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**DEPRECIATION OF FIXED ASSETS IN THE CONTEXT OF
ACCOUNTING AND TAX LAW IN POLAND**

Abstract: Depreciation of fixed assets is an important source of internal financing, used in practice by entrepreneurs. In addition to net income, depreciation is the second internal source of funding for creating a budget surplus in the enterprise. Depreciation, while measuring the degree of reduction in the initial value of fixed assets, informs about the extent of its consumption and is an important prerequisite for investment decisions. Choice of optimal method of depreciation is associated with the risk of economic activity in conditions of uncertainty and turbulence, related to the behaviour of the market in the future, and also requires knowledge of the complicated changes of law, regulations, interpretations or judgments. The aim of this paper is to present the essence of depreciation, identification and characterisation of discrepancies in the calculation of consumption of fixed assets, which are consequences of compliance with the regulation in the Accounting Act and the Legal Persons Income Tax Act. What is more, methods of depreciation of fixed assets are discussed, since an entrepreneur ought to consider what the most favourable distribution of the costs of depreciation over time is. Furthermore, issues of methods and depreciation rates are described, conducting simulations of depreciation methods. Review of literature and existing legislation is the research methodology in this paper. Reliable knowledge gathered in this article can be useful in everyday accountant work, but may also be used e.g. in the classroom teaching.

Keywords: accounting, depreciation, corporate finance, management.

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Introduction

Fixed assets are essential components of tangible fixed assets, consumed gradually, while retaining much of their natural form for a long time. Fixed assets are buildings, machinery, equipment, vehicles and other items that meet the following conditions:

- Are the property of business entity;
- Are used for the needs of business;

- Are purchased or produced within business;
- Are complete and fit for use on their acceptance day;
- Their expected economic life is longer than one year;
- purchase or production price is higher than PLN3,500.

The asset can be a car, computer, copier or furniture, provided that the price exceeds PLN3,500 of net value. In the situation of an individual business entity, which is a non-VAT payer, it is the value of PLN3,500 gross. (Młodzikowska D., Lunden B., 2015, p. 173) According to K. Czubakowska, the term of fixed assets shall be understood as tangible fixed assets and equivalent unit resources (simultaneously meeting the following criteria: the expected period of shelf life is longer than one year, are completed and fit for use on their acceptance day and are designed for the statutory needs). (Czubakowska K., 2014, p. 50) According to the Act of 29 September 1994 on Accounting (Journal of Laws of 2013, pos. 330 as amended), Art. 3, paragraph 1, item 15, fixed assets are considered as tangible fixed assets and their equivalents, in particular: real estate (including land, the right to perpetual usufruct of land, building and structures, as well as premises being separate properties), machinery, equipment, vehicles and other things, leasehold improvements, goods with an expected economic life longer than one year, complete, usable and intended for the needs of individuals, excluding assets held by an entity in order to achieve the economic benefits resulting from the increase in value of these assets, achieving revenue in the form of interests, dividends (shares in profits) or other benefits, including commercial transactions, in particular the financial assets, real estates and intangible assets, which are not used by the individual, but owned by him/her in order to achieve these benefits and investments in case of insurance companies and reinsurance undertakings. Fixed assets put into use under lease or rented are included in the fixed assets of one of the parties to the agreement. (Niemczyk R., 2013 p. 50) Fixed assets are necessary for the company to do business; while being used they are shifting their value to a newly manufactured product, causing partial loss of its value. Economic entity recognises fixed assets in the accounts, according to initial value (gross value), which corresponds to: purchase price, production costs (measures made in the company), gross value resulting from the accounting books (for fixed assets obtained through the process of ownership transformation); the market value, which the company received as a donation or as an in-kind contribution. Fixed assets are subject to depreciation, which periodically subtracts fixed percentage of their value due to technical or moral consumption. Depreciation of fixed assets is an important source of internal financing, used in practice by entrepreneurs. In addition to net income, depreciation

