The Problem of the Grey Area in e-Trade in Poland

Anna Ćwiąkała-Małys
Uniwersytet Wrocławski, Poland

Iwona Piotrowska
Ministry of Finance, Poland

Abstract

E-trade is one of the most buoyant ways of selling goods and services in Poland. All activity in this field is very attractive not only for marketing companies but also for auditing and fiscal authorities. The results of analyses show that on-line trading is threatened however by the existence of a grey area. This refers, in particular, to non-registered business activity and avoidance of taxation on trade income. The aim of this article is to show the main risks of e-trade in Poland which may influence the state budget, and some legislative solutions which have an effect of a gradual limitation of fiscal fraud in e-trade. Source material constituted results of analyses that were conducted by the Polish Central Statistical Office, independent research units and studies by specialized marketing companies on the scope of the grey area in e-commerce in Poland. A comparative analysis of the size of the grey area shows that regardless of the difference in results of its measurements, the grey area is a common phenomenon. Accessibility of new technologies (computerization of enterprises and households and Internet accessibility) favors the development of e-commerce and the existence of a grey area within it.

Keywords: grey area, e-trade, tax avoidance

JEL: F19, H26, L81

Introduction

Polish e-trade is estimated at over 40 billion PLN. The growth dynamics are significant. In 2016, in relation to the previous year, there was 7% growth placing Poland as one of the leading countries in the European Union. Polish results overtook Slovakia’s results where dynamics of growth were 6%. Polish results were also better than those in Sweden and Luxembourg where dynamics of growth were 5% (Mazurkiewicz 2017). Specialists estimate that the contribution of Internet sales to retail trade in the following 10 years may reach 50%. The grey area is a socio-economic phenomenon that exists in many countries regardless of the type of economy. It differs only in the scale, severity and form. According to the Central Statistical Office of Poland (CSO) research on the grey economy encompasses also production activities in economic terms, which are totally legal (in terms of complying with standards and legal regulations), but hidden from public authorities as to:

- avoid paying an income tax, value added tax (VAT) and other taxes;
- avoid paying social-security contributions;
- avoid such requirements as: minimal pay, maximal working time, conditions complying with occupational safety rules; and
- avoid administrative procedures such as filling in statistical reports and other forms.

In internal and international studies on grey areas it is most frequently equated with:

- the illegal economy,¹ economic activities that break legal provisions (e.g., drug business, black market exchange trade);

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¹. The illegal economy is very often described as a black area and is identified with income from an activity of
• the non-reported economy, which means activities that bring some income which is not reported to fiscal authorities;
• the non-registered economy, which means activities that are not reported to statistical institutions; and
• the non-formal economy, which means economic activities in which a firm avoids costs that come from any regulations and are not covered by benefits from the aforementioned rules.\(^2\)

Regardless of the interpretation of the definition of grey area that is discussed by many researchers there is a common element that says it is economic activities of a non-forbidden type where income or a part of it is hidden from particular authorities of state administration. As a result, these activities lead to creation of GDP, but they are not directly registered (and by the same token unintended and non-registered). The phenomenon of the grey area is not subject to official reporting although it has a significant influence on GDP and economic development of a country. Accordingly, it has been noticed that there is a necessity to measure this phenomenon, its scale and structure and dynamics of changes.\(^3\) In practice, the measurement of this phenomenon amounts to evaluation of the scale of lost state income. The outcomes of the scale evaluations with the chosen methods—regardless of the differences—show dynamics of the grey area are constantly growing.\(^4\)

1 The Non-observed economy in Poland in 2012–2015 presented by the Central Statistical Office

The Central Statistical Office of Poland has been estimating for some years the scope of the economic grey area in Poland according to methodological rules included in a European Union document “System of National Accounts 2008” (System of National Accounts... 2009) and its European version of European system of accounts.\(^5\) Studies of the so-called non-observed economy in Poland include both legal activity (meaning the hidden and informal so-called economic grey area) and illegal activity. According to methodology used by CSO it was estimated that contribution of the non-observed economy in the years 2012–2015 in creating GDP (including the grey economy and illegal activity) was about 13%–14%. Contribution of the grey economy was estimated at about 12%–13%, whereas contribution of illegal activity was from 0.8% (2012–2013) to 0.3% (2015).\(^6\) The biggest share in the grey economy (5.0–5.6 p.p.) was made by entities with trade activity, building activity and the real estate market (Rachunki narodowe według sektorów... 2017, 266). The estimated value of the grey area in Poland in the years 2012–2015 was PLN 211–243 billion. The grey area of entities with trade activity, vehicle repair service and accommodation and gastronomy services was estimated in this period of time at PLN 86–92 billion.

