DOING BUSINESS IN LATVIA 2017

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PREFACE

The aim of this publication is to provide the essential background information on setting up and running a business in Latvia. It is of use to anyone who is thinking of establishing a business in Latvia as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company. It also covers the essential background tax information for individuals considering coming to work or living permanently in Latvia.

This publication describes the business environment in Latvia and covers the most common forms of business entity and the taxation aspects of running or working for such a business. For individual taxpayers, the important taxes to which individuals are likely to be subject are dealt with in some detail. The most important issues are included, If you would like to know more, please contact the BDO Member Firms with which you normally deal, who will be able to provide you with information on any further issues and on the impact of any legislation and developments subsequent to the date mentioned below.

BDO is an international network of public accounting firms, the BDO Member Firms, which perform professional services under the name of BDO. Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee that is the governing entity of the international BDO network. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

The information in this publication is up to date on 1st February 2017.

Doing Business in Latvia 2017 has been written by the Latvian Member Firm of BDO. Its contact details may be found on the back cover of this publication.

COUNTRY PROFILE

In 2018, Latvia celebrates a hundred years since it became an independent state. Latvia today in many regards is a typical European country, which is addressing its shortcomings and builds on its strengths.

The national flag of Latvia

Geography

Latvia is located in northern Europe on the eastern shores of the Baltic Sea between Estonia and Lithuania. To the east, it borders Russia and Belarus and has a maritime border with Sweden.

With an area of 64 589 km² and a population of about 1.969 million, Latvia is a small European country. The capital of the country, Riga, has approximately 639 600 inhabitants (official statistics as to the place of residence in the metropolitan area). The second largest city in Latvia is Daugavpils, with a population of approximately 85 900.

COUNTRY PROFILE

Government and political powers

According to the Constitution, Latvia is an independent democratic parliamentary republic. It has a unicameral parliament (*Saeima*) composed of one hundred members elected by the list system of proportional representation. The President, who is the head of state, is elected by the *Saeima* for a four-year term. The executive power rests with the prime minister, who is appointed by the President, and the Cabinet.

Currency

Since 1 January 2014 Latvia's national currency is the Euro.

Population and language

The official language is Latvian. Latvian is one of the two surviving languages (the other is Lithuanian) of the Baltic branch of the Indo-European language family. Latvian, Russian and English are commonly spoken languages. Some 62% of the population is ethnic Latvian, and 26% are Russian. No other ethnic group comprises more than 5% of the population.

Time, weights and measures

Latvia uses Eastern European Time, which is two hours ahead of Greenwich Mean Time (GMT+2 hours). Between March and September Latvia introduces Daylight Saving Time (GMT+3 hours).

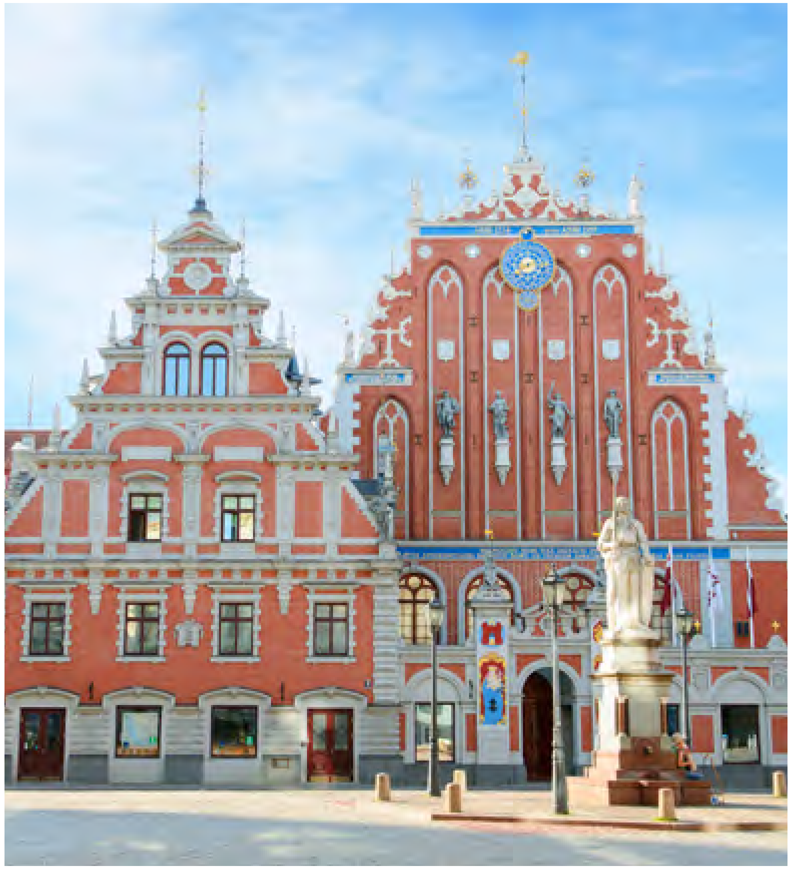
Memberships

1991	1993	2004	2004	2016
Latvia became a member of the United Nations	Latvia signed a free-trade agreement with its fellow Baltic States, Estonia and Lithuania	Latvia became a member of NATO	Latvia became a full member of the European Union	Latvia became a member of the Organisation for Economic Co-operation and Development (OECD)

SETTING BUSINESS IN LATVIA

SETTING BUSINESS IN LATVIA

Investors, whether Latvian or foreign, benefit from equal legal treatment and have the same right to establish business operations in Latvia by incorporating a separate legal entity. The procedure requires the fulfilment of certain legal formalities, such as registration with the Latvian Commercial Register and the State Revenue Service (abbreviated here as SRS).



Forms of business organisation

The common form of carrying on business in Latvia is through a company, mainly a limited liability or a joint stock company. Companies have their own name, share capital (the minimum amount of which is established by law), management, registered office, and bank account. Companies established in Latvia are subject to Latvian law, but agreements concluded by a Latvian company can be governed by any law agreed upon between the parties. No permit is required by foreigners wishing to subscribe for the shares of a company or to be appointed a member of the board of a Latvian company. The legal address has to be local to ensure the delivery of official correspondences.

The activity of Latvian businesses is governed mostly by the Latvian Commercial Code, enacted in 2000 and further amended.

The Commercial Code allows for and defines three forms of business entities:

1. **Individual Merchants**
2. **Partnerships** General Partnerships and Limited Partnerships
3. **Capital companies** Limited Liability Company and Joint Stock Company

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CAPITAL COMPANIES

Limited liability companies

The most common form of doing business in Latvia is the limited liability company, since it does not require a considerable initial investment. Often abbreviation "SIA" is used. The share capital of an SIA cannot be less than EUR 2 800 (USD 3 021).

The organisational structure of an SIA requires an executive board of directors, although one director is sufficient. A supervisory board and auditor are optional, where not expressly required by law.

Usually, it takes about one week to establish and register a new SIA in Latvia. It costs about EUR 200 (USD 216) in registration and other duties, excluding professional fees. A limited liability company must be registered with the local office of the State Revenue Service (SRS), and it must file tax returns on a regular basis.

Joint stock companies

A joint stock company includes Latvian "Akciju sabiedrība" or abbreviation "AS" in its name. It must have a minimum share capital of EUR 35 000 (USD 37 765). The shares can be either registered (name shares) or in bearer form and they can be freely traded or pledged. The minimum share capital must be paid up until incorporation and entry of the AS in the Commercial Register. A joint stock company may be set up privately, or its shares may be publicly listed. It must have both an executive board and a supervisory board. The members of the supervisory board are elected by the shareholders, but the supervisory board appoints the executive board. Managers or directors do not necessarily need to be shareholders.

Usually, it takes about one week to establish a new AS in Latvia. It costs about EUR 380 (USD 410) in registration and other duties, exclusive of professional fees. A joint stock company must be registered with the local office of the State Revenue Service (SRS), and it must file tax returns on a regular basis. If a joint stock company decides to go public, there are more requirements to be met before and during listing.

BUSINESS ENTITIES

Other forms of doing business in Latvia are:

The European Economic Interest Grouping
The European company
The European cooperative society
The cooperative society

Foreign companies can set up a representative office in Latvia in order to carry out non-income generating activities, such as promotion and supervision of the business of the parent company. Representative offices are not considered legal entities and cannot carry out commercial activities in Latvia.

A branch of a foreign company can be registered with the Latvian Commercial Register to carry out business in Latvia. The foreign company will be liable to the employees and creditors of the branch for the actions of, and debts contracted by, its managers and agents on behalf of the branch. Branches can carry out only those activities for which the parent company is authorised.

Besides registration with the Commercial Register, the branch must also register for tax purposes with the State Revenue Service (SRS), and it is subject to corporate tax as a permanent establishment. There is no branch remittance tax in Latvia. Usually, it takes about one week to establish a new branch in Latvia and costs about EUR 50 (USD 54) in registration and other duties, exclusive of professional fees.

