



# Tax Card 2016

KPMG Baltics SIA

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# CORPORATE INCOME TAX

Standard rate (flat) 15%

## Tax depreciation rates

Category	Rate
Buildings, constructions, long-term plantations	10%
Railroad vehicles and equipment, ocean and river vessels, fleet and port equipment, energy equipment	20%
Computers and associated appliances, communication equipment, copying machines and related appliances	70%
Oil exploration and production platforms and related equipment, oil research and extraction ships	15%
Cars (retail price < EUR 60,500)	30%
Other fixed assets	40%

The above rates are calculated on a reducing balance basis.

Taxpayer may calculate tax depreciation using a coefficient of 1.5 from:

- A higher initial value of fixed assets (new technological equipment bought in 2009-2020);
- A higher initial value of intangible investments (patents and trademarks registered after 1 January 2009).

## Research and development

Taxpayer may apply a coefficient of 3 to R&D expenses (for labour costs and R&D services performed by scientific institutions).

## Expenses not related to business activity

Expenses that are not directly related to business activity, as well as costs that have been incurred due to maintenance of social infrastructure objects, are increased using a coefficient of 1.5 and disallowed.

## Advance payments

A taxpayer may choose itself to make reduced advance payments, if its profit has decreased. If the difference between the calculated tax and the reduced advance payment set by the taxpayer exceeds 20% of the calculated tax, then the residual tax payment is considered as a late tax payment and no late interest is applied.

## Loss carry forward

Tax losses can be carried forward indefinitely.

## Withholding taxes on payments to non-residents

	Non-residents NOT registered in an offshore	Non-residents registered in an offshore
Dividends*	0%	15% / 30%
Management and consulting services**	10%	15%
Interest payments	0%	15%
Interest payments made by Latvian registered commercial banks	0%	5%
Right to use intellectual property rights in respect of literature and artistic works	0%	15%
Right to use other intellectual property rights	0%	15%
Payments for the use of fixed or movable property in Latvia**	5%	15%
Proceeds from the sale of real estate or real estate company shares in Latvia**	2%	15%

\*15% tax is applicable only to dividends which the Latvian resident pays to a non-resident company established in a jurisdiction with low or no taxes. 30% tax is applicable only to interim dividends which the Latvian resident pays to a non-resident company established in a jurisdiction with low or no taxes.

\*\*15% tax is applicable to profit, if the non-resident submits related expenses supporting documents to the Latvian tax authorities.

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

Withholding tax becomes payable when the payment is made.

Latvia has no separate Capital Gains Tax for companies. All capital gains are taxed as revenue gains. Gains on disposal of shares are not taxed, except on disposal of shares in a non-resident company established in a jurisdiction with low or no taxes. Capital losses realized from the disposal of shares are non-deductible.

Dividends received from a non-resident company established in a jurisdiction with low or no taxes are taxable at standard corporate income tax rate. Dividends received from other companies are tax exempt.

# MICRO-ENTERPRISE TAX

A micro-enterprise pays 9% tax on turnover from business activity. This tax covers personal income tax, social security contributions, corporate income tax and business risk duty. A tax rate of 9% is applicable to annual turnover of a micro-enterprise up to EUR 7000. If turnover exceeds the given threshold, an 11% rate applies.

# PERSONAL INCOME TAX

## Rates

Latvia imposes a flat rate of 23% on personal income and on income from a self-employed individual's commercial activities.

## Tax free employee benefits and allowances

- Certain approved pension and life/health insurance premium payments (up to 10% of gross income);
- General tax free allowance EUR 75 per month applied by employer and additional up to EUR 300 per annum depending on income level;
- Eligible child/dependants allowance of EUR 175 per month.

## Special rates to particular types of income

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

## Taxable employee benefits

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

# SOCIAL SECURITY AND SOLIDARITY TAX

Mandatory social security contributions are payable in respect of gross employment income. Income cap for social security contributions is EUR 48,600. From 2016 employment income above EUR 48,600 is subject to solidarity tax which is calculated and collected in the same way

as social security contributions, but the employee does not receive social services from this amount (pension and allowances).

For individuals employed by a Latvian resident employer or employer from an EU or EEA member state, the contribution and solidarity tax rates payable in 2016 are as follows:

- Employer's rate is 23.59%;
- Employee's rate is 10.50%.

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

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

- For Latvian citizens working in Latvia, 34.09% (23.59 %; 10.5%);
- For foreign employees who are Latvian residents, 32%.

## VALUE ADDED TAX

The standard VAT rate is 21 %, reduced rate – 12%.

