



TAX GUIDE: LATVIA

JULY 2018

1. Overview

1.1. Government and Tax System

Latvia is a member of the European Union (EU). As an EU Member, Latvia is required to give effect to EU legislation. The most important source of law in Latvia is legal acts. These 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, in contrast, bind only the issuing state institution. Examples of internal legal acts are instructions and recommendations.

The national tax system is not governed by a unified tax law. Rather, each type of tax is set forth in a separate statute: the Law on Taxes and Duties (base law), the Law on Personal Income Tax, the Corporate Income Tax Law, the Law on Immovable Property Tax, the Value Added Tax Law, the Law on Excise Duties, the Customs Law, the Law on Natural Resources Tax, the Law on Company Car Tax, the Law on Vehicle Exploitation Tax, the Law on Electricity Tax, the Law on Microenterprise Tax, the Law on Solidarity Tax, the Law on Subsidised Electricity Tax, the Law on Lotteries and Gambling Fee and Tax, the Law on State Social Insurance Mandatory Contributions, and the Law on the Application of Taxes in Free Ports and Special Economic Zones.

Tax administration authority is exercised by the State Revenue Service (SRS). Corporate Income Tax (CIT) and Personal Income Tax (PIT) are imposed on a national level. Separate tax rates are levied on different kinds of income. This is true for both corporate tax (eg, the tonnage tax) and PIT. From 1 January 2018 Latvia has introduced a progressive PIT rate that varies depending on the type of income. From 1 January 2018 corporate taxpayers are exempt from CIT tax on reinvested profits. Corporate taxpayers are taxed only on profit distributions.

Non-resident companies are taxed only on their Latvian-source income. For CIT purposes, only expenses directly related to company business activity are deductible. The Value Added Tax (VAT) regime is also imposed solely on a national level. Certain other indirect taxes are levied at special rates (eg, duty on the transfer of title to immovable property, customs duties imposed on goods imported from outside the EU, excise duties, tax on lotteries and games of chance, and natural resources tax).

1.2. Currency

Latvia uses the Euro as its currency.

1.3. Membership of International Organizations

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

1.4. Official Websites

In Latvia, the following tax or finance authority websites are available:

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

1.5. Automatic Exchange of Information

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 with the first information exchange date scheduled for September 2017.

Latvia has enacted legislation to implement the provisions of Directive 2014/107/EU (DAC2) (amending Directive 2011/16/EU) on mandatory automatic exchange of tax information within the EU.

Latvia has signed a FATCA Model 1 Intergovernmental Agreement 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.

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

2. Corporate Tax Computation and Administration

2.1. Residence, Taxable Status, Entity Characterization

2.1.1. 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 regarding tax residency.

2.1.2. Taxable Status

Joint stock companies, limited liability companies, permanent establishments (PEs), foreign commercial companies, other legal persons who receive income in Latvia and certain institutions funded by the state or local authorities are taxable to CIT.

From 1 January 2018, tax is paid by new tax subjects – partnerships – whereas investment funds, including alternative investment funds, are not taxpayers in Latvia.

Individuals in business (sole proprietors) are generally not treated as a taxable entity and include business income in their individual tax returns, but may register as CIT taxpayers with the SRS.

2.1.3. Legal Classification of Non-resident Entities

Typically, the Latvian tax system recognizes a non-resident entity according to its status on like terms as a similar entity established in Latvia. A foreign partnership would be treated similarly to a Latvian partnership and a foreign company would be treated similarly to a Latvian company, though with some exceptions – eg, a US LLC would be regarded as a company for Latvian tax purposes.

2.2. Corporate Tax Base

2.2.1. Resident Corporations

From 1 January 2018 companies resident in Latvia are taxed on dividends, deemed dividends and expenses comparable to dividends with the real aim of profit distribution. Business income earned (including interest, royalties and inbound dividends) is not taxed on receipt but on profit distribution, whereas the CIT rate for profit reinvested in the company is 0%. Similar tax treatment applies to PEs of foreign entities.

2.2.2. Non-resident Corporations

A non-resident company is taxable to CIT with respect to Latvian-sourced income and capital gains constituting income attributable to a PE in Latvia. A PE is treated as a separate resident taxpayer for the purposes of Latvian tax laws.

Non-resident companies without a PE in Latvia need only pay withholding taxes on certain types of payments received from Latvian residents or Latvian PEs, such as:

- disposal of immovable property in Latvia;
- management and consultancy fees;
- payments to residents of low- tax or non-tax countries or territories.

Generally, Latvia follows the OECD concept of PE 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 in Latvia for 30 days in any 6-month period will constitute a PE, as will the use of an agent authorized to enter into contracts where the agent exercises that authority as infrequently as twice in a tax year.

In general, selling goods over the internet to Latvian customers should not be taxable to Latvian income tax, although VAT may be due if sales exceed certain thresholds. Telephone sales and presence is likely to fall into the same category — as a distance sale, it will not as such create a PE.

Latvia has not established rules expressly addressing the relation of cloud computing services to the concept of PE but general principles – under both domestic law and OECD guidance – suggest that the question may be determined by the location of cloud servers and the degree to which cloud services constitute the core business of the foreign company.

2.2.3. Non-Corporate Business Entities

2.2.3.1. Recognition

The Latvian Commercial Code recognizes 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, though these are restricted to promotion and advertising – no operational activity is allowed.

2.2.3.2. Tax Status

Limited liability companies are treated as corporations for tax purposes and are taxable to CIT on the same terms as corporations. Sole proprietorships are not treated as 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.

