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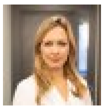
Payments under special royalties scheme and latest changes 1/31/21



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This article explores changes to the royalties scheme effective from 1 July 2021 and applicable throughout 2021, as well as other ways in which authors can receive royalties. This article summarises the practicalities and administrative obligations facing the payer of income and the Latvian tax-resident payee.

Ways of paying royalties

Latvian legislation currently provides for three ways of paying royalties for author work done by Latvian tax-resident individuals with an appropriate tax treatment:

1. Royalties paid under a special scheme effective from 1 July 2021 to 1 January 2022;
2. Service fees paid to a self-employed person registered as a trader (without applying a special royalties scheme);
3. Service fees paid to a self-employed person not registered as a trader (without applying a special royalties scheme).

The tax treatment and reporting obligations vary according to the chosen form of business and the payee's status.

This article does not evaluate how an author could become a microbusiness tax payer.

Tax treatment

1. Royalties paid under a special scheme

Royalties generally attract both payroll taxes, i.e. personal income tax ("PIT") and mandatory national social insurance contributions ("NSIC").

The latest amendments to the PIT Act have changed the old royalties scheme, so the payer of royalties is required to withhold a 25% or 40% PIT from 1 July 2021. Any income of up to EUR 25,000 attracts 25% and the excess 40%. The amount of tax withheld and remitted to the government goes towards PIT and NSIC at 20% and 80%. The payer of royalties is no longer required to pay a 5% NSIC for pension insurance.

2. Fees paid to a person registered as a trader (without applying a special royalties scheme)

Self-employed persons receiving service fees outside the royalties scheme are personally responsible for paying taxes. The payer of income is not required to withhold tax but should check the tax authority's database to see whether the person is registered as a taxpayer. The person's status, i.e. whether they are registered as a trader, can be checked on the tax authority's register.

3. Fees paid to a person not registered as a trader (without applying a special royalties scheme)

The payer of income is required to withhold payroll taxes on the fees paid (similar to salary).

Administrative obligations of the payer and the recipient

1. Royalties paid under a special scheme

Obligations of the income payer (company)

A company paying royalties has to withhold PIT (the amount withheld goes towards PIT and NSIC).

The payer of royalties must file a monthly statement of amounts paid to the individual on or before the 15th day of the following month and remit the tax withheld to the government by the 23rd day.

The company is not required to file employee details before paying royalties.

Obligations of the recipient of royalties

During the period of transition, any income recipients that are not registered as traders and receive royalties from two or more payers, as well as those receiving royalties from abroad, must file a royalty recipient's declaration for the period from 1 July to 31 December 2021 on or before 28 February 2022.

The recipient of royalties is not required to submit the annual income tax return, unless there are some other circumstances mandating its submission, because royalty income will be recorded and reported separately. However, the person may have an additional PIT liability through the annual income tax return if the income received during the year exceeds the level set for charging progressive rates.

2. Fees paid to a person registered as a trader

Obligations of the payer (company)

The payer is not required to file monthly employer reports. The income paid must be reported to the tax authority by filing a summary statement of amounts paid to individuals on or before 1 February, reporting the income with code 2007 or 2008.

Obligations of the income recipient

The recipient has to pay PIT by filing the annual income tax return and charging progressive rates. The person may deduct notional expenses at 25% or 50% without supporting documents or actual expenses based on supporting documents.

The recipient also has to pay NSIC by filing quarterly reports on or before the 17th day of the month following the quarter and paying NSIC by the 23rd day.

3. Fees paid to a person not registered as a trader (without applying a special royalties scheme)

Obligations of the payer (company)

The relationship with the income recipient should begin by filing employee details with code 81 (and 82 on contract termination). Time limits for filing these statements are identical to those applicable in the case of an employment contract. In other words, a statement with code 81 must be filed no later than one hour before entering into the contract, and a statement with code 82 must be filed within three working days after the contract is terminated.

The payer of income must file the employer report on or before the 17th day of the month following the payment and remit payroll taxes by the 23rd day.

Obligations of the income recipient

The person may have an additional PIT liability if the income received during the year exceeds the level set for charging progressive rates.

Minimum NSIC

Under the new rules effective from 1 July 2021, minimum NSIC will be calculated for the person if their quarterly income is up to EUR 1,500. This procedure also applies to recipients of royalties. We have written earlier about exceptions where minimum NSIC are not required.