

Latvia

by Valters Gencs

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2011: The Year in Review

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Latvia's tax rates changed in 2011 and affected every citizen, in amounts paid and in prices of goods and services. Latvia's parliament, the Saeima, amended several taxes and duties effective from January 1, 2011.

The personal income tax rate was reduced from 26 percent to 25 percent. Starting in 2011, individuals whose income from capital gains does not exceed €142 per month can annually submit a declaration of income from capital to the State Revenue Service. Also, the personal income tax will not be imposed on unemployed persons for tax years 2010, 2011, and 2012 on income from the European Social Fund's Operational Programme "Human Resources and Employment" in Latvia or from state budget funds for employment measures that have been qualified as scholarships by the State Employment Agency.

The national social security contribution rate was increased to 35.09 percent, effective January 1, 2011. The employer must pay 24.09 percent, while the employee's share was increased from 9 percent to 11 percent.

The property tax law was amended to double the real property tax on housing, which previously had been considered negligible. The tax rate is now 0.2 percent (if the cadastral value does not exceed €57,000), 0.4 percent (on the cadastral value between €57,000 and €107,000), and 0.6 percent (on the cadastral value that exceeds €107,000). The tax rate on land and buildings is 1.5 percent of the cadastral value.

A new tax on vehicle operation and company cars replaces the annual vehicle fee and charge for employer-owned vehicles designated for private use.

The tax varies for cars registered after January 1, 2005, based on the weight of the car, engine capacity, and power. It provides allowances and exemptions for farmers, large families, disabled persons, operational transport, and transport of diplomatic missions.

Excise taxes were increased on fuel containing 5 percent biofuel from €233 per ton to €333 per ton and on lead-free petrol containing 5 percent biofuel from €317 per ton to €383 per ton.

Like many other EU member states, Latvia introduced a financial stability tax on credit institutions. The rate is 0.036 percent per year.

Outlook

Although the minister of finance has ruled out a VAT increase for 2012, rates will be increased in other areas.

Under amendments to the law on taxes and fees, from July 1, 2012, the time limit for current tax payments will be extended from three months to up to one year. Tax payments, late charges, and penalty fees established under a tax inspection may be divided or postponed for up to 18 months, and penalty fees will be reduced. The change, which follows the IMF's recommendations, is intended to reduce the hidden economy and help ensure fair competition.

The financial stability charge will be doubled, increasing from 0.036 percent to 0.072 percent per year.

As part of the Ministry of Finance's proposed property tax reform, the 25 percent property tax growth limit will be repealed starting in 2012. Each local authority will be able to decide whether to limit the property tax and to determine the limit for growth. ♦

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