

Inguna Abele
Walless, Riga
inguna.abele@walless.com

Recent developments in international taxation: Latvia

The tax system in Latvia

Latvia is located in the northeastern part of Europe. It has been a member of the European Union and the North Atlantic Treaty Organisation (NATO) since 2004, a member of the Organisation for Economic Co-operation and Development (OECD) since 2016, and a member of the Eurozone since 2014.

The Latvian tax system is governed by the Law on Taxes and Duties, which sets the framework for taxation. The application of each tax is determined by specific laws. Tax administration and collection are overseen by the State Revenue Service. The Latvian tax system encompasses various taxes and fees.

Corporate income tax (CIT)

- Under a unique CIT model introduced on 1 January 2018, CIT is payable only when profits are distributed (typically by way of dividends). Retained profits remain untaxed.
- CIT rate is 20 per cent applied to CIT base divided by 0.8, resulting in an effective CIT rate of 25 per cent.
- CIT revenues in Latvia accounted for just 3.3 per cent of total tax revenues in 2022 – the lowest in the EU, where the average revenue was 8.1 per cent (European Commission's Annual Report on Taxation 2024).

Personal income tax (PIT)

- Progressive PIT rates: for a natural person's annual income (including employment and economic activity) up to €105,300 – 25.5 per cent; for the part of annual income exceeding €105,300 – 33 per cent.
- Income from capital and capital gains: 25.5 per cent.
- Additional rate of 3 per cent applies from the total tax year income exceeding €200,000.

Social Security contributions (SSC)

- Employment: the general SSC rate is 34.09 per cent (10.5 per cent employer part and 23.59 per cent employee part).
- Self-employed: 31.07 per cent.

Value added tax (VAT)

- Latvia implements the European VAT taxation framework.
- Standard VAT rate of 21 per cent.
- Reduced VAT rates of 12 per cent and 5 per cent for specified categories of goods and services.

The tax system also includes real estate tax, excise duty, customs duty, natural resources tax, and other taxes and fees. As an EU Member State, Latvia applies both EU regulations and transposed directives.

In 2024 Latvia was ranked second in the International Tax Competitiveness Index published by the Tax Foundation.

Over the past 12 months, Latvia has introduced numerous significant tax changes, including the transposition of EU directives, PIT reform and other substantive legislative amendments. Below is a summary of the key changes to Latvian tax laws as of the date of this report (30 May 2025).

Pillar Two rules in Latvia

On 21 June 2024, the Law on Ensuring a Global Minimum Tax Level for Large Multinational Groups (Pillar Two Law) entered into force. This law partially transposes and implements the provisions of Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the EU.

Latvia has opted to postpone the full implementation of the Directive until 2030 under the six-year deferral option available to certain EU Member States under Article 50 of the Directive. As a result, Latvian entities within multinational groups are not yet subject to the domestic top-up tax but must comply with specific reporting obligations. It was estimated in 2023 that, in Latvia, approximately three parent companies and around 300 subsidiaries and branches will be subject to the new Pillar Two rules (group revenue of €750m).

Latvian group entities must provide necessary information within 12 months after the reporting year to the group entity that is required for top-up tax declaration submission in a particular jurisdiction.

Additionally, a four-year exemption is expected to apply to companies operating under the Latvian CIT distributed profits taxation system, meaning they would be temporarily deemed to meet the effective 15 per cent tax rate requirements of Pillar Two. Future amendments to the Pillar Two Law or a new law will be introduced to ensure the full implementation of the Directive in Latvia by 2030.

PIT-related amendments

Law on Assistance to Ukrainian Civilians

In response to the ongoing Russian aggression against Ukraine, the Law on Assistance to Ukrainian Civilians was adopted in 2022. This legislation outlines various support measures for non-resident Ukrainian civilians, including a tax-free minimum and allowances. As of 1 May, 2025, amendments to the law have increased the tax-free minimum for non-resident Ukrainian civilians from €250 to €510.

