DOING BUSINESS IN LATVIA
2018

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INTRODUCTION

The aim of this publication, which has been prepared for the exclusive use of BDO firms and their clients and prospective clients, is to provide the essential background information on setting up and running a business in Latvia, in compliance with legislation in force as at 01.05.2018. It is of use to anyone who is thinking of establishing a business in Latvia as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company. It also covers the essential background tax information for individuals considering coming to work or live permanently in Latvia.

This publication describes the business environment in Latvia and covers the most common forms of business entity and the taxation aspects of running or working for such a business. For individual taxpayers, the important taxes to which individuals are likely to be subject are dealt with in some detail. The most important issues are included, but it is not feasible to discuss every subject in comprehensive detail within this format. If you would like to know more, please contact the BDO firms with which you normally deal, who will be able to provide you with information on any further issues and on the impact of any legislation and developments subsequent to the date mentioned below.

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We work hard to understand our clients' businesses and ensure that we match both our service offering and our people to their complex individual needs. We believe that providing our clients with access to experienced professionals who are actively engaged in addressing their tax and business issues is the most reliable way to provide exceptional service, always with a strong focus on trust and transparency.

Regardless of your location, size or international ambitions we can provide effective support as you expand into new areas of the world. In an ever-evolving economic environment, businesses need a global organisation that provides exceptional, bespoke service combined with local knowledge and expertise. BDO is uniquely positioned to serve this demand, providing effective support and a truly global integrated global footprint.

The information in this publication is up to date on 1st May 2018.

Doing Business in Latvia 2018 has been written by the Latvian Member Firm of BDO. Its contact details may be found on the back cover of this publication.

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1. WHY INVEST IN LATVIA?

Over the last 10 years Latvia has experienced extensive economic growth in all sectors. The global economic crisis led to many economic challenges. The Latvian government has expressed its determination to meet these challenges and it prepared a development program. The highest priority of the program is direct foreign investment (FDI), which it sees as the key to a fast and successful economic recovery.

The effort has given its results. Starting from 1th January 2018, Latvia significantly reformed its corporate tax system. The companies have to pay tax at the moment when earnings are distributed. On reinvested earnings 0% corporate tax is applied.

Business facility

As a small country in today's globalised world, Latvia knows the importance of attracting foreign investment. It has consistently pursued liberal economic policies and welcomed FDI. Latvia has worked diligently to make doing business in Latvia easy and fast; for example, in Latvia a company can be established in just one day. Other key policies are:

- Fostering of a business without borders environment among EU Member States
- Fostering access to EU Structural funds for business development
- Minimising bureaucratic obstacles
- Ensuring a transparent legal and judicial system.

Latvia also understands that an active dialogue between the government and foreign investors is vital for success. Key investment issues are regularly raised with the government through the Foreign Investors' Council (*Ārvalstu investoru padome*) in Latvia and, less formally, through easy access to officials and decision makers.

Access to knowledge and skills

The Latvian labour force is multi-lingual and well educated. Workers here are ready to take on new challenges and, even more in the current circumstances, employees are highly motivated. Latvia's workforce is rated in the top five in the world in terms of university students per capita and workers possess a northern European culture and work ethic with excellent skills and discipline. Latvia's history means it has experience and business knowledge of working with Russia and other Commonwealth of Independent States (CIS) countries.

The current economic conditions mean there are a number of attractive merger and acquisition opportunities in a variety of sectors including:

- Renewable energy
- Information and communications technology (ICT)
- Woodworking
- Construction materials;
- Industrial real estate.

Gateway to EU

In terms of logistics, Latvia is one of the best locations to establish a business in Northern Europe. Riga is the largest city in the Baltic region and is ideally located at the centre of the region.

Latvia also benefits from the following:

- Ice-free ports
- The fastest growing airport in Europe
- An integrated, well developed transportation infrastructure.

The Trans-Baltic highway (Via Baltica) runs the length of the country, providing a north/south transport corridor. Riga International Airport is the fastest growing capital city airport in Europe. Riga offers direct flights to over 90 destinations in 30 countries. Latvia's main asset, though, is its maritime links: Latvia has three major ice-free international ports linked to the country's infrastructure by rail, road and pipeline.

Business incentives

As Latvia is a relatively new EU member, companies investing here have an ideal opportunity to qualify for EU Structural Funds under the support scheme from 2014 to 2020. Substantial financial grants are available in a variety of key business activities: vocational and other training, support of innovations, R&D, value-added manufacturing and technology/knowledge transfer and more. Additionally new incentives for small and medium sized enterprises have been launched by the European Union – COSME for the competitiveness of the small and medium sized enterprises.

Latvia has five separate Special Economic Zones and Free Ports (three ports and two inland). The latest Special Economic Zone (Special Economic Zone of Latgale) has started its operation only in the beginning of 2017. All are well connected to transportation corridors and have a well-developed infrastructure. Tax benefits are available for businesses that meet certain conditions.

Since 1 January 2017 a new start-up regime has been introduced[1]. To qualify for start-up regime criteria are as follow:

- The company has been registered at least 5 years ago
- Qualified venture fund's investment of EUR 30 000 and the income for the company in the first two years are less than EUR 200 000 and in the five years – less than EUR 5 000 000
- No dividend distribution
- Innovative activity indicators; and
- No tax debt or insolvency

If the company qualifies for the start-up regime, then there are two options for the relief:

- Support programme for attracting highly qualified employees;
- Fixed salary tax = SSC from two minimum salaries (EUR 760) (plus solidarity tax and voluntary contributions into pension fund).

Other tax support for start-up regime is an income tax relief for fixed payroll tax payers.

Cost effective

The current economic slowdown is an opportunity to attract qualified labour at better rates. Latvia's labour costs are very competitive, especially compared to those in older EU member countries. The corporate income tax system with 0% tax rate for retained earnings is especially suited to motivate companies to build up equity and provides more financing options for investment.

International recognition

Latvia's membership in NATO and the European Union guarantees political stability and easy access to Europe's most dynamic regional market: the Baltic Sea Region, which provides access to 100 million affluent consumers.

Since 1 January 2014 Latvia's national currency is the Euro.

[1] More detailed information may be found in Section 4.

Temporary residence permits

In 2010 Latvia adopted a new regulation providing for additional opportunities for foreign persons to obtain temporary residence permits in Latvia without having to reside in the country for a specific period of time. A foreign natural person may obtain a temporary residence permit on the following basis (the list is not exhaustive):

- If they invest at least EUR 50 000 in a small Latvian company (employing not more than 50 employees or yearly balance being not more than EUR 1 000 000) or EUR 100 000 in some other venture
- If they are board or council members, proctors, administrators, liquidators of a Latvian company that has been in existence for at least one year at the time they apply, provided that such company is involved in active commercial activity
- If they have subordinated liabilities with a Latvian credit institution (bank) in the amount of at least EUR 280 000
- If they acquire real estate the value of which is at least EUR 250 000, minimum cadastral value - EUR 80 000.

For more detailed information please see Section 2 below.

National airline

Air Baltic Corporation (airBaltic) is the Latvian flag carrier airline. Its head office is on the grounds of Riga International Airport.

Currently, airBaltic operates direct flights out of the three Baltic State capitals: Riga, Latvia; Vilnius, Lithuania; and Tallinn, Estonia. airBaltic offers flights to and from more than 50 cities in Europe, Asia and the Middle East, including such cities as Barcelona, Paris, Frankfurt, Moscow, St. Petersburg, Tel Aviv, Rome, Tashkent, and Dubai.

2. COUNTRY PROFILE

Geography

Latvia is located in northern Europe on the eastern shores of the Baltic Sea between Estonia and Lithuania. To the east it borders Russia and Belarus and has a maritime border with Sweden.

The climate resembles that of New England.

Latvia has over 12 000 rivers, though only 17 of them are longer than 97 km, and over 3 000 small lakes, most of which are located in the eastern province of Latgale. The major rivers are the Daugava, the Lielupe, the Gauja, the Venta and the Salaca. Woodlands, mostly pine, comprise 41% of the Latvian territory. Other than peat, dolomite and limestone, natural resources are scarce. Latvia has 531 km of sandy coastline and has three main ports: Riga, Liepaja and Ventspils.

With an area of 64 589 km^2 and a population of about 1.969 million, Latvia is a small European country. The capital of the country, Riga (Rīga), has approximately 639 600 inhabitants (official statistics as to the place of residence in the metropolitan area). The second largest city in Latvia is Daugavpils, with a population of approximately 85 900.

History

The Latvians (or Letts as they are sometimes known) were still organised under separate tribal chieftains when they were conquered and converted to Christianity in the 13th century by German crusaders. Subsequently, the territory of modern Latvia passed under Polish and Swedish suzerainty. During the 18th century, following the conclusion of the Great Northern War in 1721 and the final partition of Poland in 1795, the whole Latvian territory became part of the Russian empire.

In the middle of the 19th century a Latvian national revival began and following the collapse of Russia and Germany at the end of World War I, an independent Latvian republic was proclaimed in November 1918. Despite serious devastation as the result of the World War and the subsequent War of Independence, Latvia rapidly recovered economically and culturally, and by 1940 had achieved a standard of living comparable with that of Scandinavia at the time. The Latvian constitution (1922) established a democratic parliamentary republic. In 1934 the Prime Minister, Kārlis Ulmanis, staged a coup d'état. Suspending Parliament indefinitely, he became a virtual dictator. In 1936 he also assumed the position of President. In June 1940, under the provisions of the Nazi-Soviet Non-Aggression Pact, Latvia was occupied by the USSR and was made a Soviet Socialist Republic. In 1941 Latvia was occupied by the German forces and was re-conquered by the USSR in 1944-45.

In May 1990 the parliament of Latvia reasserted Latvia's independence. In 1993, under the restored 1922 constitution, new parliamentary and presidential elections were held.

Latvia became a member of the United Nations in 1991 and in 1993 signed a free-trade agreement with its fellow Baltic States, Estonia and Lithuania. In 2004 the country became a member of NATO. It became a full member of the European Union on 1 May 2004. And on 1 July, 2016 Latvia became a member of the Organisation of Economic Co-operation and Development (OECD).

Government and political powers

According to the Constitution (*Latvijas Satversme*), Latvia is an independent democratic parliamentary republic. It has a unicameral parliament (*Saeima*) composed of one hundred members elected by the list system of proportional representation. The President, who is the head of state, is elected by the *Saeima* for a four-year term. The executive power rests with the prime minister, who is appointed by the President, and the Cabinet. For administrative purposes, the country is divided into 110 counties and 9 municipalities.

Population and language

The official language is Latvian. Latvian is one of the two surviving languages (the other is Lithuanian) of the Baltic branch of the Indo-European language family. Latvian and Russian are commonly spoken languages. English is also widely spoken. Some 62% of the population is ethnic Latvian and 26% are Russian. No other ethnic group comprises more than 5% of the population.

Currency

Since 1 January 2014 Latvia's national currency is the Euro (international abbreviation EUR).

Time, weights and measures

Latvia uses Eastern European Time, which is two hours ahead of Greenwich Mean Time (GMT+2 hours). Between March and September Latvia introduces Daylight Saving Time (GMT+3 hours).

Latvia uses the metric system of weights and measures and the Celsius scale for temperature.

3. BUSINESS ENTITIES

There are no specific requirements for foreigners wishing to establish a business in Latvia. Investors, whether Latvian or foreign, benefit from equal legal treatment and have the same right to establish business operations in Latvia by incorporating a separate legal entity. The procedure requires the fulfilment of certain legal formalities, such as registration with the Latvian Commercial Register (*Latvijas Republikas Uzņēmumu reģistrs*) and the State Revenue Service (*Valsts ieņēmumu dienests* – abbreviated here as SRS).

