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Amendments to Personal Income Tax Act 3/51/22

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We have informed our MindLink.lv subscribers about amendments to the Personal Income Tax (PIT) Act that were passed in May 2022. This article explores the amendments and how they affect taxpayers.

The amendments

They broadly outline changes in a number of areas:

1. Additions to the list of income types that will be excluded from an individual's annual taxable income and will not be treated as taxable income. In future the following income will be exempt:

    - Income arising on the sale of land under the Compulsory Termination of Shared Ownership in Privatised Apartment Buildings Act, owned by the taxpayer for more than 60 months after being entered on the Land Register. The amendments are coming into force on 1 January 2023.
    - Income gained through releasing an individual from their debt liabilities under the Release of Individuals From Debt Liabilities Act. The amendments apply from 1 January 2022.
    - Income arising on the sale of a capital asset in the course of an individual's insolvency procedure if they are released from their liabilities under section 164 of the Insolvency Act. Such income is treated as gained on the date the court decided to terminate the proceedings. The amendments apply to a capital asset sold in the course of an individual's insolvency proceedings after the effective date of this rule.
    - Reimbursement of personalised expenses associated with serving in a religious organisation, which the organisation covers for the staff serving in it under a written agreement prescribing the same types and amounts of expenditure as for a voluntary worker.

2. The procedure for determining taxable income gained from business has been changed. When calculating taxable business income, business expenses will be fully deductible from revenues. Certain changes have been made to how business income is determined for taxpayers with double-entry bookkeeping (for details see our article "Sole trader's expenses fully deductible again 2/49/22").

3. Changes have been made to the special rules for determining income from an investment account to facilitate exchange of information for investment account holders (for details see our article "Personal Income Tax Act to be amended in 2022 1/45/22"). Changes have been made also to the income payer's obligation to withhold tax on interest income at source. Specifically, the income payer will not withhold tax at source on interest income paid into an investment account. Such income will be taxed when funds are withdrawn from the investment account and when the amount paid out of it exceeds the amount paid in.

4. A new rate of 5% applies on interest income (and equivalent income) gained by non-Latvian

residents if the following criteria are met under the PIT Act:

- Payment is made through an investment service provider (including the central securities depository) for a financial instrument whose issue is organised by an investment service provider supervised by the Financial and Capital Market Commission.
- The recipient of income resides in another EU/EEA member state and is not a sole trader.
- The financial instrument is not publicly traded.

To determine the income recipient's residence, they must provide evidence to the investment service provider or through the central securities depository under the due diligence procedures for automatic exchange of financial account information.

5. Income arising on the sale of a capital asset in the course of an individual's insolvency proceedings is treated as gained on the date the court decided to terminate the proceedings.

Not long after these amendments were passed on 1 December 2022, Parliament also passed amendments to the PIT Act in their final reading, which provide for applying the royalties regime under the old procedure. The amendments extend the grace period available under the transitional provisions during which royalty recipients are not liable to register as sole traders. The previous law allowed royalty recipients to benefit from this treatment up to 31 December 2022 but the changes extend it to 31 December 2023.

The onus of remitting PIT and national social insurance contributions is still on the payer of income after withholding:

- 25% on an income of up to EUR 25,000;
- 40% on any slice exceeding EUR 25,000.