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Annual tax return - a lottery? (2) 3/13/25

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The closing part of last week's Article.

Deductible expenses for PIT calculation purposes

Deductible for dependants

In 2024, the amount of relief per one dependant was EUR 250 per month (EUR 3,000 per year). Unless it has been applied monthly, you can do so by submitting a tax return when calculating payroll taxes. Section 13, Paragraph one, Clause 1 of the PIT Act contains a complete list of persons for whom a taxpayer may benefit, including:

- a minor child and a child in education (up to 24 years of age);
- a non-working spouse (as of 1 July 2018 there are additional criteria, such as having a dependent child under the age of 3);
- non-working parents and grandparents, if recognised as disabled persons, etc.

In order to benefit from the relief, the taxpayer must make a specific registration to ensure that the EDS identifies the period from which the person is dependent. If this has already been done, there is no need to take additional action, but this may be the case for those who have become parents in 2024 and the child has not yet been registered with any of them.

Other deductibles

Most often, the overpayment of the PIT results from other deductible expenses incurred by the taxpayer during the year, which reduce the income subject to the PIT:

1. Expenditure on education, medical treatment services (including operations and dentistry), donations and gifts to a party registered in Latvia and organisations which have been granted the status of a public benefit organisation. These expenses are taken into account in GIDs of EUR 600 per person if they do not exceed 50% of the gross income of the person's tax year. If the expenses are higher - they may be transferred for use in subsequent years, except for donations that can only be used in the particular tax year in which they were made.

A person may also include in their tax return the eligible expenses of family members within those limits.

NB! In early March 2025, there was news that SRS does not recommend using the “Deductible Expenses app to add receipts for eligible expenses. At the end of 2024, the SRS made the decision not to invest in maintaining the app. It is therefore no longer available for new downloads and it is not recommended to continue using it, even if it has remained on taxpayers' phones, as the expenses may not be read into the EDS. It is recommended that in future only the functionality available in the EDS should be used to indicate expenses.

1. Contributions to private pension funds and payments of life insurance premiums may also be included in the tax return. This expenditure, taken together, is subject to a threshold of

EUR 4,000 per year but capped at 10% of a person's taxable income. Although information on payments made by a person to pension funds or savings life insurance will appear on page D of the tax return, the tax return may also include expenditure on payments to equivalent institutions of the Member States of the EU, EEA and Organisation for Economic Co-operation and Development.

The expenditure referred to in this category may in all cases lead only to an overpayment of the PIT or to a reduction in the PIT liability, if any.

Changes in 2025

In the context of changes to the PIT Law, eligible expenditure in the 2024 tax return may be recovered in the amount of 20%, within the limits referred to, and in 2025 in the amount of 25.5%. There have been discussions on the possibility of cancelling deductible expenditure, given the high administrative burden in the verification process of SRS expenditure, but at this stage no legislative changes have been proposed to support this approach in the coming periods.

Other reasons for overpayment of PIT

One of the reasons that may give rise to the premium is Latvian or foreign income, for which the PIT or tax equivalent thereto has not been applied at source, for example foreign interest income, income from securities (if these are not State or local government securities). Accordingly, the duty to pay PIT in Latvia may only arise when submitting a tax return.

Otherwise, in practice, we have identified that one of the most common reasons why persons may incur the PIT supplement is the B sickness benefit paid by the National Social Insurance Agency (NSIA). Accordingly, the SSIA applies a rate of 20% to the benefit in 2024 when making the disbursement, despite the total amount of personal income. Accordingly, the employer of the person to whom it has submitted the payroll tax book also uses in full the rate of 20% of income up to EUR 20,004 a year (EUR 1,667 a month) and in excess the rate of 23% of the IIT. At the time of the tax return, a recalculation takes place and, if a person's income has exceeded that threshold of EUR 20,004, the benefit paid to the NSIA should not have been subject to the rate of 20%, but to the rate of 23% or 31% of the PIT, depending on the amount of the income. Accordingly, the amount paid in the allowance gives rise to an additional PIT for the taxpayer of an additional 3% or 11% interest to be paid after the reported.

A similar situation can arise for working pensioners - primary NSIA applies a 20% PIT rate to the pension. If a pensioner has submitted a payroll tax book to the employer, the rate of 20% of the PIT may be applied twice and, in excess of the amount of EUR 20,004 for both types of income, the tax return recalculation may result in a PIT underpayment rather than an overpayment.

Changes in 2025

In assessing these situations, the above-mentioned overpayment or additional payment should not arise in 2025, as each month persons, Latvian tax residents subject to the Latvian social security system, will be subject to a flat rate at both employer level and NSIA level, paying benefits of 25.5%. At the same time, it should be noted that if a person's annual income exceeds EUR 200,000 in 2025 as a whole, an additional 3% rate will be applied to the excess, which is new and may also give rise to further discussion on the occurrence of the PIT supplements as a result of the submission of the tax return. According to the public information, the circle of persons who could be subject to the 3% rate does not exceed 10% of Latvian taxpayers.

Outcome – underpaid or overpaid PIT

If an obligation to pay PIT to the State budget has arisen for a person as a result of the submission of a tax return, the term for payment of the tax may vary according to the time period for submission of the tax return, as well as depending on the PIT payable - payment may be made in one or three payments. See summarised information below.

Tax return submission deadline	Tax payment deadline
March 1 - June 1 after the end of the reporting year	If the amount is equal or less than 640 EUR: until 23 June : in three equal instalments during the three months to 23 June, 23 July and 23 August
April 1 - July 1 after the end of the reporting year	If the amount is equal or less than 640 EUR: until 23 July If the amount exceeds EUR 640: in three equal instalments during the three months to 23 July, 23 August and 23 September

Regardless of the above mentioned deadlines, if necessary, the taxpayer may request the SRS to divide the tax due up to 12 parts by submitting a special application to the SRS. In such a case, payment of the PIT will be made in accordance with the schedule proposed by the SRS, which will provide not only for repayment of the principal amount of the PIT but also for late payment.