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

- Export of goods and intra community supplies;
- Services related to transportation of export, import and transit goods;
- Services that are directly related to goods that are imported from third countries and are not released for free circulation within the EU, that are rendered within a free zone territory or customs warehouse;
- Supplies of goods and services connected with international transport and rescue ships;
- International passenger traffic;
- Supplies of goods and services under diplomatic and consular arrangements.

### ***The following are examples of VAT exempt transactions***

- Transactions in shares and other securities;
- Banking and financial services excluding hire of safes and encashment;
- Insurance transactions;
- Services closely linked to welfare and social security work;
- Provision of medical care;
- Education services;
- Sale of real estate excluding the sale of unused or unfinished buildings;
- Rental of domestic apartments;
- Betting, lotteries and other forms of gambling.

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

- Medicines, medical goods and appliances;
- Infant food products;
- Supply of newspapers, journals, bulletins and other periodicals;
- Public transport services within Latvia;
- Supply of heating to inhabitants;
- Supply of educational literature and original literature;
- Supplies of wood and firewood to inhabitants.

***Particular rules:***

- Possibility to form VAT groups;
- Special tax regime for import transactions;
- Possibility to correct input VAT by reducing VAT payable to the budget for the amount of tax on a bad debt;
- Application of VAT reverse charge to inland transactions with timber, scrap metal, mobile phones, tablets and laptops and to construction services;
- Possibility to choose to apply VAT to sale of used real estate;
- If electronic services are rendered to EU individuals or non-VAT payers, the supplier must register for a special tax regime in one of the EU countries and apply the tax rate of the EU residence country of the receiver.

VAT compensation to farmers is 14%.

## COMPANY CAR TAX

All cars, except for those used solely for business, owned or held by a company are subject to this tax. Tax for a car based on the capacity of its engine or first registration date ranges from EUR 29 up to EUR 62 per month. Special rate of EUR 10 per month for electric cars is charged.

## PROPERTY TAX

Municipalities have the right to set the property tax rate within 0.2% to 3% of a property's cadastral value. The tax rate of more than 1.5% of the property's cadastral value may be set only in cases when the property is not managed properly. If the municipality does not publish a binding regulation on property tax rates until 1 November of the previous taxation period, the following tax rates are applicable to:

- Property and land used in business activities and also for engineering technical buildings – 1.5% from the cadastral value of the property;
- Agricultural land not used in agriculture – 3% of the cadastral value;

- Buildings that degrade the environment and endanger human lives – up to 3% of the cadastral value (if certain criteria are met);
- Houses, apartments for inhabitants and additional premises (garages, storage rooms etc.) not used in business activity:
  - 0.2 % of cadastral value up to EUR 56,915;
  - 0.4% of cadastral value from EUR 56,915 to EUR 106,715;
  - 0.6% of cadastral value which exceeds EUR 106,715.

The minimum tax payment for each taxpayer to the particular municipality is EUR 7.

Families with three or more children are eligible for a 50% property tax reduction, but not more than EUR 427.

## TAXATION TREATIES

In 2016 Latvia has effective Double Tax treaties with the following countries:

Albania	Iceland	Romania
Armenia	India	Russia
Austria	Ireland	Serbia
Azerbaijan	Israel	Singapore
Belarus	Italy	Slovakia
Belgium	Kazakhstan	Slovenia
Bulgaria	Kuwait	South Korea
Canada	Kyrgyzstan	Spain
China	Lithuania	Sweden
Croatia	Luxembourg	Switzerland
Czech Republic	Macedonia	Tajikistan
Denmark	Malta	The Netherlands
Estonia	Mexico	Turkey
Finland	Moldova	Turkmenistan
France	Montenegro	UAE
Georgia	Morocco	Ukraine
Germany	Norway	United Kingdom
Greece	Poland	USA
Hungary	Portugal	Uzbekistan

## INVESTMENT INCENTIVES

The main incentives are:

- Tax relief for long-term investments, which exceed EUR 10 million. Tax relief of 25% of the amount invested for investments of up to EUR 50 million, and 15% on the amounts from EUR 50 million to EUR 100 million;

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

## REAL ESTATE DUTY

This duty is payable by the purchaser of immovable property. The rate is 2% (6% if a flat is purchased by a legal person that performs commercial activity) of the highest of the purchase price or cadastral value of the property or valuation for mortgage purposes. The maximum tax payable if the property does not include living accommodation is EUR 42,686.15. The rate for relatives (children, spouses, parents, sisters, brothers, grandchildren, grandparents) is 0.5%.

For additional information please contact:

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This card was prepared on 1 January 2016 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted. Please note: the above information may have changed since 1 January 2016.

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