Latvian legislation does not recognise the concept of a trust.

Business reorganisation and liquidation

The liquidation of a company may occur voluntarily by a decision of the company's shareholders or in other cases as prescribed by law. According to the law, the minimal length of the procedure is about six months, but in practice the procedure may be very long, taking about up to two years, if it is necessary to obtain the approval from different state institutions.

The company or any creditor may file a bankruptcy petition if the grounds for it according to law exists.

Mergers and acquisitions are regulated by the provisions of the Latvian Commercial Code and EU Directives; it may take approximately six to eight months to finish all formalities in case of approvals from state institutions such as Competition Council.

Companies may be reorganised by way of joining, dividing and transforming companies. A reorganisation must be approved by at least 2/3 votes of the shareholders of the company present at the meeting (in the case of limited liability company) or at least 3/4 votes of the shareholders of the company present at the meeting (in the case of a joint stock company).

BUSINESS ENVIRONMENT

LABOUR RELATIONS

One of the main advantages of the Latvian labour market is its qualified specialists in social sciences, economics and law, as well as IT, engineering, manufacturing and construction.

Information on the employment market

According to official statistics, at the end of December 2016, the number of people employed was 885 thousand, and unemployment stood at about 10.96%. The level of unemployment varies greatly between the regions.

There is a minimum monthly wage set by law: EUR 380 (USD 410). The average monthly gross wage in 2016 was estimated to EUR 859 (USD 927).

The majority of employees work in the wholesale and retail sector (17%) and in manufacturing (13%). Several sectors are short of qualified employees, most notably, the IT, telecommunications and construction sectors.

Employment regulations and laws

Employment relationships are mainly governed by the Labour Law. There are special laws enforcing rules for labour conflicts, trade unions, and employers' organisations.

According to the Labour Law, an employment contract has to be in writing. However, a non-written contract will be considered in force if at least one party has fulfilled the provisions of the contract. Some mandatory conditions, like working hours and salary, have to be included in the provisions of the contract.

State Labour Inspectorate

The State Labour Inspectorate is authorised to supervise employment relationships and the safety of labour and the industrial equipment. Violations of the provisions of the law are penalised.

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WORKING CONDITIONS

Working hours

The normal working period is eight hours per day with a one-hour lunch break, five days per week. There are specific rules regarding working conditions for night work, hard labour (professions involving high risk), and the employment of teenagers. Any overtime work has to be remunerated in addition to regular salary.

Holidays

Employers are obliged to pay holiday pay. The minimum period of annual vacation is 20 days. There are also paid absence periods for family events (childbirth, funerals, etc.).

Termination of an employment contract

Termination of an employment contract can be effected in one of the following ways:

By agreement of both parties
By declaration with notice
By expiry of the contract, if applicable
Under the circumstances prescribed by law.

In most cases, under conditions prescribed by the Employment Code, a written notice of termination of the employment must be submitted one month in advance by the employee or the employer, depending on the circumstances. In cases specified in the Employment Code, the employer has the right to give 10 days prior or immediate notice.

Employees are not obliged to state their reason for leaving. However, the employer must state the reasons for the termination of the contract, and such reason shall comply with the requirements of the Employment Law.

Fringe benefits

Among the most typical fringe benefits granted to employees are extra holiday pay, medical insurance, a stock-option plan system, paid subscription for a mobile phone, and public transportation.

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SOCIAL SECURITY

At present, Latvian social security legislation comprises five essential areas:

1. **Pensions and other social security benefits for employees**
2. **Provision of healthcare services**
3. **Unemployment benefits and assistance**
4. **Allowances and support for the family** (child allowance, supplementary allowance for families with children, allowance for single-parent families)
5. **Social assistance for disadvantaged individuals, including special protection for disabled persons.**

The first three areas are part of the social insurance system for employees has as its principal objective the provision of support to insured persons who cannot obtain regular remuneration in certain risk situations (temporary or permanent incapacity to work, maternity, retirement, unemployment, etc.). The social insurance system is based on collecting funds from insured persons and distributing those funds to those qualifying for the insured benefits.

Unlike the social insurance system, which is contributory, family and social assistance are non-contributory systems; they are financed by the state.

Both Latvian and foreign employees are governed by the same social security, health, pension and unemployment social insurance provisions, subject to any relief given under EU regulations and international social security conventions signed by the Latvian government.

FOREIGN EMPLOYEES

With the exception of EU residents, non-resident individuals who intend to carry on a business, to be employed, or simply to enter Latvia, must obtain a visa. The competent state institution issues the work permit according to the expiry date of the visa if the foreigner meets certain conditions prescribed by law.

Latvia is a member of the Schengen area. There is a Uniform or Schengen visa that entitles foreigners to stay in Latvia and the other Schengen countries.

Foreigners staying in Latvia for a period longer than 90 days in any six-month period have to apply for a long-term visa or residence permit, depending on the circumstances of the particular case. This visa is valid only for stay in Latvia. Under general conditions, the maximum term of the long-term visa is one year.

Short term entry and stay in connection with employment

If the employment of a foreigner is linked to a short term or irregular stay in Latvia, which does not exceed 90 days in any six-month period, the foreign national has to obtain a visa or residence permit for a certain term and a work permit. The requirement of a work permit also applies to foreigners who are not required to obtain an entry visa.

If the employment of a foreigner is linked to a regular stay in Latvia of more than 90 days in any six-month period, the foreign national has to obtain a residence permit for a certain term and a work permit.

THE INVESTMENT ENVIRONMENT

Over the last 10 years, Latvia has experienced extensive economic growth in all sectors. The global economic crisis led to many economic challenges. The Latvian government has expressed its determination to meet these challenges and has prepared a development program. The highest priority of the program is a foreign direct investment (FDI), which it sees as the key to a fast and successful economic recovery.

Access to knowledge and skills

The Latvian labour force is multi-lingual and well educated. Workers here are ready to take on new challenges and, employees are highly motivated. Latvia's workforce is rated in the top five in the world in terms of university students per capita and workers possess a northern European culture and work ethic with excellent skills and discipline.

Gateway to EU

In terms of logistics, Latvia is one of the best locations to establish a business in Northern Europe. Riga is the largest city in the Baltic region and is ideally located in the centre of the region. Latvia has ice-free ports and one of the fastest growing airports in Europe, as well as integrated transportation infrastructure.

Business incentives

Companies investing in Latvia have an ideal opportunity to qualify for EU Structural Funds under the support scheme from 2014 to 2020. Substantial financial grants are available in a variety of key business activities: vocational and other training, support of innovations, R&D, value-added manufacturing and technology/knowledge transfer and more. Additionally, new incentives for small and medium-sized enterprises have been launched by the European Union – COSME for the competitiveness of the small and medium-sized enterprises.

Latvia has five separate Special Economic Zones and Free Ports (three ports and two inland). The latest Special Economic Zone (Special Economic Zone of Latgale) has started its operation only in the beginning of 2017. All are well connected to transportation corridors and have a well-developed infrastructure. Tax benefits are available for businesses that meet certain conditions.

Special government funding programmes are available to assist export-oriented business activities. Moreover, since 1 January 2017, a new Start-up regime has been introduced.

Since 1 January 2011 qualifying investments are eligible for a tax credit in the year the investment project is completed. The credits are as follows :

- 25% of the total initial amount for investments not exceeding EUR 50 million (USD 53.95 million)
- 15% of the total initial amount for investments from EUR 50 million (USD 53.95 million) up to EUR 100 million (USD 107.9 million)
- 11.9% of the total initial amount for investments from EUR 100 million (USD 107.9 million).

THE INVESTMENT ENVIRONMENT

Foreign investors' guarantees and rights

The Latvian constitution guarantees the right to private ownership. Both domestic and foreign private entities have the right to establish and own business enterprises and engage in all forms of commercial activity, except those prohibited by law. Private enterprises have competitive equality with public enterprises with respect to access to markets and business operations.

Performance requirements and incentives

The government extends national treatment to foreign investors. Therefore, most investment incentives and requirements apply equally to local and foreign businesses. The Latvian government has a series of incentive schemes for investment, both foreign and domestic, in several free ports, special economic zones, and in special assisted regions. Two other incentive packages apply to companies producing hi-tech products and to projects that have received the status of a "state-supported investment". In addition, all investors are exempt from VAT and customs duties on fixed assets imported as long-term investments.

Repatriation of initial investment and profits

Latvia's foreign investment law provides for unrestricted repatriation of profits associated with an investment. Investors can freely convert local currency into foreign exchange at market rates and have no difficulty obtaining foreign exchange from Latvian commercial banks for investment remittances.

Temporary residence permits

In July 2010 Latvia adopted a new regulation providing for additional opportunities for a foreign person to obtain a temporary residence permit for a five-year period without the need to reside in the country for a specific period of time.

