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Tax-Free System at Polish-Belarusian Border Crossings between 2012 and 2020: Selected Aspects

Zarys treści: Tekst prezentuje funkcjonowanie systemu Tax-Free na polsko-białoruskich przejściach granicznych w latach 2012–2020 w kontekście zmian w eksporcie Polski oraz województw granicznych (podlaskiego i lubelskiego) na Białoruś. Ze względu na dostępność danych, badania nad eksportem podróżnych oraz relacjami handlowymi były możliwe dla lat 2012–2020. Okres ten obejmuje czas pomiędzy dwoma istotnymi cezurami – globalnym kryzysem finansowym z 2008 r. oraz pandemią COVID-19. Zastosowano metodę opisową i analityczną, weryfikując postawioną hipotezę badawczą związaną z wpływem systemu Tax Free na handel oraz wzrost eksportu w tym regionie.

Outline of Content: The study presents the functioning of the Tax-Free system at Polish-Belarusian border crossings in 2012–20 in the context of changes in the export of Poland and border provinces (Podlaskie and Lubelskie) to Belarus. Due to the availability of data, research on travellers' exports and trade relations was possible for selected years of the procedure's operation, i.e. between 2012 and 2020. This period covers the time between two major crises – the global financial crisis of 2008 and the COVID-19 pandemic. With the post-crisis economic recovery in Poland and Belarus, there was a dynamic increase in mutual goods exchange and travellers' export conducted under the Tax-Free regime at Poland's eastern border. A descriptive and analytical method was used to verify the research hypothesis related to the impact of the Tax-Free system on trade and export growth in this region.

Słowa kluczowe: Tax Free, zwrot VAT dla podróżnych, zewnętrzna granica UE, eksport polskich województw przygranicznych na Białoruś, korzyści z eksportu podróżnych

Keywords: Tax-Free, VAT refund to travellers, EU external border, export of Polish border provinces to Belarus, benefits of travellers' export



Introduction

In today's increasingly globalised economy, the role of international exchange is growing in importance. However, individual countries and regional integration groupings constantly seek new and further opportunities to dynamise their foreign exchange. Therefore, the range of forms of trade used in domestic and foreign economic practice is widening. In Poland, which has been integrated into the European Union since 2004, a new specific type of international trade has emerged on its external eastern borders, using the procedure for reimbursing VAT to travellers (hereinafter: Tax-Free).

Indirect exports allowed by EU and national legislation, such as the export of goods by a foreign traveller, are different from official exports carried out between countries following their trade policies. It is also intended to expand the market beyond the EU's borders. However, it is carried out in a completely different way from official trade between those individual countries within and outside this grouping. The export of travellers under the Tax-Free procedure is also carried out at no additional cost to the sellers. In this case, the purchaser bears the costs of the transport.

This article deals with the economic aspects of the operation of this atypical procedure, which in theory and legal regulations still treated as an export, although in practice, it already referred only to travellers (in the literature on the subject also associated with 'inbound tourism' or literally in the sense of its pursued primary purpose 'shopping tourism').¹ This issue has been addressed in the literature.² However, it is worth pointing out that this did not mean that these issues were increasingly well-understood or exhaustively researched and explained. Not all the data necessary to analyse the Tax-Free system, especially at the mesoscale level, are available in the publicly opened GUS data. Most relevant information must be obtained directly from relevant institutions such as customs, tax and border services. These data are often chargeable and require additional processing before being

¹ The term 'shopping tourism' does not have a uniform definition in the literature. In this article, it is treated as a form of travel carried out to make purchases outside the place of residence, with a particular Focus on acquiring goods for personal consumption. Unlike purchases related to current needs during the trip, shopping tourism is aimed at satisfying consumption not directly related to the tourist stay. More details in: B. Paliś, K. Przenzak, 'Zachowania nabywców na międzynarodowym rynku turystyki zakupowej', *Gospodarka Materiałowa i Logistyka*, vol. 74, no. 2 (2022), pp. 27–28; A. Niemczyk, 'Turystyka zakupowa – istota i uwarunkowania jej rozwoju', *Handel Wewnętrzny*, no. 3/356 (2015), p. 176.

² H. Powęska, 'Udział nierejestrowanych zakupów artykułów nieżywnościowych w obrotach handlowych Polski z Ukrainą, Białorusią i Rosją', *Roczniki Naukowe Stowarzyszenia Ekonomistów Rolnictwa i Agrobiznesu*, vol. 16, no. 3 (2014), pp. 236–41; M. Wosiek, R. Kata, 'Handel na pograniczu polsko-ukraińskim – wybrane aspekty ekonomiczne', *Wiadomości Statystyczne | The Polish Statistician*, vol. 64, no. 2 (2019), pp. 44–63; J. Zielińska-Szczepkowska, I. Zabielska, R. Kisiel, *Turystyka transgraniczna – wybrane aspekty* (Olsztyn, 2018), pp. 32–46.

included in research analyses. The information obtained must then be supplemented with other publicly available data to be processed and used for detailed quantitative analyses. The choice of the research period between 2012 and 2020 is, therefore, a result of the availability of comparable data and the possibility of compiling them consistently to obtain meaningful results, which is an important condition for analyses of an empirical nature. Completing the 2020 analysis allows for a more complete assessment of the natural economic processes in Poland-Belarus trade relations and the Tax-Free regime under relatively more stable macroeconomic conditions. This includes the time before the occurrence of extraordinary policy interventions that changed the mechanisms of global markets

To determine the actual effects of the functioning of the Tax-Free system at the Polish-Belarusian border, in the context of support for Polish export and potential consequences for trading partners, a research hypothesis was formulated stating that there are no reasonable reasons for an unequivocal claim that the functioning of Tax-Free at the Polish-Belarusian border, as a specific tool of EU trade policy, established to guarantee benefits to trading parties, favours the growth of Polish export to eastern markets.

