

Income tax return form and completion procedures to be amended (1/3/20)

Proposals for amending the Cabinet of Ministers' Rule No. 662 on personal income tax (PIT) returns and completion procedures were announced at the meeting of state secretaries on 5 December 2019. The proposals have been put together to align the income tax return form with recent amendments to the PIT Act and to make it easier to complete for traders.

Non-taxable income that must be reported

Individuals used to be required to report any non-taxable income totalling over €4,000 for the year. The tax return form was changed after the PIT Act was amended in 2019 to impose a reporting obligation only if non-taxable income exceeds €10,000. So any non-taxable income of up to €10,000 does not require filing a tax return (applicable to income from 1 January 2019). We explained this in our Flash News edition of 24 April 2019 "[Tax authority's comment on filing annual income tax returns.](#)"

Additional information about the payer of income

The tax return form is to require D1 column 1 to state the income payer's business name if the payer is an entity, or the first name and surname if the payer of income is an individual, as well as giving the taxpayer's registration number or personal identity number to identify the person that paid the income. Previously only the place and method of earning income had to be reported on D1 column 1.

According to the proposals, this is necessary to enable the tax authority to assess the origin of funds.

Loans treated as income and income arising from lowered interest charges

The proposals clarify the procedures for determining the rate on a loan treated as income and on lowered interest income to align the rate appearing on the tax return form with the PIT Act.

PIT overpay arising on 2018 tax returns because of solidarity tax

In general, for taxpayers who are also paying solidarity tax (ST), some of their ST is used to compensate for the effect of a 31.40% PIT. This mechanism of recalculation works by ST payers filing the annual tax return.

Last year, however, ST payers had an incorrect PIT overpay appearing on the Electronic Declaration System where not all income subject to ST had been charged to Latvian PIT (e.g. when receiving employment income in the EU but paying Latvian social tax and ST contributions). We wrote about this in our Flash News editions of [11 June 2019](#) and [20 August 2019](#).

The proposals modify the tax return form to prevent any PIT overpay from showing where the portion of ST allocated for PIT purposes does not fulfil a compensatory function.

Allowable education expenses

The PIT Act requires taxpayers to file an annual tax return and add to their taxable income for the tax year

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- any portion of education expenses included in allowable expenses for the previous tax year but refunded by an education establishment in the current tax year;
- the difference between payments made out of a private pension fund and the accrued pension capital in the current and the following tax year.

The tax authority ensures an automatic increase in taxable income arising from the difference between payments made out of the private pension fund and the accrued pension capital. Yet any taxable income increase arising from reimbursed education expenses may be determined only by the taxpayer. So the proposals provide for reporting this taxable income increase separately on a new column on the tax return form.

Proposals affecting traders

Neither the completion procedures nor the tax return form currently provide for applying a business expense restriction (80%) on total business revenues. This is applied separately on each type of business activity, which is out of line with the PIT Act.

The proposals modify this arrangement to ensure taxable income from business and PIT are calculated correctly. Annex D3 is to have new lines for calculation so that when setting an 80% restriction on business expenses, this could be applied to total revenues and expenses from agricultural production and other types of business, while keeping the ability to apply a €3,000 non-taxable income threshold on agricultural income.

Traders are also affected by proposed amendments to the procedure for adjusting advance payments so that the taxpayer may report not only the personal allowance forecast by the tax authority but also the monthly personal allowance forecast by the taxpayer. And the proposals prescribe how the taxpayer may adjust their advance calculation after 15 November.

The proposals also modify the procedures for calculating capital gains where income is received in multiple periods and a down payment has been received. We will be informing our MindLink.lv subscribers of the new calculation procedures in a separate article.