

Finance Ministry proposes to change how personal income tax is computed, reported and paid 1/41/23



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To pick up where we left off last week about the Finance Ministry's proposals for amending the Personal Income Tax (PIT) Act, this article looks at the proposed procedures for computing, reporting and paying PIT.

The rationale

The bill provides for improving the universal income reporting system that is currently prescribed by the PIT Act to help the State Revenue Service (SRS) monitor whether a person's reported wealth suggests tax evasion, adjust the time limits for paying PIT, and introduce procedures for refunding an overpay.

Changes to how income is reported

It's proposed to add subsection 2 to section 7 of the PIT Act, stating that funds a taxpayer receives from the spouse or from a relative up to the third degree under the Civil Code:

- in cash (not exceeding statutory restrictions on cash transactions),
- by bank transfer, or
- in other assets

to cover food, education, medical services, joint household expenses and similar domestic expenses, are not recognised as the person's taxable income. So, if any such payments are received, they do not need reporting on the annual income tax return.

However, this rule does not apply to gifts received. If money is gifted without stating any of the above uses, the income will be exempt from PIT but must be reported on the annual income tax return if such gifts total over EUR 10,000 for the year.

It should be noted that the bill is silent on how to demonstrate that funds have been used for a particular purpose and how to confirm the purpose of payment if funds are granted in cash. An annotation to the bill assumes that these expenses are:

1. Related to immediate consumption (for food, drink, clothing, utility services, medical services, etc.)
2. Intended to improve living conditions, for example, to buy or refurbish a property intended for the donee and the donor living together

If in doubt, the SRS has the power to evaluate each transaction on its economic merits, analysing the facts and circumstances of the situation (living conditions, financial position, debts, etc.).

Computing, reporting and paying PIT

The procedures for computing, reporting and paying PIT are currently prescribed by section 19 of the PIT Act. The bill provides for removing this section and inserting section 19.1 to lay down new procedures for computing and paying PIT, and set a time limit for filing the annual income tax return and lay down procedures for refunding an overpay.

The new rules provide that on 1 April each year the SRS will set up a template for everyone's annual income tax return populated with information the SRS has for the previous year, and if the template shows a PIT charge, the SRS will notify the taxpayer by 1 June. The taxpayer may adjust and file the template with the SRS by 1 July. If no adjustment is made by 2 July, the SRS will assume the taxpayer's consent to the information shown and tax charged in the template, accept the tax return, and consider it filed.

We will be writing in more detail about the new procedures for computing and reporting PIT once the amendments come into force because the bill currently specifies situations where tax residents and non-residents are liable to file the annual income tax return.

The filing deadline

The bill states that the annual income tax return must be filed by 1 July in the following tax year regardless of the amount of income. This means a single deadline for preparing and filing the annual income tax return equal to the time limit set for payers of solidarity tax – from 1 April to 1 July.

The procedure for paying PIT

Adopting a single deadline for filing the annual income tax return will change the deadline for paying PIT. So, if any additional PIT is assessed, this will be payable by 23 August.

The taxpayer retains the right to pay the PIT charge into the single tax account in three instalments, yet the deadlines have changed and the tax threshold for splitting the payment has increased. According to the proposed procedure, if the PIT charge exceeds EUR 900 (up from EUR 640), payment may be made in equal instalments by 23 August, 23 September and 23 October.

The procedure for refunding an overpay

The bill states that if the PIT overpay is less than one euro, the SRS will not make a refund to the taxpayer.

The current time limit for refunding any overpaid PIT is three months after filing the annual income tax return. The new procedure has the following time limits:

- Within 120 days (four months) after filing the annual income tax return if a further review is required and the SRS has to carry out a manual data check
- Within 30 days after filing the annual income tax return if relevant conditions are met and the SRS already has the information necessary for reviewing the annual income tax return

A refund will be made within the 30-day time limit if the following conditions are met:

1. The taxpayer is a Latvian tax resident.
2. The taxpayer is not a trader.
3. The taxable income for the tax year has been derived in Latvia only, up to a threshold of EUR 20,004 under section 15(2)(1) of the PIT Act, and the income has been taxed at source.

4. The overpay results from applying the annual income-differentiated personal allowance, the personal allowance for pensioners, tax reliefs or additional reliefs.
5. Assessing the overpay does not require additional information to be obtained from the taxpayer or a third party.
6. The taxpayer has no tax arrears and a bailiff has not ordered the seizure of their money.

The bill is currently under debate and open to amendment. At the same time, amendments are being proposed that would affect payers of solidarity tax. We will continue monitoring how the bills progress and keep you informed.