

# Tax Guide LATVIA June, 2017



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# 1. Key facts

## 1.1. Main tax rates and filing dates

### 1.1.1. Corporations

- Top corporate tax rate: 15 percent. Resident companies are taxed on their worldwide income, according to the CIT law provisions.
- Corporate return filing date: Corporate Income tax return is due by the date on which the annual financial statements and the annual balance sheet of the company are due (normally no later than 4 months after the end of a tax year).

For “large companies” (i.e., those with at least two of the following characteristics — 250 or more employees, a net turnover of more than EUR 40 million, and a balance sheet value of more than EUR 20 million), the return must be filed no later than seven months after the end of the accounting period.

Rate of 15% from turnover applies to registered micro-enterprises (with turnover up to EUR 100 000, maximum 5 employees and shareholders being only individuals). Micro-enterprises (under a special tax regime) are required to file their returns quarterly, by the 15th day of the month following the close of each quarter.

No extensions are possible.

- Schedule for tax payments or deposits: Companies are required to make advance payments by the 15th day of each month of the taxable year. Up to and including the month in which the annual financial statements for the preceding year are filed (but no later than the month in which they are due), each payment must equal one-twelfth of the tax paid for the tax year 2 years prior to the current year (e.g., if it is 2016 and financial statements for 2015 have not yet

been filed, advance payments are based on the tax due for 2014). For the remaining months (those after the preceding year's financial statements have been filed) the advanced payments must equal the tax paid for the preceding tax year, less the tax paid during the year up to that point, divided by the number of months remaining in the year.

Advance payments of tax are credited against the final tax liability. Any outstanding tax must be paid within 15 days of the due date for the corporate income tax return (normally no later than May 15). Overpaid tax may be carried forward and deducted from future tax liability or, on request, refunded within 30 days. All claims for repayment must, however, be made no later than three years after the tax in question fell due to be paid.

Micro-enterprises must make quarterly tax payments based on turnover for the quarter.

- State, provincial, or local top corporate rate: Latvia does not have state or provincial corporate tax rates.
- State, provincial, or local filing date: Latvia does not have state or provincial corporate filing requirements.

### **1.1.2. Individuals**

- Top personal tax rate: 23 percent.
- Personal return filing date: Between March 1 and June 1 of the year following the tax year.

For capital gains income, a tax return is required to be filed by the 15th day of the month following any month in which such gains exceeded EUR 711 or by the 15th day of the month following the quarter during which the gains did not exceed EUR 711 in any month of that quarter.

Tax returns for individuals registered as a micro-enterprise must be filed quarterly, by the 15th day of the month following the close of each quarter.

No extensions are possible.

- Schedule for tax payments or deposits: Tax on employment income is collected during the tax year by withholding from salary.

An individual deriving business income is required to make quarterly advance payments as determined by the State Revenue Service (on the basis of either the taxable income of previous years or the anticipated income for the current tax year).

Prepaid taxes and taxes withheld at the source are set off against the final tax liability. Any outstanding tax liability must normally be settled within 15 days of the date for submission of the tax return, but where it exceeds EUR640, it may be paid in three instalments, due on the 16th of June, July, and August. Where the amount of tax paid exceeds the final tax liability, the excess may be claimed as a refund within three months of the day on which the tax return is submitted.

- State or provincial top individual rate: Latvia does not have state or provincial individual income taxes.
- State or provincial filing date: Latvia does not have state or provincial individual filing requirements.

### **1.1.3. VAT**

- VAT standard rate: 21 percent.
- VAT return filing date: VAT returns are due within 20 days of the end of the taxable period (usually monthly).

No extension for filing the returns is possible.

## 1.2. Population and GDP

- Population: 1.941 million ([Latvian central statistics data as of May 2017](#)).
- GDP: US\$25.021 billion ( [Latvian central statistics data](#), 2016).

## 1.3. Currency

As of 1 January 2014, Latvia uses the euro (EUR) as its currency. As of 16 June 2017, the exchange rate for the euro is approximately US\$1 = EUR 0.96.

Prior to January 1, 2014, Latvia used the lat (LVL), which was pegged to the euro at the fixed rate of LVL0.702804 per EUR 1 (i.e., LVL 1 = EUR1.4229).

## 1.4. Membership of economic groups

Latvia is a member of the European Union (EU), the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO).

## 1.5. Major industries

Banking, tourism, transit services, forestry and woodworking, chemicals and pharmaceuticals, electrical and mechanical engineering and manufacture, textiles and clothing.

## 1.6. Official websites

In Latvia, the following tax or finance authority websites apply:

- Tax Authority — <http://www.vid.gov.lv> .
- Ministry of Finance — <http://www.fm.gov.lv> .

## 1.7. Repatriation Restrictions

As there is no exchange control in Latvia, no authorization is required either to invest in Latvia or to export funds from Latvia.

## 2. Introduction

Latvia is part of the European Union (EU), which comprises 28 member states. A number of other states are in the process of seeking admission. As an EU Member, Latvia is obligated to give effect to EU legislation. The most important source of law in Latvia is legal acts, which can be divided into two categories: external and internal. External legal acts are universally binding; the main types of external legal acts are laws, regulations of the Cabinet of Ministers, and binding regulations of local authorities. Internal legal acts, on the contrary, bind only the issuing state institution. Examples of internal legal acts are instructions and recommendations.

The national tax system is not governed by a single tax law. Rather, each type of tax is set forth in a separate statute – the Law on Taxes and Duties, the Law on Personal Income Tax, the Law on Corporate Income Tax, the Law on Real Estate Tax, the Law on Value Added Tax, the Law on Excise Duties, the Customs Law, the Law on Natural Resources Tax, the Law on Lotteries and Gambling Tax and Fee, the Law on State Social Insurance Mandatory Contributions, the Vehicle Exploitation Tax and Company Car Tax Law, the Law on Electricity Tax, the Law on Microenterprise Tax, the Solidarity Tax Law and the Subsidised Electricity Tax Law, the Law on the Application of Taxes in Free Ports and Special Economic Zones. There are also special laws establishing excise taxes for oil products, tobacco goods, alcohol, and beer.

Tax administration authority is exercised by the State Revenue Service. Corporate Income Tax and Personal Income Tax are

imposed on a national level. Separate tax rates are levied on different kinds of income. This is true for both corporate (e.g., the tonnage tax) and personal income tax. The personal income tax rate varies depending on the type of income. Resident companies are taxed on their worldwide business income at a flat standard rate. Non-resident companies are taxed only on their Latvian-source income. For corporate income tax purposes, only those expenses that are directly related to the company's business activity are deductible. The Value Added Tax regime is also imposed solely on a national level. There exist certain other indirect taxes levied at special rates (e.g., a duty on the transfer of title to immovable property, customs duties imposed on goods imported from outside the European Union, excise duties, the tax on lotteries and games of chance and natural resources tax).

### 3. Recent developments

Recent developments in Latvia are incorporated into the chapter.

### 4. Corporate taxes

#### 4.1. General outline

##### 4.1.1. Residence, taxable status, entity characterisation

###### 4.1.1.1. Residence

Companies and other entities incorporated in Latvia or which should have been incorporated or registered because of their business activities in Latvia are deemed to be resident and fully liable to tax in Latvia. Latvia has no central management and control test with regard to tax residency.

#### **4.1.1.2. Taxable status**

Only joint stock companies, limited liability companies, and certain institutions funded by the state or local authorities are subject to the corporate income tax.

Partnerships are not taxed at the entity level — shareholders pay income tax on their shares of the partnership income. If the partner is a company, it is taxed at corporate income tax rate in proportion to its share of the profit.

Individuals conducting business activities (sole proprietors) are generally not treated as a taxable entity and include business income in their individual tax returns, but may register as corporate income taxpayers with the State Revenue Service.

#### **4.1.1.3. Entity characterisation**

Typically, the Latvian tax system recognises an entity according to its status on like terms as a similar entity established in Latvia. A foreign partnership would be treated in a similar way to a Latvian partnership and a foreign company would be treated in a similar way to a Latvian company (with some exceptions). For example, a US LLC would be regarded as a company for Latvia tax purposes.

### **4.1.2. Corporate tax base**

#### **4.1.2.1. Resident corporations**

In Latvia, resident companies are taxed on their worldwide income from all sources, including capital gains (except for gains derived from the sale of shares of companies not resident in a tax haven).



#### **4.1.2.2. Non-resident corporations**

A non-resident company is subject to corporate income tax with respect to Latvia-source income and capital gains (constituting that income attributable to a permanent establishment in Latvia). A permanent establishment is treated as a separate resident taxpayer for the purposes of Latvian tax laws.

Non-resident companies without a permanent establishment in Latvia are subject only to withholding taxes on certain types of payments received from Latvian residents or Latvian permanent establishments, such as:

- considerations (including rents) for the use of property and with some exceptions for the disposal of immovable property located in Latvia;
- management and consultancy fees;
- taxable income from a Latvian partnership; and
- payments received by residents of tax havens listed by the government, unless an exemption is granted.

