

Tax treatment of prizes received by individuals in contests and competitions 3/24/22



Director, Tax, and Head of Pan-Baltic
People and Organisation Practice, PwC
Latvia

Irena Arbidane

The Covid-19 pandemic had a significant impact on people's habits, with restrictions affecting many events, including contests. More and more public events are taking place as we return to normal life. Various contests are being held, and individuals taking part win prizes. What taxes apply on such cash and non-cash prizes? Who is responsible for reporting this income and paying taxes? Is it the individual or the company that holds the contest and pays the benefit?

Provisions of the Personal Income Tax (PIT) Act

Section 9 of the PIT Act exempts the following items:

- Cash and non-cash prizes received in contests and competitions totalling up to EUR 143 for the tax year
- Prizes received in international public contests and competitions totalling up to EUR 1,423 for the year
- A cash prize paid to the Baltic Assembly prize winners and a prize awarded by the Cabinet of Ministers

The exempt amounts apply for one tax year, meaning the person has to add up all the prizes won in contests and competitions, excluding the amounts listed above, and any excess is subject to PIT.

The onus of reporting this income and paying PIT lies with the individual.

The reporting obligation for the company having paid the income to the individual

Under general procedure, the Latvian company paying cash or non-cash prizes to an individual is required to complete and file a "Statement of Amounts Paid to the Individual", reporting the income paid to the person and not withholding PIT at source. The company should select "Exempt Income - Income Type Codes 40". The code "4025" would report the amount of the prize received by the individual.

The company must file this statement with the SRS on or before 1 February in the following year.

The individual must report the excess as taxable income on their annual income return.

While the company paying cash or non-cash prizes is not required to withhold PIT, many companies seek to maintain their public image by voluntarily withholding and paying tax instead of the individual. How does the company paying the cash or non-cash prize correctly report to the SRS the excess (over EUR 143 or over EUR 1,423) received by the individual?

A company wishing to withhold PIT at source on the prize winner's excess should file with the SRS a "Statement of Amounts Paid to the Individual" and report the excess as taxable income (on which PIT has been withheld at source). The codes for this type of income begin with "10".

Using the code "1014", the company would announce that the entity's or trader's gift to the individual has been for the excess and the statement would include the excess value (the total prize amount of EUR 143/1,423 = taxable amount).

The company should notify the SRS of the value of cash or non-cash prizes subject to PIT on or before the 15th day of the month that follows the month in which the income was paid.

The exempt portion of up to EUR 143 or 1,423 should be included in the annual statement with the code "4025".

For details of how to file the "Statement of Amounts Paid to the Individual" check out the guidance prepared by the SRS or reach out to PwC's team of tax consultants.