

# How Finance Ministry's proposal affects taxation of foreign nationals 1/32/22



Director, Tax, and Head of Pan-Baltic  
People and Organisation Practice, PwC  
Latvia

Irena Arbidane

On 2 August the Ministry of Finance published a proposal for amending the Personal Income Tax (PIT) Act to change the rate applicable to foreign nationals working remotely in Latvia. If approved, the proposal will come into force on 1 January 2023. There is no knowing how the proposal will move on, as it still needs approval from the Ministry of Justice, but we can examine its potential impact.

## Proposed changes

These changes apply to foreign nationals holding a long-term visa under section 11(5) of the Immigration Act who have moved their tax residence to Latvia. Changes to the Immigration Act are intended to address a problem facing third-country nationals in jobs that allow them to work remotely: they have a limited opportunity to obtain the right of residence in Latvia. Changes to the PIT Act will allow such persons to apply a reduced fixed rate of 15% for one year while they do remote work in Latvia for an employer that is registered in another OECD member state or operates as a registered self-employed person there.

The taxpayer will be free to choose one of two options for paying PIT:

1. A progressive rate (20%, 23% and 31%) with the right to deduct personal and other allowances as well as allowable expenses from taxable income
2. A reduced fixed rate of 15% without the right to deduct a personal allowance, dependant allowances, allowable educational and medical expenses, donations, contributions to private pension funds, and insurance premiums

## Key aspects

Latvian resident status is one of the eligibility criteria for a reduced rate and is awarded to a person under the Taxes and Duties Act from the date they have a declared address in Latvia. In future, residence will also have to be registered with the State Revenue Service (SRS). This does not mean, however, that the person becomes a Latvian resident under international law as well. This raises the question of whether the person will have to satisfy the SRS of having Latvian resident status under international law in addition to a record made at the Citizenship and Migration Office.

It's important to note that taking a reduced rate allows no deduction other than national social insurance contributions (NSIC). Working remotely for a non-EU/non-EEA country will deny the NSIC deduction too. So the person will have to carefully assess whether taking the easy regime will bring any financial benefit for the year.

Before choosing a particular regime of income taxation, it's advisable to examine each person's individual situation in detail. The changes affect only the PIT rate, but they do not relate to NSIC. Under the current

rules, a third-country national must pay full NSIC after the 184th or 365th day of stay in Latvia.