Generally, Latvia follows the OECD concept of permanent establishment for both domestic and treaty purposes, with certain modifications for domestic purposes as to the level of activity by service providers or agents that might result in a PE. Services provided within Latvia for 30 days in any 6-month period will constitute a PE, as will the use of an agent authorised to enter into contracts where that agent exercises that authority as few as two times in a tax year.

In general, selling goods over the internet to Latvian customers should not, without more, be subject to Latvian income taxation (however VAT taxes may be due if sales exceed certain thresholds). Telephone sales and presence is likely to fall in the same category - as a distance sale, it will not itself create a permanent establishment.

Latvia has not established rules expressly addressing the relation of cloud computing services to the concept of permanent

establishment but general principles (under both domestic law and OECD guidance) would suggest that the question may be determined by the location of cloud servers and the degree to which the cloud services constitute the core business of the foreign company.

#### **4.1.2.3. Other business entities**

##### **4.1.2.3.1. Non-corporate business entities**

The Commercial Code of Latvia recognises the following forms of business in addition to the joint stock company (corporation): Limited Liability Company; limited partnership; general partnership; and sole proprietorship. In addition, EU Regulations provide for European public limited liability companies consisting of pre-existing EU-member state firms. In addition to these forms, foreign investors may operate businesses through a branch or form a representative office (restricted to promotion and advertising — no operational activity may be performed).

##### **4.1.2.3.2. Tax status of non-corporate business entities**

Limited liability companies are treated as corporations for tax purposes and subject to the corporate income tax on the same terms as corporations. Partnerships, both general and limited, are flow-through entities with partners being taxed on their share of taxable income earned by the partnership. Sole proprietorships are treated as disregarded entities and the proprietor is taxed as an individual on all business income, however, sole proprietors may elect to have their business treated as a corporation and to be taxed on net business income on the same terms as corporations.

#### **4.1.2.4. Permanent establishments**

##### **4.1.2.4.1. Domestic law definition**

Under Latvian domestic law, a non-resident has a “permanent establishment” in Latvia, if it has fixed place of business in Latvia for the purpose of conducting business activities there permanently.

In addition, a non-resident will be considered to have a permanent establishment where the non-resident:

- Uses a building site, construction, installation or assembly project located in Latvia, or carries out supervisory or consultancy activities connected therewith;
- Uses equipment or structures located in Latvia or used for the exploration or extraction of natural resources, including drilling rigs or ships used for the exploration or exploitation of natural resources, or carries out supervisory or consultancy activities connected therewith;
- Provides services, including consultancy, management or technical services, by means of his employees or other personnel based in Latvia and engaged for this purpose for a period or periods extending for more than 30 days in any six-month period; or
- Uses the services of an agent, whether a natural or legal person, who has and habitually exercises (more than once in the taxable period concerned) in Latvia an authority to conclude contracts in the name of the non-resident.

#### **4.1.2.4.2. Treaty definition**

In its treaty policy, Latvia generally uses the OECD model treaty definition of a permanent establishment, along with the interpretive guidance issued by the OECD on that definition.

#### **4.1.2.4.3. Services permanent establishment**

Under domestic law, the performances of services rises to the level of a permanent establishment if the non-resident provides services (including consulting, management, and technical services) by means of Latvia-based personnel for more than 30 days in any six-month period.

#### **4.1.2.4.4. Permanent establishment by customer downloads, website access or other factors**

As noted above (Section 4.1.2.2), providing website access and downloads does not, alone, subject a foreign company to Latvian income taxes. As a result, while there is no specific provision in Latvia regarding whether such activity constitutes a permanent establishment, it appears unlikely that such e-commerce activities would constitute a permanent establishment. However, if a foreign company places a server in Latvia and carries out an active trade through that server (including hosting a website and downloadable content), it may constitute a permanent establishment in Latvia requiring registration and be subject to Latvian income taxation.

As of January 1, 2017, a website or mobile app that provides goods or services can be considered a unit of a business entity. Websites and mobile apps which offers goods or services with order acceptance and payment system, are considered to be place where economic activity is based in and taxpayer shall register the website or mobile app as a business entity with the Latvian State Revenue Service.

The SRS has the right to disconnect domain names if it finds, among other things, that:

- A website uses unregistered economic activities in Latvia;
- A non-resident (foreign merchant) website uses the Latvian economic environment, and, in accordance with the laws and regulations formed by a permanent establishment, but it is not registered with a permanent establishment or not registered in the commercial branch;
- A website is used for economic activities in Latvia's economic environment and is not registered as a unit.

#### **4.1.2.4.5. Cloud services**

There is no specific provision regarding cloud services, however, general principles relating to PEs and to e-commerce activity

(see Section 4.1.2.4.4) would indicate that the question of whether such services constitute a PE will be based on the location of network hardware (in Latvia or outside of it) and the degree to which the business activities hosted on or conducted in the cloud constitute the core business of the foreign company.

### **4.1.3. Taxable year**

#### **4.1.3.1. Default taxable year**

For Latvian corporate income tax purposes, the accounting year (which also serves as the taxable year) normally corresponds to the calendar year, but a company, subject to certain relevant laws, may elect to have an accounting year different from the calendar year. The corporation tax accounting period is normally 12 months, but in the year of a company's incorporation or where a company changes its financial year the taxable period may be shorter or longer, but cannot exceed 18 months.

#### **4.1.3.2. Reference year for computation of tax**

In a given taxable year, taxpayers are subject to tax on income earned in that year. Thus, e.g., returns filed in 2017 with regard to the taxpayer's liability for the 2016 tax year, will report income from 2016 and calculate tax on that basis.

### **4.1.4. Computing taxable income**

#### **4.1.4.1. General**

In Latvia, taxable income is generally equal to profits as reported on financial statements prepared by the company in accordance with relevant accounting standards. In general, all expenses related to the production of taxable income are deductible, except for specifically non-deductible items such as penalties and fines, expenses incurred for the company's social infrastructure (i.e., housing, educational, sports, catering and health care establishments), 60 percent of

entertainment expenses, charitable donations and some other items defined as expenses not related to business activity generating income (such expenses are actually penalised by requiring the taxpayer to increase book profits by 150 percent of the expense in arriving at taxable income).

#### **4.1.4.2. Exempt income**

Dividends received, whether from a domestic or foreign company, are exempt from tax unless the paying company is a resident of a blacklisted tax haven (see below Section 4.6.3 for a list of tax haven jurisdictions). In latter case dividends received are subject to 15% tax rate.

In addition, capital gains realised on the sale of shares in another company whether foreign or domestic, are also exempt from tax, unless the company is a resident of a blacklisted tax haven. Correspondingly, losses on sales of shares in non-tax-haven companies are not deductible.

#### **4.1.4.3. Inventory valuation and inventory flow**

Inventory in Latvia is valued at the lower of acquisition or manufacturing cost or the market value determined at the end of the tax year. The acquisition or manufacturing cost must be computed using the FIFO method. The acquisition cost includes all expenses related to the acquisition, and the manufacturing cost includes all costs built in manufacturing of the item.

#### **4.1.4.4. Depreciation or capital allowances**

Depreciation deductions are permitted as provided in the tax law - a company must substitute such depreciation for any book depreciation recorded in the financial statements in order to arrive at taxable income from net profit reported on the income statement.

Depreciation of tangible assets is computed under the declining balance method using the following depreciation rates set forth in the tax laws:

- Buildings and structures — 10 percent;
- Technology and energy installations, railways, fleet — 20 percent;
- Computer hardware and software, IT systems, electronics — 70 percent;
- Light passenger cars (except luxury cars valued at >50,000) and air transport — 30 percent;
- Oil rigs, exploration and extraction ships, water transport — 15 percent; and
- Other fixed assets — 40 percent.

Intangible assets are amortised under the straight-line method, and can be written off over 10 years for concessions and over five years for patents, licenses, and trademarks. Intangibles not listed above, including goodwill and copyrights, do not qualify for depreciation. In calculating depreciation on investments resulting in the registration of a patent or trademark, the depreciable base is equal to 150 percent of the cost incurred.

#### **4.1.4.5. Reserves**

Generally speaking reserves are not deductible, and the tax statute expressly provides that bad debt reserves must be added back to net book profits in determining taxable income. However, special provisions allow certain taxpayers to deduct certain reserves for tax purposes: credit institutions can deduct contributions to deposit insurance funds and bad debt reserves, and insurance companies can deduct special technical reserves.

#### **4.1.4.6. Special allowances**

Certain research and development expenditures are eligible for 300 percent deduction when computing taxable income, see Section 4.1.6.3.

Upon application to, and approval of, the Ministry of the Economy, manufacturing companies may be eligible for income tax relief on certain investment projects, see Section 4.1.6.4.

Donations to charitable, religious or state bodies resident in Latvia or another EEA country with which Latvia has a double tax treaty in force may entitle the donor to a tax credit (subject to certain exceptions). This may change as of 1 January 2018 when new corporate income tax act is planned to come in force. With the planned amendments tax credit will be lowered or excluded.

