Tax reform efforts hit roadblock

Autors: Staff and Wire Reports, RIGA
Publicēšanas datums: Ceturtdiena, 2009. gada 24. septembris.
Rubrika: Latvia (3. lpp.)

Parliament"s rejection Sept. 17 of a proposal to introduce a real estate tax of 0.2 percent of cadastral value for apartments and private houses threatens to derail attempts to reform Latvia"s tax system, as agreed with the group of international lenders lending support as Latvia works its way through this economic crisis.
Tax specialist at Sorainen law firm Janis Taukacs says that "It is crucial for the state to explain to the public the reasons for going forward with reforms to the tax system, that these are not due solely to the current economic problems. There needs to be a wellthought out policy for the future, that Latvia now lacks a longterm tax policy."
The IMF has recommended, as part of reform, the government look at broadening its tax base through a series of new tax initiatives, to modernize the tax system and bring it into line with other European countries" policies.
Tax expert at Sorainen Uve Zosars said in a bbn.ee commentary that "In implementing any reform to the Latvian taxation system during this recession, the Latvian government must ensure that… taxation changes introduced do not place burdensome taxation on Latvian taxpayers. On the contrary – it should put in place a taxation system which, when Latvia is out of this recession and functions as a stable economy, is a solid, productive and fair taxation system."
In comparing tax policy to neighboring Sweden, the Scandinavian country has a residential property tax rate at the lower of 0.75 percent of cadastral value, or 6,362 Swedish krona (625 euros), according to accounting firm Deloitte"s Web site. Business land tax varies from 0.5 – 2.2 percent of cadastral value.
Under consideration for Latvia"s tax reform includes an increase in the land tax, from the current 1 percent rate, to 1.5 percent of cadastral value.
Also under talks is levying a capital gains and dividends" tax of 10 percent and an increase of personal income tax for selfemployed, from 15 percent up to 23 percent, like for employment income, which is "almost a done deal," says Zosars. Sweden currently taxes capital gains, dividends and interest income for individuals at a 30 percent rate.
Latvia generally does not tax residents (individuals) on capital gains, dividends or interest income.
Meeting strong opposition among Latvian lawmakers includes mention of a further increase in VAT, and a possible introduction of a progressive individual income tax, though Zosars says that these would come about as a "last resort."
The current standard VAT rate is 21 percent, with talk aimed at increasing it to 23 percent; Latvia"s current personal income tax rate is a flat 23 percent.
Zosars adds that it is important for tax laws to spell out clearly "what is being taxed, and what the tax law exempts. Latvia"s tax laws today are very basic."
The authors of a recent Economy Ministry report on tax policy review point out that at the moment, the tax system structure is not balanced due to the impact of the global economic crisis. Therefore, serious tax system reforms are needed to strengthen Latvia"s competitiveness, supporting balanced economic development and ensuring stability of the state"s financial system.
Taukacs concludes that "The cornerstone of any good tax policy is that it is consistent.