Doing business in Latvia 2017
Introduction

The Moore Stephens Europe Doing Business In series of guides have been prepared by Moore Stephens member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing Business in Latvia 2017 has been written by Moore Stephens Europe Ltd on behalf of Moore Stephens (Riga) Limited. In addition to background facts about Latvia, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in Latvia either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Latvia to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 March 2017. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader’s particular circumstances.

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1. Latvia at a glance

Geography, climate and population
Latvia, officially the Republic of Latvia (Latvijas Republika), is a country in the Baltic region of Northern Europe. It is bordered to the north by Estonia, to the south by Lithuania, to the east by Russia, and to the southeast by Belarus and by a maritime border to the west with Sweden. The total population of Latvia is estimated at 2,070,371. The territory of Latvia has an area of 64,589 km². The capital city of Latvia is Riga, which has a population of approximately 700,000. A former member of the Hanseatic League, it is the largest city in the Baltic States. Other larger cities in Latvia are Daugavpils, Liepāja, Jelgava, Jūrmala and Ventspils.

The country mainly consists mainly of fertile lowland plains and moderate hills; the highest point in the country (Gaiziņkalns) is 310 m above sea level. It has a coastline nearly 500 km in length and 56% of the land area is covered by forests, the 5th highest proportion in the European Union.

Latvia's climate is temperate. The mean temperature in summer is 19°C and the mean winter temperature is −6°C.

Language, religion and ethnicity
The official language is Latvian, which belongs to the Baltic group of Indo-European languages. Lithuanian is the only other surviving member of this group.

The main Christian denomination among ethnic Latvians is Lutheranism (34%), which is followed by Roman Catholicism (24%). The Latvian Orthodox Church is the third largest Christian church in Latvia (18%). In addition, a large number of Latvians (21%) claim to practice no religion.

History
The first settlement of Latvia by Baltic peoples occurred around 3000 BC. Gradually, five distinct tribal cultures evolved: those of the Baltic Curonians, Latgallians, Selonians and Semigallians and the Finnic Livonians. Towards the end of the 12th Century, Christian missionaries arrived, followed by Crusading German military orders. Over the next 100 years, the newcomers had established their rule by force over the whole of modern Latvian territory, and the indigenous peoples were largely reduced to serfdom. In the mid-16th Century, the rule of the Order collapsed. Broadly speaking, the land on the right bank of the Daugava river (known, together with what is now southern Estonia, as Livonia) passed under Polish-Lithuanian rule, while the last Grand Master of the Livonian Order, Gotthard Kettler, established the autonomous Duchy of Courland, nominally a vassal state of Poland-Lithuania, on the left bank. The greater part of Livonia came under Swedish rule from 1621; the remainder (the south and east, known in Latvian as Latgale), remained Polish until 1772. At the end of the Great Northern War, in 1721, Livonia became part of the Russian Empire. Successive partitions of Poland yielded up Latgale to Russia in 1772 and the Duchy of Courland in 1795.

While Latvia was thus part of the Russian Empire, day-to-day life remained dominated by the Baltic German landowners in the country and the German merchant classes in the cities. A Latvian national awakening, spearheaded by writers, poets and intellectuals, began in the mid-19th Century, gathering increasing momentum, and erupting into violent revolution in 1905. Although, as elsewhere in the Empire, the revolution was suppressed, the collapse of the Russian army in the west in the wake of the February 1917 revolution, the fall of Riga to the Germans in the summer of 1917 and Germany’s surrender in the west on 11 November 1918, enabled the Latvians to seize their opportunity and proclaim an independent Republic of Latvia on 18 November 1918. In the Latvian War of Independence (1918-20), the fledgling Latvian army, with the occasional assistance of Allied and Polish forces, successfully defended the new state from the Red Army and Russo-German-White forces. By the Treaty of Riga in 1920, the Soviet Russian Government renounced all territorial claims over Latvia for all time.

The new state made tremendous economic and cultural progress but it proved to be short-lived. Upon the outbreak of World War 2, Latvia proclaimed its neutrality, hoping to avoid the threat posed by both Hitler’s Germany and Stalin’s Soviet Union. However, those two powers had already decided the fate of Latvia and its Baltic neighbours in the secret protocol to the Nazi-Soviet Non-Aggression Pact of August 1939. Latvia was forced to accept Soviet bases on its territory in October 1939 and a full-scale invasion and occupation in June 1940, followed by annexation by the Soviet Union. In 1941, soon after Nazi Germany’s attack on the Soviet Union, Latvia fell under German occupation. Beginning in summer 1944 and ending in May 1945, Latvia was reoccupied by Soviet forces.
With the gradual disintegration of the USSR, Latvia reasserted its independence on 4 May 1990, but suspended it pending negotiations with the USSR. Following the collapse of the attempted coup in Moscow in August 1991 and the subsequent collapse of the USSR, Latvia’s independence was internationally recognised in August 1991.

In 2004, Latvia became a member of the European Union and of NATO. In 2014, it adopted the euro as the 17th member of the eurozone.

Politics and government
Latvia is a parliamentary republic. The highest legislative body in Latvia is the unicameral Parliament (Saeima), whose 100 members are elected for four years on a proportional party-list system. A party needs to obtain a minimum of 5% of votes cast nationally in order to enter the Saeima.

The President, who is elected by the Saeima in a secret ballot (currently, Raimonds Vējonis, first elected in 2015) holds a primarily ceremonial role as Head of State. It is part of his rôle to nominate a candidate for Prime Minister, who must then form a government having the confidence of the Saeima. The Prime Minister is currently Māris Kučinskis, of the centre-right Green and Farmers’ Union (Zaļo un Zemnieku savienība). He heads a coalition of his own party, the centre-right Vienotība (Unity) party and the national conservative National Alliance (Nacionālā apvienība).

Currency, time zone, weights and measures
From 1 January 2014, the official currency of Latvia is the euro. Before that date, the national currency was the Latvian lats (LVL), plural lati. Conversion to the euro took place at a parity of LVL 1 = EUR 1.4229 (the parity to which the lats had been fixed for many years). At the time of going to press (late May 2017), the euro was quoted against the US dollar at the rate of EUR 1 = USD 1.0930.

The standard time zone in Latvia is UTC/GMT + 2 hours. In common with most of Europe, Latvia also operates daylight-saving time between late March and late October.

Latvia uses the metric system of weights and measures and the Celsius scale of temperature.
Main forms of business organisation
The main forms of business entity used in Latvia are as follows:

- Limited-liability company (SIA)
- Joint-stock company (AS)
- Micro-enterprise
- Branch
- Representative office

Limited-liability company
When establishing a limited-liability company (sabiedrība ar ierobežotu atbildību, abbreviated to SIA), the minimum required share capital is EUR 2800, although it is possible in some circumstances to have a smaller share capital. This can be subscribed either as cash or as a contribution in kind. A limited-liability company may be founded by one or more persons – both natural persons and legal persons. The founder may be a resident or non-resident of the Republic of Latvia. The company is liable for its debts to the extent of its entire property, but a founder or shareholder is liable only to the extent of his capital contribution. A shareholder wishing to sell his shares must first offer them to the other members. The shares of an SIA may not be offered to the public and all its shares must be registered shares.

The decision-making bodies of a limited-liability company are the general meeting and the executive board (valde), as well as the supervisory board (padome), if one exists. Day-to-day management of the company is exercised by the executive board. One or more natural persons, who do not have to be residents of Latvia, make up the board. If the company's articles provide for there to be a supervisory board, the executive board must report at least once a quarter to the supervisory board on the company's activities and financial situation.

Registering an SIA takes four business days from the moment all incorporation documents are drafted and submitted to the Register of Enterprises of the Republic of Latvia (Latvijas Republikas Uzņēmumu reģistrs), which maintains the Commercial Register (Komercreģistrs).

Joint-stock company
When establishing a joint-stock company (akciju sabiedrība, abbreviated to AS), the minimum share capital is EUR 35 000 and may only take the form of cash investment. The founder(s) may be one or more natural or legal persons, none of whom needs to be a resident of Latvia. Joint-stock companies may issue bearer shares or registered shares, and may be publicly quoted. As in a limited-liability company, shareholders are liable for the company's debts only to the extent of their capital contribution.

Joint-stock companies are obliged to have a two-tier management structure (with an executive board and a supervisory board). The executive board consists of one or more natural persons. The minimum number of members of the supervisory board is three (five if the company is publicly quoted) and the maximum is 20. Neither members of the executive board nor members of the supervisory board need be residents of Latvia.

Micro-enterprise
A micro-enterprise is a business, which need not be in corporate form, employing no more than five persons and with a turnover of no more than EUR 100 000. Provided that it also satisfies further conditions, it may opt for micro-enterprise tax, based on its turnover, instead of corporate income tax. For more details, see Chapter 6, under 'Micro-enterprise tax'.

Branch of a foreign company
A branch (filialē) of a foreign company is defined as an organisationally independent unit or part of a foreign company which is separated territorially from the main enterprise and by which regular business activities are performed on the territory of the Republic of Latvia on behalf of the relevant foreign company. A branch is not considered an independent legal entity. The foreign company being the parent enterprise is fully liable for the activities and obligations of its branch. The registration process takes four business days from the moment all incorporation documents are drafted and submitted to the Register of Enterprises.
Representative office
Foreign companies may set up representative offices (pārstāvniecības) or register official representatives in Latvia. Representative offices do not have the right to carry on business activities. The representative office is a part of a foreign company and is not considered an independent legal entity. The objective and task of representative offices is mainly to promote a foreign company in Latvia or the Baltic region as a whole. The registration duty set by the state amounts to EUR 28.46 and applications for registration will be considered by the Commercial Register within 15 days.

Labour relations and working conditions
In July 2016, the number of gainfully employed people was 889,000, or 61.8% of the population between the ages of 15 and 74.

The rate of unemployment in the 4th quarter of 2016 was 9.3%, exhibiting a downward trend.

In 2016, average monthly gross pay was EUR 859.

Employment regulations and laws.
Employment relationships are regulated by the Constitution (Satversme), the norms of international law which are binding on the Republic of Latvia, the Employment Code (Darba likums) and other regulatory enactments, as well as by collective agreements and working procedure regulations.

