

*Dear Clients!*

*We would hereby like to inform you about the application of personal income tax on the growth of capital of investment fund certificates.*

*We would like to emphasise that SEB banka does not provide consultations regarding tax issues and that this material is of an informative character only.*



### **Procedure of Calculation and Payment of Capital Growth Tax**

Starting 1 January 2010, the new wording of the law "On Personal Income Tax" (PIT) came into effect. It provides tax application to capital growth for such investment products as stocks and investment fund certificates, which until 1 January 2010 were not subject to personal income tax. Starting from 1 January 2010, the tax rate to capital growth has been fixed to be 15 % of the income gained.

Based on the Law " On Personal Income Tax" and the Cabinet of Ministers Regulations No.1660 "Regulations on Returns of Residents about Income from Capital and the Procedure of its Completion", calculation of payable tax amount on capital growth and payment of tax is the liability of the physical entity that receives such type of income.

### **Submission of Return**

Any person who gains income from the growth of capital once in a quarter (if the gained profit is from 100,01 to LVL 500), once in a month (if the gained profit is above LVL 500) or till 15th of January of next taxation year (if the gained profit is less than LVL 100) should declare the gained income to the SRS. The calculated tax should be paid to the budget within 15 days from the day of submission of the declaration.

### **Calculation of the Capital Growth Tax**

In order to calculate the tax on capital growth, such as the investment funds, the following formula should be used:

**Tax on capital growth =**

**(Sales value of the financial instrument– [Purchase value + purchase and holding related costs] ) x 0.15**

There exist several methods by which to calculate the purchase value for the sold capital shares. Currently, neither the Law "On Personal Income Tax", nor the Cabinet of Ministers Regulation mentions what method should be used to calculate the purchase value of funds. Based on the

International Accounting Standard (IAS) No. 2 "Stock", the evaluation of stocks (in case of physical entities, the fund certificates are similar to some type of savings) can be done according to one of two methods:

- The **FIFO method** (First-in First-out) is based on the assumption that the stock used and written off is the stock according to the first consignment price, then the second consignment price, etc., until all the stock is used up. However, the actual sequence of using stocks is not taken into account (Cabinet of Ministers Regulations No. 339 "Regulations on Preparation and Organisation of Companies' Accounting Records").
- The **Average weighted price method** provides that all purchases are proportionally equalised as can be seen in the following formula:

$$\text{Average weighted price} = (\text{Amount}[1] \times \text{Price [1]} + \text{Amount}[2] \times \text{Price [2]}) / \text{Total amount}$$

It is important to remember that International Accounting Standards No. 2 also provides that, upon use of one of the two methods once, the same method will also have to be used for tax calculation in the future for similar transactions, unless the Cabinet of Ministers Regulations or other legislative enactments provide otherwise.

### **Transitional Regulations**

Clause 50 of the Transitional Regulation of the Law "On Personal Income Tax" provides that, if the investment fund certificates bought before 31 December 2009 are sold, capital growth on investment fund certificates is calculated according to the following formula:

**Tax on capital growth =**

**[(Sales value of financial instrument – [Purchase value+ Related costs]) / Number of months for holding of investment fund] x number of months since 1 January 2010 until the sales month including) x 0.15**

### **Examples**

#### **1<sup>st</sup> Example "Lat Reserve Fund"**

You have made several transactions with Lat Reserve Fund certificates during 2010. Tax is calculated for the difference between the purchase and sales prices by fixing the growth of fund certificate value.

<b>Date</b>	<b>Type of Transaction</b>	<b>Number of Certificates</b>	<b>Price (LVL)</b>	<b>Grand Total (LVL)</b>
04.01.2010	Purchase	500.0415	1.3765	688.31

10.01.2010	Purchase	601.2386	1.3881	834.58
15.02.2010	Purchase	203.4675	1.3965	284.14
16.03.2010	Purchase	100.1123	1.4029	140.45
	<b>Purchase total</b>	<b>1404.8599</b>	<b>1.386242382 (Average weighted price)</b>	<b>1947.48</b>
<b>Partial sale of certificates</b>				
16.04.2010	Sale	1303.1235	1.421	1851.74
<b>All certificates are sold</b>				
16.04.2010	Sale	1404.8599	1.421	1996.31

1.1. The calculation of capital growth tax according to the FIFO method by selling a part of the total number of certificates

$$(1851.74 - [500.0415 * 1.3765 + 601.2386 * 1.3881 + 201.8434 * 1.3965]) * 15\% = \text{LVL } 7.05$$

*(Sales value - [number of certificates of the first purchase \* Price + number of next certificate purchase \* Price + ... the total number of certificate should agree with the number of certificates being on sale] \* Tax rate = Tax payable to the State)*

