

Personal Income Tax Act to be amended (2)

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This article completes what we [wrote last week](#).

Allowable expenses covered by the limit of EUR 600

The proposals make it clear that a person may claim allowable expenses for family members on the annual income tax return only if those amounts do not appear on the tax return of another family member. Taxpayers tend to misunderstand this rule and believe that the taxpayer and family members are each allowed to claim EUR 600 in allowable expenses on their annual tax return for one and the same person.

Agricultural land

The **PIT Act** currently exempts income arising on the sale of real estate (RE) that is agricultural land according to its purpose if statutory criteria are met.

The proposals state that if RE includes buildings and structures as well as woods or any other type of land (e.g. swamps or land under waters), then a PIT exemption is available if the seller provides the State Revenue Service with a certified valuer's valuation that specifies not only the total market value of the RE but also the market value of any agricultural land forming part of it. For PIT exemption purposes, account will be taken of the agricultural land's market value percentage in the total RE market value.

If RE does not include any buildings or structures but the sale involves RE comprising land usable in agriculture and woods or any other type of land (e.g. swamps or land under waters), then according to the proposals a PIT exemption applies on the land usable in agriculture in proportion to its market value percentage in the total RE market value according to a certified valuer's valuation, or if the taxpayer does not have such a valuation then, as before, in proportion to the part of land that is usable in agriculture according to its purpose.

Personal allowances

The proposals raise the annual maximum income-differentiated personal allowance and a pensioner's personal allowance. In the tax year 2022 this will increase gradually: EUR 350 a month from 1 January to 30 June, and EUR 500 a month from 1 July onwards.

Professional athletes' income

The current law provides that employment income from professional sports attracts a 20% PIT on a cumulative basis, i.e. through the annual tax return. So the payer of income to whom a wage tax book has

not been provided must charge a 23% PIT and postpone charging a 20% PIT cumulatively until the annual tax return is filed. The proposals state that a 20% PIT should be charged on a professional athlete's employment income during the tax year (each month, rather than only retrospectively as mandated by the current rules).

PIT treatment of labour hire

The proposals make it clear that in computing PIT on income from labour hire, account should be taken of national social insurance contributions and similar payments prescribed by the legislation of other EU/EEA countries.

The PIT Act is to have a new clause stating that the host employer should be identified by considering not only the legal form but also the economic content and substance of a transaction or a set of transactions, including an assessment of whether the host employer's contract with the labour hire entity results in workers being made available to another person for performing activities related to that person's commercial or professional operations in Latvia or abroad (in that case the other person for whom the workers work should be recognised as the host employer).

Micro-entity tax payers

The Micro-Entity Tax Act has been amended from 1 January 2021 to apply this tax only to a micro-entity's owner. So the proposals state that the words "micro-entity tax payer's employee and owner" in the PIT Act should be replaced with the words "micro-entity tax payer."

Since any employment income a micro-entity's employee receives from the micro-entity is subject to labour taxes under the general procedure from 1 July 2021, the proposals state that a micro-entity's employees are entitled to a personal allowance, relief and allowable expenses in computing their taxable income for PIT purposes.

Remote work expenses

The proposals extend the operation of paragraph 159 of the PIT Act's transitional provisions for another year. So a remote worker's expenses the employer pays under the Labour Act will be exempt in the tax year 2022 up to EUR 30 a month for a full-time job.

Royalties

Taxpayers receiving royalties will not be required to register as traders in 2022. Taxpayers that continue to receive royalties in 2022 will have to file a royalties tax return for 2022 by 28 February 2023 and, if necessary, pay additional tax on a cumulative basis by 23 June 2023. The annual tax return will have to be filed if –

1. income was received from multiple payers and exceeds EUR 25,000;
2. income was gained abroad or was not subject to withholding tax.