No withholding tax on crypto asset sales by non-residents

Between 2025 and 2027, non-residents will be exempt from Latvian withholding tax on income from the sale of publicly traded crypto assets under the Markets in Crypto-Assets (MiCA) Regulation, removing the previous 3 per cent PIT and simplifying the tax process to attract foreign crypto businesses. Previously, a 3 per cent PIT was withheld at source on such transactions, with non-residents able to reclaim it through a refund process.

VAT amendments

VAT for small enterprises

In accordance with Council Directive (EU) 2020/285, amendments to the Law on Value Added Tax entered into force on 1 May 2025, introducing changes to the VAT treatment of small enterprises.

Taxable persons whose annual turnover across all EU Member States does not exceed €100,000 and who have registered under the special VAT scheme for small enterprises may benefit from a VAT exemption in Latvia, provided their turnover does not exceed either the EU-wide threshold of €100,000 or the national VAT registration threshold of €50,000 in Latvia.

Also, as of 2025, the method for calculating Latvia's national VAT registration threshold has changed. The threshold is now assessed on a calendar year basis (versus over a rolling 12-month period previously). It includes both taxable transactions and certain VAT-exempt supplies, such as real estate sales, financial and insurance services. The threshold excludes sales of fixed assets and one-off transactions clearly outside the normal course of business, such as a single real estate sale.

The amended law provides for a transitional period. If the turnover in a calendar year exceeds the €50,000 threshold by no more than 10 per cent (ie, does not exceed €55,000), VAT registration may be postponed until the beginning of the following year. If the turnover exceeds €55,000, VAT registration and payment obligations take effect at the moment the threshold is surpassed.

In addition, as of 1 July 2025, a new regulation enters into force introducing a special VAT registration procedure for taxable persons whose turnover does not exceed the €50,000 registration threshold, but who receive services from VAT payers in other EU Member States or third countries or acquire goods within the EU. These taxable persons will be required to pay VAT only on received services and intra-EU acquisitions, but will not be liable for VAT on their own domestic taxable transactions until they register in the State Revenue Service VAT Register under the standard procedure.

Place of supply VAT rules for events

Council Directive (EU) 2022/542 has been transposed into Latvian law by amendments to the Law on Value Added Tax that entered into force on 1 May 2025. The regulation concerns the place of supply for cultural, artistic, sporting, scientific, educational, entertainment, or similar events: (1) if provided physically, the service is deemed supplied where it is actually carried out, ie, in Latvia; (2) if provided virtually, the place of supply is the place of recipient (both legal and natural persons).

Tax treaties

Status of tax treaties

Latvia has 63 tax treaties in force, including with all EU Member States (as of 30 May 2025).

Tax treaties have been signed with Andorra and Pakistan, but these have not yet entered into force. Latvia has initialled but not yet signed tax treaties with Liechtenstein, Mongolia, Tunisia, and Sri Lanka. Latvia is also in the process of preparing tax treaties with Australia, Jordan, and Lebanon.

The tax treaty with Russia has been terminated as of 1 January 2024.

Latvia and Germany tax treaty amendments

Latvia and Germany signed the Protocol amending the tax treaty, which entered into force on 23 June 2024. The Protocol aligns the treaty with the minimum standards set out in the OECD BEPS Action 6 (Prevent Treaty Abuse) and Action 14 (Make Dispute Resolution Mechanisms More Effective).

The preamble is expressed in a new wording emphasising not only the elimination of double taxation and tax evasion but also the prevention of the improper application of the treaty. The mutual agreement procedure has been enhanced with an obligation for competent authorities to notify or consult each other regarding taxpayer submissions they find unjustified. Additionally, Article 13 (Capital Gains) has been expanded to include new criteria for taxing gains from the disposal of shares in real estate companies.

Multilateral convention and interpretation

On 1 February 2020, the Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force in Latvia. Latvia has chosen to apply only those provisions of the MLI that ensure implementation of the minimum standard under the BEPS Action Plan (included in Actions 6 and 14) in relation to tax treaties. Latvia, considering its specific CIT system, does not currently plan to join the MLI STTR (Subject to Tax Rule), but is instead choosing the second available option – responding to the call by developing countries to begin bilateral negotiations aimed at amending existing tax conventions, including the introduction of STTR provisions.