#### **4.1.4.7. Special provisions or limits applicable to foreign companies**

There are conditional restrictions making interest paid disallowable. In addition to thin capitalisation rules (see also Section 7.2.2), interest paid is disallowed to the extent that it exceeds the amount of average liabilities multiplied by 1.57 times the average short-term interest rate (as determined by government authorities) for the last month of the taxable period.

However, no deduction restriction applies to interest paid:

- On loans or borrowings from credit institutions resident in Latvia or in another EEA country or in a country with which Latvia has a tax treaty in force;
- On loans or borrowings from the World Bank Group, the Latvian state treasury, the Nordic Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank or the Council of Europe Development Bank; and
- By credit institutions or insurance companies.

#### **4.1.5. Intercompany dividends**



All dividends except for those originating from tax havens (as defined in a “blacklist” — see Section 4.6.3) are exempt from corporate income tax.

#### **4.1.6. Special tax regimes**

##### **4.1.6.1. Economic zones**

Three special economic zones (SEZs) have been established in Latvia: (1) Liepaja Special Economic Zone, (2) and Rezekne Special Economic Zone and Latgales Special Economic Zone. In addition, there are two free ports that carry the same tax benefits as SEZs: Riga and Ventspils. SEZ and free port benefits were recently extended through 2035 (from an original expiration in 2017). Currently, the incentives provided to companies operating in an SEZ or free port are 80 percent credits against corporate income, real estate, and withholding taxes up to a cumulative maximum equal to 50 percent of the amount invested in the SEZ or free port (60 percent of investment for medium-sized enterprises and 70 percent for small enterprises) up to a maximum investment of 50 million. This means that up to the investment cap, companies eligible pay corporate income tax at a 3 percent rate and real estate tax at a 0.3 percent rate (withholding rates vary based on type of income). In addition, SEZ/free port companies are exempt from VAT on most goods and services sold in the zone or port or exported out of them.

##### **4.1.6.2. International finance or holding companies**

Dividends and capital gains on the sale of shares received by Latvian resident entities are exempt from corporate income tax (except where received from a blacklisted tax haven resident), and the withholding tax on dividends paid to foreign parent companies is abolished.

##### **4.1.6.3. Research and development companies and activities**

Certain research and development expenditures are eligible for 300 percent deduction when computing taxable income including:

- Labour costs for scientific and technical personnel directly attributable to the R&D project;
- Payments to registered institutions for research services directly linked to the project; and
- Payments to accredited institutions for testing, certification and calibration services that are necessary for the development of a new product or technology.

In addition, special write-off procedures apply to costs incurred for the development or purchase of trademarks and patents, allowing depreciation on a base of 150 percent of cost (see Section 4.1.4.4).

#### *Innovative Products—Start-ups (Jaunuzņēmumi)*

As of January 1, 2017, Latvia has created a program to promote the development of innovative products and research. The tax benefits that may apply to companies set up under this program include: (1) an exemption from corporate income tax within certain limits; (2) company workers may be exempt from PIT; (3) relief related to social security payments; (4) support for attracting highly qualified workers and (5) benefits for qualifying early-stage venture capital investment during the first five years of financing. The Latvian Investment and Development Agency administers the program. Certain tax benefits or tax credits that are generally available are not available during the period that the innovation credits are taken. The total tax benefits under this program are capped at EUR 200,000 over the last 3 years.

#### **4.1.6.4. Other special regimes**

##### *Tonnage tax*

This tax regime serves as an alternative to the corporate income tax regime allowing Latvian-registered shipping companies

to elect to pay a flat tax on profits from certain shipping activities based on the “net tonnage” of the ship(s) used in these activities.

Tax under the tonnage tax is calculated as the product of:

Net tonnage \* exploitation days \* 0.15 \* tonnage coefficient

The applicable tonnage coefficients are:

- 100 to 1000 tonnage units (tu) - 0.0022
- 1001 to 10,000 tu - 0.0019
- 10,001 to 25,000 tu - 0.0016
- >25,000 tu - 0.0007

#### *Long-term investment tax credit*

Upon application to, and approval of, the Ministry of the Economy, certain companies may be eligible for income tax relief on long-term investment projects of over EUR 10 million in certain state-supported sectors (including production facilities, industrial buildings, construction or reconstruction of manufacturing facilities, computer programming, telecommunications, storage and transportation support activities). Incentives amount to 25 percent reduction in corporate income tax on investments up to EUR 50 million and a 15 percent reduction for amounts over EUR50 million but not exceeding EUR 100 million. However companies may claim 15% tax credit on more than 11.9% of the excess amount over EUR 100 million, subject to the express approval of the government and the European Commission’s confirmation that is compatible with the EU internal market. The credits awarded may be carried forward for up to 16 years if not used. Eligible investments must commence within five years of project approval. Applications may be submitted to the Ministry until December 31, 2025. Latvia has provided regulations governing the application process as well as rules for pooling or merger

of multiple tax credits for the same project.

#### **4.1.7. Double tax protection**

Latvia provides both unilateral and bilateral double tax protection. Bilateral protection stems from tax treaty provisions. Latvia also provides unilateral relief in the form of a foreign tax credit for tax paid abroad on income that is includable in income. Thus, for example, dividends received, which are exempt from income, are not eligible for the credit. The foreign tax credit is limited to the lower of the foreign tax paid or the Latvian tax attributable to the foreign income before the credit is given. The credit is computed on a per-country basis. Excess credits not used in the year they arise are not eligible for carry forward and are lost.

#### **4.1.8. Returns and filing dates**

##### **4.1.8.1. Filing deadline**

Corporate income taxpayers must submit their tax return simultaneously with their annual financial statements and balance sheet no later than four months after the end of the tax year. Larger companies are permitted to file returns and financial statements by the end of the seventh month after the end of the tax year.

No extension is possible.

##### **4.1.8.2. Filing method**

All companies must submit their tax returns electronically through the Electronic Declaration System to the State Revenue Service.

#### **4.1.8.3. Extensions**

There is no extension to the filing due date available.

#### **4.1.8.4. Penalties**

Under the Administrative Code of Latvia, for failure to submit a tax return on time, register as a taxpayer when required, provide information relating to the registration, or deregister when required, a fixed monetary penalty is assessed. The amount of the penalties depends on length of the delays.

#### **4.1.9. Payment mechanics**

##### **4.1.9.1. Internal withholding on resident companies**

There is no internal withholding required on any payments made to resident companies.

##### **4.1.9.2. Schedule for tax payments or deposits**

Taxpayers must make monthly advance payments of corporate income tax by the 15th day of each month. For any month up to and including the month in which the tax return annual financial statements for the prior tax year are filed (January through April for all but large companies), the instalments are equal to 1/12 of the tax paid for the tax year two years prior to the current tax year (e.g., tax for the 2014 tax year for payments made in early 2016), adjusted for inflation.

Beginning in the month following the filing of the prior year tax return and financial statements and running for the remainder of the year (usually May to December) the instalments are equal to the tax paid for the immediately preceding

tax year (e.g., tax for 2015 for payments made in 2016), adjusted for inflation, less the tax paid for the period prior to filing the return and financial statements, divided by the number of months remaining in the year. (See also Section 1.1.1.)

#### **4.1.9.3. Electronic payments**

Payments of corporate income tax must be made electronically to the tax authorities using a generally-accepted method such as Direct Debit, BACS or CHAPS.

#### **4.1.9.4. Interest and penalties**

According to Latvian Law on Taxes and Duties, interest is charged on late payment of tax or duty at the rate of 0.05 percent for every day of delay, but only up to two-fifths of the missed payment amount as of 1 July 2017. There will be no charge of interest if the tax due is received within 5 business days after the failure.

Also if the tax authorities discover that a taxpayer is liable for undeclared tax, there will be imposed not only the outstanding tax due, but also interest and a penalty. The amount of the penalty will vary according to the nature and frequency of the default but could be as much as 300 percent of the tax due.

All penalties, interest, and outstanding tax are payable within 30 days from the date of notice of the assessment of the undeclared tax. In some cases (e.g., when the taxpayer's action makes it difficult to assess tax liability), the tax administration may request that the appropriate authorities revoke the taxpayer's license to trade or freeze the taxpayer's bank accounts until the matter is resolved.

#### **4.1.10. Statute of limitations**

In Latvia, the statute of limitations for tax assessment is three years beginning from the due date for the payment of the

relevant taxes. The statute of limitations is tolled where the authorities are conducting an audit or suspect criminal activities on the part of the taxpayer.

Transfer prices may be examined for a period of five years.

## **4.2. Corporate tax rates**

### **4.2.1. National taxes**

#### **4.2.1.1. Corporate tax rate(s)**

Corporate income tax is levied at a flat rate of 15 percent.

It is expected to have major corporate income tax law changes starting from 1 January 2018. It is planned to lower CIT rate from 15% to 0% for profit reinvested into the company. For profit distribution and particular expenses deemed to be profit distribution are taxed with 20% rate. The planned taxation period is to be one month for CIT purposes.

