

International tax matters (inbound to Latvia)

This memo provides general information about –

1. why tax resident status is important and how it is determined in Latvia;
2. when you are liable to file a Latvian annual income tax return and when this can be done voluntarily;
3. social security matters while working permanently in Latvia.

More details relevant to your particular case are included in the briefing notes. This guidance aims to help you better understand topics that at some point become important to persons coming to work in Latvia.

Tax resident status

In general, your tax resident status prescribes a personal income tax (PIT) liability on your worldwide income in your tax residence country. You should carefully assess your tax resident status to avoid double taxation and an unnecessary administrative burden if the tax authorities of two countries treat you as their tax resident.

Latvian law will consider you a Latvian tax resident if you meet one of the following criteria:



you have registered your address with the Latvian Citizenship and Migration Office (CMO);

or



you reside in Latvia for more than 183 days in a given 12-month period;

or



you are employed by the Latvian government outside Latvia.

- If Latvian law considers you a Latvian tax resident, your worldwide income should be taxed in Latvia, unless another country also treats you as its tax resident.
- If Latvia has an effective double tax treaty (DTT) with the foreign country, DTT rules will be applied to determine your tax residence and allocate it to one country only.

In general, DTTs will consider you a tax resident –

- 1 in the country where you have a permanent home available;
- 2 if you have a permanent home available in both countries, then you are resident where your centre of vital interests lies, the centre of vital interests being economic (employment) and emotional (spouse and children).

While DTTs might offer more criteria, the two above are typically sufficient to determine your tax residence.

- If you qualify as a Latvian tax resident also under the DTT, you are advised to register your tax residence in Latvia. Deregistering as a foreign tax resident is recommended once Latvia has issued a certificate of tax residence.



If you qualify as a Latvian tax resident under Latvian law and/or the DTT, you are liable to register your Latvian tax resident status.

Registration

STEP 1

The first step is to notify CMO of your Latvian address. In general, this should be done on arrival; if it was not done at that time, CMO should be notified before you ask the Latvian State Revenue Service (SRS) to register your Latvian tax resident status.

STEP 2

The next step is to file a registration request with the SRS. This document can be prepared in free form and should include arguments proving that you qualify as a Latvian tax resident. You are advised to enclose documents, such as your employment contract and tenancy agreement, to support the facts stated in your request.



Typically, if you need to register your Latvian tax resident status, your employer should authorise PwC assistance.

Latvian annual income tax return

Latvian tax residents should annually check whether they are required to file a Latvian income tax return. This requirement is likely to arise in the following cases:

- 1 you have gained foreign source income regardless of whether it has been taxed abroad (except for any EU/EEA source employment income that has been fully taxed at source);
- or*
- 2 you have gained EU/EEA source employment income that has not been taxed at source;
- or*
- 3 your total annual income exceeds EUR 62,800 (in 2020);
- or*
- 4 your Latvian employer has applied a higher monthly personal allowance than what you were eligible for during the year.

It is possible to file your Latvian annual income tax return voluntarily to claim allowances and deductible expenses and receive a PIT refund in Latvia. Items that can reduce your taxable income include –



allowance for dependants (unless already applied by your Latvian employer);



medical and education expenses (including those incurred by your close relatives);



donations to political parties and non-profit organisations;



contributions to a private pension plan and life insurance premiums.

Social security matters in the EU

Under general EU rules, social insurance contributions (SIC) are payable in the country where work is physically carried out – this should be only one country. If you are posted to Latvia (working for a foreign employer in Latvia) for a period of up to two years, you can apply to the competent authorities of your home country for an A1 certificate and continue to pay SIC in your home country only. However, if you relocate permanently, an A1 certificate is not available and SIC are payable in Latvia only.

If you need to receive a social benefit, generally the EU/EEA country in which your most recent SIC were paid until the insured event would pay that social benefit (if you qualify under local statutory criteria).

Usually there are two criteria:

1 the period in which you were insured (employed)

and

2 the amount of SIC paid in that period.

Your insurance periods in the EU/EEA countries are accumulated, but each country will calculate the benefit based on SIC paid in that country only. This does not apply to your old age pension – the countries concerned could pay their portion separately, and if you have been employed in multiple countries, you could receive two or more old age pensions.

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