At least after the adoption of the MLI, Latvian authorities' interpretation is to consider that tax treaties do not prevent Latvia from taxing gains from the sale of shares in companies primarily holding Latvian real estate—even if some treaties (eg, with Lithuania, Luxembourg and the Netherlands) do not explicitly mention such taxation of real estate companies. The interpretation is based on the view that tax treaties should be interpreted broadly to ensure fair allocation of taxing rights and avoid situations where income from real estate escapes taxation in both countries.

Other changes

Solidarity Contribution Law applicable to credit institutions

CONTEXT AND RATIONALE

The Solidarity Contribution Law, which came into effect on 1 January 2025, was introduced in response to ongoing economic and geopolitical challenges, including the lasting impacts of the Covid-19 pandemic and Russia's military aggression against Ukraine. These developments have highlighted the need for sustainable budgetary resources to reinforce Latvia's national security and defence.

At the same time, the profitability of credit institutions in Latvia has significantly increased – driven primarily by rising market interest rates – with 2023 profits growing 2.7 times compared to the 2018–22 average. Although Latvian credit institutions outperform the EU average in capital adequacy, liquidity, and asset quality, lending levels remain low.

To ensure a fair contribution in line with the sector's elevated earnings, the law requires Latvian credit institutions and branches of foreign credit institutions to support the state budget either through (1) direct solidarity contributions; or (2) substantially increasing lending, thereby indirectly enhancing economic activity and tax revenues.

SCOPE AND APPLICATION

The Solidarity Contribution Law introduces a temporary (for 2025, 2026 and 2027) solidarity levy applicable to credit institutions registered in Latvia and branches of foreign credit institutions.

The levy applies at rate of 60 per cent from the solidarity contribution base, calculated as the net interest income that for more than 50 per cent exceeds the average net interest income reflected in the credit institution's financial reports in the five-year reference period (2018–22). The law provides for graduated relief (25 per cent, 50 per cent, 75 per cent, or 100 per cent) from the solidarity contribution, depending on the extent of the credit institution's increase in lending activity during the payment year compared to the previous year.

CIT surcharge applicable to credit institutions

Starting from 2024, credit institutions and consumer credit service providers are required to pay an annual 20 per cent CIT surcharge on their profits, regardless of whether those profits have been distributed.

The measure ensures an accelerated CIT collection from the banking sector. Surcharge for the tax year can be reduced by the amount of CIT already paid on regular dividend distributions (excluding extraordinary dividends). Likewise, when paying CIT on dividends, it can be reduced by the previously paid surcharge.

Transfer pricing documentation in English

Pursuant to amendments to the Law on Taxes and Duties, effective from 1 May 2025, both local and master (global) transfer pricing documentation may be prepared and submitted to the State

Revenue Service in English. Previously, local transfer pricing documentation was required to be submitted in Latvian.

Low-tax or no-tax jurisdictions as of 1 March 2025

Low-tax or no-tax jurisdictions are defined as those included in the revised EU list of non-cooperative jurisdictions for tax purposes, adopted by the Council of the European Union.

As of 1 March 2025, the updated list includes the following 11 jurisdictions:

- Anguilla;
- Guam (US territory);
- American Samoa (US territory);
- US Virgin Islands (US territory);
- Fiji;
- Russia;
- Palau;
- Panama;
- Samoa;
- Trinidad and Tobago; and
- Vanuatu.

There have been no changes to the listed jurisdictions compared to the previous version published on 1 November 2024.

Generally, a 20 per cent withholding CIT applies to payments made by companies to low-tax jurisdictions. If such payments are made by a natural person – resident or non-resident – required to submit an annual tax return, a withholding PIT at the rate of 25.5 per cent applies (the rate was 20 per cent prior to the PIT reform in 2025).