incurred, regardless of period it concerned (WSA Łódź, 2013). However, before the change in 2007 there were different opinions on the date of costs deduction in case of the date of incurring the expenditure (cash basis). One possible interpretation required costs to be paid and this is why it was called cash basis and the second interpretation required costs only to be incurred (WSA Poznań, 2010).

After the changes in the law the day of costs deduction is regulated separately for (Chudzik, 2007b):

- taxpayers keeping accounting books,
- taxpayers keeping the Tax Book of Revenues and Expenditures.

The day of costs deduction in Personal Income Tax for taxpayers keeping accounting books is formulated in not rather simply way.

Generally, tax deductible expenses are deducted only in the tax year in which they are incurred. The day of costs deduction in PIT for taxpayers keeping accounting books depends on kinds of cost. In my opinion following division of expense in analysed issue should be discussed in more detail:

- direct expenses,
- indirect expenses,
- special rules for some expenses.

For taxpayers keeping accounting books, tax deductible expenses directly related to revenue, incurred in the years preceding a tax year and in a tax year are deductible in the tax year in which the revenue corresponding to them was earned.

Moreover, as the provisions states: *Tax deductible expenses directly related to revenue, referring to revenue in a tax year and incurred after the end of that year before:*

1) the preparing of financial statements pursuant to separate regulations, no later than until the expiry of a deadline for the submission of a tax return, if taxpayers are obliged to prepare those financial statements, or

2) the submitting of a tax return, no later than until the expiry of the deadline for the submission of the return if taxpayers, pursuant to separate regulations, are not obliged to prepare financial statements

- are deductible in the tax year in which the corresponding revenue was earned (Bartosiewicz, Kubacki, 2015).

Tax deductible expenses directly related to revenue, referring to revenue in a given tax year, and incurred after the day referred in situation described above shall be deductible in a tax year following the year for which the financial statements are prepared or a tax return is submitted (Bartosiewicz, Kubacki, 2015).

Generally, the expenses directly related to revenue should be matched to the corresponding revenues. The accrual basis and matching accountancy principles were implemented in fact.

Tax deductible expenses, other than the tax deductible expenses directly related to revenue, shall be deducted after the date of they were incurred. If the expenses regard a period that exceeds a tax year and it is not possible to determine what part of expenses refers to a given tax year, tax deductible expenses shall constitute tax deductible expenses proportionally to the length of the period they refer to (Bartosiewicz, Kubacki, 2015).

The provisions on the day of costs deduction in Personal Income Tax for taxpayers keeping accounting books for indirect expenses was formulated in following way: *The day of incurring tax deductible expenses, shall be the day on which the expenses are recognised in accounting books (posted) on the basis of an invoice received or the day on which the expenses are recognised based on some other receipt, if no invoice is issued, except for situations when it would concern provisions or accrued expenses recognized as expenses (Bartosiewicz, Kubacki, 2015).*

The next issue on the day of costs deduction to be analysed are special rules for some expenses. The Personal Income Tax foresees special rules for deduction of some expenses. The provisions decide sometimes on the day of costs deduction in other way and independently than it is described for direct and indirect expenses. Such special rules are in force for employment expenses as well. As the law states amounts due to salaries and cash allowances from social security paid by an employer are tax deductible expenses in a month for which they are due provided that they are paid or transferred at disposal before the date arising from the provisions of Labour Law, agreement or other legal relationship binding the parties. If the deadline imposed by be the Labour Law, agreement or other legal relationship is not met, the provisions of Article 23.1 (55) are to be applied. The Article 23.1 (55) of Personal Income Tax states the deductible expenses shall not include unpaid, unfulfilled or not transferred at disposal payments, benefits and other amounts of workers. So generally the salaries can be incurred if they are paid due to the labour law (agreement). If the employer do not pay the salaries on time due to the law they can be deducted in the period they were paid (Rubińska, 2013).

By the way an important factor influencing the day of payment is to be discussed. According to provisions for employees the day of inflowing the money on the account of the employee is the date of receiving the revenues for them. The transfer of money from

employer's account does not always mean the inflow on employee's account on the same day. For example if the day of payment due to work contract is the end of the month, the transfer of money from employer's account on the last day of the month may be seen on the employee's account on the next day in next month. It means the salary was paid not on time and the employment expenses are deductible in the month of payment not of the job was performed. Although some authors maintain the transfer of money from employer's account is enough to recognise the salary was paid (Wojtasik, 2013).

The use of the described provisions may cause following problems in employment cost calculation:

- the distinction between the direct expenses and indirect expenses,
- the day of incurring when the payment are made on time due to law,
- the day of incurring when the payment are not made on time due to law.

