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International Tax
Latvia Highlights 2022

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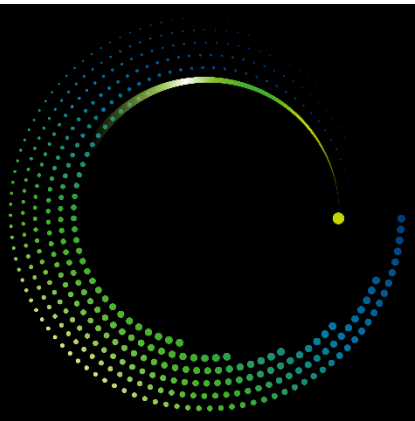

Investment basics

Currency: Euro (EUR)

Foreign exchange control: There are no foreign exchange controls.

Accounting principles/financial statements: National standards (following IAS) and IFRS. Financial statements must be prepared annually.

Principal business entities: These are the private limited liability company (SIA), joint stock company (AS), general and limited partnership, and branch of a foreign company.

Corporate taxation

Rates	
Corporate income tax rate	20%
Branch tax rate	20%
Capital gains tax rate	20%

Residence: A company is considered tax resident if it is incorporated in Latvia (i.e., registered in the Company Register).

Basis: Residents are taxed on worldwide income. Nonresidents are taxed only on Latvian-source income. Permanent establishments (PEs) of foreign companies are taxed in the same way as resident companies, although certain restrictions apply to payments made to a head office. Branches are taxed in the same way as PEs.

Taxable income: Corporate income tax is imposed only when profits are distributed.

Profit distributions include declared dividends and interim dividends, payments similar to dividends, and deemed profit distributions such as nonbusiness expenses, excessive interest payments, loans made to related parties, transfer pricing adjustments, nonqualifying bad debts, and liquidation proceeds.

Rate: The tax rate is 20% on the gross amount of the distribution. Certain expenses deemed to be profit distributions (see "Taxable income," above) are subject to tax at an effective rate of 25% on the amount of the expense.

Surtax: There is no surtax.

Alternative minimum tax: An alternative minimum tax of EUR 50 applies.

Taxation of dividends: Dividends and other distributions of profits are subject to corporate income tax at the level of the payer (see "Taxable income," above). The corporate income tax applies at the time the dividend is declared, and no further tax is due at the time of payment.

Capital gains: Capital gains on sales of property are taxed only when there is a profit distribution. Capital gains from the sale of shares are exempt from tax, provided certain conditions are satisfied (see "Holding company regime," below). A nonresident's income from the sale (or from the contribution into share capital) of real estate located in Latvia, or the sale of shares of a company where more than 50% of the company's assets consist of Latvian real estate, is subject to a 3% withholding tax.

Losses: Corporate income tax applies only to distributed profits, and any financial losses decrease the distributable amount.

Tax losses accumulated through 2017 can be carried forward to reduce up to 50% of taxable distributed profits through 31 December 2022.

Foreign tax relief: A foreign tax credit is available for tax paid abroad, but the credit is limited to the lower of the foreign tax paid or the Latvian tax attributable to the foreign income.

Participation exemption: Redistributions of dividends received from resident and nonresident payers are not subject to corporate income tax in Latvia where (i) the payer of the underlying dividends to the redistributing entity pays corporate income tax in its country of residence or the dividends have been subject to withholding tax in the distributing jurisdiction, (ii) the payer is not from a "black list" (i.e., low-tax) jurisdiction, and (iii) the dividends are not treated as a tax-deductible expense in the payer's country of residence.

Holding company regime: Capital gains from the sale of shares held for at least 36 months are exempt from tax, provided certain conditions are fulfilled. The exemption does not apply to capital gains from the sale of shares of a company where more than 50% of the company's assets consist of Latvian real estate, and from the sale of shares of companies located in low-tax jurisdictions

Incentives: A rebate of up to 80% of corporate income tax on profit distributions and real estate tax is available for licensed entities located in special economic zones and free ports. The rebate has been approved as compatible with the EU state aid rules.

