

Ministry of Finance  
Republic of Latvia

# **TAX EXPENDITURES & INCENTIVES 2021**

FEBRUARY 2023



# Tax Incentives

**Tax incentives** are legal norms, regulations or practices that reduce or defer the payment of taxes to a relatively small group of taxpayers.\*

**Tax incentives** are an important tool for the implementation of tax policy, as well as the goals of the country's sustainable development and environmental policy, providing considerable support to citizens, especially socially disadvantaged citizens (for example, low-income earners, pensioners and persons with dependent children).

## Types of Tax incentives:

- exceptions in taxable base;
- the non-taxable part of the base (for example, non-taxable minimum);
- reduced rates;
- tax holidays;
- special economic zones;
- tax credits;
- deferred tax payment;
- reduction in tax liabilities, etc.

Expenditures	Reliefs/ Allowances	Exemptions
Tax expenditures describe tax revenue losses or the amount of theoretically <b>foregone</b> tax revenue due to existence of tax incentives.	Tax <u>relief</u> is a <b>reduction</b> in the amount of <u>tax</u> that a person or company must pay. Tax <u>allowance</u> is a <b>reduction</b> in the amount of <u>gross income</u> from which the tax is calculated.	A tax exemption <b>excludes</b> certain income, revenue, or even taxpayers from tax altogether.

\* OECD (2010) Tax expenditures in OECD countries, OECD publishing with reference to Anderson, B. (2008)



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# Government foregone revenue as a result of the application of tax incentives (*hereafter – estimated amount*) in 2021 was above **2.9 billion euro**, which is around **8.6%** of GDP

## Estimated amount of tax expenditures in 2021

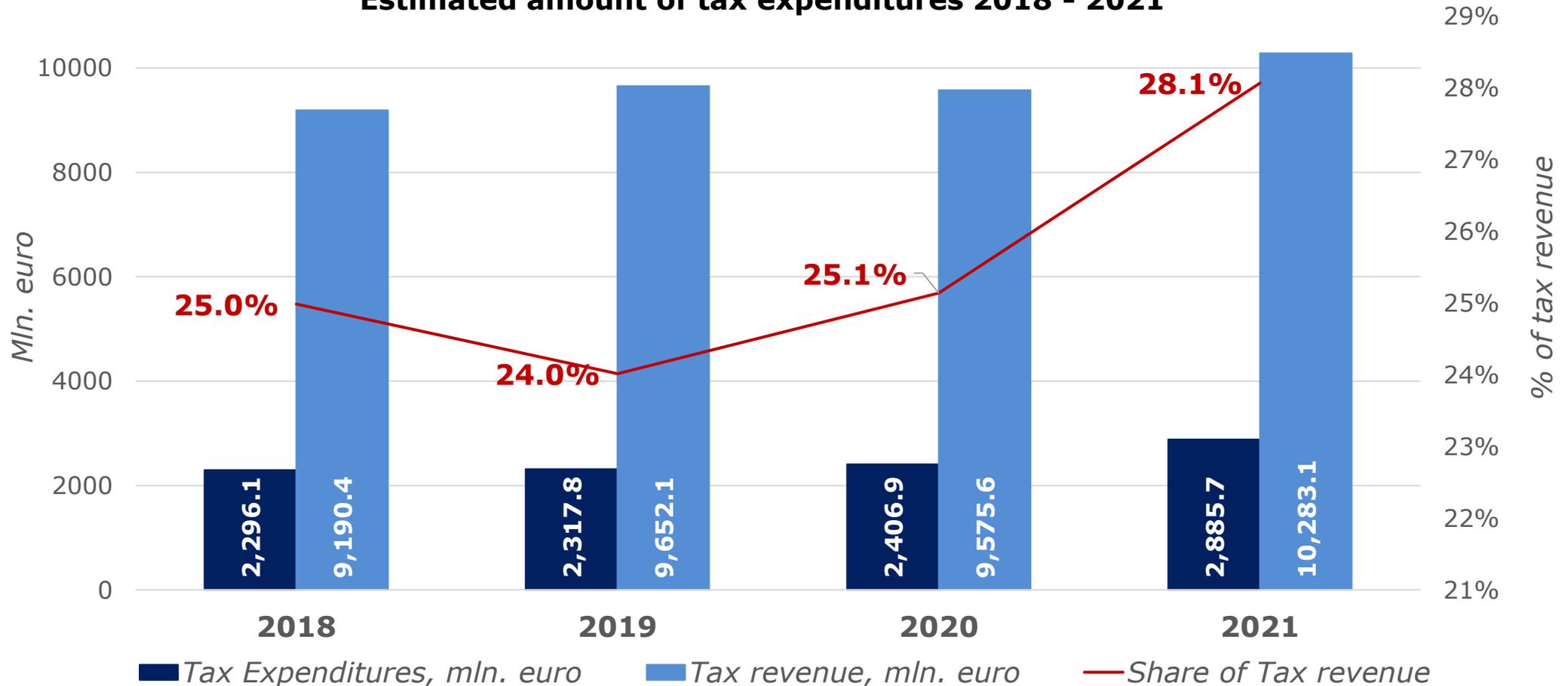
Tax	2021		
	Mln. euro	Share (%) of TR*	Share (%) of GDP
1. Personal Income Tax	<b>969.2</b>	50.3	2.88
2. Corporate Income Tax	<b>418.2</b>	148.8	1.24
3. Micro-enterprise Tax	<b>18.9</b>	33.8	0.06
4. Real Estate Tax	<b>19.1</b>	8.4	0.06
5. Value Added Tax	<b>959.8</b>	34.7	2.85
6. Excise Duty	<b>208.6</b>	18.9	0.62
7. Natural Resources Tax	<b>266.3</b>	610.1	0.79
8. Vehicle Operation Tax	<b>17.7</b>	17.7	0.05
9. Company Car Tax	<b>5.6</b>	24.8	0.02
10. Electricity Tax	<b>2.3</b>	46.4	0.01
<b>TOTAL</b>	<b>2,885.7</b>	<b>28.1</b>	<b>8.56</b>