According to the provisions, a foreign natural person may obtain a temporary residence permit on the following bases:

- If the foreign person invests at least EUR 50 000 (USD 53 950) in a small Latvian company (employing not more than 50 employees or yearly balance being not more than EUR 10 000 000)
  or EUR 100 000 (USD 107 900) in a large company (employing more than 50 employees and yearly balance exceeds more than EUR 10 000 000)
- If the foreign person is on the board (or council, or is a proctor, administrator or liquidator) of a Latvian company that has been in existence for at least one year at the time the person applies for a residence permit
- If the foreign person has subordinated liabilities with a Latvian credit institution (bank) in the amount of at least EUR 280 000 (USD 302 120)
- If the foreign person acquires real estate the value of which is at least EUR 250 000 (USD 269 750), minimum cadastral value - EUR 80 000 (USD 86 320).

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FINANCE AND INVESTMENT

Banking and local finance

Banking in Latvia is regulated under The Credit Institutions Act, in force as of 24 October 1995.

The central bank of the Republic of Latvia is the Bank of Latvia, which is one of the key public institutions that carries out the economic functions as prescribed by law.

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The minimum capital required for establishing a bank is the equivalent of EUR 5 million (USD 5.57 million), and it must be subscribed and paid up fully in cash.

The supervision of the Latvian banks, insurance companies, participants in the financial instruments market, as well as private pension funds, is carried out by the Financial and Capital Market Commission, which is regulated by the Financial and Capital Market Commission law.

Since 1 February 2008 Latvia has fully implemented the EU's MiFID Directive 2004/39/EC, which regulates the financial markets. The Association of Commercial Banks of Latvia (the Association) is a public organisation that unites the 18 banks registered in Latvia, including four branches of foreign banks on a voluntary basis. The purpose of the Association is to contribute to the strengthening and development of the banking system in Latvia.

Equity market

The official Stock Exchange is located in Riga. It is the sole stock exchange operating in Latvia and is owned by OMX, which is part of the NASDAQ OMX Corp.

The Central Depository of Latvia administers all publicly issued securities in Latvia. Its operation is supervised by the Financial and Capital Markets Commission.

ACCOUNTING AND AUDIT REQUIREMENTS

Bookkeeping and financial reporting in Latvia are mainly regulated by the Accounting Law and the Annual Financial Statements and Consolidated Annual Financial Statements law, as well as the Certified Auditors law and the International Accounting Standards.

Accounting records

Accounting records have to be kept so that any person qualified in accounting can clearly identify the financial situation of the company, transactions made during the accounting period, and to ascertain both the beginning and the sequence of each transaction.

Requirements for accounting records are as follows: the language must be Latvian, and the measure of value must be Euro. However, a second language, if agreed upon by the parties and acceptable to the auditors, may be used.

The accounting records and all relevant mandatory documentation have to be stored in Latvia. According to the law, computerised accounting is allowed only if the law is not violated. Moreover, the data output must be understandable to an independent third person.

The reporting period is normally 12 months. Usually calendar year, but there can be exceptions.

Confidentiality

The information included in annual reports, consisting of the financial statements and the management report, is not considered a trade secret of the company and is also available publicly upon request. All other information in the accounting records is confidential. An exception regarding access to confidential information is made with respect to the auditors, to the tax administration reviewing reported taxes, and to other state institutions in the circumstances directly prescribed by law.

Consolidated reporting

Preparation of a consolidated annual report is an obligation of the parent company if, for two successive years, figures for the parent company together with its subsidiaries have exceeded any two of the following criteria:

- Total assets: EUR 4 000 000 (USD 4 316 000)
- Net turnover: EUR 8 000 000 (USD 8 632 000)
- An average number of employees in the reporting year: 50.

Statutory audit of financial statements

The financial statements have to- be audited by a certified auditor or by a firm of certified auditors if the company exceeds two of the following criteria:

- Total assets: EUR 800 000 (USD 863 200)
- Net turnover: EUR 1 600 000 (USD 1 726 400)
- An average number of employees in the reporting year: 50.

THE TAX SYSTEM

THE TAX SYSTEM

The system of taxes and duties in Latvia consists of:

- State taxes, the object and rate of which are set by the *Saeima*
- State duties, which are applicable under the Taxes and Duties law and other laws and regulations of the Cabinet of Ministers
- Local duties, applicable under the Taxes and Duties law and binding regulations issued by the local authorities concerned
- Directly applicable taxes and other obligatory payments set by the European Union's regulatory enactments.

The following taxes are governed by the Taxes and Duties law:

Direct taxes

- Corporate income tax
- Personal income tax
- Mandatory social insurance contributions
- Real estate tax
- Vehicle operation tax and company car tax

Indirect taxes

- Value added tax
- Excise duty
- Electrical energy tax
- Subsidised electrical energy tax
- Car operation tax
- Customs duty
- Microenterprise Tax

Other taxes

- Natural resources tax
- Lottery and gambling tax

THE TAX SYSTEM

Payment

Taxes and duties are assessed and paid in Euro.
The tax administration may not waive its right to unpaid tax, nor may its transfer to any other person its rights to claim taxes, duties and related payments, with the exception of tax debts recovered and the sale of confiscated and inventoried property in cases provided under other tax laws.

The set-off of taxes, duties and payments related to taxes and duties against other liabilities is not permitted. The due date for payment is provided by the legislation regulating the tax or duty.

Assessment

The Latvian tax system is generally one of self-assessment. Taxpayers are responsible for computing their own tax payable on the basis of their tax return as well as for deduction of the amount of tax payable as provided for in the specific tax laws. Taxpayers - except for those individuals who are not economic actors - must file tax and information returns in electronic format. Generally, taxpayers must retain documents verifying income from, and expenditures on, financial and economic activities for at least five years (there might be exceptions).

The tax administration has the right to perform tax audits provided that it informs the taxpayer that it is conducting a tax review (audit). The tax administration must indicate the taxes, duties, or other mandatory payments to be examined, the tax returns to be examined, and the taxable periods under review. The tax administration has the right, after a tax review (audit), to adjust the amount of taxes and to impose fines.

Appeal procedures

Any person who disagrees with a fiscal, administrative document (including assessment) or a refusal to issue such a document has the right to submit an appeal. If the taxpayer is dissatisfied with the result of the first-stage appeal, the taxpayer may appeal the decision to the courts.

Anti-avoidance principle

Latvia has specific anti-avoidance rules. As a matter of principle, where tax liability is not calculated or is calculated on a taxable basis that differs from that existing in reality, thereby avoiding the scope of the tax law, the tax liability is to be recalculated on the real taxable base (“substance over form principle”).

CORPORATE TAX SYSTEM

Tax rate

The current standard rate of corporate income tax on all taxable income is 15%.

Scope and extent

Corporate income tax is applicable to worldwide profits realised by Latvian legal persons and to profits derived by non-resident legal persons through a permanent establishment in Latvia. Non-resident legal persons without a permanent establishment in Latvia are liable to corporate income tax on income and capital gains sourced in Latvia.

Company residence

For the purposes of tax legislation, a taxpayer who is not a natural person is considered a resident of Latvia if it is established and registered or if it should have been established and registered in accordance with the laws of the Republic of Latvia. Hence, a Latvian company is resident even if its management and control are situated abroad, and it is not possible for a Latvian company to change its residence without being dissolved and reincorporated abroad.

CORPORATE TAX SYSTEM

Taxable entities

Persons liable to corporate income tax are:

- Resident entities carrying on business (performing economic activities)
- Foreign companies and other foreign legal persons deriving income or capital gains in Latvia
- Permanent establishments of non-residents carrying on business in Latvia.

The following are not liable to corporate income tax:

- Individual (family) undertakings that do not have to submit annual accounts in accordance with the Annual Financial Statements and consolidate Annual Financial Statement law
- Institutions financed by State or local government budgets whose income from economic activity is provided for in the relevant budget
- Private pension funds
- Associations or foundations if the disclosed or undisclosed aim of the foundation is not the acquisition of profit or the growth of capital for the benefit of their members and
- Religious organisations, trade unions, and political parties.

Investment funds, general and limited partnerships, and cooperative associations are transparent for corporate income tax purposes. Their partners are liable to income tax or corporate tax on their share of the enterprise's profits.

Taxable income

Latvian tax authorities levy corporate income tax on the worldwide profits of Latvian legal entities and on the profits sourced in Latvia and derived by foreign legal entities either through a permanent establishment or an association that does not give rise to a legal person.

Most types of business income, interest income, royalties (with some exemptions), and rental income are subject to corporate income tax. From 1 January 2013 the following types of income are exempt:

- Dividends (outgoing and incoming)
- Capital gains from the sale of shares.

Taxable income is calculated by adjusting accounting profit for non-taxable items and non-deductible items and any other adjustments required by law.

