

Personal Income Tax Act amended 1/51/23



Manager, Tax, PwC Latvia
Viktorija Lavrova



Consultant, Tax, PwC Latvia
Aleksandrs Afanasjevs

On 7 December 2023 Parliament passed amendments to the Personal Income Tax (PIT) Act in their second – final – reading. As part of the 2024 budget bills package, these amendments were debated as a matter of urgency, with two readings only. This article explores what we see as key changes, including new products added to the basket of allowable expenses, compensation for remote work, and other exempt income groups that will have their exemption thresholds increased from next year.

One bill passed, another set aside

There were two bills lined up for debate – one with these amendments and another with changes to how PIT is computed, reported and paid. The other bill provided for improving the personal income reporting system prescribed by the PIT Act. For example, there was a plan to introduce automatic preparation of annual income tax returns and automatic PIT refunds without the taxpayer's involvement. However, the bill was left unfinished.

Contributions to Pan-European private pension product (PEPP) plans are allowable expenses

From 1 January 2024 the amendments to section 6.1 of the PIT Act extend the rules covering tier 3 pension plan products to include appropriate contributions (deposits) into and payments out of PEPP plans. This means taxpayers can include their PEPP contributions in their allowable expenses for the tax year (up to 10% of their gross pay but not to exceed EUR 4,000 in total) and receive a 20% PIT refund as with contributions to tier 3 pension plans.

Employer compensations for worker expenses associated with remote work

The amendments introduce a permanent clause exempting a compensation of EUR 40 paid to workers for remote work while retaining the mandatory conditions for claiming it:

1. Agreement on remote work is prescribed by the employment contract or by order of the employer and it lists expenses the employer will reimburse.
2. The expenses are paid by the employer with whom the worker has filed their wage tax book.
3. The amount of expenditure is set in proportion to the workload and to the number of remote working days per month stated in the employment contract or in the employer's order if work is done both remotely and on the employer's premises. An accounting mechanism should be set up to correctly compute the amount of compensation exempt from PIT.

As before, an exemption is not available during a worker's prolonged absence exceeding 30 days.

A worker's income stays out of their wage tax base if the employer pays

tuition fees towards higher education

Employer-paid tuition fees for a worker to study at state-accredited Latvian education establishments and EU/EEA education establishments will no longer be treated as employment income if this higher education offers skills the employer needs. So the worker's tuition fees will be exempt from wage tax and national social insurance contributions.

To report the worker's income that matches employer-paid tuition fees, the employer will fill in a statement of amounts paid to the individual and send it to the State Revenue Service. This obligation will have to be fulfilled on or before 1 February in the year following the tax year in which the employer paid those tuition fees.

PIT exemption thresholds revised

Below are the revised PIT exemption thresholds for life, health and accident insurance premiums:

Type of exemption	Current threshold, EUR	New threshold, EUR
Life, health and accident insurance premiums	426,86	750
Assistance granted by decision of a trade union's agency from the trade union's funds, which are made up of trade union dues and foreign trade unions' donations	1000	3000
Assistance in cash, other assets or services, granted by decision of a religious organisation or its agency (officer) from the religious organisation's or its agency's funds	1000	3000
Assistance in cash, other assets or services, granted from a (non-religious) public benefit organisation's funds, or assistance granted by state-funded institutions, charities or philanthropic organisations in assets exempt from customs duty	1000	3000

PIT relief for payers of microbusiness tax (MBT)

MBT payers earning income subject to PIT will be able to claim a personal allowance and dependant allowances after filing their wage tax book where they earn this income.

Since an MBT payer who earns income attracting PIT can now claim a personal allowance, it's reasonable to consider any income they have earned from their business as MBT payer in computing their income-differentiated personal allowance.

The amendments to the PIT Act are coming into force on 1 January 2024.