is the second internal source of funding for creating a budget surplus in the enterprise. Depreciation, while measuring the degree of reduction in the initial value of fixed assets, informs about the extent of its consumption and is an important prerequisite for investment decisions. The aim of this paper is to present the essence of depreciation, identification and characterisation of discrepancies in the calculation of consumption of fixed assets, which are consequences of compliance with the regulation in the Accounting Act and the Legal Persons Income Tax Act. What is more, methods of depreciation of fixed assets are discussed, since an entrepreneur ought to consider what the most favourable distribution of the costs of depreciation over time is. Furthermore, issues of methods and depreciation rates are described, conducting simulations of depreciation methods. Review of literature and existing legislation is the research methodology applied in this paper. Reliable knowledge gathered in this article can be useful in everyday accountant work, but may also be used e.g. in the classroom teaching.

Depreciation of Fixed Assets - Definition and Functions

In the literature, the concept of depreciation is mostly explained through depreciation methods, depreciation rates and legal possibilities of their application. Tax and accounting laws determine, in connection with the ownership rights, what conditions material goods that are subject to depreciation must meet. Fixed assets, participating in production processes, are being consumed. This process defines the concept of depreciation and remission. Depreciation is a consumption of fixed capital expressed in value as a result of their exploitation, booked under the burden of operating costs. It allows reproduction of damaged fixed assets. Remission must be distinguished from the concept of depreciation. Remission of fixed assets periodically corrects the initial value of the consumption value of fixed capital throughout the period of their use. Remission allowances (write-offs) are treated equally with depreciation, which shall be made evenly for a period of depreciation of the asset. (Czubakowska K., 2014, p.135) There are two concepts of fixed assets consumption in accounting: physical consumption that occurs during use and exploitation of the asset. The cause of the physical consumption can be e.g. ageing process or natural causes. The size of consumption may be affected by the following factors: the type of fixed asset, intensity and conditions of its exploitation (the number of shifts at work, contact with aggressive substances), care services as well as the frequency of renovations, repairs, inspections, maintenance etc.; and the economical usage, due to technical progress, technology and new production methods. Economic consumption increases depreciation because the shortening of fixed assets is associated with the need to spread their

values on a smaller number of years. Consumption of fixed assets contributes to a reduction in their values; it is, therefore, included in the cost of the activities of economic entity. The process of reducing the initial value of fixed assets as a result of their consumption or lapse of time is reflected in remission and depreciation allowances. The progressive consumption of fixed assets requires consideration in the accounting records of remission, as the adjustment of the initial value. Remission of fixed assets is equivalent to the consumption of these measures correcting their gross value to the net value. This is why the economic entity performs depreciation allowances, which adjust or reduce the initial value of fixed assets. (Niemczyk R., 2013, p. 67 - 68) Depreciation is the cost of used fixed assets included in the financial results of the entity. The process of depreciation of an asset should be started no earlier than after the adoption of this measure to use. The last depreciation allowance is carried out at the time of equalisation of the sum of depreciation or remission allowances of the initial value of the asset. According to the Accounting Act, art. 32 paragraph 1, remission allowances of fixed assets are made by systematic and planned distribution of their initial values for a fixed period of depreciation. In order to produce a reliable plan of depreciation, it is necessary to individually determine for each newly acquired asset its carrying amount, the expected economic usefulness, depreciation method and rates. The choice of the appropriate method and depreciation rate is directly dependent on the proper designation of the economic life of the asset. According to the Accounting Act (art. 32 paragraph 2), one should take into account while determining the rates and amounts of depreciation allowances:

- Number of shifts, on which the fixed asset operates;
- Pace of technical and economic progress;
- Performance of the asset expressed as the number of the hours or manufactured products;
- Legal or other restrictions on the time limitations of the asset;
- Expected liquidation value of the net sales (parts, components, scrap) of the asset.

Methods and Depreciation Rates of Fixed Assets

Proper selection of the method of tax depreciation is one of the factors giving the opportunity to optimise the amount of the surplus of the financial entity. Financial surplus should be understood as net income plus depreciation included in the cost of business (financial surplus = net profit + depreciation). Assessment of the amount of the planned financial surplus will need to take into account the results obtained from the

comparison of different depreciation methods and their real impact on the expected surplus value. (Podobiński J., 2006,). The entrepreneur has a choice of several ways of tax depreciation. Depreciation (remission) allowances according to the Income Tax Act can be calculated using the following methods:

- Straight-line (uniform depreciation);
- Degressive (irregular depreciation, accelerated depreciation, declining balance);
- Individual.

