

Non-residents to file Latvian income tax (2/14/17)

The deadline for taxpayers who are required to file an income tax return is 1 June. We have already informed our subscribers about cases where Latvian tax residents are required to file an income tax return and cases where they can choose to do so voluntarily. This article explores a non-Latvian resident's filing obligation.

Taxable income and withholding tax

Unlike Latvian tax residents, whose worldwide income is taxable in Latvia, non-Latvian residents are liable to pay Latvian personal income tax (PIT) on their Latvian-source income only. This means that a tax return should be filed by a non-resident who has gained any income on which PIT was not withheld at source.

In practice, more often than not, the source or payer of income will have already withheld PIT from the income, and so the non-resident need not file in Latvia. For example, a Latvian employer paying salary to a non-resident for work done in Latvia will withhold PIT under general procedure. Latvian financial institutions paying interest or dividends to non-residents are also required to withhold. The non-resident need not file in either case.

If, however, the source or payer of income has not withheld PIT from the non-resident's Latvian-source income (or income attributable to Latvia), the non-resident is required to file in order to pay the PIT charged on that income. Below we list cases where the filing obligation arises:

- A non-resident is hired labour, and the Latvian company on whose behalf the person was employed in Latvia has not withheld PIT from their income. Such a situation can arise, for example, if the foreign employer who hires out labour has failed to attribute relevant costs to Latvia, i.e. the non-resident's foreign salary costs were not transferred to the Latvian company. This failure does not, however, affect the existence of labour hire, and the income attracts Latvian PIT;
- A non-resident has received a bonus from the foreign employer in the current tax year for work done in Latvia in previous tax periods, but the foreign employer did not have the technical capability to withhold Latvian PIT;
- A non-resident has gained income from leasing out real estate in Latvia, but the tenant or lessee has not withheld PIT at source, e.g. the tenant is an individual who does not carry on a trade, or the lessee is a non-Latvian resident entity. (This example ignores the fact that a non-resident gaining income from leasing out real estate may be required to register as a trader in Latvia, and the fact that this income may attract different rates of PIT.)

In all the cases listed above the non-resident is required to file (this is not an exhaustive list of cases where filing is mandatory).

In general, where no exceptions apply, non-residents are required to file by the same deadline as residents, i.e. the 2016 income tax return is due by 1 June 2017.