Forms of business organisation

The common form of carrying on a business in Latvia is through a company, mainly a limited liability or a joint stock company. Companies have their own name, share capital (the minimum amount of which is established by law), management, registered office, and bank account. Companies established in Latvia are subject to Latvian law, but agreements concluded by a Latvian company can be governed by any law agreed upon between the parties. No permit is required by foreigners wishing to subscribe for the shares of a company or to be appointed a member of the board of a Latvian company. The legal address has to be local to ensure the delivery of official correspondences.

The activity of Latvian businesses is governed mostly by the Latvian Commercial Code (*Komerclikums*), enacted in 2000 and further amended. The Commercial Code allows for and defines three forms of business entities:

- Individual Merchants (*Individuālais komersants (IK)*)
- Partnerships: General Partnerships and Limited Partnerships (*Pilnsabiedrība (PS), Komandītsabiedrība (KS)*)
- Capital companies – Limited Liability Company and Joint Stock Company (*Sabiedrība ar ierobežotu atbildību (SIA) Akciju sabiedrība (AS)*).

Other forms of doing business are representative offices and branches of foreign companies. A representative office has limited functionalities and is not allowed to carry on any business activity; therefore, it does not give rise to a permanent establishment in Latvia.

Other forms of doing business in Latvia are:

- The European Economic Interest Grouping (*Eiropas ekonomisko interešu grupa*)
- The European company (*Eiropas sabiedrība*)
- The European cooperative society (*Eiropas kooperatīvā sabiedrība*)
- The cooperative society (*kooperatīvā sabiedrība*).

Latvian legislation does not recognise the concept of a trust.

Limited liability companies

The most common form of doing business in Latvia is the limited liability company. Often abbreviation "SIA" is used.

The share capital of a SIA cannot be less than EUR 2 800, unless the company confirms to several criteria (founders of company are natural persons and the number of them is five or less, the shareholders are natural persons and the number of them is five or less, the board of directors consists of one or several members and they are also shareholders and each shareholder is a shareholder of only one such company), then the share capital of a SIA can be less than EUR 2 800 (at least EUR 1). Accordingly, since it does not require a considerable initial investment, it is the most common form used when starting a business.

The organisational structure of a SIA requires an executive board (*valde*) of directors, although one director is sufficient. A supervisory board (*padome*) and auditor (*revidents*) are optional, where not expressly required by law.

Usually it takes about one week to establish and register a new SIA in Latvia. It costs about EUR 200 in registration and other duties, excluding professional fees. A limited liability company must be registered with the local office of the State Revenue Service (SRS) and it must file tax returns on a regular basis.

Joint stock companies

A joint stock company includes Latvian "Akciju sabiedrība" or abbreviation "AS" in its name. It must have a minimum share capital of EUR 35 000. The shares can be either registered (name shares) or in bearer form and they can be freely traded or pledged. The minimum share capital must be paid up until incorporation and entry of the AS in the Commercial Register.

A joint stock company may be set up privately or its shares may be publicly listed. It must have both an executive board and a supervisory board. The members of the supervisory board are elected by the shareholders, but the supervisory board appoints the executive board. Managers or directors do not necessarily need to be shareholders.

Usually it takes about one week to establish a new AS in Latvia. It costs about EUR 380 in registration and other duties, exclusive of professional fees. A joint stock company must be registered with the local office of the State Revenue Service (SRS) and it must file tax returns on a regular basis. If a joint stock company decides to go public there are more requirements to be met before and during listing.

Representative offices

Foreign companies can set up a representative office (*pārstāvniecības*) in Latvia in order to carry out non-income generating activities, such as promotion and supervision of the business of the parent company. Representative offices are not considered legal entities and cannot carry out commercial activities in Latvia.

Branches of foreign companies

A branch (*filiāles*) of a foreign company can be registered with the Latvian Commercial Register (*Uzņēmumu reģistrs*) to carry out business in Latvia. The foreign company will be liable to the employees and creditors of the branch for the actions of, and debts contracted by, its managers and agents on behalf of the branch. Branches can carry out only those activities for which the parent company is authorised.

Besides registration with the Commercial Register, the branch must also register for tax purposes with the State Revenue Service (SRS) and it is subject to corporate tax as a permanent establishment. There is no branch remittance tax in Latvia.

Usually it takes about one week to establish a new branch in Latvia and costs about EUR 50 in registration and other duties, exclusive of professional fees.

Business reorganisation and liquidation

The liquidation of a company may occur voluntarily by a decision of the company's shareholders or in other cases as prescribed by law. According to the law, the minimal length of the procedure is about six months, but in practice the procedure may be very long, taking about up to two years, if it is necessary to obtain the approval from different state institutions.

The company or any creditor may file a bankruptcy petition, if the grounds for it according to law exists.

Mergers and acquisitions are regulated by the provisions of the Latvian Commercial Code and EU Directives (e.g., with respect to share sale and competition law issues); it may take approximately six to eight months to finish all formalities in case approvals from state institutions such as Competition Council are necessary.

Companies may be reorganized by way of joining, dividing and transforming companies. A reorganisation must be approved by at least 2/3 votes of the shareholders of the company present in the meeting (in case of Limited Liability Company) or at least ¾ votes of the shareholders of the company present in the meeting (in case of Joint Stock Company).

4. LABOUR RELATIONS AND WORKING CONDITIONS

With approximately two million inhabitants, Latvia is a small market in Eastern Europe. One of the main advantages of the Latvian labour market is its qualified specialists in: social sciences, economics and law, as well as IT, engineering, manufacturing and construction.

Information on the employment market

According to official statistics, at the end of December 2017 the unemployment stood at about 8.15%. The level of unemployment varies greatly between the regions (and is, for example, considerably higher in Latgale, the eastern part of the country).

There is a minimum monthly wage set by law: EUR 430. The average monthly gross wage in 2017 was estimated to EUR 926.

The majority of employees work in the wholesale and retail sector (15,2%) and in manufacturing (13%). Several sectors are short of qualified employees, most notably, the IT, telecommunications and construction sectors.

Employment regulations and laws

Employment relationships are mainly governed by the Labour Law (*Darba likums*). There are special laws enforcing rules for labour conflicts, trade unions, and employers' organisations.

According to the Labour Law, an employment contract has to be in writing. However, a non-written contract will be considered in force if at least one party has fulfilled the provisions of the contract. Some mandatory conditions, like working hours and salary, have to be included in the provisions of the contract.

State Labour Inspectorate

The State Labour Inspectorate (*Valsts Darba inspekcija*) is authorised to supervise employment relationships and the safety of labour and the industrial equipment. Violations of the provisions of the law are penalised.

Working conditions

Working hours

The normal working period is eight hours per day with a one hour lunch break, five days per week. There are specific rules regarding working conditions for night work, hard labour (professions involving high risk), and the employment of teenagers. Any overtime work has to be remunerated in addition to regular salary.

Holidays

Employers are obliged to pay holiday pay. The minimum period of annual vacation is 20 days. In addition, the statutory holidays are as follows:

- 31 December and 1 January — New Year's Holiday
- 2 days (set yearly) — Easter
- 1 May — Labour Day
- 4 May — Day of proclamation of Independence
- 23 and 24 June — Midsummer Days
- 18 November — National (Independence) Day
- 25 and 26 December — Christmas.

There are also paid absence periods for family events (childbirth, funerals, etc.).

Termination of an employment contract

Termination of an employment contract can be effected in one of the following ways:

- By agreement of both parties
- By declaration with notice
- By expiry of the contract, if applicable
- Under circumstances prescribed by law.

In most cases, under conditions prescribed by the Employment Code, a written notice of termination of the employment must be submitted one month in advance by the employee or the employer, depending on the circumstances. In cases specified in the Employment Code, the employer has the right to give 10 days prior or immediate notice.

Employees are not obliged to state their reason for leaving. However, the employer must state the reasons for the termination of the contract and such reason shall comply with the requirements of the Employment Law.

The maximum probation period prescribed by law is three months. The termination of the employment contract during this period is permissible with a notice of three days and the employer is not obliged to mention the grounds for the termination of the employment contract.

Under certain conditions, dismissal of personnel qualifies as a collective lay-off. Notice of collective lay-offs must be provided to the local government (municipality) and must be supervised by the unemployment agencies. For example, there is a collective lay-off if there is a dismissal, within 30 days, of:

- At least 5 employees in a company with a staff of between 20 and 49 people
- At least 10 employees in a company with a staff of between 50 and 99 people
- At least 10% of the employees in a company with a staff of between 100 and 299 people
- At least 30 employees in a company with more than 300 people.

Fringe benefits

Among the most typical fringe benefits granted to employees are: extra holiday pay, medical insurance, a stock-option plan system, paid subscription for a mobile phone, and public transportation.

Social security

At present, Latvian social security legislation comprises five essential areas:

- Pensions and other social security benefits for employees
- Provision of healthcare services
- Unemployment benefits and assistance
- Allowances and support for the family (child allowance, supplementary allowance for families with children, allowance for single-parent families), and
- Social assistance for disadvantaged individuals, including special protection for disabled persons.

The first three areas are part of the social insurance system for employees has as its principal objective the provision of support to insured persons who cannot obtain regular remuneration in certain risk situations (temporary or permanent incapacity to work, maternity, retirement, unemployment, etc.). The social insurance system is based on collecting funds from insured persons and distributing those funds to those qualifying for the insured benefits.

Unlike the social insurance system, which is contributory, family and social assistance are non-contributory systems; they are financed by the state.

Both Latvian and foreign employees are governed by the same social security, health, pension and unemployment social insurance provisions, subject to any relief given under EU regulations and international social security conventions signed by the Latvian government.

Foreign employees

Visa requirements

With the exception of EU residents, non-resident individuals who intend to carry on a business, to be employed, or simply to enter Latvia, must obtain a visa.

Schengen visa

Latvia is a member of the Schengen area – Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and Switzerland. There is a Uniform or Schengen visa that entitles foreigners to stay in Latvia and the other Schengen countries.

National or long-term visa

Foreigners staying in Latvia for a period longer than 90 days in any six-month period have to apply for a long-term visa or residence permit, depending on the circumstances of the particular case. This visa is valid only for stay in Latvia. Under general conditions, the maximum term of the long-term visa is one year.

Short term entry and stay in connection with employment

If the employment of a foreigner is linked to a short term or irregular stay in Latvia, which does not exceed 90 days in any six-month period, the foreign national has to obtain a visa or residence permit for a certain term and a work permit. The requirement of a work permit also applies to foreigners who are not required to obtain an entry visa.

If the employment of a foreigner is linked to a regular stay in Latvia of more than 90 days in any six-month period, the foreign national has to obtain a residence permit for a certain term and a work permit.

Visa with work permit

The competent state institution issues the work permit according to the expiry date of the visa if the foreigner meets certain conditions prescribed by law.

Temporary residence permits

As noted in the introduction, in July 2010 Latvia adopted a new regulation providing for additional opportunities for a foreign person to obtain a temporary residence permit for a five-year period without the need to reside in the country for a specific period of time. According to the provisions, a foreign natural person may obtain a temporary residence permit on the following bases:

- If the foreign person invests at least EUR 50 000 in a small Latvian company or EUR 150 000 in a large company
- If the foreign person is on the board (or council, or is a proctor, administrator or liquidator) of a Latvian company that has been in existence for at least one year at the time the person applies for a residence permit
- If the foreign person has subordinated liabilities with a Latvian credit institution (bank) in the amount of at least EUR 280 000
- If the foreign person acquires real estate the value of which is at least EUR 250 000, minimum cadastral value - EUR 80 000.

Procedure for obtaining a temporary residence permit

1. Invitation

Where a foreign person requests a temporary residence permit on the basis of an investment in a Latvian company or because they are on the board of a Latvian company, the company must provide the individual with an invitation.

No invitation is required in the other situations described above.

