

Are sole traders required to resume advance tax payments in 2023? 2/11/23



Senior Manager, Tax Reporting, Accounting
and Strategy, PwC Latvia
Juris Boiko

Sole traders were exempt from making advance personal income tax (PIT) payments in 2020, 2021 and 2022 after tax aid measures were adopted under section 6 of the Covid-19 Act. According to the current rules and the information published by the State Revenue Service (SRS), sole traders would have been required to resume advance PIT payments in 2023, with the first payment due on or before 23 March. However, proposals were submitted on 3 March to extend the deadline for another year.

What the SRS did

On 23 February 2023 the SRS published information that the earlier Covid-19 aid measures for advance PIT payments no longer apply to sole traders from 2023. The SRS also issued guidance to inform sole traders of the coming changes, but amendments to section 6 of the Covid-19 Act were submitted for approval on 3 March, adding the word and the number “and 2023” to extend the aid deadline for another year and exempt sole traders from making mandatory advance PIT payments in 2023. In previous years, sole traders could make voluntary advance PIT payments. If the amendments are passed, the voluntary payment option will also be extended, yet we encourage our MindLink.lv subscribers to monitor the latest information and contact the SRS if necessary.

Advance payments from business income

Under section 18 of the PIT Act, the SRS annually calculates an advance PIT payment based on the income for the previous year when the annual income tax return is filed. The sole trader may view the advance payment in their EDS profile section “Payments and their position”.

Taxpayers setting up a business in the middle of the tax year and taxpayers having opted to make voluntary advance payments based on the aid measures must file a calculation of their advance payments for the tax year according to their income forecast.

Voluntary advance payments may also be made by sole traders that have changed their tax regime from a microbusiness taxpayer or from a person carrying out a reported business to a PIT payer under the general regime.

Advance payments do not apply to microbusiness taxpayers, to persons carrying out a reported business, or to payers of reduced patent fees.

How advance payments are calculated, adjusted and paid

Advance payments are calculated at the PIT rate under general procedure pursuant to section 15(2) of the PIT Act:

- 20% on an annual income of up to EUR 20,004
- 23% on any slice of the annual income that exceeds EUR 20,004 but does not exceed the maximum income subject to mandatory contributions under the National Social Insurance Act
- 31% on any slice of the annual income that exceeds the maximum income subject to mandatory contributions under the National Social Insurance Act

Payments are due on or before 23 March, on or before 23 July, on or before 23 September, and on or before 23 November.

If there has been a significant change to the sole trader's line of business or revenue or expense structure, or a reduction in profits during the advance payment period, the sole trader may file an adjusted advance payment calculation with a reasoned explanation of why the advance payments have been reduced or increased. The advance payment calculation is adjusted for the remaining quarters of the year.

An advance payment may be carried forward to the next payment deadline after an adjusted advance payment calculation is filed. This may be done if –

- the owner of a private auxiliary farm, backyard farm or agricultural holding gains income from agricultural production, and
- the quarterly income is a half of one-fourth of the advance payments set for the year.

We encourage our MindLink.lv subscribers to monitor the latest information about the advance payment obligation in 2023, and read our earlier article about the sole trader's option to deduct expenses.