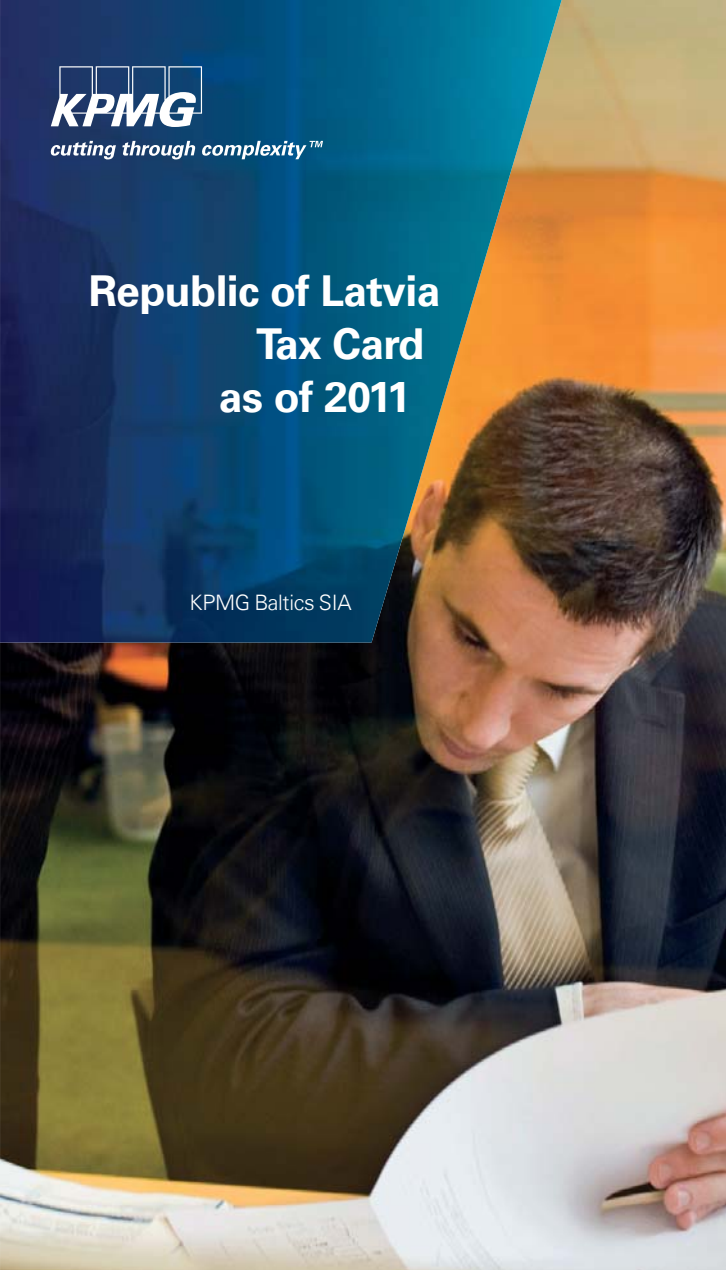




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Republic of Latvia Tax Card as of 2011

KPMG Baltics SIA



CORPORATE INCOME TAX

Standard rate (flat) 15%

Tax depreciation rates

Category	Rate
Buildings, constructions, long-term plantations	10%
Railroad vehicles and equipment, ocean and river vessels, fleet and port equipment, energy equipment.	20%
Computers and associated appliances, communication equipment, copying machines and related appliances.	70%
Oil exploration and production platforms and related equipment, oil research and extraction ships.	15%
Cars (retail price < LVL 30,000)	30%
Other fixed assets	40%

The above rates are calculated on a reducing balance basis.

Taxpayer may calculate tax depreciation from a higher initial value of fixed assets (new technological equipment bought in 2009-2013) using a coefficient of 1.5.

Taxpayer may calculate tax depreciation from a higher initial value of intangible investments (patents and trademarks registered after 1 January 2009) using a coefficient of 1.5.

Expenses not related to business activity

Taxable income has to be increased by expenses that are not directly related to business activity, as well as costs that have incurred due to maintenance of social infrastructure objects, using a coefficient of 1.5.

Advance payments

A taxpayer may choose itself to make smaller advance payments if its profit has decreased. If the difference between the calculated tax and the reduced advance payment set by the taxpayer does not exceed 20% of the calculated tax then the residual tax payment is not considered as a late tax payment and no late interest is applied.

Loss carry forward

Tax losses can be carried forward for up to 8 years. Taxpayers registered in Special Economic Zones have a 10-year period.

Withholding taxes on payments to non- residents

Latvia imposes withholding taxes on following payments made to non-Latvian entities.

Dividends*	10%
Management and consulting services	10%
Interest payments made to related parties**	5%
Interest payments made by Latvian registered commercial banks to related parties	5%
Right to use intellectual property rights in respect of literature and artistic works	15%
Right to use other intellectual property rights	5%
Payments for the use of fixed or movable property in Latvia	5%
Proceeds from the sale of real estate or real estate company shares in Latvia.	2%

*0% tax applies if the recipient is a qualifying resident of another EU or EEA country.

** 0% rate as of 2013 if paid to a qualifying resident of another EU or EEA country.

Withholding tax rates may be reduced by Double Taxation Treaties (see list at the end)

Withholding tax becomes payable when the payment is made.

Latvia has no separate Capital Gains Tax for companies. All capital gains are taxed as revenue gains.

MICRO-ENTERPRISE TAX

A micro-enterprise pays 9% tax from turnover from business activity. This tax covers personal income tax, social security contributions, business risk duty and corporate income tax.

PERSONAL INCOME TAX

Rates

Latvia imposes a flat rate of 25% on personal income and on income from a self employed individual's commercial activities. An individual can choose to pay fixed tax, if yearly income of his/her commercial activities does not exceed LVL 10,000.

