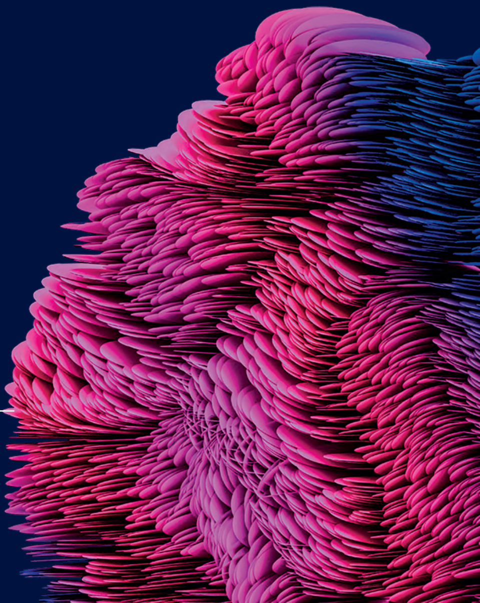
Tax Card 2024

Effective from the 1st of January
The Republic of Latvia



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CORPORATE INCOME TAX

The concept of the Latvian CIT regime, applicable from 2018, is based on two main principles:

- The moment when the CIT payment is due is delayed until income is distributed, or expenses are incurred that do not contribute to generating revenue or support the development of the company; and
- The rate is 20% for gross distributed income, calculated as 0.2/0.8 on net dividends distributed or non-deductible expenses

The following items are treated as profit distribution and are subject to CIT:

- Dividends
- Deemed dividends, such as share capital reduction, if the increase was made through the capitalisation of profit or liquidation quota
- Other taxable items:
  - Non-business expenses
  - Representation and personnel sustainability expenses exceeding 5% of the previous year's total gross salaries
  - Non-qualifying provisions for bad and doubtful debts older than 36 (in some cases 60) months, and bad debt write-offs
  - Interest expenses exceeding thin capitalisation thresholds:
    - On average non-bank debt exceeding four times the equity at the beginning of the financial year
    - If interest expense is above EUR 3 million, the amount which is above 30% of EBIDTA
- Long term (>12 month) loans issued to related parties while having retained profits, except for:
  - Loans to direct subsidiaries
  - Loans not exceeding the amount of loans received from third parties, or the amount of capital and profit earned before 2018
- Transfer pricing adjustment for tax purposes

Tax depreciation: the concept of fixed asset depreciation for tax purposes is no longer part of the CIT model. Financial depreciation is a normal expense deductible for tax purposes, except for the depreciation of luxury vehicles (i.e., cars with a value exceeding EUR 75,000, excluding Value Added Tax (VAT)) and assets not used for business.

Taxation period

The taxation period is a calendar month. If a taxable event occurs, the return should be filed by the 20th, and the CIT is payable by the 23rd of the following month. The tax point is when the liability is created, e.g., a non-business expense is booked, or a shareholder decision on dividend distribution is made. Non-business expenses and dividends have to be declared monthly, while all other taxable items have to be reported in the CIT return of the last month of the financial year.

Tax allowance for donations

There are three options for allowance for donations made to Public benefit organisations:

- The donation is treated as a deductible cost if it is:
  - up to 5% of the previous year's profit after tax
  - up to 2% of the previous year's total gross salaries, on which SSC was paid

- CIT on dividends can be reduced by 85% of the donation, not exceeding 30% of the CIT on dividends.

Capital gain

There is no separate Capital Gains Tax in Latvia for legal entities (gains are part of the ordinary income). All capital gains are, therefore, taxed when the profit is distributed.
The Latvian Law provides that gains from the disposal of shares are tax-exempt if these shares have been in the Seller's possession for at least 36 months, and not more than 50% of the company's assets are made up of real estate in Latvia.

Sale of real estate located in Latvia, or shares in a real estate company, by a non-resident are subject to a 3% withholding tax in Latvia. The non-resident can opt to pay tax of 20% from the actual capital gain by submitting a tax return and providing information on acquisition costs. The tax is applicable not only where the acquiring party is a Latvian entity, but also where the transaction takes place between two foreign parties. In such events the tax has to be paid to the Latvian State by the Seller within 30 days of the transaction.