After many years of studies conducted by the CSO on the non-observed economy in Poland, it follows that the grey area is getting bigger, in particular, in the face of the economy weakening (Praca nierejestrowana w Polsce w 2010 r. 2011; Praca nierejestrowana w Polsce w 2014 r. 2015). The grey area has a negative impact on the whole economy since it brings down budget income and it influences the state budget in a negative way. It is also highlighted that it has a negative impact on economic competition by putting entities in the grey area in a privileged situation in relation to entities that operate legally, in particular in the sector of small and medium-sized enterprises.\(^7\)

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\(^{1}\) The Non-observed economy in Poland in 2012–2015 presented by the Central Statistical Office


\(^{3}\) Ibid., page 49.

\(^{4}\) Ibid., page 7.


\(^{6}\) [In the journal European practice of number notation is followed—for example, 36 333,33 (European style) = 36,333.33 (Canadian style) = 36,333.33 (US and British style).—Ed.]

\(^{7}\) See: “Szara strefa” w polskiej... op. cit.
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2 The grey area in Poland in the years 2012–2016 according to Gdansk Institute for Market Economics estimates

A report by the Gdansk Institute for Market Economics entitled “Szara strefa w polskiej gospodarce w 2016 roku”\(^8\) apart from presenting many aspects of the grey area also shows estimates and size prognosis of the grey area in the years 2012–2016. The Institute’s estimates were prepared on the basis of state accounts which means that the Institute estimated it on the basis of “corrected” GDP. According to the aforementioned CSO’s attitude towards the grey area only added value is created by participants of hidden economic activity. The value of the grey area estimated by the Institute is corrected with data which is not reported in official statistics of the CSO. According to the Institute, the CSO’s estimates have underrepresented turnover, owing to the fact that the estimates only include, in principle, micro-entities (with a maximum of 9 employees), forgetting about bigger entities. The validity of the estimates is based on 20 years of experience in research on various sectors of the Polish economy which have been and still are affected by the grey area.\(^9\)

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\(^9\) Ibid., page 19.
Grey economy contribution according to the Institute in the years 2012–2016 was estimated at more than 19%. The smallest contribution of 19.2% was in 2015 and the biggest 21.2% in 2012. In 2016 it was calculated that the contribution of the grey area economy was at a level of 19.7%. This high level of estimates in 2012 was driven by the economic situation created due to the UEFA European Championship in 2012 (Kowalski and Otto 2012).

Fig. 2. Differences in calculations referring to the grey area of the Polish economy 2012–2015 (in % of GDP)

Source: Own elaboration based on data published in (Rachunki narodowe według sektorów..., 2017, 267) and Szara strefa w polskiej..., op. cit., page 19.

3 E-commerce according to marketing research

According to CSO’s terminology e-trade (also known as e-commerce) covers online transactions based on IT protocol and other computer networks. Goods and services are ordered online but payment and delivery of ordered items may be done online or in real life. Transactions may be between companies, with individuals, government institutions and other private and public institutions. Orders via phone, fax or e-mail are not elements of e-commerce.10 Observations of e-trade development in Poland allows us to clearly state that it develops dynamically and the scale of legal activity is growing with demand for such services. This kind of phenomenon is encouraged by making electronic banking more common.11

In May 2016, the Gemius company conducted researches concerning e-commerce in Poland.12 Among 3 most often performed activities the users of the Internet13 mentioned:

- buying goods/services on Polish Internet sites — 96%–99%,
- comparing prices of goods/services — 81%–86%, and
- searching for goods/brands that they want to buy — 82%–87%.

