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Amendments to tax laws 2025 in a spotlight

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→ Amendments to tax laws 2025 in a spotlight

On 06 December 2024 the Law "On the State Budget 2025 and the Budget Framework 2025, 2026 and 2027" was adopted. The state budget package 2025 also includes several draft laws related to amendments to tax laws. We will examine in more detail amendments in tax regulations. In addition we will also examine amendments to the Value Added Tax Law with effect from 1 January 2025.

Amendments to the Law On Personal Income Tax (PIT Law)

Change in PIT

Changes in PIT rates as of January 1, 2025. Annual income up to EUR 105 300 will be subject to the PIT with the rate of 25.5%. For annual income above EUR 105 300, the PIT rate will be 33%.

For annual income exceeding EUR 200,000, an additional rate of 3% will be introduced. The additional rate will include taxable income in the tax base as well as certain exempt capital income (dividends, dividend-like income, notional dividends and liquidation quota).

The personal income tax rate on capital gains has been increased from 20% to 25.5%.

Changes to the tax-free

The changes will replace the graduated tax-free minimum with a fixed tax-free minimum that will apply to all employees regardless of their gross income. The tax-free minimum will be set at EUR 510 per month in 2025.

The tax-free minimum for pensioners will also be increased to EUR 12,000 per year (equivalent to EUR 1,000 per month) as of January 1, 2025.

Other

The scope of employer payments that are exempt from income tax if made in accordance with the terms of a collective agreement has been expanded. The exemption now also applies to relocation, accommodation and transport expenses paid by the employer. The amount of the allowance is set at EUR 700 per employee

The period, during which recipients of royalties may opt not to register as performers of economic activity and have the tax withheld at source by the payer, has been extended until December 31, 2027.

The tax-free amount for employer-paid childbirth and funeral allowances has been increased to EUR 500, and for employer gifts to EUR 100 per tax year.

Amendments to the Law On State Social Insurance

Increase in the object of state social contributions (SSC)

The maximum amount of the object of SSC and voluntary contributions is increased to EUR 105,300 as of January 1, 2025.

Employment income exceeding EUR 105 300 per year is subject to Solidarity Tax

Amendments to the VAT Law regarding the application of the VAT exemption for small and medium-sized enterprises (SMEs)

The substance of the amendments

The most important changes are the entry into force on 1 January 2025 of the so-called "SME Directive" - Council Directive (EU) 2020/285 of 18 February 2020, which introduces significant changes to the application of value added tax (VAT) to small and medium-sized enterprises (SMEs). A new procedure will be introduced, allowing Latvian taxpayers and taxpayers from other EU Member States not to register as VAT payers, i.e., to use the VAT exemption under the SME scheme (the SME VAT exemption), if they meet certain criteria.

It should be noted that previously Latvian taxpayers had the right not to register as VAT payers if the total value of their VAT taxable transactions in the preceding 12 months did not exceed the threshold of EUR 50,000 and the total value of their intra-Community acquisitions of goods carried out in Latvia in the current calendar year was less than EUR 10,000. Until 2025, such

rights were available only to Latvian taxpayers and did not apply to taxpayers from other EU Member States. Thus, if a taxable person from another EU Member State carried out at least one VAT taxable transaction in Latvia or at least one intra-Community acquisition of goods in the territory of Latvia, the taxpayer had to register in the VAT payer register, regardless of the value of the transaction.

With the entry into force of the SME Directive, the conditions concerning the right of Latvian taxpayers and taxpayers from other EU Member States not to register for VAT purposes are equalised.

This means that from 1 January 2025 Latvian taxpayers have also been granted the right to apply the SME VAT exemption in other EU Member States.

In particular, Latvian taxpayers have the right not to register for VAT purposes in other EU Member States if, when carrying out VAT taxable transactions in another EU Member State, the registration threshold (the threshold for applying the SME VAT exemption) set in that country is not exceeded.

The Directive provides that each EU Member State sets its own threshold for the application of the SME VAT exemption, but this threshold should not exceed the maximum threshold of EUR 85,000 set by the SME Directive. In addition, the second EU-wide uniform threshold of EUR 100,000 for the total value of transactions, excluding VAT, carried out by a taxpayer within the EU in the current or preceding calendar year may not be exceeded.