Dividend taxation

Dividends' passing through' companies are not taxed with CIT, if the CIT was paid or WHT withheld at source when initially distributing dividends or the company distributing dividends is a CIT payer in the country of residence. This exemption does not apply to:

- Dividends received from a company established in a jurisdiction with low or no taxes
- Micro-enterprise taxpayers
- If the primary purpose of a structure or transaction is to use allowances stated in the CIT Law

Dividends paid from retained earnings accumulated until the 31st of December, 2017, are not taxed on distribution. The tax treatment of dividends will follow the FIFO method (i.e., until retained earnings (as of the 31st of December, 2017) are distributed, no corporate income tax is payable). Losses incurred reduce the earliest profits first.

Withholding tax rates in 2024

Type of payment	Tax rate	Comments
Management fees	20%	Applying a Double Tax Treaty (DTT), the rate can be reduced to 0% subject to a valid residence certificate provided by the non-resident.
Rent of real estate located in Latvia	5%	-
Disposal of real estate located in Latvia	3%	There is an option for a foreign seller to pay 20% tax from capital gains
Dividends, Interest, Royalties	0%	-
Payments to offshore jurisdictions	20%	The domestic list of offshore jurisdictions is aligned with EU list of non-cooperative jurisdictions for tax purposes (EU list of non-cooperative jurisdictions for tax purposes - Consilium)

Annual CIT payment for credit institutions and consumer lenders
Credit institutions and consumer lenders must pay an annual 20% CIT payment from 2024 onwards based on the result of the previous financial year.
The CIT is calculated within four months of the deadline for submitting the company's annual accounts for the previous financial year. The amount of the CIT for the tax year is determined based on the profits of previous financial year less the following:

- CIT exempt income - (1) pass-through dividends; (2) income from the disposal of shares held for at least 36 months;
- financial data of the Latvian taxpayer's permanent establishments abroad, if their income and expenses are accounted separately and the permanent establishment abroad pays tax on the income earned there.

The calculated CIT payment can be reduced by the amount of CIT calculated on profit distributed up to the time of the calculation (excluding interim dividens).
Once the company will distribute dividends regularly, it can reduce CIT by the CIT payments made annually (excluding interim dividends).

Controlled Foreign Company (CFC) rules
As of the 1st of January, 2019, Latvia adopted the minimum requirement of the EU Anti-Tax Avoidance Directive 2016/1164 regarding the CFC rules. An entity is treated as a CFC if the Latvian entity holds, alone or together with a related party, more than 50 percent of the shares or voting rights in a foreign entity, or if the Latvian entity alone or together with a related party has the right to receive more than 50 percent of the profit of that foreign entity, or if it is a permanent establishment of the Latvian company. The profits of the CFC should be taxed at the level of the Latvian entity if this profit was derived from an artificial arrangement designed for the purpose of gaining a tax advantage. An exemption from the CFC rules applies if the profit of the CFC does not exceed EUR 750,000, and the income derived from sources other than the sale of goods or the provision of services does not exceed EUR 75,000.

MICRO-ENTERPRISE TAX

The following persons may become a micro-enterprise taxpayer if they are not registered as VAT
payers:

- A sole proprietorship
- An individual undertaking
- A farm or fishing enterprise
- A natural person, registered with the State Revenue Service as a performer of business activity

The micro-enterprise tax rate is 25%.

The micro-enterprise tax revenues paid into the State budget by a micro-enterprise taxpayer are allocated as follows:

- 80% - mandatory State social security contributions
- 20% - personal income tax

In order for a micro-enterprise to choose to pay the micro-enterprise tax, it must meet the following criteria:

- The expected turnover will not exceed the VAT registration threshold (EUR 50,000)
- The micro-enterprise is not a registered VAT payer and does not intend

to become one until the VAT registration threshold is reached (EUR 50,000)

If a micro-enterprise becomes or has to become a registered VAT payer under the Value Added Tax Law, it will lose the status of the micro-enterprise taxpayer.