Start-up companies are entitled to make fixed monthly payments equal to two minimum compulsory state social insurance contributions per employee, instead of paying full payroll taxes. Start-up company status is granted by a state-formed commission according to criteria specified in the legislation.

Compliance for corporations

Tax year: The tax period is the calendar month and financial year.

Consolidated returns: Consolidated returns are not permitted; each company must file a separate return.

Filing and payment: The tax return must be filed on a monthly basis by the 20th day of the following month. The tax is due before the 23rd day of the following month.

Penalties: Interest of 0.05% per day is imposed for the late payment of tax. Fines may be charged where additional tax is determined to be payable as a result of a tax audit, in the range of 10% to 300% of the tax due.

Rulings: Advance rulings and advance pricing agreements (APAs) may be obtained from the tax authorities to ascertain their opinion on the application of tax and transfer pricing rules. Advance rulings are binding only on the tax authorities; APAs are binding on both the taxpayer and the tax authorities.

Individual taxation

Rates		
Individual income tax rate	**Taxable income**	**Rate**
	Up to EUR 20,004	20%
	EUR 20,005–EUR 78,100	23%
	Over EUR 78,100	31%
Capital gains tax rate		20%

Residence: An individual is resident in Latvia if the individual's permanent place of residence is in Latvia or if the individual is present in Latvia for 183 days or more in any 12-month period, starting from the date of arrival in Latvia.

Basis: Resident individuals are taxed on worldwide income; nonresidents are taxed only on Latvian-source income.

Taxable income: Taxable income includes income from employment, income from the exercise of a business or profession, and investment income.

Rates: For 2022, the rate is 20% on income up to EUR 20,004, 23% on income from EUR 20,005 up to EUR 78,100, and 31% (consisting of personal income tax and solidarity tax) on income over EUR 78,100. Capital gains and other income from capital are taxed at a 20% rate.

Capital gains: Gains on the sale of an individual's capital assets (real estate, shares, etc.) are subject to a 20% tax. Gains on the sale of a private residence may be exempt. A nonresident individual's income from the sale (or from the contribution into share capital) of real estate located in Latvia, or the sale of a company's shares where more than 50% of the company's assets consist of Latvian real estate, is subject to a 3% withholding tax.

Deductions and allowances: Allowances for dependents, medical expenses, health insurance premiums, and certain other allowances are available for Latvian tax residents.

Foreign tax relief: A tax credit is available for foreign tax paid, limited to the Latvian tax attributable to the foreign income.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Each individual must file a return; joint filing for spouses is not permitted.

Filing and payment: The annual income tax return is due by 1 June following the tax year. The tax is due within 15 days after the tax return is submitted, but the actual tax payment may be divided into three installments. Tax on capital gains is paid on a quarterly or an annual basis. Wage tax, social security contributions, and some of the tax on income from capital is withheld at source.

Penalties: Interest of 0.05% is imposed daily on late payments. Fines may be charged where additional tax is determined to be payable as the result of a tax audit, in the range of 10%-300% of the tax due.

Rulings: Rulings may be obtained from the tax authorities to ascertain their opinion on the application of the tax legislation. Rulings are binding on the tax authorities.

Withholding tax

Rates				
Type of payment	**Residents**		**Nonresidents**	
	Company	**Individual**	**Company**	**Individual**
Dividends	0%	0%	0%/20%	0%/20%
Interest	0%	0%	0%/20%	0%/20%
Royalties	0%	0%	0%/20%	0%/20%
Fees for technical services	0%	0%	0%/20%	0%/20%

Dividends: Latvia does not impose withholding tax on dividends, except for dividends payable to persons resident in low-tax jurisdictions, which are subject to a 20% withholding tax.

Interest: Latvia does not impose withholding tax on interest, except for interest payable to persons resident in low-tax jurisdictions, which is subject to a 20% withholding tax.

