Tax Card 2018

KPMG Baltics SIA

kpmg.com/lv

CORPORATE INCOME TAX

CIT payment is due when profits or deemed dividends are distributed, not when profit is earned. Tax rate is 20%, but it is calculated as 0.2/0.8 from net dividend or distribution.

Deemed dividends or distributions include:

- Non-business expenses, including representation and personnel sustainability expenses exceeding 5% of the previous year's total gross salaries
- Non-qualifying provisions for bad and doubtful debts older than 36 months and bad debt write-offs
- Interest expenses exceeding thin capitalisation thresholds:
  - On average non-bank debt exceeding 4 times the equity at the beginning of the financial year
  - If interest expense is above EUR 3 million - 30% of EBIDTA
- Long term (>12 m) loans issued to related parties while having retained profits, except:
  - Loans to direct subsidiaries
  - Loans not exceeding the amount of loans received from third parties and the amount of capital
- Transfer pricing adjustment for tax purposes
- Liquidation quota

Tax losses

Tax value of tax losses as at 31 December 2017 can be used to cover up to 50% of tax calculated on taxable dividend distributions until 2022.

Taxation period

The taxation period is a calendar month. CIT is payable by the 20th of the following month if a taxable event occurred. The tax point is when the liability is created, e.g. a non-business expense is booked or a shareholder decision on dividend distribution is made. Non-business expenses and dividends have to be declared on a monthly basis, while all other taxable items have to be reported in the CIT return of the last month of the financial year.

The first half of 2018 is a transitional period, for which a taxpayer needs to submit a single CIT return and make the corresponding CIT payment, if any, by 20 July 2018.

Non-standard financial year

If the financial year of the tax payer differs from the calendar year, it has to prepare and submit by 30 April 2018 an interim financial statement and CIT return for the period to 31 December 2017 based on the previous CIT system.

Tax allowance for donations

There are 3 options for allowance for donations made to Public benefit organisations:

- up to 5% of the previous year's profit after tax
- up to 2% of the previous year's total gross salaries, for which SSC payments have been paid
- CIT on dividends can be reduced by 75% of the donation, but not exceeding 20% from CIT on dividends

Withholding taxes on payments to non-residents

	Tax rate
Management and consulting services	20%
Proceeds from the sale of real estate in Latvia or real estate company shares in Latvia*	3%

* A real estate company is a company which has more than 50% of its assets comprised of real estate in Latvia. CIT is also applicable for transactions between two non-residents, where a seller has to inform the Tax authority about the transaction within 30 days and pay CIT of 3% from proceeds from the sale. Withholding tax rates may be reduced by double tax treaties (see list at the end).

All payments to non-resident companies established in a jurisdictions with low or no taxes (offshores), including dividends, are subject to WHT at the rate of 20%.

Withholding tax is payable when the payment is made.

Withholding tax rates may be reduced by double tax treaties (see list at the end).

Capital gain

Latvia has no separate capital gains tax for companies. All capital gains are taxed upon profit distribution. However, gains on disposal of shares are not taxed when distributed if the holding period has been at least 36 months, except on disposal of shares in a company established in a jurisdiction with low or no taxes.

Dividend taxation

Dividends 'passing through' companies are not taxed with CIT, if CIT was paid or WHT withheld at the source when initially distributing dividends or the company distributing dividends is a CIT payer in the country of residence. This exemption does not apply to:

- Dividends received from a company established in a jurisdiction with low or no taxes
- Micro-enterprise tax payers
- If the main purpose of a structure or transaction is to use allowances stated in the CIT Law

New CIT payers

Starting from 1 January 2018, partnerships, cooperative partnerships and other legal persons governed by private law are also CIT payers.

MICRO-ENTERPRISE TAX

A micro-enterprise pays 15% tax on turnover from business activity. This tax covers personal income tax, social security contributions, corporate income tax and business risk duty. A company can choose this tax model if annual turnover does not exceed EUR 40,000.