Additionally, among motivating factors to buy online the users of the Internet mentioned:

- 24 hour access — 83%–90%,
- no need to go to a shop/store — 80%–82%,
- more attractive prices than in traditional shops/stores — 74%–76%,
- ease in price comparison — 70%–78%,
- bigger choice than in traditional shops/stores — 67%–71%,
- ease in finding rare/specific goods — 66%–70%,
- different forms of payment accessible — 45%–60%,
- many different ways of delivery/collection of goods — 47%–59%, and
- more information about goods — 48%–57%.

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11. See: “Szara strefa” w polskiej..., op. cit.
13. That is a declared number of PCs (413), portable computers (laptops) (586), tablets (170), mobile phones/smartphones (296) — number of respondents in brackets.
As categories of goods that had been purchased most eagerly in the past and those planned to be bought on-line the customers mentioned:

- clothing, accessories — 72%,
- books, CDs and films — 68%,
- phones, smartphones, tablets, GSM accessories — 56%,
- household appliances — 55%, and
- cosmetics/perfumes — 51%.  

Categories with the least popularity among e-customers are building materials, collector’s wares and insurance.

4 Internet trade in Poland — chances for further development

E-commerce, in the opinion of the Ministry of Economic Development, is the most emerging in the sales segment. Although traditional forms of selling are dominant on the wholesale and retail market, the Internet sale plays a bigger role. It is fostered by better communication, better access to goods and services but also reduction of transactional costs and better access to new markets. Internet trade also fosters competitiveness of Polish businesses. In 2010 net income value from Internet site sales and automatic data exchange was PLN 324.7 billion which constituted 11.0% of total sale income. On the other hand, in 2013 exchange amounted to PLN 356 billion and constituted 11.5% of net income value. Reports on the Polish economy that were prepared by the Ministry of Economy show that net value from sales income from Internet sites or automatic exchange of data in Poland in 2010–2013 had systematically increased. Consequently, growth of net income value from sales in only 3 years was more than 9.6%.

According to analyses of the Centre for Retail Research, Nottingham, UK online trade in Poland in 2014 constituted 2.8% of the retail market. We are still far from the most developed markets in Europe: Great Britain and Germany, where this share is accordingly 13.5% and 10%. At the same level as Poland in share of e-trade in retail market was Spain (3.0%) and Italy (2.1%).

Fig. 3. Net income value from Internet sale and automatic data exchange in Poland (2010–2013)


CSO conducted researches on the scope of development of the information society and digital economy in Poland in 2012–2016 (Społeczeństwo informacyjne w Polsce... 2016, 9–86 passim). The researches were conducted according to a division into two categories, using ICT\(^{18}\) in enterprises and households. The results in the category of ICT usage in enterprises show that:

- computers were used by 94.7% of enterprises, including 99.8% of very big enterprises;
- percentage of enterprises with access to the Internet was over 93.7%, including 99.7% big entities;
- the number of enterprises using broadband connections (both ordinary and mobile 3G) grew to 93.2%; and
- 12.4% of companies used Internet sales and 34.8% made purchases electronically.

The results showed that the percentage of enterprises using the Internet in contact with public administration grew to 93.6% in 2015.

CSO researches confirmed that more and more enterprises believe that their development was due to ICT achievements and general usage of computers with access to B-ISDN (Społeczeństwo informacyjne w Polsce... 2016). Enterprises perceive their Internet site as a marketing tool. The researches confirmed that a function that is used the most often is presentation of goods, catalogues and prices or services (63.6% enterprises in 2016, including 86.5% of big enterprises). Contemporary Internet sites become more and more technologically advanced and apart from a representative function they have also other roles. They allow customers to: order, track the order and also be informed about vacancies. The number of enterprises in Poland that have their own Internet site was on the level of 65.3%–67.6%, among these there were over 90% of big enterprises. The Polish result in 2015 was 65%, however, this still falls short of Finland’s result which was 95% of big enterprises that had their own Internet site and an average of the EU (EU-28) which was 75% in 2015.