2. Submission of documents

As soon as the foreigner receives and accepts the invitation, or where there is no need for an invitation, the foreign person submits documents to the Latvian diplomatic mission in his or her country or, in certain cases, in Latvia. The review period is up to 90 days.

3. Obtaining temporary residence permit

When the Latvian immigration authorities grant the permit, the applicant receives a one-time visa to Latvia. The visa is issued by the Latvian diplomatic mission in his or her country of residence. Afterwards, but within seven days of entering Latvia, the applicant will personally receive a temporary residence permit from the Office of Citizenship and Migration Affairs (*Pilsonības un migrācijas lietu pārvalde*).

5. FINANCE AND INVESTMENT

Banking and local finance

Banking in Latvia is regulated under The Credit Institutions Act (*Kredītiestāžu likums*), in force as of 24 October 1995.

The central bank of the Republic of Latvia is the Bank of Latvia (*Latvijas Banka*), which is one of the key public institutions that carries out the economic functions as prescribed by law. To ensure the implementation of the monetary policy, the Supreme Council (which predated the Fifth Saeima, elected in 1993) adopted the law founding the Bank of Latvia on 7 September 1992. Its principal objective is to regulate the currency in circulation by implementing a monetary policy so as to maintain price stability in Latvia. The activities of the Bank of Latvia are regulated by the Bank of Latvia Act (*likums "Par Latvijas Banku"*), which has been in force since 19 May 1992.

Currently, the banking system consists of several types of institutions:

- Commercial banks
- Credit institutions
- Mortgage banks
- Subsidiaries, branches and agencies of foreign banks.

The minimum capital required for establishing a bank is the equivalent of EUR 5 million and it must be subscribed and paid up fully in cash.

The supervision of the Latvian banks, insurance companies, participants in the financial instruments market, as well as private pension funds, is carried out by the Financial and Capital Market Commission (*Finanšu un kapitāla tirgus komisija*), which is regulated by the Financial and Capital Market Commission Act (*likums "Par Finanšu un kapitāla tirgus komisiju"*), which has been in force since 1 July 2001.

Since 1 February 2008 Latvia has fully implemented the EU's MiFiD Directive 2004/39/EC, which regulates the financial markets. The central aim of the MiFiD Directive is to ensure the protection of investors' interests and the perfect functioning of the financial instrument market. Therefore, Latvian banks have introduced a number of improvements to ensure better protection of investors and to improve the provision of investment services.

The Association of Commercial Banks of Latvia (*Latvijas Komercbanku asociācija*) (the Association) is a public organisation that unites the 19 banks registered in Latvia, including four branches of foreign banks on a voluntary basis. The Association was founded on 23 July 1992. The purpose of the Association is to contribute to the strengthening and development of the banking system in Latvia.

Equity market

The official Stock Exchange (*Rīgas Fondu birža*) is located in Riga. It is the sole stock exchange operating in Latvia and is owned by OMX, which is part of the NASDAQ OMX Corp.

The Central Depository of Latvia (*Latvijas Centrālais depozitārijs*) administers all publicly issued securities in Latvia. Its operation is supervised by the Financial and Capital Markets Commission. The Central Depository's main functions are as follows:

- To keep safe custody of securities, to perform clearing and settlement for securities trading and management of corporate actions
- To provide other services related to securities
- To keep a register of numerous non-public joint stock companies, private limited companies, and other corporate debt securities
- To keep initial lists of the shareholders of privatised enterprises

- To administer the state-funded pension scheme, this is the second pillar of the pension system.

Accounting and audit requirements

Bookkeeping and financial reporting in Latvia is mainly regulated by the Accounting Act (*likums "Par grāmatvedību"*) and the Annual Financial Statements and Consolidated Annual Financial statements Act (*likums "Gada pārskatu un konsolidēto gada pārskatu likums"*), as well as the Certified Auditors Act (*likums "Par zvērinātiem revidentiem"*) and the International Accounting Standards (*Starptautiskie Grāmatvedības standarti*).

Accounting and annual financial reporting

Accounting records

Accounting records have to be kept so that any person qualified in accounting can clearly identify the financial situation of the company, transactions made during the accounting period, and to ascertain both the beginning and the sequence of each transaction.

Requirements for accounting records are as follows: the measure of value used must be the monetary unit of the Republic of Latvia, the language must be Latvian. However, a second language, if agreed upon by the parties and acceptable to the auditors, may be used.

The accounting records and all relevant mandatory documentation have to be stored in Latvia.

The reporting period is normally 12 months. Usually calendar year, but there can be exceptions.

Confidentiality

The information included in annual reports, consisting of the financial statements and the management report, is not considered a trade secret of the company and is also available publicly upon request. All other information in the accounting records is confidential. An exception regarding access to confidential information is made with respect to the auditors, to the tax administration reviewing reported taxes, and to other state institutions in circumstances directly prescribed by law.

Consolidated reporting

Preparation of a consolidated annual report is an obligation of the parent company if, for two successive years, figures for the parent company together with its subsidiaries have exceeded any two of the following criteria:

- Total assets: EUR 4 000 000
- Net turnover: EUR 8 000 000
- Average number of employees in the reporting year: 50.

It is set by the law that Consolidated Annual Report must be prepared in Latvian language.

Statutory audit of financial statements

The financial statements have to be audited by a certified auditor or by a firm of certified auditors if the company exceeds two of the following criteria:

- Total assets: EUR 800 000
- Net turnover: EUR 1 600 000
- Average number of employees in the reporting year: 50.

Development of the accounting and auditing profession

All the largest international audit firms are represented in the Latvian market and they have also the dominant position in servicing large companies. About 30 local audit firms operate in the largest cities of Latvia, mostly in Riga. Unlike the large networks, local firms rarely provide business consulting.

Accounting software

According to the law, computerised accounting is allowed only if the law is not violated. Moreover, the data output must be understandable to an independent third person.

Foreign and local accounting software packages are used; foreign packages are generally designed for large and medium-sized enterprises and locally developed packages are used for small and medium-sized enterprises.

Foreign exchange policy

The foreign reserves of the Bank of Latvia are comprised of gold, convertible foreign currencies, and SDRs (Special Drawing Rights). The Bank of Latvia invests in safe and liquid financial instruments, predominantly in government and government agencies' securities of the United States of America, Germany, France, the United Kingdom, and Japan, as well as in securities of international institutions.

Investment opportunities and incentives

As a small country with limited private capital resources, Latvia appreciates the impact of foreign direct investment on its continuing economic development. The government and local authorities, cooperating with different business organisations, are committed to further improve the legal and administrative environment for foreign and local business ventures wishing to establish themselves in the country, by a number of methods and means. As an example, Latvia is the second country worldwide bringing a very distinctive CIT application model, where CIT liabilities mostly will occur only at the moment of profit distribution.

Foreign investors' guarantees and rights

The Latvian constitution guarantees the right to private ownership. Both domestic and foreign private entities have the right to establish and own business enterprises and engage in all forms of commercial activity, except those prohibited by law. Private enterprises have competitive equality with public enterprises with respect to access to markets and business operations.

Performance requirements and incentives

The government extends national treatment to foreign investors. Therefore, most investment incentives and requirements apply equally to local and foreign businesses. The Latvian government has a series of incentive schemes for investment, both foreign and domestic, in several free ports, special economic zones, and in special assisted regions. Two other incentive packages apply to companies producing hi-tech products and to projects that have received the status of a "state-supported investment". In addition, all investors are exempt from VAT and customs duties on fixed assets imported as long-term investments.

Repatriation of initial investment and profits

Latvia's foreign investment law provides for unrestricted repatriation of profits associated with an investment. Investors can freely convert local currency into foreign exchange at market rates and have no difficulty obtaining foreign exchange from Latvian commercial banks for investment remittances.

6. THE TAX SYSTEM

The system of taxes and duties in Latvia consists of:

- State taxes, the object and rate of which are set by the Saeima
- State duties, which are applicable under the Taxes and Duties Act (*likums "Par nodokļiem un nodevām"*) and other laws and regulations of the Cabinet of Ministers
- Local duties, applicable under the Taxes and Duties Act and binding regulations issued by the local authorities concerned
- Directly applicable taxes and other obligatory payments set by the European Union's regulatory enactments.

The following taxes are governed by the Taxes and Duties Act:

Direct taxes

- Corporate income tax (*uzņēmumu ienākuma nodoklis*)
- Personal income tax (*iedzīvotāju ienākuma nodoklis*)
- Mandatory social insurance contributions (*valsts sociālās apdrošināšanas obligātās iemaksas*)
- Real property tax (*nekustamā īpašuma nodoklis*)
- Vehicle operation tax and company car tax (*transportlīdzekļa eskpluatācijas nodoklis un uzņēmumu vieglo transportlīdzekļu nodoklis*)

Indirect taxes

- Value added tax (*pievienotās vērtības nodoklis*)
- Excise duty (*akcīzes nodoklis*)
- Electrical energy tax (*elektroenerģijas nodoklis*)

- Car operation tax (*transportlīdzekļu ekspluatācijas nodoklis*)
- Customs duty (*muitas nodoklis*)
- Microcompany tax (*mikrouzņēmumu nodoklis*)

Other taxes

- Natural resources tax (*dabas resursu nodoklis*)
- Lottery and gambling tax (*izložu un azartspēļu nodoklis*)

Payment

Taxes and duties are assessed and paid in Euro.

The tax administration may not waive its right to unpaid tax, nor may it transfer to any other person its rights to claim taxes, duties and related payments, with the exception of tax debts recovered and the sale of confiscated and inventoried property in cases provided under other tax laws.

The set-off of taxes, duties and payments related to taxes and duties against other liabilities is not permitted. The due date for payment is provided by the legislation regulating the tax or duty. Starting from 2021, taxpayers will be able to transfer tax payments to single tax account.

Assessment

The Latvian tax system is generally one of self-assessment. Taxpayers are responsible for computing their own tax payable on the basis of their tax return as well as for deduction of the amount of tax payable as provided for in the specific tax laws. Taxpayers - except for those individuals who are not economic actors - must file tax and information returns in electronic format. Generally, taxpayers must retain documents verifying income form, and expenditures on, financial and economic activities for at least five years (there might be exceptions).

The tax administration has the right to perform tax audits provided that it informs the taxpayer that it is conducting a tax review (audit). The tax administration must indicate the taxes, duties, or other mandatory payments to be examined, the tax returns to be examined, and the taxable periods under review.

The tax administration has the right, after a tax review (audit), to adjust the amount of taxes and to impose fines.

Appeal procedures

Any person who disagrees with a fiscal administrative document (including an assessment) or a refusal to issue such a document has the right to submit an appeal.

Decisions taken by local authority officers regarding tax issues may be appealed within 1 month of receipt of the decision.

If the taxpayer is dissatisfied with the result of the first-stage appeal, the taxpayer may appeal the decision to the courts.

Anti-avoidance principle

Latvia has specific anti-avoidance rules. As a matter of principle, where tax liability is not calculated or is calculated on a taxable basis that differs from that existing in reality, thereby avoiding the scope of the tax law, tax liability is to be recalculated on the real taxable base (“substance over form principle”).

7. TAXES ON BUSINESS

Corporate tax system

Scope and extent

Starting year 2018 new Corporate Income Tax system is introduced in Latvia. The new tax model is not compatible with the most of the previously available tax allowances for the companies. New system is based on the deferred tax payment until the moment of the profit distribution (consequently, no tax payment should be made if all the profit is reinvested into the company's development). Thus, the moment of taxation is shifted from the moment of earning the profits to the moment of the distribution of profits.

In accordance with the new Corporate Income Tax Law, the following CIT provisions are no longer in place starting year 2018, specifically:

- Tax depreciation of the fixed assets and intangible contributions;
- The utilization of the tax losses for the previous financial periods.
- Special tax incentives and reliefs for performed Research and Development (R&D) activities in Latvia (e.g., such as increased amount of tax depreciation for new manufacturing and technological equipment), which allows taxpayers to claim for tax credits for initial long-term investment in supported projects.

