

TAXATION IN LATVIA

Determined by the Law on Taxes and Duties (1995)

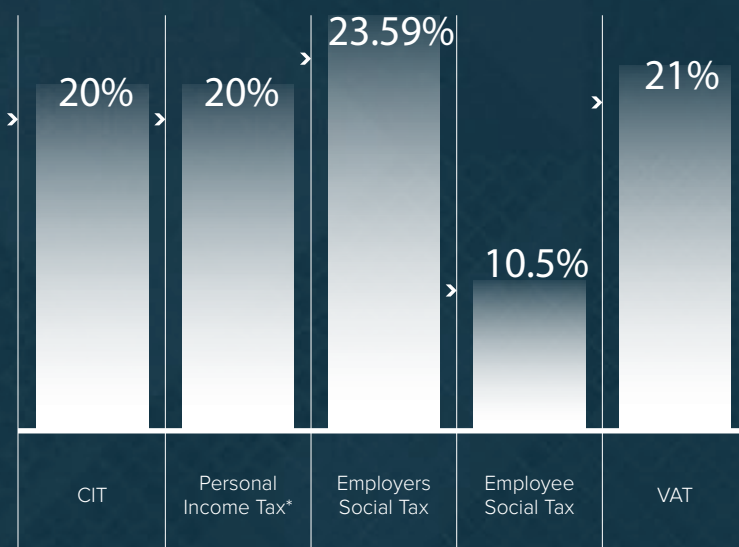
This law is applied unless another specific law prevails, such as the Law on Value Added Tax etc.

If there is a conflict between general principles and specific rules, the latter prevails.



MAIN TAXES IN LATVIA

*20% for income up to 20,004 EUR/year,
23% for income from 20,004 EUR/year to 78,100 EUR/year,
31% for income above 78,100 EUR/year



THE STATE TAXES ARE:

TAX	RATES
Personal income tax (PIT)*	20% / 23% / 31%
Social security contributions (SSC)	10.5% + 23.59% = 34.09%
Real estate tax, including stamp duty	1.5%, 0.2% - 3%
Corporate income tax, including withholding taxes (CIT)	0% / 20% (20/80)
Value added tax (VAT)	0% / 5% / 12% / 21%
Excise tax	Vary
Natural resource tax	Vary
Motorcycle and motor car tax	Vary
Gambling and lottery tax	Vary
Customs duties	Vary
Electricity tax	1.01 EUR per 1MWh
Micro-company tax (depends on annual turnover)	25% / 40%
Vehicle operation tax	Vary
Company car tax	31-82 EUR/month

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PERSONAL INCOME TAX

WHO PAYS PIT?

Personal Income Tax is paid by Latvian tax residents and non-residents for tax purposes

- **Latvian tax residents** are those who:
 - Have declared their place of residence in Latvia
 - Reside in Latvia for 183 days or longer
 - Are citizens of Latvia employed abroad by the Latvian government

TAX OBJECT – ALL TYPES OF INCOME UNLESS SPECIFICALLY DEFINED AS NON-TAXABLE

- Latvian residents – on worldwide income
- Latvian non-residents – taxed on Latvian sourced income
 - Employment income
 - Income from independent professional services
 - Directors' fees
 - Interest income, except for interest from the Latvian, EU, EEA state, municipality debentures
 - Income from payments for intellectual property.
 - Income from Latvian real estate and other capital assets (shares, investment certificates, bonds, intellectual property, investment gold located/issued in Latvia). Other income forms are listed in the Law on Personal Income Tax

TAX RATES

General tax rates are as follows:

- For annually taxed income and salary income: 20% / 23% / 31%
- For income from capital other than capital gains: 20%

NON-TAXABLE INCOME

Income tax is not applied to:

- Income from agricultural production and the provision of rural tourism services, provided that it does not exceed 3,000 EUR a year.
- Insurance indemnities received from insurance companies.
- Other income listed in the Law on Personal Income Tax.



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INCOME RECEIVED AS SALARY

Private individuals employed by Latvian-registered companies and by non-resident companies are subject to progressive PIT at the following rates:

- **20%** rate for monthly income up to 1,667 EUR
- **23%** rate for monthly income above 1,667 EUR.

Salary includes all income related to labour relations, including fringe benefits, bonuses, and other benefits provided by the employer.

Employers shall withhold income tax from employees' salaries.

TAX DEDUCTIONS

The following expenses are deductible for PIT purposes:

- The amount of SSC paid in Latvia and other EU countries.
- Monthly allowance, which gradually reduces from 500 EUR to 0 EUR (for salaries above 1,800 EUR).
- Monthly allowance of 250 EUR for each of their dependants.
- Expenses for medical treatment, vocational training, and obtaining education.
- Health insurance premium contributions to insurance companies.
- Authors' expenses.
- Contributions to Latvian private pension funds or other private pension funds registered in other EU member states or EEA countries which do not exceed 10% of a person's annual taxable income.
- Other deductible expenses listed in the Law on Personal Income Tax.

Non-residents who are residents of other EU member states or residents of EEA countries, and who have derived at least 75% of their total income in the taxation year in Latvia, are entitled to apply the same eligible expenditure as the residents of Latvia.

SOCIAL SECURITY CONTRIBUTIONS (SOCIAL TAX)

- The employer deducts 10.5% of the employee's gross salary as the SSC payable by the employee.
- The employer must also pay SSC equal to 23.59% (The total standard rate of the SSC is 34.09%).
- A different social security payment scheme is for pensioners, disabled persons, self-employed, and others with specific statuses.
- Foreign employers who are not registered but have employees in Latvia (are subjects to social security in Latvia), must register as employers in Latvia and pay the SSC. EU citizens can apply for A1 certificates to obtain exemption from the Latvian SSC).

