Amended PIT Act introduces “income from investment accounts” (2) (2/9/18)

Last week we wrote about the new kind of income for individuals – income from investment accounts. This article looks at criteria the Personal Income Tax Act lays down for an account to qualify as an investment account.

Conditions for the account and for transactions performed in the account

Under the definition given by the PIT Act, the investment account is an account, or a set of accounts if the investment service provider opens a separate account for each currency, opened under a contract between the investment service provider and the account owner, with any funds or financial instruments the account contains to be used for making the following transactions only:

1. trades in financial instruments meeting criteria laid down by section 11.13(6)(1) of the PIT Act;
2. term deposit transactions in which the investment service provider is the other party;
3. transfers of funds or financial instruments to provide financial security, subject to meeting criteria laid down by section 11.13(6)(3) of the PIT Act;
4. currency exchange transactions; and
5. transfers of funds between the investment account and any accounts linked to it.

So an account that is used for making any other transactions cannot become an investment account.

Additional conditions for the account

One or more other accounts of the account owner that meet statutory criteria may be linked to the investment account. However, only funds and financial instruments transferred from another investment account, or financial instruments obtained as a result of transactions performed in the investment account, may be credited to the investment account.

Only funds from the investment account or any accounts linked to it may be deposited in such linked accounts. At the same time, any type of income, including dividends and interest earned as a result of transactions performed in the investment account, may be credited only to the investment account or any accounts linked to it.

Conditions for the investment service provider

An investment service provider should meet the following conditions at the same time:

1. the service provider is a credit institution or its branch, or a branch of a foreign credit institution, or an entity that holds an investment service licence; and
2. it is a resident of Latvia or another EU/EEA/OECD member state, or a country that has an effective double tax treaty with Latvia.

Grant of investment account status

The favourable PIT treatment we analysed last week is restricted to accounts meeting statutory criteria and having their investment account status notified to the State Revenue Service (SRS). The table below

summarises steps the taxpayer and the service provider should take to register investment account status with the SRS:

What steps should the account owner – an individual – take?	The account owner is required under the PIT Act to notify the investment service provider of investment account status granted to the account and any accounts linked to it.
What are the service provider's obligations?	The investment service provider should then notify the SRS of investment account status granted to the account. The following service providers are required under the Register of Accounts Act to notify the SRS of investment accounts: 1. credit institutions; 2. savings and loan associations; and 3. payment service providers. So, no other service providers need to notify the SRS of investment accounts.
What should the account owner do if the service provider fails to notify the SRS?	The account owner should himself notify the SRS of investment account status granted to the account by the end of the tax year.