

What tax changes does civil partnership entail? (1)

2/6/24



Consultant, Tax, PwC Latvia
Aleksandrs Afanasjevs



Director, Tax, and Head of Pan-Baltic
People and Organisation Practice, PwC
Latvia

Irena Arbidane

Effective from 1 July 2024 amendments to the Notaries Act introduce rules on a civil partnership that will allow unmarried (including same-sex) couples to legally register their relationship and will give them social and economic protections. The amendments are to take effect together with amendments to the Personal Income Tax (PIT) Act and to the National Social Insurance Act, which extend PIT relief to persons having entered into a civil partnership.

The concept of civil partnership

To explain the lawmaker's rationale behind these changes, we need to understand what a civil partnership is and what status it will obtain under Latvian law.

In late 2020 the Constitutional Court ruled that according to the first sentence of section 110 of the Constitution ('The state protects and supports marriage – a union between man and woman, family, and the rights of parents and of the child'), the lawmaker is required to afford legal protection to a family of same-sex partners, too, and to introduce social and economic protections and support measures suitable for such a family.

Amendments to the Notaries Act permit two adults to enter into a civil partnership by confirming before a notary public that they have developed a close personal relationship, have a joint household, and have the intention to care for and support each other. A civil partnership can be made by persons who are not in a registered marriage and are not relatives in a straight line, siblings or half-siblings. An annotation to the amendments states that a civil partnership will not be treated as marriage under the Constitution. So this will be a separate concept of cohabitation incompatible with the concept of marriage.

A civil partnership will be officially terminated on a person's death if the courts declare one of the persons dead, on the marriage of one or both of them, on both persons expressing their will to the notary, or by a court ruling. The notary will enter details of registering or terminating the civil partnership on the Register of Individuals.

Tax changes

When the civil partnership rules take effect, the lawmaker will give civil partners the PIT reliefs that are enjoyed by married persons and relatives up to the third degree under the Civil Code. Let's look at some of these reliefs.

Section 8.1 – Loans treated as income

A loan that an economic operator makes to an individual or their civil partner to cover their medical or educational expenses will not be treated as income. However, the loan must be made by bank transfer and

the borrower must hold documents supporting the correct use of the loan. Similarly, a loan from your civil partner will not be treated as your income.

Section 9 – Types of exempt income

PIT will be exempt on gifts an individual receives from a person related to them by a civil partnership.

PIT will also be exempt on additional pension capital arising from contributions paid by an individual or their civil partner to private pension funds under licensed pension plans, which has been paid out to their members.

An exemption will be available on the disposal of real estate bequeathed by your civil partner (if it meets statutory conditions for the sole property or a property held for a specified period and declared as residence) and on the sale of agricultural land gifted by your civil partner.

Section 10 – Allowable expenses

Civil partners will be permitted to report on their annual income tax return and receive a PIT refund on expenses incurred by the other partner in upskilling, obtaining a speciality or education, and using medical services, and on health insurance premiums paid. You can also claim any medical and educational expenses paid by your civil partner.

Section 13 – Relief for the taxpayer

Tax relief will be given for a dependent civil partner who is not working and is recognised as a person with a disability. In addition, there will be relief for an unworking civil partner who is caring for a minor child recognised as a person with a disability, or for a child up to three years old, or for three or more children up to 18 years old, or up to 24 years old, of which at least one is less than seven years old, while the child continues their general, professional, higher or special education, or for five children up to 18 years old, or up to 24 years old, while the child continues their general, professional, higher or special education.

In our next article we will be exploring amendments to the National Social Insurance Act coming into force on 1 July 2024, when the concept of civil partnership is introduced.