\* Share (per cent) of analyzed tax revenue, row **TOTAL** – Share (per cent) of total analyzed tax revenue.



# Estimated amount of tax expenditures in 2021, compared to 2020, increased by approximately **20%**, amounting more than **1/4** of the total tax revenues

Estimated amount of tax expenditures 2018 - 2021

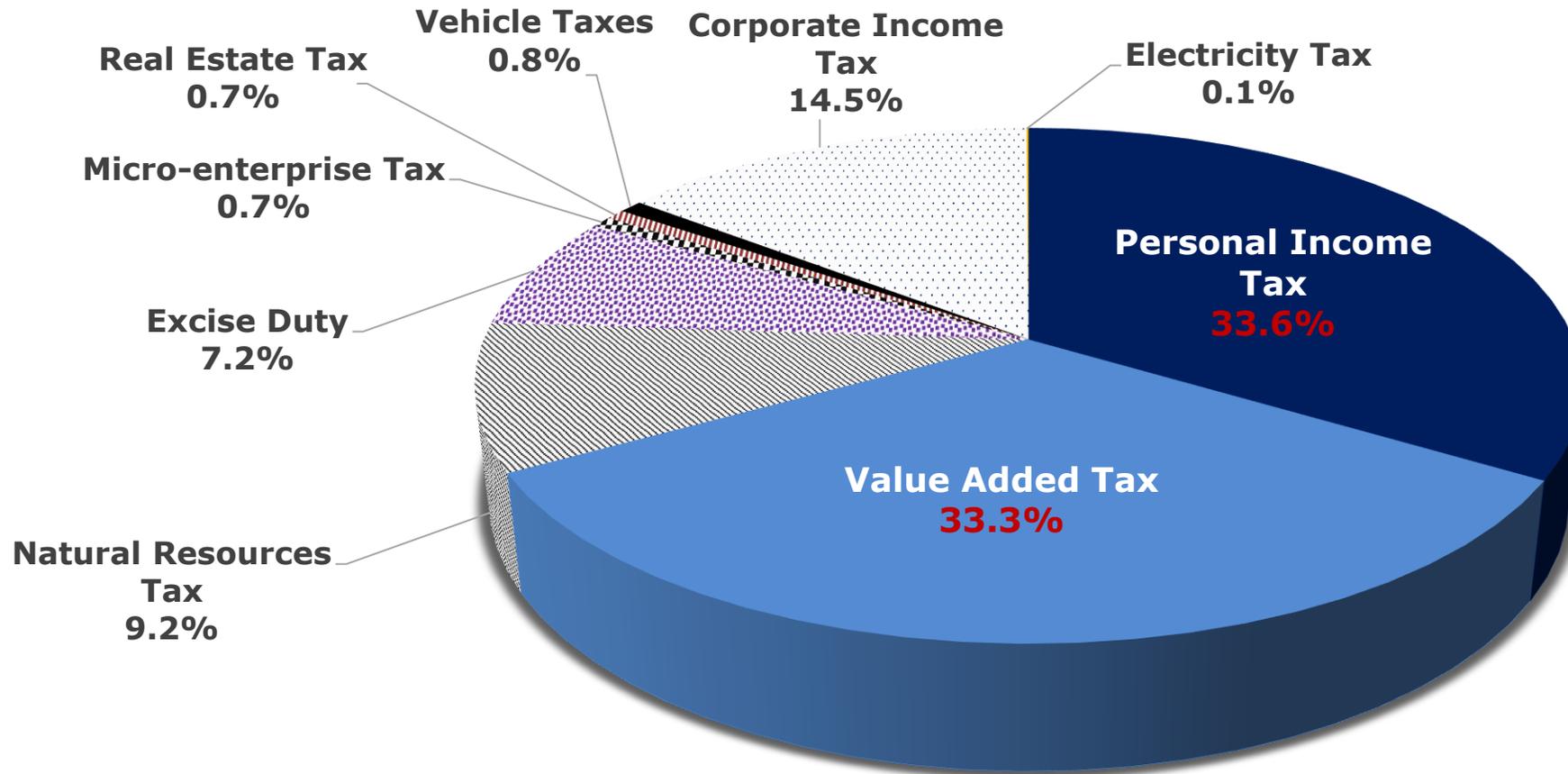




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# Main Tax Expenditures in 2021 - Value Added Tax and Personal Income Tax Expenditures