Trade unions
The only national trade union organisation in Latvia is the Free Trade Union Confederation of Latvia (LBAS – Latvijas Brīvo arodbiedribu savienība), and almost all significant unions belong to it. Union membership is relatively low, however (about 13%), and is higher in the public than in the private sector. The LBAS is formally politically neutral in Latvia’s political structure, although it plays an important rôle in developing the country’s economic and social policies in the tripartite partnership with the Government and employers’ organisations.

Working conditions
The Latvian economy is now largely based on light industry and services. The legal maximum length of the working week is 40 hours. The length of an employee’s trial/notice period is no longer than three months. Each employee has a right to yearly paid annual leave, which cannot be shorter than four calendar weeks, excluding public holidays. The employment relationship can be terminated only in cases stated in the Employment Code.
Social security and pensions
Upon beginning an employment relationship in Latvia, the employee becomes a socially insured person and makes social security contributions. These payments cover for insurance in case of illness and maternity as well as industrial accidents and professional diseases. The following persons are entitled to receive state social security benefits:

- Citizens of Latvia
- Non-citizens
- Aliens and stateless persons living in Latvia who have been issued an ID code.

There is a three-tier pension system in Latvia. It includes the 1st tier (state compulsory unfunded pension scheme), the 2nd tier (state funded pension scheme) and the 3rd tier (private voluntary pension schemes). Entitlement to old-age pensions extends to people residing in Latvia who have reached retirement age (currently 62.8 years for both men and women). The retirement age increases each year by 0.3 years/months, with the intention that it should reach 65.

The health-care system
Health-care services are provided by the state, local authorities and private medical institutions. State-guaranteed medical help can be received by citizens and non-citizens of Latvia, by citizens of the European Union, European Economic Area and Switzerland living in Latvia due to employment or self-employment and their family members as well as other foreigners who have a permanent residence permit.

Work permits, visas etc
Citizens of EU, EEA and EFTA countries are able to live and work in Latvia without a visa or work permit. In other cases, in order to work in Latvia, a foreigner needs a work permit. Visitors holding an EU passport can remain in Latvia for up to 90 days without a residence permit. A work permit is issued by the Department of Citizenship and Migration Affairs (Pilsonības un migrācijas lietu pārvalde). If a foreigner has received a visa, where it is stated that the visa is valid only with a work permit, the foreigner is obliged to request a work permit within three days of his or her arrival in Latvia. If a foreigner has a visa or a residence permit on the basis that he or she is an individual trader (komersants), a member of a board of directors (either executive or supervisory), a person having a power of attorney on behalf of a trading company, an administrator, a liquidator, a partner in a partnership entitled to represent the partnership, a representative of the Latvian branch of a foreign company, or a self-employed person, then a separate work permit is not required. Instead, that person’s visa or residence permit is marked with the word ‘BUSINESS’ (in English).
3. Finance and investment

Business regulation
The commercial environment is generally friendly to foreign companies, and EU Directives are implemented and observed. There are no controls on import, export, or the use or conversion of foreign currencies, thus facilitating investment and repatriation of profits. The Latvian Government has adopted laws establishing copyrights, patents and trademarks and the means for enforcing their protection. The legal system, tax structures, and trade and other regulations have been significantly harmonised with EU standards. Most relevant EU Directives have been incorporated into the Latvian legislative system. Latvia has been a member of the World Trade Organisation since 1999. The country joined the European Union and North Atlantic Treaty Organisation in 2004.

Banking and local finance
Monetary and exchange-rate policies, as well as the control of the commercial banking sector in Latvia are carried out by the central bank - the Bank of Latvia (Latvijas Banka). It performs its tasks in accordance with the Bank of Latvia Act (likums ‘Par Latvijas Banku’) and the Credit Institutions Act (Kredītiestāžu likums), and it is independent from the Latvian government. As Latvia is a member of the Eurozone, banking and monetary policy is ultimately in the hands of the European Central Bank.

Currently, there are 26 commercial banks operating in Latvia. Many of them are subsidiaries of Swedish and other Nordic banks. The banks are regulated under the Credit Institutions Act and follow the guidance of the Financial and Capital Market Commission (Finanšu un kapitāla tirgus komisija). The FCMC is an independent state institution, charged with the regulation and supervision of the financial and capital markets and their participants.

Many banks have a significant base of non-resident deposits, and several banks are branches of foreign banks. Some banks offer the full range of banking services, whereas others operate in certain markets with specialised services. Latvian banks work in accordance with the common principles of banking secrecy.

The other sources of business financing are the EU Structural Funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). The European Commission has approved the structural fund for the 2014 - 2020 period.

Exchange control
There are no exchange controls in Latvia.

Investment incentives
There is a range of benefits for investment in development areas, including a rebate of interest on loans to companies that create employment in economically deprived areas, a 70% grant on the cost of hiring new employees, the purchase of real estate from government bodies at preferential prices etc.

Latvia has two free ports (at Riga and Ventspils) and three Special Economic Zones (the port of Liepāja; Rēzekne in Eastern Latvia and districts in Latgale, south-eastern Latvia). These offer tax and customs concessions, as well as other benefits.
4. The accounting and audit environment

Accounting regulation

Accounting in Latvia is governed by national law, Latvian accounting standards, and legislation enacted by EU institutions. The Accounting Act (likums ‘Par grāmatvedību’) is an ‘umbrella law’ in the accounting area and applies to all traders, cooperative societies, the branches of foreign traders and the permanent establishments of non-residents (foreign traders), societies and foundations, political organisations (parties) and their associations, religious organisations, trade unions, institutions funded by the state or local authorities, state and local-authority agencies, and other legal and natural persons carrying on economic activities. In accordance with the Accounting Act, the Accounting Council (Grāmatvedības padome) is charged with adopting Latvian accounting standards – generally and repeatedly applicable guidelines harmonised with the current laws and regulations regulating accounting, EU laws and International Accounting Standards for the valuation of assets, equity and liabilities and the recognition and recording of income and expenditure in books of account. As a member of the European Union, Latvia has adopted IAS Regulation 1606/2002, requiring European companies listed in an EU securities market, including banks and insurance companies, to prepare their consolidated financial statements in accordance with IFRS, starting with financial statements for financial year 2005 onwards. Latvia requires annual financial statements of consolidated entities to be prepared in accordance with IFRS. According to the Implementation of IFRS in the European Union and the European Economic Area, Latvia does not require small and medium-sized enterprises to prepare financial statements in accordance with IFRS.

The financial year is the calendar year; other year-ends may be approved in certain circumstances. For 2013 and earlier financial years, financial statements had to be prepared in LVL. Following adoption of the euro as from 1 January 2014, financial statements for financial years beginning after 31 December 2013 must be prepared in euros.

Audit requirements

The Commercial Code (Komerclikums) requires that limited-liability companies and joint-stock companies be subject to independent audit. However, the Annual Financial Statements and Consolidated Annual Financial Statements Act (Gada pārskatu un konsolidēto gada pārskatu likums) exempts micro enterprises and small companies that do not exceed two of three size thresholds from audit requirements. These thresholds are:

- A total balance-sheet value of EUR 800 000
- Net annual turnover of EUR 1 600 000 and
- A minimum of an annual average of 50 employees

These exemptions do not apply to the parent company of a group, a public-law entity company or the subsidiary of such a company. Certain small companies must nevertheless undergo a limited audit or examination by a certified auditor where for the last two years they have exceeded at least two of the following three size thresholds:

- A total balance-sheet value of EUR 400 000
- Net annual turnover of EUR 800 000 and
- A minimum of an annual average of 25 employees

These rules do not apply to credit institutions, savings and loan institutions, insurance companies, reinsurance companies and certain other types of company. The Credit Institutions Act requires that a certified auditor (zvērinātās revidents) audit the financial statements of a credit institution in accordance with International Standards on Auditing. The Insurance and Reinsurance Act (Apdrošināšanas un pārāpdrošināšanas likums) also requires that a certified auditor audit the financial statements of an insurance or reinsurance company. The Audit Services Act (Revīzijas pakalpojumu likums) stipulates that the appointment of auditors of public-interest structures must comply with EU Directive 537/2014, thereby requiring mandatory rotation after 10 years. This rule, which took effect on 1 January 2017, replaces the former rule requiring mandatory rotation after seven years.

Certified auditors are members of the Latvian Association of Certified Auditors (Latvijas Zvērinātu revidentu asociācija – LZRA), admission to which is by examination and a minimum of three years’ experience in auditing work. The LZRA is a member of IFAC (the International Federation of Accountants) and Accountancy Europe (formerly the Fédération des Experts-Comptables Européens).
5. Overview of the tax system

The tax system
Taxes in Latvia fall into three classes:

• National taxes
• National duties (e.g. registration duty for company registrations etc)
• Local-authority duties

There are no local taxes on income, but the revenue from personal income tax is allocated to local authorities.

The umbrella law for all taxes and duties is the Taxes and Duties Act (likums ‘Par nodokļiem un nodevām’) and regulations issued under that Act. Each principal tax has its own charging Act and regulations issued under that Act, where necessary, however.

The taxes levied in Latvia are:
• Corporate income tax
• Personal income tax
• Value added tax
• Micro-enterprise tax
• Immovable property tax
• Natural resources tax
• Excise duties
• Customs duty
• Tax on lotteries and games of chance
• Vehicle use tax and light commercial vehicle tax
• Subsidised electricity tax
• Electrical energy tax
• Financial stability duty
• Road use duty

Appeals
A taxpayer who wishes to contest the result of any assessment, decision, payment or repayment of tax must in the first place appeal to the tax authorities. The appeal is addressed directly to the Director-General of the State Revenue Service (Valsts ieņēmumu dienests – VID).

The appeal may either take the form of:
• A request to annul the decision or assessment in whole or in part or
• A proposal for a settlement agreement

and must be lodged within one month of the decision or assessment.

The VID then has one month in which to make its decision on the appeal, although this period may be extended for up to four months.

