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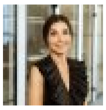
Tax policy measures to overcome COVID-19 consequences 1/13/20



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Many countries have seen a rapid drop in economic activity due to COVID-19 and are trying to adopt some extraordinary tax policy measures in order to limit the damage and protect business. A fast response is crucial when it comes to mitigating the impact of the crisis. This article explores some of the tax policy measures recently adopted in Europe and Latvia.

On 20 March the OECD published recommendations for a number of tax policy and tax administration measures to be considered by governments. The recommendations offer to widen the access to unemployment benefit, sickness benefit and other benefits, an employer's exemption from payroll taxes and social insurance contributions to lower labour costs in the severely affected industries, and a government co-payment to employers to stop them from dismissing workers. To compensate people working overtime or in hazardous circumstances, the recommendations offer to exempt their overtime income from personal income tax and social insurance contributions. For indirect taxation, member states are encouraged to consider postponing VAT payments, accelerating refunds of overpaid VAT, simplifying procedures for adjusting VAT on bad debts, cancelling customs or excise payments on certain imports (e.g. food, medicines, and production equipment), while at the same time minimising abuse of those reliefs. Also, a number of recommendations have been made for easing the burden of corporate income tax and real estate tax.

Many governments have already started adopting support measures to mitigate the crisis. Belgium, for example, offers relief for businesses wishing to use partial employment, they can postpone VAT, social tax and corporate income tax payments, and reduced social contributions apply to self-employed persons facing reduced revenues. In Denmark, businesses can postpone VAT and other tax payments, employers are compensated for sickness benefits, businesses are allowed to reduce working hours, with workers receiving a benefit from the State. France offers the option of postponing tax payments. Cyprus has extended the deadlines for filing tax returns and paying taxes, and pushed its standard VAT rate of 19% down to 17% for two months and the reduced VAT rate of 9% down to 7% for 3.5 months. Greece has pushed its standard VAT rate of 24% down to 6% on necessities to protect against COVID-19 and prevent its spread, i.e. sanitary masks, gloves, disinfectants, napkins, soap, other goods for personal hygiene, and alcohol for use in making disinfectants up to the end of the year. Also, VAT payment deadlines have been postponed businesses in particular industries.

The Latvian government has already adopted measures to stop the spread of COVID-19, with procedures in place for financing those measures. A new law on measures to prevent and overcome the national threat and its consequences due to the spread of COVID-19 came into force on 22 March (the "COVID-19 Act"). To address the consequences of COVID-19, a number of amendments have been made to the Commercial Code, the Commercial Pledge Act, the Disability Act, the Maternity and Sickness Insurance Act, the Social Services and Assistance Act, and the Riga Council Dismissal Act.

The COVID-19 Act determines certain support measures for industries affected by the crisis:

1. An opportunity to apply for a tax payment deadline extension if the payment is overdue because of the spread of COVID-19. To claim this relief, the taxpayer must submit an application to the State Revenue Service ("SRS") within two months after the payment became due or after the COVID-19 Act took effect. The SRS may split the late tax payment into instalments or postpone it for up to three years counting from the date of application. The late tax payment will not attract a late fee, and the person will not be added to the database of debtors maintained by the SRS. In certain cases the SRS may cancel the decision that extends the tax payment deadline.
2. For the duration of the COVID-19 Act, central and local government institutions as well as derived public entities and companies controlled by a public entity, free ports and special economic zones will exempt those traders from paying rent for the property of a public entity and for the property of a company controlled by a public entity or reduce it, and will not charge interest on arrears or contractual penalties if payment is late (except for any services consumed such as electricity, heating, water supply, and other property maintenance services).
3. Expenses incurred because of idle time will be reimbursed – workers will compensated for up to 75% of their average pay for the previous six months, capped at €700 for a calendar month. Idle-time benefit will be exempt from personal income tax and social insurance contributions. Payment of idle-time benefit will be stopped if the employer hires new workers during the period it is paid.

Industries affected by the crisis will be named by the Cabinet of Ministers, who is authorised to introduce more support measures for them.

Below are some of the support measures adopted regardless no industry.

Refund of VAT overpay

- Any VAT overpay approved by the SRS appearing on a VAT return filed after 31 March 2020 will be refunded within 30 days after the filing deadline (or after the filing date if filed late or adjusted).
- Any VAT overpay approved by 31 March 2020 but carried forward to the next tax period until the end of the tax year (including any amount overpaid by a deregistered taxable person) will be refunded to the taxpayer by 14 April 2020.
- Any VAT overpay appearing on VAT returns filed by 31 March 2020 but not yet approved will be checked, approved and refunded by the SRS within 30 days after the VAT return was filed.
- If the deadline for approving any VAT overpaid by 31 March 2020 has been extended, the SRS will refund the overpay by the next working day after it is approved.

As before, all taxes and duties administered by the SRS as well as other national and related charges must be paid in accordance with the Taxes and Duties Act before the approved VAT overpay can be refunded. And the existing procedure under which the SRS may adjust the VAT overpay following a tax audit remains unchanged.

Excise

Given the increased demand for disinfectants and the shortage of denatured alcohol, disinfectants can be made from non-denatured alcohol, which will be exempt from excise. A disinfectant manufacturer must obtain an SRS permit for the purchase of alcoholic drinks.

To boost the production of disinfectants without substantially raising the required excise security, alcohol manufacturers holding an approved warehousekeeper licence are eligible for an up to 90% reduction in general excise security from the SRS. Alcohol manufacturers must notify the SRS one working day before starting alcohol production.

A disinfectant manufacturer who as temporarily registered consignee imports or receives alcohol from another member state based on an SRS permit for the purchase of alcoholic drinks may submit excise security with a 100% reduction.

To minimise interpersonal contact during the outbreak of COVID-19, sales of excise goods will be allowed under distance agreements subject to a ban on tobacco products and e-liquids, and it is illegal to sell alcoholic drinks to persons aged under 18 and between 10 p.m. and 8 a.m.

Real estate tax (RET)

The COVID-19 Act permits the municipalities this year to set RET payment deadlines that are different from the Real Estate Tax Act and extend them within this year. A municipality may exercise this right by either making a blanket decision on all taxpayers or splitting them into categories. The decision must be publicly made known to taxpayers.

Personal income tax (PIT)

Persons paying advance PIT on their business income can assess their ability to make an advance payment. This rule applies to advance payments from 1 January 2020.

Other measures

- In 2020, 2021, 2022 and 2023 the SRS may decide against deregistering or demoting members of the In-depth Cooperation Programme affected by the COVID-19 crisis.
- Entities governed by the Company and Consolidated Accounts Act as well as associations, foundations and religious organisations can have their filing deadline extended by three or four months respectively.
- Restrictions are in place on the right of creditors (including employees) to file for corporate insolvency by 1 September 2020.
- For the duration of the COVID-19 Act, it is illegal to organise any gambling games and lotteries other than interactive gambling games, number lotteries, and moment lotteries.
- The Maternity and Sickness Insurance Act has a special procedure for paying sickness benefit in the event of a COVID-19 epidemic. This benefit is awarded and paid for a period running from the second day of incapacity for work. Sickness benefit equals 80% of the person’s average pay attracting social insurance contributions, with support for employers in paying for the sick leave.