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Summary of PIT, NSI and solidarity tax changes in 2018 (3/51/17)

Over the last six months we have been informing our MindLink.lv subscribers about changes the lawmaker is making to personal income tax (PIT), national social insurance (NSI) and solidarity tax arrangements. This article summarises what we see as key changes.

<table>
<tr><td colspan="4">Changes to standard rates of PIT, NSI and solidarity tax</td></tr>
<tr><td colspan="4">1) Latvia has adopted a progressive PIT system from 1 January 2018. Unless the law provides for a different rate, the progressive rate applies according to the level of annual income:
• a rate of 20% applies to an income of up to €20,004 – this updated threshold has been passed by the new amendments to the PIT Act that Parliament announced on 6 December 2017;
• any portion of income between €20,004 and €55,000 attracts a rate of 23%; and
• any excess over €55,000 attracts a rate of 31.4%.
2) NSI and solidarity tax rates go up one percentage point, divided in half between employer and employee. In 2018 the applicable standard rates will be 24.09% (the employer part) and 11% (the employee part). Other categories of socially insured persons are also facing an increase of one percentage point as a government health tax.</td></tr>
<tr><td colspan="4">Application of PIT by the employer monthly and by the employee annually</td></tr>
<tr><td colspan="4">3) Applying the progressive rates of PIT and an income-differentiated personal allowance (IDPA) forecast by the State Revenue Service (SRS) are the biggest challenges facing payroll accountants next year. The employer applies PIT rates according to monthly income thresholds, calculated by dividing the annual income thresholds by 12 as follows:</td></tr>
<tr><td>The employee has filed their payroll tax book and pays Latvian NSI contributions.</td><td colspan="2">The employer applies a 20% PIT on a monthly gross income of up to €1,667.</td><td>The employer applies a 23% PIT on a monthly gross income exceeding €1,667 but does not apply the higher threshold or the top rate.</td></tr>
<tr><td>The employee has not filed their payroll tax book.</td><td colspan="2">If the employee pays Latvian NSI contributions, then all income attracts a 23% PIT.</td><td>If the employee holds a foreign A1 and does not pay Latvian NSI contributions, the employer applies a 23% PIT on an income of up to €4,583 and a 31.4% PIT on any excess.</td></tr>
<tr><td>The employee has filed their payroll tax book, but a foreign A1 certificate has been received and Latvian NSI contributions are not paid.</td><td colspan="2">The employer applies a 20% PIT on a monthly gross income of up to €1,667.</td><td>The employer applies a 23% PIT on a monthly gross income between €1,667 and €4,583 and a 31.4% PIT on any excess.</td></tr>
<tr><td colspan="4">4) A person whose annual income exceeds €55,000 is required to file the annual income tax return. For persons that pay Latvian NSI contributions and solidarity tax, applying the rate of 31.4% through the annual income tax return is a formal procedure to compensate them for the additional PIT charge at the expense of solidarity tax already paid. So the highest effective rate of PIT for persons paying solidarity tax is still 23%.</td></tr>
<tr><td colspan="4">Allowances and IDPA</td></tr>
<tr><td colspan="4">5) From 1 January 2018 the employer will be required to apply an IDPA forecast by the SRS to employees that have filed their payroll tax book. The SRS will notify employers via the Electronic Declaration System by 1 January 2018 about forecast IDPAs applicable from 1 January to 31 July. Applying the IDPA is described in the 1 December article in our series Payroll accountant’s homework to handle changes in 2018.
6) For PIT purposes the employer is still permitted to deduct the employee part of NSI.
7) Dependant allowances go up to reach €200 for each dependant monthly.
8) The lawmaker has determined that allowances should be applied to the employee as if they were effectively reducing their income subject to a 20% PIT. So applying allowances is another challenge facing payroll accountants next year.</td></tr>
<tr><td colspan="4">Capital gains</td></tr>
<tr><td colspan="4">9) From 1 January 2018 the rates for income from capital gains are increased to a fixed PIT rate of 20% (up from 15%). The methods for calculating income from capital gains remain unchanged, but the deadlines for filing capital gains tax returns will change:</td></tr>
<tr><td colspan="2">If a person’s total income from capital gains exceeds €1,000 quarterly,</td><td colspan="2">the tax return should be filed quarterly by the 15th day of the month following the quarter in which relevant income was earned.</td></tr>
<tr><td colspan="2">If a person’s total income from capital gains does not exceed €1,000 quarterly,</td><td colspan="2">the tax return should be filed by 15 January in the following year.</td></tr>
<tr><td colspan="4">Income from capital other than capital gains</td></tr>
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10) Other income from capital will also attract a fixed PIT rate of 20% (up from 10%). This type of income should still be reported and charged to PIT through the annual income tax return, unless such income is paid by a Latvian payer who has already withheld PIT at source. 11) *Dividends paid by a Latvian company.* When paying dividends, Latvian companies will apply a 20% CIT, and such dividends are zero-rated for PIT unless received from a payer of microbusiness tax. Dividends paid by Latvian companies will enjoy a special period of transition, i.e. dividends paid before 2020 out of profits arising before 2018 will still attract a 10% PIT unless received from a payer of microbusiness tax. 12) *Dividends paid by a foreign company.* When receiving foreign dividends, the person will apply a 20% PIT through the annual income tax return, which must be filed. However, any income already charged to foreign PIT or CIT will be exempt from Latvian PIT. To claim an exemption, along with the tax return, the taxpayer should file documents with the SRS confirming the foreign PIT or CIT charge on that income, with the exception of dividends from EU/EEA countries. 13) In any case, dividends received from tax havens will attract a 20% PIT. 14) *Interest.* A 20% PIT applies, but the taxpayer reserves the right to deduct any foreign tax paid from the Latvian PIT charge. A non-Latvian tax resident individual may qualify for a lower rate of PIT under a double tax treaty. 15) *Income from an investment account.* The amendments to the PIT Act announced on 6 December introduce a new type of income – income from an investment account. This is basically income an individual earns from dealings in capital assets through a single bank account or multiple linked bank accounts. We will be writing more about this new type of income in a separate article.
Royalties and income from trade or business
We wrote about changes to the NSI and PIT treatment of traders in our article of 1 December 2017 *Changes in taxation of traders*. More details of changes affecting traders and royalty recipients can be found in our article of 4 August 2017 *Tax reform: changes affecting royalty recipients and self-employed persons*. This time we wish to update the information relating to royalty recipients based on the amendments to the PIT Act announced on 6 December: • Latvian tax resident recipients of royalties are subject to a fixed rate of 20%, while non-residents attract a fixed rate of 23%. The withholding obligation falls on the payer of royalty. • The expense rates have been changed, and from 2018 these will apply at 50% or 25% according to types of royalties listed in paragraphs 57.1 and 57.2 of the future version of Cabinet Regulation No. 899, *Application of Provisions of the Personal Income Tax Act*. The payer cannot apply author expense rates to any type of author work not listed in these paragraphs.