#### **4.2.1.2. Alternative tax regime**

##### *Micro-enterprise tax (MET)*

A micro enterprise is a business (e.g., sole proprietorship, farm, limited liability company and etc.) that satisfies the following qualifications:

- The shareholders of the entity are individuals;
- The turnover of the entity in a calendar year does not exceed EUR 100,000;

- The number of employees at any one time must be less than six; and
- In the case of a limited liability company, the board members must be employees.

As of 2017, micro-enterprises are taxed at a maximum rate of 15 percent (12 percent in 2016) on turnover over EUR 7,000 up to turnover of EUR 100,000. For turnover at or below EUR 7,000 the tax rate is 12 percent (9 percent in 2016). As of 2018, the micro-enterprise tax rate is a flat 15 percent.

The voluntary contribution rate for a micro-enterprise employee who voluntarily joined to all types of social insurance is 34.09 percent. Employers are required to make the minimum social insurance contributions for employees (see Section 6.6.1).

MET taxpayers are subject to a minimum annual tax of EUR 50.

#### **4.2.1.3. Special reduced rates or regimes**

- Tonnage tax. Taxable income under the tonnage tax regime is computed by multiplying the net tonnage of each qualifying ship by the number of days in the tax year on which the ship was put to use in international transport or other qualifying activities and a coefficient ranging from 0.0022 to 0.0007 in inverse proportion to the ship's tonnage. See also Section 4.1.6.4.1 for additional information.

#### **4.2.1.4. Special additional taxes or levies**

With the exception of the bank levy (see discussion at Section 10.2), there are no other additional or special income taxes or levies imposed in Latvia.

#### **4.2.2. State, cantonal, provincial or other local taxes**



#### **4.2.2.1. Main rates**

Latvia does not impose state or local taxes on the profits or capital gains of corporations and so there are no subnational income tax rates.

#### **4.2.2.2. Reduced rates**

Latvia does not impose state or local taxes on the profits or capital gains of corporations and so there are no subnational reduced or special rates available.

#### **4.2.2.3. State or subnational income calculation**

##### **4.2.2.3.1. Tax base**

Latvia does not impose state or local taxes on the profits or capital gains of corporations and so there is no provision for a subnational tax base.

##### **4.2.2.3.2. Deductions**

Latvia does not impose state or local taxes on the profits or capital gains of corporations and so there are no subnational deductions provided.

##### **4.2.2.4. State incentives**

Latvia does not impose state or local taxes on the profits or capital gains of corporations and so there are no subnational

incentives provided.

#### **4.2.2.5. Non-income taxes in states**

Municipalities in Latvia may set the rate of real estate taxes anywhere from 0.2 percent to 3 percent of the cadastral value of real estate property so long as they notify taxpayers by November 1 of the prior year. If no rate is set by the municipality, certain default rates are applied under the personal income tax laws:

- Land and buildings used in commercial activity — 1.5 percent;
- Uncultivated land capable of agricultural use — 1.5 percent (plus up to 1.5 percent additional municipal levy);
- Environmentally-detrimental buildings or those that are safety hazards - 3 percent;
- Houses, apartments, and premises not used for business activities —
  - 0.2 percent for property up to EUR 56,915;
  - 0.4 percent for property between EUR 56,916 and EUR 106,715;
  - 0.6 percent for property greater than EUR 106,715; and
- Buildings under construction where construction permit has expired — 3 percent.

#### **4.2.3. Taxes imposed as penalty**

Penalties are imposed for the late payment of taxes or filing of tax returns as well as where undeclared taxes are discovered (Section 4.1.9.4). No other taxes are levied as penalties in Latvia.

### **4.3. Corporate capital gains and losses**

#### **4.3.1. Taxation of corporate capital gains**

Tax treatment — In Latvia, capital gains realised from the sale of a capital asset are taxed as ordinary income at the standard tax rate of 15 percent. Capital gain realised from the sale or exchange of shares is exempt for corporate income tax purposes, except for shares of companies resident in tax havens. Thus, capital losses on the sale of shares are not recognised for tax purposes. Capital losses on other assets are deductible from ordinary income.

Deferral of gain — a company may deduct the disposal proceeds on a fixed asset if it acquires a functionally similar fixed asset at any time within a period beginning 12 months before the day of disposal and ending 12 months after the day of disposal of the old asset. The amount thus deducted is also deducted from the acquisition cost of the new asset. However, this rollover relief is not available in respect of works of art, antiques, jewellery, long-term investments held for sale, motorcycles, sea and river-going vessels, aircraft or cars.

#### **4.3.2. Definition of corporate capital gains**

Latvian capital gains: A capital gain is, generally, the difference between the sale price and the book value of the asset.

Capital assets: A capital asset is generally any asset held by the taxpayer that is not held for sale in the regular course of the taxpayer's business.

Long-term gains and assets: There is no special rate for gains on assets held for a given period. Accordingly, Latvia does not distinguish between long and short-term capital gains or losses.

#### **4.3.3. Computation**

Calculation. A capital gain or loss is calculated as the difference between the proceeds from the sale or exchange (less any costs relating to the sale or exchange) and the book value of the asset.

Special rates. There is no special rate for gains on assets held for a given period. Accordingly, Latvia does not distinguish between long and short-term capital gains or losses.

#### **4.3.4. Corporate combinations and divisions**

##### **4.3.4.1. Mergers**

Under the Latvian tax system in a merger neither company is taxed on gain arising from the transfer of its properties to the surviving company, and shareholders are not taxed on gain arising from the exchange or conversion of merging company shares into shares in the surviving company. In order for a merger to qualify for statutory tax-free status, cash consideration received in the merger may not exceed 10 percent of the nominal value of the shares transferred.

Any tax relief, however, may be withdrawn if the shares in the transferee company received by the transferor company do not remain in the transferee company's ownership for at least three years after the transfer, unless the transferor company can demonstrate to the satisfaction of the Latvian tax authorities that the alienation of the shares has no tax avoidance motive.

##### **4.3.4.2. Transfers of corporate property**

There are no special provisions concerning the purchase of an existing business. Thus, for example, any capital gains or losses arising to individuals or companies as a result of such a purchase would be taxable or not, according to normal rules. Under ordinary rules, the transferor company would be liable for tax on gain from the sale of most of the assets transferred. Individual shareholders of the transferor that received shares of the transferee would be liable to tax, either on dividends or on capital gains (depending on whether the shares were distributed in exchange for, or as a supplement to, shares in the transferor company), however corporate shareholders would not be taxed (as corporations do not include dividends or capital gains on stock dispositions in taxable income).

#### **4.3.4.3. Share transfers**

There are no special provisions concerning the purchase of an existing business. Thus, for example, any capital gains or losses arising to individuals or companies as a result of such a purchase would be taxable or not, according to normal rules. Under ordinary rules, a stock for stock exchange would result in capital gain to the shareholders of the target only to the extent the shareholder is an individual subject to personal income tax. Corporate shareholders do not include capital gains on stock dispositions in taxable income.

#### **4.3.4.4. Divisions or separations**

The Latvian tax system recognises two types of division, a split-up and a spin-off. In a split-up, a the original company is dissolved without being liquidated. It transfers all of its assets and liabilities to two or more existing or newly formed companies in return for the proportionate number of shares in the acquiring companies or the transfer of their shares to members of the target companies. In a split-off, a the transferor company transfers one or more lines of business to a newly-formed acquiring company in exchange for the acquiring company's shares or the transfer of those shares to members of the transferor company. The transferor company is not dissolved and retains its legal form.

Both types of divisions are eligible for tax-free treatment in the same manner as mergers. The transferor and transferee companies would not be required to recognise gain on the assets transferred, and would be required to take a transfer basis in any property received in the transaction. Shareholders would also be exempt from taxation to the extent they receive stock in any transferee company. However, as with a merger, cash consideration may not exceed 10 percent of the nominal value of the shares transferred in order to qualify for tax-free treatment.

## 4.4. Position of losses from business operations

### 4.4.1. Definition

Scope - Total operating expenses are greater than total revenue. Capital gains and losses on the sale of shares are not included in calculating taxable income or operating loss. Capital losses on other assets are deductible from ordinary income.

Foreign Losses - Foreign losses may be transferred to a Latvian resident company for tax purposes. This is, however, only possible if they cannot be used in the foreign country where these losses are incurred.

### 4.4.2. Treatment

Carrybacks — Carryback of losses is not permitted in Latvia.

Carryforwards — Ordinary losses incurred in taxable periods beginning in or after 2008 may be carried forward indefinitely except that those losses may offset up to 75 percent of the income subject to corporate tax for years after 2016. Losses brought forward are set off in the order in which they were incurred. As of 1 January 2017, companies that received certain kinds of benefits as innovative start-ups (see Section 4.1.6.3) are not entitled to carry-forward losses.

