

## **AMENDMENT TO THE CORPORATE INCOME TAX ACT – IMPACT ON DEBT PUSH-DOWN**

On 3 October 2017 the Polish government adopted the draft amendments to the Corporate Income Tax Act proposed by the Polish Ministry of Finance. One of the amendments – if adopted by the Polish Parliament and signed by the President - will exclude the tax effectiveness of debt push-down structures. The amendment will most likely come into effect on 1 January 2018.

### **Key issue**

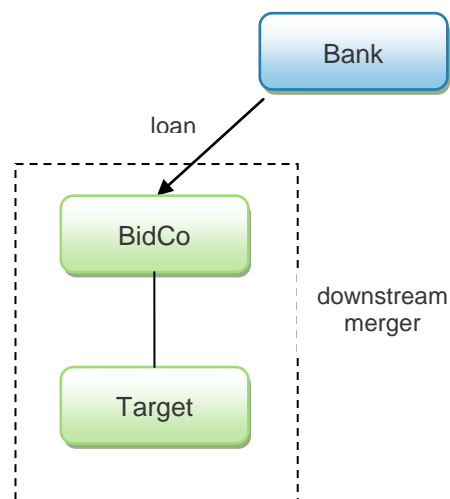
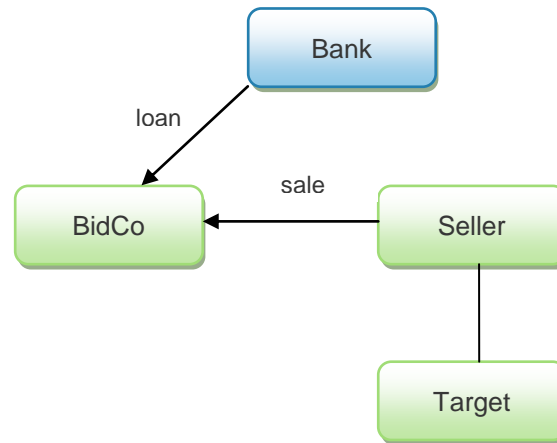
- Amendment to the Corporate Income Tax Act – end of debt push-down structures.

### **BACKGROUND**

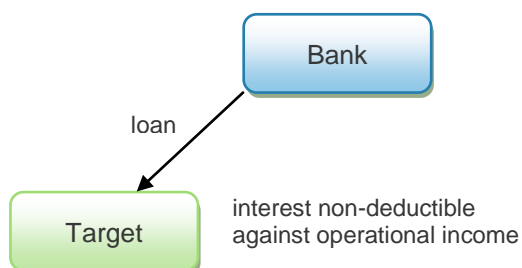
Under the draft amendments to the CIT Act, the costs of debt financing obtained in order to acquire shares in a company are not revenue-earning costs to the extent they decrease the tax base in which the revenues related to the continuation of the company's business activity are included, in particular in connection with a merger, contribution in kind, transformation of the legal form or creation of a capital group. This generally means that interest on a loan taken out to acquire the shares will not be a tax-deductible after the company acquiring the shares merges with the company whose shares have been acquired.

### **AFFECTED STRUCTURES – DEBT PUSH-DOWN**

The amendment will adversely affect e.g. debt push-down structures. They assume that interest on a loan granted to the acquiring company ("BidCo") to purchase shares is deducted against the operational revenue of the company the shares in which are acquired ("Target") after it is merged with BidCo (see the diagrams below).



In this structure, the right to deduct the interest on the loan to acquire the shares against the operational revenue of the Target after its merger with BidCo will be denied.



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