



Tax&Legal Highlights

Latvia

Payroll Taxation

The main focus of the tax reform is to change the current regime of the corporate income tax (CIT), however there will also be several changes regarding payroll taxes. It is proposed that the new rules enter into force starting January 1, 2018, therefore the new laws have been developed quite urgently and provisions have been amended multiple times. On July 11 amendments regarding payroll taxes have been considered by the Cabinet of Ministers and it is planned that new regulation will be considered by Parliament at the final hearing on July 27.

The current personal income tax (PIT) on salaries at rate 23% will be replaced by progressive tax. It is set at the following rates:

- 20% rate on income up to 20 000 EUR per year;
- 23% rate on income over 20 000 EUR per year;
- 31.4% effective rate on income over 55 000 EUR per year that consist of 23% personal income tax and allocation of 11% solidarity tax to personal income tax.

The total rate of social security contributions will be increased from 34.09% to 35.09%. The employers' part of social contribution will be 24.09%, while

the employees' - 11%. The threshold for social security contributions is set in amount EUR 55 000.

Solidarity tax will remain and is applied on annual salary income in excess of EUR 55 000. The split of solidarity tax is as follows:

- 24.09% - paid by the employer and will be directed to employee's pension and health insurance (10.5%) and solidarity tax payment into general social budget (13.59%);
- 11% - withheld from employees' salary and is allocated to personal income tax.

Deloitte Latvia will keep updating on CIT reform.

Proposed changes to the Latvian VAT Law

The Ministry of Finance has published draft amendments to the VAT law (further – draft amendments), which will enter into force as of January 1, 2018. However, the draft amendments have not been adopted yet, thus there might be changes during the discussion process. The proposed amendment to the Latvian VAT Law relates to the following areas:

- **VAT registration threshold for taxpayers registered in Latvia;**
- **Domestic reverse charge mechanism applicable to certain supplies of goods and services.**

According to the current Latvian VAT Law, taxpayers have the right not to register to the Latvian VAT payer register if the total value of performed supplies of goods and services for the last 12 months has not exceeded EUR 50 000 (provided that other conditions are met). Under the draft amendments, the threshold will be reduced to EUR 40 000.

The domestic reverse charge mechanism applies to the following goods and services:

- Construction services

Currently reverse charge VAT is applicable to supply of certain type of construction services. Draft amendments extend domestic reverse charge VAT application to all types of construction services, project designing and supply of construction products.

- Electronics

Currently reverse charge VAT is applicable to supply of certain type of electronics (mobile phones, laptops, tablets). Draft amendments extend domestic reverse charge VAT application also to the game consoles.

- Metal products

The draft amendments introduce a new article to the Latvian VAT Law providing that domestic reverse charge mechanism will be applicable to the supply of metal products and related services. Cabinet of Ministers Regulations (further - Regulations) will provide list of products to be considered as metal products and services to be consider as related services subject to domestic reverse charge VAT. Draft Regulations are not yet available.

- Household appliances

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The draft amendments introduce a new article to the Latvian VAT Law providing that domestic reverse charge mechanism will be applicable to the supply of household appliances and electrical household devices. Regulations will provide list of goods to be considered as household appliances and electrical household devices subject to domestic reverse charge VAT. Draft Regulations are not yet available.

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