2.2.4. Permanent Establishments

2.2.4.1. Domestic Law Definition

Under Latvian domestic law, a non-resident has a “permanent establishment” in Latvia if it has a 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 PE where the non-resident:

- uses a building site, construction, installation or assembly project located in Latvia, or carries out connected supervisory or consultancy activities;
- uses equipment or structures located in Latvia or used for the exploration or extraction of natural resources, including drilling rigs or ships used for exploration for or exploitation of natural resources, or carries out connected supervisory or consultancy activities;
- provides services, including consultancy, management or technical services, through 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 the authority to conclude contracts in the name of the non-resident.

2.2.4.2. Treaty Definition

Editor's Note: The OECD's BEPS Action 7 relates to preventing artificial avoidance of PE status. Action 15 relates to developing a multilateral instrument to modify bilateral tax treaties. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

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

2.2.4.3. Creation via Performing Services

Editor's Note: The OECD's BEPS Action 7 relates to preventing artificial avoidance of PE status. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

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

2.2.4.4. Creation via Customer Downloads or Website Access

Editor's Note: The OECD's BEPS Action 1 relates to addressing the challenges of the digital economy. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

As noted above (Section 2.2.2.), providing website access and downloads does not, alone, mean that a foreign company must pay Latvian income taxes. As a result, while there is no specific provision in Latvia as to whether that activity constitutes a PE, it appears unlikely that e-commerce activities of this kind would constitute a PE. However, if a foreign company places a server in Latvia and carries out active trading through that server (including hosting a website and downloadable content), this may constitute a PE in Latvia requiring registration and attracting Latvian income taxation.

As of 1 January 2017, a website or mobile app that provides goods or services can be considered a unit of a business entity. Websites and mobile apps that offer goods or services with an order acceptance and payment system are considered to be placed where the economic activity is based and the taxpayer must register the website or mobile app as a business entity with the Latvian SRS.

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

- a website is involved in 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 PE but is not registered as a PE or not registered in the commercial register as a branch; or
- a website is used for economic activity in the Latvian economic environment but is not registered as a unit;
- the owner of the website refuses to cooperate and provide information requested by the Latvian SRS.

2.2.4.5. Creation via Cloud Services

Editor's Note: The OECD's BEPS Action 1 relates to addressing the challenges of the digital economy. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

There is no specific provision on cloud services. However, general principles relating to PEs and to e-commerce activity (see Section 2.2.4.4.) would indicate that the question whether such services constitute a PE will be based on the location of network hardware (in Latvia or abroad) and the degree to which business activities hosted on or conducted in the cloud constitute the core business of the foreign company.

2.3. Taxable Year

2.3.1. Default Taxable Year

For Latvian CIT purposes, the accounting year (which also serves as the taxable year) normally corresponds to the calendar year. However, a company may – if it meets the requirements of certain relevant laws – elect to have an accounting year different from the calendar year. The CIT 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 in any event cannot exceed 18 months.

2.3.2. Reference Year for Computation of Tax

From 1 January 2018, the CIT taxation period is one month. In a given taxable period, taxpayers must pay tax only if profit distribution has taken place or expenses comparable to dividends have been paid.

2.4. Computing Taxable Income

2.4.1. General

From 1 January 2018, Latvia has a new CIT system with the aim of exempting retained profits from CIT. The taxable base of Latvian CIT payers includes dividends, deemed dividends and deemed profit distribution.

Deemed dividends are defined as increase in share capital from profits generated after 1 January 2018, followed by share capital decrease.

The following are considered deemed profit distributions:

- non-business expenses,
- certain bad debts,

- interest expenses exceeding thin capitalization limits,
- certain loans to related parties,
- transfer pricing adjustments,
- benefits – to employees and/or board members – attributed to Latvian PE,
- liquidation quota.

Since the Latvian CIT system does not allow accumulation of tax losses.. Note that transitional period rules cover using tax losses incurred to 31 December 2017.

2.4.2. Exempt Income

In general, all types of income are taxable on distribution, except:

- distribution of profit generated before 31 December 2017;
- dividends received by a domestic or foreign company can be distributed without CIT liability if CIT is paid in the country of origin (except dividends from black-listed offshore jurisdictions);
- capital gains from sale of shares held for at least 3 years (except participation in companies established in black-listed offshore jurisdictions).

2.4.3. 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 the item.

2.4.4. Depreciation or Capital Allowances

As only distributed profits are taxable, CIT payers also need not carry out inventory valuation and inventory.

2.4.5. Reserves

Provision for bad debts included in the profit or loss statement should be included in the taxable base if the debt is not recovered within 36 months after provision is recognised. Only certain qualifying bad debts are exempt from inclusion in the taxable base. Bad debt regulation does not apply to reserves and provisions recognized by credit institutions.

2.4.6. Special Allowances

The Latvian CIT system sets a 0% CIT rate for reinvested profit as CIT is paid only on profit distribution.

Latvian CIT law sets allowances for donations to certain organisations.

As a transitional rule, Latvian CIT law allows limited use of tax losses incurred to 31 December 2017.

2.4.7. Special Provisions or Limits Applicable to Foreign Companies

Editor's Note: The OECD's BEPS Action 4 is concerned with limiting base erosion involving interest deductions and other financial payments. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia has introduced the interest limitation rule set out in the ATAD directive within the scope of Latvian thin capitalisation regulations (see Section 8.2.).

2.5. Intercompany Dividends

CIT applies to all dividends, deemed dividends and expenses comparable to dividends. If CIT is paid in the country of origin, dividends received by a domestic or foreign company can be distributed without further tax CIT liability except dividends from black-listed offshore jurisdictions.

