Recognising national insurance contributions in single tax account: problems and solutions 3/33/22

Senior Consultant, Tax, PwC Latvia
Tatjana Klimovica

Although the single tax account has been up and running since 1 January 2021, taxpayers keep wondering about how payments are recognised in the systems run by the State Revenue Service (SRS) and how taxpayer liabilities are covered. There are issues in how payments are applied to cover mandatory national social insurance (NSI) contributions and other tax liabilities. Since NSI is a cornerstone of the social security system, the National Social Insurance Agency (NSIA) and the SRS have started addressing those NSI issues. This article explores what problems the two bodies are facing and how they plan to solve them.

The present situation

Under the Cabinet of Ministers' Rule No. 661, *Paying Taxes, Duties, Other State Charges and Related Charges and Applying Those to Cover Liabilities*, payments received in the single tax account are applied to cover liabilities in a particular sequence under the principle of FIFO (first in, first out). Tax liabilities are lined up in the sequence they are to be paid according to the filing deadline or the payment deadline. Liabilities are covered starting from the oldest outstanding one. Given the procedure for covering NSI liabilities prescribed by the Taxes and Duties Act, NSI should be paid in this sequence:

- The report on seasonal farmhand income tax payers (due on or before the 5th day of the month that follows the reporting period)
- The micro-business tax return (due on or before the 15th day of the month that follows the reporting period)
- The employer's report and the self-employed person's report (due on or before the 17th day of the month that follows the reporting period)

This sequence must be used if there are no outstanding liabilities on those tax returns for earlier periods.

Statutory contradictions

As long as NSI is duly paid and reports duly filed, there is no problem. The problem the NSIA and the SRS plan to tackle is how payments are applied when a self-employed person (or a micro-business tax payer) who employs workers and seasonal farmhands or gains income from agricultural production has failed to duly pay NSI or file reports.

For such cases, the Cabinet of Ministers' Rule No. 951 (on how the NSIA registers NSI and shares information on those contributions and on overpaid personal income tax with the SRS) lays down a special procedure under which payments must be applied in this sequence:

- The employer's report
- The report on seasonal farmhand income tax payers
- The self-employed person's report and the micro-business tax return

We can see that the procedure for applying payments to cover NSI liabilities prescribed by Rule 951 is contrary to the Taxes and Duties Act and Rule 661, so it is not possible to carry out the sequence prescribed by Rule 951.

The solution

A proposed rule is currently being drafted to adjust the wording of paragraphs 7. and 7.2 of Rule 951 in order to eliminate the contradictions with the procedure prescribed by the Taxes and Duties Act and Rule 661 for applying payments received in the single tax account to cover NSI liabilities. In other words, Rule 951 is to prescribe the same sequence as the Taxes and Duties Act and Rule 661.