

New list of dependants and examples of allowances (3/11/18)

This article outlines recent changes to the statutory list of dependants and entitlements to dependant allowances in 2018, as well as offering practical advice to employers when it comes to applying income-differentiated personal allowances estimated by the State Revenue Service (SRS).

Individuals entitled to dependant allowances

An individual may claim allowances for dependants under section 13(1)(1) of the Personal Income Tax Act.

Additions are to be made to the dependants list with effect from 1 July 2018, allowing the taxpayer to claim allowances also for the following persons:

- a non-working spouse taking care of a dependent child up to three years old;
- a non-working spouse taking care of three or more dependent children up to 18 years old, or up to 24 years old, of whom at least one is less than seven years old, while the child continues to acquire a general, professional, higher or special education;
- a non-working spouse taking care of five dependent children up to 18 years old, or up to 24 years old while the child continues to acquire a general, professional, higher or special education.

Below we comment on some topical SRS examples of claiming allowances.

Example 1

Imants' salary tax book has been filed with his employer, and it contains an entry of an allowance for a minor child. His wife, Liga, is taking care of their child, who is less than three years old. She is neither working nor receiving any taxable income during this period. Imants may claim an allowance for his non-working spouse until the child is three years old.

PwC comment

The SRS explains in their instructional material that the non-working spouse and the child up to three years old may both be registered as the taxpayer's dependants at the same time. These changes are basically putting back on the dependants list all mothers and fathers who are on maternity/paternity leave. Such persons were listed up to 31 December 2015, then taken off the list, and are now being added back.

Example 2

Inga works for Abols SIA, which is her main place of earning income. Her declared residence is in Latvia, but the declared residence of her divorced husband and two minor children is in Estonia. Inga would like to claim an allowance for those children.

PwC comment

The SRS explains that the mother should file a statement from the Estonian tax authorities confirming that

the father is not claiming any substantially similar allowances for the same children in Estonia. However, our experience shows that Estonia will not issue such statements. To satisfy the Latvian SRS that a dependant allowance is not being claimed abroad, we suggest filing a copy of the father's Estonian income tax return, which – like its Latvian counterpart – has a separate column for reporting such allowances, which would be left blank in this case.

More examples and SRS interpretations can be found in their instructional material on claiming income tax allowances.

(to be completed)