The indicated tax problems are exactly the same both in Personal Income Tax and in Corporate Income Tax. The provisions on the day of costs taxpayers keeping accounting books in Corporate Income Tax are formulated in the same way, so their interpretation can be applied in Personal Income Tax as well.

One issue to be solved is the distinction between the direct expenses and indirect expenses. Some authors (Chudzik, 2007a; Walińska, Mariański, 2007) maintain we cannot use the definitions of direct expenses and indirect from accountancy due to the autonomy of tax law. Chudzik (2007a) defines direct expenses as costs directly influencing receiving a certain income. Such costs are the costs of purchase of goods or services which goods or services were sold, earning a certain income. Direct expenses cannot be the cost incurred to the revenue, which was not received. Indirect expenses are any costs related to the overall activity of the taxpayer or related with their functioning. There are many cost categories including employment costs, that are difficult to be classified for one of the two groups expenses - direct or indirect (Walińska, Mariański, 2007). So in some cases the employment costs should be matched to the direct expenses in other to the indirect expenses.

The next important question that arises is the day of incurring when the payment are made on time due to law. Let's assume the employment costs dependently on the situation may be considered as direct expenses or indirect expenses. In fact accrual basis and matching accountancy principle was implemented for direct expenses in the tax law. So the tax law for direct expenses do not influence the costs calculation also in respect of employment costs. In case of indirect expenses the situation is much more complicated. Two different interpretation of the day of incurring are presented:

- tax costs are deducted as expenses for the accountancy purposes,
- tax costs may be deducted on other day as expenses for the accountancy purposes.

One possible interpretation assumes tax costs are deducted as expenses for the accountancy purposes. Another words the accountancy rules have been implemented in the tax law (Pogroszewska, 2015). So the tax law do not influence the costs calculation. In fact it is the accountancy that influence the tax law.

However, contrary interpretation is also presented. Tax costs may be deducted on other day as expenses for the accountancy purposes. The legislator tried to implement the accountancy principles but it was not successful (Czajkowska, 2014). In this approach the are differences in between income calculation and profit calculation. It requires a proper recording in books and evidences.

For the taxpayer the first interpretation makes the employment cost calculation simpler. If the taxpayer would like to use this approach it is recommended to apply for an individual interpretation. The issuing of the positive interpretation by the tax administration for the taxpayer is very probable and it would allow him/her to apply the accountancy

principle in the tax law without fear of the change of the tax administration opinion in the future.

Another possibility is when the payment is not made on time due to law. We agree with Jurkiewicz (2010) opinion if the rules defining specific categories of deductible costs also indicate the moment of their deductions, they constitute a *lex specialis* to the regulations. In this case there is no need to examine whether a particular expense is direct or indirect. It means the employment costs have to be excluded from the calculation of services and they are deductible in the period they were paid. It distorts the profit/loss calculation for accounting purpose. For example application the ABC approach for cost allocation would be very difficult or even impossible. To avoid the differences in tax and accountancy employment costs it is advisable to make payment on time due to law. Another option is change in the provisions on the date of deduction in case of unpaid salaries since the present provisions make the employment costs calculation much more difficult.

The next issue concerns tax provisions in Personal Income Tax is the day of costs deduction for Tax Book of Revenues and Expenditures. We should analyse two cases foreseen in provisions for taxpayers (Koleśnik, 2007):

- keeping Tax Book of Revenues and Expenditures as the rules for taxpayers keeping accounting books,
- keeping Tax Book of Revenues and Expenditures in simplified way.

The rules specified for taxpayers keeping accounting books are applied also to taxpayers keeping revenue and expense book provided that the evidences are continuously kept in a tax year in such a way that it is possible to distinguish tax deductible expenses referring to that tax year only (Chudzik, 2007b). Another words deduction as the rules for taxpayers keeping accounting books requires the division of costs on direct expenses, indirect expenses, some expenses for special rules. So also all the issues discussed for taxpayers keeping accounting books can be repeated like distinction between the direct expenses and indirect expenses, the day of incurring when the payment are made on time due to law. Additionally the one more problem appears. Tax Book of Revenues and Expenditures is a very simplified evidence. It consists of 16 column and only one of them is predicted for additional records. It can be very difficult to distinguish expenses referring to proper revenues. Taxpayers keeping accounting books may use analytical accounts for this purpose. Additional records should be kept which in fact are not required by the law.