CORPORATE TAX SYSTEM

The minimum tax payment

As from 2015, a minimum tax of EUR 50 (USD 54) is introduced. The taxpayer must pay the minimum payments if he has not paid PIT & SSC payments for employees; he is not required to pay CIT for a taxation year if the amount of tax payable is less than 50 EUR (USD 54) (including situations where the result of the tax year taxpayer is a loss). This provision will not apply in the year of registration of a start-up company. Neither does it apply to the company's liquidation year.

Deductions

As a general rule, an expense is deductible only if it is directly related to the company's business. There are expenses with limited deductibility and wholly disallowed expenses. For instance, representation expenses are only partially deductible (40%). The threshold for the purchase of representative vehicles is EUR 50 000 (USD 53 950) (excl. VAT). Expenses incurred for the purchase of a vehicle exceeding the limit are not treated as deductible for tax purposes unless sufficient evidence is provided for the vehicle to be used in the provision of commercial activities.

Expenses not directly related to the company's business are generally not deductible. These expenses include entertainment, relaxation, etc. Furthermore, a company's taxable income is increased by an amount that is 1.5 times the cost of expenses (the so-called 1.5 coefficient) not directly related to the company's business and losses incurred as a result of maintaining social infrastructure objects.

Capital gains

Latvia has no separate capital gains tax. Capital gains derived in Latvia by persons subject to corporate income tax are taxed at the same rate as ordinary income.

Income or loss from the sale of shares has no effect on a company's taxable income unless a company in which the company holds shares is located in a country or territory recognised by Latvia as a low-tax or tax-free territory (in such case the applicable tax rate is 15%).

Group treatment

As from 1 January, 2014 tax losses are not transferable between group companies within Latvia. Losses incurred in 2013 can still be transferred, but this incentive is cancelled for losses incurred as from 2014.

CORPORATE TAX SYSTEM

Dividends

Both dividends paid to a non-resident legal entity and received from a non-resident legal entity are not be taxed in Latvia unless the dividends are paid by a company in which the company holds shares is located in a country or territory recognised by Latvia as a low-tax or tax-free territory (in such case the applicable tax rate is 15%).

Interim dividends

Based on amendments to the Commercial law, companies are allowed to distribute interim dividends.

Conditions:
- Dividends cannot exceed 85% of the company's current profit;
- The company cannot have tax liabilities at the date of the shareholders' meeting;
- The company has not deferred, or divided tax payments and the company's advance tax payments are not reduced at shareholders' meeting date;
- A withholding tax of 30% applies to interim dividends paid to low-tax or tax-free countries (off-shores).

If interim dividends are paid, but the company has a loss at year-end, it will be deemed that the interim dividends have been paid unduly. The amount of interim dividend will be treated as expenses not related to economic activity. Thus the taxable income of the legal entity will be increased by a number of interim dividends distributed multiplied by 1,5.

Interest and royalties

The interest and royalties paid by a Latvian company to a related EU company are exempt from withholding tax. And, starting 1 January 2014, the above-mentioned treatment also applies to non-EU companies unless the interest or royalties are paid by a company in which the company holds shares located in a country or territory recognised by Latvia as a low-tax or tax-free territory (in such case the applicable tax rate is 15%).

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CORPORATE TAX SYSTEM

Tax incentives

There are certain general incentives available in Latvia, including free ports, special economic zones, special depreciation rules for new technology equipment, and investment in agriculture. Here are some other general tax incentives:

1 Tax incentive

The acquisition or manufacturing cost of new production equipment may be multiplied by 1.5 for tax depreciation purposes. This rule applies to fixed assets acquired between 2009 and 2020.

2 Tax incentive

A company may deduct the profit realised on the disposition of a fixed asset if it acquires a functionally similar asset at any time within a period beginning 12 months before the date of disposition and ending 12 months after the date of disposition. The amount thus deducted is also deducted from the acquisition cost of the new asset.

3 Tax incentive

Starting from 1 January 2017 the new Startup regime has been introduced. The purpose of Startup supporting regime is to promote incorporation of startups in Latvia, ensuring innovative business development and research in the private sector by granting favourable conditions to investors and providing opportunities for development of innovative solutions with high added value in Latvia under highly competitive market conditions.

Allowance for the first 5 years:

- Fixed social security contributions for employee calculated from a fixed payment object - 2 minimum monthly salaries regardless of the actual salary + 10% payment from difference between the calculated gross income of employee and fixed payment object in state pension insurance or in private pension scheme

OR

- *De minimis* state aid up to EUR 200 000 - to attract highly qualified employees
- Related tax benefits:
  - Employee is entitled to personal income tax relief for income received from Startup
  - Tax relief for corporate income tax up to 100% (if the state aid is less than EUR 200 000), not applicable to fines, penalties, expenses not related to business, etc.
- Total state aid for 3 years does not exceed EUR 200 000.

CORPORATE TAX SYSTEM

4 Tax incentive

Qualifying investments are eligible for a tax credit in the year the investment project is completed, as follows:

- 25% of the total initial amount for investments not exceeding €50 million (USD 53.95 million)
- 15% of the total initial amount for investments from €50 million (USD 53.95 million) up to €100 million (USD 107.9 million)
- 11.9% of the total initial amount for investments from EUR 100 million (USD 107.9 million).

The project should be approved by the Minister of Economic Unused tax credits can be carried forward 16 tax years.

For property belonging to an investor, when leased, it should be a long-term lease of at least 13 years and the rights should be registered in the Land Register.

- Buildings and structures must be used in Latvia for at least 10 years; machinery and equipment for at least five years – beginning in the tax year in which the investment project was completed.

An investment qualifies when:

- The initial investments totals at least € 10 million (USD 10.79 million)
- The total initial amount is invested within five years of the date the Cabinet approved the investment aid
- The investment is made in a "priority sector", as defined in Council Regulation (EC) 1893/2006 amending Council Regulation (EEC) 3017/90
- The investments result in a fundamental change of business processes, the opening or upgrading of existing operations, or their expansion.

5 Tax incentive

From 1 July 2014, a CIT relief for research and development has been introduced, which allows reducing the taxable income by a number of expenses incurred multiplied by a coefficient 3, but only if directly relevant to labour costs, research services and the acquisition of specialised scientific institutions and the development of economic activities.

CORPORATE TAX SYSTEM

Microenterprise Tax

A microenterprise may be a sole proprietor, sole proprietorship, a farmer or fisherman, an individual who registered with the State Revenue Service as an entrepreneur, or a limited liability company that meets the following criteria:

- All its shareholders are natural persons
- Its turnover in a calendar year does not exceed EUR 100 000 (USD 107 900)
- The number of employees does not exceed five at any time.

The maximum remuneration per employee (including for the company owner himself) is EUR 720 (USD 777) per month. If the remuneration exceeds more than EUR 720, then the tax rate for the remuneration's excess part is 20%.

The tax rate on a microenterprise is 12% having turnover till EUR 7000 (USD 7553) and includes:

- Social security contributions, personal income tax (PIT) and the business risk fee for employees
- Corporate income tax (CIT), if the microenterprise is a CIT-payer
- PIT for microenterprise shareholders on their personal activity income (in other words, not on dividends).

The tax rate for a microenterprise having turnover from EUR 7000.01 to EUR 100 000 (from USD 7553 to USD 107 900) is set at 15%.

If the turnover for a microenterprise exceeds EUR 100 000 (USD 107 900), then the tax rate is 20% for the turnover's excess part. Starting from the taxation year 2018 the tax rate for turnover till EUR 100 000 will be set at 15%.

Thin capitalisation

Interest is not deductible to the extent it exceeds 1.57 times the average annual short-term credit rate.

To the extent that a company's interest-bearing debt exceeds four times its equity capital (so-called excess interest), the excess interest is treated as non-deductible and is re-characterised as a dividend and is taxed accordingly.

The rule related to excess interest does not apply to the interest on loans obtained from a financial institution meeting both of the requirements listed below:

- It is registered in the Republic of Latvia or in another Member State of the European Union or in a country with which Latvia has concluded a convention or a double tax treaty is in force
- It provides credit or financial lease services, and it is supervised by the financial supervisory authority.

CORPORATE TAX SYSTEM

Transfer pricing

Transfer pricing rules apply to residents and non-residents if they are deemed to be related parties. The tax authorities can adjust prices according to market values if goods within a transaction between related parties are sold below market price or bought above market price. As of 2013 companies are required to keep a full set of transfer pricing documentation if the net turnover of the company exceeds EUR 1 430 000 (USD 1 542 970) and the amount of transaction with related company exceeds EUR 14 300 (USD 15 430). An advance pricing agreement procedure is available.