1.2. Tax calculation according to the average weighted price method by selling a part of the total number of certificates

$$(1851.74 - 1947.48 / 1404.8599 * 1303.1235) * 15\% = \text{LVL } 6.79$$

*(Sales value - Grand total of purchase / Total number of certificates \* Number of certificates being on sale) \* Tax rate = Tax payable to the State*

1.3. Capital growth tax upon the sale of all certificates (FIFO and average weighted price method)

$$(1996.31 - 1947.48) * 15\% = \text{LVL } 7.32$$

*(Sales value - Purchase grand total) \* Tax rate = Tax payable to the State*

## 2<sup>nd</sup> Example "SEB fondi"

You have purchased certificates of one specific SEB fund after 1 January 2010. Tax is calculated for the difference between the purchase and sales prices. Tax is applied in the case of growth in the value of certificates. The fund purchase expenses or purchase commission is also added to SEB funds' purchase price.

Date	Type of Transaction	Number of Certificates	Price (LVL)	Grand Total without Commission (LVL)	Fund Purchase Commission 1 % (LVL)	Grand Total with Commission (LVL)
04.01.2010	Purchase	500.0415	10.12568	5 063.26	50.63	5 113.89
10.01.2010	Purchase	601.2386	9.00245	5 412.62	54.13	5 466.75
15.02.2010	Purchase	203.4675	7.65789	1 558.13	15.58	1 573.71
16.03.2010	Purchase	100.1123	11.32548	1 133.82	11.34	1 145.16

<b>Purchase total</b>	<b>1 404.8599</b>	<b>9.466787797</b> <i>(Average weighted price)</i>	-	<b>131.68</b>	<b>13 299.51</b>
<b>Partial sale of certificates</b>					
16.04.2010	Sale	1 303.1235	10.54987	-	13 747.78
<b>All certificates are sold</b>					
16.04.2010	Sale	1 404.8599	10.54987	-	14 821.09

2.1. Capital growth tax calculation according to the FIFO method by selling a part of the total number of certificates

$$(13747.78 - [500.0415 * 10.12568 + 601.2386 * 9.00245 + 201.8434 * 7.65789] - \left\{ \frac{131.68}{1404.8599} * 1303.1235 \right\} * 15\% = \text{LVL } 240.61$$

Eligible supporting expenses

*(Sales value – [Number of certificates\* Price + Number of certificates\* Price +... number of certificates should agree with the number of certificate being on sale] – Purchase commission total / Total number of certificates \* Number of certificates on sale) \* Tax rate = Tax payable to the State*

2.2. Tax calculation according to the average weighted price method by selling a part of the total number of certificates

$$(13747.78 - 13299.51 / 1404.8599 * 1303.1235) * 15\% = \text{LVL } 211.71$$

*(Sales value - Purchase grand total / Total number of certificates \* Number of certificates on sale) \* Tax rate = Tax payable to the State*

2.3. Capital growth tax upon the sale of all certificates

$$(14821.09 - 13299.51) * 15\% = \text{LVL } 228.24$$

*(Sales value – Purchase grand total) \* Tax rate = Payable tax*

### 3<sup>rd</sup> example “Lat Reserve Fund Calculation by Applying Transitional Regulations”

In 2009, you made several purchase transactions of Lat Reserve Fund certificates, but the sale will take place on 10 April 2010. Therefore, according to Clause 50 of the Law “On Personal Income Tax”, transitional regulations may be applied (applicable only to fund sales transactions, which were purchased before 2009.12.31 and sold after 2010.01.01).

Date	Type of Transaction	Number of Certificates	Price (LVL)	Grand Total (LVL)
10.09.2009	Purchase	500.0415	1.3765	688.31
10.10.2009	Purchase	601.2386	1.3881	834.58
10.11.2009	Purchase	203.4675	1.3965	284.14
10.12.2010	Purchase	100.1123	1.4029	140.45
	<b>Purchase total</b>	<b>1 404.8599</b>	<b>1.386242382</b> <i>(Average weighted price)</i>	<b>1 947.48</b>

All certificates are sold				
10.04.2010	Sale	1 404.8599	1.421	1 996.31

3.1. Capital growth tax upon the sale of all certificates (FIFO and average weighted price methods by applying transitional regulations)

$$\begin{aligned}
 & ([500.0415 * 1.421 - 500.0415 * 1.3765] / 7 \text{ months} * 4 \text{ months} + [601.2386 * 1.421 - \\
 & 601.2386 * 1.3881] / 6 \text{ months} * 4 \text{ months} + [203.4675 * 1.421 - \\
 & 203.4675 * 1.3965] / 5 \text{ months} * 4 \text{ months} + [100.1123 * 1.421 - 100.1123 * 1.4029] / 4 \text{ months} * 4 \text{ months}) * 0.15 = \text{LVL } 4.76 \\
 & ([\text{Number of certificates in the purchase transaction No.1.} * \text{Sales price of certificates} - \text{Number of certificates in} \\
 & \text{the purchase transaction No.1.} * \text{Certificates' purchase price No.1.}] / \text{Time of holding certificates in months} * \\
 & \text{number of months since 1 January 2010 to the sales month including} + [\text{Purchase transaction No.2}] + \\
 & [\text{Purchase transaction No.3}] + [\text{Purchase transaction No.4}]) * \text{Tax rate} = \text{Tax payable to the State}
 \end{aligned}$$

Please take into account that this calculation may change depending on the month's accounting methodology, which is not fixed in the currently issued documents.

