

Taxation

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General principles

The Taxes and Duties Act, as amended, determines Latvia's general taxation principles. Specific taxes are assessed according to one of the special tax laws, such as the VAT Act or the Corporate Income Tax Act. If there is a conflict between the general principles and special rules, the latter prevail.

Under the Taxes and Duties Act, duties are imposed by either the state or municipalities. The state is entitled to impose duties on a number of different items, including vehicles, court applications, notary applications, gambling, changes to identification data, reservation of land in rural areas, dealings in vouchers and bills of exchange, immigration services, business licences/permits, registration of security interests, applications for patents, trademarks, or plant protection certificates. Municipalities have the right to apply reliefs in respect of payments which are payable to local government budgets, in line with business-support principles, including to real estate tax.

Business opportunities

A low cost base for developing shared service centres

Dividend, interest and royalty payments are exempt from withholding tax unless paid to tax havens

Company registration takes 1–3 business days with a € 1 minimum share capital requirement at registration

For the 2014–2020 funding period, Latvia has been allocated around € 4.51 billion in total Cohesion Policy funding, with the main investment priorities including

- Increasing economic productivity, quality of innovation, research and science
- Sustainable and efficient transportation infrastructure
- Sustainable use of natural and cultural resources
- High employment rate in an inclusive society
- High quality and efficiency of the education system
- Balanced and sustainable territorial development

Latvia is a signatory to the Convention on Mutual Administrative Assistance in Tax Matters, a multilateral instrument for exchange of information.

State taxes

Company car tax

Corporate income tax

Customs tax

Electricity tax

Excise

Lottery and gambling tax

Microbusiness tax

Natural resource tax

Personal income tax
Real estate tax
Social insurance contributions
Solidarity tax
Stamp duty
Value-added tax
Vehicle operation tax
Withholding tax (part of corporate income tax law)

On 1 January 2017, a separate law was implemented for startup companies. The following state aid programmes are determined by this law:

- a fixed social tax charge with the employee's consent
- a support programme for attracting highly qualified workers; and
- a corporate income tax credit and a corporate income tax rebate

VAT Registration

VAT is charged on all transactions made in the course of business. Individuals or entities registered in Latvia with total supplies of goods and services exceeding € 40 000 in a 12-month period are liable to register for Latvian VAT. This total excludes the value of any capital or intangible assets supplied once in the subsequent 12 months. However, companies may register for VAT and charge VAT on supplies made before the threshold is exceeded. Moreover, non-taxable legal entities and individuals registered in Latvia who carry out economic activities are liable to register for VAT if they make intra-Community acquisitions of goods or provide services and the total value of transactions exceeds € 10 000 during the calendar year. Tax can be paid either monthly or quarterly depending on the taxpayer's specific criteria.

Corporate income tax

As from 2018 a 0% CIT rate is applied to reinvested profit or, in other words, CIT will be paid only when a company pays dividends or other payments with the aim of actual profit distribution (conditionally distributed profit). CIT at the rate of 20% will only have to be paid from the profit share which will be distributed or disbursed as dividends, or used for purposes not directly related to business development.

No other taxes are charged on corporate income by the state or municipalities. Resident companies are taxed on their worldwide income.

Non-resident companies are taxed on their Latvian-source income through a permanent establishment (PE) at the standard rate of CIT. In the absence of a PE, non-residents may be subject to 0–15% withholding tax on qualifying payments (such as management fees and payments to tax havens).

Personal income tax

Latvian residents are liable to income tax on their worldwide income. Non-residents are liable to income tax on their Latvian-sourced income. Personal income tax is charged at 20%, 23% and 31% differential tax rate from January 2021 on employment and other income, except for capital gains.

Dividends, interest and income from life insurance contracts and private pension funds are taxed at 10%. Capital gains on the disposal of capital assets (such as real estate, shares and bonds) are taxed at 20%.

Additional information

<https://www.vid.gov.lv>

<https://www.fm.gov.lv>

<https://www.liaa.gov.lv/en/invest-latvia/business-guide/taxation>