How no-deal Brexit will affect personal taxation in Latvia (2/6/19)

Concern is growing about the UK and the EU being unable to agree on a period of transition to continue doing business under the current legal framework as part of Brexit conditions. This article explores some of the tax implications of a no-deal Brexit for Latvian tax residents posted to or employed in the UK after 29 March 2019.

Mandatory national social insurance contributions (NSIC)

We have written about the social insurance implications of various Brexit scenarios (see our Flash News of 7 September 2017). The latest developments increasingly point to no social security agreement between Latvia and the UK after 29 March 2019 because the two countries have not entered into a separate agreement on social security, so Latvia as a member state will be applying the general pieces of legislation adopted at EU or Latvia–UK level. Without a separate agreement with the EU or Latvia, the UK will no longer be considered a member state from 29 March 2019. So Latvian residents being or planning to be posted to the UK will be unable to continue their NSIC in Latvia, and those will have to be paid in the UK under its local law. A similar principle will apply to UK residents in Latvia. A worker posted to the UK with a Latvian A1 certificate valid after 29 March 2019 is advised to contact the Latvian National Social Insurance Agency and find out whether Latvian NSIC may be continued until the certificate expires.

Personal income tax (PIT)

Since 2012, employment income a Latvian resident earns in an EU/EEA member state or a country that has an effective double tax treaty (DTT) with Latvia has been exempt from PIT regardless of the foreign rate applied. Since Latvia has an effective DTT with the UK, Latvian residents will have no further Latvian PIT to pay on their employment income earned and taxed in the UK, regardless of its relationship with the EU.

Since 2016, a Latvian resident earning employment income in a member state has not been required to file an annual income tax return. A no-deal Brexit will make the UK a third country no longer covered by this exemption.

So under the currently applicable law, a no-deal Brexit will require a Latvian tax resident working in the UK to file a Latvian annual income tax return, along with documentary evidence that PIT or an equivalent tax has been withheld in the UK.

However, if employment income has not been taxed in the UK, the Latvian resident will have to pay Latvian PIT on it. It’s important to remember that any non-taxable income (including foreign employment income taxed abroad) is ignored in arriving at the progressive rate of PIT. Here’s a sample calculation:

		EUR
1	Employment income in the UK, total (1 = 1.1 + 1.2)	75,000
1.1	Income taxed in the UK	60,000
1.2	Non-taxable income under UK law	15,000
2	Taxable income in Latvia (2 = 1.2)	15,000
3	20% Latvian PIT (3 = 2 x 20%)	300

So, even though the total income exceeds the second and the third threshold of progressive PIT, only the rate of 20% applies because the Latvian taxable income is below EUR 20,004.

With British NSIC payable on this income, the non-taxable income that is taxable in Latvia after exceeding EUR 55,000 in 2018 or EUR 62 800 in 2019 will attract both a 23% PIT and a 31.4% PIT.