PERSONAL INCOME TAX

Rates

Latvia imposes progressive tax rates on personal income and on income derived by self-employed individual's commercial activities, at the following rates:

- 20% rate on income up to EUR 20,004 per year
- 23% rate on income from EUR 20,004.01 to EUR 55,000 per year
- 31.4% effective rate on income exceeding EUR 55,000

Progressive tax rates are applicable by the employer only if salary tax book is filed with the employer. If no salary tax book is filed, the employer applies 23% tax rate and tax must be adjusted in annual tax return.

Tax free benefits and allowances of an employee

- Certain approved private pension and life/health insurance premium with accumulation of funds payments
- Maximum non-taxable allowance – EUR 200 per month. Non-taxable minimum is not applicable to salary that exceeds EUR 12 000 per year. Latvian tax authorities set the estimated differentiated monthly non-taxable minimum by announcing it to each employer twice a year by 1 January and 1 August using Electronic Declaration System
- Eligible child/dependants allowance of EUR 200 per month

Special rates for particular types of income

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

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

Taxation of foreign income

Salary income of Latvian residents gained in another EU or EEA country, or a country with which Latvia has a double tax treaty, is tax-exempt in Latvia, if particular requirements are met.

SOCIAL SECURITY AND SOLIDARITY TAX

Mandatory social security contributions (SSC) are payable in respect of gross employment income. Income cap for social security contributions is EUR 55,000 per year. Employment income above EUR 55,000 is subject to solidarity tax which is calculated and collected in the same way as SSC.

For individuals employed by a Latvian resident employer or employer from an EU or EEA member state, the standard SSC and solidarity tax rates payable in 2018 are as follows:

- Employer's rate is 24.09%
- Employee's rate is 11.00%

There are also other SSC tax rates, e.g. for pensioners, self-employed persons etc.

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

VALUE ADDED TAX

The standard VAT rate is 21 %, reduced rate – 5% and 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 the 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

VAT rate of 5% is applied to

- Fresh fruits, berries and vegetables not processed thermally

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 domestic transactions with timber, unprocessed precious metals, precious metal alloys, scrap metal, clad metal, metal products, construction services, grain crops, industrial crops, mobile phones, tablets, laptops, integrated circuit devices, game consoles, consumer electronic equipment, and household electrical equipment
- 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 owned or held by a company are subject to company car tax. Tax for a car is based on the capacity of its engine and first registration date, ranges from EUR 29 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 property's cadastral value may be set only in cases when the property is not managed properly. If municipality does not publish binding regulation on property tax rates until 1 November of the previous taxation period, the following tax rates are applicable:

- for buildings (except residential houses, groups of premises, which use is residential), land used in business activities and for engineering technical buildings – 1.5% from the cadastral value of the property
- for agricultural land with an area exceeding 1 hectare not used in agriculture – an additional rate of 1,5% of the cadastral value
- for buildings that degrade the environment and endanger human lives – up to 3% of the largest - cadastral value of the structure or the land under its jurisdiction (if certain criteria are met)
- for 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
  - 1.5% of the cadastral value, if these objects are in the legal possession of the merchant

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

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

TAXATION TREATIES

In 2018, Latvia has double tax treaties in effect with the following countries:

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

INVESTMENT INCENTIVES

The main incentives are:

- Tax allowance for enterprises engaged in agricultural activity
- CIT relief is available for companies registered in a Special Economic Zone or Free Port

REAL ESTATE TRANSFER 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 duty 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 % from the real estate value.

For additional information please contact:

KPMG Baltics SIA
Vesetas iela 7
Riga LV-1013
Latvia
T: +371 6703 8000
F: +371 6703 8002
kpmg.com/lv

Steve Austwick
Partner, Head of Tax & Legal Services
saustwick@kpmg.com

kpmg.com/app

Download on the App Store

This card was prepared on 1 January 2018 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 2018.