Depreciation of fixed assets - straight-line method

Depreciation is calculated mainly using the straight-line method, making monthly uniform allowances for subsequent years use depreciation rates set out in attachments of income taxes laws. Depreciation allowances of various fixed assets are calculated using the appropriate rates; moreover, it separates specific subgroups, types or levels of further distribution, resulting from the Classification of Fixed Assets (KŚT). All amount rates are contained in Annex 1 of the PIT and CIT acts, they are determined based on the Classification of Fixed Assets (KŚT). Since January 1, 2017, by the decree of the Council of Ministers of October 3, 2016 on the Classification of Fixed Assets (Journal of Laws of November 18, 2016) on the basis of article 40, paragraph 2 of the Act of 29 June 1995 on public statistics (Journal of Laws of 2016, pos. 1068) the Classification of Fixed Assets was introduced (hereinafter KŚT); at the same time, the Council of Ministers of December 10, 2010 on Classification of Fixed Assets (KŚT) (Journal of Laws, pos. 1622) will be applied until December 31, 2017 in the following provisions: firstly in tax matters, which is the Income Tax Act of the individuals and the Income Tax Act from legal entities; secondly in matters of records and reports, which is the Accounting Act; as well as on matters relating to the transfer of data used for statistics purposes, provided by the Act of 29 June 1995 on public statistics; and in other cases - at the same time with KŚT 2010. Every entrepreneur calculates depreciation costs in the straight-line method individually. Therefore, if one wants to know how much the annual depreciation amount is, one must comply with the following formula: the value of fixed asset as a percentage of annual depreciation rate. In the case of interests of monthly depreciation amount, the obtained result ought to be divided by 12, which is the number of months in a year. Example:

The „ABC” company bought a truck for PLN120,000 in June 2016, which has been classified as a fixed asset of the company. The taxpayer has chosen the straight-line method of depreciation. According to the depreciation table, the rate of depreciation for the truck is 20%.

annual depreciation rate: $\text{PLN}120,000 \times 20\% = \text{PLN}24,000$

monthly depreciation rate: $\text{PLN}24,000 : 12 = \text{PLN}2,000$

the „ABC” company will make the following depreciation allowances from July till December 2016 (6 months) - $\text{PLN}2,000 \times 6 = \text{PLN}12,000$

2017 - $\text{PLN}24,000$

2018 - $\text{PLN}24,000$

2019 - $\text{PLN}24,000$

2020 - $\text{PLN}24,000$

In the 2021 $\text{PLN}12,000$ will remain as: monthly depreciation rate $\text{PLN}2,000$, therefore: $\text{PLN}12,000 : 2,000 = 6$ months of depreciation in 2016. Depreciation will have been completed in June 2021.

Depreciation of fixed assets - accelerated straight-line method

The entrepreneur can determine the rate individually, in case the acquired assets are used or improved, and when the assets are put into the company's records for the first time. Therefore, various categories of fixed assets must have minimum depreciation periods.

Table 1. Minimum depreciation periods for fixed assets

for 3-6 groups and 8 KŚT	<ul style="list-style-type: none"> • 24 months - when the initial value is less than $\text{PLN}25,000$ • 36 months - when the initial value is higher than $\text{PLN}25,000$ but less or equal to $\text{PLN}50,000$ • 60 months - in other cases
means of transport	<ul style="list-style-type: none"> • 30 months
for non-residential buildings (premises), for which the depreciation rate is 2.5%	<ul style="list-style-type: none"> • 40 years reduced by the full number of years that have elapsed from the date of commissioning for the first time to use till the date of entry into the ŚT and WNiP (intangible assets) of the taxable person, provided that the depreciation period may not be less than 10 years for other buildings (premises) and structures. • 10 years (except permanently connected with trade and services buildings in the type 103 of Classification and non-residential buildings in the type 109 of Classification, permanently connected with land, kiosks, shopping malls with a capacity of less than 500 m³, bungalows and building substitute for which depreciation period may not be less than 3 years).

