

Procedures for obtaining residence certificate to be amended (2/32/20)

On 9 July 2020, the meeting of state secretaries debated proposals for amending the Cabinet of Ministers' Rule No. 178, *How to claim tax relief under international double tax treaties*. The proposals aim to improve the process of tax administration and to ease the administrative burden by promoting electronic exchange of information with the State Revenue Service ("SRS"). This article explores what we see as key changes.

The content of the proposals

The proposals modify several provisions and recast Schedules 1, 2 and 3 in order to –

- expand the range of e-services available from the SRS, allowing taxpayers to prepare a relief certificate and a residence certificate on the EDS in self-service mode;
- simplify and accelerate the process of obtaining a relief certificate and a residence certificate;
- reduce the number of applications made by mistake (e.g. without an effective double tax treaty);
- prescribe time limits for filing documents and procedures for handling them;
- ease the administrative burden on the SRS; and
- cut costs incurred in issuing hard copy documents.

The filing deadline

Under the current rules, a residence certificate must be filed on or before the date on which the corporate or personal income tax return is due for the reporting period. To bring the rules into line with the new *Corporate Income Tax Act* (effective from 1 January 2018), the proposals provide that a relief certificate is to be filed on or before the date on which the annual report for the tax year is due.

The rules are to have a new paragraph (3.1) stating that for income payers that do not file annual reports or income tax returns, the payee should file a relief certificate within four months after the end of the financial year.

Filing a relief certificate electronically

The proposals provide that the income payer is to file a relief certificate with the SRS through the Electronic Declaration System ("EDS"), attaching documents received from the payee in a scanned form or electronic documents bearing a secure electronic signature and a time stamp. For this purpose, the EDS is to feature a structured electronic form of the relief certificate.

Time limits for submitting a relief certificate to the SRS for approval

The current rules are silent about time limits within which the income payer may submit a relief certificate to the SRS. In practice, there have been situations where taxpayers submit a relief certificate relating to previous periods to the SRS for approval without restriction, e.g. in 2020 for 2015, 2016 and 2017.

The proposals delete paragraph 4 and recast paragraph 5 to adjust the time limit within which the taxpayer is to submit a relief certificate to the SRS for approval: within one month after the deadline for

filing the annual report or the personal income tax return for the reporting period (if the taxpayer does not file an annual report or a personal income tax return, then within five months after the end of the financial year).

Schedule 4 to be replaced with an EDS form (residence certificate)

The proposals replace Schedule 4 with an EDS form and adjust the information to be given in the section relating to the residence certificate. A solution is to be devised to ensure that a residence certificate is prepared automatically on the EDS when a taxpayer makes a request on their user profile, thereby minimising the time it takes to prepare a residence certificate.

The current process of approving a residence certificate involves several manual operations, so preparing a residence certificate on the EDS will make the whole process more efficient. The residence certificate prepared on the EDS will be automatically given a QR code and a verification code that will allow the competent authority of the other contracting state or the income payer to verify its authenticity. At the request of the other contracting state's competent authority, the SRS will issue a hard copy version of the Latvian residence certificate prepared within its information system, signed and stamped.

For taxpayers that do not use the EDS, a hard copy version of the residence certificate will be prepared by the SRS within its information system and issued at the taxpayer's request.

The time limit for SRS decisions and additional information requests and eligible persons

The proposals add paragraphs 11.1 and 11.2 to the rules in order to set a time limit within which the SRS may decide to refund any overpaid tax or refuse a refund and to request additional information, as well as defining eligible persons. The SRS is to make a decision or request additional information within one month.