

Tax authority's initiative in fighting shadow economy: what else there is to know about letters asking for account turnover details 3/44/24



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In August we wrote about the State Revenue Service's plans to begin sending out notifications in September asking people to review their income and report it in full. This is one of the steps the SRS is taking as part of the plan to fight the shadow economy. In this article we will look at how this initiative is happening in practice and what is worthy of attention.

The SRS says on its website that the first 5,000 letters were sent on 23 September. A letter notifies you that the SRS is comparing the amounts of cash received in your bank accounts with your reported income and asks you to explain any discrepancies between your reported income and the cash turnover in your bank account. The notification is sent via the SRS Electronic Declaration System (EDS).

Who was 'lucky' enough to receive a letter? The first batch went to individuals with the largest discrepancies, i.e. a difference of at least EUR 90,000 between their account turnover and reported income.

Let us now look at a few questions that could arise about receiving a letter.

How do I know the SRS has sent me a letter?

Once a letter enters the EDS section 'Correspondence with the SRS', a notification is automatically emailed to your inbox. It's a good idea to make sure your contact details in EDS are stated correctly and to monitor your inbox. Due to the recent activities of fraudsters, the SRS recommends opening the letter by separately authenticating in EDS and not through the link added to the email.

If a person isn't an EDS user, the letter is sent by post to their declared residence address. So it's a good idea to update details of your declared residence address.

What information does the SRS get from a credit institution?

The SRS only receives information from your credit institution about the amount of your account turnover. The SRS doesn't have any information on payments/transfers received or transfers made, purchases or other transactions in your account, so the SRS requests explanations about what amounts make up the total turnover. It's also worth noting that an explanation should be given for accounts opened at foreign as well as Latvian credit institutions and payment institutions.

What period can be covered?

The SRS is currently checking the income reported for 2022 and 2023, yet in its letter the SRS urges you to check the income reported for 2021 as well. A check might result in you having to file or adjust not only your annual income tax return but also your capital gains tax return if you have earned any income from selling capital assets (real estate, shares or securities) during the year.

What should I do on receiving a letter?

You should get in touch with the SRS within 30 days after receiving the letter and explain how the cash turnover in your bank account arose and why it's different from your reported income. The SRS has put together a brochure giving typical examples of unreported income and answering questions about the availability of information in EDS where the taxpayer can verify information available to the SRS already.

What happens if I don't respond?

If a person fails to respond to a notification, the SRS can launch an in-depth audit and, on detecting breaches, charge the tax due and interest on arrears, plus a penalty. So we recommend you cooperate and respond to SRS enquiries promptly.

Useful information

The SRS conducts a data compliance review of income reported by Latvian tax-resident individuals. So, if you are living and working abroad and aren't planning to return to Latvia in the near future, we suggest you notify both your bank and the SRS that you don't consider yourself a Latvian tax resident. Otherwise the SRS will continue treating you as a Latvian tax resident and might ask you to explain your account turnover.

In parallel to the SRS initiative involving a general request to explain amounts making up a person's account turnover, similar enquiries about income reporting are being sent to persons that have already filed their tax returns. This kind of enquiry is more detailed and based on an individual assessment of information on the amount of the person's account turnover at credit institutions and payment institutions that is available to the SRS. On receiving an individual enquiry, you should take similar steps – we recommend cooperating with the SRS and giving a detailed answer about the amounts making up your turnover to ensure you have no additional income to report.