The study is divided into three main parts, which focus on the analysis of the impact of the Tax-Free system on changes in the export of Poland and border provinces to Belarus in between 2012 and 2020. The first part focuses on analysing the shares of border provinces in Polish and Polish-Belarusian trade turnover, analysing their importance in the context of general and Polish-Belarusian trade in goods. The second part presents the VAT refund procedure for travellers and the conditions for applying the 0% rate in Poland, highlighting the system's key legal and operational aspects. The last part of the study analyses changes in Poland's export to Belarus, mainly focusing on the participation of Podlaskie and Lubelskie Voivodeships in the Tax-Free system and the relationship between this system and the total export of Poland and the analysed voivodeships between 2012 and 2020. The study uses mainly a descriptive method enriched with elements of cause-effect analysis. The considerations carried out were complemented by an analysis of the dynamics of the Tax-Free system in relation to the value of official exports and exports of Podlaskie and Lubelskie Voivodeships to Belarus, which allowed for an in-depth assessment of the impact of this system on the mutual exchange of goods. The entire analysis was summarised with generalisations and conclusions presented in the summary.

Share of Border Voivodeships in Polish and Polish-Belarusian Trade Turnover

Against the backdrop of macroeconomic analyses that deal with nationwide trade exchange, research at the regional level, so-called mesoscales, are attracting increasing

attention.³ Mesoscale approaches in the context of Poland's foreign trade make it possible to assess the share of individual voivodeships in trade exchange. However, this type of analysis is still relatively rarely undertaken. Although Podlaskie and Lubelskie Voivodeships are important in trade exchange with Belarus, there is a research gap in the literature concerning both the macro and mesoscale levels. In particular, there is a lack of in-depth analyses comparing the provinces in the context of trade relations with partners such as Belarus.

Until now, no large-scale studies have been conducted on trade turnover at the level of voivodeships in Poland, making it even more difficult to analyse regional variations. Podlaskie and Lubelskie Voivodeships' border location creates specific conditions that should be considered, especially in the context of Tax-Free traveller exports. To understand the full picture of the trade of these voivodeships, it is necessary to determine their percentage share in Poland's total trade and trade with Belarus. An important element of this analysis is the methodologically correct inclusion of the 'unclassified voivodeship' category, which covers a significant part of Poland's trade (almost 25% of export and nearly 20% of import).⁴ The omission of this category could lead to incomplete results in studies on the regional structure of trade exchange.

To correctly allocate territorially non-identified data, a methodological approach is used to proportionally allocate the turnover assigned to the category 'unclassified voivodeships' to existing administrative units, i.e. provinces. This method allows for more accurate results in trade structure analyses at the regional level.⁵

Chart 1 shows the share of Podlaskie and Lubelskie Voivodeships in Poland's total export and import between 2005 and 2020 (in %). The presented data illustrates the extent to which the trade turnover of these provinces contributes to the total

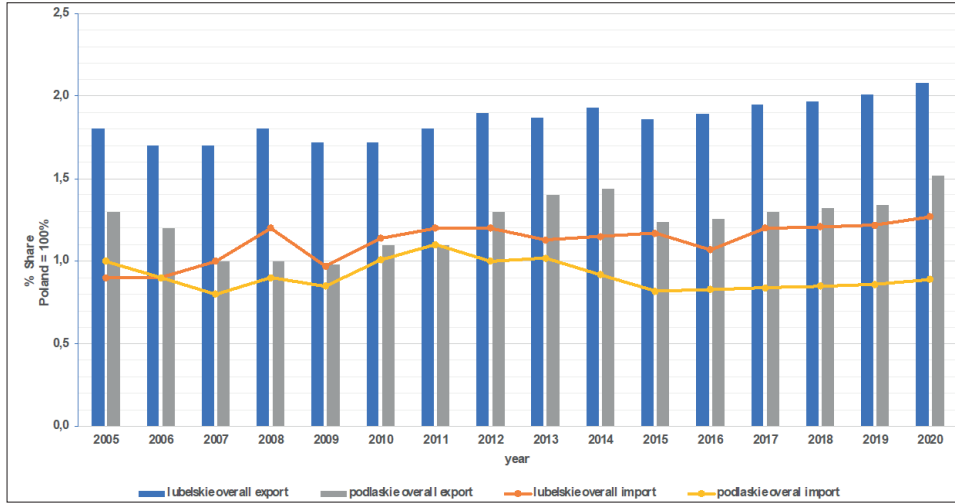
³ For more, see *Rola Polski w polityce Unii Europejskiej wobec krajów Europy Środkowo-Wschodniej*, ed. R. Ciborowski, J. Grabowiecki (Białystok, 2007), pp. 179–96; *Współpraca transgraniczna na wschodnim pograniczu Polski*, ed. J. Grabowiecki (Białystok, 2015); *Wymiana handlowa województwa podlaskiego po akcesji do Unii Europejskiej*, ed. J. Grabowiecki (Białystok, 2012); T. Komornicki, 'Rola wymiany towarowej ze wschodnimi sąsiadami Polski w gospodarce lokalnej', *Prace Komisji Geografii Przemysłu*, no. 15 (2010), pp. 105–16.