### 4.4.3. Losses after change in ownership

Where there is a change in control of a company with carried forward operating losses, those losses will remain available for use in subsequent years only if there will be no change in the nature of the company's basic trade or business (as carried on in the two taxable periods immediately preceding the change of control) for at least five taxable periods after the change of control (special rules apply for privatised companies).

In the case of a merger, losses incurred by the absorbed company before the merger may be taken over by the absorbing company and carried forward, provided that after the merger the absorbing company is controlled by the same person or persons that controlled both the absorbed company and the absorbing company before the merger.

In the case of a division or split-off, losses incurred by the divided company before the division may be carried forward by the companies established after the division or split-off. The losses are divided between the companies concerned according to the proportions of asset value before and after the division or split-off. The same rule applies to the proportion of losses attributable to a trade or business transferred by a transferor company to a transferee company.

A company formed from the incorporation of a sole proprietorship or fishing or farming enterprise may inherit the tax losses of the unincorporated enterprise incurred during its last five years of operation.

## **4.5. Group treatment**

### **4.5.1. General rule**

Latvia does not permit consolidated group filing or other group reporting for income tax purposes. Prior to January 1, 2014, members of a related group were permitted to transfer operating losses to other group members, however, effective for 2014, that benefit has been eliminated.

### **4.5.2. Definition of group**

Latvia no longer has a consolidated group concept for reporting or filing purposes. Prior to January 1, 2014, loss transfers were permitted between group members. For that purpose a “group” generally required 90 percent ownership of a subsidiary by the parent. However, effective January 1, 2014, companies within the same group are no longer allowed to

transfer losses among themselves.

#### **4.5.3. Special aspects**

Latvia no longer has a consolidated group concept for reporting or filing purposes. As a result there are no special rules regarding stock sales, asset transfers, or other transactions between companies within such a group.

### **4.6. Withholding taxes on non-resident taxpayers**

#### **4.6.1. Dividends, interest, royalties and services**

##### **4.6.1.1. Dividends**

Latvia does not levy a withholding tax on dividends paid to non-resident companies, except those paid to residents of blacklisted tax havens. Payments to tax havens are taxed at a 15 percent rate (except on interim dividends, in which case the rate is 30 percent).

##### **4.6.1.2. Interest**

Latvia does not impose a withholding tax on interest payments made to non-residents, except for those made to residents of blacklisted tax havens. Payments to tax haven residents are generally subject to withholding of 15 percent, however a Latvian bank making an interest payment to a tax haven resident need only withhold 5 percent.

##### **4.6.1.3. Royalties**

Latvia does not impose any withholding tax on royalty payments, including technical service fee payments, made to non-residents, except for payments made to residents of blacklisted tax havens. Royalty payments to tax haven residents are



subject to withholding of 15 percent, however, tax haven residents are not subject to withholding on technical service fees.

#### **4.6.1.4. Services**

Management and consultancy fees paid to non-resident companies are subject to a withholding tax at a rate of 10 percent on the gross amount (unless resident in an EU Member State or jurisdiction with which Latvia has a double tax treaty in force, in which case the company may opt to pay 15 percent corporate tax). Technical service fees are not subject to any withholding tax.

#### **4.6.2. Other withholding taxes**

##### **4.6.2.1. Payments to blacklisted jurisdictions**

Payments to persons in blacklisted jurisdictions are generally subject to 15 percent withholding tax. See also Section 4.6.3.

##### **4.6.2.2. Partnership income**

A foreign person's proportionate share of the income of a Latvian partnership is subject to a 15 percent withholding tax.

##### **4.6.2.3. Rental income**

Rental payments for the use of Latvian real property, or personal property located in Latvia, made to non-residents are subject to a withholding tax of 5 percent (unless resident in an EU Member State or jurisdiction with which Latvia has a double tax treaty in force, in which case a company may opt to pay 15 percent corporate tax).

##### **4.6.2.4. Real property sales income**

A non-resident's proceeds from the sale of real property located in Latvia, or from the sale of shares in a company whose real property holdings make up more than 50 percent of its total assets, are subject to a 2 percent withholding tax.

#### **4.6.3. Special tax havens rates**

Most payments made to persons resident in tax havens are subject to withholding tax at a rate of 15 percent. The withholding obligation also applies to payments made through intermediaries and if the transaction is effected in the form of a mutual credit instead of actual payments. All residents of Latvia and permanent establishments of non-residents in Latvia are required to withhold tax. The State Revenue Service may grant an exemption from the withholding obligation if the payer proves that the transaction with the resident of a tax haven was not entered into for the purpose of avoiding or reducing Latvian tax liability.

## **5. VAT/GST: main and reduced rates, exemptions, and registration**

### **5.1. Main rates**

The standard VAT rate in Latvia is 21 percent.

### **5.2. Principal reduced rates, zero-rated activities, or exemptions**

In Latvia, supply of public transport, approved medical equipment and medicines, certain baby food, home heating and firewood, newspapers and magazines, books and other educational materials are taxed at a reduced rate of 12 percent.

A number of transactions are rated at zero percent such as export of goods and services, supplies of goods and services to diplomatic missions, the supplies of goods and maintenance services in respect of vessels operated by international shipping

lines or used for emergency and rescue missions.

Education, financial, medical, and insurance services are exempt from VAT. As are nursery fees and the sale of used real estate (except for building land).

### 5.3. Registration

Registration for VAT purposes in Latvia is required if during the previous 12 months period, the taxpayer's transactions exceed EUR 50,000. This amount does not include the value of any supply of fixed assets or intangible contributions.

Taxable persons must register with the VAT authorities competent for the area where their place of business is located. Non-resident taxable persons with a fixed establishment in Latvia must register with the competent VAT authorities according to the place where the fixed establishment is located.

Non-residents do not need to register for VAT if their transactions only take place within a customs warehouse or free zone and they supply only non-Community goods or goods already undergoing export procedures. Taxable persons are registered in the VAT register according to the registration request submitted to the State Revenue Service.

#### *Telecommunications, Broadcasting and Electronically Supplied B2C Services*

As of January 1, 2015, under EU-wide changes to the place of supply rules, the place of supply of telecommunications, broadcasting and electronically supplied B2C services is the place where the non-taxable recipient are established, or where they have their permanent address or usually resides (regardless of whether the supplier and/or the recipient is within or outside the EU). Electronically supplied services include:

- Website supply;

- Web hosting;
- Distance maintenance of programs and equipment;
- Software; and
- Updates.

The EU place of supply rules under European Council Directive 2008/8/EC are transposed in Articles 27, 140 and 140<sup>1</sup> of the Latvian VAT Act, as amended.

Articles 24a and 24b of European Council Implementing Regulations No.1042/2013 provide for the following presumptions about the country of the recipient, namely, if the services:

- Can only be received at a certain location (such as an internet cafe or a wi-fi hotspot) and the physical presence of the recipient of the service at that location is needed for the service to be provided to him, the place of supply is presumed to be that location. If that location is on board a ship, aircraft or train carrying out passenger transportation within the EU, the place of supply is the country of departure;
- Are provided through a fixed land line, it is presumed that the place of supply is the place of installation of the fixed land line;
- Are provided through mobile telephone networks, the place of supply is determined by the mobile country code of the SIM card used when receiving those services; and
- Are provided for which the use of a decoder or similar device or a viewing card is needed and a fixed land line is not used, the place of supply is presumed to be the place where the decoder or similar device is located, or if that place is not known, at the place to which the viewing card is sent with a view to being used there.

In all other cases, the supplier must determine where the customer is established, has his permanent address or usually resides (i.e., the place of supply) on the basis of two items of non-contradictory evidence including the billing address of the customer, the IP address, bank details such as the location of the bank account used for payment or any other commercially

relevant information.

Prior to January 1, 2015, the rule sourcing telecommunications, broadcasting, and electronically supplied services to the country of the non-taxable recipient applied only to supplies involving a non-EU supplier or non-EU customer, i.e., where the services were either supplied to a non-taxable person resident or domiciled:

- In the EU by a taxable person who had established his business outside the EU or had a fixed establishment there from which the service is supplied, or who, in the absence of such a place of business or fixed establishment, had his permanent address or usually resided outside the EU; or
- Outside the EU by a taxable person who had established his business in an EU Member State, or had a fixed establishment there from which the service is supplied or who, in the absence of such a place of business or fixed establishment, had his permanent address or usually resided in an EU Member State.

## 6. Personal taxes

### 6.1. Domicile and residency requirements

Latvia taxes individuals on the basis of tax residence and domicile status. An individual is considered to be a resident of Latvia if:

- the individual's permanent place of abode is in Latvia;
- the individual is physically present in Latvia for at least 183 days in any 12-month period beginning or ending in the tax year; or
- the individual is a citizen of Latvia employed abroad by the government of Latvia.

The State Revenue Service announced that in the absence of a statutory rule regarding application of the 183 days rule, it would apply the physical presence tests recommended in the OECD Model Convention. Determination of an individual's permanent place of abode in Latvia is governed by provisions of article 7 of the Civil Code which basically state that the place of abode (domicile) is the place where a person has voluntarily settled with the express or implied intent to live or work there permanently.

