



Thinking beyond borders: Management of extended business travelers - Latvia

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Contents

1	Key message	4
2	Income Tax	6
3	Social security	9
4	Compliance obligations	11
5	Immigration	14
6	Other issues	16

01

Key message

An individual's liability to income tax in Latvia is determined based on two criteria – residence status for taxation purposes and the source of income derived by the individual. Income tax is payable at a progressive rate on an individual's yearly taxable income, which is calculated by subtracting allowable deductions and justified expenses from the total taxable income.

1 Key message

Business travellers are likely to be taxed on their employment income received for work performed in Latvia.

02

Income tax

2 Income Tax

2.1 Liability for income tax

An individual is considered a Latvian resident if:

- the individual's permanent place of residence is in Latvia (has a registered address in Latvia);
- the individual resides in Latvia for 183 days or more in any 12-month period, which starts or ends in the taxation year;
- the individual is a Latvian citizen employed abroad by the government of the Republic of Latvia.

In order to recognize the individual as a Latvian resident, at least one of the conditions mentioned above has to be met.

Double tax treaty provisions are also considered when defining an individual as resident of Latvia.

In order to determine the 183-day period, the Organisation for Economic Co-operation and Development (OECD) presence test is used when the days of arrival and departure, weekends, vacations spent in Latvia etc. are counted.

2.2 Tax trigger points for employment income

There is no minimum threshold/number of days that exempts the employee from the requirements to file tax returns and pay income tax in Latvia stipulated in Latvian domestic rules. To the extent that the individual qualifies for relief in terms of the employment income article of an applicable double tax treaty, there will be no Latvian tax liability.

2.3 Types of taxable income

The following categories of income are subject to income tax in Latvia:

- employment income, including bonuses, awards, fringe benefits, benefits-in-kind
- income from self-employment
- business income
- capital income
- capital gains
- rental income

Generally, all types of remuneration and benefits received by an employee from their employer for services rendered constitute taxable income, regardless of where it is paid, unless specifically exempted. Typical items of an expatriate compensation package set out below are, in most circumstances, fully taxable unless otherwise indicated:

- reimbursements of foreign and/or home country/jurisdiction taxes.
- school and kindergarten tuition reimbursements.

- home-leave reimbursements for the employee.
- cost-of-living allowances.
- expatriation premiums for working in Latvia.
- housing allowances.
- benefits-in-kind generally form part of taxable compensation. Where a company car is provided wholly or partly for personal use, special 'car taxes' are generally paid by the employer.
- medical insurance premiums (subject to exceptions) and medical care expenses.
- flights home paid by the employer.
- provided certain conditions are met and subject to limitations, the employer's contributions to a private pension plan or insurance premiums are not taxable.

2.4 Tax rates

Latvia imposes progressive tax rates on a yearly personal income and on income derived by self-employed individual's commercial activities at the following rates, in Euros (EUR):

- 25.5 percent rate on income up to EUR 105,300 per year;
- 33 percent rate on income exceeding EUR 105,300 per year;
- 3 percent rate on total yearly income exceeding EUR 200,000 per year (specific rules apply as to which income is considered for the purposes of this threshold).

25.5 percent tax is applicable by the employer on monthly basis. 33 percent should be applied by the employer only if the employee is subject to another country's social security system. 3 percent tax is applicable by submitting annual income tax return.

There are special rates applied to particular types of income:

- Capital gains (including real estate) – 25.5 percent;
- Dividends – 0 percent if received from income taxed with CIT, or on which PIT was applied. 20 percent in other cases;
- Interest and similar income from capital – 25.5 percent;
- Profit element of income from private pension funds and life insurance agreements with accumulation of funds – 25.5 percent.

03

Social security

3 Social security

3.1 Liability for social security

The standard rate of social security contributions is 34.09 percent, from which 10.5 percent is the employee's part and 23.59 percent is the employer's part. There are differentiated rates, unlikely to apply to expatriates, for working individuals of pension age, self-employed individuals and some other groups of socially insured individuals.