⁴ S. Pangsy-Kania, K. Wierzbička, A. Czarnomska, 'Aktywność eksportowa i importowa województw w Polsce w kontekście zakresu koncentracji przestrzennej mierzonej wskaźnikiem dywersyfikacji', *Optimum Economic Studies*, vol. 111, no. 1 (2023), p. 34.

⁵ Method 1 assumes that foreign trade data have been presented without any additional modifications, with a breakdown between residents and non-residents of the RP, based solely on actual trade transaction data. Method 2 eliminates information about all unspecified entities from the foreign trade data. Only transactions carried out by RP residents are included, which allows a more precise determination of the geographical location of trade. Method 3 assumes that the data of transactions of unspecified entities were proportionally expanded according to the structure of voivodeships calculated in Method 2. The obtained values were added to the trade turnover of individual voivodeships, which made it possible to assign unspecified data to specific administrative regions; Wider, *Handel zagraniczny w województwach (NTS 2). Raport końcowy* (Jachranka, 2015), pp. 52–53.

value of Poland's trade, which particularly highlights their importance in trade relations with Belarus.

Chart 1. Share of Podlaskie and Lubelskie Voivodeships in total export and import of Poland between 2005 and 2020 (in %)



Source: own compilation based on data from the Warsaw Tax Administration Chamber.

When analysing data on the share of Podlaskie and Lubelskie Voivodeships in Poland's total export and import between 2005 and 2020, significant differences can be observed in the importance of these regions in Polish trade exchange. Between 2005 and 2020, the Lubelskie Voivodeship maintained a relatively stable and gradually increasing share of total Polish exports. At the beginning of the analysed period, this share was 1.8% (2005), and by 2020 it had increased to 2.1%. This slight increase may testify to the gradual economic development of the region, which expands its presence on international markets, including the Belarusian market, which may be due to its geographical proximity and favourable conditions for cross-border cooperation. Compared to the Lubelskie Voivodeship, the Podlaskie Voivodeship had a lower share of Polish export in the analysed period. At the beginning of the analysed period, Podlaskie's share was 1.3% (2005), and by 2020 it had increased to 1.5%.

In the case of import, the share of Lublin Voivodeship in total Polish import also showed an upward trend. In 2005, this share was 0.9%, while in 2020, it increased to 1.3%. In contrast, the share of Podlaskie Voivodeship in total Polish import was lower and more stable between 2005 and 2020. The share oscillated around 0.8–1.0%, with the largest increase in 2011, when it was 1.1%. However, after 2011, there was a stabilisation at 0.8–0.9%.

On the basis of the above analysis, it can be concluded that the Lubelskie Voivodeship showed a slightly larger increase in its share of Poland's total export

and import, while the Podlaskie Voivodeship had a more stable but smaller share of Poland's international trade.

The increase in the share of Podlaskie and Lubelskie Voivodeships in Poland's foreign trade, although noticeable, does not place these regions among the most important exporters and importers nationwide. Based on a study of the export and import activity of provinces in Poland in the context of the extent of spatial concentration measured by the diversification index, it can be concluded that three provinces are responsible for the bulk of Polish export and import: the Mazowieckie, Śląskie and Wielkopolskie Provinces. In 2019, these three regions generated more than a third of all Polish export, with the Mazowieckie Voivodeship accounting for 12.3%, the Śląskie Voivodeship for 12% and the Wielkopolskie Voivodeship 10%. Similarly, in import, the Mazowieckie Voivodeship had a dominant share of 27.2%, while the Wielkopolskie and Śląskie Voivodeships, respectively, had a 10.1% and 9.2% share of Poland's total import. In contrast, the Podlaskie and Lubelskie Voivodeships, despite playing a pivotal role in trade with Belarus due to their border location, have a marginal share of Poland's overall export and import. In 2019, Podlaskie Voivodeship had a share of 1% in Polish export and 0.7% in import. Lubelskie had a share of 1% in import and less than 2% in export.⁶

Thus, these voivodeships cannot compete in terms of nationwide export activity with voivodeships such as Mazowieckie or Śląskie, whose share of export and import is significantly higher. However, despite their smaller share in international trade, Podlaskie and Lubelskie Voivodeships play a key role in trade exchange with Belarus. Border voivodeships, although less important at the national level, can be strategically important in the exchange with selected partners, especially with neighbouring countries. The geographic location of Podlaskie and Lubelskie Voivodeships, as regions bordering Belarus, makes them particularly important in analysing trade relations between Poland and Belarus despite their relatively low share in Poland's total export and import. The share of the analysed voivodeships in trade exchange with Belarus, presented in Chart 2, allows us to trace to what extent the two voivodeships contributed to Polish-Belarusian trade and how these shares changed over the years.

