TAXATION OF PROPERTY GIVEN INTO DEPENDENT POSSESSION BY AN ENTITY SUBJECT TO A PROPERTY TAX EXEMPTION

Edyta Jóźwiak

ORCID: 0000-0002-4596-7990  
University of Warmia and Mazury in Olsztyn  
1 Obitza Street, 10-725 Olsztyn, Poland

ABSTRACT

Motives: Does the real property owned by an entity subject to the real property tax exemption and placed in the dependent possession of another entity give rise to an obligation to pay the tax in the amount payable by the entrepreneur?  

Aim: In a situation where the property is in the possession of the entrepreneur, he is obliged to pay the highest amount of tax – in 2021, the rate of this tax is PLN 24, PLN 84 per m². However, the Act on Local and Duties and Fees provides for certain exceptions for entities which, due to their activities, benefit from a tax exemption, because of which no funds are credited to the budget of a local government unit. Therefore, it can be concluded that the tax authorities want the largest possible number of properties to be taxed in the highest amount. Their task is facilitated by the fact that the provisions of tax law are not clear as to the definition of “seizure of real estate for conducting business activity”, which allows the tax authorities to freely decide what such activity is and what is not. Recently, an opinion has developed that the mere transfer of real estate into dependent possession based on a civil law contract justifies the statement that the entity conducts business activity. Therefore, the article in question attempts to answer the question whether, and if so, in what amount, the entity that benefits from the tax exemption is obliged to pay tax if it gives the property into dependent possession, and whether it is possible to use tax optimization and make the division of real estate for tax purposes?

Results: The interpretation of the provisions of a.l.t. applied by the tax authorities to date, which boils down to the assumption that the mere fact of leasing real estate proves that business activity is being conducted and prejudices the loss of acquired right to tax exemption, is not justified in any way. In the provisions of the a.l.t., the legislator clearly indicates that the subjective use of the real property for purposes that entitle the entity to use the tax exemption is of significance. At the same time, when the tax exemption does not extend to part of the property, it is possible to subdivide it for tax optimisation purposes.

Keywords: tax law, property tax, business activity, principles of tax law, dependent possession, taxation, tax exemptions, tax preferences, tax rates
INTRODUCTION

The principle of openness and transparency of the law applies to the entire branch of financial law. These principles are referred to as normative general principles that have been explicitly formulated in the Act on Public Finances (Act on Public Finances, 2009). Such a location means that they refer to tax law, and therefore also to tax laws.

Cezary Kosikowski emphasizes that to maintain the above principles, it is not only required to maintain the formal dimension of openness, i.e., to publish laws and their amendments in a promulgation body, but it is necessary to guarantee material transparency consisting in ensuring their legibility and understanding. However, the high frequency of changes made and the techniques of marking them means that the addressee of the standards is not able to familiarize himself with the introduced changes, despite their announcement and entry into force of the relevant vacatio legis (Kosikowski, 2007).

Another problem, on the way of the taxpayer to the proper application of tax law, is the misunderstood and abused by the legislator so-called autonomy, which in this case means the rejection of all institutions and normative definitions and phrases established in the law and then replacing them with their own phrases used to define the same institutions. In the nomenclature of tax law, we find a difference, among others, in the subject of definitions of real estate, premises or building. These two circumstances have a negative impact on the understanding and application of tax law in Poland, leading primarily to its abuse by both taxpayers and tax authorities.

There is no doubt that if the real estate is in the possession of an entrepreneur and is occupied for business purposes it is subject to taxation at a higher tax rate (Jóźwiak, 2020). However, how to assess a situation in which a given entity conducts business activity in one property and, for example, runs an unpaid public benefit organization? If we treat the regulations only according to their literal wording, we should conclude that such real estate cannot benefit from tax exemption. Nevertheless, considering the objectives and principles of tax law, one should consider whether it is not possible, within the limits of tax optimization, to apply a tax exemption in some part, and if so how to do it?