The grandfathering clauses still remain for some positions. Provisions for thin capitalization, bad debts and transfer pricing adjustments are in place as well under the new system.

Company residence

For the purposes of tax legislation, a taxpayer who is not a natural person is considered a resident of Latvia if it is established and registered or if it should have been established and registered in accordance with the laws of the Republic of Latvia. Hence, a Latvian company is resident even if its management and control are situated abroad, and it is not possible for a Latvian company to change its residence without being dissolved and reincorporated abroad.

Taxable entities

Persons liable to corporate income tax are:

- Resident entities carrying on a business (performing economic activities)
- Foreign companies and other foreign legal persons deriving income or capital gains in Latvia
- Permanent establishments of non-residents carrying on a business in Latvia
- Partnerships: General Partnerships and Limited Partnerships
- Cooperative associations.

The following are not liable to corporate income tax:

- Individual (family) undertakings that do not have to submit annual accounts in accordance with the Annual Financial Statements and consolidate Annual Financial Statement Act (Gada pārskatu un konsolidēto gada pārskatu likums)
- Institutions financed by State or local-government budgets whose income from economic activity is provided for in the relevant budget
- Private pension funds
- Associations (*biedrības*) or foundations (*nodibinājumi*) if the disclosed or undisclosed aim of the foundation is not the acquisition of profit or the growth of capital for the benefit of their members
- Religious organisations, trade unions, and political parties.

Taxable income

As it was mentioned above, new CIT system in Latvia provides for the taxation at the moment of profit distribution. Nevertheless, the taxable base depends on the type of a profit distribution, i.e. explicit (1) or implicit (2).

(1) The explicit way stands for the distribution of dividends and other forms of profit distributions in the forms, which are comparable to dividends.

(2) The implicit way of distribution of profits implies the following positions:

- Expenses and payments non-related to business activities. Such expenses may include employees fringe benefits, gifts and donations (on which the personal income tax was not withheld); fines, late payments; fuel expenses, representation expenditures, which exceed the limits set by the law; purchase of assets, not related to the business activities; donations (except for donations to public benefit organizations)
- Loans to the related parties (under specific conditions)
- Adjusted amount of interest payments calculated on the basis of thin capitalization rules
- Transfer pricing adjustments
- Bad debts
- Liquidation quotas.

The minimum tax payment

As from 2015 a minimum tax of EUR 50 is introduced. The taxpayer must pay the minimum payments if he has not paid PIT & SSC payments for employees; he is not required to pay CIT for a taxation year if the amount of tax payable is less than 50 EUR (including situations where the result of the tax year taxpayer is a loss). This provision will not apply in the year of registration of a start-up company. Neither does it apply in the company's liquidation year.

Deductions

As a general rule, expenses not directly related to the company's business are generally not deductible. These expenses include: entertainment, relaxation, pleasure trips and recreational events for owners or employees; private (not business-related) travel in company vehicles of the taxpayer; grants, gifts, gratuitous loan waivers; and other disbursements in cash or in kind to owners or employees that are not by way of remuneration for work performed or that are not related to the economic activity of the company.

Capital gains

Latvia has no separate capital gains tax. Capital gains derived in Latvia by persons subject to corporate income tax are taxed at the same rate as ordinary income.

Thin Capitalization

Thin capitalization occurs when the debt-to-equity ratio exceeds 4:1. Thin-capitalization rules do not apply to interest on loans obtained from the following institutions:

- Credit institutions that are residents of Latvia, EU, European Economic Area (EEA) or a country with which Latvia has entered into a double tax treaty
- Credit institutions providing credit or financial leasing services and are under the supervision of credit institutions or the financial monitoring agency.

Interest payments exceeding the thin cap ratio must be included in the CIT taxable base. Interest payments within a review year exceeding EUR 3 million, the sum exceeding 30% of EBITDA, must be included in the CIT taxable base. In case there is both thin capitalisation and the interest payment within a review year exceeds EUR 3 million, CIT taxable base in increased by the largest of these two sums. Neither thin capitalisation rules nor the EUR 3 million threshold applies to interest payments on loans received from:

- Credit institutions that are residents of Latvia, EU, European Economic Area (EEA) or a country with which Latvia has entered into a double tax treaty;
- Latvian Treasury
- Development Finance Institution
- Nordic Investment Bank
- European Bank for Reconstruction and Development
- European Investment Bank
- Council of Europe
- Development Bank
- World Bank Group
- Publicly traded debt securities of EU or EEA countries;
- Loans received directly or indirectly from a state financing, external trading crediting or guarantee institution in a country with which Latvia has entered into a double tax treaty.

Loans to related companies

Related-party loans are considered to be conditional profit distribution and are subject to tax, unless:

- The loan is issued by a parent company to its subsidiary. Other loans between related parties, i.e. between sister companies or a loan from a subsidiary to its parent company, will be subject to tax
- A loan is issued to a taxpayer’s foreign PE.

Furthermore, CIT shall not apply to:

- The amount of a loan that a taxpayer has received from an unrelated party (e.g. a credit institution)
- Loan is issued in the current year and no retained earnings from previous years on the balance sheet at the beginning of the current year
- Loan that does not exceed the amount of equity minus the amount of loans issued in the previous years and not repaid
- Loans issued for period less than 12 months.

Dividends and Withholding taxes

Dividends and interest payments to legal and other persons located in low-tax or no-tax states or territories (including payments to representatives of such persons or payments into third party bank accounts as well as payments made in the form of mutual settlements) are subject to additional 20% withholding tax, with the exception of payments for the delivery of goods purchased in the European Union or EEA publicly traded securities, if such goods and securities are purchased at market price. The responsibility to withhold and pay tax into the state budget on top of paid out dividends lies with the payer of dividends, or in case of securities – with the security account holder who is trading with the non-resident. Withholding tax applies to interest payments unless personal income tax has already been withheld from such payments.

Table 2 shows withholding tax rates for non-resident legal entities that are applicable if a double tax treaty does not state otherwise.

Table 2

Type of payment	EU or EEA recipient	Third-country recipient
Dividends	20%	20%[1]
Interim dividends	20%	20%[2]
Interest	0%	20%[3]
Royalties	0%	20%[4]
Rent	0%	20%[5]
Goods	0%	20%[6]
Securities	0%	20%[7]
Remittances of partnership profits	20%[8]	20%[8]
Management and consultancy fees	20%[9]	20%[9]
Proceeds from the alienation of Latvian immovable property[10]	3%	20%

Notes

[1] Dividends paid to a non-resident company located in a country or territory recognized by Latvia as a low-tax or tax-free territory will be subject to corporate income tax (CIT) at a rate of 20%.

[2] Starting from 2018 it is allowed for companies to distribute interim dividends, CIT at a rate 20% is applied to dividends distributed to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory.

[3] Starting from 2018 the zero rate applies for a third-country recipient unless the recipient company is located in a country or territory recognized by Latvia as a low-tax or tax-free territory (in such case the applicable tax rate is 20%).

[4] As from 1 January 2014 the rate is zero unless the royalties are paid to a recipient in a territory that Latvia recognises as a low-tax or tax-free territory (in such case the applicable tax rate is 20%).

[5] Tax at a rate of 20% from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory shall be payable.

[6] Tax at a rate of 20% from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory shall be withheld in case the goods are not acquired at market price.

[7] No tax shall be withheld on securities traded in the EU or EEA from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory, in case the securities have been acquired at market price. Tax at a rate of 20% from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory shall be payable in case the securities are not acquired at market price.

[8] Starting from 1 January 2018 Partnership is a CIT payer, therefore profit is taxable with CIT 20% at the moment of profit split.

[9] Not taxable when stipulated in a tax treaty. If paid to a recipient in a territory that Latvia recognizes as a low-tax or tax-free territory the applicable tax rate is 20%.

[10] Includes proceeds from the alienation of shares in a company more than 50% of whose assets in the current or immediately previous taxable period consist of Latvian immovable property. If paid to a recipient in a territory that Latvia recognizes as a low-tax or tax-free territory the applicable tax rate is 20%. Return with supporting justification documentation can be submitted to the Latvian tax authorities by the payer and overpaid amount can be requested if the amount is less than the withholding tax applied.

In all cases, if payments are made to persons resident in a low-tax or tax-free territory, the rate of withholding tax is 20% unless the State Revenue Service is satisfied that the transaction has not been entered into with the purpose of avoiding Latvian tax.

The jurisdictions considered as the low-tax or tax-free territories are prescribed by regulation and are listed in Table 3.

Table 3

Antigua and Barbuda	Dominica	Jordan	Maldives	Tahiti
Bahamas	Ecuador	Macao	Saint Helena	Tonga
Bahrain	Grenada	Jamaica	Saint-Pierre-et-Miquelon	Vanuatu
Brunei	Guam	Liberia	São Tomé and Principe	Venezuela
Djibouti	Kenya	New Caledonia	US Virgin Islands	Zanzibar

Note

[1] A State or Territory is not treated as a tax-free or low-tax country or territory, beginning with the year in which in that country or territory an international treaty for the avoidance of double taxation and prevention of fiscal evasion applies or the date when in that country or territory an agreement on exchange of information for tax purposes enters into force.

Latvia has concluded a number of double taxation treaties with other countries double taxation treaties with other countries (see Appendix). If a double tax treaty is in force, the most favourable rates are applied.

Losses

Tax losses cannot be utilized under the new CIT Law, however regulations provide for the grandfathering clause i.e. allowing the usage of accrued losses for the previous taxation periods within the period of the upcoming 5 years. It should be considered, that the amount of the utilized tax losses in the current period should not exceed 15% of the overall sum of accrued losses for the previous periods, and simultaneously it should not exceed 50% of the sum of the corporate income tax amount, calculated for the relevant taxation year on the distributed dividends.

Group treatment

As from 1 January 2014 tax losses are not transferrable between group companies within Latvia.

Tax incentives

1. After tax reform started from the 1st of January there are some general incentives available in Latvia, including free ports, special economic zones, and investment in agriculture. Starting from 1 January 2017 the new start-up regime has been introduced. The purpose of start-up supporting regime is to promote incorporation of start-ups in Latvia, ensuring innovative business development and research in private sector by granting favourable conditions to investors and to provide opportunities for development of innovative solutions with high added value in Latvia under highly competitive market conditions. Criteria for Start-ups to qualify are as follows:
   - Capital company (limited liability company or joint stock company)
   - Decisive influence in company is for private individuals
   - Capital company has not been reorganized, vertically integrated and is not holding shareholder in other corporations
   - Shares of capital company have not been alienated, except for qualified risk capital investor
   - Investments from qualified risk capital investors are not less than EUR 30 000 per year (investor participation should be less than 20% of start-up share capital)
   - Income in five years from the registration of start-up is less than EUR 5 000 000 and in the first two years up to EUR 200 000

- Profit is not distributed as dividends, but retained for development of company
- Tax debt does not exceed EUR 150 at the moment when allowance is granted to company
- Has at least one of the following innovative characteristics:
    - ✓ Owns or has applied for ownership of innovative product
    - ✓ At least 70% of employees has have master's or doctoral degree
    - ✓ At least 50% of costs are directed for research and development.

Allowance for the first 5 years:

- Fixed social security contributions for employee calculated from a fixed payment object - 2 minimum monthly salaries (for example, in year 2016 – contributions for one employee would be EUR 252.26 per month) regardless of the actual salary + 10% payment from difference between the calculated gross income of employee and fixed payment object in state pension insurance or in private pension scheme

  OR

- *De minimis* state aid up to EUR 200 000 - to attract highly qualified employees
- Related tax benefits:
    - ✓ Employee is entitled to personal income tax relief for income received from start-up
    - ✓ Tax relief for corporate income tax up to 100% (if the state aid is less than EUR 200 000), not applicable to fines, penalties, expenses not related to business, etc.
- Total state aid for 3 years does not exceed EUR 200 000.