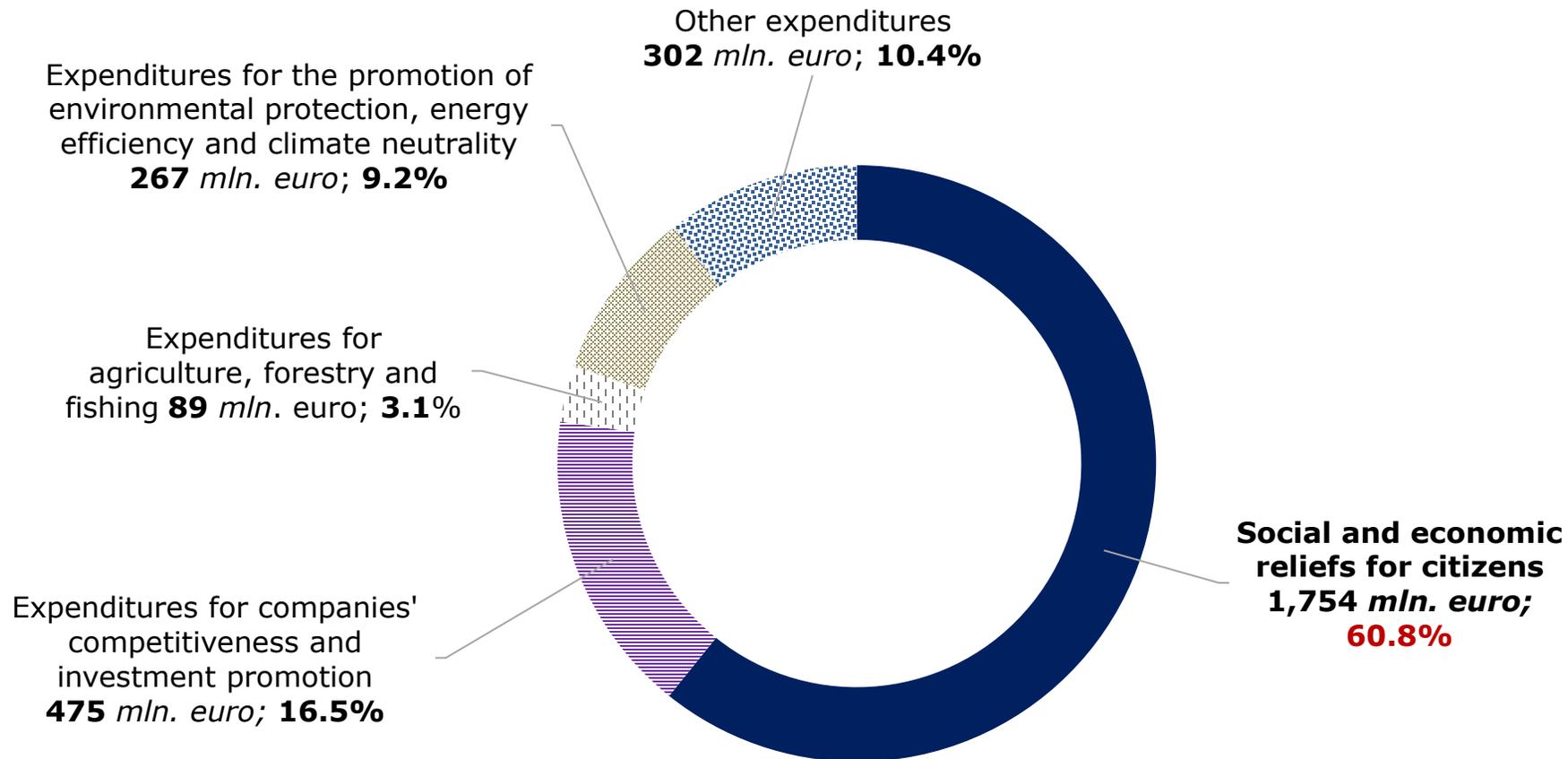
Distribution of tax expenditures by their amount in 2021, *per cent*





# The largest amount of all tax expenditures are **expenditures of social nature**, which are a support for various population groups in increasing their income and reducing expenses, providing support for socially disadvantaged individuals

**Distribution of tax expenditures in 2021 according to their purpose, per cent**





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# **PERSONAL INCOME TAX (PIT) EXPENDITURES**



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# PIT expenditures in 2021 were **~969 mln. euro**, which is **slightly more than half** of PIT revenue

