Tax Agenda Latvia

January 2024

Building a better working world

No.	Fact	Action
1	**Latvia's Corporate Income Tax (CIT) system** Latvia has a distribution-based taxation regime, meaning that resident companies are not subject to ongoing taxation on their income, but are instead levied corporate income tax when the profit is distributed as dividends or notional distributed dividends. CIT rate in Latvia equals to 20% on gross taxable profit calculated by dividing net profit with coefficient 0.8.	Assess current CIT regime in Latvia when considering investments in Latvia.
2	**EU tax transparency rules (DAC7) in Latvia** As of 1 January 2023, new requirements came into force, imposing obligations on digital platform operators in Latvia to report to the State Revenue Service on sellers earning income there. The first reporting tax period will be 2023, for which information must be provided by 31 January 2024.	Analyze new data reporting requirements in Latvia. Assess whether appropriate internal procedures have been implemented to collect and submit data of the sellers using the platform.

Jan Feb Mar Apr

Use text boxes above the timeline to plan your actions for coming months

Compliance *Risk management* *Cash-flow and ETR impact*

No.	Fact	Action
3	**Mandatory Disclosure Regime (DAC6) in Latvia** The Directive on mandatory automatic exchange of information in taxation concerning reportable cross-border arrangements, known as DAC6, came into force in Latvia starting from 1 July 2020. DAC6 primarily aims to enhance tax transparency and combat potentially harmful tax practices by requiring the disclosure of cross-border arrangements. The Latvian MDR legislation is broadly aligned to the requirements of the Directive.	Determining if there is a reportable cross-border arrangement raises complex technical and procedural issues for taxpayers and intermediaries. Taxpayers and intermediaries who have operations in Latvia should review their policies and arrangements for logging and reporting tax arrangements so that they are fully prepared for meeting these obligations.
4	**Latvia's Special Economic Zones (SEZs) and free ports** Special Economic Zones offer a range of incentives to attract domestic and foreign investment. These zones provide various direct tax and indirect tax benefits. The specific benefits and eligibility criteria may vary among different SEZs and may evolve over time. Latvia has three Special Economic Zones and two free ports.	Evaluate potential eligibility of tax reliefs relevant to a Latvian SEZ and free ports.
5	Tax authority's guidelines on penalties application for transfer pricing (TP) documentation breaches Latvian tax authorities have recently published detailed guidelines on penalty application regarding TP documentation breaches. This shows the tax authorities intention to focus on TP documentation examination. According to the tax authorities TP breach classification, the absence of benchmarking study or benchmarking that does not correspond to Latvian TP laws is considered as significant breach for which the tax authority has the right to apply an administrative penalty in amount of 1% from the total amount of transactions (capped at EUR 100k).	Analyze current TP documentation validity from perspective of tax authorities TP breach classification. Assess whether any improvements are required to comply with the TP documentation rules.
6	VAT law amendments The amendment of the VAT law introduces following changes, effective as of 1 January 2024: • General VAT registration threshold has been raised from EUR 40k to EUR 50k • VAT rate on certain agricultural products specific to Latvia will be raised from 5% to 12% • VAT exemption has been introduced with regards to sports competitions or sports classes organized by associations or foundations • Changes for bad debt rules • Changes to the «representative/luxury car» regulations	Review the amendments and consider the potential impact on the company.
7	CIT law amendments with respect to financial institutions The amendment of the CIT law introduces new rules, effective as of 1 January 2024, relevant for qualifying financial institutions. Financial institutions will be subject to payment of CIT surcharge in amount of 20%. This surcharge can be used for reduction of payable CIT upon dividend distribution.	For financial institutions: analyze the possible obligation to comply with the requirement of CIT surcharge payment.

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8	Excise tax amendments According to recent Excise tax amendments, during a period from 2024 to 2026, excise tax rates will be gradually increased for the following products: alcoholic beverages, tobacco and tobacco substitute products, liquid for electronic smoking devices and related components, for certain oil products used in special economic zones and free ports.	Review the amendments and consider the potential impact on the company.
9	Natural resources tax amendments Natural resources tax law amendments envisage that as of mid 2024, natural resources tax will also have to be paid for textile products, and from 2025 also for balloons and napkins. Additionally, from 2024 there will be increase of natural resources tax on the extraction of minerals, as well as on certain types of waste.	Review whether the listed product types are used in business operations and whether tax changes may impact the company.

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