In the context of Poland's overall trade exchange, the Lubelskie Voivodeship played a more significant role than the Podlaskie Voivodeship. This stable position of Lubelskie in the exchange of goods may be due to the diversification of export directions and better infrastructure enabling trade with many foreign partners, including European Union countries. The stable growth of Lubelskie's exports indicates its ability to adapt to changing economic conditions, including growing competition in international markets.

On the other hand, the Podlaskie Voivodeship, although less significant in nationwide export, recorded a much higher share in export to Belarus. Between 2005

⁶ Pangsy-Kania, Wierzbicka, Czarnomska, 'Aktywność eksportowa', p. 31.

Chart 2. Share of Podlaskie and Lubelskie Voivodeships in total Polish-Belarusian exports and import between 2005 and 2020 (in %)



Source: own compilation based on data from the Warsaw Tax Administration Chamber.

and 2020, this voivodeship achieved, on average, a higher share of export to this market, with a share of 15.5% in 2010, which was its highest result. The Lubelskie Voivodeship, although more active in the nationwide exchange, had a lower share in the exchange with Belarus, ranging from 5.1% in 2010 to 4% in 2020.

A similar relationship is observed for import. In Poland's total trade, the Lubelskie Voivodeship recorded a higher share of import, ranging from 0.9% in 2005 to 1.3% in 2020. On the contrary, in trade with Belarus, the Podlaskie Voivodeship was clearly more important in import, reaching its highest share at 20.4% in 2013. Podlaskie's import share remained high throughout the analysed period, demonstrating the voivodeship's prominent role in the exchange of goods with Belarus. Podlaskie played a crucial role in importing goods from this market, which may result from specific logistical conditions and historical economic ties between the region and Belarus. The Lubelskie Voivodeship had a smaller share in import trade with Belarus, ranging from 1.7% in 2005 to 4.5% in 2020, suggesting that the Lubelskie Voivodeship preferred other trade partners and used more diverse import channels.

An analysis of the shares of the Podlaskie and Lubelskie Voivodeships in Polish-Belarusian trade of Poland's total trade between 2005 and 2020 shows a clear inverse of their importance in the context of trade with Belarus compared to their position in Poland's total foreign trade.

Furthermore, it should be pointed out that the share of the surveyed voivodeships in export to Belarus shows a clearly declining trend in the years following Poland's integration into the EU. In the case of the Podlaskie Voivodeship, this decreased from almost 13% in 2005 to below 6% (more than doubled). On the other hand,

in the case of the Lubelskie, there was a more than threefold decrease. It fell from over 10% to just over 3% respectively.

The downward trend outlined above also occurs during the period of Tax-Free operation at Polish-Belarusian border crossings. This is even though this specific instrument of EU trade policy was introduced to activate EU export, here specifically to the Belarusian market.

The VAT Refund Procedure for Tax-Free Travellers and the Conditions for Applying the 0% Rate in Poland

Poland's integration into the European Union in 2004 was preceded by lengthy adjustment processes in the economic and legal spheres. These also included international trade and its so-called particular types, occurring especially in the eastern borderlands of Poland. Many new economic categories and associated legal and economic concepts have emerged, including intra-community supply and intra-community acquisition. The hitherto existing concepts of export and import have now been reserved as terminology relating only to trade with countries outside the European Union. According to the literature on the subject, export can most broadly be divided into direct and indirect. The literature, as in the case of 'shopping tourism', does not present a unified position on the definition of direct and indirect export and the activities included in them. Direct export is a form of foreign sales in which the company handles the export process, without the involvement of domestic or foreign intermediaries. This means that the company is responsible for the export formalities and finding foreign customers. Such an export model provides greater control over product marketing, logistics and sales but also requires more competence, international experience and financial resources from the company. Indirect export can be defined as a form of entry into foreign markets in which a company uses domestic or foreign intermediaries to realise sales of its products. Indirect export is characterised by a lower level of control over the sales and marketing process than direct export but requires less capital investment, making them more accessible to small and medium-sized enterprises (SMEs).⁷

The national legislator, in Article 2 point 8 of the Act on Goods and Services Tax (hereinafter: AGST),⁸ introduced a distinction in the case of the export of goods depending on whether the goods are exported by or on behalf of the supplier or by/on behalf of a purchaser established outside Poland. If the exporter, or an entity authorised by it, exports the goods from Poland outside the European

⁷ W. Nowiński, 'Formy wejścia polskich MSP na rynki zagraniczne. Wybór między eksportem bezpośrednim a pośrednim', *Organizacja i kierowanie*, vol. 4(147) (2011), pp. 51–53.

⁸ Act of 11 March 2024 on Goods and Services Tax (*Journal of Laws*, 2023, item 1570, as amended).