It should be noted that in order to apply the SME VAT exemption in another EU Member State, the taxpayer should register with the tax administration of its home country and obtain a special registration number with code EX (new provision of the VAT Law - Article 139.¹).

The VAT exemption for SMEs does not apply to taxpayers from non-EU countries and their VAT registration procedure does not change.

Similarly, the SME VAT exemption does not apply to Latvian domestic taxpayers and taxpayers from another EU Member States that provide cross-border services for which VAT is payable by the recipient of the service (Article 19 of the VAT Law). These taxpayers are still required to register for VAT purposes before carrying out the relevant transactions.

However, if a Latvian taxpayer or a taxpayer from another EU Member State (1) receives cross-border services, the place of supply of which is Latvia and for which it has to pay VAT as a recipient of services, or (2) if it carries out intra-Community acquisition of goods in Latvia, the taxpayer still is entitled to apply the SME VAT exemption, provided that the other criteria for its application are met, and if this taxpayer is identified under a special procedure with the Latvian Tax Authority (new provision of VAT Law - Article 139.²). In this case, VAT should only be payable for the services received and the goods acquired by submitting a Notification of VAT Payment. Such taxpayers are not entitled to deduct input VAT.

Thus, the introduction of the SME VAT exemption entails two new types of registration.

The introduction of new rules is likely to raise questions about their application in practice. Based on the currently available information, we will look at the most important amendments to the VAT Law that came into force on 1 January 2025.

The right of Latvian domestic taxpayers not to register for VAT purposes

In this section, we will look at the procedures that apply only to domestic transactions carried out by Latvian taxpayers, i.e., those transactions the place of supply of which, according to the VAT Law, is Latvia.

There are still two VAT registration thresholds in force: (1) for domestic output transactions – EUR 50,000 (Article 59 of the VAT Law) and (2) for intra-Community acquisitions of goods carried out in Latvia – EUR 10,000 (Article 57 of the VAT Law).

Although the previous threshold amount for domestic output transactions remains unchanged, the way it should be calculated has changed:

- the threshold should be calculated for transactions made during the calendar year, not the last 12 months;
- the types of transactions value of which should be included in the threshold calculation have changed. The new requirement is that in calculating the threshold, in addition to VAT taxable transactions, certain types of VAT exempt transactions should also be taken into account. The most important of these are real estate transactions, as well as financial and insurance services. Conversely, the value of supplied fixed assets and intangible assets should not be

taken into account when calculating the threshold value.

If the threshold of EUR 50,000 is exceeded but the taxpayer only carries out VAT exempt transactions, registration for VAT purposes is not required.

If the taxpayer's turnover to be taken into account for the calculation of the EUR 50,000 threshold is exceeded by no more than 10% (EUR 5,000) in the current calendar year, the taxpayer is allowed to continue not to register for VAT purposes until the end of that calendar year. Namely, if the taxpayer's turnover for the calendar year exceeds EUR 50,000 but does not exceed EUR 55,000, the taxpayer is entitled to register for VAT purposes from 1 January of the following year.

However, if the taxpayer's turnover has exceeded EUR 55,000 before the time of VAT registration, the taxpayer has to pay VAT on the excess amount. In addition, in this case the taxpayer is obliged to inform the Tax Authority of the exceeding the EUR 55,000 threshold no later than the next working day and the Tax Authority should register this taxpayer in the VAT register on the day on which the taxpayer notified the Tax Authority of exceeding the threshold.

The same applies if the taxpayer fails to complete VAT registration by 1 January of the following calendar year. This taxpayer will have to pay VAT on VAT taxable transactions carried out from 1 January of the following year

When calculating the amount of VAT payable to the State Budget on transactions carried out before the VAT registration, the VAT amount calculated should be included in the transaction value.

If a taxpayer exceeds EUR 55,000 in a calendar year (threshold of EUR 50,000 and additional threshold of EUR 5,000), it has to register as a VAT payer by submitting an application no later than the 15th day of the following month and to pay VAT on the value exceeding EUR 55,000; the VAT calculated should be included in the transaction value.