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SOLIDARITY TAX

— 25%

- Social tax is applicable on annual income up to 78 100 EUR. If annual income exceeds this threshold, the excess amount is subject to Solidarity tax of the same rate as the Social tax.
- Tax revenues from Solidarity tax form part of the general budget of state and local municipalities.

CORPORATE INCOME TAX

WHO PAYS CIT?

- Latvian companies on their worldwide income
- Non-resident companies without a permanent establishment in Latvia, on their Latvian-sourced income.
- Non-resident companies operating through a permanent establishment, on income derived in Latvia and abroad.

From 2018 – 0% on CIT rate to reinvested or retained profit. CIT is only paid when a company pays dividends or other payments to distribute actual profit.

TAXABLE PROFIT DISTRIBUTIONS

- Distributed profit, including:
 - Dividends and interim dividends approved by companies;
 - Profits distributed by permanent establishments, partnerships, individual companies;
 - Notional dividends in form of reduction of capital (if capital is formed of capitalised profit).
- Deemed profit distributions, including:
 - Non-business expenses;
 - Bad and doubtful debts written-off;
 - Interest payments exceeding thin capitalization criteria;
 - Loans to related parties, unless certain criteria are met;
 - Transfer pricing adjustments;
 - Liquidation quota.

CIT amount is calculated by dividing the tax object by 0.8 and then multiplying with a 20% rate. For example, if a company approves dividends of 80 EUR, payable CIT will be 20 EUR, which is calculated as follows: $80 / 0.8 * 20\%$. The company can then pay 80 EUR dividends to shareholder and 20 EUR of CIT to the State budget.



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VALUE ADDED TAX

WHAT IS TAXED?

- The supply of goods and services;
- The import of goods;
- The intra-Community acquisition of goods;
- The intra-Community acquisition of new means of transport performed by non-taxable persons.

TAX RATES

VAT rates applicable in Latvia are 21% (standard), 12%, 5% or 0%.

12% – for certain medicines and medical equipment, infant food, domestic public transport, supplies of domestic heating, and for tourist accommodation.

5% – for the supply of certain fruit and vegetable products. Also, for books, brochures, magazines, journals, and other materials for public media.

0% – for the export of goods and intra-Community supplies, international passenger traffic, supplies of goods and services under diplomatic and consular arrangements.

VAT REGISTRATION

Persons registered in Latvia whose supplied goods and services for 12 months exceed 40,000 EUR are liable to register as VAT payers.

Special registration for VAT applies to those who (EU members only):

- Supply goods in Latvia that are subject to excise duty in Latvia to a non-taxable person.
- Within 30 days from the time when the total value of supplies of goods in the previous or current calendar year has reached or exceeded 10,000 EUR before tax
- Supply goods to a non-taxable person and such goods are assembled or constructed inland (in Latvia).
- Domestically carry out the intra-Community acquisition of goods or supply of goods.
- Provide services in Latvia subject to tax, and are liable for tax payment into the state budget according to the Law on Value Added Tax.

VAT GROUP – a taxable person and a group of two or more legal entities established based on a VAT-group foundation agreement to carry out inter-group transactions. It meets the criteria defined in the Law on Value Added Tax and is registered in the Register of VAT Taxable Persons.

FISCAL REPRESENTATIVE – from 2011, a fiscal representative status can be applicable to persons registered for VAT purposes in another EU member state or outside the EU. Fiscal representatives are allowed to represent the authorizer for several types of activities prescribed by the Law on Value Added Tax.



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CUSTOM DUTIES

- Customs duty is applied to goods imported from or exported to third countries.
- For the EU member states Common External Tariffs are applied and the import duty, depending on the classification and origin of goods.
- The origin of goods is classified either
- Preferential (European Economic Area, Mediterranean and African countries, the western Balkans and others) – lower or zero customs duty
- Non-preferential – still can acquire lowered or zero customs duty on certain occasions.

Find more information on the required import or export duties at the

<https://trade.ec.europa.eu/access-to-markets/en/content/welcome-access2markets-trade-helpdesk-users>

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REAL ESTATE TAX

Real estate tax is paid by individuals, legal entities, and non-residents who own or hold real estate, including land and engineering constructions, in Latvia.

TAX RATES

1.5% – for buildings, land and engineering constructions (of the cadastral value).

0.2% to 0.6% – for residential houses and apartments.

1.5% – an additional real estate tax on uncultivated agricultural land.

3% – for buildings degrading the environment and threatening human security.

TAX EXEMPTIONS

Tax exemptions are applicable to:

- Buildings that are utilized only for agricultural production.
- Buildings erected or reconstructed for the performance of economic activities for one year, counting from the following month after their commissioning.
- Buildings or parts for educational, health, social care, or cultural purposes (except for cinemas and video libraries).
- Residential auxiliary buildings, auxiliary buildings with an area smaller than 25 m², excluding the garage.
- Other buildings specified by the Law on Real Estate Tax.

STAMP DUTY

Stamp duty is required to be paid for the Land Register. The charge varies, depending on whether it is for:

- Relatives – **0.5%** of the value of the real estate.
- Other natural and legal persons – **2%** of the real estate value.
- Other natural and legal persons given as a gift – **3%** of the real estate value.
- The investment of real estate into the capital of companies – **1%** of the value of the real estate investment.

ADDITIONAL INFORMATION

www.vid.gov.lv

www.fm.gov.lv