Controlled foreign companies

Latvia has controlled foreign companies (CFC) legislation only for individuals. However, as already noted, a withholding tax of 15% is imposed on payments made by Latvian companies to entities or individuals registered or domiciled in the low-tax or tax-free jurisdictions. Certain exceptions apply. Individuals have to declare and pay personal income tax on the distributed profit of companies registered (established) in tax haven jurisdictions.

Returns and payments

A company's corporate income tax return is generally due within four or seven months of the year-end, so for companies with the calendar year-ends, returns are generally due no later than 30 April or 31 July. Four months is the time period for small companies; seven months is the period for medium-sized and large companies. For this purpose, a medium company is one in respect of which any two of the following indicators is exceeded for the period of account in question:

- Total assets: EUR 4 000 000 (USD 4 316 000)
- Net turnover: EUR 8 000 000 (USD 8 632 000)
- The average number of employees in the reporting year: 50.

Different due dates may apply to credit institutions, insurance companies, and savings and loan institutions.

The payment of any tax outstanding is due no later than 15 days after the filing date, hence no later than 15 May or 15 August, in most cases.

However, most companies must also make monthly payments on account. These are due and payable by the 15th of every month.

VALUE ADDED TAX

Taxable entities

For value added tax (VAT) a taxable person is any person who, independently, carries out in any place any economic activity, whatever the purpose or results of that activity. The VAT paid may be deducted from the VAT invoiced on deliveries of goods and services provided. A person must be registered in the SRS Register of VAT Taxable Persons within 5 working days of the date of submission of the application.

Taxable activities

As a general rule, value added tax is imposed on all supplies of goods and services that take place in Latvia. VAT is payable on every transaction involving the supply of goods and services for consideration, also on the importation of goods, the intra-Community supply of goods, the intra-Community acquisition of goods, and on the acquisition of new means of transport by non-taxable persons in the territory of the European Union.

Standard, reduced and zero rates

The standard VAT rate is 21% while the reduced VAT rate of 12% applies to certain services and goods, such as some medicines and medical equipment, infant food, internal public transport, the supply of domestic heating and natural gas, books, magazines and newspapers.

The 0% rate applies to the export of goods and to intra-Community supplies, international passenger traffic, supplies of vessels, supplies of goods to vessels, etc.

VAT registration

Persons from the Republic of Latvia register in the SRS Register of VAT Taxable Persons based on the following conditions:

- For natural persons, according to their declared place of residence
- For legal persons, according to the address of their registered office.

All businesses whose taxable annual turnover equals or exceeds EUR 50 000 (USD 53 950) of supply of goods and services of acquisitions of goods in the territory of the European Union exceeds EUR 10 000 (USD 10790) in 12 months must register with the SRS Register of VAT Taxable Persons. Businesses with a lower turnover may register voluntarily.

No threshold is applicable to foreign companies; they are obliged to register as soon as they are engaged in taxable transactions in Latvia.

VALUE ADDED TAX

Place of supply, acquisition and import within the European Union

Place of supply

If the goods are dispatched or transported from one Member State of the European Union to another Member State of the European Union, the place of supply is the Member State of the European Union in which the dispatch or transportation of the goods commences.

The place of supply of installed or assembled goods is the Member State of the European Union in which the goods are installed or assembled.

Reverse charge

Latvia applies the domestic reverse charge mechanism for several industries:

- Supply of timber and related services
- Supplies of scraps and related services
- Construction services
- Supplies of mobile phones, laptops, tablets and integrated circuit
- Supplies of cereals and industrial crops
- Supplies of unwrought precious metals, precious metal alloys and metal clad with precious metals.

Place of acquisition

The place of acquisition is the Member State of the European Union in which the dispatch or transportation of the goods ends.

The place of acquisition of a new means of transport is the Member State of the European Union in which the means of transport is registered.

Place of import

The place of import of goods in the territory of the European Union is that Member State of the European Union in which the customs procedure for the release of goods into free circulation is ended (concluded).

VALUE ADDED TAX

Place of supply, acquisition and import within the European Union

Importation of goods

According to the Value Added Tax Law, the import of goods means the importation of goods into the territory of Latvia from a third country or a third territory.

A third territory is:
- A part of the European Union customs territory: Mount Athos, the Canary Islands, the overseas departments of the Republic of France, the Aland Islands, the Channel Islands
- The European Union, non-EU Customs territory: the Island of Helgoland, Buesingen Territory, Ceuta, Melilla, Livigno, Campione Italy (Campione d'Italia), the Italian waters of Lake Lugano.

The term "third country" applies to states that are not a Member State of the European Union.

Intra-Community trade

Intra-Community supplies and acquisitions are those made between taxpayers in Latvia and another EU Member State. Subject to certain exceptions, intra-Community supplies are VAT-exempt with the right of deduction (that is, zero-rated).

If the services are rendered by a Latvian taxable person to a taxable person in another EU Member State, the recipient of the services must account for the VAT due. If the services are rendered by a Latvian taxable person to a non-taxable person of another EU Member State, the VAT is due by the supplier of the services. Exceptions from the above exist for the following services:
- Services associated with immovable assets, the reloading and storage of goods, as well as other services associated with transportation
- Services associated with movable (tangible) property (including valuation, repair and maintenance), except for the leasing of such property
- Intermediary agent services in the territory of the European Union
- Transportation services
- Catering services
- Culture, education, sport.

VALUE ADDED TAX

Non-deductible input VAT

A taxable person is not entitled to deduct input VAT if the relevant goods or services were purchased for a purpose other than business. In the case of the VAT paid on the purchase of petrol for a car used for the purposes of a taxable person's business, 80% is deductible from output VAT (20% of VAT is not deductible as input VAT). This rule does not apply to operational transport, taxis, and similar cars.

VAT returns and payment

Subject to some exceptions (see above), the taxable period is one calendar month. A taxable person must pay the excess of output VAT over deductible input VAT for the taxable period within 20 days after the end of the period. If the input VAT exceeds the output VAT, the taxpayer may apply for a refund.

VALUE ADDED TAX

VAT refunds to foreign taxable persons

The conditions for a foreign taxable person to receive a refund of Latvian VAT, according to the procedure under the Eighth or Thirteenth VAT Directives, are:

- The taxable person must not be engaged in economic activities that have to be registered in Latvia
- The taxable person must not have performed taxable transactions in Latvia for which the person is required to register in Latvia for VAT
- The VAT must actually have been paid
- The foreign taxable person must electronically apply for the refund of VAT paid in Latvia.

The minimum amount for which a claim may be made is:

- If the refund is claimed for a period of three months or more, but less than one calendar year, the total amount refundable must be not less than EUR 400 (USD 432)
- If the refund is claimed for one calendar year or for the remaining part of a calendar year (the last two months of the calendar year), the minimum amount of VAT is EUR 50 (USD 54).

Time limits within which an application for a refund must be made are as follows:

- If the refund is claimed for the period of one calendar year or for the last months of the relevant year or for a period of not less than three months and does not exceed once the calendar year, in both cases the application must be filed within nine months of the end of the tax year, e.g. for taxation year 2016 the application must be filed within 30th of September, 2017.

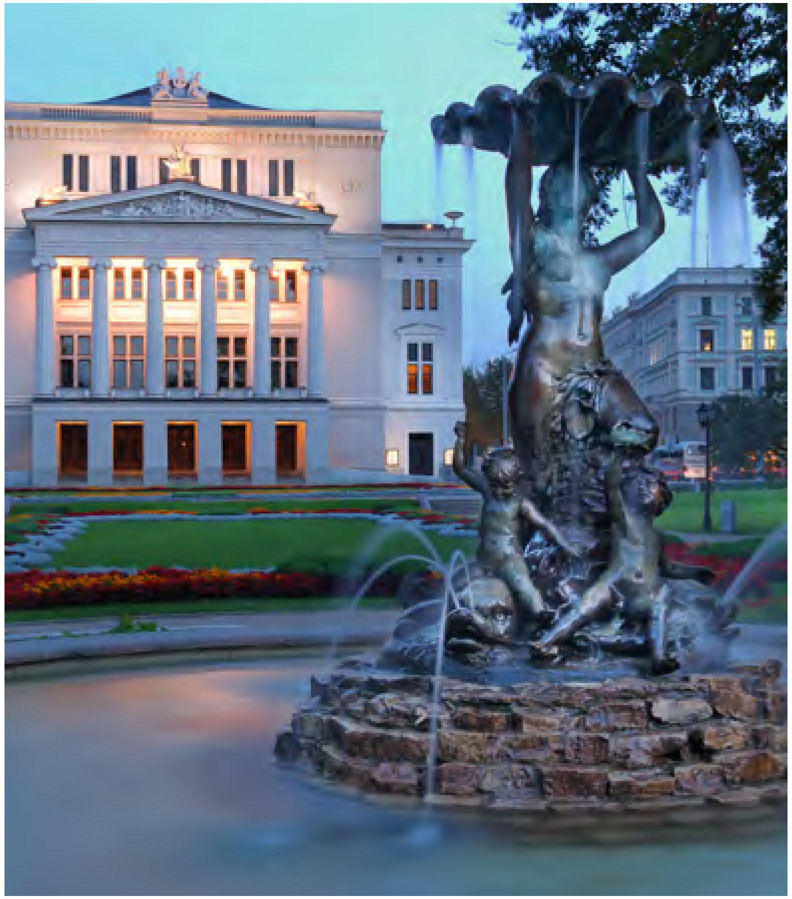
VAT is not refundable in the following situations:

- For the acquisition of unused real estate and services received in relation to the construction, reconstruction, renovation, restoration or repair of real estate
- If the invoices do not conform to the requirements of the Value Added Tax Law
- For goods purchased and services received for personal use
- By travel companies and agencies that perform activities in compliance with section 13 of the Value Added Tax Law (corresponding to Article 306 of the VAT Directive 2006/112/EC – the Tour Operators' Margin Scheme).

