

## Latvian tax authority changes its position on the taxation of individual's income from transactions with cryptocurrencies

On 11 May 2018 the Latvian tax authority (SRS) published new ruling by which it has changed its position on application of personal income tax (PIT) to the income from transactions with cryptocurrencies.

Previously, the SRS has refused to treat cryptocurrencies as capital assets. According to previous explanations, income from transactions with cryptocurrencies was considered as “*other income*” subject to progressive PIT rates (20%, 23% and 31,4%).

Furthermore, the SRS considered that persons carrying out transactions with cryptocurrencies must register as independent economic operators with the SRS in case any of the below criteria is met:

- 1) regularity of transactions (three and more transactions in a year or five and more transactions in three years);
- 2) revenue from the transaction exceeds EUR 14 229 per year; or
- 3) the economic nature of the activity or the amount of assets owned by a person indicate a systematic activity with an aim to obtain profit.

According to the new ruling of the SRS:

- income from transactions with cryptocurrencies is a specific type of income that for the purposes of the PIT Act is comparable to income from capital assets which is subject to PIT at the rate of 20%;
- when determining taxable income from transactions with cryptocurrencies, costs related to acquisition of cryptocurrency can be taken into account, however, costs must be supported with source documents (if there are no such documents, the acquisition value of cryptocurrency is 0);
- when determining taxable income from transactions with cryptocurrencies, not only the profit incurred during the taxation year, but also losses from the disposal of cryptocurrencies in the same year can be taken into account;
- however, losses from the disposal of cryptocurrencies cannot be covered by income arising from the disposal of other capital assets listed in PIT Act (e.g., shares and immovable property).

The SRS also confirms that persons carrying out transactions with cryptocurrencies has no obligation to register as independent economic operators.

If the gain from cryptocurrencies and other capital assets in the quarter exceeds EUR 1000, the tax return must be submitted to the SRS until the 15<sup>th</sup> date of the month following the respective quarter. If the gain does not exceed EUR 1000, the tax return must be submitted to the SRS until 15 January of the following year. The calculated PIT must be paid into the State budget within 15 days of the submission of the tax return.

## Unclear issues

From the provided ruling it is not clear whether the explanation provided also applies to persons engaged in the generation of cryptocurrencies (so-called miners). In particular, it is unclear whether these persons do not have an obligation to register as independent economic operators. If miners do not register as independent economic operators, it is unclear how these individuals should include their expenses (e.g. costs related to purchase of computers, video cards and electricity) in the acquisition value of sold cryptocurrencies.

### MAIN CONTACTS

