

# Amendments to Microbusiness Tax Act 1/11/21



Manager, Tax, PwC Latvia  
Viktorija Lavrova



Director, Tax, and Head of Pan-Baltic  
People and Organisation Practice, PwC  
Latvia  
Irena Arbidane

This article summarises changes to the microbusiness tax ("MBT") rules effective from 1 January 2021 and outlines amendments coming into force gradually during 2021.

## MBT payers

Only a sole trader, an individual undertaking, a farm or fishery operation and an individual registered with the State Revenue Service ("SRS") as a trader, if they are not registered for VAT, can become an MBT payer from 1 January 2021.

If a microbusiness registers or is liable to register for VAT it loses MBT payer status from the next tax period (next year). Any microbusinesses that are registered for VAT can keep MBT payer status up to 2022.

Private limited companies (known as SIA) can no longer obtain MBT payer status from 1 January 2021. However, any private limited companies that had MBT payer status before 1 January 2021 are allowed a period of transition until 1 January 2022. As from this date they must stop paying MBT and will automatically become a corporate income tax payer.

## Employees

From 1 January 2021, when a microbusiness employs an individual, their income from the microbusiness attracts both personal income tax ("PIT") and national social insurance ("NSI") contributions. However, employees taken on before 2021 will be subject to the new procedure as from 1 July 2021.

## Rates and payment

From 1 January 2021 microbusinesses continue paying MBT on their revenue but the rates are –

- 25% on a revenue of up to EUR 25,000;
- 40% on any slice of revenue exceeding EUR 25,000.

The special rates for excess revenue, headcount and wages no longer apply from 1 January 2021.

MBT is payable into the single tax account on or before the 23rd day of the month following the quarter. The SRS will redistribute this tax as follows:

- 80% for NSI;
- 20% for PIT.

As from 1 July 2021 the MBT payer should pay minimum NSI contributions as a self-employed person. The tax calculation will be coordinated by the National Social Insurance Agency in cooperation with the SRS. The tax charge will be notified to the taxpayer via the Electronic Declaration System. The minimum NSI

calculation and the payment deadline will be several months away from the quarter that serves as a basis for calculating any NSI contributions.

## Filing MBT returns

An MBT return should be filed on or before the 15th day of the month that follows a tax quarter with revenue (even if only one or two months of it had revenue) and payment is due by the 23rd day of the month following the quarter.

## Changes to PIT rules

The PIT treatment for dividends an MBT payer distributes out of his profits and for a microbusiness's liquidation quota (i.e. surplus assets on winding-up) will depend on the period the profit is generated. Any pre-2021 profit that is either distributed in dividends or represents a liquidation quota will attract a 20% PIT. A dividend or liquidation quota paid out of profits generated after 2020 will be exempt.

## Proposed amendments to the MBT Act

As from 1 July 2021 MBT payers can use a simplified tax payment solution where MBT calculation, reporting and payment under the general procedure will be done by the SRS in cooperation with a credit institution subject to the conditions below:

- The MBT payer has no MBT arrears on the date he applies for this solution;
- The MBT payer's entire business revenue (including cash) has been transferred or paid into the business revenue account and appears in its credit turnover; and
- The microbusiness uses single-entry bookkeeping.

This solution is not available if the microbusiness employs persons and pays payroll taxes for them under the general procedure, or if the microbusiness registers for VAT during the tax year.

## A practical example

The microbusiness is an individual registered as a trader that provides office cleaning services.

Revenue from companies A, B and C for cleaning services rendered in the third quarter of 2021 is EUR 3,000.

The cost of cleaning products is EUR 200.

Taxable income is the quarterly revenue of EUR 3,000.

The applicable rate is 25% and the MBT charge is EUR 750, 80% of which (i.e. EUR 600) is allocated to NSI for the quarter.

The NSI allocation is considered in terms of the NSI rate (31.07%) applicable to the self-employed, meaning that the EUR 600 is 31.07% of EUR 1,931.12. The minimum income subject to NSI contributions for the quarter is EUR 1,500 (500 x 3) so there is no further minimum NSI to pay.