TAXES ON INDIVIDUALS

Income tax

Individuals who are residents of Latvia for tax purposes are subject to personal income tax on their worldwide income. Non-residents are subject to Latvian income tax on their Latvian-source income only.



Tax rates

There is a single flat rate of income tax of 23%.

Reduced tax rate 10% is applied in these situations:

- Income from capital
- Income from economic activities if the taxpayer has used the rights not to register economic activities
- Income from timber and the alienation of growing forest.

Reduced tax rate of 15% is applied to income from capital gain, it is:

- Income from the alienation of an immovable property
- Income from the alienation of stocks, capital shares, co-operative shares, investments in a partnership and other financial instruments
- Income from the alienation of investment certificates of investment funds and other transferable securities
- Income from the alienation of debt instruments (promissory notes, certificates of deposit, short-term debt instruments issued by commercial companies) and other monetary instruments
- Income from the alienation of an undertaking within the meaning of the Commercial Law
- Income from the alienation of objects of intellectual property
- Income from the alienation of investment gold and other precious metals.

Additional tax rate of 22% is applied to income comparable to loan if, in the day when the loan has been received, it is received by the employee, a member of the board or member of the council.

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TAXES ON INDIVIDUALS

Territoriality and residence

Under the Taxes and Duties Law, an individual is considered to be resident in Latvia for tax purposes if he or she meets at least one of the following conditions:

- He or she has a declared abode in Latvia
- He or she is present in Latvia for more than 183 days in a 12-month period, or
- He or she is a citizen of Latvia and is employed abroad in the service of the Latvian government.

Double taxation treaties may provide more favourable treatment. The treaty provisions concerning residence will also prevail over the domestic definition of residence.

TAXES ON INDIVIDUALS

Taxation of employment income

Employment income consists of wages, salaries, bonuses, single or systematic compensation and other income and benefits that an employee receives as a result of his or her current or previous employment with: a company, cooperative association, European Company, European Cooperative Association, European Economic Interest Grouping, state or local authority, association, foundation, individual undertaking, farming or fishing enterprise, or organisation, or with a natural person (including a sole trader). It also includes remuneration for service in the civil service, consideration for the performance of any other type of contract of employment, and benefits. Employee benefits include cost of living allowances, use of a company car, medical care, lunch vouchers, benefits received on stock options, etc.

Employment income also includes fees for service as a director of an executive or supervisory board, and remuneration paid to an elected or appointed officeholder.

Benefits are normally valued at their market value or at the cost to the provider. Certain employee benefits/allowances are exempt from taxation, however.
These include:

- Reimbursements for business-related expenses
- Premiums paid by the employer on the employee's behalf to an approved pension plan or life policy provided that they do not exceed 10% of the employee's gross salary
- Premiums paid on behalf of the employee to a term insurance, health or accident policy, provided that they do not exceed the lower of 10% of the employee's gross salary and EUR 426.86 (USD 461) if the certain conditions are met:
  - the insurance agreement (with accumulation of funds) is not shorter than 5 years
  - the insurance agreement (without accumulation of funds) is not shorter than 1 year
  - insurance agreement conditions state that the reimbursement for the accident will be paid out to the insured person, other sums related to this agreement will be paid to the employer and does not state giving loans to insured person.

Foreigners working in Latvia for a non-Latvian employer must register with the tax authorities, and either the employer or the foreigner must, on a monthly basis, pay personal income tax based on their monthly salary.

Foreign nationals with an employment contract with a Latvian employer are fully and immediately liable to Latvian income tax and social security contributions, subject to any contrary provisions of a double tax treaty, social security agreement, or the EC social security regulations.

TAXES ON INDIVIDUALS

Salary tax

Employers must withhold income tax, social security contributions and Solidarity tax from an employee's salary and wage payments.

Employment or self-employment

Self-employed persons are taxed at the same rate as normal employment income. A minimum payment of EUR 50.00 (USD 54) for a self-employed is introduced as from January 2014, if in the taxation year no taxable income from an economic activity is obtained or the estimated amount of tax does not exceed EUR 50.00 (USD 54).
This does not apply to:

- Taxpayers, who made PIT or social security contributions ("SSC") for employees or social contributions for themselves as self-employed
- The first year of economic activity and for the next tax year, and for the year of liquidation.

Taxation of personal business income

Income from a business, where not subject to corporate income tax, is taxed in one of two ways:

- At the standard rate on income fewer expenses related to business, or
- Microenterprise tax that is paid instead of income tax.

Income from a business

Business (economic) activity for this purpose includes any activity the purpose of which is to manufacture goods, perform work, carry on a trade, or provide services, for consideration. It also includes activity connected with a contract for services, profession, the management of immovable property, the business of a commercial agent, a broker, and a sole trader, as well as the taxpayer's individual undertaking (including farming and fishing enterprises).

The income-minus-expenditure basis

Income and expenditures are calculated on a cash basis, that is, only income actually received and expenditures actually incurred in the tax year are taken into account. For taxpayers on the cash basis, the expenditures that are deductible are prescribed in the IITA. Those taxpayers who are obliged under the Accounting law to keep double-entry books (broadly speaking, those with a turnover of EUR 300 000 (USD 323 700), and those who have chosen to do so, must prepare their accounts on an accruals basis and compute their taxable profits in a manner analogous to that prescribed for companies by the Corporate Income Tax Law.

Losses

Taxpayers on the income-minus-expenditure basis may carry losses forward for a maximum of three years (six years if the business is located in an assisted region and is of an approved type). There is no carry-back of losses.

TAXES ON INDIVIDUALS

Taxation of investment income

Dividends

Dividends are taxed at 10%. Interim dividends are also taxed at 10%.

Interest

Interest and similar income are taxed at 10%. Interest from mortgage bonds and interest from government or local authority bonds from Latvia or another EU Member State or an EEA state is exempt.

Royalties

Income from the use or right to use intellectual property is taxable. This includes income from patents, literary and artistic copyrights, know-how, etc. Flat-rate deductions of between 15% and 40% may be available.

Property income

Income from the exploitation of movable or immovable property is taxable for both residents and non-residents. The tax rate is 15% from capital gain. The capital gain is calculated as the difference between the sales price minus the acquisition value.

Capital gains

Capital gains are taxed at 15%.

Deductions and allowances

There are limited deductions under Latvian law. The following are deductible:

- Mandatory social security contributions
- Donations to charitable organisations (within certain limits)
- Educational and medical expenses (limited in either case to EUR 213,43 (USD 230) per year for the taxpayer and each dependent)
- Contributions to private pension schemes and insurance premiums (within certain limits).

Non-resident taxpayers and individuals who are resident for less than six months in a tax year are only allowed the deduction for social security contributions.

TAXES ON INDIVIDUALS

The taxation of non-residents

The IITA specifies the following Latvian-source income of non-residents as taxable in Latvia:

- Employment income from performed activities in Latvia for an employer who is not a resident of Latvia or who does not have a permanent representation office in Latvia
- Income from professional activities performed for Latvian residents or for Latvian permanent establishments of a non-resident
- Income from the professional activities of artists, sportspeople or trainers, whether accruing to the artists, etc., directly or to another natural or legal person
- Income from employment
- Income as a director of a Latvian company or cooperative association
- Rental income from movable or immovable property
- Agricultural and forestry income
- Metal scrap income
- Investment income
- Dividends
- Interest and similar income
- Income from the alienation of immovable property, as well as other capital gains excluding income from the alienation of financial instruments
- Income from a partnership registered in Latvia
- Income in the form of a liquidation distribution from a Latvian company or cooperative association, to the extent that this exceeds a normal dividend
- Payment for intellectual property
- Benefits under insurance policies taken out by employers or others
- Pensions paid under Latvian law
- Income from investment of payments in private pension funds
- Payments from supplementary pensions derived from employer contributions to licensed private pension schemes
- An increase in the value of immovable property or a part of it
- Loans equalised to income; and
- Income caused by reduced loan interest payments.