Union on its own and is indicated as the declarant in the export documents, we are dealing with the so-called direct export. Indirect export, on the other hand, occurs when the export of goods outside the European Union is carried out by/on behalf of a buyer based outside Poland.⁹

Given the above, the tax-free procedure constitutes an indirect export, as the traveller (consumer) exports the goods himself, and the seller does not directly control the process of exporting or selling them on the foreign market. Sales under Tax-Free take place in the domestic market, but the final consumer (from abroad) exports the goods outside the EU, which is a condition for a VAT refund. Although Tax-Free applies to retail transactions it is closely linked to the rules of the export of goods outside the European Union. At the same time, for both export and sales under the TAX-FREE system, the fulfilment of certain conditions allows the application of a preferential VAT rate of 0%.

The relevant legal regulations in this respect are contained in the Chapter – Exemptions in Exports in the provisions of Articles 146–47 of Council Directive 2006/112/EC of 28 November 2006 on the common system of value-added tax (hereinafter: VAT Directive). National export rules had to be harmonised with EU rules. The implementation of EU norms, setting out the basic conditions for VAT refunds in domestic law, is constituted by regulations in the provisions of art in Chapter 6 of Section XII of the VAT Act, in the provisions of Articles 126–30. The purpose of this was to gradually adapt Polish law to regulations binding in EU countries. It should be emphasised that, at that time, this was a completely new institution in Polish law. It was introduced even before Poland acceded to the European Union – basically without any experience in this area. Hence, the need arose for its constant modifications. They were aimed at adjusting legal regulations governing the operation of Tax-Free to the new economic reality.

In the Community system of the European Union, the principle of consumption taxation is that goods are taxed in the country in which they are used. Therefore, supplies of goods exported outside of a Member State, including export, are exempt from VAT in the country of supply. This exemption, which is like an exemption with a right of deduction, is applied to avoid double taxation and to ensure that VAT is charged in the country of destination of the goods. In the case of retail export, also known as sales to travellers, the Tax-Free procedure applies, which allows the sale to be charged at a rate of 0% VAT, provided that the goods are exported outside the EU. This procedure ensures that only transactions that meet the conditions for exporting goods outside the community are exempt from VAT.¹⁰

⁹ The Judgment of the Voivodeship Administrative Court in Bydgoszcz of 18 Dec. 2018, ref. no. I SA/Bd 684/18.

¹⁰ A. Bartosiewicz, 'Sprzedaż dla podróżnych ze stawką 0% VAT, Komentarz', <https://sip.lex.pl/#/publication/469849726/bartosiewicz-adam-sprzedaz-dla-podroznych-ze-stawka-0-vat?keyword=tax%20free&cm=SREST> (accessed: 1 Oct. 2024).

According to the regulations contained in Act 129 of the AGST, applying the 0% VAT rate to the sale of goods to a traveller requires the fulfilment of several key conditions. A traveller, defined in Article 126(1) of the AGST as a natural person who does not have a permanent place of residence within the Community, has the right to purchase exempted goods which he has taken outside the territory of the European Union intact in the traveller's personal luggage and provided that the supplier complies with the relevant formalities. The seller is obliged to inform the chief tax officer of his status as a vendor and of the place where the traveller can collect the refund, as well as to submit copies of the VAT refund agreements. In addition, before submitting the tax return for the month in question, the vendor must receive a Tax-Free document confirming that the goods have been exported outside the Community.¹¹ These conditions are intended to ensure that the Tax-Free procedure operates following the rules and that VAT exemptions are only applied where appropriate, thus contributing to maintaining the integrity of the tax system within the European Union.

The taxation of goods supplied under this scheme is subject to special tax treatment. In doing so, the possibility for the traveller to recover the amount of VAT paid in the price of the goods purchased within the territory of the European Union is guaranteed. Accordingly, the Tax-Free system had to operate in two stages. The first stage referred to the cash refund by the vendor, or by a specialised entity, of the tax paid by the traveller. This is only possible if, on the document issued by the vendor, the customs office has confirmed the export of these goods outside the Union. The second stage involves securing the seller's right to apply a 0% tax rate on export sales. It also guarantees the seller the right to adjust the amount of tax due on this supply in the event of receipt of a document confirming the export of the goods after tax clearance.¹² Under Tax-Free conditions, the seller can adjust the rate on the goods to 0%.¹³ In some way, this may mean that the conditions are equal to those applying to unrecorded purchases in border trade – the only difference being that the Tax-Free procedure requires the registration of the purchase in the border clearance documents.¹⁴

Under Tax-Free conditions, the seller can adjust the rate on the goods to 0% (from the most common 23%). In this way, VAT neutrality is preserved. This means a reduction in the burden of VAT for the sellers, provided that it is returned to the 'travelling exporter'. Instead of paying VAT to the Polish budget under Tax-Free, the vendors return these amounts to the foreign traveller exporter. The above

¹¹ A. Bartosiewicz, *VAT Komentarz 2022* (Warszawa, 2022), pp. 1458–59.

¹² K. Zimnoch, 'Handel przygraniczny – korzyści podlaskich firm z Tax Free', in: *Współpraca transgraniczna na wschodnim pograniczu Polski*, ed. J. Grabowiecki (Białystok, 2015), pp. 332–42.

