CORPORATE INCOME TAX

Standard rate (flat) 15%

Tax depreciation rates

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings, constructions, long-term plantations</td>
<td>10%</td>
</tr>
<tr>
<td>Railroad vehicles and equipment, ocean and river vessels, fleet and port equipment, energy equipment</td>
<td>20%</td>
</tr>
<tr>
<td>Computers and associated appliances, communication equipment, copying machines and related appliances</td>
<td>70%</td>
</tr>
<tr>
<td>Oil exploration and production platforms and related equipment, oil research and extraction ships</td>
<td>15%</td>
</tr>
<tr>
<td>Cars (retail price &lt; EUR 60,500)</td>
<td>30%</td>
</tr>
<tr>
<td>Other fixed assets</td>
<td>40%</td>
</tr>
</tbody>
</table>

The above rates are calculated on a reducing balance basis.

Taxpayer may calculate tax depreciation using a coefficient of 1.5:
- from a higher initial value of fixed assets (new technological equipment bought in 2009-2020)
- from a higher initial value of intangible investments (patents and trademarks registered after 1 January 2009)

Research and development
Taxpayer may apply a coefficient of three (3) to R&D expenses (for labor costs and R&D services performed by scientific institutions).

Expenses not related to business activity
Expenses that are not directly related to business activity, as well as costs that have been incurred due to maintenance of social infrastructure objects, are increased using a coefficient of 1.5 and disallowed.

Advance payments
A taxpayer may choose to make reduced advance payments, if its profits have decreased. If the difference between the calculated tax and the reduced advance payment set by the taxpayer exceeds 20% of the calculated tax, then the residual tax payment is considered as a late tax payment and no late interest is applied.

Loss carry forward
Starting from the 2017 tax year, taxpayers will be able to utilize tax losses that have been carried forward to cover up to 75% of the reporting year’s taxable income.
## Withholding taxes on payments to non-residents

<table>
<thead>
<tr>
<th></th>
<th>Non-residents NOT registered in an offshore</th>
<th>Non-residents registered in an offshore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends*</td>
<td>0%</td>
<td>15% / 30%</td>
</tr>
<tr>
<td>Management and consulting services**</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Interest payments</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Interest payments made by Latvian registered commercial banks</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Right to use intellectual property rights in respect of literature and artistic works</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Right to use other intellectual property rights</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Payments for the use of fixed or movable property in Latvia**</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Proceeds from the sale of real estate or real estate company shares in Latvia**</td>
<td>2%</td>
<td>15%</td>
</tr>
</tbody>
</table>

*A tax rate of 15% is applicable only to dividends which the Latvian resident pays to a non-resident company established in a jurisdiction with low or no taxes. The 30% tax rate is applicable only to interim dividends which the Latvian resident pays to a non-resident company established in a jurisdiction with low or no taxes.

**A tax rate of 15% is applicable to profit, if the non-resident submits related expenses supporting documents to the Latvian tax authorities.

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. Gains on disposal of shares are not taxed, except on disposal of shares in a non-resident company established in a jurisdiction with low or no taxes. Capital losses realized from the disposal of shares are non-deductible.

Dividends received from a non-resident company established in a jurisdiction with low or no taxes are taxable at the standard corporate income tax rate. Dividends received from other companies are tax exempt.
MICRO-ENTERPRISE TAX

A micro-enterprise pays tax on turnover from business activity. This tax covers personal income tax, social security contributions, corporate income tax and business risk duty. A tax rate of 12% is applicable to annual turnover of a micro-enterprise up to EUR 7,000. If turnover exceeds the given threshold, a 15% rate applies.

PERSONAL INCOME TAX

Rates
Latvia imposes a flat rate of 23% on personal income and on income from a self-employed individual’s commercial activities.

Tax free employee benefits and allowances
- Certain approved pension and life/health insurance premium payments (up to 10% of gross income)
- General tax free allowance of EUR 60 per month applied by the employer and additional amounts up to EUR 660 per annum depending on income level if an annual income tax return is submitted
- Eligible child/dependents allowance of EUR 175 per month

Special rates for particular types of income
- Capital gains (including real estate) – 15%
- Dividends – 10%
- Interest and similar income – 10%
- Profit element of 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 insurance paid by the employer (subject to exceptions)
- Medical care
- School fees
- Reimbursement of business trip expenses exceeding statutory limits
- Reimbursement of foreign and/or home country taxes
- Employer gifts

Taxation of foreign income
Salary income of Latvian residents gained in another EU or EEA country, or a country with which Latvia has a double tax treaty, is tax-exempt in Latvia, if particular requirements are met.
SOCIAL SECURITY AND SOLIDARITY TAX

Mandatory social security contributions are payable in respect of gross employment income. Income cap for social security contributions is EUR 52,400. Employment income above EUR 52,400 is subject to solidarity tax which is calculated and collected in the same way as social security contributions, but the employee does not receive social services from this amount (pension and allowances).