Tax-free employee benefits and allowances

- Certain approved pension and life/health insurance premiums payments (up to 10% of gross income).

- General tax free allowance LVL 45 per month
- Eligible child/dependants allowance of LVL 70 per month

Special rates to particular types of income

- Capital gains (including real estate) – 15%
- Dividends – 10%
- Interest and similar income – 10%
- Income from private pension funds and life insurance agreements with accumulation of funds – 10%

Taxable employee benefits

- Cost of living allowance
- Housing provided by the employer
- Home leave allowance
- Private insurance paid by the employer (subject to exceptions)
- Medical care
- School fees
- Reimbursement of business trip expenses exceeding statutory limits
- Reimbursement of foreign and/ or home country taxes
- Employer gifts

SOCIAL SECURITY

Mandatory social security contributions are payable in respect of gross employment income. There is no maximum annual income threshold.

For individuals employed by a Latvian resident employer or employer from an EU or EEA member state, the contribution rates payable in 2011 are as follows:

- Employer's rate is 24.09%
- Employee's rate is 11%

If the employer is not resident in the EU or EEA, then the social contributions are:

- For Latvian citizens working in Latvia, 35.09% (24.09%; 11%)
- For foreign employees who are working for foreign employer, 32.22%

There are some exemptions for EU and EEA citizens on short-term assignments.

VAT

The standard VAT rate is 22%, reduced rate – 12%.

The following are examples of transactions subject to a VAT rate of 0%

- export of goods and intra community 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 EU that are rendered within a free zone territory or customs warehouse
- supplies of goods and services connected with international transport and rescue ships
- international passenger traffic
- supplies of goods and services under diplomatic and consular arrangements
- tax is not applied (with rights to apply input tax) to services rendered outside Latvia

The following are examples of VAT exempt transactions

- transactions in shares and other securities
- banking and financial services excluding hire of safes and encashment
- insurance transactions
- services closely linked to welfare and social security work
- provision of medical care
- education services
- sale of real estate excluding the first sale of unused buildings
- rental of domestic apartments
- betting, lotteries and other forms of gambling

The following are examples of transactions subject to a VAT rate of 12%.

- medicines, medical goods and equipment
- infant products
- supply of newspapers, journals, bulletins and other periodicals
- public transport services within Latvia
- supply of heating to inhabitants
- supply of gas to inhabitants, except natural gas for motor vehicles

Particular rules:

- possibility to form VAT groups
- special tax regime for import transactions
- possibility to correct input tax by reducing VAT payable to the budget for the amount of tax on a bad debt

VAT compensation to farmers is 14%.

VEHICLE USAGE TAX

Tax payers are individuals and legal persons and the tax has to be paid for all owned, managed or held vehicles registered in Latvia.

- Tax rates for the vehicles registered in Latvia after 1 January 2005 are determined by summing up the particular tax rates for the vehicle's full weight, power and motor capacity.
- The tax rate for the vehicles registered in Latvia before year 2005 shall be determined from motor capacity only.

COMPANY CAR TAX

All cars owned or held by a company are subject to this tax.

- Tax for a car registered after 1 January 2005 shall be determined based on the capacity of motor and shall be from LVL 19 up to LVL 40 per month.
- Tax for a car registered before 1 January 2005 is LVL 30 per month

PROPERTY TAX

- for property and land used in business activity and also for engineering technical buildings – 1.5% from the cadastral value of the property
- for land not used in agriculture – 3% from the cadastral value
- for houses and apartments for inhabitants not used in business activity:
 - 0.2% from cadastral value if it does not exceed 40,000 LVL
 - 0.4% from cadastral value from 40,000 LVL to 75,000 LVL
 - 0.6% from cadastral value which exceeds 75,000 LVL
- Minimal tax payment for each tax payer in to the particular municipality is 5 LVL.

TAXATION TREATIES

In 2011 Latvia has effective Double Tax treaties with the following countries:

Albania	Luxembourg
Armenia	Malta
Austria	Marocco
Azerbaijan	Macedonia
Belarus	Moldova
Belgium	Montenegro
Bulgaria	Norway
Canada	Poland
China	Portugal
Croatia	Romania
Czech Republic	Serbia
Denmark	Singapore
Estonia	Slovakia
Finland	Slovenia
France	South Korea
Georgia	Spain
Germany	Sweden
Greece	Switzerland
Hungary	The Netherlands
Iceland	Tajikistan
Ireland	Turkey
Israel	UK
Italy	Ukraine
Kazakhstan	USA
Kirgizia	Uzbekistan
Lithuania	

INVESTMENT INCENTIVES

The main incentives are:

- Corporate income tax and property tax relief for companies registered in a Special Economic Zone or Free Port
- Tax relief for enterprises engaged in agricultural activity

- Tax relief for long-term investments, which exceed LVL 5 M
- Tax relief of 25% of amount invested for investments of up to LVL 35 M, and 15% on excess over LVL 35 M.

REAL ESTATE TRANSFER DUTY

This duty is payable by the purchaser of immovable property. The rate is 2% of the highest of the purchase price or cadastral value of the property or valuation for mortgage purposes. The maximum tax payable is LVL 30,000. The rate for relatives (children, spouses, parents, sisters, brothers, grandchildren, grandparents) is 0.5% from the real estate value, but not more than LVL 1,000.

For additional information please contact:

KPMG Baltics SIA

Vesetas iela 7
Riga LV-1013
Latvia

T: +371 6703 8000

F: +371 6703 8002

www.kpmg.lv

Steve Austwick

Partner, Head of Tax & Legal Services

saustwick@kpmg.com

This card was prepared on 1 January 2011 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted. Please note: the above information may have changed since 1 January 2011.

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