

Personal Income Tax Act to be amended (3/11/19)

Proposals for amending the Personal Income Tax (PIT) Act, which the Cabinet of Ministers debated on 26 February 2019, are to be decided by Parliament soon. This article explores proposals for extending the time limits by which certain taxpayer categories are allowed to pay their overdue taxes and for exempting PIT on income that residents will gain from Latvia's receipt lottery.

The rationale

The proposals are based on the need to allow taxpayers more time for studying the new procedure for calculating PIT and the implications of applying income-differentiated personal allowances. So the amendments prescribe a period of transition when it comes to extending the time limits for certain taxpayer categories.

Also, residents will be gaining income from a receipt lottery to be held under the Receipt Lottery Act passed on 1 November 2018. Since the current PIT Act does not exempt PIT on income from the receipt lottery, the lawmaker needs to create a new type of non-taxable income.

The proposals

1 December 2020 is to be the time limit for paying any additional PIT charged through the income tax return for 2018 and 2019 if the following conditions are met for the tax year 2018 or 2019:

- The taxpayer has not registered any economic activity;
- The income for the tax year, except for the types of non-taxable income listed by section 9 of the PIT Act, has the following characteristics:
 1. it was gained in Latvia only;
 2. tax was withheld at source;
 3. the income is subject to the annual income-differentiated personal allowance and allowances prescribed by section 13 of the PIT Act.

These changes would allow taxpayers to pay any additional PIT for 2018 and 2019 arising from a recalculation of their income-differentiated personal allowance and other allowances over a longer period than prescribed by the legislation in general.

In general, an additional PIT assessment for 2018 is payable by 17 June 2019 (if the tax debt exceeds €640, then split into three equal instalments by 17 June, 16 July, and 16 August) and for 2019 by 16 June 2020 (if the tax debt exceeds €640, then split into three equal instalments by 16 June, 16 July, and 17 August). Due to the adoption of a single tax account, there are plans to set different time limits for paying PIT for 2020.

Other taxpayers such as traders or foreign income recipients who have been liable to file their annual income tax return and pay more PIT will still be governed by the current procedure.

Since provisions of law take effect on the next day after being officially announced, the amendments might take effect soon and help certain individuals escape an extra tax liability this year.

The proposals also provide for adding lottery winnings under the Receipt Lottery Act to the types of non-taxable income listed by the PIT Act. These changes are to take effect on 1 July 2019.

The PIT Act is to be amended to set a new threshold for reporting non-taxable income

A separate proposal presented to Parliament for review in its first reading on 21 February 2019 provides for changing the obligation to report non-taxable income and raising the reporting threshold from €4,000 to €9,000 for the tax year. The amendment has yet to be passed.

A brief overview of the Receipt Lottery Act

The Receipt Lottery Act is taking effect on 1 July 2019 to promote fair competition and voluntary discharge of tax liabilities, to minimise fraud in tax collection as well as tax evasion and avoidance, and to encourage consumers to ask for receipts for their purchases.

The SRS will run the lottery, and national public company Latvijas Loto will publish the results. A special website (cekuloterija.lv) will be set up to enter receipts.

The Receipt Lottery Act provides that –

- participants are individuals;
- the lottery accepts receipts or other supporting documents (such as tickets) for goods and services bought in Latvia totalling €5 or more;
- monthly and annual draws will be held;
- receipts dated in a particular month may enter the monthly draw.

The following persons will be barred:

- minors with receipts for tobacco, heating tobacco, alcohol or energy drinks;
- persons employed by the SRS or by the receipt lottery service providers.

Below is a table of available winnings:

Monthly draw, EUR	Annual draw, EUR
1 prize of 10,000	1 prize of 20,000
3 prizes 5,000 each	4 prizes 10,000 each
50 prizes 100 each	5 prizes 2,000 each

Along with cash prizes, the lottery will offer some non-cash prizes provided by various companies that are members of the SRS Advanced Cooperation Programme.