Another case in which there is a problem with interpretation of the legal regulations is a situation in which an entity benefiting from exemption from real estate tax, e.g. the entity referred to in Article 7.1.5 of the Act on Local Taxes and Duties (hereinafter referred to as a.l.t.) or the entities referred to in Article 7.2 of the a.l.t.2, lease or, on the basis of another legal relationship, give a dependent possession of real estate to another entity which also carries out an activity entitling it to exemption from real estate tax. The tax authorities take the view that due to the contractual relationship between the two entities, there is an element indicating the conduct of business activity and, consequently, the necessity to apply the tax rate as for entrepreneurs. However, is this approach correct in view of the principles and objectives of tax law and the meaning of the notion of economic activity?

MATERIALS AND METHODS

To answer the above questions, the author used primarily a dogmatic-legal research method, which is appropriate for the analysis of legal regulations, court case law, as well as soft law acts. The subject of dogmatic legal analysis is both the very content of the law and its interpretations, found in case law and literature. To consider the subject more comprehensively, the author also used the historical

1 There is an exemption from property tax on land, buildings or parts thereof occupied exclusively for the statutory activities of associations for children and young people in the field of education, upbringing, science and technology, physical culture and sport, apart from those used for business activities, and land occupied permanently for camps and rest bases for children and young people.

2 This includes, among others, universities, federations of higher education and science system entities, public and non-public organisational units covered by the education system, nurseries and children’s clubs, scientific institutes, research institutes.
method to examine how the legislator’s approach to property tax exemptions developed at the turn of the last 30 years, this period is a period corresponding to the time frame of the applicable law relating to real estate taxation. Because of the above, the first analysis of legal acts and the provisions contained therein concerning the subject matter of the study was carried out. Secondly, it examined how these provisions are applied by administrative authorities and administrative courts. Next, the position of the judiciary and the position of the legal literature was compared, with particular attention paid to the teleological aspects of the existence of tax exemptions.

Exemption from property tax general issues

The issue of real estate taxation in a broad sense refers to several factual situations, the occurrence of which is associated with the occurrence of tax liability. It can be the mere fact of owning real estate, real estate trading (e.g., sale, donation), earning income from real estate (e.g., renting), or an increase in the value of real estate (adjacency fee) (Duch-Chojna, 1993).

Each of these states, in principle, involves the creation of tax liability. It should therefore be pointed out that the subject-matter of taxation is therefore not the immovable property itself but the conduct of the taxable entities which is inherent in the immovable property (Etel, 1998).

In the broadly understood tax system, we will also find a different scope of the concept of “real estate” depending on what tax we are currently dealing with, e.g. if we are talking about income tax, we will look for the concept of real estate in the provisions of the Civil Code (1964), on the other hand, when it comes to real estate tax, which is the subject of this article, it is regulated in the Act of 12 January 1991 on Local Taxes and Duties. According to this Real Estate Taxation Act, the following real estate or construction works are subject to real estate tax: land, buildings or parts thereof, and structures or parts thereof related to conducting business activity. Since the enactment of the law in 1991 to this day, despite repeated amendments, neither the subject, nor the subject of the tax, nor the method of calculating the tax base have changed. The method of its calculation is based on the area or usable area of the property. An exception to this rule is the taxation of buildings related to running a business, where the tax base is the value of the building.3

A significant change in the provisions of a.l.t. took place at the beginning of 2003. It referred, among others, to a certain ordering of the grounds entitling to tax exemptions. Until the end of 2002, exemptions from real estate tax could result from three sources: the Act on Commercial Property Tax itself, separate acts and resolutions of the municipal council. It might seem that this system was orderly and did not pose difficulties in finding tax exemptions. However, the problem was that the catalogue defined as: other acts was open, so it was difficult to establish a full list of acts in which tax exemptions could be found, especially as these “separate acts” often had nothing to do with the tax system at all. Such a lack of systematization, in which it would be possible to indicate clear criteria that determine inclusion of a particular property in the category of tax-exempt facilities caused great difficulties at the stage of applying the law (Etel, 1998). Moreover, the exemptions were introduced in an “uncontrolled” way, surprising taxpayers and even the tax authorities themselves. The consequence of this situation was frequent tax evasion, which to a large extent affected the significant depletion of municipal income on this account (Etel, 2013).

