



TAXES IN EUROPE

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Latvia



 **Capital city:**
Riga

 **Language:**
Latvian


 **GDP/capita**
2019:
USD 16,722

 **Telephone code:**
+371

 **Area:**
64,559 km²

 **Political system:**
Parliamentary
republic

 **Currency:**
Euro

 **National day:**
4 May

 **Population:**
1,873,192

 **ISO Code:**
LVA

1. Corporate taxation

1.1 Taxes on entities

Latvia provides a unique corporate income tax system as generally resident companies and permanent establishments of foreign companies do not pay tax on retained earnings. The tax obligation is deferred without any time limitation until the moment of distributing profits. Corporate income tax is generally levied at a grossed-up rate of 20/80 on any actual or deemed profit distributions.

A reduced rate of 15% applies to micro-enterprises (annual income below EUR 40,000, up to 5 employees and shareholders are individuals).

1.2 Residence and non-residence

Latvian resident company is any company established under the laws of Latvia. Thus, in determining the tax residence of companies Latvia applies the place of registration principle. All other companies are treated as non-resident companies.

With certain exceptions, the taxation of a nonresident company's permanent establishment in Latvia is similar to the taxation of resident companies.

1.3 Tax year and filing

The taxable period and Annual report submitting is usually a calendar year. The company can choose another taxable period but it must be 12 months.

The tax return has to be filled and CIT due has to be paid before 20 date of the next month CIT arisen.

1.4 Types of income

In respect of residents, the object upon which tax shall be imposed is taxable income obtained during a taxation period in Latvia and foreign countries.

For foreign companies- income received from business activities carried out through permanent establishments in Latvia and other specific income sourced in Latvia, such as:

- interests;
- dividends;

- royalties;
- proceeds from rent/sale of immovable property, etc.

1.5 Group income and grouping arrangements

There is no group taxation of companies. Each company must file its own year tax returns.

1.6 Capital gains

Capital gains are treated as ordinary income, which is subject to corporate taxation. Selling of shares of the company is exemption from taxable income if shares belong seller at least 36 months.

National dividends

Dividends received from local are exempt from corporate taxation.

Foreign dividends

Dividends received from foreign companies are exempt from corporate taxation. Exemption- dividends received from off-shores.

Deductible expenses

All expenses not related to the business are treated as nondeductible.

1.7 Losses

There are no corporate tax rules for losses, as the taxation of corporate profits is deferred until the distribution of profits.

1.8 Exemptions

There are no specific corporate tax exemptions, as the general corporate tax regime provides exemption from corporate tax for retained earnings of the company.

1.9 Rates

Generally, 20% corporate tax is applied upon the distribution of dividends. For example, if the company has profits available for distribution of 100, then it can distribute dividends in the amount of 80 and must pay corporate income tax in

the amount of 20 upon the payment of dividends
15% rate is applied to turnover of micro-enterprises If turnover of these companies is until EUR 40,000.

1.10 Double tax relief

Latvia has double taxation avoidance treaties with 50 countries.

2. Personal income taxation

2.1 Taxes on income

Latvian residents are subject to taxation on their worldwide income.

2.2 Residence and non-residence

The standard personal income tax also applies to non-residents. Taxation of non-resident individuals is limited to their activities in Latvia. The income taxed in Latvia includes, among others, dividends paid by resident corporations, interest payments and income from the disposal of capital assets. By way of exception, income of non-residents from the disposal of financial instruments is not subject to personal income tax in Latvia.

2.3 Tax year and filing

The tax year is a calendar year.

The payroll taxes on employment income are withheld by the employer and remitted to the tax authorities on a monthly basis.

The non-resident individual is required to submit Latvian tax return in respect of such Latvian source taxable income, which has not been subject to withholding tax at source.

The annual tax return must be submitted by the individual to the Tax Board by 31 May of the following year, at the latest. In case of gains derived from the sale of Latvian real estate, the non-resident must submit the tax return within one month from the receipt of gains.

Generally, the due date of final income tax for residents is 1 June of the following year.

2.4 Types of income

Personal income tax is charged at 20%, 23% and 31% differential tax rate from January 2018 on employment and other income, with the exception of capital gains.

Interest and income from life insurance contracts and private pension funds are taxed at 20%.

2.5 Capital gains

Capital gains on the disposal of capital assets (such as real estate, shares and bonds) are taxed at 20%.

2.6 Losses

Can be carried forward for next 3 years.

2.7 Exemptions

The basic tax-exempt allowance of the resident individual is EUR 300 per month (EUR 3.600 per annum). One of the resident parents is entitled to the additional tax-exempt child allowance of EUR 250 each child up to 18 years.

In addition, deductions of education expenses, donations, and voluntary pension contributions to the third pillar of the pension scheme from taxable income with established limits can be made in the annual tax return of the resident individual.

2.8 Social security

In Latvia both employers and employees pay social security contributions. From 2021, the employee contribution rate is 10.5%, while the employer's part is 23.59%.

2.9 Expatriates

There are no special tax rules for expatriates.

2.10 Options

Generally the fringe benefits include also the income received by employees from their employer in form of stock option plans or share units.

As an exception, the income from options is not subject to fringe benefit taxation, if the time period between the grant and the exercise of the option is at least five years.

2.11 Pensions

In principle, pensions are subject to 20% or 23% flat income tax. Allowances – (EUR 3,960 per annum) applicable to public pensions.

Certain pensions received from the voluntary pension plans may be also exempt from income tax or subject to 20% or 23% income tax (subject to the order of payment of such pension).

3. Inheritance and gift tax

There are no inheritance or gift taxes in Latvia. However, certain transactions with inherited assets and gifts may be subject to state and notary fees.

4. Wealth Tax

There is no wealth tax in Latvia.

5. Value Added Tax

5.1 Rates

A standard rate of VAT is 21%, a reduced rate is 12% and 5%.

The list of goods and service for which reduced rates apply has been shortened. Currently it includes medications, veterinary medications, and special equipment for children, energy supplied to private individuals, communication services and seasonal vegetables. Some services (educational, medical, and cultural) are taxed with 0%, as are exports.

General registration threshold is EUR 40,000.

5.2 Distance selling to an individual located in Latvia by a company located in the European Union.

Registration threshold is EUR 35,000.

6. Other taxes

Registration duties

Stamp duty and notary fees may apply to certain transactions (e.g. in case of registration entries made in Commercial Register or real estate transactions in Land Register). In most cases, these amounts (depending from the value of the transaction) are insignificant.

Church tax

There is no church tax in Latvia.

Solidarity Tax

Solidarity tax applies to insured persons employees, self-employed whose income in calendar year exceeds the mandatory state social insurance contributions to the maximum amount EUR 62,800 per year. Rate-25%

Trade Tax

There is no trade tax in Latvia.

Other taxes and duties

Other taxes include excise duties, gambling tax, property tax (0.2 -1.5% of cadastral value of land and buildings), natural resources tax (on use of natural resources, pollution, a credit institutions fee, vehicle operating tax and company car tax.

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