It is noticeable that social media are more eagerly used by enterprises in the business sphere as a new communication channel to promote products and brands. Through these media the users share their opinions about the products, services and advertising actions. Social marketing allows them to create a group of loyal customers and to find new ones. Through this communication enterprises encourage customers to share their ideas which they can use during further works on development of goods and services. The results of researches in the category of using ICT in households show that:

- 80.1% of households had at least one computer; this percentage was systematically growing in the previous years, however, it is definitely higher in households with children;
- in 2012–2016 the number of regular users of computers grew and in 2016 over 80% of households had access to the Internet;
- more than three-quarters of Polish households in 2016 had access to B-ISDN;
- almost 42% of Poles in 2016 between 16 and 74 years old used the Internet to do shopping; and
- the percentage of people using public administration services on the Internet in the last 12 months was 30.2% in 2016; the most often used form of e-administration was searching for information.

\(^{18}\) Information and Communication Technologies.
5 Internet trade and the grey area

Data published by CSO for years 2012–2015 show a sphere of economic activity in the area of trade that constitutes a potential source of income from the grey area. Its existence significantly influences a decrease of legally performed business activity by registered enterprises and non-registered business entities that actually perform this activity. It follows from the character of trade activity in this area so there is a possibility to pay for transactions in an ordinary way and also on-line. Running a trade business on-line (so called e-commerce) entails non-registered turnover of goods and services. In spite of the fact that entities running business activities on-line are subject to the same obligations as entities on the ordinary market, running a business on-line fosters avoidance of obligations resulting from (e.g., tax law).

On the Internet it is easier to hide or change the identity of a seller by providing false identification data, specifically on auction sites. Organs that were created to execute some obligations very often are not able to identify an entity that had a transaction of an economic kind. Hiding or providing false identification data results in inconclusive actions of law enforcement bodies to find those responsible for tax offences.

Amongst the most common threats for a proper development of e-commerce in Poland, from the point of view of the market participants, we can enumerate:

- possibility to get to customers which do not comply with standards defined in regulations,
- possibility to introduce counterfeit products (e.g., appliances, clothing, perfumes, shoes),
- possibility to introduce counterfeit excise products (e.g., tobacco products, oil),
- using incorrect VAT rates,
- avoiding payments of customs duties (e.g., customs fees on import of goods from outside of the European Union),
- avoiding the need to show actual turnover/income by a seller (e.g., avoiding recordkeeping of sales or invoices),
- lack of possibility to check credibility of a contractor due to transactions between parties that do not have direct contact,
- lack of delivery of ordered goods or services and very often with no consumer law due to lack of receipt or VAT invoice,
- entrepreneurs facing unfair competition sometimes losing their place on the market,
- displacing solid producers and sellers from the market, in other words forcing business entities to move into the grey area as to stay on the market, and
- possibility to put fake transactions in place (e.g., money laundering, financing terrorism).

However, the most important is the fact that the existence of the grey area in e-commerce area has an impact on the state budget because it does not get due taxes from enterprise and individuals (Fundowicz, Łapiński, Peterlik and Wyżnikiewicz, 2016, 5).

In the literature, as a form of constraining the extent of the grey area, people mention the necessity to limit cash payment and encourage cashless turnover. Financial transactions in the grey area are, due to understandable reasons, conducted with the usage of cash so that you do not leave any documents or a trail on the basis of which some authorities may confirm that a business activity was conducted.

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24. Ibid., page 5.
6 Internet trade as a subject of interest for controlling bodies

Internet trade and electronic services are a subject of interest for controlling bodies responsible for assuring proper tax payments to the state budget—and in explainable situations—for investigative authorities. The Polish Supreme Audit Office has conducted an evaluation of actions taken by the Ministry of Finance (till 2010) in terms of executing tax and customs duties. The report on this audit was published in 2010. The Supreme Audit Office pointed out elements that—in its opinion—have an influence on insufficient effectiveness of actions taken in the aforementioned area. The most important are:

- lack of specifying an area and scale of online trade,
- delay in building a coherent system of detecting and monitoring areas of incorrectness appearing in the field of tax and customs obligations,
- lack of ensuring subordinate bodies (fiscal, tax and customs) by the Ministry of Finance all effective procedures and informative tools that serve as tools to disclose non-registered business activity and non-reported economic actions that are taxable, and
- insufficient preparation of bodies (fiscal, tax and customs) to conduct control of Internet trade due to lack of proper methodology of control.