### Conclusions

1. The Law "On Personal Income Tax" and its supporting documents do not describe which of the calculation methodologies should be used. Such a methodology is expected to be developed by 30 June of this year. Thus, we can assume that, before adoption of these specific regulations, we should follow the generally accepted practice and you can choose your own methodology, which will then be used.
2. The use of the FIFO method is more complicated than the average weighted price method.

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This message has been prepared by AS "SEB banka". We would like to stress that AS "SEB banka" does not provide consultations regarding tax issues and that this material is solely of an informative nature. Although the information is based on trusted sources, AS "SEB banka" does not assume liability for any impreciseness or errors or any losses whatsoever caused by reliance on this information. Please observe that the information provided in the material about taxes is based on currently applicable laws; however, the tax laws may change over the time. The result of changes in the tax laws will be different in each individual case. The mentioned explanations have been provided based on the amendments adopted by the Saeima (Parliament) on 01.12.2009 to the Law "On Personal Income Tax", which the State President promulgated on 21.12.2009. If the investment funds or you personally make investments in financial instruments expressed in foreign currencies, please observe that changes in the exchange rate may impact the result and/or amount of calculated tax.

You yourself assume liability about the decision to make an investment; before making, it you should always get additional information. Regarding tax application in each specific case, we recommend you consult your tax consultant. More information about the procedure of personal income tax calculation about income on capital growth can be obtained from the State Revenue Service.

You can read the text of the Law "On Personal Income Tax", which is in force from 1 January 2010, at [www.likumi.lv](http://www.likumi.lv)

## Deklarācija par ienākumu no kapitāla DK

1. Vārds, Uzvārds

Jānis Ozols

2. Personas kods

1 2 3 0 7 6 - 1 2 3 4 5

3. Ienākumu gūšanas periods par

2 0 1 0 gada   mēnesi vai

1.ceturksni  2.ceturksni  3.ceturksni  4.ceturksni

### I. Ienākumi no kapitāla pieauguma

<sup>1</sup> Norādiet ienākuma veidu, lietojot šādus kodus: **N** – ienākums no nekustamā īpašuma atsavināšanas, **A** – ienākums no darījuma ar akcijām vai kapitāla daļām, **C** – ienākums no darījuma ar cita veida kapitāla aktīviem, **J** – ienākums no jaukta veida darījumi ar kapitāla aktīviem, **M** - ienākums no akciju vai kapitāla daļu maiņas, rokasnaudas gadījumā darījuma kodam pievieno kodu - **R**.

Ienākuma gūšanas diena	Ienākuma veids <sup>1</sup>	Ieņēmumi no kapitāla aktīva atsavināšanas	Saņemtā ieņēmumu daļa*	Izdevumi, kas saistīti ar kapitāla aktīva iegādi	Attiecināmā izdevumu daļa* (4/3x5)	Apliekamais ienākums no kapitāla aktīvu atsavināšanas (3. – 5., vai 4 – 6)	Nodokļa likme 15%	Aprēķinātais iedzīvotāju ienākuma nodoklis
1	2	3	4	5	6	7	8	9 (7. X 15%)
16.04.2010	C	1996.31	-	1947.48	-	(1996.31-1947.48)= 48.83	15%	7.32
Kopā		1996.31	-	1947.48	-	48.83	-	7.32

\* - aizpilda, ja ieņēmumi no kapitāla aktīva tiek saņemti vairākos taksācijas periodos

Veidlapas DK iesniegšanas Valsts ieņēmumu dienestā datums:

1 5 0 6 2 0 1 0

Diena Mēnesis Gads

**Apstiprinu, ka pielikumā sniegtā informācija ir pilnīga un pareiza**

(nodokļa maksātāja paraksts un tā atšifrējums)

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2	0	1	0
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 gada 

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1	2	3	4	5	6	7	8	9 ( 7. X 15%)
16.04.2010	C	14821.09	-	13299.51	-	(14821.09-13299.51)= 1521.58	15%	228.24
<b>Kopā</b>		14821.09	-	13299.51	-	1521.58	-	228.24

\* - aizpilda, ja ieņēmumi no kapitāla aktīva tiek saņemti vairākos taksācijas periodos

Veidlapas DK iesniegšanas Valsts ieņēmumu dienestā datums:

1	5	0	6	2	0	1	0
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