

New proposals for amending Personal Income Tax Act 1/16/22



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On 9 December 2021 the Commission on Public Administration and Local Government urged Parliament to amend **the Personal Income Tax (PIT) Act** so that the exempt income types would include proceeds from a piece of land that is sold under the Termination of Forced Shared Ownership in Privatised Apartment Blocks Act after being held for more than 60 months. The proposed amendments were backed in their first reading on 20 January. More proposals for amending other sections of the PIT Act have been submitted for the second reading, including ones that seek to promote the development of the Latvian capital market. This article summarises what we see as key proposals.

A non-Latvian resident taxpayer's interest income

One of the proposals is to charge a 3% PIT on interest and equivalent income paid to a non-resident if the four criteria set out below are met at the same time:

1. The payer of income withholds PIT at source.
2. The income is paid by a Latvian-registered resident taxpayer for a financial instrument underwritten by an investment service provider being supervised by the Financial and Capital Market Commission.
3. The recipient is a resident of another EU/EEA country.
4. The financial instrument is not traded publicly.

The sponsor of this proposal believes the current Latvian capital market rules discriminate against foreign private investors (individuals) because a 20% PIT is withheld on interest payments, while entities are exempt from an equivalent tax. The proposal says this discrimination indirectly restricts EU/EEA private investors' access to the Latvian capital market.

Special rules for determining income from an investment account

A number of additions have been proposed **to section 11.13 of the PIT Act** that clarify the reporting obligation in the case of an investment account, including when the service provider must notify the State Revenue Service (SRS) and when this is done by the taxpayer. Also, clearer rules are being proposed for recognising an account with the SRS to cover cases where the taxpayer has inaccurately disclosed investment account details or where the service provider has notified the SRS too late.

Summing up the proposals for expanding section 11.13, we envisage the SRS putting together some new or updated guidance to clarify the rules already in the law, instead of the PIT Act being actually amended.

One of the new proposals for amending the PIT Act allows the taxpayer to check which of their accounts are already registered as investment accounts.

As the deadline for submitting proposals for the second reading has expired, we will be monitoring how the proposed amendments move through Parliament.