If the taxpayer disagrees with a decision of the Director-General of the VID, he has the right to appeal to the courts. The courts may refer questions to the Court of Justice of the European Union where appropriate.
6. Taxes on business

Corporate income tax

Scope and extent
Corporate income tax (uzņēmumu ienākuma nodoklis) is paid by:

- Resident companies
- Non-resident companies
- Latvian branches of non-resident companies

Resident companies are taxable on their worldwide income, but non-resident companies are subject to corporate income tax only in regard to income generated within the territory of Latvia. Non-resident companies carrying on business through a permanent establishment in Latvia are subject to tax on revenue earned by that permanent establishment, as well as revenue independently generated abroad by the permanent establishment. If a non-resident company engages directly in business activities that are similar to the business activities performed by its permanent establishment in Latvia, income obtained from the non-resident company's activities is included in the taxable income of the permanent establishment.

Company residence
A company is considered to be resident in Latvia if it is registered or ought to be registered in Latvia in accordance with Latvian laws and regulations. The location of management and control is therefore irrelevant in this respect under Latvian domestic law.

Taxable entities
A representative office is not taxed in Latvia as it is not treated as a trading entity. Income generated by a foreign entity operating in Latvia through a permanent establishment is subject to corporate income tax. Partnerships are transparent for tax purposes; the partners' share of the partnership profit is subject to corporate income tax or personal income tax, as the case may be.

Taxable income
For most companies, taxable income is determined by making specified tax adjustments specified in the Corporate Income Tax Act (likums ‘Par Uzņēmumu ienākuma nodokli’) to the profit or loss shown in the company's income statement for the financial year concerned. For companies subject to micro-enterprise tax, see under ‘Micro-enterprise tax’ below.

In general, for resident companies all types of income, both from economic activities and in the nature of passive income form part of taxable income. The Latvian branches (permanent establishments) of foreign entities are treated to most extents and purposes as if they were a resident entity separate from the main entity (see also above, under ‘Scope and extent’).

For non-resident companies, only specified income derived in Latvia is taxable.

Companies operating in Latvia are required to prepare their accounts in double-entry books on an accruals basis for tax purposes. Capital gains on share transfers and dividend income are tax-exempt.

When starting up business, a company must carry out a stocktake (inventory), recording all the property in the company's ownership or at its disposal. The results of the inventory are disclosed in the inventory records. Subsequently, stocktaking must be performed at the end of each financial year as well as on the cessation of the company's activity, upon reorganisation or in cases where the company is to be declared insolvent. In determining the cost of inventories either the weighted average-cost method or the FIFO (first-in-first-out) method are used. There are no special inflation adjustments of taxable income.

Capital gains
Generally, capital gains are included in taxable income, but with effect from financial years beginning in 2013, capital gains on the disposal of shares of any description are exempt, with the exception of shares in companies resident in a blacklisted jurisdiction (see under ‘Anti-avoidance’ below). Before 2013, only gains from securities publicly traded in the European Economic Area were exempt. By the same token, there is no
recognition of losses arising from the disposal of shares. With effect from 5 July 2013, losses from the disposal of securities publicly traded in the EEA are also not recognised; this corrects an anomaly whereby gains from these securities were not recognised but losses were. For gains derived by non-resident companies, see under ‘Taxation of non-resident companies’ below.

**Deductions**

Generally speaking, expenditure that is properly deductible under IFRS or Latvian GAAP for accounting purposes is also deductible for tax purposes. However, some expenditure is only partly deductible or wholly non-deductible.

**Depreciation**

Accounting depreciation and amortisation is a non-deductible expense. Instead, rates of depreciation are specifically prescribed for tax purposes.

For tax-depreciation purposes, tangible fixed assets are divided into five classes, for which the rates of depreciation are shown in Table 1. Depreciation is by the reducing-balance method.

**Table 1**

<table>
<thead>
<tr>
<th>Class</th>
<th>Type of asset</th>
<th>Effective depreciation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Buildings, structures, long-term plantations</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>Railway rolling stock and technological equipment, sea and river-going vessels, shipping and harbour equipment, energy equipment</td>
<td>20%(1)</td>
</tr>
<tr>
<td>3</td>
<td>Computers and computer equipment (including printers, information systems, computer programmes, data-storage equipment, communications equipment, copiers and copier equipment)</td>
<td>70%</td>
</tr>
<tr>
<td>4</td>
<td>Other fixed assets, excluding Class 5 assets</td>
<td>40%(2)</td>
</tr>
<tr>
<td>5</td>
<td>Oil exploration and extraction platforms and necessary equipment found on these platforms, oil exploration and equipment vessels</td>
<td>15%</td>
</tr>
</tbody>
</table>

Notes

(1) The effective rate for sea and river-going vessels (excluding operating transport) is 15%
(2) The effective rate for light motor vehicles (except for demonstrator cars and vehicles specially adapted to carry the disabled) is 30%

Most equipment is pooled for depreciation purposes, with the exception of:

- Class 1 assets
- Oil exploration and extraction platforms and vessels
- New high-tech manufacturing equipment acquired after 31 December 2005
- Light motor vehicles and motorcycles
- Sea and river-going vessels
- Aircraft
- Assets used only partly for business purposes

which must be depreciated individually.

Additional depreciation is available for expenditure on the manufacture or acquisition of high-tech manufacturing equipment acquired between 1 January 2006 and 31 December 2020. This additional depreciation is subject to recapture if the equipment is disposed of within five years of its acquisition or manufacture.
For pooled assets, depreciation is applied to the net book value brought forward at the beginning of the taxable period, as increased by additions and capital expenditure on existing assets and decreased by the net book value of assets disposed of or otherwise excluded from the asset pool during the taxable period.

Land, works of art, antiques, jewellery and other fixed assets not subject to physical or moral degradation are not depreciable; this is also the case for luxury cars (light motor vehicles with fewer than eight passenger seats or goods vehicles with a gross weight of no more than 3000 kg with more than three seats (including the driver's) reclassified as passenger vehicles; in both cases valued at over EUR 50 000).

Intangible assets are depreciated by the straight-line method at one of two rates: 10% for concessions and 20% for patents, licences and trademarks.

Copyright and goodwill are not amortisable.

**Research and development expenditure**

A ‘super-deduction’ of three times the actual expenditure is available for defined types of research and development expenditure incurred from 1 July 2014 onwards. Expenditure qualifying for this deduction is:

- The cost of scientific personnel or scientific technicians directly attributable to research and development
- Consideration for research services performed by a registered scientific institution in Latvia, another Member State of the European Union or an EEA state with which Latvia has concluded a double taxation treaty (i.e. Iceland and Norway) directly related to the taxpayer company’s research and development work
- Consideration for the services of accredited certification, test and calibration institutions in Latvia, another Member State of the European Union or an EEA state with which Latvia has concluded a double taxation treaty necessary for a new product or technology

The super-deduction is withdrawn where the intellectual property created by the research and development work is alienated within the three taxable periods following that in which the last expenditure on the creation of that property is incurred.

**Non-deductible and partially deductible expenses**

Key expenses that are non-deductible include:

- Employee and shareholder recreation
- Private travel
- Penalties, fines and interest for late payments of tax

60% of entertaining expenses are non-deductible.

**Dividends, interest and royalties**

**Dividends received**

With effect for taxable periods beginning in 2013 and subsequently, dividends received from other companies (Latvian or foreign) are neither subject to Latvian withholding tax nor to Latvian corporate income tax. The only exception relates to dividends from sources in a blacklisted tax-haven jurisdiction (see Table 3 below), which are subject to corporate income tax at the normal rate.

**Dividends paid**

Dividends payable to resident companies are free of withholding tax. Dividends payable to resident individuals are subject to a final withholding tax of 10%.

Dividends payable to foreign companies are also exempt from withholding tax with effect from 1 January 2013, unless the recipient is resident in a blacklisted tax-haven jurisdiction (see Table 3 below), in which case withholding tax of 15% applies, unless the dividend is an interim dividend, in which case the withholding rate is 30%.
**Interest received**

Interest receivable from resident recipients, whether legal or natural persons, is generally free of withholding tax, unless the payer and payee are ‘related enterprises’ and the payee is either exempt from Latvian tax or has otherwise been granted relief (e.g. as a qualifying entity in a free port or special economic zone), in which case the withholding rate is 10%.

Enterprises are related to one another if they are:

- Parent and subsidiary or
- One holds between 20% and 50% of the capital of the other, without having a majority of voting rights or
- A third person alone or together with other persons, directly or indirectly, within prescribed degrees, holds more than 50% of the share capital of both enterprises

See also under ‘transfer pricing’ below.

Interest receivable from resident or foreign sources is generally subject to corporate income tax.

**Interest paid**

Interest payable to resident companies is generally free of withholding tax, unless the payer and payee are ‘related’ (see above) and the payee is either exempt from Latvian tax or has otherwise been granted relief (e.g. as a qualifying entity in a free port or special economic zone), in which case the withholding rate is 10%.

As regards interest to non-resident companies, there is no withholding tax:

- From 1 July 2013 if the recipient is a related entity resident in another Member State of the European Union, as defined in the EU Interest and Royalties Directive, and the paying company holds a valid residence certificate in respect of that other entity and
- From 1 January 2014, with respect to all other related and non-related foreign entities, other than those resident in a blacklisted jurisdiction (see Table 3 below), in which case a rate of 5% or 15% applies

Interest payable to non-resident individuals is subject to withholding tax of 10% (or 15% for payments to recipients in a blacklisted jurisdiction).

**Royalties received**

Royalties received from a resident company are generally free from withholding tax.

Royalties receivable from resident or foreign sources are generally subject to corporate income tax.

**Royalties paid**

Royalties payable to a resident company are generally free from withholding tax.

Royalties payable to resident individuals are subject to withholding at the standard rate of personal income tax (23% in 2017) but in the case of most copyright royalties, tax is charged on the gross amount as reduced by a lump-sum deduction for expenses. This results in an effective rate of tax on the gross amount of between 13.8% and 19.55%.

As regards royalties payable to non-resident legal persons, there is no withholding tax:

- From 1 July 2013 if the recipient is a related entity resident in another Member State of the European Union, as defined in the EU Interest and Royalties Directive, and the paying company holds a valid residence certificate in respect of that other entity and
- From 1 January 2014 in respect of all other related and non-related entities, other than those resident in a blacklisted jurisdiction (see Table 3 below), in which case a rate of 15% applies
Royalties payable to non-resident individuals are subject to withholding tax at the effective rates applicable to residents as described above; the default rate is, however, 5%.

