Latvian taxation of foreign pensions and foreigner's Latvian pension (3/43/18)

It might seem that pension is a simple type of income and its Latvian personal income tax (PIT) treatment is also straightforward. This article explores a few points that will help you avoid paying PIT on a foreign pension or on a foreign national's Latvian pension twice.

A foreign pension to a Latvian tax resident

A Latvian tax resident's pension or deemed pension is taxable income under the PIT Act.[1] Also, under the OECD[2] model tax convention, pension income is generally taxed in the recipient's country of residence. So the Latvian tax resident's foreign[3] pension attracts only Latvian PIT, an arrangement prescribed by Latvia's double tax treaty (DTT) with Lithuania or Estonia, for example.

If a pension comes from an EU member state, the Latvian resident should apply for it at Latvia's National Social Insurance Agency (NSIA) and provide details of their employment in other member states. The EU social insurance agencies should exchange information on the person's employment periods and tax residence status. The institutions responsible for paying pensions to EU residents and nationals will evaluate the obligation to withhold tax at source.

For example, a Lithuanian or Estonian pension will not attract PIT at source if the recipient is a Latvian tax resident and national.

Latvia's other DTTs (e.g. the one with Russia or Canada) provide that a pension may be taxed also in the country that pays this income. There will be no additional Latvian PIT to pay on the Latvian tax resident's foreign pension if the foreign tax rate is higher than what is charged in Latvia. If the foreign tax rate is lower, the person will be liable to pay extra Latvian PIT.

Since DTTs lay down different rules for the taxation of pensions, we recommend paying attention to ensure a foreign pension is not taxed twice. A Latvian tax resident receiving a foreign pension should always report it on their annual income tax return.

A Latvian pension to a foreign national

If the foreign national receiving a Latvian pension is a member state's tax resident and national, then (like a Latvian tax resident) they should apply for the pension at the social insurance agency of their home country. Documents for granting the Latvian pension will be filed with the NSIA by the member state's competent institution (those institutions exchange such information). Thus, on receiving documents from the member state's competent institution for a Latvian pension, the NSIA will examine Latvia's DTT with the member state to determine whether the NSIA should withhold PIT on the Latvian pension.

For example, under the Latvia–Lithuania DTT, a Latvian pension paid to a Lithuanian resident and national qualifies for DTT relief, i.e. the pension will be exempt from Latvian PIT because this income is taxable in Lithuania.

If the foreign national is a resident of a non-EU country that has an effective DTT with Latvia, the DTT rules will need studying. If such income is exempt from Latvian PIT, the person should apply to the Latvian State Revenue Service with a certificate of residence to prove the exemption and prevent double taxation.

[1] Article 8(3)(10–10.1)
[2] Organisation for Economic Co-operation and Development
[3] Countries that have an effective double tax treaty with Latvia