

Relocating abroad: tax aspects to consider 2/37/22



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With advanced technology and improved international cooperation, people are becoming less and less tied down to a particular residence. Many relocate from Latvia to live abroad indefinitely. Since this is a new experience for most people, this article summarises key tax aspects a Latvian tax resident should consider in the case of relocation.

Staying abroad for a long time directly affects your tax treatment. A long stay outside Latvia will change both your tax residence and the country in which you have to pay your personal income tax (PIT) and national social insurance (NSI) contributions. Depending on the country to which you move, even a brief stay there may require you to pay foreign tax and not Latvian PIT (if Latvia does not have an effective double tax treaty with that country) and/or NSI (if the country is outside the EU and does not have a social security agreement with Latvia) even if your employer is still a Latvian company. This article also explores some administrative steps you can take in Latvia to minimise potential double taxation when your tax residence changes from Latvia to another country.

Declaring your new residence

The first step is to declare your residence outside Latvia.

People with a residence in Latvia are required to state their foreign address as the primary address within three months after moving to live permanently in a particular country. Yet it's possible to keep your declared residence address in Latvia as your single additional address.

You might want to keep your Latvian declared address as an additional address for a number of reasons:

1. This gives you enough time to register for a preschool or a comprehensive school and ensures you can acquire an education and have favourable conditions when you come back to Latvia.
2. If you own real estate but nobody is declared there, Riga Municipality will not charge real estate tax at a higher rate (1.5% instead of 0.2/0.4 or 0.6% of cadastral value).
3. Having an additional address in Latvia lets you keep your vote in municipal elections, with voting restricted to persons having a declared residence there.

Tax resident status outside Latvia

When staying in a foreign country, you should measure how long you have stayed there to see if you become a tax resident under foreign law. Changing your residence may create an additional obligation to register and pay taxes in that country.

If you are considered a tax resident in both Latvia and the foreign country at the same time, then a double tax treaty will resolve the issue of residence. However, if you are living abroad but are not considered a tax resident there, then you will keep your Latvian tax resident status as well as the obligation to declare income and pay PIT in Latvia under Latvian law.

Cancelling your tax residence

If you are considered a tax resident abroad also under treaty rules, deregistration should be done in Latvia to cancel your tax residence status. In practice this is advisable if you are to stay outside Latvia for 12 months or longer.

It's important to remember that your tax residence will not be deregistered automatically. The process involves filing with the State Revenue Service an application to deregister your tax residence, showing that none of the following criteria applies to you:

- Your declared residence is in Latvia; or
- You spend 183 or more days in Latvia in any 12-month period that starts or ends in the tax year; or
- You are a Latvian national employed abroad by the Latvian government.

So you need documentary evidence of your foreign residence registration (a declared residence, a tenancy or purchase agreement, a utilities agreement and/or bill), foreign employment (if the contract is not with a Latvian company), receiving an education abroad (an agreement with a university), being subject to the foreign country's tax system, such as tax registration, documentary evidence of PIT/NSI payment, other types of registrations and applications confirming your foreign residence.

If you have become tax resident in a country that has an effective double tax treaty with Latvia, you should also file a tax residence certificate issued by that country showing the date from which you are resident there.

All documents must be translated into the Latvian language.

The income declaration requirement

Your filing obligation is affected by your residence status in Latvia and/or in the country to which you have moved. In several cases, deregistration results in you no longer having to file your annual income tax return in Latvia, yet there are exceptions. For example, selling Latvian real estate may require you to pay Latvian tax through the tax return.

If you keep your Latvian tax resident status, you have to declare all your income in Latvia and can claim relevant allowances (annual personal allowance, dependant allowance, tax reduction under principles for the prevention of double taxation etc).