PERSONAL INCOME TAX

Latvia imposes progressive tax rates on personal income and income derived by individuals performing business activities in Latvia at the following rates:

Tax rate	The annual gross income cap	The monthly gross income cap
20%	Up to EUR 20,004.00	Up to EUR 1,667.00*
23%	From EUR 20,004.01 up to EUR 78,100.00	From EUR 1,667.01 up to EUR 6,508.33
31%	From EUR 78,100.01	From EUR 6,508.34**

** The 20% tax rate is applied to payroll if the Employee submits a salary tax book with the particular Employer. If the salary tax book is not filed, the 23% rate is applicable. The progressive tax rates are recalculated after filing an annual income tax return.*
*** The 31% tax rate is applied to monthly income above EUR 6,508.33 through payroll if the Employee is not socially insured in Latvia (i.e., has an A1 certificate confirming the applicability of another country's social security law).*

Most typical tax-free benefits and allowances for an Employee

- Certain approved private pension and life/health insurance premiums with an accumulation of fund payments
- The differentiated non-taxable minimum: the income up to which the maximum non-taxable minimum is applied is EUR 500 per month (EUR 6,000 per year), and the income above which the differentiated non-taxable minimum is not applied is EUR 1,800 per month (EUR 21,600 per year). The Latvian tax authorities calculate the estimated differentiated monthly non-taxable minimum, and it is recalculated twice a year by the 1st of January and the 1st of August in the Electronic Declaration System;
- The allowance for dependents (e.g., children) who are registered with the Latvian tax authority is EUR 250 per dependent per month.

Special rates for particular types of income

- Capital gains (including real estate) – 20% (with specific exceptions)
- Dividends – 0% if received from income taxed with CIT or on which PIT was applied; 20% in other cases
- Interest and similar income from capital – 20%
- Profit element of income from private pension funds and life insurance agreements with accumulation of funds – 20%
- Rental income (subject to specific rules) – 10%
- Royalties – 25%.

Taxable Employee benefits

- 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 that exceed EUR 15 per year.

Taxation of foreign income

Employment income received by Latvian tax residents in another EU or EEA country, or a country with which Latvia has signed a Double Tax treaty, is tax-exempt in Latvia if particular requirements are met.

MANDATORY STATE SOCIAL SECURITY CONTRIBUTIONS

State social security contributions are payable in respect of gross employment income. The income cap for social security contributions is EUR 78,100 per year. Employment income above EUR 78,100 is subject to Solidarity tax. The Solidarity tax is paid on a monthly basis in the same manner and at the same rates as for the social security contributions (total rate 34.09%). The Solidarity tax rate is 25%. By the 1st of March of the year following the taxation year the Solidarity tax is recalculated by applying the 25% rate. The overpayment is then repaid to the Employer by the 1st of September of the year following the taxation year during which the tax was paid.

Social Security contribution rates payable in 2024 are as follows:

- The Employer's rate is 23.59%
- The Employee's rate is 10.50%

Other social security contribution tax rates exist, e.g., for pensioners, self-employed persons, etc.

VALUE ADDED TAX (VAT)

The taxable base is the value of supplied goods or services.

The VAT standard rate is 21%. There are also reduced rates, at 12%, 5% and 0%, as well as VAT-exempt transactions.

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

- Export of goods and intra-community supplies
- Services related to the 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, and that are declared within a free zone territory or customs warehouse
- Supplies of goods and services connected with international transport and rescue ships
- International passenger transportation
- Supplies of goods and services under diplomatic and consular arrangements.

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 services
- Services closely linked to welfare and social security work
- Provision of medical care
- Educational services
- Sale of real estate, excluding the sale of unused real estate
- Rental of residential premises
- Betting, lotteries, and other forms of gambling.

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

- Medicines, medical goods, and appliances
- Infant food products
- Accommodation services in tourist accommodation sites
- Public transport services within Latvia
- Supply of heating to individuals
- Supplies of wood and firewood to individuals
- Fresh fruits, berries and vegetables not processed thermally

A VAT rate of 5% is applied to

- The supply of printed books, including those which are educational
- The supply of publications (such as newspapers and magazines)

Special provisions:

- The possibility of forming VAT groups
- A special tax regime for import VAT
- The possibility to correct input VAT by reducing VAT payable to the budget for the amount of tax on a bad debt
- The VAT domestic reverse charge is applicable to the supply of timber, unprocessed precious metals, precious metal alloys, metals clad with precious metals, scrap metal, semi-finished ferrous and non-ferrous metal, construction services, grain crops, industrial crops, mobile phones, tablets, laptops, integrated circuit devices, and game consoles
- The option to choose to apply VAT to the sale of used real estate
- If goods or services are supplied to EU individuals or non-VAT payers, the supplier must register for a special tax regime (OSS or IOSS) in one of the EU countries and apply the tax rate of the EU residence country of the receiver
- Simplified treatment for call-off stock
- VAT compensation to farmers is 14% of the value of the supplied goods to the processor of agricultural products.