2.6. Special Tax Regimes

2.6.1. Economic Zones

Latvia has established three special economic zones (SEZs): (1) Liepaja SEZ; (2) Rezekne SEZ and (3) Latgale SEZ. In addition, two free ports enjoy the same tax benefits as SEZs: Riga and Ventspils. SEZ and free port benefits were recently extended until 2035 (they originally expired in 2017). Currently, the incentives enjoyed by companies operating in an SEZ or free port are 80 per cent credits against corporate income, real estate, and withholding taxes up to a cumulative maximum equal to 50 per cent of the amount invested in the SEZ or free port (45 per cent of the investment for medium-sized enterprises and 55 per cent for small enterprises) up to a maximum investment of 50 million euros. This means that up to the investment cap, companies may pay CIT at a 5 per cent rate and real estate tax at a 0.3 per cent rate, while 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 from them.

2.6.2. International Finance or Holding Companies

Editor's Note: The OECD's BEPS Action 5 relates to countering harmful tax practices (including certain preferential intellectual property (IP) regimes) more effectively, taking into account transparency and substance. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

If CIT is paid in the country of origin, dividends received by Latvian resident entities are exempt from CIT. No withholding tax is chargeable on dividends, except for those paid to black-listed offshore jurisdictions.

2.6.3. Research and Development Companies and Activities

Editor's Note: The OECD's BEPS Action 5 relates to countering harmful tax practices (including certain preferential IP regimes) more effectively, taking into account transparency and substance. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Innovative Products — Start-ups (Jaunuzņēmumu)

As of January 1, 2017, Latvia has created a programme to promote development of innovative products and research. The tax benefits that may apply to companies set up under this programme include: (1) exemption from CIT 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 programme. Certain tax benefits or tax credits that are generally available are not available while innovation credits are being claimed. Total tax benefits under this programme are capped at 200,000 euros over the last three years.

2.6.4. Other Special Regimes

Tonnage Tax

This tax regime serves as an alternative to the CIT 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; and
- >25,000 tu — 0.0007.

2.7. Double Taxation Protection

2.7.1. Mechanics

Editor's Note: The OECD's BEPS Action 6 relates to preventing the grant of treaty benefits in inappropriate circumstances. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia provides both unilateral and bilateral double tax protection. Bilateral protection stems from tax treaty provisions. Unilateral relief is available in the form of a foreign tax credit for tax paid abroad on taxable income. The foreign tax credit is limited to the lower of the foreign tax paid or 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 eligible for carry forward for an unlimited period.

2.7.2. Treaty or Statutory Priority

Editor's Note: The OECD's BEPS Action 6 relates to preventing the grant of treaty benefits in inappropriate circumstances. Action 14 is concerned with making dispute resolution procedures more effective. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

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

Treaty provisions generally prevail over domestic provisions but may not result in heavier 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.

2.7.3. Source of Interpretation

Editor's Note: The OECD's BEPS Action 15 relates to the development of a multilateral instrument to modify bilateral tax treaties. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

The majority of treaties entered into by Latvia follow the OECD Model Tax Convention and related guidance. Latvia has signed but not yet ratified the multilateral tax treaty introduced by BEPS Action 15.

2.8. Returns and Filing Dates

2.8.1. Filing Deadline

From 1 January 2018 a new CIT system is in operation and CIT payers must file their tax returns monthly by the 20th day of the month following the taxation period. Taxpayers need not file tax returns for months with no taxable base. However a tax return must be filed for the last month of the reporting year. The tax return for the last reporting month may be filed up until the deadline for filing financial statements.

2.8.2. Filing Method

All companies must file tax returns with the SRS electronically through the Electronic Declaration System.

2.8.3. Extensions

No extension to the filing due date is available.

2.8.4. Penalties

Under the Latvian Administrative Code, a fixed money penalty is assessed for failure to file a tax return on time, register as a taxpayer when required, provide information relating to registration, or deregister when required. The amount of the penalty depends on the length of delay.

2.9. Payment Mechanics

2.9.1. Internal Withholding on Resident Companies

No internal withholding is required on payments to resident companies.

2.9.2. Schedule for Tax Payments or Deposits

From 1 July 2018, schedule payments for CIT in Latvia are cancelled. During the period from 1 January to 1 July 2018, CIT schedule advance payments must be based on CIT calculated in FY 2016.

2.9.3. Electronic Payments

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

2.9.4. Interest and Penalties

According to the Latvian Law on Taxes and Duties, interest is charged on late payment of tax or duty at the rate of 0.05 per cent for every day of delay, capped at 40% of the unpaid tax. Interest is not charged if the tax due is received within 5 business days after the deadline.

Additionally, if the tax authorities discover that a taxpayer is liable for undeclared tax, they will require not only the outstanding tax due, but also impose interest and a penalty. The amount of the penalty will vary according to the nature and frequency of the default up to 100 per cent of the tax due.

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

2.10. Statute of Limitations

In Latvia, the statute of limitations for tax assessment is three years beginning with the due date for payment. The statute of limitations is disappplied where the authorities are conducting an audit or suspect criminal activity on the part of the taxpayer.

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

3. Corporate Tax Rates

3.1. National Taxes

3.1.1. Corporate Tax Rates

The CIT rate is 20%, where the taxable base should be divided by a coefficient of 0.8.

3.1.2. Alternative Tax Regime

Micro-Enterprise Tax (MET)

A ME is a business (eg, sole proprietorship, farm, limited liability company) that satisfies the following qualifications:

- the shareholders of the entity are individuals;
- the turnover of the entity in a calendar year does not exceed 40,000 euros;
- 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.

MEs pay a flat tax rate of 15 % of revenues. The MET regime replaces CIT, PIT and social security contributions.