The next possible approach is costs deduction in simplified way. By the way the name controversy on deduction in simplified way should be explained. Some authors use the name “keeping the Tax Book of Revenues and Expenditures on cash basis” instead. As it was presented till the year 2006 the date of incurring the expenditure (cash basis) was one of possible ways of cost deduction for taxpayers keeping the Tax Book of Revenues and Expenditures. Although the provisions has changed and cash basis is any more used as deduction rule for costs, the formula “keeping cash basis the Tax Book of Revenues and Expenditures” is still in use. In my opinion such a name is misunderstanding. According to the law the day of incurring tax deductible expenses for taxpayers is the day of issuing an invoice or other receipt which is the basis for posting (recognising) the expenses. So the date of issuing an accounting document is the day of incurring tax deductible expenses. That is why the name keeping accounting books in simplified way (Koleśnik, 2007) is much more proper.

We have to remember that the provisions concerning unpaid salaries are also applied. So the salaries can be incurred if they are paid due to the labour law (agreement). If the employer do not pay the salaries on time due to the law they can be deducted in the period they were paid (Rubińska, 2013).

For taxpayers keeping Tax Book of Revenues and Expenditures in simplified way the most important is to join the date of earning the revenues and the period the work was performed. It is possible by issuing the tax document like the list of wages at the end of the period the labour was performed and the services were performed. It is allowed to deduct expenses on the basis of tax document issued in other period but if the salaries are paid on time according to labour law. In case the longer treatment than one period it is advisable to take it into account in the Tax Book of Revenues and Expenditures. The last column of this evidence can be used. When the employment costs are registered in the tax book and we know the part of those expenses concern future periods we can register them in the last column of this evidence. If the employer do not pay the salaries on time it distorts the profit/loss calculation because the expenses would not match the revenues. Again the employment costs which are not deductible expenses may be registered in the last column of Tax Book of Revenues and Expenditures for the period the work was performed.

Conclusions

The physicians doing their business may have employment costs. The employment costs calculation is determined by the accountancy theory. Following issues should be taken into consideration when employment costs calculation is discussed: accountancy principles like accrual basis, matching concept, classification of expenses, costs allocation methods. However, the tax provisions can influence the employment costs calculation in Poland. According to the Polish law the small enterprises including proprietorship may pay the lump-sum taxes or personal income tax.

Due to limitation of hiring the professional medical employees the problem of employment costs calculation does not appear in the most small medical enterprises paying lump-sum taxes. However, in case of hiring employees additional evidences are required for calculation purposes for the lump-sum taxpayers.

The taxpayer of personal income tax have to consider especially the provisions on the day of costs deduction. The day of costs deduction is regulated separately for taxpayers keeping accounting books and taxpayers keeping the Tax Book of Revenues and Expenditures.

The day of costs deduction in personal income tax for taxpayers keeping accounting books is formulated in complicated way. The expenses in respect of costs deduction day are divided into: direct expenses, indirect expenses, some expenses with special rules. The formulation of provisions causes the tax law interpretation problems. There are is no distinction between the direct expenses and indirect expenses. Dependent on the classification of employment costs the costs deduction day is different.

In case of direct costs the accountancy matching principle is applied. When indirect costs are discussed we have to indicate that two different interpretation of the day of incurring are presented: - tax costs are deducted as expenses for the accountancy purposes, contrary the tax costs may be deducted on other day as expenses for the accountancy purposes.

We agree that for employment costs the special rules should be applied. There is no need to examine whether a particular expense is direct or indirect. It means the employment costs have to be excluded from the calculation of services and they are deductible in the period they were paid unless they were paid on time due to law. It distorts the profit/loss calculation for accounting purpose. To avoid the differences in tax and accountancy employment costs it is advisable to make payment on time due to law.

The taxpayers keeping the Tax Book of Revenues and Expenditures may use the rules for taxpayers keeping accounting books or they can keep the Tax Book of Revenues and Expenditures in simplified way. The taxpayers keeping the Tax Book of Revenues and

Expenditures as taxpayers keeping accounting books have exactly the same problems with the tax law interpretation as taxpayers keeping accounting books.

This is why the general tax interpretation referring to the day of expenses, definitions of direct and indirect costs should be issued for the taxpayers keeping accounting books and taxpayers keeping the Tax Book of Revenues and Expenditures using the rules for taxpayers keeping accounting books. Moreover, the provisions require amendment to law to simplify the employment costs calculation.

The simplified method of cost deduction taxpayers keeping the Tax Book of Revenues and Expenditures may distort the profit/loss calculation for accounting purpose. In case of deduction in simplified way it is recommended to pay on time according to labour law under the assumption the services are performed in the same period as the labour is accomplished. If the services are performed during more than one period additional registrations are required.

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