**Group taxation**

With respect to taxable periods beginning no later than 31 December 2013, the Latvian Corporate Income Tax Act allowed for the transfer of tax losses within a group of companies. This facility has been withdrawn for all taxable periods beginning in 2014 and subsequent years. For the definition of a group, see under ‘Transfer pricing’ below.

In respect of taxable periods beginning no later than 31 December 2013, it was also possible under certain prescribed conditions to surrender a loss incurred by a foreign group member to a Latvian member or Latvian permanent establishment.

**Losses**

Losses may be carried forward for eight years in the order in which they are incurred. Companies operating under the now-repealed Regional Development Act (Reģionālās attīstības likums) were able to carry losses incurred before 2004 forward for ten years. Losses may not be carried back. There are specific rules that regulate the treatment of existing losses in cases where ownership of an enterprise changes or reorganisation takes place. For taxable periods beginning in 2013 or earlier years, losses were also transferable within a tax group (see under ‘Group taxation’ above).

With effect for taxable periods beginning after 31 December 2016, loss set-off in any one taxable period may not exceed 75% of the taxable profit.

**Withholding taxes on outbound payments**

**Payments to non-residents**

Table 2 shows the rates of withholding tax on outbound payments to non-resident companies and other legal entities.

**Table 2 Rates of withholding tax on payments to non-resident legal entities**

<table>
<thead>
<tr>
<th>Income or payment</th>
<th>To companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>0/15/30(1)</td>
</tr>
<tr>
<td>Interest</td>
<td>0/5/15(2)</td>
</tr>
<tr>
<td>Royalties</td>
<td>0/15(3)</td>
</tr>
<tr>
<td>Disposal proceeds of Latvian property</td>
<td>2(4)</td>
</tr>
<tr>
<td>Income from a partnership</td>
<td>15</td>
</tr>
<tr>
<td>Management and consultancy fees</td>
<td>10(5)/15(6)</td>
</tr>
<tr>
<td>Property rentals</td>
<td>5(5)/15(6)</td>
</tr>
<tr>
<td>Any other payment</td>
<td>0/15(5)</td>
</tr>
</tbody>
</table>

Notes

(1) 15% where paid directly or indirectly to a recipient in a blacklisted jurisdiction; 30% where such a payment is an exceptional dividend (see under ‘Blacklisted jurisdictions’ below)  
(2) 5% where paid directly or indirectly to a recipient in a blacklisted jurisdiction by a credit institution registered in Latvia and 15% where such a payment is made by any other person  
(3) 15% where paid directly or indirectly to a recipient in a blacklisted jurisdiction  
(4) Certain non-resident companies have the option to compute and declare a gain and pay tax at 15% on that gain (see further below)  
(5) The 15% rate applies to payments made directly or indirectly to a recipient in a blacklisted jurisdiction  
(6) Certain non-resident companies have the option from 1 January 2015 to file a tax return and pay tax at 15% on the net income (see further below)
**Thin capitalisation**
Latvia has thin-capitalisation rules under which deduction in respect of interest payable is restricted. Interest expense incurred on payments made by one enterprise to another may not be deducted to the extent that:

- The debtor’s debt-equity ratio exceeds 4:1 or, more generally
- The rate of interest exceeds 1.57 times the weighted average short-term credit rate for non-financial institutions for the year concerned

Neither the debt-equity restrictions nor the excessive-interest restrictions apply to credit institutions or insurance companies, or to loans from credit institutions resident in Latvia or another EEA member state or in a jurisdiction with which Latvia has concluded a double tax treaty, or from the Latvian state, the state-owned Development Finance Institution, the Nordic Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Council of Europe Development Bank or the World Bank.

The debt-equity restrictions do not apply to loans from a financial institution resident in Latvia or another EEA member state or in a jurisdiction with which Latvia has concluded a double tax treaty, providing lending or finance-leasing services and regulated by the appropriate supervisory body.

**Transfer pricing**
Transfer-pricing rules apply to transactions in both fixed assets and goods and services between related enterprises. Under the self-assessment method, it is the taxpayer’s obligation to apply arm’s length prices in computing its tax liability.

Adjustments are made where those transactions involve a sale at below market price or a purchase at above market price.

The rules apply where fixed assets, goods or services are sold to or purchased from:

- Persons related to the taxpayer
- Related foreign enterprises
- Companies that are exempt from Latvian corporate income tax or benefit from reliefs from that tax under other statutes or
- A related enterprise that is a fellow member of the same group of enterprises

A group of enterprises consists of a parent enterprise and one or more subsidiary enterprises. The parent enterprise may be a legal or a natural person resident in Latvia, in another state in the European Economic Area, or in a jurisdiction with which Latvia has concluded a double taxation treaty, and which is not also a resident of another jurisdiction outside the European Economic Area by virtue of such a treaty. A subsidiary enterprise is one that is resident in Latvia, in another state in the European Economic Area or in a jurisdiction with which Latvia has concluded a double taxation treaty, and which is not also a resident of another jurisdiction outside the European Economic Area by virtue of such a treaty, and at least 90% of which is owned by:

- The parent enterprise
- One or more other subsidiaries of the parent enterprise or
- The parent enterprise and one or more of its other subsidiaries

“Transfer-pricing rules apply to transactions in both fixed assets and goods and services between related enterprises. Under the self-assessment method, it is the taxpayer’s obligation to apply arm’s length prices in computing its tax liability.”
90% ownership is considered to exist where:
• In the case of shares all of which have equal rights and privileges, at least 90% of those shares belong to the appropriate relevant parties
• In the case of shares with differing rights and privileges, one or more group members own at least 90% by market value of all the issued shares of the subsidiary and one or more group members control at least 90% of the voting power at any meeting of shareholders

Enterprises are related where:
• They are parent and subsidiary
• One has a participation of between 20% to 50% in the other without having a majority of the voting power
• The same person or persons have a majority of the voting power on the governing organs of both enterprises
• The same person together with that person's relatives to the third degree or relatives by marriage to the second degree own more than 50% of the share capital of or otherwise exercise a decisive influence over both companies
• More than one person but no more than 10 persons together own more than 50% of the share capital of or otherwise exercise a decisive influence over both companies
• A company in which a natural person (or that person's relatives to the third degree or relatives by marriage to the second degree) directly or indirectly owns or own more than 50% of that company's share capital own more than 50% of the share capital of or otherwise exercise a decisive influence over both companies
• There exists between them, in addition to any contractual relationship with regard to a particular transaction, any overt or covert agreement for any additional consideration, or where both companies are in any other way carrying out any coordinated activities with a view to avoiding tax

A person is related to an enterprise where that person (or, in the case of a natural person, that person's relatives to the third degree or relatives by marriage to the second degree) own more than 50% of the share capital of that enterprise or otherwise exercise a decisive influence over that enterprise.

The transfer-pricing rules also apply to any other form of transaction at other than market value between the persons listed above. For the purposes of the transfer-pricing rules, transactions between a resident enterprise or the Latvian permanent establishment of a foreign enterprise and a person located or incorporated in a blacklisted jurisdiction are regarded as taking place between related persons.

For the purposes of determining market value, the methods to be used in preference are the cost-plus method, the comparable-price method and the resale-price method. Where none of these is appropriate, recourse may be had to the net-profit method or the profit-split method. Reference may be made at all times to the OECD Transfer Pricing Guidelines.

There are provisions enabling taxpayers to enter into advance pricing agreements (APAs) with the State Revenue Service (Valsts ieņēmumu dienests). The minimum value of the transaction or transactions for which an APA may be sought is EUR 1.43 million. Provided that the taxpayer abides by the terms of the APA and there have been no changes in its economic activity, the tax authorities may not thereafter make an adjustment to the agreed transfer price. The fee payable for securing an APA is EUR 7114.

Companies whose annual turnover exceeds EUR 1.43 million (before 2014: LVL 1 million) are required to prepare and keep transfer-pricing documentation in respect of every transaction exceeding EUR 14 300 (before 2014, LVL 10 000) in value with a related person.

Controlled foreign company (CFC) rules
Although Latvia does not have any CFC legislation, the rules for transactions with blacklisted jurisdictions serve some of the same purpose (see below).
Other anti-avoidance rules

Transactions with blacklisted jurisdictions

Reference has already been made on various occasions to transactions made with persons located in blacklisted jurisdictions. The jurisdictions concerned are listed in Table 3 below.

<table>
<thead>
<tr>
<th>Alderney</th>
<th>Guatemala</th>
<th>Panama</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andorra</td>
<td>Guernsey</td>
<td>Qatar</td>
</tr>
<tr>
<td>Anguilla</td>
<td>Hong Kong</td>
<td>St. Helena</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>Isle of Man</td>
<td>St Kitts and Nevis</td>
</tr>
<tr>
<td>Aruba</td>
<td>Jamaica</td>
<td>St. Lucia</td>
</tr>
<tr>
<td>Bahamas</td>
<td>Jersey</td>
<td>St. Maarten</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Jordan</td>
<td>St. Pierre et Miquelon</td>
</tr>
<tr>
<td>Barbados</td>
<td>Kenya</td>
<td>St. Vincent and the Grenadines</td>
</tr>
<tr>
<td>Belize</td>
<td>Kuwait</td>
<td>Samoa</td>
</tr>
<tr>
<td>Bermuda</td>
<td>Labuan</td>
<td>San Marino</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>Lebanon</td>
<td>São Tomé and Principe</td>
</tr>
<tr>
<td>Brunei</td>
<td>Liberia</td>
<td>Seychelles</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>Liechtenstein</td>
<td>Tahiti</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>Macao</td>
<td>Tonga</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Maldives</td>
<td>Turks and Caicos Islands</td>
</tr>
<tr>
<td>Curaçao</td>
<td>Marshall Islands</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Mauritius</td>
<td>Uruguay</td>
</tr>
<tr>
<td>Dominica</td>
<td>Monaco</td>
<td>US Virgin Islands</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Montserrat</td>
<td>Vanuatu</td>
</tr>
<tr>
<td>Gibraltar</td>
<td>Nauru</td>
<td>Venezuela</td>
</tr>
<tr>
<td>Grenada</td>
<td>New Caledonia</td>
<td>Zanzibar</td>
</tr>
<tr>
<td>Guam</td>
<td>Niue</td>
<td></td>
</tr>
</tbody>
</table>

Any payment or dividend made by a resident or the Latvian permanent establishment of a non-resident to a natural, legal or other person located or incorporated in such a jurisdiction is liable to withholding tax at a default rate of 15%. This explicitly includes (as from 1 January 2014) any payment made to representatives of such persons or to third-party bank accounts and payments made via mutual clearing accounts.