Source: Metody amortyzacji firmowych środków trwałych. Poradnik przedsiębiorcy, Zespół wfirma.pl [as of 2017.02.13]

The entrepreneur must prove that the acquired fixed asset is used for at least 6 months - in the case of fixed assets from 3-6 and 8 groups, and in the case of means of transport; 60 months - in case of buildings and structures mentioned in art. 22j title 1 pos. 3 of the PIT Act and art. 16j title 1 pos. 3 of CIT Act. However, to recognize the improved asset as one, it must represent 20% of the initial value in relation to the assets belonging to 3-6 and 8 KŚT groups and means of transport; 30% of the initial value in relation to buildings and structures.

Depreciation of fixed assets - individual straight-line method

Depreciation rates, which are specified in the list of rates, may be appropriately increased in exceptional cases. This applies to assets that are used in a special way. A specific ratio is used for selected fixed assets, which should be simply multiplied by the rate of depreciation of the asset. Arrangements for increasing the depreciation rate can be found in the PIT act (art. 22i paragraph 2-7) and CIT act (16i paragraph 2-7). Depreciation rates for selected fixed assets: 1.2 - for buildings and structures used in the degraded conditions; 1.4 - for buildings and structures used in bad conditions; 1.4 - for machinery, equipment and means of transport (except marine floating stock) used more intensively in relation to average conditions, or requiring special technical efficiency; 2.0 - for machinery and equipment in classes 4-6 and 8 KŚT, which are subject to rapid technological progress.

Depreciation of fixed assets - degressive method

The degressive method assumes that the fixed asset depreciates more in the first period of use, and less in subsequent periods. This method uses higher depreciation rate. The coefficient increasing the rate cannot exceed 2.0. (Młodzikowska D., Lunden B., 2015, p. 177) Degressive depreciation cannot be applied to all fixed assets. To use this method of depreciation, fixed assets of entrepreneurs must be machinery and equipment classified in 3-6 groups and 8 KŚT. The degressive method also applies to all modes of transport with the exception of passengers of cars. In the first fiscal year of using the fixed asset, depreciation is calculated from its initial value, and in the following years of the initial value reduced by accumulated depreciation allowances. However, when the value of the annual allowance will be lower than the value of annual allowance in the case of straight-line method, the entrepreneur (taxpayer) must change the method to the straight-line one. (<https://poradnikprzedsiębiorcy.pl/metody-amortyzacji-srodkow-trwalych> (as of 07.03.2017)) Example: "ABC" company bought a machine in 2016 with a value of PLN450,000 which in the same month was admitted to the register of fixed assets. Since it is the device of 5th KŚT group, the unit benefited from the degressive depreciation method. In order to compare the straight-line method to degressive one, the depreciation rate of 2.0 was applied

increasing the basic rate. The basic rate is 20%, therefore, the increased rate is 40%. The amount of depreciation allowances in subsequent years:

Straight-line method (uniform):

Value of annual depreciation: $450,000 \times 20\% = \text{PLN}90,000$

Value of monthly depreciation: $90,000 : 12 = \text{PLN}7,500$

The “ABC” company made the following depreciation allowances:

for July-December 2016 (6 months): $\text{PLN}7,500 \times 6 = \text{PLN}45,000$

2017 - $\text{PLN}90,000$

2018 - $\text{PLN}90,000$

2019 - $\text{PLN}90,000$

2020 - $\text{PLN}90,000$

In 2021, the depreciation will remain at $\text{PLN}45,000$.

The value of monthly depreciation is $\text{PLN}7,500$ so: $\text{PLN}45,000 : \text{PLN}7,500 = 6$ months of depreciation in 2016. Depreciation will be completed in June 2012.