The voluntary contribution rate for a ME employee who voluntarily joins all types of social insurance is 35.09 per cent. Employers pay the minimum social insurance contributions for employees (see Section 6.6.1.).

MET taxpayers must pay a minimum annual tax of 50 euros.

3.1.3. Special Reduced Rates or Regimes

Editor's Note: The OECD's BEPS Action 5 relates to countering harmful tax practices (including certain preferential IP regimes) more effectively, taking into account transparency and substance. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

- **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 Section 2.6.4. for additional information.

3.1.4. Special Additional Taxes or Levies

No other additional or special income taxes or levies are imposed in Latvia.

3.2. State, Cantonal, Provincial or Other Local Taxes

3.2.1. Main Rates

Latvia does not impose local taxes on corporate profits or capital gains.

3.2.2. Reduced Rates

Latvia does not impose local taxes on corporate profits or capital gains.

3.2.3. Income Tax Base

Latvia does not impose taxes on corporate profits or capital gains.

3.2.4. Income Tax Deductions

Latvia does not impose local taxes on corporate profits or capital gains.

3.2.5. Incentives

Latvia does not impose local taxes on corporate profits or capital gains.

3.2.6. Non-Income Taxes

Municipalities in Latvia may set the rate of real estate taxes at anywhere from 0.2 per cent to 3 per cent of the value of real property so long as they notify taxpayers by 1 November of the previous year. If no rate is set by the municipality, certain default rates are applied under PIT laws:

- land and buildings used in commercial activity: 1.5 per cent;
- uncultivated land capable of agricultural use: 1.5 per cent (plus up to 1.5 per cent extra municipal levy);
- environmentally-detrimental buildings or those that are safety hazards: 3 per cent;
- houses, apartments, and premises not used for business activities: 0.2 per cent for property up to 56,915 euros; 0.4 per cent for property between 56,916 euros and 106,715 euros; 0.6 per cent for property greater than 106,715 euros; and

- buildings under construction where the construction permit has expired: 3 per cent.

3.3. Taxes Imposed as a Penalty

Penalties are imposed for late payment of taxes or late filing of tax returns as well as where undeclared taxes are discovered (see Section 2.9.4.). No other taxes are levied as penalties in Latvia.

4. Corporate Tax on Capital Gains, Losses, Group Treatment

4.1. Taxation of Corporate Capital Gains

In Latvia, capital gains from sale of a capital asset are taxed on distributing profit at the standard tax rate of 20 per cent. Capital gains from the sale of shares are exempt for CIT purposes if held for at least 36 months, except for shares of companies resident in black-listed offshore jurisdictions.

4.2. Definition of Corporate Capital Gains

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

Capital asset: generally any asset held by a taxpayer but not for sale in the regular course of business.

Long-term gains and assets: capital gains from sale or exchange of shares are exempt for CIT purposes if held for at least 36 months, except for shares of companies resident in tax black-listed offshore jurisdictions.

4.3. Computation

A capital gain or loss is the difference between the proceeds of sale and the book value of the asset.

4.4. Corporate Combinations and Divisions

4.4.1. Mergers

Under the Latvian tax system, neither company in a merger is taxed on gains arising from transfer of assets and liabilities to the successor company according to the difference between the actual value and the tax value of assets and liabilities, nor are shareholders taxed on gains arising from exchange or conversion of merging company shares into shares in the successor company. In order for a merger to qualify for statutory tax-free status, cash consideration received in the merger may not exceed 10 per cent of the nominal value of the shares transferred.

4.4.2. Transfers of Corporate Property

No special provisions cover the purchase of an existing business. So, for example, any capital gains or losses to individuals or companies arising from such a purchase would be assessed for tax according to the general rules, ie, when profits are distributed.

4.4.3. Share Transfers

Any capital gains or losses to individuals or companies arising from such a purchase would be assessed for tax according to the normal rules, ie, when profits are distributed, unless the 3-year holding period is met and exemption applies.

4.4.4. Divisions or Separations

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

Both types of division are eligible for tax-free treatment in the same way as mergers. The transferor and transferee companies would not be required to declare a gain on assets and liabilities transferred. Shareholders would also be exempt from taxation to the extent they receive stock in any transferee company. However, as with a merger, in order to qualify for tax-free treatment the cash consideration may not exceed 10 per cent of the nominal value of the shares transferred.

4.5. Position of Losses from Business Operations

4.5.1. Definition

From 1 January 2018, the concept of tax losses no longer exists in Latvian tax law.

4.5.2. Treatment

Carrybacks — Carryback of losses is not permitted in Latvia.

Carryforwards — As a transitional measure under the newly introduced CIT system, companies can use tax losses generated until 31 December 2017. Only 15% of tax losses can be used to cover CIT liabilities for dividends during a term of five years from 2018. Losses can be used to decrease CIT payable on dividends but not by more than 50%.

Under the new Latvian CIT law, over a five-year transitional period Latvia is cancelling the possibility to use the system of carrying forward losses. As with the new CIT system, tax is paid on distributed profit – not on yearly profit – and from 2023 it will no longer be possible to use and carry forward losses.

4.5.3. Losses after Change in Ownership

Since the new CIT system does not allow accumulation of tax losses, there are no provisions regarding taking over losses after a change in ownership. No specific regulation covers taking over losses generated in previous periods, since their use is already limited in volume and in time.

4.6. Group Treatment

4.6.1. General Rule

Latvia does not permit consolidated group filing or other group reporting for income tax purposes.