Unregistered taxpayers that exceeded the new VAT registration threshold in 2024, should register as VAT payers by submitting a VAT registration application to the Tax Authority by 15 January 2025. If the application is not submitted by this date, the taxpayer will be liable to pay VAT on transactions carried out from 1 January 2025.

If the threshold of EUR 50,000 is exceeded in the current calendar year, the taxpayer loses the right not to register as a VAT payer in the following calendar year.

The SME VAT exemption does not apply to taxpayers that provide cross-border services to persons from other EU Member States for which VAT is payable by the recipient of the service. These taxpayers are still required to register as a VAT payers before carrying out the relevant transactions. However, if a taxpayer receives services from a person from another EU Member State or from a non-EU country for which it is liable to pay VAT as the recipient of the service, this taxpayer is entitled to apply the SME VAT exemption under condition that it has been identified for VAT purposes in accordance with the special procedure set out in Article 139.² of the VAT Law.

The provision allowing taxpayers not to register for VAT purposes if the threshold value is exceeded, but no other VAT taxable transactions are planned in the next 12 months and VAT has been paid on the turnover exceeding the threshold, has been excluded from the VAT Law.

There are no significant changes for domestic taxpayers regarding the application of the EUR 10,000 threshold for intra-Community acquisitions carried out in Latvia.

The right of Latvian taxpayers not to register for VAT in another EU Member State (to apply the SME VAT exemption in another EU Member State)

Both Latvian taxpayers registered for VAT purposes and non-registered VAT taxable persons are entitled to apply the SME VAT exemption in other EU Member States.

A Latvian taxpayer is entitled not to register for VAT purposes in another EU Member State in connection with supplies of goods and services carried out there, i.e., to apply the SME VAT exemption in another EU Member State, if in the calendar year:

- the total value of the supplies of goods and services, excluding VAT, made in another EU Member State has not exceeded the threshold for SME VAT exemption set by the relevant EU Member State; and
- the total turnover in the EU (all EU countries, including Latvian domestic supplies of goods and services), excluding VAT) has not exceeded EUR 100,000.

The calculation of these thresholds follows the same principle as the calculation of the EUR 50,000 threshold for domestic transactions: the value of VAT taxable supplies of goods and services is taken into account, with the exception of the value of fixed assets and intangible assets supplied and the value of certain types of VAT exempt transactions.

To apply the SME VAT exemption in another EU Member State, a Latvian taxpayer should register with the Latvian Tax Authority by submitting a relevant application. The Latvian Tax Authority should make a decision within 35 working days. When registering a Latvian taxpayer for the SME VAT exemption in another EU Member State, the Latvian Tax Authority assigns it a special registration number with the code "EX," which should be used exclusively for the application of the SME VAT exemption in another EU Member State.

A Latvian taxpayer applying the SME VAT exemption in another EU Member State is obliged to submit quarterly information declarations to the Latvian Tax Authority, indicating the value of transactions carried out in Latvia and the EU Member State concerned.

If any of the thresholds for applying the SME VAT exemption in another EU Member State are exceeded, the taxpayer should inform the Latvian Tax Authority and will no longer be entitled to apply the exemption. Consequently, the taxpayer will have to register for VAT purposes in the relevant EU Member State.

The right of taxpayers from another EU Member States not to register for VAT purposes in Latvia

From 1 January 2025, two Latvian VAT registration thresholds of (1) EUR 50,000 for domestic output transactions (Article 59 of the VAT Law) and (2) EUR 10,000 for intra-Community acquisitions of goods in Latvia (Article 57 of the VAT Law) also apply to taxpayers from other EU Member States.

To apply the SME VAT exemption in Latvia, i.e. the EUR 50,000 registration threshold, a taxpayer from another EU Member State should register with the Tax Administration of its Member State and obtain a special registration number with code "EX".

