

PIT Act to be amended: automatic refund of overpaid tax (2/27/20)

Proposals for amending the Personal Income Tax ("PIT") Act with respect to preconditions and procedures for an automatic refund of overpaid PIT were announced at the meeting of state secretaries on 11 June 2020. The automatic refund process is to begin in 2023 for PIT overpaid in 2022.

Overpaid PIT

The PIT Act lays down a taxpayer's right to recover any overpaid PIT through the annual income tax return. An annotation to the proposals explains that persons struggling to grasp the procedure for completing the annual income tax return and the amount of information included in it often neglect to exercise the right to voluntarily file the annual income tax return and to recover the PIT overpaid.

The proposed amendments

To secure the taxpayer's right to recover any overpaid PIT, the proposals provide that the State Revenue Service ("SRS") will automatically refund any overpaid PIT also to a taxpayer who has not filed the annual income tax return, if the following conditions are met:

1. the taxpayer has not registered a business, has gained no foreign income, and has gained no other income that is subject to reporting and liable to PIT under a summary procedure;
2. the taxpayer has no tax debts.

It is important to note that the SRS will automatically refund any PIT overpay arising from –

1. the annual income-differentiated personal allowance;
2. b) a pensioner's personal allowance if they only receive a pension under Latvian law;
3. additional allowances (to disabled persons, politically repressed persons and members of the national resistance movement);
4. the progressive PIT rate;
5. unclaimed dependant allowances;
6. the taxpayer's allowable expenses associated with their contributions to –
 - private pension funds set up under the Private Pension Funds Act;
 - insurance premiums paid under an endowment insurance contract to an insurance company operating under the Insurance Companies and Supervision Act.

According to the annotation, the Ministry of Finance has evaluated the option of automatically providing information on medical and education (including so-called interest education) expenses. Having analysed a number of factors, the Ministry determined that any PIT overpay arising from those expenses will not be automatically refunded, but the mechanism for providing information will be simplified and improved. Several medical institutions are automatically including expenses of medical services on the person's annual income tax return after receiving their consent.

In processing the annual income tax return, the SRS is to use information available from medical and education service providers if the person has given consent to that information being sent to the SRS. The municipalities are required by 1 February in the following tax year to send information on licences issued

for implementing any programmes of interest education and informal adult education that are not free of charge. Insurance companies are required, on request, to provide information on the amount refunded to an individual according to a document supporting medical services.

The taxpayer will be able to examine the draft tax return prepared by the SRS and the information included in it, and to make any necessary adjustments.

The person will also be able to refuse an automatic refund of overpaid PIT by making a note on the SRS Electronic Declaration System on or before 30 September in the following tax year.

If a taxpayer has not filed the annual income tax return and has not refused an automatic refund of overpaid PIT, the SRS will assume that the draft income tax return includes full information on the taxpayer's income and that it qualifies for allowances available under the PIT Act.

It is important to note that an automatic refund can be made only into a Latvian-registered account notified to the SRS.

The amendments are to take effect on 1 January 2022. Automatic refunds of PIT overpaid for 2022 are to begin in 2023.