Annual tax return - a lottery? (1) 1/12/25

Senior Consultant, Tax, PwC Latvia
Madara Hmelevska

The topic of annual tax returns becomes a hot one in the public eye between late February and mid-March in Latvia. Whereas the State Revenue Service (SRS) works to strengthen its IT systems by implementing queues to ensure a smooth operation of its Electronic Declaration System on the first day of tax return submissions. Some taxpayers dive into the “lottery” as early as the end of February, while others either do not bother or are not in a rush to file their returns. Is it true that the outcome of filing an annual tax return depends on a person's luck or astrological sign?

First things first, it’s important to note that overpaid or underpaid personal income tax (PIT) resulting from filing the annual tax return (tax return) has nothing to do with luck. Instead, it is determined by the PIT rate applied each month and a range of deductible expenses that directly affect the final tax calculation at the end of the year. Below, we break down the key factors that most often influence the amount of the PIT liability, which is compared to the tax paid each month to determine whether a refund or additional tax liability arises. Some important considerations for preparing and filing your tax return are also highlighted.

Submission of a tax return

Voluntary submission of the tax return begins on 1 March (for the past year) and is available for the next three years. Therefore, if you aim to get a PIT refund on eligible expenses, there is no need to rush and file in the first few days of March.

Conversely, if submitting a tax return is mandatory, the submission deadline depends on meeting certain criteria:

- For sole traders, individuals who have received tax exempt income exceeding EUR 10,000, recipients of foreign income (except wages paid by an EU or EEA employer), and those who have received income from which tax was not withheld at the time of payment, the tax return must be submitted between 1 March and 1 June for the previous tax year.
- For solidarity tax payers or individuals whose income exceeds EUR 78,100 in 2024, the tax return must be filed between 1 April and 1 July.

Filling the tax return

Tax residents in the Republic of Latvia must declare their worldwide income in their tax return, with the exception of capital gains, which must be declared in a separate return, the submission of which must be reviewed on a quarterly basis.

It is important to note that the tax return does not start with page D, but with its annexes — D1, D1.1, D2, D3 and D4. Initially, each annex should be completed and/or updated as required. The information from these annexes will then automatically summarised on page D of the tax return, where the taxpayer can see whether they have a tax liability or may claim a refund.

Miscellaneous deductions for PIT purposes

Differentiated non-taxable minimum (DNM)

DNM stands for a tax-exempt amount of income. It was exactly the DNM that most commonly caused taxpayers to incur additional tax or receive excess tax when submitting their tax returns. This occurred due to the specific nature of the DNM— as income levels rise, the applicable DNM decreases.

In 2024, the DNM was set at EUR 6,000 annually (EUR 500 per month) for most taxpayers, and EUR 6,000 per year for pensioners. The DNM applied only if a person's income did not exceed EUR 1,800 per month (EUR 21,600 per year).

If a person's income level was variable and increased in 2024, the applicable DNM decreased proportionally. However, once annual income reached EUR 21,600, the DNM was no longer applicable.

The State Revenue Service (SRS) calculates the DNM twice a year, based on the income earned in the preceding six months. As a result, since income can fluctuate, the DNM applied may not always be accurate, potentially resulting in an additional PIT liability when filing the tax return.

Practical problems with the application of the DNM have led some taxpayers to opt not to apply the DNM every month, by marking this choice in their EDS payroll tax book. As a result, individuals who earned less than EUR 21,600 per year were able to get a refund of the overpaid PIT by submitting their tax return, which allows them to apply the correct amount of the DNM based on their total income.

Changes in 2025

The latest changes to the Personal Income Tax Act will effectively eliminate the concept of DNM starting from 2025. It will be replaced by a fixed non-taxable minimum for all taxpayers, regardless of their level of income, at EUR 510. For retired people, this amount will be EUR 1,000.

As a result, when submitting the tax return for 2025 in 2026, the application of the non-taxable minimum will no longer have a "lottery" element, as it will no longer depend on the level of income.

Note: To apply the non-taxable minimum on earned income, employees must submit their tax booklets to the employer (via EDS). If this is not done, the employee will be able to get the refund of PIT for this decuction by filing the tax return.

(to be continued)