

# Amended PIT Act introduces “income from investment accounts” (2/8/18)

In this article we take a look at the personal income tax (PIT) treatment of income from investment accounts applicable from 1 January.

## Easing the administrative burden on individuals

Credit institutions offer a variety of investment accounts enabling customers to make purchases, sales and other trades involving capital assets. The number of trades made through such an account may exceed several hundred a month. The current version of the PIT Act offers no relief in terms of administration and taxation even if the individual uses a single account for so many trades. In other words, the individual is still required to prepare and file a capital gains tax return and calculate the PIT due, stating each type of trade involving a capital asset, its acquisition cost, the date of earning income etc. In such situations, completing the tax return is a laborious and complicated process that places a considerable administrative burden on individuals.

In view of this, there are plans to ease the administrative burden resulting from the PIT treatment of income earned using a credit institution's investment account service.

## PIT on income from investment accounts

The new version of the PIT Act provides that income from investment accounts is income from capital other than capital gains. As a result, this income attracts a fixed PIT rate of 20% from 1 January 2018.

The income from investment accounts that is taxable under general procedure will be an excess arising from the amount of money paid out of an investment account less the amount of money paid into it. The following types of income paid into an investment account or any accounts linked to it may be deducted from taxable income:

1. Interest income on which foreign PIT has been withheld. If PIT has been withheld at a rate lower than 20%, a more complicated recalculation will need to be performed in order to proportionally deduct the foreign tax paid from the Latvian tax due;
2. Dividends exempt from PIT under section 9 of the PIT Act, i.e. those on which PIT or CIT has been withheld in Latvia or abroad; and
3. Income from securities issued by municipalities of Latvia or another EU/EEA country.

PIT due on income earned from an investment account will be calculated under a simplified procedure, i.e. this income will be treated as earned on the date the amount of money paid out of the investment account exceeds the amount of money paid into it.

It is important to note that the new version of the PIT Act does not require an investment service provider such as a credit institution to withhold tax on payment of income from an investment account. This means that the taxpayer will have to charge PIT through the annual income tax return.

Likewise, an investment service provider is not required to file a statement of taxable amounts of non-

employment income paid or of tax withheld on those amounts if the investment service provider enables the account holder to receive an investment account statement giving details of amounts paid into and out of the investment account during the tax year, and if the investment service provider has information about funds received as a result of investment account trades and about taxes withheld on those funds.

*(to be continued)*