¹³ M. Czarnecki, "'Zwrot VAT dla podróżnych" – e-usługa na granicy', *Wiadomości Celne*, no. 3–4 (2014), pp. 37–38.

¹⁴ Powęska, 'Udział nierejestrowanych zakupów', pp. 236–41; Wosiek, Kata, 'Handel na pograniczu', pp. 44–63.

shows that the Tax-Free procedure may be advantageous for both sellers and buyers. For sellers, the regulations allow, under certain conditions of organising the tax-free sale, the seller to apply the 0% VAT rate with the possibility of earning a commission on the VAT refund provided to travellers. This can also be done by traders dealing exclusively with VAT refunds to travellers.

Changes in Poland's Export to Belarus, Tax-Free of Podlaskie and Lubelskie Voivodeships and the Relation of Tax-Free to Total Polish Export and the Analysed Voivodeships in 2012–2020

In particular, cooperation between Poland and Belarus is determined by their geographical location, the complementarity of their economies, centuries-old traditions, and long-standing mutual cooperation.¹⁵ Implementing Tax-Free procedures has resulted in a completely different picture of trade between the countries in the mesoeconomic section, i.e. from the perspective of the border (Podlaskie and Lubelskie) voivodeships. EU Member States, with the prior consent of the European Commission, could sign an agreement on local border traffic (hereinafter: LBT) with third countries, understood as non-EU countries neighbouring a given country. Poland has signed three such LBT agreements, of which two (with Ukraine and Russia) have entered into force. In contrast, the third (with Belarus) has never entered into force since 2010. The Polish side is still waiting for the Belarusian side to hand over its ratification note.¹⁶

Due to the border location, a special feature of the Podlaskie and Lubelskie Voivodeships is that border trade develops relatively strongly in these areas. In practice, this means purchasing goods by individuals in the neighbouring country and transporting goods across the state border without being recorded in customs documents.¹⁷ An analysis of economic relations between Poland and Belarus also reveals the existence of specific determinants of border trade development.¹⁸ These include significant differences in income levels, the functioning of regulations enabling the refund of VAT to travellers and the relatively efficient movement of people across the Polish-Belarusian border.

¹⁵ R. Ciborowski, J. Grabowiecki, 'Wymiana handlowa Polski z Białorusią', in: *Rola Polski w polityce Unii Europejskiej*, pp. 169–78.

¹⁶ J. Zielińska-Szczepkowska, I. Zabielska, 'Mały ruch graniczny z obwodem kaliningradzkim FR a rozwój turystyki zakupowej', *Ekonomiczne Problemy Turystyki*, vol. 35, no. 3 (2016), pp. 349–62; K. Dudzińska, A.M. Dyer, 'Mały ruch graniczny między obwodem kaliningradzkim a Polską – wyzwania, szanse, zagrożenia', *PISM Policy Paper*, nr 29 (2013), pp. 1–6.

¹⁷ H. Powęska, *Handel przygraniczny w warunkach zmian przenikalności granicy* (Warszawa, 2016), p. 117.

¹⁸ Zimnoch, 'Handel przygraniczny', pp. 332–42.

Undoubtedly, an unfavourable determinant of this cross-border cooperation was still non-functional LBT on the Polish-Belarusian border.¹⁹ However, the scale of passenger flows on the aforementioned border cannot be too small. This is evidenced by statistical data presented by the Central Statistical Office on crossings by foreigners from across the eastern border, whose total number in 2020 amounted to 5,134.1 thousand, including 1,229.6 thousand from Belarus, constituting 24% of the total.²⁰

Analysing the functioning of the regulations allowing VAT refunds for travellers, special attention should be paid to the dynamics of each – this phenomenon, Poland's total official export and the share of Podlaskie and Lubelskie Voivodeships in export to Belarus. Travellers' export, like other forms of international exchange, significantly benefits the macro-, meso-, and microeconomic levels.²¹

The data presented in Table 1 concern the value of export and transactions carried out under the Tax-Free system in Podlaskie and Lubelskie Voivodeships in 2012–2020. It shows a clear relationship between the growing share of this system and the reduction in the volume of official trade of these voivodeships. This mechanism is important for the local economy of the border voivodeships, especially in the context of trade with Belarus, and is crucial in the analysis of structural changes in the analysed trade.

In Western countries, shopping abroad was directly linked to the free movement of people and free access to the market for consumer goods for decades. On the other hand, for people in the eastern part of Europe, shopping tourism was mainly reduced to the illegal trade of hard-to-find products due to strictly controlled borders. As a result, free cross-border trade and unrestricted shopping is a relatively new phenomenon in Central and Eastern European countries due to economic transformation and market liberalisation.²²

The Tax-Free system, which allows VAT refunds to citizens of non-EU countries, including Belarus in particular, has become a vital transaction mechanism in border regions. This system made retail transactions more profitable for foreign

¹⁹ Wosiek, Kata, 'Handel na pograniczu', p. 101.

²⁰ Ibid.