Thin capitalisation

Interest is not deductible if a company's interest-bearing debt exceeds four times its equity capital (so-called excess interest), the excess interest is treated as non-deductible and is re-characterised as a dividend and is taxed accordingly.

Neither of the above rules apply to interest paid by credit institutions or insurance companies, or to interest on loans obtained from: credit institutions registered in the Republic of Latvia or in another Member State of the European Union or in a country with which Latvia has concluded a convention or a double tax treaty is in force, the Latvian Treasury, the Nordic Investment Bank, the European Bank for Reconstruction and Development, European Investment Bank, World Bank group, or the Council of Europe Development Bank.

The rule related to excess interest does not apply to the interest on loans obtained from a financial institution meeting both of the requirements listed below:

a) It is registered in the Republic of Latvia or in another Member State of the European Union or in a country with which Latvia has concluded a convention or a double tax treaty is in force

b) It provides credit or financial lease services and it is supervised by the financial supervisory authority.

Transfer pricing

Local transfer pricing rules apply to residents and non-residents if they are deemed to be related parties. The tax authorities can adjust prices according to market values if goods within a transaction between related parties are sold below market price or bought above market price. As of 2013 companies are required to keep a full set of transfer pricing documentation if net turnover of the company exceeds EUR 1 430 000 (USD 1 542 970) and the amount of transaction with related company exceeds EUR 14 300 (USD 15 430). An advance pricing agreement procedure is available.

At the moment are in process amendments to the local law (will be in force in 2018), which requires the preparation of a transfer pricing Local file and Master file.

	Submission criteria	Master file	Local file	Documentation submission deadline	Review	Fine for non-submission of documentation or exclusion of important sections
Transactions with non-residents	Obligatory submission	a) Annual transactions sum > EUR 15 000 000 OR b) Annual turnover > EUR 50 000 000 and controlled transactions sum > EUR 5 000 000	Annual controlled transactions sum > EUR 5 000 000	Within 12 months after the end of the relevant financial year	Documentation is reviewed annually or once in 3 years, if no substantial changes in transfer pricing methodology	Up to 1% from controlled transaction (for which documentation must be prepared) sum with a maximum amount of EUR 100 000
	Submission upon request	Net turnover < EUR 50 000 000 and controlled transactions sum EUR 5 000 000 - EUR 15 000 000	Annual controlled transactions sum EUR 250 000 - EUR 5 000 000	Within 1 month from the moment of request		
Transactions with residents	Submission upon request	N/A	Annual controlled transactions sum > EUR 250 000	Within 90 days from the moment of request (possibility to prolong for 30 days)	Tax authorities may request full or partial preparation of the documentation	

CBC (country-by-country) report

Starting from 2017 CbC report need to be prepared by Latvian taxpayers if they are part of a group of multinational companies with consolidated net sales exceeding EUR 750 million. If this condition is met:

— the parent company of the group of multinational companies, which is a resident of Latvia for tax purposes, must prepare a CbC report and submit it to the State Revenue Service within 12 months after the reporting date; — an entity included in a multinational group of companies, which is a Latvian resident for tax purposes, but is not the parent company of the group, must prepare the CbC report and submit it to the SRS if:

- Its parent company has no obligation to provide a CbC report
- There is no effective agreement with the competent authority of the country of the parent company to share the CbC report
- It is a substitute parent company in the group of multinational companies.

Controlled foreign companies

Latvia has controlled foreign companies (CFC) legislation only for individuals. However, as already noted, an additional withholding tax of 20% is imposed on payments made by Latvian companies to entities or individuals registered or domiciled in the low-tax or tax-free jurisdictions. Certain exceptions apply. Individuals have to declare and pay personal income tax on the distributed profit of companies registered (established) in tax haven jurisdictions.

Tax rate

The current standard rate of corporate income tax on all taxable income is 20%, however the taxable base must be divided by 0.8 thus the effective tax rate is 25%.

Assessment procedure

It is the duty of the company to calculate the tax payable.

Returns and payments

Returns

A company's corporate income tax return is generally due within four or seven months of the year-end, so for companies with calendar year ends, returns are generally due no later than 30 April or 31 July. Four months is the time period for small companies; seven months is the period for medium-sized and large companies. For this purpose, a medium company is one in respect of which any two of the following indicators is exceeded for the period of account in question:

- Total assets: EUR 4 000 000
- Net turnover: EUR 8 000 000
- The average number of employees in the reporting year: 50.

Different due dates may apply to credit institutions, insurance companies, and savings and loan institutions.

Payment of tax

Starting the tax reform for the period from January 1st 2018 until June 30th 2018 companies must submit the tax return and pay the tax payable no later than July 20th. Afterwards companies must submit tax returns every month and pay the tax payable no later than the 20th of the following month.

Advance payments will no longer be possible except in the transition period until June 30th 2018 during which advance payments must be paid until the 20th of each month. The advance payment equals 1/12 of the calculated tax for 2016 tax period. The advance payments paid must then be taken into account when making the tax payment in accordance to the tax return submitted for the period from January 1st 2018 until June 30th 2018.

Microenterprise tax

In Latvia special corporate income tax regime is introduced for micro enterprises. A microenterprise may be a sole proprietor, sole proprietorship, a farmer or fisherman, an individual who registered with the State Revenue Service as an entrepreneur, or a limited liability company that meets the following criteria:

- All its shareholders are natural persons
- Its turnover in a calendar year does not exceed EUR 40 000 (USD 49 280)
- The number of employees does not exceed five at any time
- Members of the board are employees of microenterprise.

The maximum remuneration per employee (including for the owner himself) is EUR 720 per month. If the remuneration exceeds more than EUR 720 then the tax rate for the remuneration's excess part is 20%.

According to law, the employee of microenterprise is obliged to work only in one microenterprise.

The tax rate on a microenterprise is 15% having turnover till EUR 40 000, and includes:

- Social security contributions, personal income tax (PIT) and the business risk fee for employees
- Corporate income tax (CIT), if the microenterprise is a CIT-payer
- PIT for microenterprise shareholders on their personal activity income (in other words, not on dividends).

If the turnover for a microenterprise exceeds EUR 40 000, then the tax rate is 20% for the turnover's excess part.

Value added tax

Taxable entities

For value added tax (VAT) a taxable person is any person who, independently, carries out in any place any economic activity, whatever the purpose or results of that activity. The VAT paid may be deducted from the VAT invoiced on deliveries of goods and services provided. A person must be registered in the SRS Register of VAT Taxable Persons within 5 working days of the date of submission of the application.

Taxable activities

As a general rule, value added tax is imposed on all supplies of goods and services that take place in Latvia. VAT is payable on every transaction involving the supply of goods and services for consideration, also on the importation of goods, the intra-Community supply of goods, the intra-Community acquisition of goods, and on the acquisition of new means of transport by non-taxable persons in the territory of the European Union.

Place of supply, acquisition and import within the European Union

Place of supply

If the goods are dispatched or transported from one Member State of the European Union to another Member State of the European Union, the place of supply is the Member State of the European Union in which the dispatch or transportation of the goods commences.

The place of supply of installed or assembled goods is the Member State of the European Union in which the goods are installed or assembled.

Reverse charge

Latvia applies the domestic reverse charge mechanism for the supply of timber and related services: the recipient of the service (the VAT Payer) must self-charge the VAT on the purchase invoice, while the timber company issues an invoice without VAT, referring on the invoice to the reverse charge mechanism. The same reverse charge mechanism has been introduced for several industries:

- Supplies of scarps and related services
- Construction services
- Supplies of construction materials
- Supplies of metal products
- Supplies of household appliances
- Supplies of mobile phones, laptops, tablets, game consoles and integrated circuit
- Supplies of cereals and industrial crops
- Supplies of unwrought precious metals, precious metal alloys and metal clad with precious metals (starting form 1 January 2017).

Place of acquisition

The place of acquisition is the Member State of the European Union in which the dispatch or transportation of the goods ends.

The place of acquisition of a new means of transport is the Member State of the European Union in which the means of transport is registered.

Place of import

The place of import of goods in the territory of the European Union is that Member State of the European Union in which the customs procedure for the release of goods into free circulation is ended (concluded).

Importation of goods

According to the Value Added Tax Act (*Pievienotās vērtības nodokļa likums*) the import of goods means the importation of goods onto the territory of Latvia from a third country or a third territory.

A third territory is:

- A part of the European Union customs territory: Mount Athos, the Canary Islands, the overseas departments of the Republic of France, the Aland Islands, the Channel Islands
- The European Union, non-EU Customs territory: the Island of Helgoland, Buesingen Territory, Ceuta, Melilla, Livigno, Campione Italy (Campione d'Italia), the Italian waters of Lake Lugano.

The term “third country” applies to states that are not a Member State of the European Union.

Intra-Community trade

Intra-Community supplies and acquisitions are those made between taxpayers in Latvia and another EU Member State. Subject to certain exceptions, intra-Community supplies are VAT-exempt with the right of deduction (that is, zero-rated). The same regime is applicable for transactions with new means of transport (that is, supplies and acquisitions of new means of transport). Namely, if new means of transport are supplied to a customer in another EU country, the same rules as to intra-Community supply of goods (i.e. 0% VAT) apply. In the case of the acquisition of new means of transport, VAT is applied (the VAT registered person applies reverse charge VAT mechanism; the person not registered for VAT purposes pays VAT to the state).

Regard to transport:

a) Motorised land vehicles that have been used less than six months or that have travelled less than 6 000 kilometres

b) Ships or other floating craft that have been used for less than three months or have sailed for less than 100 hours, and

c) Aircraft that has been used for less than three months or has flown for less than 40 hours.

If the services are rendered by a Latvian taxable person to a taxable person of another EU Member State, the recipient of the services must account for the VAT due. If the services are rendered by a Latvian taxable person to a non-taxable person of another EU Member State, the VAT is due by the supplier of the services. Exceptions from the above exist for the following services:

- Services associated with immovable assets, the reloading and storage of goods, as well as other services associated with transportation
- Services associated with movable (tangible) property (including valuation, repair and maintenance), except for the leasing of such property
- Intermediary agent services in the territory of the European Union
- Transportation services
- Catering services
- Culture, education, sport.

Exempt supplies

The following are examples of VAT-exempt supplies:

- The provision of healthcare and social security benefits
- Education, science, culture, consular services, professional training or retraining of the unemployed, organised by the State Employment Service (*Valsts nodarbinātības aģentūra*)
- Catering services financed from the State budget and provided in corrective institutions and places of imprisonment
- Supplies of gold, coins and banknotes to the Bank of Latvia
- Certain financial transactions
- Rental of domestic apartments
- Transactions in shares and other securities
- Betting, raffles (lotteries) and other forms of gambling
- Sale of immovable property, including land, except for the first sale of unused immovable property and sale of construction land
- Supplies by insurance and reinsurance institutions, including those who mediate such activities
- Postal services provided by the Latvian postal service (*Latvijas pasts*)
- Services (including catering) provided by retirement or old people's homes, welfare and rehabilitation centres.

The abovementioned exemptions may be applied to natural or legal persons and groups of such persons, if, in the provision of such services, profit is not derived systematically. If profits are derived, the exemption applies where the profit is directed or invested in improving the supply of such services.

Tax is not levied on the importation of the following goods:

- Goods mentioned above
- Goods that are not subject to customs duty, except for such goods on which a 0% rate of customs duty is imposed.