COMPANY CAR TAX

Company Car Tax applies to cars owned or held by companies that are used not only for business activities but also for private purposes.
The company car tax is based on the type of car propulsion, power of the engine, and the first registration date. For those cars registered after 1 January 2009, the rate is EUR 15 per month for an electric car, EUR 25 per month for a hybrid cars and for the internal combustion engine cars the rate depends on the power of the engine and can be up to EUR 0,7

for each kW per month. For those cars registered before 1 January 2009 the rate is EUR 60 per month.

IMMOVABLE PROPERTY TAX

The tax on immovable property is based on its cadastral value on the 1st of January of the taxation year or at the moment of registration (the property tax rate varies between 0.2% and 3% of a property's cadastral value depending on the municipality). A tax rate of more than 1.5% of the property's cadastral value may be set only in cases where the property is not managed properly, for instance, where the building endangers humans or degrades the environment.

In the year 2024, property tax rates are:

- For buildings (except residential houses, groups of premises, whose use is residential), land used in business activities and for engineering technical buildings – 1.5% from the cadastral value of the property
- For agricultural land with an area exceeding 1 hectare not used in agriculture – an additional rate of 1,5% of the cadastral value
- For buildings that degrade the environment and endanger human lives – up to 3% of the largest cadastral value of the structure or the land on which it is built (if certain criteria are met)
- For houses, apartments for inhabitants, and additional premises (garages, storage rooms etc.) not used in business activity:
  - 0.2 % of the cadastral value up to EUR 56 915;
  - 0.4% of the cadastral value from EUR 56 915 to EUR 106 715;
  - 0.6% of the cadastral value which exceeds EUR 106 715;
  - 1.5% of the cadastral value, if these objects are in the legal possession of a company.

Families with three or more children are eligible for a 50% property tax reduction, but not more than EUR 500.

Local governments notify taxpayers of the tax payable by sending a notice prior to the 15th of February.

Property tax may be paid quarterly, no later than by the 31st of March, the 15th of May, the 15th of August, and the 15th of November, or may be paid in advance once a year.

The State duty on the sale of real estate

The State duty applicable for registering real estate ownership changes in the Land Register, if the real estate was sold, is 2% of the higher of the cadastral value or the sales price, but cannot exceed EUR 50,000. A lower rate of 1.5% is applied for an in-kind investment.
The State duty is payable by the buyer of the property.

The State duty on the alienation of real estate to family members

The State fee for registering ownership rights to immovable property in the Land Register for children, a spouse, parents, siblings, step-brothers, step-sisters, grandchildren, great-grandchildren, and grandparents, per immovable property in cases when property alienation on the basis of a court decision or a gift agreement, is determined as 0.5% of the value of the immovable property (the value indicated in the agreement), but will be not more than EUR 50,000.

TAX TREATIES

On 1st of January 2024 Latvia has effective Double Tax treaties with the following countries:

Albania	Iceland	Portugal
Armenia	India	Qatar
Austria	Ireland	Romania
Azerbaijan	Israel	Saudi Arabia
Belarus	Italy	Serbia
Belgium	Japan	Singapore
Bulgaria	Kazakhstan	Slovakia
Canada	Kosovo	Slovenia
Croatia	Kuwait	South Korea
Cyprus	Kyrgyzstan	Spain
Czech Republic	Lithuania	Sweden
Denmark	Luxembourg	Switzerland
Estonia	Macedonia	Tajikistan
Federal Republic of Germany	Malta	The Netherlands
Finland	Mexico	Turkey
France	Moldova	Turkmenistan
Georgia	Montenegro	Ukraine
Great Britain	Morocco	United Arab Emirates
Greece	Norway	United States of America (USA)
Hong Kong	People's Republic of China	Uzbekistan
Hungary	Poland	Vietnam

INVESTMENT INCENTIVES

The main incentives are:

- Tax allowance for enterprises engaged in an agricultural activity;
- CIT relief is available for companies registered in a Special Economic Zone or Free Port (Riga, Ventspils, Latgale, Liepaja, Rezekne).

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This card was prepared on the 1st of March 2024 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 the 1st of March 2024.