Royalties: Latvia does not impose withholding tax on royalties, except for royalties payable to persons resident in low-tax jurisdictions, which are subject to a 20% withholding tax.

Fees for technical services: Latvia does not impose withholding tax on technical service fees, except for technical service fees payable to persons resident in low-tax jurisdictions, which are subject to a 20% withholding tax.

Branch remittance tax: There is no branch remittance tax.

Other: Consulting and management fees paid to a nonresident company are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Withholding tax is payable at the time the payment is made.

Anti-avoidance rules

Transfer pricing: Latvia's transfer pricing rules generally follow OECD transfer pricing guidelines. Transfer pricing documentation requirements apply to Latvian corporate taxpayers as set out below. The local file must be prepared in the Latvian language but the master file also may be prepared in English.

Mandatory preparation of a master file (without submission) is required if the total annual value of related party transactions exceeds EUR 5 million. The master file must be submitted to the tax authorities where (i) annual turnover exceeds EUR 50 million and the total value of related party transactions exceeds EUR 5 million or (ii) the total value of related party transactions exceeds EUR 15 million.

A local file must be prepared where the total annual value of related party transactions exceeds EUR 250,000 and submitted to the tax authorities where such transactions exceed EUR 5 million.

A taxpayer must retain documentation substantiating the arm’s length nature of a transaction for five years, and the documentation must be provided to the tax authorities within one month following a request or annually if the relevant thresholds are met.

Penalties of up to 1% of the value of related party transactions for which the taxpayer is obliged to prepare transfer pricing documentation may be imposed for significant violations of the transfer pricing documentation preparation or submission requirements, capped at a penalty of EUR 100,000 per transaction.

Latvia has adopted country-by-country reporting requirements.

Interest deduction limitations: Under the thin capitalization rules, interest payments are included in the taxable base where (i) the debt-to-equity ratio exceeds 4:1 or (ii) the interest payment exceeds both EUR 3 million and 30% of EBITDA (earnings before interest, taxes, depreciation, and amortization). The inclusion in the taxable base is the larger amount resulting from these two calculations. In accordance with a temporary measure introduced in response to the COVID-19 pandemic, criterion (i) does not apply to corporate income tax payers in respect of interest payments made in reporting years beginning in 2021 and 2022.

The thin capitalization rules do not apply to interest payments made to EU/European Economic Area (EEA) credit institutions, to credit institutions resident in a country that has concluded a tax treaty with Latvia, or in respect of EU/EEA public debt securities.

Controlled foreign companies: A controlled foreign company (CFC) regime applies in accordance with the EU Anti-Tax Avoidance Directive (ATAD). An entity is treated as a CFC where a Latvian taxpayer either alone or together with its associated enterprises holds a direct or indirect participation of more than 50% of the capital or voting rights or is entitled to receive more than 50% of the profits of the entity. A PE always is treated as a CFC.

The Latvian taxpayer must include in the tax base undistributed income of the CFC arising from artificial arrangements that have been entered into for the essential purpose of obtaining a tax advantage.

An arrangement or series of arrangements is regarded as artificial to the extent that the entity or PE either would not own the assets or would not assume the risks necessary to generate the income if it were not controlled by a company that conducts the significant executive management people functions relevant to those assets and risks.

The CFC rules do not apply if the CFC's profit does not exceed EUR 750,000 and the income derived other than from the sale of goods and services does not exceed EUR 75,000.

Hybrids: Latvia has implemented legislation in line with ATAD 2 regarding hybrid mismatches; provisions regarding reverse hybrid mismatches apply as from 1 January 2022.

Economic substance requirements: General anti-avoidance clauses are present in all tax laws, enforcing the substance-over-form principle.

Disclosure requirements: There are no disclosure requirements.