Introduction of a cost sharing exemption

A cost sharing exemption as defined in Article 132 (1) f of the VAT Directive is introduced in Latvia as of 1 January 2014. Services supplied by a member of an independent group of persons (which we will refer to here as "the group") to other members of the group are VAT exempt if:

1) Members of the group are persons who independently carry out transactions that are exempt from VAT or transactions that are out of scope for VAT (excluding entities carrying out exempt financial or insurance transactions) and the services are supplied for the purpose of rendering their members the services directly necessary for the exercise of that activity
2) The value of the services supplied is their cost base
3) The group merely claims from their members reimbursement of their specific share of the joint expenses;
4) No distortion of competition is created as a result of exemption of these services.

To apply the VAT exemption, the following conditions will have to be met:

1) There must be a written agreement between members of the group
2) All members of the group must be local or foreign taxable persons
3) The member of the group who supply services to the group must be a local taxable person or a taxable person in another EU Member State
4) If the member of the group also performs VAT taxable transactions, the member must separately account for services to the group.

By adopting these new provisions, Latvia fulfils its obligation with respect to the implementation of the VAT Directive.

Standard, reduced and zero rates

The standard VAT rate is 21% while the reduced VAT rate of 12% applies to certain services and goods, such as some medicines and medical equipment, infant food, internal public transport, the supply of domestic heating and natural gas, books, magazines and newspapers.

The 0% rate applies to the export of goods and to intra-Community supplies, international passenger traffic, supplies of vessels, supplies of goods to vessels, etc.

VAT registration

Persons from the Republic of Latvia register in the SRS Register of VAT Taxable Persons based on the following conditions:

- For natural persons, according to their declared place of residence
- For legal persons, according to the address of their registered office.

All businesses whose taxable annual turnover equals or exceeds EUR 40 000of supply of goods and services of acquisitions of goods in the territory of the European Union exceeds EUR 10 000 in 12 months must register with the SRS Register of VAT Taxable Persons. Businesses with a lower turnover may register voluntarily.

No threshold is applicable to foreign companies; they are obliged to register as soon as they are engaged in taxable transactions in Latvia.

After registration with the SRS, a registered person, regardless of his or her place of registration, must electronically file a VAT return within 20 days of the end of the taxable period (using the Electronic Declaration System). The taxable period is normally one calendar month. Taxable persons whose taxable turnover in the previous year did not exceed EUR 40 000 may apply for quarterly (three-month) taxable periods.

Non-deductible input VAT

A taxable person is not entitled to deduct input VAT if the relevant goods or services were purchased for a purpose other than business. In the case of the VAT paid on the purchase of petrol for a car used for the purposes of a taxable person's business, 50% is deductible from output VAT. This rule does not apply to operational transport, taxis, and similar cars.

VAT returns and payment

Subject to some exceptions (see above), the taxable period is one calendar month. A taxable person must pay the excess of output VAT over deductible input VAT for the taxable period within 20 days after the end of the period. If the input VAT exceeds the output VAT, the taxpayer may apply for a refund.

VAT refunds to foreign taxable persons

The conditions for a foreign taxable person to receive a refund of Latvian VAT, according to the procedure under the Eighth or Thirteenth VAT Directives, are:

- The taxable person must not be engaged in economic activities that have to be registered in Latvia
- The taxable person must not have performed taxable transactions in Latvia for which the person is required to register in Latvia for VAT
- The VAT must actually have been paid
- The foreign taxable person must electronically apply for the refund of VAT paid in Latvia.

The minimum amount for which a claim may be made is:

- If the refund is claimed for a period of three months or more, but less than one calendar year, the total amount refundable must be not less than EUR 400
- If the refund is claimed for one calendar year or for the remaining part of a calendar year (the last two months of the calendar year), the minimum amount of VAT is EUR 50.

Time limits within which an application for a refund must be made are as follows:

- If the refund is claimed for the period of one calendar year or for the last months of the relevant year or for a period of not less than three months and does not exceed once calendar year, in both cases the application must be filed within nine months of the end of the tax year, e.g. for taxation year 2017 the application must be filed within 30th of September 2018.

VAT is not refundable in the following situations:

- For the acquisition of unused real estate and services received in relation to the construction, reconstruction, renovation, restoration or repair of real estate
- If the invoices do not conform with the requirements of the Value Added Tax Act
- For goods purchased and services received for personal use
- By travel companies and agencies that perform activities in compliance with section 13 of the Value Added Tax Act (corresponding to article 306 of the VAT Directive 2006/112/EC – the Tour Operators' Margin Scheme).

Re-application

If a VAT refund application is rejected, the applicant has the right to re-apply within one month of receipt of the decision. When re-applying, the applicant must submit the following documents:

- Corrected or updated documents or any other additional documents that have to be submitted
- Original invoices, customs declarations
- Proof of payment of the invoices
- A letter stating the date of receipt of the previous decision and a list of the attached documents.

8. TAXES ON INDIVIDUALS

Income tax

Individuals who are residents in Latvia for tax purposes are subject to personal income tax (*iedzīvotāju ienākuma nodoklis*) on their worldwide income. Non-residents are subject to Latvian income tax on their Latvian-source income only.

Territoriality and residence

Under the Taxes and Duties Act (likums 'Par nodokļiem un nodevām'), an individual is considered to be resident in Latvia for tax purposes if he or she meets at least one of the following conditions:

- He or she has a declared abode (deklarētā dzīvesvieta) in Latvia
- He or she is present in Latvia for more than 183 days in a 12-month period, or
- He or she is a citizen of Latvia and is employed abroad in the service of the Latvian government.

Double taxation treaties may provide more favourable treatment. The treaty provisions concerning residence will also prevail over the domestic definition of residence.

Structure of income tax

Income tax is charged under six specific heads:

- Salary tax, which is charged on the income of employees and paid by the employer
- Tax on income from a business, to the extent the income is not subject to corporate income tax
- Tax on income from capital and capital gains
- Licence fees for the performance of separate types of business
- The parts of the microenterprise tax in accordance with the Microenterprise tax law and
- Seasonal agricultural workers' income tax.

The Individual Income Tax Act (*likums "Par iedzīvotāju ienākumu nodokli" (IITA)*) provides that taxable income is all income received in cash, in kind or in services. In addition, IITA specifies the following types of income, other than income from employment, that are taxable:

- Income from individual labour, from a contract for services (*uzņēmuma līgums*), and from activity as a commercial agent or broker
- Income from an individual undertaking (*individuālais uzņēmums*), from a farming or fishing enterprise (where not subject to corporate income tax), and from a registered sole tradership (*individuālā komersanta darbība*)
- Income from a partnership, from the distributed surplus of an agricultural services cooperative, and from the distributed profits of various forms of cooperatives
- Income from the liquidation or reorganisation of a company, cooperative association, organisation, association or foundation
- Income from the leasing or rental of immovable property
- Income from subletting of property
- Income from the leasing of movable property
- Income from intellectual property and the rights thereto
- Gifts from traders, cooperatives, individual undertakings, farming or fishing enterprises, institutions, organisations, associations and foundations, including gifts from an individual carrying on a business and made in the course of that business

- Pensions from whatever source
- Income from the alienation of immovable property
- Income from capital, including gains, dividends, interest, etc.
- Unpaid loans (few exemptions apply)
- Fees for licences
- Any other income that is not exempt income.

Exempt income

Major other types of income that are exempt include the following:

- Income of a natural person from his or her individual undertaking subject to corporate income tax
- Insurance compensation, except such insurance compensation paid on a life, health and accident insurance contract entered into by the employer (or other policyholder - a natural person) on behalf of the insured, upon the expiry date of the contract of insurance provided for in the contract of insurance or by terminating a contract before expiry of the term of validity thereof
- Income from Latvian or other EU or EEA state government bonds
- Scholarships paid by the state or by approved institutions
- Income obtained as a result of inheritance, except inherited royalties
- Material and monetary prizes and awards received in competitions and contests, the total value of which in the taxation year does not exceed EUR 143 where from Latvian sources, or which does not exceed EUR 1423 if from international sources
- Prizes from lotteries and if the total value per taxation year does not exceed EUR 3000.
- Maintenance (alimony)
- Income from the alienation of personal movable property, except the income from:
    - Alienation of products (goods) produced or obtained for sale
    - Capital gains and other income from capital
- The alienation of immovable property that has been in the taxpayer’s possession for more than 60 months and that has for at least 12 consecutive months before the date of the alienation been the person’s declared principal address. If the immovable property was inherited from a spouse it is considered to be in the surviving spouse’s possession as from the day of its registration as a deceased’s property
- Income from the alienation of immovable property gained in connection with the division of property in divorce proceedings if, for at least 12 months before the date of the alienation, it has been the declared principal address of both spouses
- When a single property is replaced by a functionally similar property the income may not be taxed if the investment is made within 12 months from the alienation of the immovable property or prior to its alienation
- The tax does not apply to property that has been one’s personal property for more than 60 months and in the last 12 months has been the person's sole real estate
- Income for covering damage in case of loss of ability to work
- Income from gifts from individuals as follows:
    - In full if the taxpayer and giver are close relatives (except gifts within business activities of such relative)

  - Up to EUR 1 425 in other cases, subject to some exceptions

- Gifts in full amount, if the aim of the gift for the higher or professional education in any of accredited schools in Latvia or European Union and the gift has been used accordingly or to cover medicine or medical treatment expenses and the gift has been used for this purpose; and
- Some other types of income.

Subject to some exceptions, non-residents are not exempt from taxation on the types of income listed above.

The family unit

There is no joint income taxation for married couples in Latvian tax legislation. Individuals are taxed separately. However, tax deductions are allowed for children or other persons under the care of the taxpayer.

Taxation of employment income

Employment income consists of wages, salaries, bonuses, single or systematic compensation and other income and benefits that an employee receives as a result of his or her current or previous employment with: a company, cooperative association, European Company, European Cooperative Association, European Economic Interest Grouping, state or local authority, association, foundation, individual undertaking, farming or fishing enterprise, or organisation, or with a natural person (including a sole trader). It also includes remuneration for service in the civil service, consideration for the performance of any other type of contract of employment, and benefits. Employee benefits include cost of living allowances, use of a company car, medical care, lunch vouchers, and benefits received on stock options, etc.

Employment income also includes fees for service as a director on an executive or supervisory board, and remuneration paid to an elected or appointed officeholder.

Benefits are normally valued at their market value or at the cost to the provider. Certain employee benefits/allowances are exempt from taxation, however. These include:

- Reimbursements for business-related expenses
- Premiums paid by the employer on the employee’s behalf to an approved pension plan or life policy, provided that they do not exceed EUR 4000 per annum and is equal or less than 10% of the employee’s gross salary
- Premiums paid on behalf of the employee to a term insurance, health or accident policy, provided that they do not exceed the 10% of the employee’s gross salary and if the certain conditions are met:

  1) The insurance agreement (with accumulation of funds) is not shorter than 10 years

  2) The insurance agreement (without accumulation of funds) is not shorted than 1 year

  3) Insurance agreement conditions state that the reimbursement for accident will be paid out to the insured person, other sums related to this agreement will be paid to employer and does not state giving loans to insured person.

There is no standard deduction for employment-related expenses.

Foreigners working in Latvia for a non-Latvian employer must register with the tax authorities and either the employer or the foreigner must, on a monthly basis, pay personal income tax based on their monthly salary.

Foreign nationals with an employment contract with a Latvian employer are fully and immediately liable to Latvian income tax and social security contributions, subject to any contrary provisions in a double tax treaty, social security agreement, or the EC social security regulations.

From 1 January 2014 the concept of taxation of deemed salary of members of the board has been introduced. A Member of the board is deemed to earn income subject to personal income tax and social security contributions if two of the following criteria are met:

1. the turnover in the current taxation period exceeds 5 times the minimum monthly salary - EUR 2150 for 2018;
2. In the current taxation period there is employee or member of the board who has not obtained the minimal monthly salary each month (EUR 430 in 2018).

Pensions

Pensions are taxed as income from employment, though state pensions that were granted before 1996 as well as the first EUR 3 000 of more recent state pensions are exempt.