Payments made at market prices for goods and for the acquisition of EU or EEA securities in public circulation are excluded from liability to withholding. Also excluded (before 1 January 2014) were payments of interest by credit institutions registered in Latvia on deposit accounts and current-account balances at the normal rates for such payments.

As from 1 January 2014, certain payments to blacklisted jurisdictions attract a rate of withholding other than 15%. These are:

- Interest paid by a credit institution registered in Latvia: 5%
- Exceptional (i.e. interim) dividends: 30%
Except in the case of dividends, the duty to withhold under these rules may be waived on application to the tax authorities where it can be established that the payment concerned is not made with the purpose of reducing the payer’s taxable income and avoiding Latvian tax. Any such waiver does not relieve the duty to withhold under the normal rules for payments to non-residents (see under ‘Taxation of non-resident companies’ below).

**General anti-avoidance rule**
There is no general anti-avoidance rule in Latvia.

**Tax incentives**
Four types of tax incentive can be singled out.

**Accelerated depreciation for high-technology manufacturing equipment**
See under ‘Depreciation’ above.

**Significant long-term investment**
Companies making significant long-term investments in approved projects can receive a tax credit of 25% of their investment of up to EUR 50 million (before 1 January 2014, LVL 35 million) and of 15% on that part of the investment exceeding EUR 50 million but not exceeding EUR 100 million. In certain circumstances, and with the approval of the European Commission, a credit of 11.9% may be claimed in the balance of investment over EUR 100 million.

The credit is made available in the taxable period in which the project is completed.

To qualify for the credit, a company must make a minimum investment of EUR 10 million within five years of receiving approval for the project; no more than 40% of the total investment may be in buildings or structures. Certain other conditions must also be fulfilled.

The investment must be in one of 26 specified priority sectors, including food and beverage production, computing, electronic and optical equipment manufacture, the manufacture of chemicals and pharmaceutical products, telecommunications, and textile and clothing manufacture.

Excess credits may be carried forward for up to 16 subsequent taxable periods.

**Charitable donations**
Companies making donations to approved or registered charitable, cultural, religious or welfare organisations registered in Latvia, another EEA state or in a jurisdiction with which Latvia has a double tax treaty in force may claim a tax credit of 85% of the amount donated against their corporate tax liability, provided that in so doing, they do not reduce their overall corporate tax liability by more than 20%.

**Free ports and special economic zones**
Companies operating in one of the two free ports (at Riga and Ventspils) or the three special economic zones (SEZs) (at Liepāja and Rēzekne and in designated areas of Latgale) qualify for a number of tax incentives. These include:
- A reduction of 80% in their corporate tax liability, subject to a cap of 55% of their accumulated investment in the free port or SEZ for small companies, 45% for medium-sized companies and 35% for other companies
- A reduction of 80% to 100% of their liability to immovable property tax
- VAT zero-rating for certain supplies and
- Exemption from excise duty for certain transactions
Tax rate
The rate of corporate income tax is 15%.

Minimum tax
As from 1 January 2014, with limited exceptions, there is a minimum corporate income tax liability of EUR 50, if the tax payable before deduction of losses brought forward would not exceed EUR 50.

Taxation of non-resident companies
Non-resident companies deriving income in Latvia but without a permanent establishment there are liable to corporate income tax by withholding in respect of the income and at the rates shown in Table 4:

Table 4

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Rate of tax (%)&lt;sup&gt;(1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from a partnership</td>
<td>15</td>
</tr>
<tr>
<td>Management and consultancy services</td>
<td>10&lt;sup&gt;(2)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Rentals and other consideration for the use of property in Latvia</td>
<td>5&lt;sup&gt;(2), (3)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Proceeds of alienation of Latvian immovable property</td>
<td>2&lt;sup&gt;(3)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Note
<sup>(1)</sup> All the above rates are subject to the overriding rules for payments to blacklisted jurisdictions (see under ‘Transactions with blacklisted jurisdictions’ above)
<sup>(2)</sup> Excludes rentals of aircraft plying international routes and royalties for the use of or the right to use manufacturing, commercial or scientific equipment
<sup>(3)</sup> Also applies to the alienation of shares in a company or other entity whose assets directly or indirectly consist (or directly or indirectly consisted in the previous taxable period) at the beginning of the relevant period to the extent of more than 50% of immovable property located in Latvia. Excludes EU or EEA securities in public circulation.

Before 1 July 2013 or 1 January 2014, as the case may be, dividends, interest and royalties could also be subject to withholding tax (see under ‘Dividends, interest and royalties’ above).

Assessment procedure
There is a system of self-assessment for corporate income tax.

Returns and payments
Enterprises subject to corporate income tax must file annual corporate tax returns by the same date as and together with their financial statements. In the case of large companies, the deadline is seven months after the end of the taxable period (normally by 31 July, therefore).

For other companies, the deadline is four months after the end of the taxable period (normally, therefore, by 30 April).

A large company is one exhibiting at least two of the following indicators:
- An annual turnover of more than EUR 3.4 million (before 1 January 2014, LVL 2.4 million)
- A balance-sheet total of more than EUR 1.4 million (before 1 January 2014, LVL 1 million)
- An average of 250 or more employees over the year

Returns must be filed electronically.
Companies must make monthly advance payments of corporate income tax over the course of the year in question. The amount payable in those months before the tax return for the previous year is filed (or ought to have been filed), is one-twelfth of the final tax liability for the year before the last, as indexed for inflation. Once the return has been filed (or ought to have been filed), the amount due is the difference between the final corporate tax liability for the previous year (as indexed for inflation) and the amount paid to date, divided by the number of months remaining in the year. It is possible to apply for reduced advance payments if the company’s turnover has significantly fallen or there has been a major change in the nature of its activities. Companies whose monthly advance payments in the previous year did not exceed EUR 711 need only make quarterly advance payments, no later than the 15th day of the month following the end of the quarter. Advance payments are otherwise due by the 15th of each month. Any balance of tax remaining to be paid after all the advance payments have been made must be paid no later than 15 days after filing the tax return.

**Appeals**

See Chapter 5.

**Tax incentives for innovative early-stage companies**

Companies eligible for and participating in the Government’s aid programme for innovative early-stage companies are permitted to claim a corporate income tax reduction of up to 100% (except in relation to corporate income tax charged on certain non-permissible expenditure) while they are in the programme.

Companies eligible for the aid programme must meet a number of conditions, including:

- They have been operating commercially for the first five years following registration
- Their operating income in the first two years since registration must not have exceeded EUR 200,000
- Their operating income in the first five years since registration must not have exceeded EUR 5 million
- A qualifying non-connected risk-capital investor must have invested at least EUR 30,000 in the company’s share capital in every year for which an application for the programme is submitted
- The company must have made no dividend distributions since its registration but reinvested its earnings
- The company must either (a) have IP rights relating to an innovative product or service; (b) have employees of whom a minimum 70% have master’s degrees or doctorates; or (c) have committed at least 50% of its expenditure on research and development

The aggregate tax relief must not exceed the State Aid threshold.

**Micro-enterprise tax**

A company whose turnover does not exceed EUR 100,000, whose members consist solely of physical persons (and who, in the case of a limited-liability company, are its employees and members of its board) may apply to become subject to micro-enterprise tax, instead of corporate income tax, provided it has no more than five employees at any time and none of those employees receives more than EUR 720 of income from the company per month. A number of other conditions must also be satisfied.

Micro-enterprise tax replaces not only the company’s liability to corporate income tax, but also employer’s and employees’ social security contributions and the member’s or members’ liability to personal income tax on income from the company.

The rates at which micro-enterprise tax is charged have undergone a great deal of variation in the last few years, reflecting the conflicting policy needs the tax is supposed to meet. As from 1 January 2017, the rate is 12% on the turnover of the company if it is no more than EUR 7,000 and 15% where the turnover exceeds EUR 7,000. To the extent that the turnover exceeds EUR 100,000, the excess is taxable at 20% (with certain exceptions).

With effect from 1 January 2015 until 31 December 2016, if the company was in its first three years under the micro-enterprise régime, there was a 9% rate of tax on turnover up to EUR 100,000. If it was in its fourth or later year, however, the rate on the turnover between
EUR 7000 and EUR 100 000 was 12%. For companies already in the régime at 31 December 2014, the three years were counted from 1 January 2015.

Value added tax

Value Added Tax (pievienotās vērtības nodoklis) as regulated by the European Union is generally charged on the supply of goods or services where the place of supply is in Latvia, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC) and associated Directives and Regulations. These allow Member States several options in application of the tax, not the least of which is the power to set rates (within certain broad parameters).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to deduct) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as ‘zero-rated’. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

VAT in Latvia is governed by the Value Added Tax Act (Pievienotās vērtības nodoklis), which is in conformity with the EU VAT Directive (2006/112/EC) as amended.

Taxable entities

Businesses (‘taxable persons’) charging VAT to their customers are liable to report and pay this VAT to the Latvian tax authorities. Any VAT incurred in the course of the taxable person’s taxable activity (e.g. charged by the taxable person’s suppliers) can in principle be deducted or set off against the VAT due. Only the net amount must be paid to the tax authorities. If there is a balance of deductible VAT, the amount is in principle recoverable from the tax authorities (but see below). Consequently, the real burden of VAT falls on the final consumer, with the intervening business effectively acting as a collecting agent for the tax authorities.

Although most taxable persons are businesses and most businesses are taxable persons, a taxable person is any person independently carrying on an economic activity. The definition of ‘economic activity’ is quite wide, so that on occasion, even persons not carrying on a business in the generally understood sense of the word may have to charge and pay over VAT.

Taxable persons

All persons making supplies of goods or services or importing goods in the course of independently carrying on a business activity are taxable persons for the purposes of VAT.