Exit tax: Taxpayers must include in their taxable base the value of assets that are transferred outside of Latvia in one of the following situations:

- From a head office in Latvia to a PE outside Latvia;
- From a PE of a foreign entity in Latvia to the parent entity or another PE outside Latvia;
- Where a PE of a foreign entity in Latvia transfers business activities outside of Latvia; or
- Where an entity registered in Latvia changes its tax residence, except when the assets will stay in Latvia and will be effectively connected to a PE there.

General anti-avoidance rule: Latvia does not have a general anti-avoidance rule, but see "Economic substance requirements," above.

Other: A 20% withholding tax is imposed on payments to entities located in low-tax jurisdictions (see "Withholding tax," above), although exemptions may be possible for acquisitions of goods and EU/EEA public bonds.

Value added tax

Rates	
Standard rate	21%
Reduced rate	0%/5%/12%

Taxable transactions: VAT is charged on supplies of goods and services, intra-Community acquisitions of goods and services, and importation of goods and services. The general rules are in line with the EU VAT directive.

Rates: The standard rate is 21%, with a reduced rate of 12% or 5% applying to certain goods/services. Some items are zero-rated, and others are exempt (e.g., financial and insurance services).

Registration: Persons whose taxable supplies (excluding imports) exceed EUR 40,000 in a 12-month period must register for VAT purposes. A foreign person engaged in business in Latvia is required to register on or before the date of the first taxable supply.

Filing and payment: The taxable period generally is the calendar month, although it may be quarterly for taxpayers with lower turnover. Returns must be submitted by the 20th day of the month following the taxable period and the tax must be paid by the 23rd day of the month following the taxable period.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: Employment income is subject to social security contributions at a rate of 34.09% of an employee's gross salary (23.59% as the employer's portion and 10.5% from the employee's salary). The contributions must be paid on a monthly basis by the employer and reporting requirements apply. Minimum mandatory contributions are payable by the employer on employment income of EUR 1,500 or more on a quarterly basis. Nonresident employers must register with the tax authorities or, in certain situations, authorize employees to register and settle payments on behalf of the foreign employer. The amount of annual income subject to social security contributions is capped at EUR 78,100, but income above the threshold is subject to solidarity tax at 25% (borne partly by the employer and partly withheld from the employee's salary).

A nonresident individual employed by a nonresident employer for more than 183 days in a 12-month period (where the EU social security regulations do not apply) and who does not permanently reside in Latvia is subject to social security contributions at a rate of 31.83%.

Self-employed individuals with income of at least EUR 500 per month are subject to social security tax at 31.07% and additional mandatory pension contributions of 10%. Where a self-employed individual's income is less than EUR 500 per month, only pension contributions must be made.

Payroll tax: Employers are required to withhold personal income tax and remit the amount to the tax authorities on a monthly basis. The rate is 20% on income up to EUR 20,004 per year, 23% on income from EUR 20,005 up to EUR 78,100 per year, and 31% (consisting of personal income tax and solidarity tax) on income over EUR 78,100 per year. The above brackets are multiplied by 1/12 to calculate the amount to be withheld from monthly income.

Capital duty: There is no capital duty.

Real property tax: The local authorities levy a real estate property tax equal to 1.5% of the cadastral value of land and buildings. The rate on residential property not used for commercial purposes ranges from 0.2% to 0.6%. A 1.5% tax is levied on unused agricultural land.

Transfer tax: There is no transfer tax.

Stamp duty: Stamp duty is imposed on the registration of real estate in the land register on the higher of the sales price or the cadastral value. The rate is 2% for legal entities and 1.5% for individuals. No duty applies on corporate reorganizations and a 1% rate applies to contributions in kind. Stamp duty also is levied on the registration of a mortgage.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other: If an employee's salary exceeds the social security cap of EUR 78,100, the excess is subject to solidarity tax, which applies at the same rates and according to the same principles as social security contributions (see "Social security contributions," above).

Tax treaties: Latvia has concluded around 60 tax treaties. The OECD multilateral instrument (MLI) entered into force for Latvia on 1 February 2020. For information on Latvia's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: State Revenue Service

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