Latvia – Potential Amendments to the Law “On Personal Income Tax”

Latvia’s government published draft amendments to the law “On Personal Income Tax" on 11 October 2024.[1] The stated objective of these amendments is to enhance the competitiveness of the workforce in the Baltic region, reduce the tax burden on employees with low and middle incomes, and simplify the application of personal income tax (hereinafter, “PIT”).

Below is a brief overview of the most significant changes that are being proposed.

WHY THIS MATTERS

If the proposed changes are enacted, taxpayers with low and middle incomes will benefit from these changes, while taxpayers with high income will end up paying tax at a higher rate, creating a heavier tax burden and lowering their personal disposable income. It may also raise the costs of an international assignment in respect of assignees in Latvia, as well as Latvian assignees abroad, who are covered under Latvia’s tax law.

In such cases, if the changes described in this newsletter come into effect, international assignment cost projections and budgeting should reflect the changes. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

The increase of the non-taxable minimum and non-taxable benefits may help offset a PIT increase experienced by taxpayers, but likely in only a limited way.

Each individual’s tax status should be determined in light of his or her particular situation.

Key Change – Highlight on Two-Tiered Progressive PIT

The following two-tiered progressive PIT rates will be introduced:

1. A 25.5-percent rate applied to income up to the maximum salary on which state social insurance is paid (hereinafter, "SSC") – EUR 8,775 per month (EUR 105,300 per year);

2. A 33-percent rate applied to income exceeding the maximum SSC limit of EUR 8,775 per month (EUR 105,300 per year), which, for salary, is essentially collected through the solidarity tax.

These rates will apply to all income of the taxpayer specified by law. At the same time, a 25.5-percent rate will apply to capital income, including capital gains and other specific types of income as determined by law.

For salary income, regardless of the number of income sources, the 25.5-percent rate will be applied at the time of payment. The same rate will also be applied by the State Social Insurance Agency (hereinafter, "SSIA") to temporary disability benefits and pensions.

Fixed PIT Rates Will Be Increased for Certain Types of Income

Income currently taxed at 20 percent or 23 percent will be subject only to the 25.5-percent rate. This includes capital income (including capital gains), professional athletes' income, income for nonresident taxpayers from artistic, athletic, or coaching activities, and royalties for the creation of literary, scientific, or artistic work, as well as rewards for discoveries, inventions, and industrial designs.

For purposes of legal certainty, transitional provisions of the law will stipulate that income from transactions with capital assets, initiated but not completed by 31 December 2024, will be taxed at 20 percent for the years 2025, 2026, and 2027, if the capital gains declaration appendix "Information on transactions started but not completed in one tax year" is submitted.

An Additional 3-Percent PIT Rate Will Be Introduced for Income Exceeding EUR 200,000 Annually

Income exceeding EUR 200,000 annually will be subject to an additional 3-percent PIT rate upon filing the annual income tax return. This additional rate will apply to salary, capital gains, other capital income, income from economic activity, intellectual property income, as well as to dividends and liquidation quotas that are otherwise exempt from PIT.

Other income exempt from PIT, such as exempted benefits and gifts, and income from the sale of real estate that qualifies for tax exemption according to the Law "On Personal Income Tax," will not be taxed with the additional PIT rate.

What Other PIT Changes Are Expected?

Differentiated Non-Taxable Minimum Will Be Replaced with a Fixed Non-Taxable Minimum

A fixed non-taxable minimum will be applied to all employees, regardless of their gross income. In 2025, it will be EUR 510 per month; in 2026, EUR 550 per month; and from 2027, EUR 570 per month.

Non-Taxable Minimum for Pensioners Will Be Increased

The non-taxable minimum for pensioners will be increased from EUR 6,000 per year (EUR 500 per month) to EUR 12,000 per year (EUR 1,000 per month).

List of Payments Made by Employers in Accordance with Collective Agreements That Will Not Be Taxed as Benefits Will Be Extended

The list of non-taxable benefits will be expanded (currently only covering employee meal and medical expenses) to include expenses such as relocation, accommodation, and transportation costs. It will be specified that the total amount of all these employee expenses in a year cannot exceed the amount obtained by multiplying the average number of employees, as defined by the Law “On Annual Statements and Consolidated Annual Statements,” by EUR 700.

Non-Taxable Limits for Childbirth, Funeral Benefits, and Gifts Provided by Employers Will Be Increased

Non-taxable limits for childbirth and funeral benefits will be increased from EUR 250 to EUR 500, and for employer gifts from EUR 15 to EUR 100 annually.

Tax Exemptions for Cash and Material Awards Received in Competitions and Contests Will Be EUR 1,500 Per Year

Winnings from national lotteries such as "Sporta loterija," "Sporto visi," and "Senatnes loterija" will be exempt from PIT.

Certain State Support Payments Will Be Exempt from PIT

From 2025 to 2029, payments received as state support for agriculture, EU support for agriculture, and rural development, or other similar support payments aimed at preserving bio-diversity, including under the Natura 2000 project, will not be included in taxable income.

Recipients of Royalties Will Not Be Obliged to Register Economic Activity until 31 December 2027

The transitional period allowing recipients of royalties not to register economic activity has been extended. During this time, PIT and SSC will continue to be withheld at source by the payer of the income, applying a 25-percent PIT rate.

KPMG INSIGHTS

High-income earners (with expected annual income exceeding EUR 200,000) may wish to consider realising their income this year, for example, by selling certain assets or distributing company profits, to help mitigate the additional 3-percent tax next year.

It is also anticipated that the number of solidarity taxpayers will decrease, making the maintenance of the solidarity tax system involving two state institutions (SSIA and the State Revenue Service) less efficient from the state's perspective.

The proposed amendments will be reviewed at the 30 October 2024 Saeima session, after which the future course of the draft law will become clearer. If approved, the law will take effect on 1 January 2025.

Taxpayers and/or their employers with questions about how the above-noted measures may impact them and/or what steps they may need to take to (i) plan in a tax-efficient way and (ii) be in compliance, should consult with their usual tax-service provider or a member of the GMS tax team with KPMG in Latvia (see the Contacts section).

FOOTNOTE:

1 Grozījumi likumā “Par iedzīvotāju ienākuma nodokli.”

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RELATED RESOURCE

For related coverage, see (in Latvian): "Potenciālie grozījumi likumā Par iedzīvotāju ienākuma nodokli: Publicēts likumprojekts par grozījumiem likumā 'Par iedzīvotāju ienākuma nodokli'," a publication of the KPMG International member firm in Latvia.

Contact us

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