After the amendment of 2003, the legislator transferred to Art. 7 of the a.l.t. some of the entities that were subject to exemption under the above-mentioned “separate acts”. However, this is still not a complete catalogue, because there are three exceptions where the tax exemption remained regulated in non-tax acts (Dowgier et al., 2020). This concerns the exemption from property tax enjoyed by churches and religious

---

3 This issue does not relate to the subject of this article; therefore, it will not be described, more on this topic A. Biędacha, Wartość początkowa budowli, ABC, Lex (accessed 23.07.2021).
associations, real estate located in special economic zones and real estate of the State Treasury designated for road construction (Act on special principles of preparing and implementing investments in the field of public roads, 2003). The municipal council, by way of a relevant resolution, may also continue to apply exemptions from real estate tax.

Despite a certain ordering of the categories of tax exemptions, the legislator has not managed to avoid questionable issues. From the point of view of this article, Art. 7 par. 2 of a.l.t., which contains a list of entities subject to the exemption, is significant. The exemption is subjective in nature and covers only entities enumerated in the Act, which are involved in teaching and research activities in the broad sense of the word. By creating this list, the legislator based itself on a peculiar system of “tax support”, i.e., such a mechanism, which by means of tax exemption helps the development of certain areas, in particular the system of education and science, as an important pillar of society. This assumption should certainly be assessed as right and necessary, especially in the perspective of the stimulative function of taxes, the main assumption of which is to create taxes in such a way as to mobilized taxpayers as much as possible to undertake specific actions, useful from the point of view of society (Jaszczyński, 2017). At the same time, the legislator excluded the possibility to exempt such entities referred to in Art. 7(2) of the a.l.t. in the situation when they are occupied for business activity. However, it does not follow from the provisions of the Act what the said “occupation” means or how to understand “economic activity”.

---

**Tax exemption and economic activity**

As can be seen from the above, the fact whether a given entity uses the property in question to conduct business activity is of fundamental importance from the point of view of tax exemptions under the Act on Local Taxes and Duties. In those provisions, it is expressly stated that certain immovable property is exempt from tax, except for those used or occupied for the purpose of carrying out economic activity. The essence of this exclusion does not raise any doubts, the legislator exempts the so-called statutory activity of individuals. From the point of view of the principle of fiscalism, this assumption is correct. Since the entity earns income from running a business, there are no grounds for applying a tax exemption or preferences. Practice, however, shows some problems. One of these problems is related to the fact that, as indicated above, the exemption in question is subjective – objective. The first part – subjective character – means that the exemption may be applied only to an institution with the status of a taxpayer in the proceedings. It follows that if, for example, a higher education institution leases land or buildings from another entity, e.g. from a commercial law company which does not enjoy tax exemption, and conducts educational classes on their premises, and therefore the real estate is used for purposes related to the activities of the higher education institution, the company will not be able to take advantage of the discussed tax exemption, claiming that the real estate is occupied for business activity.

The exception here is the case when the real estate belongs to the State Treasury, because then higher education institutions retain the status of taxpayers and benefit from tax preferences (Dowgier et al., 2020).

---

4 The stimulation function means the use of tax instruments to influence the conditions of activity of individuals and the direction and pace of their development, the behaviour of citizens and entrepreneurs. The stimulation function is realised through the differentiation of tax burdens, thanks to which the tax can influence the decisions of entities in an encouraging or discouraging manner.
The second part – the subjective character – limits the scope of the subjective exemption only to objects of taxation used for specific purposes, which means that if the property held by an exempt entity is handed over in a dependent possession to another entity for purposes other than those covered by the exemption (the conduct of business activities), it cannot benefit from the exemption (Pietrasiewicz, 2017).

The above leads to the conclusion that an entity enjoys the tax exemption in question only if it simultaneously meets two conditions, for example: it is a higher education institution (subjective), and the subject of the real estate tax is not occupied for business activity (objective). On the other hand, does the obligation to pay tax at the rate appropriate for an entity engaged in business activity arise when an entity exempt under Art. 7 of the a.l.t. transfers a real property into dependent possession to another entity of the same group but between them a civil-law agreement is concluded, e.g., a lease agreement? In other words, may the mere conclusion of such an agreement be evidence of economic activity and eliminate the possibility of applying the tax exemption? After all, both the subjective and objective nature of the seizure of the real property does not change. At this point, it is worth noting that in 2021 the tax amounts to PLN 24.84 per m² of usable area (Notice of the Minister of Finance, 2020), while in 2022 it will amount to PLN 25.74 (Notice of the Minister of Finance, 2022).

