

Tax policy measures to deal with COVID-19 implications (2) 1/14/20



Partner and Head of Tax Practice, PwC
Latvia
Ilze Rauza



Senior Consultant, Tax, PwC Latvia
Kristine Skrastina

The government is working hard to put support measures in place for entities affected by the COVID-19 crisis. Last week the Cabinet of Ministers put into effect a number of rules concerning industries affected by the COVID-19 crisis and how employers in those industries qualify for idle-time benefit. Despite the original intention to restrict tax deadline extensions and idle-time benefit to entities operating in the listed industries, at the meeting of 26 March, the Cabinet of Ministers approved a set of criteria to make an affected entity in any industry eligible for idle-time benefit and tax holidays for up to three years. This article explores what we see as key points.

At the meeting of 24 March, the Cabinet of Ministers approved a list of affected industries. According to the Ministry of Economics, the main causes stalling the Latvian economy are reduced demand in export markets, delays in raw materials supply chains, implications of domestic services restrictions, international transport restrictions, and reduced traveller flows. Demand has rapidly fallen in sectors such as hospitality, catering, arts, and international passenger transport. The initial support mechanisms are approved for entities that are directly affected by the restrictions imposed under the extraordinary situation, i.e. entities in transport, tourism, hospitality, entertainment, accommodation, catering, and education (a total of 40 industries).

Thus, an entity in an affected industry and an affected entity in any industry may apply to the Electronic Declaration System (“EDS”) of the State Revenue Service (“SRS”) for having their late tax payments split into instalments or postponed for up to three years. Each application will be examined in the light of requirements laid down by section 24 of the Taxes and Duties Act.

An entity in an affected industry or an affected entity in any industry that has an idle worker during the idle-time period caused by the COVID-19 crisis may apply for idle-time benefit. The statutory idle-time period runs from 14 March to 14 May or until the Cabinet decision on the extraordinary situation ceases to operate.

Idle-time benefit is awarded as follows:

Affected industry

Affected entity in any industry

An entity in an affected industry is an entity that operates in its core industry, which has been recognised by the Cabinet Rule as an affected industry, and whose business revenue in March 2020 was at least 50% lower than March 2019.

Because of the COVID-19 crisis, the affected entity's business revenue in March or April 2020 is:

- at least 30% lower than the same month of 2019; or
- 20% lower than the same month of 2019 if the entity meets at least one of the following criteria:
 - its 2019 exports represented 10% of its total sales or was at least €500,000;
 - its actual monthly average gross employment pay in 2019 was at least €800;
 - its long-term investment in fixed assets at 31 December 2019 was at least €500,000.

Idle-time benefit will be paid to a worker at 75% of their monthly average gross employment pay for the last six months before the extraordinary situation was declared, or according to the data actually reported for the worker in those last six months, capped at €700 per month. Idle-time benefit will awarded and paid according to the idle-time period stated in the application filed by an employer in an affected industry. Idle-time benefit will be exempt from personal income tax and mandatory national social insurance contributions.

Within five working days after receiving the application, the SRS will pay idle-time benefit for one calendar month into the worker's account designated in the application at a credit institution or with a payment service provider in Latvia.

To apply for idle-time benefit, the employer's application for the period from 14 March to 31 March 2020 must be filed with the SRS EDS by 25 April (and by the 25th day of the following month for any subsequent period).

The application must state –

- the employer's business name and taxpayer registration number, but an employer in an affected industry must also state their core business activity (according to NACE Rev. 2 classification) at 14 March 2020;
- the idle-time period;
- an explanation of how the COVID-19 crisis caused the worker to go idle;
- details of the idle-time period of the idled workers; and
- a statement confirming that the worker for whom idle-time benefit is claimed has not been on sick leave and will not be dismissed on the employer's initiative within one month after the application was filed.

The SRS will not award idle-time benefit if an affected entity in any industry or an entity in an affected industry –

- had not filed with the SRS all the tax returns and annual reports due for the last 12 months before the extraordinary situation was declared;*
- had a tax debt exceeding €150 at 7 March 2020 and has not obtained a deadline extension or has not reached agreement with the SRS on voluntary payment of taxes;*
- is now deregistered for VAT purposes or was deregistered in the last two years, or has or has had its business suspended;

- is going through insolvency proceedings at the date of the decision;
- had calculated a monthly average of less than €200 in SRS-administered taxes for the last six months before the extraordinary situation was declared;
- is an entity for which, in the last three years and at the time of the application being considered, the SRS has assessed extra tax amounts due or reduced any overstated tax refund, including late fees and fines, totalling over 3% of the employer's SRS-administered tax revenues for the year (the employer's contributions less any overpay refunded by the SRS) but at the time of the application being considered - 3% of the employer's SRS-administered tax revenues for the last year (the employer's contributions less any overpay refunded by the SRS) as a result of a tax audit or a data compliance review; or if
- the entity or its board member has, in the last year and at the time of the application being considered, been punished for a breach of employer tax obligations, a customs breach, or a breach of employment legislation, unless an individual breach has attracted a warning or a fine of up to €151 and total fines for the year do not exceed €500.

**Not applicable to members of the In-depth Cooperation Programme*

The SRS will not award idle-time benefit if the core business activity of an employer in an affected industry (according to NACE Rev. 2 classification) does not match the core business activity notified to the SRS at 1 March 2020.

Idle-time benefit is not available to the employer's board or council members, or to workers who started their employment relationship after 1 March 2020. Idle-time benefit is not meant for workers employed in institutions funded by the central or local government, for workers employed in entities controlled by those institutions, or for workers who are simultaneously employed in a central or local government institution or company, or for those who receive an old-age, retirement or disability pension, carry on a trade or business, or have received sickness benefit during the idle-time period.

The SRS will post on their website a list of employers whose workers have received idle-time benefit and who have received approval for their late tax payments being split into instalments or postponed for up to three years.

The SRS has also set up a dedicated helpline for the affected entities (67120020).

From 25 March the affected entities may apply to development finance institution Altum for two support instruments: a guarantee for bank loan holidays and a working capital loan. Both instruments have been developed in cooperation with the Ministry of Economics and approved by the European Commission. Bank loan holiday guarantees will allow the banks to postpone principal repayments for up to two years, while working capital loans on easy terms are meant for entities with substantially reduced operations.

A bank loan holiday guarantee and a working capital loan are meant only for an affected entity that is viable in the long term and able to show how this support will help it overcome the crisis and stay in business. The financing is available to micro, small, medium and large entities (including agriculture and fisheries). Loans and guarantees will be issued up to 31 December 2020.