## **6.2. Income tax base**

### **6.2.1. Tax base for residents**

In Latvia, residents are subject to Latvian income tax on their worldwide income. Personal income tax rate is 23 percent.

### **6.2.2. Tax base for non-residents**

Non-residents are subject to tax on their Latvian-source income.

### **6.2.3. Personal income subject to income tax**

General — Latvia resident individuals are subject to Latvia tax on their worldwide income (income derived by resident individuals from EU Member States, or from a country with which Latvia has an effective tax treaty, is exempt).

The following are the main types of income that are subject to individual income tax:

- Income from employment carried out in Latvia or for a Latvian employer;
- Income from professional activities performed in Latvia or on behalf of a resident of Latvia or a Latvian permanent establishment;

- Income from professional activities in Latvia of an artist, sportsperson or coach;
- Income from carrying out the duties of a director or member of an executive or supervisory board of a Latvian-registered company, irrespective of whether that income is paid by a Latvian company or by a foreign company;
- Income from a Latvian-registered partnership;
- Income from the exploitation of immovable property situated in Latvia;
- Income from the alienation of immovable property situated in Latvia and of other capital assets (excluding financial instruments). This includes the proceeds from the disposal of participations in an entity more than 50 percent of whose assets consists directly or indirectly of Latvian immovable property;
- Income from an ancillary or domestic smallholding and income from the agricultural produce of an agricultural or fishery enterprise; and
- Income from the sale of growing woodlands or timber; dividends from Latvian companies.

Capital gains are also generally taxable. However such gains are generally taxed at a special capital gains rate of 15 percent. As a result, capital losses incurred may only offset capital gains up to the total amount of gain — no carry forward (or carry back) of capital losses is permitted.

Excluded income - The following items are notable items of income that are exempt from personal income tax:

- Income from bonds issued by the Latvian or another European Economic Area country's government or local authority;
- Income from inheritances;
- Gifts from closely related individuals or gifts up to EUR 1425 from other individuals (gifts from companies, gifts from employers with a value up to EUR 14.23, and enterprises are taxable);
- Gains from the exercise of registered employee share options provided that the period between grant and exercise is at least 36 months;
- Income from agricultural production or rural tourism services, provided that it does not exceed EUR 3000 per year;

- and
- Income from lotteries and other games of chance.

Certain other payments can also be received tax free if the payment does not exceed limits determined by the government.

Treatment of benefits - In general, benefits in kind provided to an employee are taxable, and are normally valued at their market value or the cost to the employer. These may include:

- Assets transferred to, or made available for, the private consumption of an employee or members of the employee's family;
- Employer's contributions to leisure activities, trips, health care and education; and
- Other income not exempted by law.

Some benefits in kind are exempted: payments for expenses incurred in course of employment (such as mileage allowances, per diems, and other business travel-related reimbursements); benefits of work-related and professional training required by the employer; health or accident insurance policies, provided that these payments do not exceed the lower of 10 percent of the employee's gross salary or EUR 426,86.

Other - Directors' fees and other similar remuneration are taxed according to the status of the director. If the director has a contract of employment with the company, his income under that contract is employment income. If the director offers his or her services under a service contract, income from that contract is self-employment income.

#### **6.2.4. Deductions and allowances**

According to the Personal Income Tax Law, the following expenses in Latvia are deductible:



- Social security contributions;
- Life insurance premiums and contributions to approved private pension funds (subject to some exceptions) up to 20 percent of annual taxable income;
- Amounts donated to approved cultural, educational, scientific, sporting, charitable, health and environmental, and religious organisations and governmental institutions, within certain limits; and
- Medical expenses (including health insurance premiums) and educational expenses incurred on behalf of the taxpayer and his or her immediate family, up to EUR 215 per person per year.

Social security contributions, private pension contributions and life insurance premiums are payable out of gross income before deduction of salary tax.

### *Allowances*

As of 1 January 2017, Latvia has a personal allowance determined based upon the amount of the taxpayer's earnings from employment, capital and capital gains. Personal allowances between EUR 60 and EUR 115 are available depending upon monthly income. Individuals with taxable income over EUR 1,000 per month will be eligible to receive a personal allowance of EUR 60 per month in 2017.

Prior to 2017, resident taxpayers are permitted a monthly personal allowance of EUR 75 (EUR 900 per year), and an allowance for each dependent of EUR 165 per month (EUR 1980 per year). Persons receiving a pension payable under Latvian or foreign law are entitled to a personal allowance of EUR 2820 per year. These personal allowances are not available to an employee of an enterprise that has opted to be taxed under the micro-enterprise tax regime.

Disabled persons may be entitled to an additional allowance depending on the categories of their disabilities.

As of 1 January 2017, the dependent allowance is EUR 175. The definition of dependent for this purpose includes: a minor

child, a child who continues with higher education up to age 24, certain minor brothers and sisters continuing in higher education, children in that taxpayer's custodianship or guardianship, disabled non-working spouses, disabled parents, disabled grandparents, and disabled children over the age of 18.

### **6.3. Main rates and bands**

#### **6.3.1. Rates of tax on individuals**

The individual tax rate is a flat rate of 23 percent.

A 10 percent rate of tax applies to income from capital. Dividends, interest, and other income from capital (other than capital gain e.g., income from life insurance, income from private pension funds, investment of contributions, return on annuity insurance contracts, income from financial instruments and etc.) received by resident individuals is taxed at a reduced rate of 10 percent.

A 15 percent rate applies to income from the sale of capital assets. Capital gains realised on the disposal of capital assets such as real estate, stock, bonds, CDs, short-term debt instruments, other securities, and intellectual property, is generally taxed at 15 percent. However, gains on the sale of real property held for greater than five years can exempt under certain conditions (where it has been the taxpayer's principal residence for a year or has been the taxpayer's only real property asset for five years).

Individuals operating a sole proprietorship who registered as corporate taxpayers are normally subject to corporate income tax, but may choose to pay individual income taxes where their annual turnover does not exceed EUR 300,000. Sole proprietors who registered as a micro-enterprise and opted into the micro-enterprise tax regime will be taxed according to the rules of that regime (see Section 4.2.1.2 for a discussion of the micro-enterprise tax).

Also, individuals (subject to some exceptions) whose annual turnover is below EUR 50,000, who have no employees, and who do not have to register for VAT purposes may choose to pay the so-called “license fee” instead of personal income tax and social security contributions. The amount of the monthly fee is determined by regulation and varies based on the location and nature of the business.

As of 1 January 2016, Latvia has a “Solidarity Tax” on highly paid employees. See Section 6.6.1 and Section 6.6.2.

The minimum monthly salary for 2017 is EUR 380.

### **6.3.2. Individual returns, filing dates, and payment**

Individual taxpayers generally must file income tax returns, but individuals who earned only Latvian-source income that has already been subject to withholding (e.g., employment income from a Latvian employer) have no filing obligation. Joint returns are not permitted.

Individual taxpayers must file annual tax returns between March 1 and June 1 after the end of the taxable year, which is usually the calendar year. This filing obligation also applies to self-employed individuals.

Individuals carrying on business activity must file returns electronically. Other individuals are permitted to file paper returns.

Individuals who earn business income (e.g., through self-employment) must make quarterly deposits of estimated tax liability.

Capital gains returns and capital gains taxes are due monthly (by the 15th of the following month) for any month in which such gains exceed EUR 711, or quarterly where gains did not exceed that threshold in any month of the quarter.

Interest is imposed on late payment of any tax due at the rate of 0.05 percent per day. In the event a tax audit results in additional assessment of tax, fines and penalties of up to 100 percent of the tax due maybe imposed. As of 1 July 2017 late payment interest will be calculated only up to two-fifths of the unpaid or lately paid tax amount.

## **6.4. Dividends**

### **6.4.1. Domestic corporations**

Domestic dividends paid to a Latvian resident are subject to income tax at a rate of 10 percent. There is no withholding on dividends paid to either residents or non-residents except for dividends paid to persons that are resident or established in tax havens, which are subject to a withholding tax of 15 percent (30 percent if it is an interim dividend).

There is no specific system of corporate-shareholder integration for domestic dividends.

### **6.4.2. Foreign corporations**

Foreign dividends paid to a Latvian resident are subject to income tax at a rate of 10 percent. Residents are entitled to a credit for any foreign taxes paid or withheld on the dividend up to the amount that would have been due in Latvia on the income.

There is no specific system of corporate-shareholder integration for foreign dividends.

## **6.5. Interest**

### **6.5.1. Domestic borrowers**

Residents are taxed on interest received (except for interest of certain exempt bonds) at a rate of 10 percent. There is no withholding on interest paid to a Latvian resident.

Interest paid to non-resident individuals is not subject to tax unless the individual is a resident of a tax haven country, in which case the rate is 5 percent if the interest is paid by a Latvian credit institution or 15 percent in all other cases.

### **6.5.2. Foreign borrowers**

Interest received by resident individuals from foreign companies is taxed at 10 percent. Foreign tax credits are available for any foreign taxes paid or withheld up to the amount that would be due in Latvia on the income.

