

# Paying taxes on business income: Can we change our tax scheme and how often? 2/30/22



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Nowadays renting out real estate (RE) is a common line of business carried on by individuals. The growing popularity of [www.booking.com](http://www.booking.com) and [www.airbnb.com](http://www.airbnb.com) makes choosing the right tax scheme an important decision. Latvian law offers a number of ways to register a business and pay taxes. This article explores what options are available when it comes to registering a person's RE letting and whether it is possible to change the form of registration.

## Tax schemes for the landlord (an individual)

| Tax schemes                | Paying microbusiness tax   | Paying mandatory national social insurance (NSI) contributions and personal income tax (PIT) on business income under general procedure   | Registering declared business  |
|----------------------------|--|---|--|
| Tax rates and taxable base | <ul style="list-style-type: none"> <li>- The rate on revenue of up to EUR 25,000 a year is 25%, with any excess attracting 40%.</li> </ul> | <ul style="list-style-type: none"> <li>- An individual that has registered a business pays PIT and NSI.</li> <li>- Taxable income is profit –the rent received less business expenses.</li> <li>- The rate of PIT depends on profit and other taxable income.</li> <li>- The amount of NSI depends on the monthly profit (revenue less expenditure) and the taxable base chosen by the taxpayer.</li> </ul> | <ul style="list-style-type: none"> <li>- An individual that has not registered a business pays a 10% PIT.</li> <li>- Taxable income is the entire income received for the letting, less any RE tax paid.</li> <li>- The business must be declared to the State Revenue Service by filing a copy of the tenancy agreement (for Booking and Airbnb users the agreement with those companies).</li> </ul> |

RE tax is payable regardless of the chosen tax scheme.

According to the State Revenue Service's interpretation and Latvian law, there is no prohibition or restriction on choosing tax schemes one after another. If the person realises that their declared business offers more favourable terms of tax payment than their registered business, then it's possible to change from one tax scheme to another. There is no limit on how often a change of business form may be registered. However, tax schemes cannot be changed to evade taxes, for instance, doing business under the declared tax scheme, then changing over to the general tax scheme in order to deduct repair expenses, and coming back to the declared tax scheme, thereby using the general tax scheme only to cover improvement expenses.