

Sole trader's expenses fully deductible again

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The Personal Income Tax (PIT) Act has been amended with effect from 14 November 2022. This is a follow-up to our article "Personal Income Tax Act to be amended in 2022". Changing the PIT Act affects some other pieces of legislation, so amendments to the National Social Insurance (NSI) Act were sent to the Ministry of Finance and the Ministry of Justice for approval on 10 November 2022.

Previous PIT and NSI rules for sole traders

From 1 January 2018 traders with single-entry bookkeeping faced a restriction on their expense deductions, stating that business expenses must not exceed 80% of the individual's total business revenue.

At the same time, traders with double-entry bookkeeping had to charge PIT and NSI on an amount no less than 20% of their business revenue.

This rule applied even if their income was less than 20% of business revenue.

Changes to how business income subject to PIT and NSI is calculated

On 7 January 2022 the Constitutional Court ruled that expenses must be fully deducted from revenue to compute business income subject to PIT and NSI from 1 January 2022.

These changes will prevent traders from paying PIT and NSI on income they never had, i.e. when their business result is zero or a loss.

Accordingly, traders filing their annual tax return for 2022 in spring 2023 will be able to apply these rules.

However, a minimum PIT charge will still be payable if the PIT due for the year is below EUR 50.