Taxable activities

Taxable activities are:

- The supply (delivery) of goods or the supply (provision) of services in Latvia carried out for consideration by a taxable person in the course of carrying out business activities
- The importation of goods into Latvia

A supply of goods takes place when title to the goods passes or any other transfer takes place which enables the recipient to dispose of the goods as their owner. A supply of services is any taxable activity that is not a supply or importation of goods. Furthermore, refraining from an act may also be a supply of services.
A supply is considered to take place where:
- For the supply of goods generally – where the goods are located at the moment when delivery begins
- For water, electricity, gas and thermal energy – the place of delivery
- For goods installed by the deliverer – the place of installation
- For the supply of services generally – the place where the supplier has his business
- For services related to immovable property – the place where the immovable property is located
- For transport services – the actual place of transport
- From 1 January 2015, for broadcasting, telecommunications and electronically delivered services to private consumers, the place where the consumer is located
- Services related to culture, art, science, education etc – the place where the service is provided
- Renting and leasing of movable goods, telecommunication services, transfer of intellectual rights, services of lawyers, auditors, advisors, data processing etc – the place where the service is provided and
- Some other exceptions similar to those listed in the EU VAT Directive

**Exempt supplies**

Exempt supplies are divided in two categories:
- Supplies that are exempt with the right to deduct input tax and
- Supplies that are exempt without the right to deduct input tax

Supplies that are exempt with the right to deduct input tax include the following:
- Exports of goods and intra-EU supplies
- Transportation of export, import, and transit goods
- Services that are directly related to goods that are imported from third countries and are not released for free circulation within the European Union but placed in a free zone or customs warehouse
- Supplies of goods and services connected with international transport (ships and aircraft)
- International transport services on ships and aircraft
- International passenger traffic
- Supplies of goods and services under diplomatic and consular arrangements

Supplies that are exempt without the right to deduct include:
- Transactions in shares and other securities
- Most banking and financial services
- Insurance and reinsurance transactions
- Services closely linked to welfare and social security work
- Provision of medical care
- Most educational services
- The sale of immovable property excluding the sale of unused immovable property and building land
- The rental of residential property (excluding hotel and holiday accommodation)
- Betting, lotteries, and other forms of gambling
- Certain postal services

**Rates of VAT**

There are two rates of VAT: the standard rate of 21% and the reduced rate of 12%.

The standard VAT rate is charged on all taxable supplies that are neither exempt nor taxable at the reduced rate.
The most important supplies subject to the reduced rate are:

- Certain medicines
- Certain medical goods and equipment
- Certain special infant-nutrition products
- Most books, newspapers and magazines (but excluding online literature or downloadable e-books)
- Public transport services (excluding taxis)
- Domestic heating
- Tourist accommodation

Registration
A taxable person is required to register for VAT once his annual turnover on transactions subject to VAT exceeds EUR 50 000. Voluntary registration is possible for persons whose turnover falls below this limit. Non-established taxable persons who carry out taxable supplies in Latvia must register for VAT whatever their turnover from those supplies.

The threshold for distance sales (sales made to non-taxable persons in Latvia by a taxable person established abroad) is EUR 35 000; the threshold for intra-EU acquisitions by a previously unregistered person is EUR 10 000.

Returns and payment
The normal taxable period is the calendar month, but if a taxable person’s total turnover (either in the current tax year or the previous tax year) is no more than EUR 50 000, the taxable period is quarterly (unless the taxpayer has made certain cross-border supplies). VAT groups and fiscal representatives have monthly taxable periods. Returns must be filed within 20 days of the end of the taxable period (within 15 days, if a paper return is filed). Payment must be made within 20 days of the end of the taxable period.

If input tax exceeds output tax (i.e. there is a balance in favour of the taxable person), the difference is normally carried forward or set against the taxable person’s other tax liabilities until the end of the tax year, but there are circumstances in which the difference is repayable within 10 days of the period end. These include all excess input tax amounts of EUR 5000 or more.
7. Personal taxation

Personal income tax

Scope and extent
Personal income tax (iedzīvotāju ienākuma nodoklis) is payable by physical persons, including physical persons who are members of partnerships on their share of the partnership profits. Resident individuals are subject to income tax on their worldwide income, whereas non-residents are subject to Latvian income tax on specific types of income derived in Latvia.

Residence
A natural person (an individual) is considered to be resident in Latvia for tax purposes if his or her declared (registered) place of abode is in Latvia or that person has been physically present in Latvia for 183 days or more in any 12-month period beginning or ending in the tax year. A person (‘arriver’) who becomes resident by virtue of presence in any tax year and was not resident in the previous tax year is considered to be resident from the first day of the tax year. A person (‘leaver’) who will not be resident in the following tax year is considered to cease being resident on the day after his or her departure, if that person has closer ties in another jurisdiction.

Structure of income tax
Income tax consists of:
• Salary tax on income from employment and other income on which salary tax is payable
• Tax (lump-sum tax, licence fee and regular income tax) on income from a trade or business or other economic activity
• Tax on income from capital (including capital gains)
• Tax on other sources of income

The income tax on the income that a member of a micro-enterprise subject to micro-enterprise tax derives from that enterprise is considered to be met out of the micro-enterprise tax paid by the enterprise.

The family unit
Individuals are separately taxed, regardless of their marital or relationship status. Personal allowances may, however, take account of a taxpayer’s family circumstances.

Exemptions
The major items of income exempt from income tax are:
• Income from agricultural production or rural tourism services, provided it does not exceed EUR 3000 per year
• Insurance claims
• Gambling and lottery winnings
• Income from Latvian government and local-government securities, and from the government and local-government securities of other EU or EEA states
• Alimony and maintenance
• Income from the alienation of personal movable property, excluding objects acquired or produced for sale, capital gains and other income from capital, and the sale of scrap metal
• Income from the alienation of immovable property owned for more than 60 months and which has:
  – Either been the taxpayer’s main registered place of abode for a continuous period of at least 12 months within that time or
  – Been the taxpayer’s sole item of immovable property for at least the 60 months immediately preceding the date of alienation
• Gifts of any value from a spouse or from relatives to the third degree
• Gifts of no more than EUR 1425 (before 1 January 2014, LVL 1000) in value from any other natural person in any tax year
Taxation of employment income
Income from employment, on which salary tax is payable, includes:
• Salary, bonuses and other remuneration received in respect of present or previous employment
• Director’s fees
• Benefits-in-kind
• Income deemed to be received on the exercise of employee share options

Benefits-in-kind
These are normally subject to tax on their market value or the cost to the employer of their provision. Examples of taxable benefits-in-kind include:
• Loans at a favourable interest rate
• The provisions of assets for the use of the employee or the employee’s family
• The provision of a car for the employee’s private use (unless light vehicle tax is payable in respect of the car)
• Payments for accommodation and domestic staff

Exempt benefits include:
• Premiums paid on the employee’s behalf to a Latvian or other EEA approved insurer in respect of an approved pension plan or with-profits life assurance policy, but no more than 10% of the employee’s gross earnings (subject to other conditions)
• Premiums paid on the employee’s behalf to a Latvian or other EEA approved insurer in respect of a term insurance, health or accident insurance policy, but only to the extent that they do not exceed the smaller of 10% of the employee’s gross earnings and EUR 426.86 (subject to other conditions)
• Reimbursement of actual expenses incurred by the employee on the employer’s business

Taxation of personal business and professional income
The treatment of income from self-employment, either as a trader or as a member of a profession, depends on whether the taxpayer keeps accounts under the single-entry or double-entry system of bookkeeping.

Where the accounts are single-entry (cash-basis receipts and outgoings), taxable business income is calculated as the difference between revenue and the expenses specified in the Individual Income Tax Act (Likums “Par iedzīevotāju ienākuma nodokli”). Only income actually received and expenses actually paid out in the tax year are included in the calculation.

Revenue includes gross income from the sale of goods or supply of services and rents from the hire or letting of business property. Individuals choosing or obliged to keep double-entry books of account must draw up their accounts on the accruals basis and the same computational rules apply to them as those that apply to companies (see Chapter 6).

Losses
Individuals may carry forward losses from business activities for three years. Such losses may only be set off against profits from business activities. Otherwise, carry-forward or carry-back of losses is not allowed. However, losses incurred by an individual who opts for micro-enterprise tax may not be carried forward on the change of taxation régime.

Smaller businesses have other options also.
**The licence fee**
Small businesses with no employees and operating in certain categories of activity may, if their turnover in the previous tax year did not exceed EUR 50,000, opt to pay a fixed licence fee (patentmaksa) instead of income tax and social security contributions in respect of their business income. The amount of the licence fee varies from EUR 43 to EUR 100 per month (i.e. between EUR 516 and EUR 1200 per year), depending on the type of activity. Examples of activities qualifying taxpayers to opt for the licence fee are private domestic services, beauty care, textile crafts and photography. Licence-fee taxpayers may not opt for voluntary VAT registration.

**Micro-enterprise tax**
Individuals whose annual turnover from a business does not exceed EUR 100,000 and who have no more than five employees at any one time may opt to pay micro-enterprise tax (mikrouzņēmumu nodoklis) instead of income tax and social security contributions (see also under Chapter 6).

Micro-enterprise tax replaces not only the individual’s and the employees’ liability to personal income tax on income from the business, but also employer’s social security contributions and the business owner’s and the employees’ liability to social security contributions on their income from the business.

It is a condition that none of the employees earns more than EUR 720 per month from the business and the written consent of all the employees must be obtained to apply for micro-enterprise status.

The rate of micro-enterprise tax is 12% on the turnover of the business if it does not exceed EUR 7000. The rate for turnover of between EUR 7001 and EUR 100,000 is 15%. To the extent that the turnover exceeds EUR 100,000, the excess is taxable at 20% (with certain exceptions).

**Taxation of investment income**

**Dividends**
Dividends received by individuals from a domestic or foreign company are subject to personal income tax at a special rate of 10%. In the case of dividends from a Latvian company, the tax is payable by means of a final withholding tax, in the case of both resident and non-resident taxpayers.

**Interest**
Interest, including discounts and income assimilable to interest is subject to personal income tax at a special rate of 10%. The tax takes the form of a final withholding tax where paid by a Latvian-resident debtor.

