

Taxes and Duties Act to be amended: Are we to see less cash around? 2/38/24



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Proposals for amending the Taxes and Duties Act were released for a public consultation over the period from 21 August to 4 September 2024. Expected to come into force on 1 January 2025, the proposals caused a wide public resonance. They aim to improve tax compliance by restricting the circulation of hard cash and to encourage contactless payments. This article explores what we see as key changes.

Payments in cash and by card

The proposals require credit institutions and payment service providers by 1 February each year to provide the State Revenue Service (SRS) with information on customers – individuals having more than EUR 7,000 in cash paid into their payment account in the past year. This move aims to fight wages being paid cash in hand and to minimise tax evasion risks, given the correlation between the shadow economy and cash circulation found in several studies. If the amendments are passed in their current wording, the SRS will not only receive information on an individual's account turnover at credit institutions and payment institutions exceeding EUR 15,000 a year but will also be able to identify cash payments exceeding EUR 7,000. This will create more transparency and may invite additional questions from the SRS, given this year's initiative.

The proposals also lay down conditions for businesses. To encourage individuals to make contactless payments for goods and services, there are plans to require that taxpayers whose revenue exceeds EUR 50,000 in the previous financial year should make it possible for their customers to pay by card. This move aims to popularise digital payments and restrictions on cash use in the long term with a positive impact on the business environment as a whole.

Public response

The proposals met with a mixed reaction during the public consultation.

Supporters say the amendments will help reduce the shadow economy and promote fair competition in business. For example, the Finance Latvia Association expects the amendments to encourage voluntary tax compliance and make tax administration more efficient.

Critics point to possible privacy breaches because sharing data with the SRS on an individual's cash payments discloses information on how consumers use cash. Also, there are concerns about an increased administrative burden on businesses, especially small and medium enterprises having to offer contactless payments.

With the public consultation closed, we'll be monitoring the proposals, given the wide debate and possible changes to the cash limits specified in the current wording of the amendments.