4.6.2. Definition of Group

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

4.6.3. Special Aspects

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

5. Corporate Withholding Taxes on Non-resident Corporations

5.1. Dividends

Editor's Note: The OECD's BEPS Action 6 relates to preventing the grant of treaty benefits in inappropriate circumstances. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia does not levy withholding tax on dividends paid to non-resident companies, except to residents of blacklisted tax havens. Payments to tax havens are taxed at a 20 per cent rate.

5.2. Interest

Editor's Note: The OECD's BEPS Action 6 relates to preventing the grant of treaty benefits in inappropriate circumstances. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia does not impose withholding tax on interest payments to non-residents, except to residents of blacklisted tax havens. Payments to tax haven residents generally attract withholding tax of 20 per cent.

5.3. Royalties

Editor's Note: The OECD's BEPS Action 6 relates to preventing the grant of treaty benefits in inappropriate circumstances. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia does not impose withholding tax on royalty payments, including technical service fee payments, to non-residents, except for payments to residents of blacklisted tax havens. Royalty payments to tax haven residents attract withholding tax of 20 per cent.

5.4. Services

Management and consultancy fees paid to non-resident companies attract withholding tax at a rate of 20 per cent on the gross amount (but not residents in an EU member state or jurisdiction with which Latvia has a double tax treaty, when the company may reduce the withholding tax rate applied in Latvia).

5.5. Other Withholding Taxes

Income from Sale of Real Estate

A non-resident's proceeds of sale of real property in Latvia, or from sale of shares in a company whose real property holdings make up more than 50 per cent of its total assets, attract a 3 per

cent withholding tax.

5.6. Special Tax Havens Rates

Most payments made to persons resident in tax havens are liable to withholding tax at a rate of 20 per cent. The withholding obligation also applies to payments through intermediaries and if the transaction takes the form of a mutual credit instead of actual payments. All residents of Latvia and PEs of non-residents in Latvia are required to withhold tax. The SRS may grant an exemption from the withholding obligation to a payer who proves that a transaction with the resident of a tax haven was not entered into for the purpose of avoiding or reducing Latvian tax liability.

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:

- their permanent place of abode is in Latvia;
- physical presence in Latvia for at least 183 days in any 12-month period beginning or ending in the tax year; or
- they are a citizen of Latvia employed abroad by the Latvian government.

The SRS 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. Determining an individual's permanent place of abode in Latvia is governed by article 7 of the Civil Code which basically states 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 permanently.

6.2. Income Tax Base

6.2.1. Tax Base for Residents

Residents must pay Latvian income tax on their worldwide income.

6.2.2. Tax Base for Non-residents

Non-residents must pay tax on their Latvian-source income.

6.2.3. Personal Income on which Income Tax is Payable

Latvia-resident individuals pay Latvian tax on their worldwide income but income derived by resident individuals from EU member states or from a country with which Latvia has a tax treaty, is exempt.

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

- income from employment carried out in Latvia or for a Latvian employer;
- income from professional activities in Latvia or on behalf of a resident of Latvia or a Latvian PE;
- income from professional activities in Latvia by an artist, athlete or coach;

- income from acting as 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 disposal of immovable property in Latvia and of other capital assets (excluding financial instruments). This includes the proceeds from disposal of participation in an entity more than 50 per cent 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, these gains are generally taxed at a special capital gains rate of 20 per cent. 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 notable items of income are exempt from PIT:

- income from bonds issued by the Latvian (or other European Economic Area country's) government or local authority;
- income from inheritance;
- gifts from closely related individuals or gifts up to 1425 euros from other individuals (gifts from companies, gifts from employers with a value up to 15 euros);
- gains from exercising registered employee share options where the period between grant and exercise is at least 36 months;
- income from agricultural production or rural tourism services not exceeding 3000 euros annually; and
- income from lotteries and other games of chance.

Certain other payments can also be made tax-free if not over the limits set 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 the course of employment (eg, 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, not exceeding the lower of 10 per cent of the employee's gross salary or 426.86 euros. The mandatory term for life insurance premiums of an insurance contract is 10 years.

Other: directors' fees and other similar remuneration are taxed as 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 (if certain requirements are met) of 10 per cent of the employee's gross salary or up to 426.86 euros;
- amounts donated to approved cultural, educational, scientific, sporting, charitable, health, environmental, religious, and governmental institutions as well as medical expenses (including health insurance premiums) and educational expenses incurred on behalf of the taxpayer and their immediate family up to EUR 600 for each dependant a year but not exceeding 50% of gross taxable income.

Allowances

Latvia has introduced a differentiated non-taxable minimum income. For income (ie, not only salary, but also other taxable income) not above the minimum monthly salary of EUR 430 a non-taxable minimum of EUR 200 a month applies. However, the non-taxable minimum does not apply to monthly gross income above EUR 1,000.

In 2018, resident taxpayers are permitted an allowance for each dependant of 200 euros a month (2 400 euros a year). Persons receiving a pension payable under Latvian or foreign law are entitled to a personal allowance of 3000 euros a 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.

The definition of dependant 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 the taxpayer's custody or guardianship, disabled non-working spouses, non-working spouses who have custody over a minor child with a disability, disabled parents, disabled grandparents, and disabled children over the age of 18.

Disabled persons may be entitled to an additional allowance depending on the category of disability.

6.3. Main Rates and Bands

6.3.1. Individual Tax Rates

Starting from 2018, Latvia has introduced progressive PIT. That is, gross income below EUR 20,004 a year is taxable at a 20% PIT rate and income from EUR 20,004 to EUR 55,000 a year is taxable at the present rate of 23%, while income exceeding EUR 55,000 a year is taxable at a PIT rate of 31.4%.

