

# Special investment account rules for non-Latvian tax residents 3/15/22



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We have written before about the statutory personal income tax (PIT) scheme for income from investment accounts effective from 1 January 2018. We have looked at steps the account owner – an individual – must take to qualify for the tax-favoured treatment. This article explores a letter from the State Revenue Service (SRS) explaining whether a non-Latvian tax resident earning income from dealings in financial instruments is eligible for the investment account scheme.

## Provisions of the PIT Act

In general, if an individual invests or trades in securities, then income arising on the sale of those assets is taxable at a rate of 20% under the PIT Act. However, if the investment account is used for dealings in financial instruments and the requirements of the PIT Act's section 11.13 are met, the individual qualifies for the tax-favoured treatment. This means that the 20% tax applies when the amount paid out of the investment account exceeds the amount paid into it. The table below shows the main differences between the two treatments:

	General treatment	Tax-favoured treatment
<i>Assessment of transactions</i>	Each transaction must be assessed separately. Transactions must be assessed quarterly.	Transactions in the investment account do not need assessing.
<i>Dividend and interest income</i>	It must be assessed whether corporate and personal income taxes have been paid. If not, the SRS must be notified through the annual income tax return and PIT will be charged.	PIT applies only when cash is withdrawn from the account. Any tax withheld at the time of the dividend or interest income calculation is deductible.
<i>Tax treatment of profit from financial instruments</i>	If at least one transaction results in a profit, the capital gains return must be filed (quarterly or annually depending on the amount of income) and the profit must be charged to PIT.	PIT is not charged until the funds paid out of the investment account exceed the amount paid into it.
<i>Administrative burden</i>	An increased administrative burden in terms of accounting for transactions and filing tax returns.	A reduced administrative burden in terms of accounting for transactions and filing tax returns.

Since the PIT Act is silent as to whether the tax-favoured treatment is available to non-residents, we approached the SRS for an interpretation.

## The tax authority's interpretation

The SRS confirmed that a non-Latvian tax resident trading in financial instruments may claim the tax-favoured treatment, subject to meeting the requirements of the PIT Act's section 11.13. This reply is based on the fact that the PIT Act's provisions do not disqualify non-residents from the investment account scheme.

The question of claiming the tax-favoured treatment is also relevant to Latvian-source income, e.g. from an investment account with a Latvian bank.

It is also important to note that the **PIT Act** provides that the investment account must be registered with the SRS by 31 December in the current year. For example, if you opened an investment account in March 2022, it must be registered with the SRS by 31 December 2022.