PricewaterhouseCoopers SIA - MindLink.lv. Published: 02.02.2021

Bank account turnover out of line with tax filings (2) 1/5/21

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To pick up where we left off last week this article explores how a taxpayer should respond to a State Revenue Service ("SRS") request for explaining credit turnover in his bank accounts.

Having received such a request the taxpayer should assess the situation and estimate how long it will take to prepare the requested information. The taxpayer has a right to ask the SRS to extend the deadline for filing information based on valid reasons. The SRS tends to approve extension requests and agree on a particular time limit for filing the information. It is important to remember that an extension request should be filed before the SRS's original deadline expires. The extension will give the taxpayer ample time to examine his account turnover (incoming funds) for the tax year and to provide the SRS with reasonable explanations. The taxpayer will be able to check whether he has reported all reportable income on his annual income tax return and to report any income that has gone unreported.

The next step is to review his bank account printouts for the tax year and examine transactions that have created credit turnover. If there are many different transactions, such as transfers between the taxpayer's own bank accounts, loan repayments or gifts from the spouse, it is advisable to group those together and calculate total incoming payments for each group.

In each group summary it is advisable to name the account those payments entered, with breakdowns giving dates and payment details. When preparing a reply to the SRS, this is a transparent way to present information, to explain how credit turnover arose from various transactions, and to reference each payment.

When filing an explanation with the SRS, it is advisable to enclose bank account printouts so the SRS can verify the data. In certain cases, supporting documents can be enclosed to explain the substance of a particular transaction and demonstrate how it was executed.

If the taxpayer's analysis shows up income that has gone unreported or has not been charged to personal income tax ("PIT") this can be stated in the taxpayer's reply to the SRS. In that case the taxpayer should inform the SRS that he will adjust the annual income tax return, report any unreported income and, if necessary, calculate an additional PIT charge within a certain time limit. It is in every taxpayer's best interests to report any unreported taxable income and pay PIT to the government as soon as possible to avoid accruing interest on arrears.[1]

The SRS will not let the taxpayer know that his explanation has been considered and the SRS has no further questions. So, in his reply the taxpayer can ask the SRS to acknowledge receipt in writing and to inform him of any further steps to take. In certain cases the SRS will ask the taxpayer to provide more details and file relevant documents. The SRS can also question other persons involved in the taxpayer's transactions, asking them to give explanations and file supporting documents.

Whether or not the taxpayer's bank account turnover analysis shows he has gained some extra reportable or taxable income, it is advisable not to ignore the SRS's request and give a reply. If the taxpayer has gained some non-taxable income this should still be reported by adjusting the annual income tax return.

Although there are no publicly available statistics on how much income has been additionally reported as a result of this initiative, it is clear that this year will also see the SRS analyse the data reported by the banks and scrutinise taxpayers' income.

[1] Daily 0.05% of the PIT charge but not to exceed 40% of the PIT liability