

Tax authority seeks explanations of bank account turnover: insights into procedural developments and practical recommendations 1/41/21



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The autumn sees the State Revenue Service (SRS) sending requests to taxpayers for information on transactions making up their bank account turnover and discrepancies with the information available to the SRS. This article explores the process and practical communication with the SRS (more details in [“Bank account turnover out of line with tax filings”](#)).

The SRS requests information for multiple years

The January 2018 amendments to the [Taxes and Duties Act](#) require the Latvian banks and service providers by 1 February each year to notify the SRS of the bank account turnover of any taxpayer whose total debit or credit turnover in their demand deposit and payment accounts for the previous year is EUR 15,000 or more, in order to encourage voluntary payment of taxes. In that case the bank will notify the SRS of the customer's personal identity number, name and surname, as well as the debit and credit turnover and balances in all of the customer's accounts. Recent practice suggests that the SRS may approach the person throughout the year and request information for multiple tax years at once.

This means that such requests relating to all the years that are open to audit may reach the person not only during the year of information exchange but in any period.

General information supplied to the SRS prompts a request for more details

After receiving information on a person whose bank account turnover exceeds EUR 15,000, the SRS will compare the information obtained from the Latvian banks with details appearing on the person's annual income tax return, or with the information available to the SRS if the person has not filed a tax return. The SRS's preliminary information on the person does not include an account statement or details of each transaction, so after making a comparison and finding a discrepancy, the SRS will send a letter to the person via the Electronic Declaration System, asking them to explain the origin of that discrepancy, report any unreported income, and evaluate the need to calculate and pay more tax. The SRS may send the person an information request for multiple tax years or for each one separately.

Key reasons for information discrepancies: transactions between own accounts, gifts from relatives, loans and repayments

Discrepancies between the person's annual income tax return and bank account turnover may be due to various incoming payments that do not always need to be reported on the tax return and charged to personal income tax (PIT). Our experience suggests that credit turnover discrepancies with the tax return

do not mean that the person has understated their annual income and underpaid PIT. Not having access to full bank account printouts, the SRS is initially unable to check whether the person has fulfilled their tax obligations.

A discrepancy between the annual income tax return and the SRS's information may have various reasons, for instance:

- Transactions between the person's own bank accounts.
- Payments between family members that do not constitute taxable income for the payer or the payee, such as spouses and relatives making mutual transfers for daily needs and larger purchases, thereby creating credit turnover on the bank account. NB! If the persons are not related by marriage, the SRS may treat those payments as gifts (exempt up to EUR 1,425 a year) so care should be taken to explain the substance of such payments and emphasise their significance in running a joint household, supporting children, or jointly buying some real estate.
- Bank loans and repayments in the tax year may create account turnover but will not constitute taxable income or be considered income.
- If funds are received from an investment portfolio but the income paid out does not exceed the funds invested, there is no tax to report or charge.

Explanations should justify payments made

If the person has received a request from the SRS to explain the situation, the time limit may be extended up to 30 days at least. A longer extension requires a good reason. If the SRS approves an extension request, the parties will agree on a revised deadline.

When preparing an explanation of how the discrepancy arose, it is a good idea to look through the transactions and group them together in order to calculate total incoming payments for each group and explain what it is about (e.g. payments between own accounts or gifts from parents).

If this review finds any income that still needs reporting or charging PIT, the person should state this finding and notify the SRS of the time frame for correcting this mistake and paying tax if necessary. It is important to note that a late fee will be levied on any PIT calculated and paid to the government in this situation.

If the person does not receive any further questions from the SRS after providing the information requested, this usually means that the explanation has been accepted. The SRS will not issue a separate statement of acceptance.

If the person fails to give an explanation, the SRS has the power under the [State Revenue Service Act](#) to demand account statements from the banks in order to find out what caused the discrepancy. Noticing someone who has received income that goes unreported and/or with tax unpaid, the SRS may later approach the person and launch a thematic review or an audit.