

Finance Ministry proposes to change personal tax treatment in 2024 2/40/23



PwC senior tax associate
Madara Hmelevska



PwC tax manager
Viktorija Lavrova

The end of September has been productive for farmers and ministries alike. The Ministry of Finance (MOF) has come up with proposals for amending the Personal Income Tax (PIT) Act, packaged into two bills. In this article we look at new additions to the basket of allowable expenses, as well as discussing remote work compensations and other classes of exempt income with an increased exemption threshold provisionally coming into force on 1 January 2024.

Contributions to Pan-European private pension product (PEPP) plans are allowable expenses

Amendments to the Private Pensions Act have created preconditions for registering and distributing PEPPs. This alternative pension product will add to the existing range of tier 3 pension plan products in Latvia, yet the PIT Act is currently silent on the tax treatment of income earned from PEPP. This has led to proposals for amending section 6.1 of the PIT Act to state that the rules covering tier 3 pension plan products will extend to appropriate contributions (deposits) into and payments out of PEPP plans. This means taxpayers can include PEPP contributions in their allowable expenses for the tax year (in an amount equal to 10% of their gross pay but not to exceed EUR 4,000) and receive a 20% PIT refund.

Employer compensations for worker expenses associated with remote work

Given the spread of Covid-19 and the opportunity to work remotely, the PIT Act permitted employers to reimburse a worker's expenses associated with remote work in 2021 and 2022. No PIT was charged on a monthly compensation of up to EUR 30 for full-time work. The Act laid down a number of conditions for claiming this relief, yet we saw in practice that many employers were able to meet those and paid the expenses by partly or fully taking the statutory opportunity.

Having observed the tendency to include remote work in the future working model, the MOF sees the need to strengthen this as a permanent rule exempting PIT on a compensation of EUR 40 for remote work and keeping the mandatory conditions:

1. Agreement on remote work is prescribed by the employment contract or by order of the employer and it states what expenses the employer will reimburse.
2. The expenses are paid by the employer with whom the worker has filed their wage tax book.
3. The amount of expenditure is set in proportion to the workload and the number of remote working days per month stated in the contract or order, if work is done both remotely and on the employer's premises. An accounting mechanism should be set up to correctly compute the amount of compensation exempt from PIT.

As before, an exemption is not available during a worker's prolonged absence exceeding 30 days. We note that the permanent rule provides for a favourable regime in the long-term, but worker compensations are

optional for the employer.

Exclusion of a worker's income from the wage tax base if the employer pays tuition fees for higher education

So far, where the employer paid a worker's tuition fees for studies at state-accredited Latvian education establishments or EU/EEA education establishments, this was treated as the worker's income subject to payroll taxes as part of employment income. However, employer-paid expenses incurred in upskilling workers for business purposes were part of the basket of expenses exempt from PIT.

To effectively link the labour market with acquiring higher education and meeting the demand for skilled labour, the MOF has proposed to exempt employer-paid tuition fees from payroll taxes on the following conditions:

1. The studies are linked with acquiring a profession and qualifications the employer needs for business purposes.
2. The worker makes at least 30% co-payments for higher education during the tax period.
3. For at least three years after completing studies, the worker is employed by the employer who paid for those studies.

The last condition is not applicable where employment fails to survive for objective reasons, i.e. the employer's liquidation or the worker's ill health (confirmed by a doctor). Otherwise, if the employment is terminated sooner than that, the worker's income is taxable.

Revising PIT exemption thresholds

The proposals raise several thresholds for income exempt from PIT:

Type of exemption	Current threshold, EUR	Proposed threshold, EUR
Life, health and accident insurance premiums	426.86	750
Assistance granted by decision of a trade union's agency from the trade union's funds, which are made up of trade union dues and foreign trade unions' donations	1,000	3,000
Assistance in cash, other assets or services, granted by decision of a religious organisation or its agency (officer) from the religious organisation's or its agency's funds	1,000	3,000
Assistance in cash, other assets or services, granted from a (non-religious) public benefit organisation's funds, or assistance granted by state-funded institutions, charities or philanthropic organisations in assets exempt from customs duty	1,000	3,000

The proposals also extend the personal allowance and dependant allowances to payers of microbusiness tax if they earn income that is subject to PIT. This proposal is made because the current tax burden of a microbusiness taxpayer is comparable to a taxpayer earning employment income.