Income tax on pensions from private pension funds (3/46/18)

We have recently written about the personal income tax (PIT) treatment of foreign and Latvian state pensions. This article explores a few things to consider when it comes to charging PIT on income derived from contributions to a private pension fund (PPF).

The tax treatment of income (pension) received from a PPF varies according to whether contributions were made by your employer or yourself, and depending on what elements make up that income.

Private pension funds

Contributing to PPFs is an incentive commonly used by employers. Individuals also choose to pay their own contributions to a PPF in order to accumulate pension capital and provide a source of livelihood in their old age. Also, a 20% PIT can be reclaimed on such contributions through the annual income tax return.[1] However, your income from those contributions will attract PIT at the following rates:

	Accumulated contributions	Interest income
Own contributions	Free of PIT[2]	20%[3]
Employer contributions	23%–31.4%	20%[4]

If your PPF is in Latvia, PIT will be deducted from your income at source, with details of payment and tax deductions sent to the SRS.[5] According to our interpretation, when a Latvian pension fund pays out your accumulated employer contributions, a 23% PIT will be deducted at source. You may have to pay more PIT when filing your annual income tax return if your total annual income exceeds €55,000.

When a Latvian resident receives income from a foreign PPF, there are three questions to answer:
1) Which country has the right to tax that income under a double tax treaty (DTT)?

In most situations, income from PPFs is taxable in your country of residence. If foreign PIT has already been deducted, you may need to claim it back by filing a residence certificate abroad. If there is no way of reclaiming the foreign tax paid, or if the DTT gives the taxing right to the foreign country, it is possible to offset the foreign tax paid against your Latvian tax liability.

2) Who paid the contributions?

To apply the correct rate of Latvian PIT, your annual income tax return should state whether contributions were paid by your employer or yourself since the PIT treatment differs. As stated above, if you paid the contributions, only the resulting interest income will attract PIT. However, if your employer was the contributor, PIT will apply to those accumulated contributions as well.

3) If Latvian PIT is payable, is it possible to distinguish between contributions and interest?

Some foreign PPFs do not state the accumulated contributions separately from interest income. To shield your own contributions from a 20% PIT, it is crucial to obtain documentary evidence that separates the exempt contributions from the taxable interest income.

[1] Article 10(1)(5) of the PIT Act: contributions eligible for recovery of overpaid PIT are capped at €4,000.
[2] Article 9(1)(4.2) of the PIT Act
[3] Articles 8(3)(3) and 15(10)(5) of the PIT Act
[4] Articles 8(3)(3) and 15(10)(5) of the PIT Act
[5] Article 17(10), paragraphs 13, 15 and 16 of the PIT Act