There are no special schemes for expatriate employees.

TAXES ON INDIVIDUALS

The taxation of non-residents

Withholding taxes

Table below shows the rate of withholding taxes imposed on the income of non-resident individuals. In all cases where there is a withholding tax, it is final, and consequently, in most cases, the non-resident is relieved of the obligation to file a tax return. Tax treaties may reduce or eliminate the withholding tax.

Where payments are made directly or indirectly to persons located in a tax haven (see Table 3 above), the rate is uniformly set at 23%, unless the payer of the income can prove that no intention to avoid Latvian tax is present.

Type of income or payment	Rate of withholding tax (%)
Employment income	23%
Professional income	23%
Income of artists, sportspeople and trainers	23%
Directors' remuneration	23%
Dividends	10%
Capital gains	15%
Interest income	10%
Income from alienation of immovable property	2%
Tax income from the sale of forest and timber obtained from it	10%[1]
Other taxable income	23%

Note

[1] 10% rate is applied to the owners of the forest, whereas intermediaries are taxed according to the provisions of economic activity.

TAXES ON INDIVIDUALS

Returns and payment

Returns

If there is an employment relationship, the taxable period for individual income tax is one calendar month. Otherwise, the taxable period is the calendar year.

In most cases, the tax on personal income is withheld at source, which is why most individuals are normally not required to submit returns.

A resident individual is required to submit an annual tax return only in the following situations:

- If, during the taxable period, he or she received income from Latvia for which tax was not withheld at source; or
- His or her exempt income exceeds more than EUR 4 000 (USD 4 316).

The normal due date for filing a tax return is 1 June following the taxable year. There is a penalty for failing to file a tax return on time.

Payment

The balance of any tax due (after deducting salary tax and other tax withheld at source) is due and payable 15 days after the tax return is due (normally, therefore, 16 June). However, if the balance due is greater than EUR 640 (USD 691), the taxpayer may pay the amount due in three equal instalments (no later than 16 June, 16 July, and 16 August).

Personal property declaration

Every Latvian tax resident must file a personal property declaration. When an individual becomes a tax resident, he/she must file a return by 1 June of the next year. The return contains a detailed list of all assets and liabilities of the resident that each exceeds EUR 14 230 (USD 15 354). This is an information return only; there are no tax consequences attached to this return.

Appeals

The appeal procedure is identical to that for corporate taxpayers.

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OTHER TAXES

Real estate tax

Real estate tax is imposed on companies and individuals owning real (immovable) property in Latvia. The amount of the tax is 1.5% of the cadastral value of the immovable property for land and buildings used in the commercial activity. Exempt property includes land in a specially protected area on which economic activity is prohibited by law and heritage property.

Taxable objects are residential apartments and buildings, auxiliary buildings with an area exceeding 25 m², garages (rates vary), land, commercial buildings, technical buildings, toll parking lots (rate 1.5%) uncultivated agricultural land, slums (rate 3%). The minimum tax is EUR 7 (USD 7.55) per object.

The rate applied to apartments and buildings depends on the cadastral value of the object, as follows:

- Less than EUR 56 915 (USD 61 411): 0.2%
- Between EUR 56 915 – EUR 106 715 (USD 61 411 - USD 115 145): 0.4%
- More than EUR 106 715 (> USD 115 145): 0.6%.

Local authorities may tax toll parking lots and slums at their own discretion by issuing binding regulations. Local authorities may also cap the tax payment increase for land or opt not to increase the tax payment at all, or grant relief of up to 90% for certain categories of taxpayers. Real property tax is payable quarterly – no later than on 31 March, 15 May, 15 August, and 15 November – in the amount of one-fourth of the annual sum owed. The tax can also be paid in a lump-sum annual advance payment.

OTHER TAXES

Excise duty

Excise duty legislation regulates harmonised excise duties on alcoholic beverages, tobacco, energy products and electrical energy, and non-harmonised excise duties on coffee and non-alcoholic beverages (except natural juices and mineral water).

General provisions

For warehouse keepers, approved traders, and tax representatives, the taxable period for the duty is one calendar month.

The persons liable to pay duty are:

- Importers
- Warehouse keepers in the cases prescribed by the Law
- Registered traders, non-registered traders, distance sellers or representatives of dutiable persons as prescribed by the Law
- Persons that bring into Latvia, or that receive from another Member State, excisable goods that have already been released for free circulation in another Member State; and
- Other persons as prescribed by the Law.

Dutiable persons must pay the duty on excisable goods imported from third countries into Latvia for release into free circulation before presenting the excisable goods at a customs authority one calendar month before, or within five working days of the day when the goods were received from EU countries, or at on the border upon importing excise goods from non-EU countries.

Customs duties

There are customs duties imposed on goods imported from non-EU countries. The rates vary depending on the type of goods.

OTHER TAXES

Vehicle taxes

As on 1 January 2017, the road tax is based on a number of CO_2 emissions for the cars with first registration date after December 31, 2008.

If CO_2 emissions cannot be determined, the tax is paid by adding tax rates for the total mass, engine capacity and maximum power of the engine for the vehicle.

Company car tax

Companies are owning or holding cars and allowing private use of company cars are subject to a company car tax.

The private use of a company car is taxed at the level of the company, not the person(s) using the car.

The tax is calculated as follows:

- For cars registered after 1 January 2005:
  - If engine capacity < 2.000 cm^3: EUR 29 (USD 31) /month
  - If engine capacity between 2.001 cm3 and 2.500 cm^3: EUR 46 (USD 50)/month
  - If engine capacity > 2.500 cm^3: EUR 62 (USD 67)/month
- For electromobiles: EUR 10 (USD 11)/month; and
- For all other cars: EUR 46 (USD 50)/month.

The tax is based on the number of months a car was used during the tax year. It is payable at the time of the technical inspection. Emergency vehicles, taxis, demonstration vehicles, and car rental companies are not subject to this tax, nor are vehicles that are exclusively used for business purposes. Exclusive business use must be demonstrated in a log detailing the vehicle's registration number, the make, model, engine size, and the route followed, as well as the start and end times. This "route control system" is a GPS-based system.

Road tax for a vehicle registered abroad

Road tax for using a category M1 and N1 vehicle registered abroad must be paid by the person whose declared place of residence is in Latvia

- Payer - driver of the vehicle
- Road tax can be paid using CSDD E-services by identifying the vehicle and its driver.

Tax is paid according to the time of use in Latvia:

- for a day – EUR 10 (USD 11);
- for a month – EUR 250 (USD 270);
- for six months – EUR 600 (USD 647);
- for a year – EUR 1000 (USD 1079).

Road User Charge (vignette)

The Road user charge is payable in the territory of Latvia since 1st of July, 2014. The charge is paid for the use of sections of the main state and regional roads (except for crossing them, including on roundabouts) by commercial vehicles whose gross weight exceeds 3000 kilograms and by commercial vehicles and combinations thereof, the gross weight of which exceeds 3500 kilograms and which are intended or are used for the carriage of goods by road.

SOCIAL SECURITY CONTRIBUTIONS

Introduction

Mandatory contributions into the sickness, pension, unemployment, maternity, and parental insurance funds are payable by employers and employees, as well as the self-employed.

The maximum annual contribution is capped at an income of EUR 52 400 (USD 56 540) in 2017.

Employee contributions

Employers deduct employees' contributions from their salary payments. The employees' contribution rate is 10.5% of gross salary. For resident employees employed by a non-resident employer the rate is 34.09%, except where the employees have their permanent abode in an EU or EEA country or Switzerland, and who are liable to Latvian social security contributions under the terms of the EC Social Security Regulations, in which case the same rates apply as in the case of those employed by Latvian employers.

Employer contributions

The effective rate is 34.09% (employee 10.5% + employer 23.59%).

Self-employed contributions

The standard social security contribution rate for 2017 is 31.13%. Self-employed persons may freely choose the amount of income on which they make contributions, subject to an annual minimum of 12 minimum monthly wages, which in 2017 is EUR 4560 (USD 4920).

SOLIDARITY TAX

Starting from the 1st January 2016 a new tax is implemented in Latvia – Solidarity tax.

The taxpayers are employers and employees, as well as the self-employed persons, i.e. all payers of social security contributions. The Solidarity tax is payable in the same tax rate as social security contributions, but if the income exceeds the maximum income for social security contributions' purposes, i.e. in 2017 - EUR 52 400 (USD 56 540) per year.

APPENDIX I

Withholding taxes

Table shows withholding tax rates for non-resident legal entities that are applicable if a double tax treaty does not state otherwise.