In relation to Latvian domestic output transactions for taxpayers from other EU Member States, in addition to the threshold of EUR 50,000, an additional criterion is set: the total value of supplies of goods and services carried out within

the EU in the current or preceding calendar year should not exceed EUR 100,000 (excluding VAT). Both thresholds should be calculated in the same way as for Latvian domestic taxpayers. It should be noted that the total value of transactions carried out in the EU territory includes the value of transactions carried out in all EU Member States, including the Member State in which the taxpayer is established.

If the VAT registration threshold of EUR 50,000 and the additional threshold of EUR 5,000, or the EU turnover threshold of EUR 100,000, is exceeded, the taxpayer from another EU Member State will have to register for VAT purposes in Latvia.

The procedure for taxpayers from other EU Member States to register for VAT purposes in Latvia and pay VAT, if they exceed the registration threshold of EUR 50,000 and the additional threshold of EUR 5,000, is identical to the procedure for Latvian domestic taxpayers:

- if the threshold of EUR 50,000 is exceeded by no more than 10% (i.e., EUR 5,000), VAT registration can be postponed until the end of the relevant calendar year and VAT will have to be paid starting from 1 January of the following year;
- If a taxpayer fails to complete VAT registration by 1 January of the following year, it will have to pay VAT on transactions carried out from that date;
- If the threshold of EUR 55,000 is exceeded, a VAT registration application should be submitted by the 15th day of the following month, and VAT will have to be paid on the excess amount until registration is completed.

However, if the EU turnover threshold of EUR 100,000 is exceeded but the Latvian SME threshold of EUR 50,000 is not exceeded, the taxpayer from another EU Member State will have to pay VAT on domestic Latvian VAT taxable output transactions from the day after the EUR 100,000 threshold is exceeded until VAT registration is completed.

If a VAT payer from another EU Member State is already registered for VAT purposes in Latvia but wishes to apply the SME VAT exemption in Latvia, it has to register for the exemption with its national Tax Administration and obtain a special registration number with the code "EX". In this case, the Latvian Tax Authority is obliged to deregister the taxpayer from their VAT payer register.

Other amendments to VAT law

Amendments in respect of certain services exempt from VAT under Article 52 of the VAT Law

Provisions exempting dental and dental hygienist services from VAT have been removed from Article 52 of the VAT Law. It should be noted that despite these amendments, the application of VAT to dental and dental hygienist services remains unchanged and they continue to be exempt from VAT because:

- Section 52(1)3 (a) of the VAT Law provides that medical services, as determined by the Cabinet of Ministers, shall be exempt from VAT;
- Annex 1 to the Cabinet of Ministers Regulation No 17 of 3 January 2013 "Procedure for Application of Provisions of the Law on Value Added Tax and Certain Requirements for Payment and Administration of Value Added Tax" sets out medical services that are not subject to VAT, including dental medical services;
- in cooperation with the Ministry of Health, it was concluded that the services provided by dental hygienists cannot be separated from dental medical services.

The provision of the VAT Law that exempts from VAT services provided by pre-school educational establishments for the accommodation of children and pre-school education has been supplemented by a provision stating that the exemption also applies to services closely related to these services provided by the preschool educational institution itself.

Other editorial changes have been made to Article 52 of the VAT Law.

Application of 0% VAT rate to supplies of goods and services to diplomatic and consular missions of other countries

From 1 January 2025, 0% VAT rate for supplies of goods and services to diplomatic and consular missions of other EU Member States, as well as diplomatic and consular missions of third countries registered in the Republic of Latvia (in accordance with the principle of parity) applies directly on the basis of a Value Added Tax and Excise Tax Exemption Certificate approved by the competent authorities of the Republic of Latvia.

Application of 0% VAT rate to exports of goods for humanitarian and charitable purposes

From 1 January 2025, 0% VAT rate applies to the supply of goods if a registered taxpayer, free of charge, based on a contract or a goods delivery and acceptance deed or other document, supplies goods to a public benefit organisation that:

- exports these goods from the EU territory for humanitarian and charitable purposes;
- supplies these goods to a recognised entity in another EU Member State, which then exports them from the EU territory for humanitarian and charitable purposes.