**Royalties**
Income from royalties is taxable at the standard (23%) rate of income tax, but a lump-sum deduction may be made for expenses in the case of most royalties. The deductions vary from 15% to 40% of the royalty, resulting in effective rates of tax of between 19.55% and 13.8%. For withholding tax on royalties paid to non-residents, see under ‘Withholding taxes’ below.

**Rental income**
Income from the letting of immovable property is treated as income from a business and hence the rules for deductions are as stated under ‘Taxation of business and professional income’. No tax is withheld from rents, whether paid to residents or non-residents.

**Other investment income**
Income treated as income from capital and taxable at the special rate of 10% includes:
- Income from private pension funds
- The excess of income from with-profits life assurance policies over premiums paid
The taxation of capital gains
Whereas most capital gains from the alienation of private movable property are exempt, gains from the alienation of the following assets are taxable at the special rate of 15%:

- Shares, partnership interests and other financial instruments
- Investment-fund certificates and other transferable securities attesting to investments in investment funds
- Debt instruments and money-market securities
- Immovable property and rights to acquire immovable property
- Enterprises
- Intellectual property
- Investment gold and other precious metals traded on currency or commodities markets

The gain on the alienation of these assets is calculated by deducting the cost of acquisition (including any associated costs and registration duties etc) and any investment made in the asset during the period of ownership from the proceeds of alienation.

No allowance for indexation is made, but where immovable property was acquired before 1 January 2001 and the taxpayer cannot produce documents attesting to the purchase price, the cost of acquisition is taken to be its current cadastral value, discounted at the consumer price index for the ten years preceding the year of alienation. There are special rules where immovable property is acquired by way of gift between connected persons.

Where several assets are alienated in the same tax year, the net capital gain for the year is calculated by netting off losses against gains.

Where a capital gain is not recognised, neither is a capital loss of the same category. To the extent that capital gains are taxable, capital losses may be set off only against gains in the same year. If the overall result is a net loss, the loss may neither be set off against other taxable income nor carried forward or back to other years.

Exemptions for private residences
Capital gains are exempt where they arise from the alienation of immovable property that has been in the alienator's ownership for more than 60 months and has for an uninterrupted period of at least 12 months during that time been the alienator's registered principal residence. Where the property has been inherited from a relative to the third degree, the period of ownership is regarded as having begun when the property was first registered in the previous owner's name.

Exemption is also available if the immovable property has been in the alienator's ownership for more than 60 months and in the 60 months preceding the disposal was the sole immovable property in the alienator's ownership, and in certain circumstances following the dissolution of a marriage.

These exemptions also apply to gains derived by non-residents, provided they are residents of another EU or EEA state.

Rate of tax
Net capital gains are taxed at a special rate of 15%.
Withholding taxes on outbound payments

Table 5 shows the rate of withholding tax on the most significant types of outbound payments to resident and non-resident individuals. For resident recipients, tax is withheld on a broad range of income in addition to the types specified below. There are also other types of income derived by non-residents on which tax may be withheld.

<table>
<thead>
<tr>
<th>Income or payment</th>
<th>Resident recipients</th>
<th>Non-resident recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>10%</td>
<td>10%/23%</td>
</tr>
<tr>
<td>Interest</td>
<td>10%</td>
<td>0%/10%/23%</td>
</tr>
<tr>
<td>Royalties</td>
<td>23%</td>
<td>5%/23%</td>
</tr>
<tr>
<td>Disposal proceeds of Latvian assets</td>
<td>--</td>
<td>2%/15%/23%</td>
</tr>
<tr>
<td>Income from a partnership</td>
<td>--</td>
<td>15%</td>
</tr>
<tr>
<td>Management and consultancy fees</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Notes

1. The 23% rate applies to recipients established, located or resident in a blacklisted jurisdiction
2. Interest from Latvian and other EEA state government and local-authority securities and publicly traded financial instruments is exempt
3. The 23% rate applies to gross royalties reduced by a lump-sum deduction, so that the effective rate ranges from 13.8% to 19.55% where the recipient is carrying on a profession. Other recipients suffer the 23% rate on their gross royalties
4. The 5% rate applies to royalties other than those relating to scientific, literary or artistic copyrights, discoveries, inventions and industrial designs. Otherwise, the 23% rate is applied to the royalty net of the lump-sum deductions referred to in Note 3

Allowances and deductions

Deductions

In addition to income-specific deductions available in computing taxable income from a particular source, there is a limited range of personal expenditure that may be deducted in computing net taxable income.

The major eligible expenditures are the following:

• Education. The taxpayer may deduct expenditure incurred on improving qualifications or obtaining education or a specialism (profession, vocational qualification or craft) by the taxpayer himself or herself or for members of the taxpayer’s family (provided the relevant family member is resident in Latvia or another EEA state) (subject to a monetary limit: see below)
• Donations. Donations to state institutions or charitable organisations (established in Latvia, another EEA state or in a jurisdiction with which Latvia has a double tax treaty in force)
• Medicine. The taxpayer may deduct expenditure on medical and surgical services and health-insurance premiums paid to regulated insurers (subject to a monetary limit: see below).
• Contributions to private pension funds, not exceeding 10% of the taxpayer’s gross taxable income
• Life insurance premiums on a with-profits life policy with an EEA insurer, not exceeding 10% of the taxpayer’s gross taxable income

The maximum deductible in respect of educational and medical expenses together is EUR 213.43 per person benefited per year. Any excess may be carried forward for up to five years on a FIFO basis.

The maximum deductible in respect of donations, contributions to private pension funds and life premiums taken together may not exceed 20% of the taxpayer’s gross taxable income.
Non-resident taxpayers may also claim these deductions, but educational or medical expenses may only be claimed by those non-residents who derive more than 75% of their total income from Latvia.

**Personal allowances**

Every resident taxpayer is entitled to an income-dependent graduated personal allowance. Table 6 shows how the allowance is to be calculated in 2017.

**Table 6**

<table>
<thead>
<tr>
<th>Level of taxable income (EUR)</th>
<th>Amount of allowance (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No greater than 4800</td>
<td>1380</td>
</tr>
<tr>
<td>4801 – 13 200</td>
<td>1380 – 0.0786 x (i – 4800)</td>
</tr>
<tr>
<td>Greater than 13 200</td>
<td>720</td>
</tr>
</tbody>
</table>

Note

(1) I is the taxable income

Individuals in receipt of a pension payable under Latvian or foreign law are entitled to a higher, fixed, personal allowance of EUR 2820, provided they have reached Latvian pensionable age.

In addition, the taxpayer may claim a dependant’s allowance of EUR 2100 (or EUR 175 per month) in respect of every eligible dependant. Eligible dependants are:

- Minor children
- Children under the age of 24 undergoing full-time education or training
- Disabled non-working spouses
- Non-working spouses caring for a disabled minor child
- Non-working disabled parents or grandparents
- Persons under the taxpayer’s custody or guardianship
- Minor siblings, and siblings under the age of 24 undergoing full-time education or training, if their parents are incapable of working
- Persons to whom the taxpayer is paying alimony or maintenance under a court order

In most cases, the allowance may not be claimed in respect of a dependant who is independently in receipt of taxable income exceeding the dependant’s allowance (i.e. EUR 2100 per annum), is in receipt of unemployment benefit or is maintained by another person.

**Rates of tax**

As has been noted, there is a single standard rate of income tax, which is 23%. However, special rates apply to most types of investment income (10%) and capital gains (15%).

**Inheritance and gift tax**

Latvia does not have any inheritance or gift tax.

**Wealth tax**

Latvia does not have any wealth tax.
8 Other taxes

Immovable property tax
Immovable property tax (nekustāmā īpašuma nodoklis) is levied by local authorities on the owners (or in some cases users) of land and/or buildings situated in Latvia.

Exempt property includes leisure centres, sports stadia, recognised heritage property, and land covered by newly planted forests.

The default rate of immovable property tax is 1.5% of the cadastral value of the land or building, but local authorities may set rates of between 0.2% and 3%. Rates higher than 1.5% may only be set where the property is not maintained to the requisite standard, however.

The rates of tax payable on private residences are shown in Table 7.

Table 7  Rate of tax on residential property

<table>
<thead>
<tr>
<th>Cadastral value (EUR)</th>
<th>Rate of tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 56,915</td>
<td>0.2</td>
</tr>
<tr>
<td>More than 56,915 but no more than 106,715</td>
<td>0.4</td>
</tr>
<tr>
<td>More than 106,715</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Property transfer tax
There is a registration duty on the transfer of title to immovable property, payable by the new holder of title applying to register the property in his name.

The applicable rates of duty are shown in Table 8.

Table 8  Rates of duty on transfer of title to immovable property

<table>
<thead>
<tr>
<th>Type of property or type of transfer</th>
<th>Rate of duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undeveloped land, residential buildings with or without the underlying land</td>
<td>2.0%</td>
</tr>
<tr>
<td>Non-residential buildings with or without the underlying land</td>
<td>2.0%</td>
</tr>
<tr>
<td>Transfers by deed of gift</td>
<td>3.0%</td>
</tr>
<tr>
<td>Transfers to family members</td>
<td>0.5%</td>
</tr>
<tr>
<td>Land as a contribution-in-kind to share capital</td>
<td>1.0%</td>
</tr>
<tr>
<td>Transfer of a flat to a legal person carrying on a business</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Note
(1) Subject to a duty cap of EUR 42,686.15

The duty is charged on the transfer price, or in the case of a contribution-in-kind on the valuation placed on the land as a contribution.
Other significant taxes

Customs duties
Goods imported into Latvia from outside the European Union are subject to a customs procedure. Goods exported from the European Union must be considered carefully within an export customs procedure. The declarant is a person responsible for the payment of a customs debt, and also for submitting a customs declaration on his own behalf or on the behalf of a person submitting the customs declaration. In addition to import duty payments, other payments payable for the export and import of goods are import VAT, excise taxes and charges set by the Common Agricultural Policy.

Within the European Union, the Union Customs Code (Reg (EU) No 952/2013, as amended by Reg (EU) No 2016/2339) applies. It is supplemented by the UCC Delegated Act (Commission Delegated Regulation No 2015/2446).

