

Transition period for royalty tax scheme to be extended 2/47/23



Consultant, Tax, PwC Latvia
Aleksandrs Afanasjevs



Senior Consultant, Tax, PwC Latvia
Madara Hmelevska

The autumn months have been prolific with tax changes, yet some of the tax aspects, including temporary ones, might remain unchanged. The Finance Ministry has proposed many amendments to the Personal Income Tax (PIT) Act, including an extension of the special tax scheme for royalty recipients who are not registered as economic operators. This article explores the proposed extension of the transitional royalty scheme and how this will affect its users.

Another extension and another year

As part of the 2024 Budget Bill and the budgetary package for 2024, 2025 and 2026, proposals for amending the PIT Act were endorsed by the Cabinet of Ministers on 17 October and sent to Parliament on 27 October. One of the proposals modifies paragraph 170 of the PIT Act's transition rules to extend the royalty scheme for another year – up to 31 December 2024.

While the royalty scheme was only expected to operate up to 31 December 2023, in the bill the Cabinet of Ministers has set out reasons for the need to extend it again until the end of next year. The main reason is difficulty in using business revenue accounts, which royalty recipients are to use after a change of status, i.e. once they have registered as payers of microbusiness tax. It's the application of two tax rates that makes it difficult to use a business revenue account, according to the Cabinet of Ministers.

The bill also refers to proposals for amending the Microbusiness Tax Act that introduce a single tax rate of 25%. The transition period needs extending to give the scheme users time to discover that a single rate makes it easier to use a business revenue account. So the royalty scheme will continue to operate throughout 2024 under the current taxation procedure. However, royalty recipients have the chance to register as economic operators, even though the State Revenue Service has been actively encouraging them to use the microbusiness tax scheme as an alternative to the current scheme during the transition period.

How the royalty scheme works

In 2024, royalty recipients will have the chance to pay PIT on royalties without registering as economic operators. Under this procedure, a royalty payer that is simultaneously not a collective management organisation should withhold PIT on royalty income and pay it into a single tax account on or before the 23rd day of the month following payment of income. Royalty revenue of up to EUR 25,000 currently attracts a 25% PIT, while a 40% PIT is charged on revenues exceeding EUR 25,000. A single rate of 25% is to apply in the future. The tax revenue withheld is split into two parts: 20% for PIT and 80% for national social insurance. One thing to note is that the scheme users are not entitled to allowable expenses, royalty expense limits, income-differentiated personal allowances or other reliefs available under the PIT Act.

The proposals have been presented to the Parliamentary Budget and Finance Committee for review and are expected to come into force on 1 January 2024.