



Republic of Latvia Tax Card as of 2010

KPMG BALTICS SIA



CORPORATE INCOME TAX

Standard rate (flat) 15%

Tax depreciation rates

Category	Rate
Buildings, constructions, long-term plantations	10%
Railroad vehicles and equipment, ocean and river vessels, fleet and port equipment, energy equipment	20%
Computers and associated appliances, communication equipment, copying machines and related appliances	70%
Oil exploration and production platforms and related equipment, oil research and extraction ships	15%
Cars (retail price < LVL 30,000)	30%
Other fixed assets	40%

The above rates are calculated on a reducing balance basis.

Taxpayers may calculate tax depreciation from a higher initial value of fixed assets (new technological equipment bought in 2009-2013) using a coefficient of 1.5.

Taxpayers may calculate tax depreciation from a higher initial value of intangible investments (patents and trademarks registered after 1 January 2009) using a coefficient of 1.5.

Expenses not related to business activity

Taxable income has to be increased by expenses that are not directly related to business activity, as well as losses that have incurred due to maintenance of social infrastructure objects, using a coefficient of 1.5.

Advance payments

A taxpayer may choose itself to make smaller advance payments if its profit has decreased. If the difference between the calculated tax and the reduced advance payment set by the taxpayer does not exceed 20% of the calculated tax, then the residual tax payment is not considered as a late tax payment and no late interest is applied.

Loss carry forward

Tax losses can be carried forward for up to eight years. Taxpayers registered in Special Economic Zones have a 10-year period.

Withholding taxes on payments to non-residents

Latvia imposes withholding taxes on the following payments made to non-Latvian entities.

Dividends* 10%

Management and consulting services	10%
Interest payments made to related parties	10%
Interest payments made by Latvian registered commercial banks to related parties	5%
Right to use intellectual property rights in respect of literature and artistic works	15%
Right to use other intellectual property rights	5%
Payments for the use of fixed or movable property in Latvia	5%
Proceeds from the sale of real estate or real estate company shares in Latvia.	2%

*0% tax applies if the recipient is a qualifying resident of another EU or EEA country.

Withholding tax rates may be reduced by Double Taxation Treaties (see list at the end).

Withholding tax becomes payable when the payment is made.

Latvia has no separate Capital Gains Tax for companies. All capital gains are taxed as revenue gains.

PERSONAL INCOME TAX

Rates

Latvia imposes a flat rate of 26% on personal income and on income from a self employed individual's commercial activities. An individual can choose to pay fixed tax, if yearly income of his/her commercial activities does not exceed LVL 10,000.

Special rates to particular types of income

- Capital gains (including real estate) – 15%
- Dividends – 10%
- Interest and similar income – 10%
- Income from private pension funds and life insurance agreements with accumulation of funds – 10%

Taxable employee benefits

- Cost of living allowance
- Housing provided by the employer
- Home leave allowance
- Private use of a company car (benefit scales up to LVL 150 per month)
- Private fuel paid by employer
- Private insurance paid by the employer (subject to exceptions)
- Medical care
- School fees
- Reimbursement of travel expenses exceeding statutory limits

- Reimbursement of foreign and/or home country taxes
- Employer gifts
- Gifts from individuals over LVL 1000

Tax-free employee benefits/allowances

Certain approved pension and life/health insurance premiums payments (up to 10% of gross income).

The law also exempts certain types of personal income from tax and provides for the following tax-free allowances:

- General tax free allowance of LVL 35 per month
- Eligible child/dependants allowance of LVL 63 per month

SOCIAL SECURITY

Mandatory social security contributions are payable in respect of gross employment income. There is no maximum annual income threshold.

For individuals employed by a Latvian resident employer or employer from an EU or EEA member state, the contribution rates payable in 2010 are as follows:

- Employer's rate is 24.09%
- Employee's rate is 9%

If the employer is not resident in the EU or EEA, then the social contributions are:

- For Latvian citizens working in Latvia, 33.09% (24.09%; 9%)
- For non Latvian citizens who are in Latvia for more than 183 days, 28.99%

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

VAT

The standard VAT rate is 21%, reduced rate – 10%.

The following are examples of transactions subject to a VAT rate of 0%:

- Export of goods and intra community supplies
- Transport 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

- Tax is not applied (with rights to apply input tax) to services rendered outside Latvia.

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 first sale of unused buildings
- Rental of domestic apartments
- Betting, lotteries and other forms of gambling

The following are examples of transactions subject to a VAT rate of 10%:

- Medicines, medical goods and equipment
- Infant products
- Supply of newspapers, journals, bulletins and other periodicals
- Public transport services within Latvia
- Supply of heating to inhabitants
- Supply of electricity to inhabitants
- Supply of gas to inhabitants, except natural gas for motor vehicles

Starting from 2010:

- The possibility to form VAT groups
- Special tax regime for import transactions
- The possibility to correct input tax by reducing VAT payable to the budget for the amount of tax of the bad debt

VAT compensation to farmers is 14%.

PROPERTY TAX

- For property and land used in business activity and also for the engineering of technical constructions – 1.5% from the cadastral value of the property
- For land not used in agriculture – 3%
- For houses and apartments for inhabitants not used in business activity:
 - 0.1% from the cadastral value if it does not exceed LVL 40,000
 - 0.2% from the cadastral value from 40,000 LVL to LVL 75,000
 - 0.3% from the cadastral value if it exceeds LVL 75,000
- Minimal tax payment for each tax object is LVL 5.

TAXATION TREATIES

In 2010 Latvia has effective Double Tax treaties with the following countries:

Albania	Finland	Luxembourg	Slovenia
Armenia	France	Malta	Spain
Austria	Georgia	Morocco	Sweden
Azerbaijan	Germany	Macedonia	Switzerland
Belarus	Greece	Moldova	The Netherlands
Belgium	Hungary	Montenegro	Tajikistan
Bulgaria	Iceland	Norway	Turkey
Canada	Ireland	Poland	UK
China	Israel	Portugal	Ukraine
Croatia	Italy	Romania	USA
Czech Republic	Kazakhstan	Serbia	Uzbekistan
Denmark	Kyrgyzstan	Singapore	
Estonia	Lithuania	Slovakia	

INVESTMENT INCENTIVES

The main incentives are:

- Corporate income tax and property tax relief for companies registered in a Special Economic Zone or Free Port
- Tax relief for enterprises engaged in agricultural activity

REAL ESTATE TRANSFER DUTY

This duty is payable by the purchaser of immovable property. The rate is 2% of the highest of the purchase price or cadastral value of the property or valuation for mortgage purposes. The maximum tax payable is LVL 30,000. The rate for relatives (children, spouses, parents, sisters, brothers, grandchildren, grandparents) is 0.5% of the real estate value, but not more than LVL 1,000.

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This card was prepared on 1 January 2010 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 2010.

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