Personal income tax changes in 2018 (1/49/18)

Waiting for Parliament to endorse the latest amendments to the Personal Income Tax (PIT) Act, this article explores some of the rules on charging and reporting PIT that came into force in late 2018.

Approved rules for the new annual tax return

The Cabinet of Ministers' Regulation No. 662 on how to complete PIT returns was approved on 30 October 2018, including the annual return form for completing a paper version improved in line with amendments to the PIT Act effective from 1 January 2018.

Major changes have been made to Annex D3, where traders report their income – they have a new procedure for calculating tax in 2018.

Important changes have been made for reporting the progressive rate and to Annex D4 to ensure compliance with the PIT Act. These rules provide that the taxpayer's total allowable expenses on education, medical services and donations (including to political parties) cannot exceed 50% of taxable income for the tax year, capped at €600. And since the PIT Act provides from 1 January 2018 that any excess of allowable education and medical expenses over the cap for 2018 and subsequent years is carried forward to the following tax year for up to three years (down from five), changes have also affected this section of Annex D4. The introduction of new time limits for postponing allowable expenses allows a changeover period to ensure that any excess of education and medical expenses over the cap for 2015, 2016 and 2017 can be carried forward to the next five years.

Remember that the annual tax return for 2018 should be filed with the State Revenue Service (SRS) between 1 March and 1 June 2019. Individuals whose annual taxable income exceeds €55,000 in 2018 should file their annual tax return between 1 April and 1 July. Other residents who are not required to file their annual tax return for 2018 may do so within the next three years (until 16 June 2021).

Amendments on choosing 20% PIT and differential personal allowance effective from 1 October 2018

Soon after the PIT calculation procedure was introduced and the differential personal allowance was determined at the beginning of the year, many taxpayers found that if all the allowances and rates were applied in accordance with the PIT Act and cabinet rules, the person would have to pay more PIT through the annual tax return. To avoid this situation in 2019, if the amount of taxable income forecast or received for the year exceeds the cap, the taxpayer may enter a note on their electronic wage tax book, and the SRS may notify the employer that the personal allowance will not be claimed during the tax year. In this case, the SRS will notify the paying agent within three working days that the monthly personal allowance forecast by the SRS is not applicable from the next day after the note was entered through 31 December of the tax year.

From 1 October 2018, taxpayers also have the option of entering a note on their electronic wage tax book that a 23% PIT applies to income of up to €1,667 from the employer with whom the wage tax book has been filed if a 20% PIT were applicable under the PIT Act. A 23% PIT applies from the 1st day of the following month. There is also the option of applying a 23% PIT based on the taxpayer's written request to the paying agent.