

# Tax changes in 2025 for natural persons

On December 4, 2024, the Saeima adopted amendments to the Law "On Personal Income Tax", which provides that from January 1, 2025, a new procedure for the taxation of natural persons will be introduced.

## What will change

1. Currently, taxation of the income of a natural person (including income from economic activity) with some exceptions is carried out according to a differentiated rates:

20% of income not exceeding 20,004 euros;

23% of the **part** of income exceeding 20,004 euros but not exceeding 78,100 euros;

31% of the **part** of income exceeding 78,100 euros.

Instead of these rates, two are being introduced:

25.5% of income not exceeding 105,300 euros;

33% of the **part** of annual income exceeding 105,300 euros.

2. In accordance with the current legislation, capital gains (sale of real estate, equity shares, virtual currency, intellectual property, investment gold, etc.) and income from capital (taxable dividends, deposit interest, income from investment bonds, etc.) are taxed at a flat rate of 20%.

The amendments provide that the aforementioned tax rate applicable to income from capital/capital gains will be 25.5%.

3. An additional 3% rate is planned to be introduced for income exceeding 200,000 euros. In this case, it is very interesting that when calculating the amount of income, all taxable income is summed up, for example, income from economic activity, income from capital/capital gains (sale of real estate, interest on deposits), and some non-taxable income (dividends from Latvian and foreign companies, liquidation quota).

Let's have a look at an example:

3.1. A natural person earned income from economic activity in the amount of 220,000 euros. Thus, he will have to pay tax in the amount of 25.5% of 105,300 euros and tax in the amount of 33% of 114,700 euros (220,000-150,300).

3.2. In the same year, the natural person sold the apartment for 250,000 euros, receiving income of 50,000 euros (because he had previously purchased the apartment for 200,000 euros). Tax will be paid at a rate of 25.5% from the income of 50,000 euros.

3.3. In the same year, the natural person received dividends from a Latvian company in the amount of 40,000 euros. This income is not taxable.

3.4. However, in the end, the total income will be  $220,000 + 50,000 + 40,000 = 310,000$  euros. Thus, 3% must be paid from the amount exceeding 200,000 euros, i.e. from 110,000 euros. At the same time, we would like to draw your attention to the fact that the amount of 20,000 euros (part of the income from economic activity) and the income from the sale of the apartment of 50,000 euros will actually be taxed once again (although at the rate of 3%).

There is a principle in tax legislation that prohibits double taxation of the same income base. However, as we see, our legislators ignored this fact in this case, and pursuant to the example considered, a part of the income of 70,000 euros (20,000 + 50,000) will be taxed twice (20,000 at the rate of 33%, 50,000 euros at the rate of 25.5%), and then the entire amount in total - 70,000 euros will be taxed at the rate of 3%.

At the same time, income that is not taxable at all - dividends (in the example above, 40,000 euros) will also be taxed at the rate of 3% under such conditions.

4. The transitional provisions of the law set forth that income from capital gains (sale of real estate, shares/parts of companies, cryptocurrencies, securities) will be taxed at the current 20% rate until the end of 2027, provided that the sale transaction was initiated in 2024 and was not completed by December 31, 2024.

5. Such types of income as dividends and liquidation quotas from Latvian and foreign (except offshore) companies<sup>[1]</sup>, gifts from close relatives, gifts up to 1425 euros from any person, sale of real estate that has been owned for 5 years and has been a declared place of residence for 12 months, as well as some other types of income, will not be taxed in the future as well.

6. The amendments to the law should enter into force on January 1, 2025.

[1] Except for the case indicated in paragraph 3 of the example, where a 3% rate may apply to dividends.



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