Excise duty
Excise duty (akcīzes nodoklis) is payable on:
- Alcoholic beverages
- Tobacco products
- Petroleum and other hydrocarbon fuels
- Natural gas
- Soft drinks and
- Coffee

Natural resources tax
This tax is payable on:
- Specified natural resources
- The extraction of natural gas or greenhouse gases
- The emission of pollutant gases
- Refuse going to landfill
- Emission of greenhouse gases
- Environmentally harmful substances
- Packaging
- Radioactive substances
- Certain means of transport
- Coal, coke and lignite

Lotteries and games of chance tax and duty
The tax on lotteries and games of chance are payable by companies licensed to organise and operate lotteries and games of chance. The amount of tax varies according to the type of game and the gaming devices used. The tax on lotteries is 10% of the ticket revenues.

The issue of such licences is subject to a duty, ranging from EUR 4500 per annum for running gaming parlours or bingo halls to EUR 427 000 for the issue of a special licence for opening premises for slot machines, bingo and roulette and card and dice games

Subsidised electricity tax
This is payable by energy producers selling energy under mandatory procurement and entitled to a guaranteed price for electric power produced in a cogeneration or electric power station.
Electric energy tax
This tax is payable by the producers, distributors, suppliers, traders of, and other dealers in, electrical energy.

Financial stability duty
This duty is payable at the rate of 0.072% by banks and other credit institutions registered in Latvia and by the Latvian branches of credit institutions registered abroad, on their total liabilities at the end of each calendar year, net of deposits under guaranteed schemes, issued mortgage bonds, and subordinated loans included in equity capital.

Commercial light vehicle tax
This tax is payable in respect of qualifying vehicles in the ownership of persons carrying on a business or by persons in business who are the registered keepers of such vehicles. The vehicles in question are cars and other light vehicles constructed and fitted so as to transport no more than eight passengers and light goods vehicles not exceeding 3000 kg gross weight equipped with no more than three seats (including the driver’s). The tax is charged on three bands of engine capacity, ranging (2017 rates) from EUR 29 per month (equivalent to EUR 348 per annum) on cars with an engine capacity of no more than 2000 cc to EUR 62 per month (equivalent to EUR 744 per annum) for engine capacities greater than 2500 cc. The tax on electric vehicles is EUR 10 per month (equivalent to EUR 120 per annum) and EUR 46 per month (equivalent to EUR 552 per annum) on all other qualifying vehicles. Vehicles used solely for business purposes and certain agricultural vehicles are exempt.

Vehicle use tax
This is an annual tax payable on all means of transport, excluding tractors, trailers and semi-trailers not exceeding 3500 kg gross weight, trams, trolley buses, off-road vehicles, snowmobiles, mopeds and bicycles. Depending on the type of vehicle concerned, the tax is based on CO2 emissions, engine capacity, engine power or gross weight.

Reliefs and exemptions are available.
9 Social security contributions

Employee and employer contributions
Social security contributions are payable by employers and employees in respect of the earnings of employees aged 15 and over. Payments are hypothecated to six separate funds:

- Old-age pension insurance
- Unemployment insurance
- Industrial accident and occupational illness insurance
- Disability insurance
- Maternity and sickness insurance and
- Parental insurance

The employer is responsible for deducting the employee’s contributions monthly from salary.

Contribution rates for 2017 are shown in Table 8. Although total contributions are allocated to each fund as shown in the total column, payments due from employers and employees are not separately hypothecated.

Table 9 Rates of employer and employee social security contributions

<table>
<thead>
<tr>
<th>Fund</th>
<th>Employee (%)</th>
<th>Employer (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>24.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>2.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial accident &amp; occupational illness</td>
<td>0.53</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability</td>
<td>3.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maternity and sickness</td>
<td>2.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parental</td>
<td>1.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10.50</strong></td>
<td><strong>23.59</strong></td>
<td><strong>34.09</strong></td>
</tr>
</tbody>
</table>

Slightly different rates apply if the employee has reached pensionable age.

Permanently resident employees of non-resident employers and the employees of EEA or Swiss employers obliged under the EU Social Security Regulations to pay social security contributions in Latvia pay the full combined rate of 34.09%. Temporarily resident employees of non-resident employers pay 31.71%.

The earnings ceiling for contributions in 2017 is EUR 52 400 (but see under ‘Solidarity tax’ below).

Self-employment contributions
Self-employed persons pay contributions based on the previous year’s income from their business or on an estimate of their current year’s income, but the self-employed may specify the income on which they are to pay contributions, subject to a minimum in 2017 of EUR 4560. The maximum base is EUR 52 400, as for employees. The rate of self-employed contributions is 31.13% in 2017.

Self-employed individuals must pay their contributions on a quarterly basis by the 15th day of the month following the quarter.

Solidarity tax
Starting in 2016, solidarity tax (solidaritātes nodoklis) is payable in respect of that part of a person’s earnings liable to social security contributions which exceeds the annual maximum (i.e. EUR 52 400 in 2017). It is payable at the rate of social security contributions applicable to that person; hence, in 2017, employees will pay 10.5%; employers will pay 23.59%; temporarily resident employees of non-resident employers will pay 31.71% and the self-employed will pay 31.13%. In effect, the tax removes the ceiling that applies to social security contributions per se, but does not bring with it any entitlement to benefits.
10. Moore Stephens in Latvia

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W [http://riga.moorestephens.com](http://riga.moorestephens.com)

International liaison: Viktorija Usoviča: moore-stephens@mailbox.riga.lv
Appendix 1: Double tax treaties

Comprehensive double taxation treaties
Latvia has comprehensive double taxation treaties with the following countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Iceland</td>
<td>Romania</td>
</tr>
<tr>
<td>Armenia</td>
<td>India</td>
<td>Russia</td>
</tr>
<tr>
<td>Austria</td>
<td>Ireland</td>
<td>Serbia</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Israel</td>
<td>Singapore</td>
</tr>
<tr>
<td>Belarus</td>
<td>Italy</td>
<td>Slovakia</td>
</tr>
<tr>
<td>Belgium</td>
<td>Kazakhstan</td>
<td>Slovenia</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Kuwait</td>
<td>South Korea</td>
</tr>
<tr>
<td>Canada</td>
<td>Lithuania</td>
<td>Spain</td>
</tr>
<tr>
<td>China</td>
<td>Luxembourg</td>
<td>Sweden</td>
</tr>
<tr>
<td>Croatia</td>
<td>Macedonia</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Malta</td>
<td>Tajikistan</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Mexico</td>
<td>Turkey</td>
</tr>
<tr>
<td>Denmark</td>
<td>Moldova</td>
<td>Turkmenistan</td>
</tr>
<tr>
<td>Estonia</td>
<td>Montenegro</td>
<td>Ukraine</td>
</tr>
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<td>Finland</td>
<td>Morocco</td>
<td>United Arab Emirates</td>
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<td>France</td>
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<td>United Kingdom</td>
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<td>United States</td>
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<tr>
<td>Germany</td>
<td>Poland</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>Greece</td>
<td>Portugal</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>Qatar</td>
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</tbody>
</table>

Treaties have been signed with Hong Kong, Japan and Vietnam, but they are not yet in force. A treaty with Saudi Arabia has been initialled.

Double taxation treaties: estates, gifts and inheritances
Latvia has no double tax treaties covering taxes on inheritances or gifts.

Treaties on administrative assistance
Within the European Union, mutual administrative assistance is governed by the Directives on exchange of information (2011/16/EU), together with its implementing Regulation (Regulation (EU) No 1156/2012), and the recovery of claims (10/24/EC). As regards VAT, the same function is performed by Council Regulation (EU) No 904/2010. Outside the European Union, Latvia is a party to the Convention on Mutual Administrative Assistance in Tax Matters, and has separate agreements on exchange of information with Guernsey, Jersey and Singapore.

Social security agreements
The interaction of national social security systems within the European Economic Area is governed by EU Regulations (883/04/EC and 987/09/EU, as amended by Regulation 465/12/EU) which also extend, by agreement (and with some differences), to Switzerland. The following non-EEA countries have social security agreements with Latvia, the terms of which differ from case to case.

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
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<tbody>
<tr>
<td>Australia</td>
<td>Canada</td>
<td>Ukraine</td>
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<tr>
<td>Belarus</td>
<td>Russia</td>
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</tbody>
</table>
Appendix 2: Moore Stephens around the world

Moore Stephens is represented in 104 countries and has correspondent firms in another eight.

<table>
<thead>
<tr>
<th>Albania</th>
<th>Dominican Republic</th>
<th>Liechtenstein*</th>
<th>Serbia</th>
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<tbody>
<tr>
<td>Argentina</td>
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<td>Lithuania</td>
<td>Seychelles</td>
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<td>Austria</td>
<td>Egypt</td>
<td>Luxembourg</td>
<td>Sierra Leone</td>
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<tr>
<td>Austria</td>
<td>El Salvador*</td>
<td>Macedonia</td>
<td>Singapore</td>
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<tr>
<td>Azerbaijan</td>
<td>Finland</td>
<td>Malaysia</td>
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<td>France</td>
<td>Malta</td>
<td>South Africa</td>
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<td>Germany</td>
<td>Mauritius</td>
<td>South Korea</td>
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<td>Gibraltar</td>
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<td>Hungary</td>
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<td>Taiwan</td>
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<tr>
<td>British Virgin Islands</td>
<td>India</td>
<td>New Zealand</td>
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<td>Cambodia*</td>
<td>Ireland</td>
<td>Oman</td>
<td>Turkey</td>
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<td>Canada</td>
<td>Isle of Man</td>
<td>Pakistan</td>
<td>Uganda</td>
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<td>Cayman Islands</td>
<td>Israel</td>
<td>Panama*</td>
<td>Ukraine</td>
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<td>DR Congo</td>
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<td>Portugal</td>
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<td>Romania</td>
<td>Yemen</td>
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<td>Czech Republic</td>
<td>Latvia</td>
<td>Russia</td>
<td>Zambia</td>
</tr>
<tr>
<td>Denmark</td>
<td>Lebanon</td>
<td>Saudi Arabia</td>
<td>Zimbabwe*</td>
</tr>
</tbody>
</table>

*denotes a correspondent firm only

For more detail, see [www.moorestephens.com](http://www.moorestephens.com) under ‘Locations’.

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