Dividends, interest, and other income from capital (other than capital gains, eg, income from life insurance, income from private pension funds, income from investment of contributions, return on annuity insurance contracts, income from financial instruments) received by resident individuals is generally taxed at the 20 per cent rate. Under the new CIT system, no PIT applies to dividends received by an individual where CIT has been already paid. Income from forest disposals and lease of an individual's own property without registration with the SRS as a business activity is taxed at a rate of 10 per cent.

A 20 per cent rate applies to income from the sale of capital assets. Capital gains realized on the disposal of capital assets such as real estate, stock, bonds, short-term debt instruments, other securities, and intellectual property, is generally taxed at 20 per cent. However, gains on the sale of real property held for over five years may be exempt under certain conditions (where the property 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 have registered as corporate taxpayers must normally pay CIT, but may choose to remain PIT taxpayers. Sole proprietors who registered as a micro-enterprise and have opted into the micro-enterprise tax regime will be taxed according to the rules of that regime (see Section 3.1.2. for a discussion of micro-enterprise tax).

Additionally, individuals involved in certain activities (eg, photographic services, cosmetic services, dress making and repairs) whose annual turnover is below 15,000 euros, who have no employees, and who do not have to register for VAT purposes may choose to pay a so-called "licence fee" instead of PIT 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 levies a “Solidarity Tax” on highly paid employees. See Sections 6.6.1. and 6.6.2.

The minimum monthly salary for 2018 is 430 euros.

6.3.2. Individual Returns, Filing Dates, and Payment

Individual taxpayers must generally file income tax returns, but individuals who earned only Latvian-source income where tax has already been withheld (eg, 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 also the calendar year. This filing obligation also applies to self-employed individuals. If a person’s annual income exceeds EUR 55 000, their annual tax return should be filed between 1 April and 1 June.

Individuals carrying on business must file returns electronically. Other individuals may file paper returns.

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

Capital gains returns and capital gains taxes are due quarterly (by the 15th of the following month) for any quarter in which gains exceed 1000 euros, or annually where gains do not exceed the 1000-euro threshold in any quarter.

Interest is imposed on late payment of tax due at the daily rate of 0.05 per cent. If a tax audit results in additional assessment of tax, fines and penalties of up to 30 per cent of the tax due may be imposed. As from 1 July 2017 late payment penalties are capped at up to two-fifths of unpaid or late-paid tax.

6.4. Dividends

6.4.1. From Domestic Corporations

No PIT applies to dividends where CIT has been already paid.

6.4.2. From Foreign Corporations

Foreign dividends paid to a Latvian resident are not taxable to income tax if CIT or PIT has already been paid in the foreign country.

6.5. Interest

6.5.1. Domestic Borrowers

Residents are taxed on interest received (except for interest from certain exempt bonds) at a rate of 20 per cent. A Latvian corporate entity must withhold PIT from interest that it pays to an individual.

6.5.2. Foreign Borrowers

Interest received by resident individuals from foreign companies is taxed at 20 per cent. Foreign tax credits are available for 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. These contributions are deductible by employers for CIT purposes.

Resident individuals: in Latvia, the total mandatory contribution (employer contribution + employee contribution) rate is generally 35.09 per cent of the taxable base. For 2018, the mandatory contribution rate breakdown by types of social insurance is as follows:

- state pension insurance ('pension insurance') — 24.50 per cent;
- social insurance, unemployment insurance — 1.84 per cent;
- social insurance against accidents at work and occupational diseases ('occupational accident insurance') — 0.53 per cent;
- disability insurance — 2.23 per cent;
- maternity and sickness insurance — 3.65 per cent;
- parental insurance — 1.34 per cent;
- health insurance — 1.00 per cent.

Of the 35.09 per cent payment, employers must pay 24.09 per cent of the taxable base for each employee. The taxable base for employer contributions is the employee's gross income taxable to PIT 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 for social security contributions is 55,000 euros annually.

The employer pays solidarity tax at a rate of 24.09 per cent on salary above the annual taxable salary.

Directors: companies with a turnover exceeding certain levels are required to pay PIT and social security contributions on at least the minimum salary 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 11 per cent of the employee's salary.

As of 1 January 2016, Latvia levies a “Solidarity Tax” on employees who earn more than the maximum annual taxable salary for social security contributions. For 2018, the maximum annual taxable salary for social security contributions is 55,000 euros. The employee pays solidarity tax at a rate of 11 per cent on the amount of salary above the annual taxable salary.

Self-employed individuals must pay 32.15 per cent social security tax on any income derived from business activities. The mandatory contribution rate breakdown by type of social insurance is as follows:

- pension insurance — 24.50 per cent;
- disability insurance — 1.77 per cent;
- maternity and sickness insurance — 3.54 per cent;
- parental insurance — 1.34 per cent;
- health insurance — 1.00 per cent.

6.6.3. Employee Tax Collection Mechanism

Employees' social security contributions are collected through withholding from salary or wages. However, an employee temporarily resident in Latvia who is employed by a non-resident taxpayer must calculate and pay their own contributions if they are present in Latvia for over 183 days.

6.7. Royalties and Rents

6.7.1. Domestic Licensors

Resident individuals receiving royalty income must generally pay Latvian PIT at a rate of 20 per cent. However, progressive tax rates apply if the thresholds are met on an annual basis (see Section 6.3.1. for progressive tax rates). The taxable base of some royalties such as those 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 25 per cent to 50 per cent of gross royalties, depending on the type of royalty, resulting in effective rates between 15 per cent (a 25 per cent reduction) and 10 per cent (a 50 per cent reduction).