## Estimated amount of PIT expenditures in 2021, mln. euro

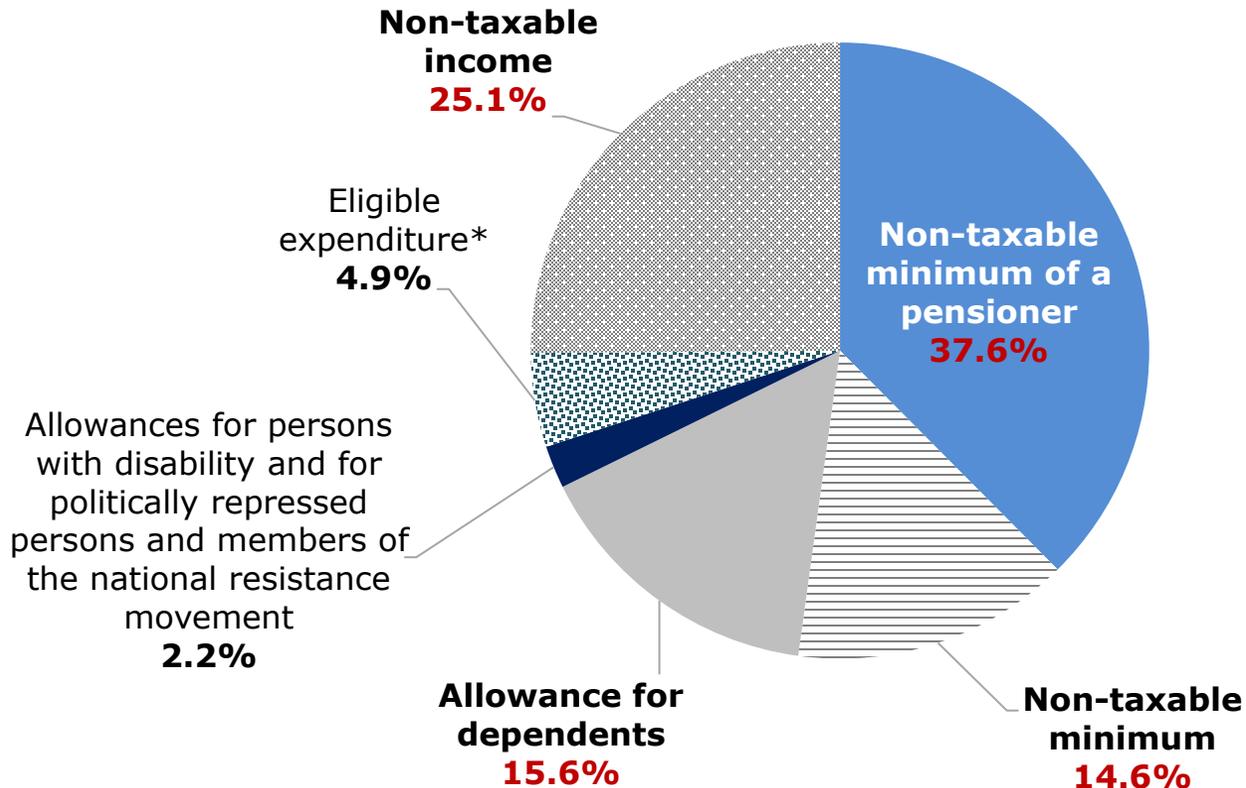
Tax expenditures	2021
<b>1. Non-taxable minimum, including:</b>	<b>505.5</b>
1.1. Non-taxable minimum	141.4
1.2. Non-taxable minimum of a pensioner	364.2
<b>2. Tax allowances, including:</b>	<b>172.4</b>
2.1. Allowance for a dependent	150.7
2.2. Allowance for persons who have been recognized as persons with disability	19.7
2.3. Allowance for politically repressed persons and members of the national resistance movement	2.0
<b>3. Eligible expenditure for:</b>	<b>47.8</b>
3.1. Education, medical services, donations and gifts	26.9
3.2. Contributions to private pension funds and payments of insurance premiums	20.9
<b>4. Non-taxable income*, such as:</b>	<b>243.5</b>
4.1. Benefits and reimbursements paid by the State Social Insurance Agency	138.7
4.2. Non-taxable income from support of agriculture and rural development	16.7
4.3. Income from the alienation of personal property (except immovable property)	23.9
<b>TOTAL</b>	<b>969.2</b>
<b>Share of PIT revenue</b>	<b>50.3%</b>

\* Non-taxable income, according to law "On Personal Income Tax", Section 9.