To try to answer these questions, it is first necessary to define the concept of occupation of real estate for the purpose related to business activity. In this matter, the Local Taxes and Duties Act in Art. 1a (1)(4) refers to the provisions of the Entrepreneurs’ Law (hereinafter: e.l.) (Entrepreneur Law, 2018). It therefore becomes necessary to assess the non-tax provisions. Article 3 of the e.l. indicates that “business activity is an organised profit-making activity, performed on its own behalf and in a continuous manner”. For clarity, the definition of an entrepreneur in Art. 4 of the a.l.t. should also be quoted: “An entrepreneur is a natural person, a legal person or an organisational unit not being a legal person, to which a separate act grants legal capacity, performing business activity. Entrepreneurs are also partners in a civil partnership to the extent of their business activity. The rules of taking up, carrying out and termination of business activity by foreign persons are determined by separate provisions”.

It follows from the above that for an entity which is in possession of real property and is subject to the tax exemption under Art. 7 of the a.l.t. to lose this entitlement, it must carry out business activities in its own name, on a continuous basis and for profit. The issue of profit-making purpose is particularly important from the point of view of real estate tax, because even such activity which has never generated income will be deemed to be profit-making if it was established for such purpose (Judgment of the SA in Katowice, III AUa 424/19). According to well-established jurisprudence, however, incidental and sporadic activity of an entity will not constitute economic activity (Judgment of the SA in Lublin, III Ua 550/18).

Whether an entity will be exempt from taxation or not may significantly affect its financial situation; depending on the area which will be subject to taxation, such an entity will be obliged to pay tax in the amount ranging from several hundred zlotys to several thousand zlotys. Taking this into account, the vague nature of the notion of “connected with business activity” and “occupied for business activity” is contrary to the principles and objectives of tax law (Świstak & Smoleń, 2021). In view of the great importance for the taxpayer, the terms “in its own name”, “continuously”, as well as “occupied” and “bound” cannot be subject to any arbitrary interpretation or raise doubts (Jóźwiak, 2020).

The doctrine as well as the jurisprudence already examined the issue of “business occupation”, but did not recognize this concept in two parts, i.e., “occupation” and “business activity” (Pahl, 2012). Interpreting these concepts separately is justified by the fact that they occur in different configurations, as indicated above, the property can be occupied for business activity as well as it can relate to business activity. The notion of “economic activity” has already been explained above, so here it is necessary to explain how
“occupation” and “binding” should be understood for the purposes of tax law.

None of the acts related to taxation defines the above concepts, therefore in this case it is necessary to use the jurisprudence and doctrine. At the same time, there are no grounds to interpret these notions in the same way, despite their different wording (Judgment of the Supreme Administrative Court, II FSK 355/15). Thus, the notion of “buildings occupied” for a specific type of business activity, in accordance with the approach presented, among others, by the Voivodship Administrative Court in Poznań, means actual performance of activities therein which constitute conducting a specific type of business activity. At the same time, it is essential to separate a building or its part for carrying out this activity (WSA in Poznań, III SA/Po 449/10).

The ‘association’ with economic activity, from the perspective of the real estate tax is used to define the subject scope (Judgment of the WSA in Szczecin, I SA/Sz 513/10). In the judgment with act signature SK 39/19 of 24 February 2021 the Constitutional Tribunal ruled that with respect to real estate tax, a higher tax rate for real estate owned by an entrepreneur, but not related to his/her business activity, is unconstitutional. The cited judgment of the Constitutional Tribunal was delivered based on a case in which a natural person conducting a one-person business activity owned real property which was in no way connected with the business activity conducted.

Making a correct assessment of the premises quoted above is of key importance, as the determination that a given activity is or is not an economic activity causes that the premise of occupation of the taxable object loses its significance (Świstak & Smoleń, 2021).

