

# Information on Personal income tax\*

Under the law “On Personal Income Tax”, **income from capital** earned by individuals, including income from capital gains and from the employer’s contributions into 3<sup>rd</sup> pension pillar and premiums paid under life insurance agreements with accumulation of funds are subject to tax.

Here we provide an explanation on the aforementioned taxation of income and tax payment on income that natural persons – Latvian tax residents – have received from various types of savings and investments.



#### Advice from the SRS

You can seek support (no charge) on filling in your annual tax return and capital gains tax return from the tax consultants of the State Revenue Service, on the spot, subject to arranging an appointment via free info line 371 67120000 or via an email addressed to [vid.konsultanti@vid.gov.lv](mailto:vid.konsultanti@vid.gov.lv).



#### Savings account

- Interest earned on a savings account is subject to tax at the rate of 20%.
- Upon payment of the accrued interest, the bank transfers the withheld tax to the State budget automatically.
- You can see the amount of taxes paid in your current account statement.



#### Term deposit

- Interest earned on the term deposit is subject to tax at the rate of 20%.
- Upon payment of the accrued interest (on the deposit maturity date), the bank transfers the tax to the State budget automatically.
- You can see the amount of taxes paid in your current account statement.

\* The information provided herein is for information purposes, and AS SEB banka does not assume liability for any such expenses or losses that may arise due to a different explanation provided by the State Revenue Service or another competent authority. To obtain additional information on the taxation of income earned on deposits and investments, AS SEB banka recommends seeking advice from the State Revenue Service or your tax consultants.



### 3rd pension pillar

- Gains on contributions into 3<sup>rd</sup> pension pillar capital (the positive difference between the disburseable capital and contributions made) assessed at the time of payment thereof are subject to capital gains tax at the rate of 20% to be withheld automatically upon payment of the savings.
- Upon payment of 3<sup>rd</sup> pension pillar capital, the contributions made by the employer are subject to personal income tax at the rate of 23% (tax on the employment income paid by the employer to 3<sup>rd</sup> pension pillar without payroll taxes) to be withheld automatically upon payment of the savings.



### Life insurance with savings

- Gains on the life insurance with savings (the positive difference between the disburseable savings and insurance premiums made) assessed at the time of payment thereof are subject to capital gains tax at the rate of 20% to be withheld automatically upon payment of the savings.
- Upon payment of life insurance with savings, the premiums paid by the employer are subject to personal income tax at the rate of 23% to be withheld automatically upon payment of the savings.



### Investment funds

- Capital gains made on sale of investment fund units or disposing them in another manner are subject to tax at the rate of 20%. Capital gains are determined as a difference between the disposal proceeds and acquisition costs of the relevant investment funds (including the commissions attributable to the relevant transaction). If the disposal results in a loss, no tax is due to the State budget.
- If the client receives incentive payments for investments in a fund, they must also be included in the capital gains calculation as capital gain (income) share increase in the period for which the incentive payments were received.
- The owners of fund units who acquired the fund units until the end of 2009 may use the exemption from tax provided for in the law On Personal Income Tax, i.e., to pro-rate the tax on the gains on disposal of the fund units for the period from 2010. **An example:** A customer bought investment fund units for 1,000 EUR in January 2009, and sold them for 1,500 EUR in January 2018. The gain made is 500 EUR. The customer has owned the fund units for 9 years or 108 months whereas capital gains tax is due only on the gains for the last 8 years). The taxable gain is thus  $(500 \text{ EUR} / 108 \text{ months}) \times 96 \text{ months} = 444 \text{ EUR}$ , tax at the rate of 20% on 444 EUR = 88.80 EUR.
- The responsibility for reporting the income and tax payment rests with the investor.



### Debt securities

- Capital gains or gains made on transactions in debt securities are subject to tax at the rate of 20%. Capital gains are determined as a difference between the disposal proceeds or the redemption value and acquisitions costs of the relevant investment funds (including the commissions attributable to the relevant transaction). If the disposal results in a loss, no tax is due to the State budget.
- Capital gains made on disposal of debt securities issued by state or local governments in Latvia or another member state of the European Union or European Economic Area are not subject to personal income tax.
- The responsibility for reporting the income and tax payment rests with the investor.
- If interest is paid on debt securities (coupon payments):
  - and if income is generated from debt securities issued by state or local governments in Latvia or another member state of the European Union or European Economic Area, the relevant income is not subject to personal income tax.
  - and if the issuer withholds tax upon coupon payment applying the rate of 20% or more, the investor shall not pay additional tax on this income. If a tax at a lower rate is applied upon payment, then the investor is obliged to pay the difference between the calculated tax at the rate of 20% and the amount of tax withheld by the issuer;
  - in other cases, the responsibility for reporting the income and tax payment rests with the investor.



### Stocks

- Capital gains or gains made on transactions in stocks are subject to tax at the rate of 20%. Capital gains are determined as a difference between the disposal proceeds and acquisition costs of the relevant stocks (including the commissions attributable to the relevant transaction). If the disposal results in a loss, no tax is due to the State budget.
- The responsibility for filing the return regarding income from capital gain and tax payment rests with the investor.
- If dividends are paid on the stock, this income is not subject to personal income tax in the following cases:
  - If corporate income tax at the rate of 20% is applied on dividends in accordance with the law On Corporate Income Tax (i.e. if dividends are paid by a company registered in Latvia from profit gained from 1 January 2018);
  - If corporate income tax or personal income tax is paid in another country.
 In other cases, it is the responsibility if the investor to report income and pay income tax at the rate of 20% of the total amount of received dividends.



## How to report income from capital gain

### A) If a current account is used for securities transactions:

- If various securities are disposed in a taxation period, tax on capital gain is calculated at the rate of 20% on the total capital gain. It is allowed to reduce the capital gain from securities disposal by the amount of losses which may have arisen in the taxation period from transactions with other securities.
- If the total capital gains are greater than EUR 1,000, capital gains must be reported once a quarter. However, if the total gain from transactions in securities does not exceed 1,000 EUR, the capital tax return must be submitted once a year. The tax due on the gains must be transferred to the Treasury's account LV33TREL1060000300000 within 15 days of the tax return filing deadline.
- Income from capital gain shall be reported in the tax return regarding income from capital gain.
- The responsibility for reporting the income and tax payment rests with the investor.

### B) If an investment account is used for securities transactions:

- Personal income tax shall be reported and paid if the payments from the relevant account exceed payments into the account.
- In case of a positive difference, personal income tax shall be paid by including it in the annual tax return.
- If personal income tax is already withheld from income that is credited to the investment account, the taxable part can be reduced by the amount of these incomes.
- The responsibility for reporting the income and tax payment rests with the investor.

### The account details for making the personal income tax payment are as follows:

Beneficiary: State budget (SRS)

Registration number: 90000010008

Account number: LV33TREL1060000300000

Receiving institution: State Treasury

BIC code: TREL1V22