## **6.6. Social security/national insurance payments**

### **6.6.1. Employer tax or contribution**

The Latvian National Social Insurance Fund provides benefits for loss of income through illness, disability, maternity, unemployment, old age, industrial injury and occupational disease. Resident employers must pay social security contributions for employees of at least 15 years of age. The contributions are deductible for employers for corporate income tax purposes.

Resident individuals – In Latvia, in general, the total mandatory contribution (employer contribution + employee contribution) rate is 34.09 percent of the taxable base. For 2017, the mandatory contribution rate breakdown by types of social insurance is as follows:

- State pension insurance (hereinafter - pension insurance) - 24.54 percent;
- Social insurance unemployment insurance - 1.90 percent;

- Social insurance against accidents at work and occupational diseases (hereinafter - occupational accident insurance) - 0.48 percent;
- Disability insurance - 2.30 percent;
- Maternity and sickness insurance - 3.49 percent; and
- Parental insurance - 1.38 percent.

Of the 34.09 percent payment, employers must pay 23.59 percent of the taxable base for each employee. The taxable base for employer contributions is the employee's gross income that is subject to individual income tax without including the personal allowance, allowable deductions, and other relief. Pension contributions and life insurance premiums paid by the employer on the employee's behalf are not included in the taxable base.

Maximum taxable salary – The maximum annual taxable salary for social security contributions is EUR 52,400 (before 2017 the maximum was EUR 48,600).

The employer pays the solidarity tax at a rate of 23.59 percent on the amount of salary above the annual taxable salary.

Directors – Companies with turnovers that exceed certain levels are required to pay at least the minimum contribution for each member of the board of directors.

### **6.6.2. Employee tax or contribution**

Employee contributions are withheld by the employer in Latvia. For most resident individuals the rate is 10.5 percent of the employee's salary.

As of 1 January 2016, Latvia has a “Solidarity Tax” on employees who earn more than the maximum annual taxable salary for social security contributions. In 2017, the maximum annual taxable salary for social security contributions is EUR 52,400.

The employee pays the solidarity tax at a rate of 10.5 percent on the amount of salary above the annual taxable salary.

Self-employed individuals – Self-employed individuals must pay 31.13 percent social security tax on any income derived from business activities. The mandatory contribution rate breakdown by types of social insurance are as follows:

- pension insurance - 24.54 percent;
- disability insurance - 1.84 percent;
- maternity and sickness insurance - 3.37 percent; and
- parental insurance - 1.38 percent.

### **6.6.3. Employee tax collection mechanism**

Employees' social security contributions are collected through wage withholding. However, an employee who is temporarily resident in Latvia and is employed by a non-resident taxpayer must calculate and pay his or her own contributions if the employee exceeds 183 days of presence in Latvia.

## **6.7. Royalties and rents**

### **6.7.1. Domestic licensors**

Resident individuals (domestic licensors) are generally subject to Latvia withholding tax at a rate of 23 percent. However, the taxable base of some royalties such as royalties for art, inventions, discoveries, computer software, architectural projects, designs, compositions and industrial samples, may be reduced by a fixed percentage assuming expenses incurred in creating those intangible assets. The reduction ranges from 15 percent to 40 percent of the gross royalties, depending on the type of royalty, resulting in effective rates between 19.55 percent (a 15 percent reduction) and 13.8 percent (a 40 percent reduction).

Income from renting immovable property, i.e., land, buildings, parts of buildings and apartments, is taxable at the ordinary income tax rate.

### **6.7.2. Foreign licensors**

Royalties paid to non-resident individuals and not connected to a business in Latvia are subject to a final withholding tax of either 23 percent or 15 percent. The 23 percent rate is applied to copyright royalties of most kinds, but such income is eligible for a standard reduction for deemed expenses, which results in effective rates between 19.55 percent and 13.8 percent. Other royalties are subject to the 15 percent rate. All royalties paid to a resident of a tax haven country are subject to a withholding rate of 15 percent.

Income (but not capital gains) from rental of immovable property is taxable by withholding at the normal individual income tax rate.

## **7. Transfer pricing and anti-avoidance rules**

### **7.1. Transfer pricing**

#### **7.1.1. Application**

Latvia has a transfer pricing regime that utilises the arm's length principle. The regime applies to a domestic company's transactions with:

- Related companies, whether domestic or foreign;



- Any company located in a blacklisted low tax jurisdiction;
- Any domestic company that is tax exempt or benefits from corporate income tax relief; and
- Related individuals.

### **7.1.2. Permissible pricing methods**

Under Latvian tax law, five transfer pricing methods are recognised: comparable uncontrolled price method, cost plus method, resale price method, transactional net margin, and profit split method. Transaction methods are preferred in determining the transfer price.

### **7.1.3. Penalties for improper pricing**

Upon an audit by the tax authorities the following penalties for improper transfer pricing may apply:

- 1) If the tax charge has been understated by up to 15 percent of the tax charge that should have been reported, a penalty of 20 percent of the total tax liability that should have been reported applies.
- 2) If the tax charge has been understated by more than 15 percent of the tax charge that should have been reported, there is a possible penalty of 30 percent of the tax liability that should have been reported.

The imposed penalty may be reduced by 50 percent, if certain conditions are met.

### **7.1.4. Advance rulings or pricing agreements**

Local companies and non-resident permanent establishments may enter into an Advance Pricing Agreement with the State Revenue Service if the value of the related-party transaction(s) in question exceeds EUR 1.43 million per year.

### **7.1.5. Documentation**

Companies with annual turnover exceeding EUR 1.43 million and related-party transactions exceeding EUR 14,300 per year are required to prepare transfer pricing documentation starting in 2013.

Transfer pricing documentation must include industry, company, functional, and economic analysis. All transactions between related parties must be reported in the annex to the annual CIT return, with details on the related parties, type of transactions, amount of transaction, and transfer pricing methods used.

A company must submit full transfer pricing documentation in Latvian within one month after receiving a request from Latvian State Revenue Service.

Latvia is a signatory to the Multilateral Competent Authority Agreement on the automatic exchange of country-by-country (CbC) reports, facilitating implementation of the transfer pricing reporting standards developed under Action 13 of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan.

## **7.2. Anti-avoidance provisions**

### **7.2.1. General anti-avoidance**

There is a statutory anti-avoidance rule in Latvia. According to the law, the tax administration is entitled to determine the amount of tax payment, taking into account the economic substance of the taxpayer's transactions, not only the legal form. With regard to all transactions a substance over form approach is applied.

The general duty of taxpayers is to report all income from any source and country, file their legally compliant tax returns on time and submit all requested documents to the tax administration.

As of 1 April 2016, Latvia has instituted procedures and technical requirements for reporting suspicious transactions by Latvian residents under the Financial Crime Intelligence and Terrorism Financing Law. An encrypted report of suspected irregularities, including tax evasion, must be submitted electronically by credit institutions and payment service providers in accordance with their respective bilateral agreement with the State Revenue Service.

*Reporting of suspicious transactions*

As of 1 January 2017, the Latvian State Revenue Service will receive electronic information on “suspicious transactions” involving tax matters (e.g., tax evasion or unclear origin of funds), not only from credit institutions and payment service providers, but also from:

- Tax advisors;
- Outsourced accounting;
- Sworn auditors, sworn auditor commercial companies;
- Sworn notaries;
- Barristers;
- Other independent legal service providers;
- Legal arrangements establishing and running of services;
- Persons acting as agents or brokers in real estate transactions;
- Organizers of lotteries and gambling;
- Persons providing collection services;
- Other legal or natural persons engaged in the marketing of vehicles, as well as through those operations;
- Other legal or natural persons engaged in the trade of cultural monuments, as well as through those operations;
- Other legal or natural persons engaged in precious metals, precious stones, the marketing, as well as through those operations;
- Other legal or natural persons engaged in other types of trade in goods, as well as through those operations; and
- Other legal or natural persons engaged in other types of services.

### *Cash transactions*

Taxpayers (other than individuals not carrying out a business) are required to report all cash transactions for the previous month that exceed EUR 1,500 (regardless of whether the transactions takes place in a single operation or in several operations).

Taxpayers are not allowed to carry out cash transactions in excess of EUR 7,200 (regardless of whether the transaction takes place in a single operation or in several operations). Prior to 1 January 2017, the cash transactions rule did not apply to individuals that were not in an economic activity.

#### **7.2.2. Thin capitalisation / other interest deductibility rules**

The Latvian thin capitalisation rules restrict the deduction of interest payments. The maximum amount of annual deductible interest is determined by making two separate calculations. If an amount of non-deductible interest results from either or both calculations, taxable income is increased by the larger amount calculated.

First calculation - Under the first calculation, the amount of interest allowable is determined by multiplying the principal amount of loans outstanding during the year by 1.57 times the average short term interest rate for the last month of the tax period as determined by the Latvian Statistics Commission. This is then compared to the actual interest paid.