Degrassive method:

Depreciation rate $20\% \times 2 = 40\%$

2016

The basis for calculating the rate of $\text{PLN}450,000$

Annual allowance: $\text{PLN}450,000 \times 40\% = \text{PLN}180,000$

Monthly allowance: $\text{PLN}180,000 : 12 \text{ months} = \text{PLN}15,000$

Due to the fact that depreciation begins in February: in 2016 11 monthly depreciation allowances are made: $\text{PLN}15,000 \times 11 \text{ months} = \text{PLN}165,000$

2017

The basis for calculating the rate of $\text{PLN}450,000 - \text{PLN}165,000 = \text{PLN}285,000$

Annual allowance: $\text{PLN}285,000 \times 40\% = \text{PLN}114,000$

Monthly allowance: $\text{PLN}114,000 : 12 \text{ months} = \text{PLN}9,500$

2018

The basis for calculating the rate ($\text{PLN}450,000 - \text{PLN}165,000 - \text{PLN}114,000$) = $\text{PLN}171,000$

Annual allowance: $\text{PLN}171,000 \times 0,4 = \text{PLN}68,400$ - allowance is lower than in the straight-line method, which means that starting with 2018 one ought to start with a straight-line depreciation (the value of annual depreciation allowance according to the straight-line method: $\text{PLN}90,000$)

Straight-line method:

Remaining $\text{PLN}171,000$ to depreciate

Annual allowance: $\text{PLN}90,000$

Monthly allowance: $\text{PLN}7,500$

2019

Remaining $\text{PLN}171,000 - \text{PLN}90,000 = \text{PLN}81,000$ to depreciate

The last depreciation allowance occurs in November 2020

January-October: PLN7,5000 x 10 months = PLN75,000

Remaining PLN6,000 to depreciate

The company should use the degressive method of calculating depreciation allowances. The remission will be in 3 years and 11 months (November 2019).

Depreciation of fixed assets - individual method

Regulations concerning the one-time depreciation are included in art. 22k paragraph 7 and 12 and art. 5a paragraph 20 of the Act of 26 July 1991 on Legal Persons Income Tax (Journal of Laws 2016, item 2032, as amended) and/or art. 16k paragraphs 7 and 12, article 4a paragraph 10 of the Act of 15 February 1992 on Legal Persons Income Tax (Journal of Laws of 2016, item 1888, as amended). This method can be used if the assets belong to 3-8 group of Classification of Fixed Assets, not including cars, for an amount not exceeding €50,000 of the total value of depreciation allowances during the tax year. When determining the limit of €50,000 of depreciation allowances, one should not include depreciation allowances of more than PLN3,500 of fixed assets, tangible and intangible assets. It means that the following assets can be only depreciated:

- Boilers and power machines (e.g. heating boilers, direct current motors) - 3 group of KŚT;
- Machinery, equipment and general purpose devices (e.g. lathes, grinders, riveters, compressors, computer sets) - 4 group of KŚT;
- Machinery, equipment and specialist apparatus (e.g. drilling machinery, machines for construction works, plant protection) - 5 group of KŚT;
- Technical equipment (e.g. transformers, cranes, hoists, equipment for water purification) - group 6 of KŚT;
- Transport equipment except passenger cars (e.g. trucks, tractors, trailers) - 7 group of KŚT;
- Tools, instruments, movables and endowments (e.g. technical equipment for office work, kiosks, huts) - group 8 of KŚT.

The right to one-off depreciation of fixed assets included in the above KŚT groups is entitled in a tax year, in which these measures were introduced in the register of fixed assets as well as intangible and legal assets. Entitled to this method of depreciation are taxpayers, who began conducting business activity in the fiscal year and small taxpayers; small taxpayer for VAT purposes is an entity whose value of sales (including the amount of VAT) has not exceeded PLN5,157,000 in 2016 (1,200,000 x PLN/€4.2976); leading brokerage firm, investment fund managers, agents, contractors or other persons providing services of a similar nature,