For individuals employed by a Latvian resident employer or employer from an EU or EEA member state, the contribution and solidarity tax rates payable in 2017 are as follows:
- Employer’s rate is 23.59%
- Employee’s rate is 10.50%

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

If the employer is not resident in the EU or EEA, then the social contributions and solidarity tax rates are:
- For Latvian citizens working in Latvia, 34.09% (23.59%; 10.5%)
- For foreign employees who are Latvian residents, 32%

VALUE ADDED TAX

The standard VAT rate is 21%, reduced rate – 12%.

The following are examples of transactions subject to the VAT rate of 0%.
- Export of goods and intra community supplies
- Services related to transportation 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

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 sale of unused or unfinished buildings
• Rental of domestic apartments
• Betting, lotteries and other forms of gambling

**The following are examples of transactions subject to a VAT rate of 12%.**
• Medicines, medical goods and appliances
• Infant food products
• Supply of newspapers, journals, bulletins and other periodicals
• Public transport services within Latvia
• Supply of heating to inhabitants
• Supply of educational literature and original literature
• Supplies of wood and firewood to inhabitants

**Particular rules:**
• Possibility to form VAT groups
• Special tax regime for import transactions
• Possibility to correct input VAT by reducing VAT payable to the budget for the amount of tax on a bad debt application of VAT reverse charge to inland transactions of timber, scrap metal, mobile phones, tablets, integrated circuit devices and laptops, crops and industrial crops, construction services and to precious metals and supplies of semi-finished products of precious metals, plated metals, precious metal scrap and waste
• Possibility to choose to apply VAT to sale of used real estate
• If electronic services are rendered to EU individuals or non-VAT payers, the supplier must register for a special tax regime in one of the EU countries and apply the tax rate of the receiver’s EU residence country.

VAT compensation to farmers is 14%.

**COMPANY CAR TAX**

All cars owned or held by a company are subject to this tax. Tax for a car based on the capacity of its engine or first registration date ranges from EUR 29 up to EUR 62 per month. For electric cars, a special rate of EUR 10 per month is charged.

**PROPERTY TAX**

Municipalities have the right to set the property tax rate within 0.2% to 3% of a property’s cadastral value. A tax rate of more than 1.5% of
property’s cadastral value may be set only in cases when the property
is not managed properly. If a municipality does not publish binding
regulation on property tax rates until 1 November of the previous
taxation period, the following tax rates are applicable:

- for property and land used in business activities and also for
  engineering technical buildings – 1.5% from the cadastral value of
  the property
- for agricultural land not used in agriculture – 3% of the cadastral
  value
- for buildings that degrade the environment and endanger human
  lives – up to 3% of the cadastral value (if certain criteria are met)
- for houses, apartments for inhabitants and additional premises
  (garages, storage rooms, etc.) not used in business activity:
  - 0.2% of cadastral value up to EUR 56,915
  - 0.4% of cadastral value from EUR 56,915 to EUR 106,715
  - 0.6% of cadastral value which exceeds EUR 106,715

The minimum tax payment for each tax payer to the particular
municipality is EUR 7.

Families with three or more children are eligible for a 50% property
tax reduction, but the amount should not exceed EUR 427.

**TAXATION TREATIES**

In 2017, Latvia has double tax treaties in effect with the following
countries:

- Albania
- Armenia
- Austria
- Azerbaijan
- Belarus
- Belgium
- Bulgaria
- Canada
- China
- Croatia
- Czech Republic
- Cyprus
- Denmark
- Estonia
- Finland
- France
- Georgia
- Germany
- Greece
- Hungary
- Iceland
- India
- Ireland
- Israel
- Italy
- Kazakhstan
- Kuwait
- Kyrgyzstan
- Lithuania
- Luxembourg
- Macedonia
- Malta
- Mexico
- Moldova
- Montenegro
- Morocco
- Norway
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Serbia
- Singapore
- Slovakia
- Slovenia
- South Korea
- Spain
- Sweden
- Switzerland
- Tajikistan
- The Netherlands
- Turkey
- Turkmenistan
- UAE
- Ukraine
- United Kingdom
- USA
- Uzbekistan
INVESTMENT INCENTIVES

The main incentives are:

- Tax relief is available for long-term investments which exceed EUR 10m. Tax relief comprises 25% of the amount invested for investments of up to EUR 50m, and 15% on amounts from EUR 50-100m.
- Corporate income tax and property tax relief are available for companies registered in a special economic zone or free port.
- There is also 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% (6% if a flat is purchased by a legal person that performs commercial activity) of the highest of the purchase price or cadastral value of the property or valuation for mortgage purposes. The maximum tax payable if the property does not include living accommodation is EUR 42,686.15. The rate for relatives (children, spouses, parents, sisters, brothers, grandchildren, grandparents) is 0.5% from the real estate value.

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This card was prepared on 1 January 2017 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 2017.

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