Income from renting immovable property, ie, land, buildings, parts of buildings, and apartments, is taxable at progressive PIT rates, unless the person applies for the special tax regime of 10% income tax from rent revenues. The regime may be applied if the costs of renting activities are not substantial.

6.7.2. Foreign Licensors

Royalties paid to non-resident private individuals (not registered as self-employed persons) are taxable to PIT of 20 per cent. The tax rate may be reduced if Latvia has concluded a double tax treaty with the respective country.

Income (but not capital gains) from rental of immovable property is taxable to PIT at the same PIT rates as for Latvian tax residents. Income from renting immovable property, ie, land, buildings, parts of buildings, and apartments, is taxable at the ordinary progressive income tax rates unless the person applies for the special tax regime of 10% income tax from rent revenues. The regime may be applied if the costs of renting activities are not substantial.

7. Transfer Pricing Policies

7.1. Application

Editor's Note: The OECD's BEPS Actions 8 to 10 are concerned with aligning transfer pricing outcomes with value creation. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia has a transfer pricing regime that utilizes 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 CIT relief; and
- related individuals.

7.2. Permissible Pricing Methods

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

7.3. Penalties for Improper Pricing

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

- if the tax charge has been understated by up to 15 per cent of the tax charge that should have been reported, a penalty of 20 per cent of the total tax liability that should have been reported;
- if the tax charge has been understated by more than 15 per cent of the tax charge that should have been reported, a possible penalty of 30 per cent of the tax liability that should have been reported.

The penalty imposed may be reduced by 50 per cent if certain conditions are met.

7.4. Advance Rulings or Pricing Agreements

Local companies and PEs may enter into an Advance Pricing Agreement with the SRS if the value of the related-party transaction(s) in question exceeds 1.43 million euros a year.

7.5. Documentation

Editor's Note: The OECD's BEPS Action 13 relates to guidance on transfer pricing documentation and country-by-country reporting. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Companies with annual turnover exceeding 1.43 million euros and related-party transactions exceeding 14,300 euros a year are required to prepare transfer pricing documentation from 2013. The tax law amendments are planned to be introduced from 2018, when the thresholds will be reviewed.

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

A company must file full transfer pricing documentation in Latvian within one month after receiving a request from the Latvian SRS.

The proposed amendments foresee introducing global and local files in line with OECD guidance. For taxpayers meeting certain requirements, filing of documentation will be voluntary on an annual basis. For other categories, documentation must be available for production to the tax authorities on request.

Country-by-Country (CbC) reporting

On July 4, 2017, Cabinet of Ministers Regulations No 397 was published setting out detailed rules on Latvian CbC reporting requirements.

Effective date — fiscal years beginning on or after January 1, 2016.

Filing threshold — Latvian multinational enterprises with total consolidated group revenue exceeding 750 million euros in the preceding fiscal year.

Under the secondary reporting mechanism a Latvian subsidiary may be required to file a CbC report if:

- the foreign parent company is not required to file a CbC report in its jurisdiction of residence;
- there is no agreement for exchange of CbC reports between Latvia and the jurisdiction of tax residence of the ultimate parent; or
- there is a systemic failure of the jurisdiction of residence of the ultimate parent to exchange CbC reports and the Latvian tax authority has notified the constituent entity accordingly.

Information reported — generally consistent with the Final Report on Action 13 of the OECD/G20 BEPS Project and Directive 2016/881/EU (DAC4) (amending Directive 2011/16/EU (DAC)) on CbC reporting and exchange of CbC reports within the EU.

Deadline for notifying surrogate entity — a Latvian tax resident company must notify the tax authority of the name and jurisdiction of residence of the reporting entity by the last day of the reporting year. However, for the first year the deadline is extended to August 31, 2017.

Deadline for filing — within 12 months of the last day of the reporting year.

Penalties may apply for non-compliance.

U.S. Exchange Agreement — on June 21, 2017, Latvia signed a competent authority agreement with the United States to exchange CbC reports.

Latvia is a signatory to the Multilateral Competent Authority Agreement on automatic exchange of CbC reports, facilitating implementation of transfer pricing reporting standards developed under the Final Report on Action 13 of the OECD/G20 BEPS Project.

Source: Global Tax Guide > Europe > Latvia > 8. Anti-Avoidance Provisions

8. Anti-Avoidance Provisions

8.1. General Anti-Avoidance Provisions

Editor's Note: The OECD's BEPS Action 2 relates to neutralizing the effects of hybrid mismatch arrangements. Action 12 relates to mandatory disclosure rules. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Latvia operates a statutory anti-avoidance rule. According to the law, the tax administration can set the amount of tax payment, taking into account the economic substance of the taxpayer's transactions, ie, not only the legal form. A “substance over form” approach is applied to all transactions.

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

With effect from 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 filed electronically by credit institutions and payment service providers in accordance with their respective bilateral agreement with the SRS.

Reporting suspicious transactions

With effect from 1 January 2017, the Latvian SRS receives electronic information on “suspicious transactions” involving tax matters (eg, 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 and sworn auditor commercial companies;
- sworn notaries;
- sworn advocates
- other independent legal service providers;
- legal arrangements establishing and running 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 marketing vehicles, as well as through those operations;
- other legal or natural persons trading in cultural monuments, as well as through those operations;
- other legal or natural persons engaged in marketing precious metals and precious stones, 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 1,500 euros (regardless of whether the transaction takes place in a single operation or in several operations).

Taxpayers are not allowed to carry out cash transactions in excess of 7,200 euros (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 involved in economic activity.

From 2018 Latvian banks must report to the Latvian SRS on every individual resident of Latvia whose account turnover exceeds EUR 15,000 annually. The SRS will be provided with information about a private person's turnover and balance in order to improve social welfare and boost supervision of tax payments. This information will be provided to SRS before 1 February of every year.