with the exception of commission - if the amount of commissions or any other form of remuneration for performed services (altogether with the amount of tax) has not exceeded the amount of PLN193,000 in 2016 (45,000 x PLN/€4.2976). To convert the limits to PLN, one should use the average EUR exchange rate announced by the Polish National Bank on the first working day of October of the previous fiscal year, rounded up to PLN1.00. The exchange rate on the day of October 3, 2016 was PLN/€4.2976 (NBP table No. 191/A/NBP/2016). (Gazeta Podatkowa nr 80 (13330) from October 6, 2016 „Mały podatnik dla celów VAT w 2017” www.gofin.pl [as of 07.03.2017]) The status of a small taxpayer, as defined in the Personal Income Tax Act, assumes that the small taxpayer is a taxpayer who had a sales revenue (including amount of tax payable on goods and services) of no more than the equivalent of €1,200,000; the conversion of amounts expressed in EUR is made at the average EUR exchange rate announced by the Polish National Bank on the first working day of October of the previous fiscal year, rounded to PLN1,000. This means that the small taxpayer can be considered as the one, whose income from same with the tax on goods and services for 2016 has not exceeded the amount of PLN5,157,000 (exchange rate on October 3, 2016 amounted to PLN/€4.2976; table of average exchange rates of Polish National Bank No. 191/A/NBP/2016). The possibility of a one-off depreciation of fixed assets cannot be applied, however, by taxpayers commencing economic activity in the beginning year, as well as in the period of two years from the end of the year preceding the start: who run a business alone or as a partner without legal personality or activities were led by spouse of that person, if communalism existed between spouses. (<http://ksiegowosc.infor.pl/rachunkowosc/amortyzacja/747307,Limit-jednorazowej-amortyzacji-w-2017-r.html> [as of 07.03.2017]) Example: (Kuchta A., 2006) „ABC” company bought a machine for a value of PLN450,000 in January 2016, and in the same month introduced it into a fixed assets register. This device is classified into the fifth KŚT group, and the economic entity is considered as a small taxpayer, which was allowed the use of the right to a one-off depreciation. The depreciation rate from the list is 14%. Depreciation allowances: an allowance of PLN211,000 has been written down in January 2016 (the limit amount of one-off depreciation in 2016); in subsequent years allowances were made with straight-line method, charging the allowance of initial value:

Annual allowance: $PLN450,000 \times 14\% = PLN63,000$

Monthly allowance: $PLN63,000 : 12 \text{ months} = PLN5,250$

PLN239,000 (PLN450,000 - PLN211,000) left for depreciation

2017 - PLN63,000

2018 - PLN63,000

2019 - PLN63,000

PLN50,000 will remain for depreciation in 2020, the last allowance will be made in October 2020 and it will be PLN2,750.

Depreciation in the context of accounting and tax laws

The issue of depreciation is regulated by three acts in the Polish legislation: the Act of 26 July 1991 on Natural Persons' Income Tax, the Act of 15 February 1992 on Legal Persons' Income Tax and the Act of 29 September 1994 on Accounting. However, the depreciation rules governed by the Income Tax Act differ partly from the solutions contained in the Accounting Act. Therefore, it is necessary to distinguish the concept of tax depreciation from the depreciation of assets. (Dyduch A., Sawicka J., Stronczek A., 2004, p. 125) Examples of different solutions used in both acts are included in the table 2 below.

Table 2. Rules of fixed assets depreciation in line with legal acts

Rules of depreciation	The Accounting Act	Tax legislation
Start of depreciation	Not earlier than after the adoption of fixed asset	Starting with the first month after the month in which the measure was introduced into the records
The choice of depreciation method	The choice of the method left to the entity	Straight-off method - all fixed assets subject to depreciation Degressive method - machinery and equipment included in 3-6 KŚT groups and vehicles (excluding cars)
Change of method	Unacceptable	Unacceptable
The amount of rates and the length of depreciation period	The entity shall determine on its own, considering the economic life of the asset	Specified in the list of depreciation rates annexed to the tax laws
Change of rates	Periodic verification of the applied depreciation period and rates; changes can occur during the next financial years	The change may occur by: - increase - by applying the relevant factors - from the following month; in the case of machinery and equipment included in 3-6 and 8 KŚT group - from the month following the month in which these measures have been introduced to the records, or from the first month of each subsequent fiscal year; - decrease - from the month in which the measures were introduced in the records, or from the first month of each subsequent fiscal year. Changing rates may occur in relation to the fixed assets introduced in the register
The frequency of allowances	In an equal period for particular reporting periods	In equal installments every month or on a quarterly basis, or once at the end of the fiscal year