There is an income cap for social security contributions of EUR 105,300. Employment income above EUR 105,300 is subject to solidarity tax. The solidarity tax is paid on monthly basis in the same manner and at the same rate as for the social security contributions. The solidarity tax rate is 25 percent.

It is likely, however, that most extended business travellers would not be liable for Latvian social security. This could be mostly due to the following:

- they remain in their home countries/jurisdictions' social security system under the European Union (EU)/European Economic Area (EEA) rules;
- they remain in their home countries/jurisdictions' social security system under a totalization agreement with Latvia.

04

Compliance obligations

4 Compliance obligations

4.1 Employee compliance obligations

Tax returns have to be filed between 1 March and 1 June following the tax year-end. If total income exceeds EUR 105,300 annual income tax return has to be filed between 1 April and 1 July following the tax year-end.

4.2 Employer reporting and withholding requirements

Employment income is subject to income tax and social security contributions. If an individual is taxable on employment income, the obligation to withhold rests with either the employer or, if the employer is not operating withholding, it rests with the 'host' employer or the employee themselves. The employer has a monthly payroll reporting liability.

05

Immigration

5 Immigration

5.1 Work permit/visa requirements

If foreign nationals wish to reside in Latvia for more than 90 days within a 6-month period, they must obtain a visa or residence permit. Citizens of EEA, EU Member States and Switzerland do not require visas or residence permits but must obtain a registration card from the Office of Citizenship and Migration Affairs if their stay in Latvia exceeds 90 days.

Citizens from other countries/jurisdictions who enter Latvia with or without a visa are not allowed to exercise economic activities in an employed capacity. Citizens from other countries/jurisdictions can be employed only in cases which are stated in Latvian legislation and if they have received a visa and a work permit.

06

Other issues

6 Other issues

6.1 Double taxation treaties

In addition to Latvia's domestic legislation that provides relief from international double taxation, Latvia has entered into double taxation treaties with many countries/jurisdictions to prevent double taxation and allow cooperation between Latvian and overseas tax authorities in enforcing their respective tax laws.

6.2 Permanent establishment implications

There is the potential that a permanent establishment (PE) could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has. Respective double tax treaties should be considered to clarify each situation.

6.3 Indirect taxes

The standard value-added tax (VAT) rate is 21 percent. There is also a reduced rate of 12 percent or 5 percent. There are several transactions which are subject to VAT at the rate of 0 percent or are VAT exempt.

6.4 Transfer pricing

In accordance with local legislation, transactions of Latvian companies with the following entities should be arm's length:

- Foreign related entities;
- Related natural persons (definition as per Latvian regulation);
- Companies that are located, created or established in low-tax or tax-free jurisdictions or territories;
- Other related Latvian taxpayers, if the transaction takes place within a single supply chain with another related foreign company, or companies / persons located in offshores.

A penalty for non-compliance with transfer pricing legislation requirements are:

- Minor violation 0.05% of the total amount of controlled transactions, but not more than EUR 15,000 (with the possibility of not even imposing a fine);
- Less significant violation – from 0.1% to 0.5% of the total amount of controlled transactions, but not more than EUR 50,000;
- Significant violation – from 0.5% to 1% of the amount of the relevant controlled transaction, but not more than EUR 100,000.

It is also important to note that obligatory annual submission of transfer pricing documentation to the Latvian tax authority within 12 months after the end of the specific fiscal year has been introduced by the new transfer pricing legislation, if specific threshold is met.

In case of secondment of an employee to Latvia (or from Latvia abroad), transfer pricing implications could arise to the extent that the employee is being paid by a related entity in one jurisdiction but performing services for the benefit of a related entity in another jurisdiction, in other words, a cross-border

benefit (service) is being provided. This would also be dependent on the nature and complexity of the services performed.

6.5 Local data privacy requirements

Latvia has data privacy laws. Organizations have a legal duty to keep data private and secure.

6.6 Exchange control

There are no exchange controls in Latvia.

6.7 Deductible costs for assignees

Practically all the costs except for payments to private pension funds, premiums for life insurance agreements, medical and education expenses – all subject to limitations – are non-deductible.

[Back to top](#)

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