²¹ K. Drela, A. Malkowska, J. Zieziula, *Handel zagraniczny: Obroty towarowe i usługowe Polski w ujęciu regionalnym. Wybrane zagadnienia* (Szczecin, 2019), pp. 109–44; L.J. Jasiński, 'Korzyści handlowe dla wszystkich. Uogólnienie i reinterpretacja teorii korzyści komparatywnych', *Zeszyty Natolińskie*, no. 57 (2014), pp. 9–44; M. Jaszczynski, 'Znaczenie handlu zagranicznego w rozwoju gospodarczym', *Zeszyty Naukowe PWSZ w Płocku, Nauki Ekonomiczne*, vol. 23 (2016), pp. 373–84; J. Misala, *Wymiana międzynarodowa i gospodarka światowa. Teoria i mechanizmy funkcjonowania* (Warszawa, 2005), pp. 47–96; A. Piekutowska, 'Handel zagraniczny jako źródło zwiększenia efektywności gospodarowania', *Studia Ekonomiczne*, no. 180 (2014), pp. 227–35; K. Zimnoch, 'Merkantylizm i Tax Free we współczesnym handlu', *Marketing i Rynek*, vol. 21, no. 2 (2014), pp. 197–205.

²² M. Tömöri, 'Investigating Shopping Tourism along the Borders of Hungary: A Theoretical Perspective', *GeoJournal of Tourism and Geosites*, vol. 6, no. 2 (2010), pp. 202–10.

Table 1. Dynamics of changes in exports of Poland and Podlaskie and Lubelskie Voivodeships to Belarus and Tax-Free in 2012–20 ($t_0 = 2012$)

Years	Total export of Poland to Belarus		Podlaskie and Lubelskie Voivodeships export together		Podlaskie and Lubelskie together Tax-Free			
	mln PLN	t_n/t_0	mln PLN	t_n/t_0	mln PLN	t_n/t_0	Tax-Free/total export	Tax-Free/province's export
2012	5418	100,0	1072	100,0	1188	100,0	21,9	110,8
2013	7620	140,6	1019	95,1	1709	143,8	22,4	167,7
2014	6707	123,8	708	66,0	1647	138,7	24,6	232,6
2015	4997	92,2	554	51,7	1466	123,4	29,3	264,6
2016	5312	98,0	548	51,1	1258	105,9	23,7	229,6
2017	5634	104,0	552	51,5	1215	102,3	21,6	220,1
2018	6134	113,2	591	55,1	1110	93,5	18,1	187,8
2019	7360	135,8	623	58,1	933	78,5	12,7	149,8
2020	7110	131,2	639	59,6	315	26,5	4,4	49,3

Source: Own calculations based on data from the National Fiscal Administration (share of individual voivodeships in the value of Poland's total exports and border voivodeships in exports to Belarus in 2010–2020 – purchased data) and data from the Tax Administration Chamber in Białystok (value of Tax-Free documents presented on the PL-BY section in PLN in 2010–2020 – reply to request for access to public information 2001-IWK.0150.47.2022.2 of 9 March 2022).

consumers, which in turn led to an increase in individual purchases bypassing traditional international trade channels. This resulted in the substitution of formal export channels for retail purchases by Belarusian consumers under the Tax-Free mechanism.

The exports of Podlaskie and Lubelskie Voivodeships declined significantly during the analysed period, coinciding with the increasing use of the Tax-Free system. The value of exports decreased by 34% in 2014 compared to the base year (2012), and further declines were recorded in subsequent years, reaching 48.9% below the 2012 value in 2016. This trend indicates the declining importance of traditional export channels in favour of individual retail transactions, which are not covered by international trade statistics. As a result, the export structure of the border provinces has been transformed, and businesses associated with formal exports are experiencing reduced demand for their products.

The initial increase in the importance of the Tax-Free system until 2015, followed by its gradual decline, indicates the changing preferences of Belarusian consumers. In 2013, the value of transactions under this system amounted to 143.8 million PLN, while in 2020, it fell to 26.5 million PLN. This reduction

reflects both – the reduced number of transactions under the Tax-Free system and the impact of external macroeconomic factors, such as exchange rate changes, cross-border trade restrictions and the COVID-19 pandemic, which restricted the mobility of Belarusian consumers.

The analysis indicates that the increase in the use of the Tax-Free system in the Podlaskie and Lubelskie Voivodeships has contributed to the substitution of formal export channels in favour of retail transactions, which may have negatively affected the trade statistics of these regions. While the Tax-Free system brought benefits in the form of an increase in retail trade turnover, it also affected the volume of registered export to Belarus.

To delve into this analysis, it is necessary to look at detailed data on export dynamics and the value of Tax-Free transactions in Podlaskie and Lubelskie Voivodeships between 2012 and 2020. The table below provides information on changes in the volume of export, the value of Tax-Free transactions, as well as the relationship between these variables, which will allow a detailed assessment of the interplay between official trade and the growing importance of the Tax-Free system.

Table 2. Dynamics of changes in export of Podlaskie and Lubelskie Voivodeships to Belarus, changes in Tax-Free and the ratio of Tax-Free to official export of the voivodeships to Belarus in 2012–20 ($t_0=2012$).