The above clarifies how bonding and occupation are to be understood. It is therefore necessary to determine how the occupation of real estate by an entity benefiting from the tax exemption should be understood. The judgment of the WSA in Warsaw of 21 August 2015 will be helpful here, which indicated that in the case of educational activity, the occupation of real estate should be understood in a very broad sense. Namely, real estate occupied for educational activity is real estate related to the running and functioning of an educational institution of continuing education. Thus, real property occupied for educational purposes includes not only real property or parts thereof where teaching takes place, but also other ancillary premises serving the proper functioning of the continuing education institution and allowing for the proper conduct of teaching activities, such as the reading room, sanitary rooms, canteen, storerooms (lockers) and other utility rooms, corridors, staff rooms, including the office of the director, facilities and other premises necessary for the proper functioning of the continuing education institution (WSA judgment, III SA/Wa 3525/14).

In conclusion, it must be agreed that the necessary condition for recognising whether a given immovable property is occupied for the pursuit of an economic activity must be assessed from the point of view of the continuity and permanence of that activity and having regard in any way to the exercise of an economic activity (it is related to it) and the entity which holds it is aimed at making a profit.

Taxation of immovable property in dependent possession

The practice of tax authorities indicates that the very fact of giving real estate for use to another entity, e.g. because of concluding a contract, the subject of which is a lease or lease, proves a change in the purpose of real estate (Decision of SKO in Olsztyn, SKO.53.1067.2020). In the case law, however, more and more often one can meet with a different position, according to which not always because of a contract whose subject is real estate, the entity owning it will lose the right to benefit from the tax exemption (e.g., specified in Art. 7(2)(1) a.l.t.). The mere fact of giving real estate into dependent possession does not prejudice the fact of conducting business activity (Judgment of the Administrative Court in Wrocław, I SA/Wr 768/17). It is only when the dependent holder occupies the subject of taxation in a manner which the tax legislator treats as a basis for the loss of tax exemption that it will be justified to impose real
estate tax at the rate which is appropriate for real estate connected with the pursued business activity and occupied for the purpose of carrying out such activity (WSA judgment in Gorzów Wielkopolski I SA/Go 668/19).

Important and from this point of view is also the individual interpretation of the Municipal Office in Cieszyn of 11 December 2013 (Fn.II.3120.3.35.2013.1), the considerations of which must be divided in their entirety. The interpretation indicates that the renting by a school or the body managing the school of classrooms to another school, covered by the education system, does not change the purpose of part of the building for activities other than education, and thus the taxpayer does not lose the right to exemption from property tax. It was also rightly stated in the explanatory memorandum that to exclude the right to exemption, it is necessary to determine when the property is not occupied for educational activities.

The phrase “occupied on” means the permanent use of a work in whole or in part for a specific purpose. Premises for other purposes will not be occupied for conducting educational activities, even if they are occasionally used for such activities, but also vice versa, rooms intended for educational activities will benefit from the exemption, even if they are occasionally used for other purposes, including conducting business activity (Pahl, 2012).

Similar conclusions result from the ruling of the Supreme Administrative Court of 14 September 2018, which in its content indicates that the essence of the exemption in the case of real estate tax is its subjective character. This character proves that in determining whether an entity benefits from tax exemption, the very occupation of the real property for an activity exempted from the tax burden under the Act is significant (Judgment of the Supreme Administrative Court, II FSK 2514/16).

Therefore, it must be stated that the conclusion of an agreement based on which a given entity will use the real estate will not always prove that it conducts business activity and thus eliminate the possibility of applying the tax exemption. Each time the authority should consider whether a given entity uses the real estate for the purpose connected with its economic activity, i.e., whether it is its basic activity aimed at making profit and performed in its own name and on its own account. Otherwise, it is difficult to speak of an economic activity.

Answering the questions posed in the previous part of this paper, the mere fact of transferring the real property into dependent possession does not in itself trigger the prerequisite justifying taxation of the real property in the amount payable by an entity conducting economic activity. If the real estate is still used by an entity subject to the tax exemption referred to, inter alia, in Art. 7 a.l.t. for a purpose consistent with its principal activity, the mere fact of concluding an agreement enabling the use of the real estate should not affect the tax obligation.