Amendments relating to the registration of fiscal representatives and obtaining authorisation from the tax authority for the special VAT regime for import transactions

The conditions for registration of a fiscal representative and for obtaining authorisation from the Tax Authority to apply a special VAT regime on import transactions have been slightly alleviated. The period during which the discipline of the relevant taxpayer regarding the timely submission of tax returns, information returns, annual report and additional information requested by the Tax Authority will be assessed is limited to 12 months.

In both cases – registration of the fiscal representative and obtaining the tax Authority's authorisation for special VAT regime for import transactions – it is now permissible to delay the submission deadline for one tax or information return or annual report within the previous 12 months, but the delay may not exceed five calendar days.

Special scheme for the application of VAT to transactions with second-hand goods ("Margin scheme for second-hand goods")

The amendments provide that the margin scheme for second-hand goods now also applies in cases where second-hand goods are sold to a trader by a seller who applies an exemption from VAT to the supply of the goods in accordance with Article 52(3) or (3)¹ of the VAT Law or the relevant legislation of another EU Member State. In particular, the supply is exempt from VAT as no input tax was initially deducted on the purchase of the goods in question in accordance with VAT legislation. For example, the goods were purchased for VAT exempt transactions or for

purposes unrelated to business activities, or the good purchased was a representative car.

Place of service for cultural and sporting events if attendance is virtual

A new provision has been introduced in the VAT Law, which states that for all cultural, artistic, sporting, scientific, educational, entertainment or other events of a similar nature, where attendance is virtual, the place of supply of the service is the place of business of the recipient of the service or its permanent address or his/her place of residence (if the recipient of the service is a non-taxable person).

The place of supply for telecommunications, broadcasting or electronically supplied services

With respect to telecommunications, broadcasting and electronically supplied services, the provision that these services are subject to the use and enjoyment rule has been removed from the VAT Law.

The right of taxpayers from other EU Member States and non-EU countries not to register for VAT purposes in Latvia when carrying out transactions with goods in temporary storage

The amendments extend the right of taxpayers from other EU Member States, as well as taxpayers from non-EU countries not to register for VAT purposes in Latvia when non-EU goods, as well as Union goods for which the export procedure has been initiated, are transferred from one domestic temporary storage place to other domestic or temporary storage places of goods of another Member State.

Temporary storage within the meaning of the VAT Law means the temporary storage of non-EU goods under the supervision of a customs authority during the period between their presentation to a customs authority and their placing under a customs procedure or re-export, as well as the storage of Union goods in a temporary storage place where there is an economic need, and the customs authority has authorised it.

Other amendments

Article 100(2) of the VAT Law has been amended clarify that the 50% limit on the deduction of input VAT applies to expenses on the maintenance

(including repair and fuel) of a luxury (representative) car incurred after a period of 60 months from the date of registration of the car in the person's ownership or possession.

Clarifications have been made to the provision of Article 9(4) of the VAT Law regarding intra-Community acquisitions of goods for the needs of the National Armed Forces of the Republic of Latvia.

Amendments to the Law on the Vehicle Operation Tax and Company Car Tax

Increased rates of Vehicle Operation Tax (VOT) and Company Car Tax (CCT)

As a result of amendments to the Law on the Vehicle Operation Tax and Company Car Tax, the VOT rates have been increased by 10 % as of 1 January 2025. From 1 January 2027, the rates of CCT will be increased by 10%.

Amendments to the Natural Resources Tax Law (NRT Law)

Increased NRT for coal, coke and lignite

From 1 January 2025 and from 1 January 2027, the NRT on coal, coke and lignite used as fossil fuels is increased.

Amendments to the Law On Excise Duties

Increased rates of Excise Duty

From 1 January 2025, excise duty rates are increased on tobacco products, petroleum products, liquids used in electronic smoking devices, ingredients for their preparation and tobacco substitutes, non-alcoholic beverages with a sugar content of 8 grams (inclusive) per 100 millilitres and energy drinks, as well as natural gas.

Other amendments

Amendments have also been made to the provisions that it is prohibited to enter the territory of the Republic of Latvia from 3rd countries with a commercial motor vehicle if the volume of fuel in its fuel tanks exceeds 200 litres..

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