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NEWS

TALKING TAX: Major changes in Baltic tax regulatory framework

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As is customary in Latvian tax practice, Jan. 1 brings significant changes to the regulatory framework relating to almost all taxes collected in the country. This year some important amendments became effective in Estonia and Lithuania as well. Several are highlighted below.

Latvia. The latest amendments to the Taxes and Duties Act 1995 mostly provide for improvements to the penal system. My colleague Edgars Koskins wrote about the amendments in this column last December. Amendments to the Corporate Income Tax Act of 1995, for example, allow for taxes to be withheld by the holder of the securities' account when a public limited company pays dividends to a nonresident.

Amendments to the VAT Act 1995 inter alia introduce a reduced 5 percent rate applicable to new objects, such as supply of electricity, gas and wood for domestic heating, hairdressing and simple repairs to apartments and residential houses.
The real estate tax base for buildings as of 2007 will be their cadastral value (as is already the case for land), not the book value as previous. Additionally, buildings that do not qualify as such are no longer taxed.
Amendments to the Personal Income Act 1993 also provide for rather extensive amendments to the current system. For instance, the threshold has been increased from 180 lats (257 euros) to 300 lats for some tax-free insurance premium payments by employers for the benefit of employees.

A less frequently applied tax law is the Electric Energy Tax Act 2006. Parliament established a new tax that applies to providers of electricity to end users and to autonomous energy producers who exceed certain electricity production ceilings. The new tax is 0.35 lat per megawatt-hour.

Estonia. The income tax rate for 2007 has been reduced to 22 percent. The government has established 3,600 kroons (230 euros) as the minimum monthly wage and 21.5 kroons as the minimum hourly wage. The monthly rate for social tax payments in 2007 is 2,000 kroons instead of the former 1,400 kroons.

Lithuania. In addition to the corporate income tax, Lithuanian entities are required to pay a temporary social tax. In 2006 taxable profit was subject to temporary social tax at a rate of 4 percent, whereas in 2007 the rate of 3 percent applies. The amendments have also abolished taxation of capital gains realized from a transfer of shares in a company registered in EEA state, or a state which has an effective tax treaty with Lithuania provided that the seller, a Lithuanian company, holds more than 25 percent of the shares for three years.

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