Additionally, in a report of the Supreme Audit Office it was stated that there is no coherent system of data collection and processing and there were no tools that facilitate systematic monitoring of electronic networks and nominate controlling bodies introduced to help fiscal, tax and customs units.

The Supreme Audit Office indicated that an analysis which takes place before controlling actions has an influence on effectiveness and accuracy of choosing authorities for planned controls, including the area of e-commerce. This analysis would enable them to indicate entities of the highest risk group thus a potential situation of creating and developing the grey area. What is more is that the Supreme Audit Office highlighted that it is inevitable that informative tools are created to control the area of e-trade which should be more and more specialized.

Actions that have been taken by the financial resort and its subordinate units in the following period of time to work against the grey area in Poland, in particular with reference to e-commerce are significant. The actions served not only to make existing solutions more efficient but also to take steps to finish ongoing actions related to long-term solutions (including system-wide, legislative and educational-informative). We can distinguish the most important actions:

- introducing legislative changes related to reciprocal imposition of VAT—i.e., for so called “small” electronic devices (that is laptops, notebooks, mobile phones, smartphones, tablets, video games consoles, etc.)
- creating projects of regulations concerning reduction of cash payment limitations from which there will be an obligation to use money transfer which means regulating payments for transactions in cashless form (through money transfer or using a card)
- creating and implementing a conception of a Standard Audit File for Tax (SAF-T)
- creating specialized units for e-commerce (in custom, tax and fiscal structures) and monitoring the Internet in terms of incorrectness concerning an entity and the process of transactions through the Internet
- implementing an integrated risk managing system in entities of the public financial sector (i.e., on the basis of the PCDA model)
- conducting risk analysis (i.e., on the basis of results from an audit in 2013) and to mark off a subsector of risk “e-handel i usługi informatyczne”
- identifying and describing a risk connected with the subsector “e-handel i usługi informatyczne” (i.e., in particular the risk of not registering taxable income by not recording the income or its part on cash registers; a risk of not realizing timely duties concerning tax payment or advance tax payment; a risk of running non-registered business activity)

25. Supervision over actions conducted by tax, fiscal and customs authorities is in the Minister of Finance’s hands, see: Informacja o wynikach kontroli..., op. cit., page 7.
26. Ibid.
27. Ibid., page 8.
• including the subsector “e-handel i usługi informatyczne” in State Action Plans (for years 2014–2016)
• conducting an informative action about incorrectness in VAT tax extortion
• conducting educational-informative actions (“Take a receipt” and Receipt lottery) aimed at informing customers about a seller’s obligation to register a sale and what follows to submit a receipt

The aforementioned actions do not fully exhaust the list of the financial authorities’ actions in this subject area.

Conclusions

In many works on the grey area it is stated that it is a common and independent phenomenon regardless the type of economy. A very common conclusion is that this phenomenon can be reduced but not eliminated. All the actions taken to counteract it should be planned and well-thought out and should cover simultaneously the following fields: legislation, economic and social policy and actions of specialized authorities to fight abnormalities in economic turnover.28 In some scientific works on the grey area it is highlighted that it is typical for a so-called overregulated economy. An expression of this can be an abundance of legal regulations, weak monitoring tools and incoherent legal provisions.29 It is commonly considered that the existence of the grey area is disadvantageous because it causes many negative effects of social and economic natures (Praca niezurejestrowana... 2011, 15). We can list negative effects of grey area existence in every economy:
• falsifying economic statistics
• understating tax income to the state budget
• defective “constructing” of macroeconomic policy due to increase in money circulation out of bank accounts (Szara strefa jest w świetnej formie 2004)

Additionally, underestimation of the grey area has a negative influence on social aspects such as:
• proper and socially expected allocation of public assistance (public assistance for families), and
• incorrect allocation of structural funds, particularly in the education sector, trainings, investments in ICT.30

It is highlighted that a long-term law evasion fosters destruction of social and economic life creating pathologies. Falsified macroeconomic statistics considering inflation, in general, provides disinformation to economic authorities and creates the detectiveness of macroeconomic policy.

References


28. See: “Szara strefa” w polskiej..., op. cit.
30. Ibid., page 14.