8.2. Thin Capitalization/Other Interest Deductibility Rules

Editor's Note: The OECD's BEPS Action 4 is concerned with limiting base erosion involving interest deductions and other financial payments. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Two thin capitalisation tests apply.

Firstly, allowable interest is calculated on a maximum debt / equity ratio of 4:1.

Secondly, if borrowing costs exceed EUR 3 million, the excess over 30% of the company's net profit before tax is included in the taxable base.

The higher amount of excess interest calculated under either method is taxable to CIT.

Credit institutions' interest expenses on deposits fall within the rules; interest is not paid to specified lenders, ie:

- 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, financial development institution, the Nordic Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank or the Council of Europe Development Bank;
- publicly traded debt securities issued by Latvia and other EU member states or European Economic Area countries;

- government financing, foreign trade lending or guaranteeing organizations with which Latvia has a tax treaty in force,

Payments to entities in black-listed offshore jurisdictions are taxable to 20 per cent withholding tax.

8.3. Controlled Foreign Company (CFC) Rules

Editor's Note: The OECD's BEPS Action 3 is concerned with designing effective controlled foreign company (CFC) rules. Key country developments can be found in the *Bloomberg BNA BEPS Developments Tracker*.

Currently, Latvia has no CFC legislation. Payments by a resident to an entity in a blacklisted jurisdiction are taxable to a 20 per cent withholding tax.

9. Other Taxes

9.1. Payroll Taxes

Latvia has no taxes on payroll other than PIT and social security contributions.

9.2. Capital Taxes (Capital Duties)

Latvia has no tax on capital.

9.3. Property Taxes

9.3.1. Transfer Taxes, Including Real Property Transactions

Latvia has no property transfer tax.

9.3.2. Real Property Taxes

A flat 1.5 per cent 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 per cent — for cadastral value not exceeding approx 56,915 euros; (ii) 0.4 per cent — for cadastral value from approx 56,915 euros to approx 106,715 euros; and (iii) 0.6 per cent — for cadastral value exceeding approx 106,715 euros. Local municipalities can grant taxation reductions to specific categories of individuals.

Local municipalities may impose an additional property tax ranging from 0.2 per cent to 3.0 per cent in accordance with regulations that must be issued by the municipality no later than October 1 of the preceding tax year. If no regulations are issued, then 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 per cent, but not by more than 500 euros. For individuals, immovable property tax paid is deductible for income tax purposes if the immovable property is used commercially.

9.3.3. Taxes on Movable Property

Latvia has no personal property tax.

9.3.4. Fixed Asset Taxes

Latvia has no fixed asset tax.

9.4. Miscellaneous Taxes

Value Added Tax (VAT)/Goods and Services Tax (GST)

For VAT/GST and similar taxes, see the VAT Navigator.

Lottery and gambling tax

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

Natural resources tax

A natural resources tax is levied on extraction of natural resources and on use of environmentally harmful materials. Under the Natural Resources Tax Law, 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. Relief is 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 must be filed electronically each quarter, by the 20th day of the month following the end of the quarter. Payment must be made by the 20th day of that month. However, where the total tax due does not exceed 142.29 euros, payment need only be made annually, by January 20 of the following year.

With effect from January 1, 2017, taxes on natural resources include, but are not limited to:

- a tax of 0.86 euros per cubic meter of soil;
- a tax of 0.21 euros per cubic meter of sand;
- a tax of 0.013 euros per cubic meter of surface water; and
- a tax of 0.05 euros per cubic meter of high-value underground water used for water supply.

Excise taxes

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

Stamp duty

Stamp duty applies on registration of a transfer of title to real property or of a mortgage on real property. The applicant for registration of ownership is liable to pay stamp duty. Duty is generally levied at 2 to 6 per cent of the higher of the cadastral value or the sale price, but certain lower rates are available on certain types of transfers, such as corporate reorganizations or capital contributions. Transfers to family members are eligible for a lower rate of 0.5 per cent.

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

Inheritance and gift taxes

Inheritance and gift tax is not levied in Latvia.

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 generation of waste throughout Latvia, as well as promotion of natural resources and efficient use of waste going into landfill reduction.

With effect from 1 January 2017, tax is imposed on disposal of the following:

- lubricating oils at a rate of 0.17 euros per kg;
- electric batteries and primary power sources at a rate of 0.74 euros to 17.03 euros per kg;
- ozone depleting substances at a rate of 2.22 euros per kg ODP;
- tyres at a rate of 0.66 euros per kg;
- refrigerators and freezers at a rate of 2.33 euros per kg;
- other large household equipment at a rate of 1.44 euros per kg;
- small household appliances at a rate of 3.00 euros per kg;
- computer monitors at a rate of 2.33 euros per kg;

- mobile phones at a rate of 3.33 euros per kg;
- information technology at a rate of 3.00 euros per kg;
- televisions at a rate of 2.33 euros per kg; and
- toys and leisure equipment at a rate of 3.00 euros per kg.

Environmental tax also applies to emissions (eg, carbon monoxide, carbon dioxide, sulphur dioxide, and heavy metals).

Electricity tax

Latvia levies an electricity tax that applies to entities involved in 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 electric power supplied to the end user.

10. Special Industries

10.1. Oil, Gas and Mineral Extraction

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

For more information, see Section 9.4.

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

10.2. Banking and Finance

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

As of 1 March 2017, all credit intermediaries and credit intermediary representatives that offer mortgage loans must sign a credit intermediary register maintained by the Consumer Rights Protection Centre.

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