Salary tax

Employers must withhold income tax, social security contributions and Solidarity tax from an employee's salary and wage payments.

Employment or self-employment

Self-employed persons are taxed at the same rate as normal employment income. A minimum payment of EUR 50.00 for a self-employed is introduced as from January, 2014, if in the taxation year **no** taxable income from an economic activity is obtained or the estimated amount of tax does not exceed EUR 50.00. This does not apply to:

- Tax payers, who made PIT or social security contributions ("SSC") for employees or social contributions for themselves as self-employed
- The first year of economic activity and for the next tax year, and for the year of liquidation.

Taxation of personal business income

Income from a business, where not subject to corporate income tax, is taxed in one of two ways:

- At the standard rates on income less expenses related to business, or
- Microenterprise tax that is paid instead of income tax.

Income from a business

A business (economic) activity for this purpose includes any activity the purpose of which is to manufacture goods, perform work, carry on a trade, or provide services, for consideration. It also includes activity connected with a contract for services, a profession, the management of immovable property, the business of a commercial agent, a broker, and a sole trader, as well as the taxpayer's individual undertaking (including farming and fishing enterprises).

Income from a business specifically includes:

- Income from the sale of goods, work and services
- Income from the hiring or leasing of property and premises
- Income received from damages; and
- Other types of income from economic activity.

The income-minus-expenditure basis

Income and expenditures are calculated on a cash basis, that is, only income actually received and expenditures actually incurred in the tax year are taken into account. For taxpayers on the cash basis, the expenditures that are deductible are prescribed in the IITA. Those taxpayers who are obliged under the Accounting Act to keep double-entry books (broadly speaking, those with a turnover of EUR 300 000, and those who have chosen to do so, must prepare their accounts on an accruals basis and compute their taxable profits in a manner analogous to that prescribed for companies by the Corporate Income Tax Act.

Losses

Taxpayers on the income-minus-expenditure basis may carry losses forward for a maximum of three years (six years if the business is located in an assisted region and is of an approved type). There is no carry-back of losses.

Taxation of investment income

Dividends

As from January 1, 2018 dividends are taxed at 20% as Corporate Income tax. Interest and similar income is taxed at 20%.

Interest from mortgage bonds and interest from government or local-authority bonds from Latvia or another EU Member State or an EEA state is exempt.

Royalties

Income from the use or right to use intellectual property is taxable. This includes income from patents, literary and artistic copyrights, know-how, etc. Flat-rate deductions of between 15% and 40% may be available.

Property income

Income from the exploitation of movable or immovable property is taxable for both residents and non-residents. The tax rate is 20% from capital gain. The capital gain is calculated as the difference between the sales prise minus the acquisition value.

Capital gains

Capital gains are taxed at 20%.

Deductions and allowances

There are limited deductions under Latvian law. The following are deductible:

- Mandatory social security contributions
- Donations to charitable organisations (within certain limits)
- Educational and medical expenses (limited in either case to EUR 600 per year for the taxpayer and each family member)
- Contributions to private pension schemes and insurance premiums (within certain limits).

Non-resident taxpayers and individuals who are resident for less than six months in a tax year are only allowed the deduction for social security contributions.

Personal allowances

Every taxpayer is entitled to a personal allowance (exempt amount). From 2016 it is differentiated and there is determined the minimum and the maximum amount. Every next year (till 2020) it will be changed. Table 4 below shows the changes of non-taxable minimum and maximum.

Table 4

Year	Non-taxable minimum per year (EUR)/ per month (EUR	Non-taxable maximum per year (EUR)/per month (EUR)
2016	900/75	1200/100
2017	720/60	1380/115
2018	0	2400/200
2019	0	2760/230
2020	0	3000/250

There is a specific formula for the calculation of non-taxable amount, where is taken into account an annual income, but the principle is if the income is higher, a non-taxable amount is lower. Starting from January 1st 2018 the non-taxable allowance is not applied to incomes above EUR 12 000 per year (EUR 1 000 per month). In 2019 this will be raised to EUR 13 200 per year (EUR 1 100 per month) and in 2020 this will be EUR 14 400 per year (EUR 1 200 per month).

Disabled taxpayers, victims of political repression, and resistance veterans are entitled to greater allowances.

There is a dependant's allowance of EUR 2 400 per year (or EUR 200 per month) for each eligible dependant. Eligible dependants include:

- Minor children
- Children under 24 undergoing full-time education.

Tax rates

Since January 1st 2018 there is a differentiated tax rate depending on the yearly income:

- For income below EUR 20 004 per year (EUR 1 667 per month) is 20%
- For the part of income above EUR 20 004 per year but below EUR 55 000 per year – 23%
- For the income above EUR 55 000 per year – 31.4%.

If the taxpayer has used the rights not to register economic activities reduced tax rate 10% is applied in these situations:

- Rental income from movable or immovable property
- Income from the sale of scrap metal;
- Income from timber and the alienation of growing forest.

The taxation of non-residents

The IITA specifies the following Latvian-source income of non-residents as taxable in Latvia:

- Employment income from performed activities in Latvia for an employer who is not a resident of Latvia or who does not have a permanent representation office in Latvia
- Income from professional activities performed for Latvian residents or for a Latvian permanent establishments of a non-resident
- Income from the professional activities of artists, sportspeople or trainers, whether accruing to the artists, etc., directly or to another natural or legal person
- Income from employment (including employment carried out in Latvia for a non-resident employer or for an employer without a permanent establishment in Latvia, and employment carried out outside Latvia for a Latvian employer (provisions of the respective double tax treat (DTT) if applicable should always be taken into account)
- Income as a director of a Latvian company or cooperative association (whether on an executive or supervisory board)
- Rental income from movable or immovable property
- Agricultural and forestry income
- Metal scrap income
- Investment income
- Dividends
- Interest and similar income

- Income from the alienation of immovable property, as well as other capital gains excluding income from the alienation of financial instruments
- Income from a partnership registered in the Republic of Latvia
- Income in the form of a liquidation distribution from a Latvian company or cooperative association, to the extent that this exceeds a normal dividend
- Payment for intellectual property
- Benefits under insurance policies taken out by employers or others
- Pensions paid under Latvian law
- Income from investment of payments in private pension funds
- Payments from supplementary pensions derived from employer contributions to licensed private pension schemes
- An increase in the value of immovable property or a part of it
- Loans equalised to income; and
- Income caused by reduced loan interest payments
- Income from alternative investment funds which were founded in Latvia as limited partnerships
- Income from lotteries and gambling.

There are no special schemes for expatriate employees.

Withholding taxes

Table 5 below shows the rate of withholding taxes imposed on the income of non-resident individuals. In all cases where there is a withholding tax, it is final, and consequently, in most cases, the non-resident is relieved of the obligation to file a tax return.

Tax treaties may reduce or eliminate the withholding tax. Where payments are made directly or indirectly to persons located in a tax haven (see Table 3 above), the rate is uniformly set at 23%, unless the payer of the income can prove that no intention to avoid Latvian tax is present.

Table 5

Type of income or payment	Rate of withholding tax (%)
Employment income	20%/23%/31.4%
Professional income	20%/23%/31.4%
Income of artists, sportspeople and trainers	20%/23%/31.4%
Directors' remuneration	20%/23%/31.4%
Dividends	0%[1]
Capital gains	20%
Interest income	20%
Income from alienation of immovable property	3%
Tax income from the sale of forest and timber obtained from it	10%[2]
Other taxable income	20%/23%/31.4%

Note

[1] in case CIT is paid for such dividends

[2] 10% rate is applied to the owners of the forest, whereas intermediaries are taxed according to the provisions of economic activity.

Returns and payment

Returns

The taxable period for individual income tax is one calendar month where there is an employment relationship and the calendar year in other cases.

In most cases the tax on personal income is withheld at source, which is why most individuals are not obliged to submit returns.

A resident individual is required to submit an annual tax return. If, during the taxable period, he or she received income from Latvia for which tax was not withheld at source.

The normal due date for filing a tax return is 1 June following the taxable year. Capital gains exceeding EUR 1000 must be declared quarterly. There is a penalty for failing to file a tax return on time.

Payment

The balance of any tax due (after deducting salary tax and other tax withheld at source) is due and payable 15 days after the tax return is due (normally, therefore, 16 June). However, if the balance due is greater than EUR 640, the taxpayer may pay the amount due in three equal instalments (no later than 16 June, 16 July, and 16 August).

Taxpayers with income from a business are required to make advance payments. Those who are taxed on the income-minus-expenditure basis and who keep double-entry accounts pay according to the rules for corporate income tax. Those who keep single-entry books on a cash basis are required to pay their total final liability for the previous year in four equal instalments (due on 15 March, 15 June, 15 August, and 15 November).

Personal property declaration

Every Latvian tax resident must file a personal property declaration. When an individual becomes a tax resident he/she must file a return by 1 June of the next year. The return contains a detailed list of all assets and liabilities of the resident that each exceed EUR 15 000. This is an information return only; there are no tax consequences attached to this return.

Appeals

The appeal procedure is identical to that for corporate taxpayers.

Inheritance and gift tax

9. OTHER TAXES

Natural Resources Tax

Businesses that are engaged in extractive businesses that sell resources that are harmful to the environment, or that use hazardous goods are subject to the natural resources tax (*dabas resursu nodoklis*). The tax is also imposed on packaging. The rates vary according to the resource or good being taxed.

The normal taxable period is the calendar quarter. Returns for the previous period, and the tax payable, are due by the 20th day of the first month following the quarter.

Returns on the extraction of natural resources and on the commission of environmental pollution must be approved by an institution authorised by the Ministry of the Environment (*Vides aizsardzības un reģionālās attīstības ministrija*) prior to filing with the State Revenue Service.

Tax on lotteries and games of chance

The tax on lotteries and games of chance (*izložu un azartspēļu nodoklis*) is imposed on companies that have a licence to organise and run lotteries and gambling.

There are different special licensing levies applied for:

- the organization and maintenance of slot machines, bingo, roulette, card and dice games
- bookmaking and other betting operations
- gambling activities by phone

The tax must be paid monthly, at one-twelfth of the annual rate, where applicable. The rate depends on the type of gambling and the number of participants. For card and dice games the tax is EUR 23 400 per table per year. For games of chance operated by telecommunications the tax is 15% of the net takings (income less prizes).

To receive a special license, the organizer of a lottery has to pay state duty in the following amounts:

- National lottery – EUR 14 230 annually
- Local lottery – EUR 720 annually
- National instant drawings – EUR 1000 each draw
- Local instant drawings – EUR 720 each draw
- Single occasion local draw – EUR 35) each draw.

Real estate tax

Real estate tax (*nekustamā īpašuma nodoklis*) is imposed on companies and individuals owning real (immovable) property in Latvia. The amount of the tax is 1.5% of the cadastral value of the immovable property for land and buildings used in the commercial activity. Exempt property includes land in a specially protected area on which economic activity is prohibited by law and heritage property.

Taxable objects are residential apartments and buildings, auxiliary buildings with area exceeding 25 m^2, garages (rates vary), land, commercial buildings, technical buildings, toll parking lots (rate 1.5%) uncultivated agricultural land, slums (rate 3%). The minimum tax is EUR 7 per object.

The rate applied to apartments and buildings depends on the cadastral value of the object, as follows:

- Less than EUR 56 915: 0.2%
- Between EUR 56 915 – EUR 106 715: 0.4%
- More than EUR 106 715: 0.6%.

Local authorities may tax toll parking lots and slums at their own discretion by issuing binding regulations. Local authorities may also cap the tax payment increase for land or opt not to increase the tax payment at all, or grant relief of up to 90% for certain categories of taxpayers. The tax is deductible if the property is used commercially.

Starting in 2013 local authorities are able to set the real property tax rate at their own discretion within the range provided by the law (0.2% - 3%).

