Tax filings for persons with incomes over €62,800 (2/15/20)

Solidarity tax (ST) has been charged for several years on incomes exceeding the annual threshold of €62,800 set by the Cabinet of Ministers for mandatory national social insurance (NSI) contributions last year and this year. As the 2019 filing season has begun, this article serves as a reminder that under the current rules, persons whose income went over the threshold in 2019 must file their annual income tax return between 1 April and 1 July 2020.

The compensating mechanism of ST

The filing season for these persons begins a month later than for those with annual incomes of up to €62,800.

For employees whose Latvian employment income exceeds the NSI income threshold and who pay NSI in Latvia, the employer should apply personal income tax (PIT) at 20% and 23% at source. The employee should then apply a 31.4% PIT through their annual income tax return.

At the same time, the portion of income that exceeds the NSI income threshold for the tax year should attract the same rate of NSI that is applied on the person’s income of up to €62,800 a year. So if the employer has calculated NSI at 35.09%, then ST should also be calculated at the same rate at source.

The difference between the ST actually paid on the excess over the threshold, for example, at 35.09%, and the ST charged at 25.5%, should be recognised as an ST overpay and refunded. The National Social Insurance Agency (NSIA) is to calculate the overpay by 1 June in the following tax year. Under the existing rules, the State Revenue Service (SRS) is to refund the overpay to the employer by 1 September in the following tax year if the NSI rate is split between the employer and the employee. For example, the ST overpaid last year should make the company’s account by this September.

From 2019, the ST rate of 25.5% is allocated as follows:

1. one percentage point for health care financing;
2. 14 percentage points to the special budget of state pensions; and
3. 10.5 percentage points to the Treasury’s PIT account.

Accordingly, the ST Act provides that for persons whose employment income exceeds the NSI income threshold and who are liable to pay ST, a portion of their ST should be transferred to the PIT account. So, although the employer applies only PIT at 20% and 23% on all the income at source, the person has no further PIT to pay because of ST’s compensating mechanism. Because a portion of ST should be transferred to the person’s PIT account by 1 April in the following tax year, ST payers cannot finalise their tax return until after this date.

The Electronic Declaration System (EDS)

EDS enables a person whose filing period begins on 1 April to generate an annual income tax return template before this date, i.e. beginning 1 March 2020. In that case the person will have an extra PIT charge automatically calculated because the portion of ST has not yet been transferred to the person’s PIT account, and so there should actually be no further PIT to pay on the employment income charged to Latvian NSI.

In practice this compensating mechanism does not spring into action until late March, when the NSIA provides the SRS with information about the amount transferred from the ST account to the PIT account.

If the tax return has been prepared before the SRS gains access to the information about the portion of ST transferred to the PIT account, it is possible that the ST payer will have to prepare the tax return in EDS again and ask for the latest information from SRS databases to offset their PIT debt against the amount transferred from the ST account. When it comes to asking the SRS for the data for the tax return again, the information the person has entered on their annual income tax return will vanish and have to be fed in again.