

# Personal Income Tax Act to be amended (1)

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The package of budget bills for 2022 includes a bill of proposals for amending [the Personal Income Tax \(PIT\) Act](#). This article takes a brief look at what we see as key changes.

On 15 November Parliament debated this bill in its second reading, and the amendments are to take effect from 1 January 2022 (some of the provisions have their terms and effective dates set by the transitional rules of the PIT Act).

### Rules arising from Latvia's EU membership

The bill adds a new section to [the PIT Act](#) to lay down equality principles for EU/EEA residents compared to a Latvian resident. Residents of those countries are entitled to tax exemptions and statutory allowances (a personal allowance, dependant allowances, allowable expenses, and national insurance deductions from income for the tax year) to the same extent as residents if their Latvian-source income exceeds 75% of their total income for the tax year.

### Collective agreement: medical expenses

Employer-paid staff medical expenses are excluded as well as employer-paid staff catering expenses under a collective agreement if the two employer-paid types of staff expenses in total do not exceed EUR 480 a year (a monthly average of EUR 40) and the employer meets statutory conditions.

Payment for the use of medical services must be supported by documentary evidence that is filed with and retained by the employer.

### Environmental issues

Any aid (co-financing) a municipality grants for connecting a property to the centralised system of water supply or sewerage will be exempt from PIT.

To provide aid for people in managing waste harmful to health, particularly people on low incomes, the bill states that any aid granted to a household in managing such waste in the case of replacing obsolete roofs containing asbestos will be exempt from PIT.

### Scholarships

To make the process of awarding scholarships transparent and to prevent PIT evasion, the bill includes a provision that gives the State Revenue Service the power to assess how a scholarship payable under a

university's rules fits **the PIT Act's** definition of scholarship according to its economic substance as well as legal form, including an assessment of the source of scholarships, applicable criteria etc.

## Endowment assurance

The bill provides that insurance premiums the taxpayer has paid under an endowment policy will be recognised as allowable expenses only if he is both the policyholder and the life assured and if the contract provides that an insurance indemnity for any insured event other than the death of the life assured and any other amounts associated with the operation or termination of the contract are paid to the policyholder, who is the life assured at the same time. This does not apply to contracts the employer concludes during the period of transition, when insurers are expected to identify their clients and revise the terms of their existing contracts (where another person, including a child, is named as beneficiary). Premiums paid under contracts concluded before the amendments came into force can be claimed by the taxpayer as allowable expenses within 24 months after the amendments took effect, i.e. through the annual income tax return for 2021, 2022, and 2023.

As before, any insurance premiums paid by the taxpayer's spouse (but not a child or parent) can be deducted as allowable expenses.

(to be completed next week)