However, if the property in a certain part is used by the owner for business activity, and in part for conducting, for example, statutory activities, then for the purpose of tax optimization it will be allowed to divide this property. An example of this may be a situation in which the university has transferred part of the property into dependent possession on the basis of a lease agreement to a person running a bar or bookstore. This part of the property will then be taxed at the highest rates, while the remaining part of the property where the attachments take place will benefit from the tax exemption.

RESULTS AND CONCLUSION

The interpretation of the provisions of a.l.t. applied by the tax authorities to date, which boils down to the assumption that the mere fact of leasing real estate proves that business activity is being conducted and prejudices the loss of acquired right to tax exemption, is not justified in any way. It is not justified by the literal wording of the substantive provisions of tax law, nor by their purposive interpretation. In the provisions of the a.l.t., the legislator clearly indicates that the subjective use of the real property for purposes that entitle the entity to use the tax exemption is of significance. Mere occasional letting of real estate, which in fact brings little financial benefit, cannot justify the imposition
of real estate tax at the amount payable by persons conducting exclusively business activity on the real estate.

The individual interpretation made by the tax authority competent for the city of Cieszyn, which has been referred to in the text of this article, should be assessed positively, where the authority indicates that it is significant to assess the subject of the activity performed, which is not affected by occasional business activity.

The interpretation of regulations presented so far by the tax authorities should be assessed as contrary to the fundamental principles of tax law, i.e., the principle of legal certainty and the principle of protection of acquired rights. Violation of these principles and application of a peculiar arbitrariness in assessment of factual situations contributes to the loss of citizens’ trust in tax authorities and affects the tax burden of the obliged entity beyond measure.

REFERENCES

Biedacha, A. Wartość początkowa budowli [Initial value of the building]. ABC, Lex (23.07.2021).
Judgment of the Court of Appeal in Katowice of 10 January 2020, III AUa 424/19, LEX No. 2825691.
Judgment of the Court of Justice of 24 February 2021, SK 39/19.
Judgment of the Provincial Administrative Court in Gorzów Wielkopolski of 20 November 2019, I SA/Go 668/19.
Judgment of the Provincial Administrative Court in Warsaw of 21 August 2015, III SA/Wa 3525/14.
Judgment of the Provincial Administrative Court in Wrocław of 13 February 2008, I SA/Wr 1087/07, LEX No. 469779.
Judgment of the Provincial Administrative Court in Wrocław of 3 October 2017, I SA/Wr 768/17.
Judgment of 24 May 2012, II FSK 2266/10, LEX No. 1162586.
Judgment of the Supreme Administrative Court of 14 September 2018, II FSK 2514/16.
Judgment of the Supreme Administrative Court of 24 May 2012, II FSK 2266/10, LEX No. 1162586.
Judgment of the Supreme Administrative Court of 24 May 2012, ref. II FSK 2266/10.
Obwieszczenie Ministra Finansów z dnia 23 lipca 2020 r. w sprawie górnych granic stawek kwotowych podatków i opłat lokalnych na rok 2021 [Notice of the Minister of Finance of 23 July 2020 on upper limits of specific rates of taxes and local fees for the year 2021]. Polish Monitor 2020, item 673 (Poland).
Obwieszczenie Ministra Finansów, Funduszy i Polityki Regionalnego z dnia 22 lipca 2021 r. w sprawie górnych granic stawek kwotowych podatków i opłat lokalnych na rok 2022 [Notice of the Minister for Finance, Funds and Regional Policy of 22 July 2021 on upper limits of specific rates of taxes and local charges for 2022]. Polish Monitor 2021, item 724 (Poland).
Pahl, B. (2012). Glosa do wyroku Naczelnego Sądu Administracyjnego z dnia 24 maja 2012 r., II FSK 2266/10

edyta.jozwiak@uwm.edu.pl

[Gloss to the judgment of the Supreme Administrative Court of 24 May 2012, II FSK 2266/10]. Lex.

Resolution of the composition of five judges of the Supreme Administrative Court in Warsaw of 18 December 1995, VI SA 19/95, ONSA 1996, together with the vote of L. Etel to the appointed resolution, Prz. Pod. 1996, No. 5.