Second calculation - Taxable income is increased to include interest paid by adding an amount proportional to the amount by which the average amount of principal payable during the year exceeds a multiple of four times the company's equity as stated in its annual accounts at the beginning of the year. The resulting amount is then reduced by any amounts that are long term investment revaluation reserves or other reserves not reflected in the profit and loss statement.

Financial and insurance institutions are not subject to the rules; nor is interest paid to specified lenders. Payments made to entities located in nil or low tax jurisdictions are subject to 15 percent withholding tax. For a list of jurisdictions designated as nil or low tax see Section 4.6.3.

### **7.2.3. Controlled Foreign Company (CFC) rules**

There is no CFC legislation in Latvia. Payments made by a resident to an entity located in blacklisted jurisdiction are subject to a 15 percent withholding tax. Certain exceptions may apply.

## **8. Tax treaties**

### **8.1. Bilateral income tax treaties**

#### **8.1.1. Number of treaties in force**

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

#### **8.1.2. Number of treaties pending ratification**

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

#### **8.1.3. Treaty or statutory priority**

Tax treaty relief is restricted to companies resident in Latvia under the terms of the treaty. Non-resident persons deriving foreign-source income that is taxable in Latvia because it is attributable to a permanent establishment in Latvia are not entitled to treaty relief, but may claim unilateral relief from double taxation.

The treaty provisions generally prevail over the domestic provisions, but they may not result in a more burdensome tax liability.

The two methods for avoiding double taxation of foreign income used in Latvia's tax treaties are the exemption method and the credit method.

Where a treaty applies, double taxation relief under the treaty prevails over unilateral relief, unless unilateral relief is more beneficial for the taxpayer.

#### **8.1.4. Source of interpretation**

The majority of treaties follow the OECD Model Tax Convention and related guidance.

## **8.2. Social security totalisation agreements**

### **8.2.1. Number of agreements in force**

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

### **8.2.2. Number of agreements pending ratification**

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

### **8.3. Tax information sharing agreements**

#### **8.3.1. Number of agreements in force**

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

Latvia has ratified the Convention on Mutual Administrative Assistance in Tax Matters.

Latvia is a signatory to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, and has enacted legislation to implement the Common Reporting Standard (CRS) with the first information exchange date scheduled for September 2017.

Latvia has enacted legislation to implement the provisions of Directive 2014/107/EU (amending Directive 2011/16/EU (DAC)) on mandatory automatic exchange of tax information within the EU.

The EU, including Latvia, has signed agreements to apply DAC with the following countries:

- Andorra (first information exchange scheduled for 2018);
- Switzerland (first information exchange scheduled for 2018);
- Liechtenstein (first information exchange scheduled for 2017);
- San Marino (first information exchange scheduled for 2017); and
- Monaco (first information exchange scheduled for 2018).

Latvia has signed a FATCA Model 1 IGA with the United States.

Latvia is a signatory to the Multilateral Competent Authority Agreement on the automatic exchange of country-by-country (CbC) reports, facilitating implementation of the transfer pricing reporting standards developed under Action 13 of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan.

Latvia is a member of the Inclusive Framework on BEPS, a group of countries that is developing standards on BEPS-related issues, and is reviewing and monitoring implementation of the OECD/G20 BEPS Action Plan.

### **8.3.2. Number of agreements pending ratification**

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

## **9. Other taxes**

### **9.1. Taxes on payroll**

There are no taxes on payroll other than social security contributions.

### **9.2. Taxes on capital (capital duties)**

There is no tax on capital in Latvia.



## 9.3. Taxes on property

### 9.3.1. Property transfer taxes, including real estate transactions

There is no property transfer tax.

### 9.3.2. Real estate taxes

A flat 1.5 percent tax is imposed on the cadastral value of land and buildings which do not constitute residential property or are otherwise exempted. The tax is calculated and collected by municipalities.

Residential building/apartment tax is levied at the following progressive rates:

- (i) 0.2 percent — for cadastral value not exceeding approximately EUR 56,915;
- (ii) 0.4 percent — for cadastral value from approximately EUR 56,915 to approximately EUR 106,715; and
- (iii) 0.6 percent — for cadastral value exceeding approximately EUR 106,715.

Local municipalities have the power to grant taxation reductions to specific categories of individuals.

Local municipalities may impose an additional property tax ranging from 0.2 percent to 3.0 percent in accordance with regulations that must be issued by the municipality no later than November 1 of the prior tax year. If no regulations are issued tax is imposed at the default statutory rates.

Families with three or more children may, under certain conditions, reduce the amount of real estate tax calculated by 50 percent, but not by more than EUR 427. For individuals, immovable property tax paid is deductible for income tax purposes if the immovable property is used commercially.

### **9.3.3. Personal property tax**

There is no personal property tax in Latvia.

### **9.3.4. Fixed asset tax**

There is no fixed asset tax in Latvia.

## **9.4. Miscellaneous taxes**

### **9.4.1. Lottery and gambling tax**

Companies that possess a license to organise and/or run lotteries or gambling games, must pay tax. The amount or rate of tax depends on the type of games or lottery that is operated. Estimated tax amounts must be paid monthly, while reports must be filed quarterly by the 15th of the month following the quarter reported.

### **9.4.2. Natural resources tax**

A natural resources tax is levied on the extraction of natural resources. Under the Natural Resources Tax Law, the natural resources tax is imposed on all legal and natural persons whose activities involve pollution or are otherwise harmful to the environment.

Different rates apply to different taxable products or taxable events. There is relief available for taxpayers who follow certain approved recycling procedures or keep within agreed quotas.

The tax is self-assessed. Returns in respect of extracted or collected natural resources or emission of pollutants have to be filed electronically each quarter, by the 20th day of the month following the end of the quarter. Payment also must be made by the 20th day of that month. However, where the total tax due does not exceed EUR 142.29, payment need only be made annually, by January 20 of the following year.

As of January 1, 2017, some examples of the tax on natural resources are:

soil	EUR 0.86 per cubic meter
sand	EUR 0.21 per cubic meter
surface water	EUR 0.013 per cubic meter
high-value underground water used for water supply	EUR 0.05 per cubic meter

#### **9.4.3. Excise taxes**

Excise taxes are levied on certain petroleum products, natural gas, coffee, alcoholic beverages and non-alcoholic beverages, and tobacco products. Rates vary depending on the product.

#### **9.4.4. Stamp duty**

Stamp duty applies upon the registration of a transfer of title to real property or of a mortgage on real property. The person requesting registration of ownership is liable to pay the tax. The tax is generally levied at 2 percent of the higher of cadastral

value or sale price, but certain lower rates are available on certain types of transfers (such as corporate reorganisations or capital contributions). Transfers to family members are eligible for a lower rate of 0.5 percent.

There are no stamp or registration duties on the transfer of title to movable property or securities other than on registration of transport vehicles.

#### **9.4.5. Inheritance and gift taxes**

Inheritance and gift tax is not levied in Latvia.

#### **9.4.6 Environmental taxes**

Environmental tax is levied in Latvia. The Law provides rules for waste management arrangements to protect the environment, human life and health by preventing the generation of waste throughout the Latvian territory, as well as the promotion of natural resources and efficient use of waste going into landfill reduction.

As of January 1, 2017, these are the rates provided for disposal of:

lubricating oils	EUR 0.17 per kg
electric batteries and primary power sources	EUR 4 to EUR 17.03 per kg
ozone depleting substances	EUR 2.22 per kg ODP
tires	EUR 0.66 per kg
refrigerators and freezers	EUR 2.33 per kg
other large household equipment	EUR 1.44 per kg
small household appliances	EUR 3.00 per kg

computer monitors	EUR 2.33 per kg
mobile phones	EUR 3.33 per kg
information technology	EUR 3.00 per kg
televisions	EUR 2.33 per kg
toys and leisure equipment	EUR 3.00 per kg

The environmental tax also applies to emissions (e.g., carbon monoxide, carbon dioxide, sulphur dioxide, and heavy metals).

#### 9.4.7 Electricity tax

Latvia levies an electricity tax that applies to entities involved in the generation, distribution, supply, trade and other activities related to electricity, as well as persons who purchase electricity for the stock exchange. The tax applies to the electric power supplied to the end user.

## 10. Special industries

### 10.1. Oil, gas and mineral extraction

There is no alternative tax computation or an additional tax on businesses that extract oil, gas and other minerals in Latvia, other than any liability that they may have under the natural resources tax.

For more information, see Section 9.4.2.

Liability under that tax does not accrue for the extraction of oil or gas, but does apply to the extraction of certain minerals (such as limestone, quartz, peat, and travertine) and coal mining. In addition, emissions of air pollutants, including

greenhouse gases, will be subject to the tax.

## **10.2. Banking and finance**

There is no alternative tax computation or an additional tax on banks or other businesses in the financial industry in Latvia.

As of 1 March 2017, all credit intermediaries and credit intermediary representatives that offer mortgage loans will be obliged to sign a credit intermediary register maintained by the Consumer Rights Protection Center.