Years	Podlaskie Voivodeship export		Podlaskie region Tax-Free			Lubelskie Voivodeship export		Lubelskie region Tax-Free		
	mln PLN	tn/t0	mln PLN	tn/t0	Tax-Free/province's eksport	mln PLN	tn/t0	mln PLN	tn/t0	Tax-Free/province's eksport
2012	714	100,0	797	100,0	111,6	358	100,0	391	100,0	109,2
2013	591	82,8	1012	127,0	171,2	428	119,6	697	178,3	162,9
2014	391	54,8	1083	135,9	277,0	317	88,5	564	144,2	177,9
2015	333	46,6	945	118,6	283,8	221	61,7	521	133,2	235,7
2016	293	41,0	746	93,6	254,6	255	71,2	512	130,9	200,8
2017	290	40,6	713	89,5	245,9	262	73,2	502	128,4	191,6
2018	361	50,6	673	84,4	186,4	230	64,2	437	111,8	190,0
2019	394	55,2	574	72,0	145,7	229	64,0	389	99,5	169,9
2020	408	57,1	170	21,3	41,7	231	64,5	145	37,1	62,8

Source: Own calculations on the basis of data from the National Fiscal Administration (share of individual voivodeships in the value of Poland's total exports and border voivodeships in exports to Belarus in 2010–2020 – purchased data) and data from the Tax Administration Chamber in Białystok (value of Tax-Free documents presented on the PL-BY section in PLN in 2010 – 2020 – reply to request for access to public information 2001-IWK.0150.47.2022.2 of 9 March 2022).

Podlaskie Voivodeship recorded a clear decline in exports in the analysed period, which is particularly visible in relation to the initial value in 2012. Podlaskie Voivodeship's export decreased from 714 million PLN in 2012 to 408 million PLN in 2020 ($t_n/t_0 = 57.1\%$). At the same time, the value of transactions in the Tax-Free system initially increased, reaching a peak in 2014 (1083 million PLN, $t_n/t_0 = 135.9\%$), before gradually decreasing to 170 million PLN in 2020 ($t_n/t_0 = 21.3\%$).

The Tax-Free-to-export ratio in the Podlaskie Voivodeship illustrates the scale of the change: in 2012, it was 111.6%, meaning that the value of retail transactions exceeded that of formal export. Between 2013 and 2015, the ratio increased, reaching a peak in 2015 at 283.8%, confirming the dominance of the Tax-Free system over formal export. Between 2016 and 2020, the analysed ratio gradually decreased, but still remained above the value of export, demonstrating the significant impact of the scheme on retail trade, despite the overall decline in activity.

Similarly to the Podlaskie, the Lubelskie Voivodeship also recorded a decline in export in the surveyed period. Export decreased from 358 million PLN in 2012 to 231 million PLN in 2020 ($t_n/t_0 = 64.5\%$). On the other hand, the value of Tax-Free transactions increased from 391 million PLN in 2012 to 697 million PLN in 2013. In the following years, the value gradually decreased, reaching 145 million PLN in 2020.

The Tax-Free-to-export ratio in the Lubelskie region was also significant. In 2012, it was 109.2%, indicating an important impact of the Tax-Free system on the region's trade. In 2015, the ratio rose sharply to 235.7%, indicating a further intensification of retail trade at the expense of formal export. Between 2016 and 2020, the ratio began to decline, reaching 62.8% in 2020, still suggesting the region's firm reliance on retail transactions under the Tax-Free regime.

The data shows that in both Podlaskie and Lubelskie Voivodeships, the Tax-Free system played an important role in shaping retail trade with Belarus, while reducing the importance of formal export. The increase in the value of Tax-Free transactions relative to export indicates that Belarusian consumers increasingly opted for retail transactions, which reduced the volume of goods exported through formal channels.

The Tax-Free-to-export relation suggests that local entrepreneurs in border regions may have faced difficulties remaining competitive in foreign markets, especially with the growing importance of the Tax-Free system as a parallel trade mechanism. Despite some attempts to stabilise formal export, the value of trade realised through the Tax-Free system remained dominant until the system collapsed in 2020 due to both global economic and political change and the impact of a pandemic.

Abstract

The carried out research on the functioning of the Tax-Free system at Polish-Belarusian border crossings between 2012 and 2020, as well as the analysis of changes in the export of Podlaskie and Lubelskie Voivodeships, allowed for the verification of the stated hypothesis. The results confirmed that although an increase in turnover was realised under the Tax-Free system, its functioning probably did not contribute to an increase in Polish exports to eastern markets; on the contrary, it may have limited formal trade to some extent.

The relationship between nationwide export and the Tax-Free system indicates that consumers from Belarus increasingly opted for retail purchases under the VAT refund procedure, decreasing registered export transactions in the border provinces. The analysis of structural changes showed that Podlaskie and Lubelskie Voivodeships, despite having a marginal share in Polish international trade, played a key role in trade with Belarus, especially in the context of individual retail transactions.

Verification of the hypothesis showed that the Tax-Free system, while initially having the potential to promote export, eventually contributed to the substitution of traditional export channels in favour of retail trade, which may have reduced the volume of official export from the border provinces.

In conclusion, the study confirmed the complexity of trade relations in border areas, especially when using specific trade policy instruments such as the Tax-Free system. The results suggest that further analysis should focus on the long-term effects of such mechanisms on regional economic structures and their relation to formal export channels.

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