Real property tax is payable quarterly – no later than on 31 March, 15 May, 15 August, and 15 November – in the amount of one-fourth of the annual sum owed. The tax can also be paid in a lump-sum annual advance payment.

Excise duty

Excise duty (*akcīzes nodoklis*) legislation regulates harmonised excise duties on alcoholic beverages, tobacco, energy products and electrical energy, and non-harmonised excise duties on coffee and non-alcoholic beverages (except natural juices and mineral water).

General provisions

For warehouse keepers, approved traders, and tax representatives, the taxable period for the duty is one calendar month.

The persons liable to pay duty are:

- Importers
- Warehouse keepers in the cases prescribed by the Act
- Registered traders, non-registered traders, distance sellers or representatives of dutiable persons as prescribed by the Act
- Persons that bring into the Republic of Latvia, or that receive from another Member State, excisable goods that have already been released for free circulation in another Member State; and
- Other persons as prescribed by the Act.

Dutiable persons must pay the duty on excisable goods imported from third countries into the Republic of Latvia for release into free circulation before presenting the excisable goods at a customs authority one calendar month before, or within five working days of the day when the goods were received from EU countries, or at on the border upon importing excise goods from non-EU countries.

Customs duties

There are customs duties (*muitas nodoklis*) imposed on goods imported from non-EU countries. The rates vary depending on the type of goods.

Vehicle taxes

Starting from 1 January 2017 the Law on Car and Motorcycle Tax (*vieglo automobīļu un motociklu nodoklis*) is no longer in effect and the tax on car registration is cancelled. As on 1 January 2017 the road tax (*transportlīdzekļu ekspluatācijas nodoklis*) will be based on the amount of CO2 emissions.

Road tax rates for vehicles (with internal combustion engines or electric vehicles) registered in Latvia for the first time after 1 January 2017 with the first registration date after 31 December 2008 (see Table 6).

If CO2 emissions cannot be determined, the tax is paid by adding tax rates for the total mass, engine capacity and maximum power of the engine for the vehicle (the current procedure)

For cars with an engine capacity over 3500 cm3, tax rate is applied according to CO2 / 1 km, rate – EUR 300.

Table 6

CO2 (g) per 1 km	Rate in Euro
51-95	12
96-115	48
116-130	84
131-155	120
156-175	144
176-200	168
201-250	264
251-300	408
301-350	552
From 351	756

Road tax for a vehicle equipped with an internal combustion engine and registered for the first time after 1.01.2005 and for which the vehicle registration certificate contains information about the total mass, engine capacity and maximum power of the engine, is paid combining the tax rates according to the total mass, engine capacity and the maximum engine power in the following amount.

Road tax rates for cars registered for the first time before 31.12.2004 with no possibility to determine road tax according to CO2emissions or total mass, engine capacity and maximum power of the engine of the car.

Company car tax

Companies owning or holding cars and allowing private use of company cars are subject to a company car tax (*uzņēmumu vieglo transportlīdzekļu nodoklis*).

The private use of a company car is taxed at the level of the company, not the person(s) using the car.

The tax is calculated as follows:

- For cars registered after 1 January 2005:
  - If engine capacity < 2.000 cm^3: EUR 29 /month
  - If engine capacity between 2.001 cm^3 and 2.500 cm^3: EUR 46 /month
  - If engine capacity > 2.500 cm^3: EUR 62 /month
- For electro mobiles: EUR 10 /month; and
- For all other cars: EUR 46 /month.

The tax is based on the number of months a car was used during the tax year. It is payable at the time of the technical inspection.

Emergency vehicles, taxis, demonstration vehicles, and car rental companies are not subject to this tax, nor are vehicles that are exclusively used for business purposes. Exclusive business use must be demonstrated in a log detailing the vehicle's registration number, the make, model, engine size, and the route followed, as well as the start and ending times. This "route control system" is a GPS-based system.

Road tax for a vehicle registered abroad

Road tax for using a category M1 and N1 vehicle registered abroad must be paid by the person whose declared place of residence is in Latvia:

- Payer - driver of the vehicle
- Road tax can be paid using CSDD E-services by identifying the vehicle and its driver.

Tax is paid according to the time of use in Latvia:

- For a day – EUR 10
- For a month – EUR 250
- For six months – EUR 600
- For a year – EUR 1000.

Road User Charge (vignette)

The Road user charge is payable in the territory of Latvia since 1st of July, 2014. The charge is paid for the use of sections of the main state and regional roads (except for crossing them, including on roundabouts) by commercial vehicles whose gross weight exceeds 3000 kilograms and by commercial vehicles and combinations thereof, the gross weight of which exceeds 3500 kilograms and which are intended or are used for the carriage of goods by road.

Electrical energy tax

The electrical energy tax (*elektroenerģijas nodoklis*) is payable by suppliers of electricity to end-users and autonomous producers.

10. SOCIAL SECURITY CONTRIBUTIONS

Mandatory contributions into the sickness, pension, unemployment, maternity, and parental insurance funds are payable by employers and employees, as well as the self-employed.

The maximum annual contribution is capped, and in 2018 it is capped at an income of EUR 55 000.

Employee contributions

Employers deduct employees' contributions from their salary payments. The employees' contribution rate is 11% of gross salary. For resident employees employed by non-resident employers the rate is 35.09%, except where the employees have their permanent abode in an EU or EEA country or Switzerland, and who are liable to Latvian social security contributions under the terms of the EC Social Security Regulations, in which case the same rates apply as in the case of those employed by Latvian employers.

Employer contributions

The effective rate is 35.09% (employee 11% + employer 24.09%). This contribution is allocated to the following funds:

- Old-age pension fund – 24.50 %
- Unemployment fund – 1.84%
- National insurance fund for industrial accidents and occupational diseases – 0.53 %
- Disability fund – 2.23 %
- Maternity and sickness fund – 3.65 %
- Parental insurance fund – 1.34 %
- Health insurance – 1%.

Self-employed contributions

The standard social security contribution rate for 2018 is 32.15%. Self-employed persons may freely choose the amount of income on which they make contributions, subject to an annual minimum of 12 minimum monthly wages, which in 2018 is EUR 5160.

These contributions are allocated as follows:

- Old-age pension fund – 24.50 %
- Disability fund – 1.77 %
- Maternity fund – 3.54 %
- Parental insurance fund – 1.34 %
- Health insurance – 1%.

Self-employed persons are obliged to make mandatory pension insurance contributions which are paid additionally to SSC. The rate is freely chosen, but not less than 5%. Mandatory pension insurance contribution rate is applied to the difference between minimal object of SSC and actual income (if income exceeds minimal object of SSC), and should be paid even if income is lower than minimal SSC object amount. In this occasion the rate is applied to the whole income.

11. SOLIDARITY TAX

Starting from the 1st January, 2016 the new tax is implemented in Latvia – Solidarity tax.

As mentioned in detail above, from 1 January 2018, a progressive PIT is introduced with three brackets. PIT rate starts from 20% of annual income not exceeding EUR 20,004 up to 31, 4% for the part of the income exceeding EUR 55 000. Solidarity tax is applied to income subject to the upper tier of PIT bracket. The solidarity tax revenues are "split" with part being allocated to cover the PIT and part is allocated to the taxpayer's social contributions.

APPENDIX

Double Taxation Agreements

Latvia has income and capital tax treaties with the following jurisdictions:

Albania	Iceland	Portugal
Armenia	India	Qatar
Austria	Ireland	Romania
Azerbaijan	Israel	Russia
Belarus	Italy	Serbia[2]
Belgium	Japan[1]	Singapore
Bulgaria	Kazakhstan	Slovakia
Canada	Korea	Slovenia
China	Kuwait	Spain
Croatia	Kyrgyzstan	Sweden
Cyprus	Lithuania	Switzerland
Czech Republic	Luxembourg	Turkey
Denmark	Macedonia	Turkmenistan
Estonia	Malta	Tajikistan
Finland	Mexico	Ukraine
France	Morocco	United Arab Emirates
Georgia	Moldova	United Kingdom
Germany	Montenegro[2]	United States
Greece	Netherlands	Uzbekistan Vietnam[1]
Hungary	Norway	
Hong Kong	Poland	

Notes:

[1] Not yet in force.

[2] The treaty with the former Republic of Serbia and Montenegro.

Estate tax treaties

Latvia has no estate tax treaties.

Social security treaties

As a member of the European Union, Latvia follows the EEC Social Security Regulations 1408/71 (as amended) as concerns the interaction between its social security system and that of other EEA countries and Switzerland. Latvia also has social security treaties outside the EEA with Australia, Canada, Russia, Ukraine and Belarus.

BDO WORLDWIDE

BDO is present in the following countries and territories:

Afghanistan	Greece	Pakistan
Albania	Greenland	Panama
Algeria	Grenada	Papua New Guinea
Angola	Guatemala	Paraguay
Anguilla	Guernsey	Peru
Antigua & Barbuda	Honduras	Philippines
Argentina	Hong Kong & Macau	Poland
Armenia	Hungary	Portugal
Aruba	Iceland	Puerto Rico
Australia	India	Qatar
Austria	Indonesia	Reunion Island
Azerbaijan	Ireland	Romania
Bahamas	Isle of Man	Russia
Bahrain	Israel	Rwanda
Bangladesh	Italy	Samoa
Barbados	Ivory Coast	San Marino
Belarus	Jamaica	Saudi Arabia
Belgium	Japan	Serbia
Bolivia	Jersey	Seychelles
Bosnia Herzegovina	Jordan	Sierra Leone
Botswana	Kazakhstan	Singapore
Brazil	Kenya	Slovak Republic
British Virgin Islands	Korea	Slovenia
Brunei Darussalam	Kosovo	South Africa
Bulgaria	Kuwait	Spain
Burundi	Laos	Sri Lanka & Maldives
Cambodia	Latvia	St Kitts & Nevis
Canada	Lebanon	St Lucia
Cape Verde	Liechtenstein	St Maarten
Cayman Islands	Lithuania	St Vincent & The Grenadines
Chile	Luxembourg	Suriname
China (PRC)	Macedonia	Sweden
Colombia	Madagascar	Switzerland
Comoros	Malawi	Taiwan
Costa Rica	Malaysia	Tajikistan
Croatia	Malta	Tanzania
Curacao	Mauritius	Thailand
Cyprus	Mexico	Togo
Czech Republic	Moldova	Trinidad & Tobago
Denmark & Faroe Islands	Mongolia	Tunisia
Dominica	Montenegro	Turkey
Dominican Republic	Montserrat	Turkmenistan
Ecuador	Morocco	Uganda
Egypt	Mozambique	Ukraine
El Salvador	Myanmar	United Arab Emirates
Estonia	Namibia	United Kingdom
Ethiopia	Netherlands	United States of America
Fiji	New Caledonia	Uruguay
Finland	New Zealand	US Virgin Islands
France (French Guiana)	Nicaragua	Venezuela
French Polynesia	Niger	Vietnam
Georgia	Nigeria	West Bank & Gaza
Germany	Norway	Zambia
Gibraltar	Oman	Zimbabwe

BDO IN LATVIA

BDO Latvia in association with BDO, the BDO Member Firm in Latvia. In Latvia the services are provided by AS BDO Latvia and SIA BDO Assurance (jointly referred to as BDO). Legal services are provided by the law firm BDO Law.

BDO Latvia (previously BDO Zelmenis&Liberte) was founded in 2007 by Janis Zelmenis and Vita Liberte, who left top-level managerial positions in the international audit firm Deloitte Latvia to open their law office in Riga, Latvia. Together they have devoted themselves to providing exceptional service and advice to local, as well as international clients.

BDO in Latvia has achieved significant and consistent growth in the past decade. Our experienced specialists provide high-quality auditing, tax, outsource accounting and advisory services for companies, organisations and public sector bodies, leveraging the accessibility and insight gained from a strong local presence, as well as the depth and breadth of resources that can only be found at a leading global accounting firm.

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