PricewaterhouseCoopers SIA - MindLink.lv. Published: 24.11.2017

Payroll accountant's homework to handle changes in 2018 (1 of 3) (3/47/17)

After announcing amendments to the Personal Income Tax (PIT) Act on 8 August 2017, Parliament debated more amendments in their second reading on 22 November to modify PIT treatment as part of the 2018 reform. On 14 November the Cabinet of Ministers endorsed amendments to Cabinet Regulation No. 899, which explains the application of the PIT Act. This article explores the main aspects that employers and payroll accountants need to consider in preparing for changes to their payroll calculation procedures.

Training courses

The recently adopted amendments to the PIT Act and those to be debated by Parliament in their second reading as well as draft amendments to the Cabinet Regulation represent an extensive set of changes to payroll calculation procedures, affecting the payroll accountant's work and the obligations of individuals. This means having to implement and test modifications to the payroll calculation system, and the software may need to be brought into line with the company's accounting policy. It might also be necessary to explain to employees how their salaries are calculated and in which cases they may be required to file the annual income tax return even if it is only Latvian employment income they have earned during the year.

Since the legislative changes might raise a lot of questions from the company's financial department and other employees, we have seen in practice that training courses are held for the entire staff. To stay on top, the payroll accountant needs to read and understand these changes and be aware of where relevant information can be found, and so payroll accountants would do well to take appropriate training.

Important points

PIT rates and their application

The amendments to the PIT Act provide for progressive PIT rates: 20%, 23%, and 31.4%. However, when paying salary, the employer will apply those rates according to the employee's gross salary and depending on whether they have filed their payroll tax book.

In general, the employer applies only the rates of 20% and 23%, while the rate of 31.4% should be applied only when paying salary to a person for whom Latvian social insurance contributions are not paid, such as a foreign national holding an A1 certificate issued by the competent authorities of another EU member state.

A summary of applying the PIT rates:

Rate	Payroll tax book filed	Payroll tax book not filed	Foreign national not socially insured in Latvia
20%	Employer applies it to monthly income of up to €1,667	Employer doesn't apply it	Employer doesn't apply it (unless person has taken out Latvian payroll tax book and filed with employer)
23%	Employer applies it to monthly income exceeding €1,667	Employer applies it to entire income	Employer applies it to monthly income of up to €4,583

31.4%	Employer doesn't apply it	Employer doesn't apply it	Employer applies it to monthly income exceeding €4,583

(to be continued)