Type of payment	EU or EEA recipient	Third-country recipient
Dividends	0%	15%[1]
Interim dividends	0%	30%[2]
Interest	0%	5% / 15%[3]
Royalties	0%	15%[4]
Rent	5%	5% / 15%[5]
Goods	0%	15%[6]
Securities	0%	0% / 15%[7]
Remittances of partnership profits	15% / 23%[8]	15% / 23%[8]
Management and consultancy fees	10%[9]	10% / 15%[9]
Proceeds from the alienation of Latvian immovable property[10]	2%	2%

Notes

[1] Dividends paid to a non-resident company located in a country or territory recognized by Latvia as a low-tax or tax-free territory will be subject to withholding tax at a rate of 15%.

[2] Starting from 2014 it is allowed for companies to distribute interim dividends, Withholding tax at a rate 30% is applied to dividends distributed to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory.

[3] Starting from 2014 the zero rate applies for a third-country recipient unless the recipient company is located in a country or territory recognized by Latvia as a low-tax or tax-free territory (in such case the applicable tax rate is 15%) or 5% if the interest payment is made by a credit institution registered in Latvia).

[4] As from 1 January 2014 the rate is zero unless the royalties are paid to a recipient in a territory that Latvia recognises as a low- tax or tax-free territory (in such case the applicable tax rate is 15%).

[5] Tax at a rate of 15% from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory shall be withheld.

[6] Tax at a rate of 15% from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory shall be withheld in case the goods are not acquired at market price.

[7] No tax shall be withheld on securities traded in the EU or EEA from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory, in case the securities have been acquired at market price. Tax at a rate of 15% from payments to the recipient company located in a country or territory recognized by Latvia as a low-tax or tax-free territory shall be withheld in case the securities are not acquired at market price.

[8] In case the partner is a legal entity, the withholding tax amounts to 15%; the rate is 23% if the partner is a private individual. In all cases, if the payments are made to persons resident in a tax haven, the rate of withholding tax is 15%, unless the State Revenue Service has confirmed that the transaction has not been entered into with the purpose of avoiding Latvian tax.

[9] Not taxable when stipulated in a tax treaty. If paid to a recipient in a territory that Latvia recognizes as a low-tax or tax-free territory the applicable tax rate is 15%.

[10] Includes proceeds from the alienation of shares in a company more than 50% of whose assets in the current or immediately previous taxable period consist of Latvian immovable property. If paid to a recipient in a territory that Latvia recognizes as a low-tax or tax-free territory the applicable tax rate is 15%. Return with supporting justification documentation can be submitted to the Latvian tax authorities by the payer and overpaid amount can be requested if the amount is less than the withholding tax applied.

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APPENDIX II

In all cases, if payments are made to a person resident in a low-tax or tax-free territory, the rate of withholding tax is 15% unless the State Revenue Service is satisfied that the transaction has not been entered into with the purpose of avoiding Latvian tax.

The jurisdictions considered as the low-tax or tax-free territories are prescribed by regulation and are listed in table.

Andorra	Ecuador	Macao	St Vincent and the Grenadines
Anguilla	Gibraltar	Maldives	Samoa
Antigua and Barbuda	Grenada	Marshall Islands	San Marino
Aruba	Guam	Mauritius	São Tomé and Principe
Bahamas	Guatemala	Monaco	Seychelles
Bahrain	Guernsey	Montserrat	Tahiti
Barbados	Hong Kong	Nauru	Tonga
Belize	The Isle of Man	New Caledonia	The Turks and Caicos Islands
Bermuda	Jamaica	Niue	The United Arab Emirates
The British Virgin Islands	Jersey	Olderne	Uruguay
Brunei	Jordan	Panama	US Virgin Islands
Cayman Islands	Kenya	Qatar	Vanuatu
Cook Islands	Kuwait	Saint Martin	Venezuela
Costa Rica	Labuan	St Helena	Zanzibar
Curacao	Lebanon	St Kitts and Nevis	
Djibouti	Liberia	St Lucia	
Dominica	Liechtenstein	St-Pierre et Miquelon	

Latvia has concluded a number of double taxation treaties with other countries double taxation treaties with other countries (see Appendix). If a double tax treaty is in force, the most favourable rates are applied.

APPENDIX III

Double Taxation Agreements

Latvia has income and capital tax treaties with the following jurisdictions:

Albania	Estonia	Japan[1]	Netherlands	Switzerland
Armenia	Finland	Kazakhstan	Norway	Turkey
Austria	France	Korea	Poland	Turkmenistan
Azerbaijan	Georgia	Kuwait	Portugal	Tajikistan
Belarus	Germany	Kyrgyzstan	Qatar	Ukraine
Belgium	Greece	Lithuania	Romania	The United Arab Emirates
Bulgaria	Hungary	Luxembourg	Russia	United Kingdom
Canada	Hong Kong[1]	Macedonia	Serbia[2]	United States
China	Iceland	Malta	Singapore	Uzbekistan
Croatia	India	Mexico	Slovakia	
Cyprus	Ireland	Morocco	Slovenia	
Czech Republic	Israel	Moldova	Spain	
Denmark	Italy	Montenegro[2]	Sweden	

Notes:

[1] Not yet in force.
[2] The treaty with the former Republic of Serbia and Montenegro.

Social security treaties

As a member of the European Union, Latvia follows the EEC Social Security Regulations 1408/71 (as amended) as concerns the interaction between its social security system and that of other EEA countries and Switzerland. Latvia also has social security treaties outside the EEA with Australia, Canada, Russia, Ukraine and Belarus.

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ABOUT BDO

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BDO WORLDWIDE

BDO Member Firms are present in the following countries and territories:

Afghanistan	Brazil	Ecuador	Ireland
Albania	The British Virgin Islands	Egypt	The Isle of Man
Algeria	Brunei Darussalam	El Salvador	Israel
Angola	Bulgaria	Estonia	Italy
Anguilla	Burundi	Ethiopia	Ivory Coast
Argentina	Cambodia	Fiji	Jamaica
Armenia	Canada	Finland	Japan
Aruba	Cape Verde	France	Jersey
Australia	Cayman Islands	French Guiana	Jordan
Austria	Chile	Georgia	Kazakhstan
Azerbaijan	China (PRC)	Germany	Kenya
Bahamas	Colombia	Gibraltar	Korea
Bahrain	Comoros	Greenland	Kosovo
Bangladesh	Costa Rica	Guatemala	Kuwait
Barbados	Croatia	Guernsey	Kyrgyzstan
Belarus	Curacao	Hong Kong & Macao	Latvia
Belgium	Cyprus	Hungary	Laos
Bolivia	Czech Republic	Iceland	Lebanon
Bonaire	Denmark & Faroe Islands	India	Liechtenstein
Botswana	Dominican Republic	Indonesia	Lithuania

BDO WORLDWIDE

BDO Member Firms are present in the following countries and territories:

Luxembourg	Nigeria	St Kitts & Nevis	Trinidad & Tobago
Macedonia	Northern Ireland	St Lucia	Togo
Madagascar	Norway	St Maarten	Tunisia
Malaysia	Oman	St Vincent	Turkey
Malawi	Pakistan	Saudi Arabia	Turkmenistan
Malta	Panama	Serbia	Uganda
Mauritius	Papua New Guinea	Seychelles	Ukraine
Mexico	Paraguay	Singapore	The United Arab Emirates
Moldova	Peru	Slovakia	United Kingdom
Mongolia	Philippines	Slovenia	United States
Montenegro	Poland	South Africa	US Virgin Islands
Montserrat	Portugal	Spain	Uruguay
Morocco	Puerto Rico	Sri Lanka & Maldives	Venezuela
Mozambique	Qatar	Suriname	Vietnam
Myanmar	Romania	Sweden	West Bank & Gaza
Namibia	Russia	Switzerland	Zambia
Netherlands	Rwanda	Taiwan	Zimbabwe
New Zealand	Samoa	Tajikistan	
Nicaragua	San Marino	Tanzania	
Niger	Sierra Leone	Thailand	

GLOBAL PERFORMANCE

Core statistics for the BDO network at 30 September 2016

158
COUNTRIES & TERRITORIES

8 %
GLOBAL REVENUES INCREASE

US $ 7.6
BILLION TOTAL REVENUES

1,401
NUMBER OF OFFICES

US $ 7.6
MERGERS NETWORK-WIDE

67,731
GLOBAL HEADCOUNT
OVER **5%** INCREASE YEAR TO YEAR

9 to 1
GLOBAL AVERAGE PROFESSIONAL STAFF TO PARTNER RATIO

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BDO LATVIA

In Latvia the services are provided by AS BDO Latvia and SIA BDO Audit (jointly referred to as "BDO Latvia"). BDO Latvia was founded in 2007, and has achieved significant and consistent growth in the past decade. Our experienced specialists provide high-quality auditing, tax and advisory services for companies, organisations and public sector bodies, leveraging the accessibility and insight gained from a strong local presence, as well as the depth and breadth of resources that can only be found at a leading global accounting firm.

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