

# Rules on allowable expenses to be amended

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The Ministry of Finance has drafted proposals for amending the Cabinet of Ministers' Rule No. 336 of 31 July 2001, 'Allowable Expenses on Education and Medical Services'. The proposals mainly deal with the need to clearly define expenses that taxpayers may claim as allowable expenses.

### Education expenses

Section 10(1)(2) of the Personal Income Tax (PIT) Act states that before income is taxed, the taxpayer may deduct several types of expenses whose composition and application are prescribed by the Cabinet of Ministers. Under Rule 336, a taxpayer's allowable expenses include education expenses incurred in acquiring higher education and all degrees of professional education, in acquiring a speciality (profession or trade) at state-accredited Latvian education establishments or training institutions in EU/EEA countries, and in acquiring the state-accredited education programme.

In practice, however, we encounter different interpretations of this rule, i.e. it's also applied to preschool education, primary education and secondary education.

It's important to understand that the rules on allowable expenses should be viewed in conjunction with other applicable enactments governing education in Latvia. Here we need to bear in mind that the state grants everyone the entitlement to education under the Constitution. And each municipality is required to give children the opportunity to acquire preschool education, primary education and secondary education.

Thus, if every student has the opportunity to acquire free primary and secondary education guaranteed by the state but some opt for non-free education nevertheless, then there are no grounds for claiming such voluntarily chosen non-free education as allowable expenses.

The proposals are intended to grammatically improve the wording of subparagraph 1.1.1 of Rule 336 in order to avoid misleading taxpayers and other users of this enactment about the clause applying to any state-accredited education programme, including the universal education programme.

There are also plans to stipulate that any parts of the tuition fee that are intended to cover expenses incurred in commuting to the place of study and back, the rent for a house or an apartment, utility services used in it, and meal expenses during studies, are excluded from education expenses.

### Latvian language courses

An annotation to the proposals states that individuals who have close personal and economic ties with Latvia need to learn the Latvian language in order to successfully function in the community and broaden their professional knowledge that allows them to integrate (e.g. by obtaining a permanent residence permit, meeting their work needs or taking study opportunities).

Thus, to prevent conflicting interpretations of Rule 336, there are plans to stipulate that allowable

expenses include education expenses incurred in attending national (Latvian) language courses run by a duly licensed education service provider.

## How expenses are covered

A taxpayer's education and medical expenses may be paid not only by the taxpayer or a member of their family but also by the employer. Medical expenses may be paid by an insurance company if the taxpayer has bought a health insurance policy.

There are plans to insert a clause in Rule 336 to clearly state that a taxpayer's allowable expenses on education and medical services exclude any expenses paid by the employer or by an insurance company established and operating in accordance with insurance legislation.