Completion of depreciation	No later than the date: - of equalization of depreciation or remission of the value of the asset, - destination for liquidation, - sales, shortage.	By the end of the month, in which: there is an equation of the sum of depreciation of the initial value, liquidated, sold or found deficient
Fixed assets used seasonally	Depreciated over the whole financial year	Depreciated over their use
Fixed assets included in 3-8 KŚT groups (excluding cars) introduced in the register by entities starting economic activity and small taxpayers	Depreciation or remission allowances are made on a general basis	Depreciation allowances in the first year can be made for the amount not exceeding the equivalent of €50,000
Fixed assets with low initial value	Can be depreciated making: collective allowances for groups of fixed assets, one-time allowances, not earlier than after the adoption of fixed asset, allowance on a general basis	Can be depreciated making: one-time allowance - in the month of use or on the next one; allowances on a general basis
Disclosed fixed assets	The beginning of depreciation no earlier than after the adoption of the measure for permanent use	Depreciated from the month following the one in which the measures were introduced to the records
Used or improved fixed assets	It is not important whether the asset is new, used or improved	Fixed assets used or improved are depreciated according to individual rates
The value of which depreciation is made up	The initial value shown in the accounts	The initial value is determined according to the method of acquisition of the asset (purchase, construction, in-kind contribution, donation etc.)

Source: Winiarska K. 2017

The Accounting Act leaves the freedom of choice in the use of different methods of depreciation of fixed assets for business entities. Differences between the accounting and tax laws concern in particular: the initial value of assets which are subject to depreciation, start time of depreciation, depreciation methods, the scope of assets. The basic discrepancies criteria is the lifetime of the asset: in the Accounting Act defined as a period of economic life of the asset, which results in the rates of balance depreciation; in the Legal Persons' Income Tax Act defined as the estimated useful life, which results in the tax depreciation rates. Due to the fact that economic reality is unpredictable, there is a possibility of rate adjustments, as well as depreciation methods. The provisions of the tax law provide different approach to the problem by adjusting the length

of the expected life of the asset. They also prohibit making changes in the adopted method of depreciation of an asset for the lifetime. Tax laws also distinguish the following types of depreciation rates (Dyduch A., Sawicka J., Stronczek A. 2004, p.126):

- Basic - shown in the annex to the Act in the form of a structured set of depreciation rates from the amount of the lowest to the highest;
- Increased - their use is the subject to the conditions of use of the asset (worse than average);
- Reduced - may be used without restriction for individual assets used in the business, it emerges from Art. 22i paragraph 5 of Natural Persons' Income Tax and Art. 16i paragraph 5 Legal Persons' Income Tax;
- Individual - can be primarily determined as used fixed assets, including improved ones, if it was before it was given to use.

Conclusion

The most common and simplest method for calculating depreciation is the straight-line method, which is deducted each month to the same amount from the value of the asset. Degressive depreciation is the second most popular method, chosen by the entrepreneur (taxpayer) and may be used only for certain assets. Both methods apply to assets purchased as new. There is another way of calculating depreciation, it can be used only for fixed assets purchased as used. Depreciation method is defined at the beginning. Once the method is adopted, it cannot be changed during depreciation. If the device classified as a fixed asset will be for a longer period, e.g. a month, inefficient and not able to be used as intended, the depreciation allowance cannot be written for that period. The accounting law does not directly constitute about the possibility of using tax and accounting rates. However, if the method used for tax purposes reflects at the same time a process of wearing of the asset over a specified period of its economic usefulness, there is no obstacle to be made for depreciation or remission allowances of the asset parallel to tax depreciation. However, if the course of the tax depreciation does not reflect the essence of the actual wearing of a given asset, the depreciation for accounting purposes shall be conducted in a manner independent from the tax purposes.

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