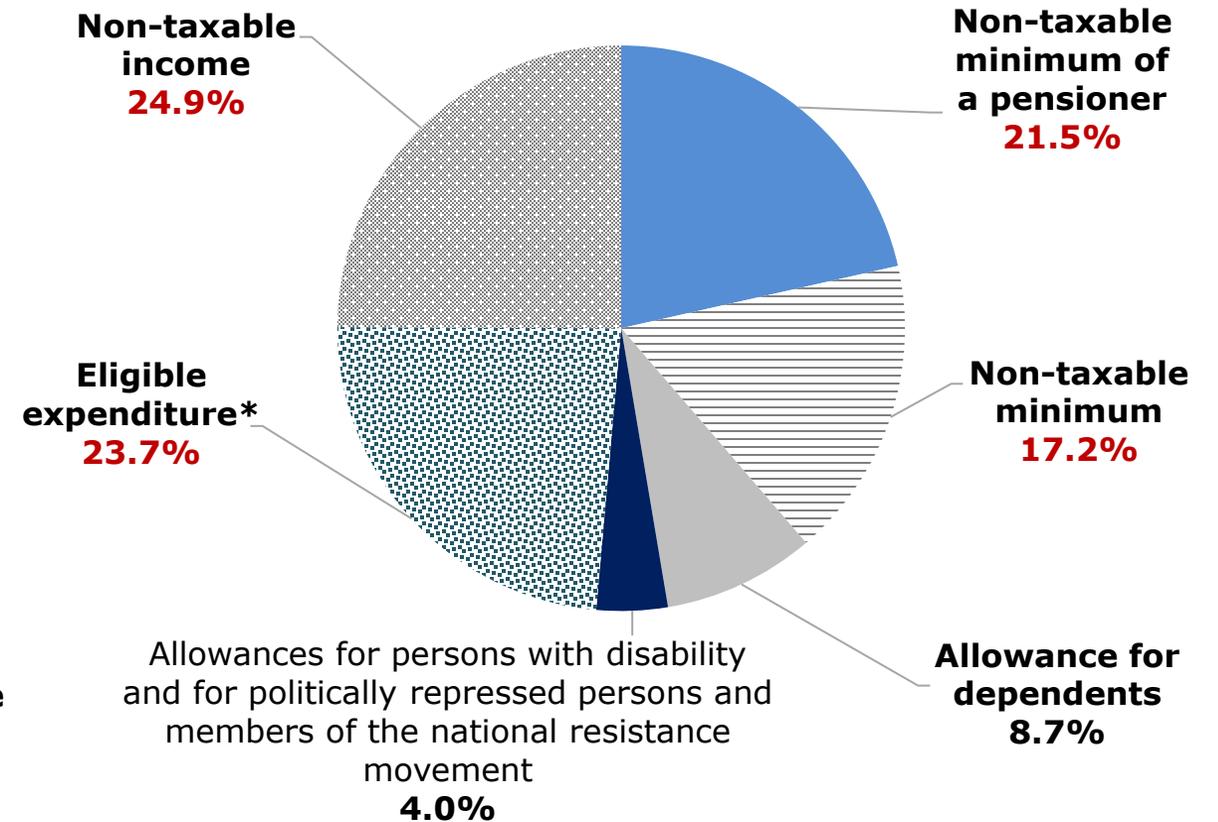


# The most significant PIT expenditures in terms of their amount are the *non-taxable minimum of a pensioner*, the *differentiated non-taxable minimum* and the *allowance for dependents*

**Distribution of PIT expenditures by the amount in 2021, per cent**



**Distribution of PIT expenditures by the number of persons who have used the expenditures in 2021, per cent**



\* For education and medical treatment, donations and gifts, contributions to private pension funds and payments of insurance premiums.



# Changes and aim of the most important PIT Incentives

Max. differentiated non-taxable minimum (DNM), euro per month	
2019	<b>230</b>
2020-2021	<b>300</b>
2022	<b>350 / 500*</b>
2023	<b>500</b>

❖ **The aim** of DNM is to reduce the tax wedge on labour costs, especially for working individuals who are paid up to the average income level and in most cases are socially and economically less protected, also to increase their income and to improve the standard of living of this group of persons.

❖ **The aim** of NMP is to ensure a certain level of income exempt from PIT for pensioners, considering the pension earned during (in case of loss of the provider - of the deceased provider's) person's working life.

Non-taxable minimum of a pensioner (NMP), euro per month	
2019	<b>270</b>
2020	<b>300</b>
2021	<b>330</b>
2022	<b>350 / 500*</b>
2023	<b>500</b>

Allowance for dependents (AD), euro per month	
2019	<b>230</b>
2020-2023	<b>250</b>

❖ **The aim** of AD is to reduce the tax wedge on labour costs for working individuals with dependent children and/or spouses who take care of dependent children, promoting these individuals' employment and pursuit higher income.

\* From 1 January to 30 June 2022, the maximum differentiated non-taxable minimum and the non-taxable minimum of a pensioner was **350 euros** per month, and from 1 July - **500 euros** per month.



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# **VALUE ADDED TAX (VAT) EXPENDITURES**



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# VAT expenditures in 2021 amounted **~960 mln. euro**, which is **~1/3 part** of VAT revenue

Estimated amount of VAT expenditures in 2021, *mln. euro*

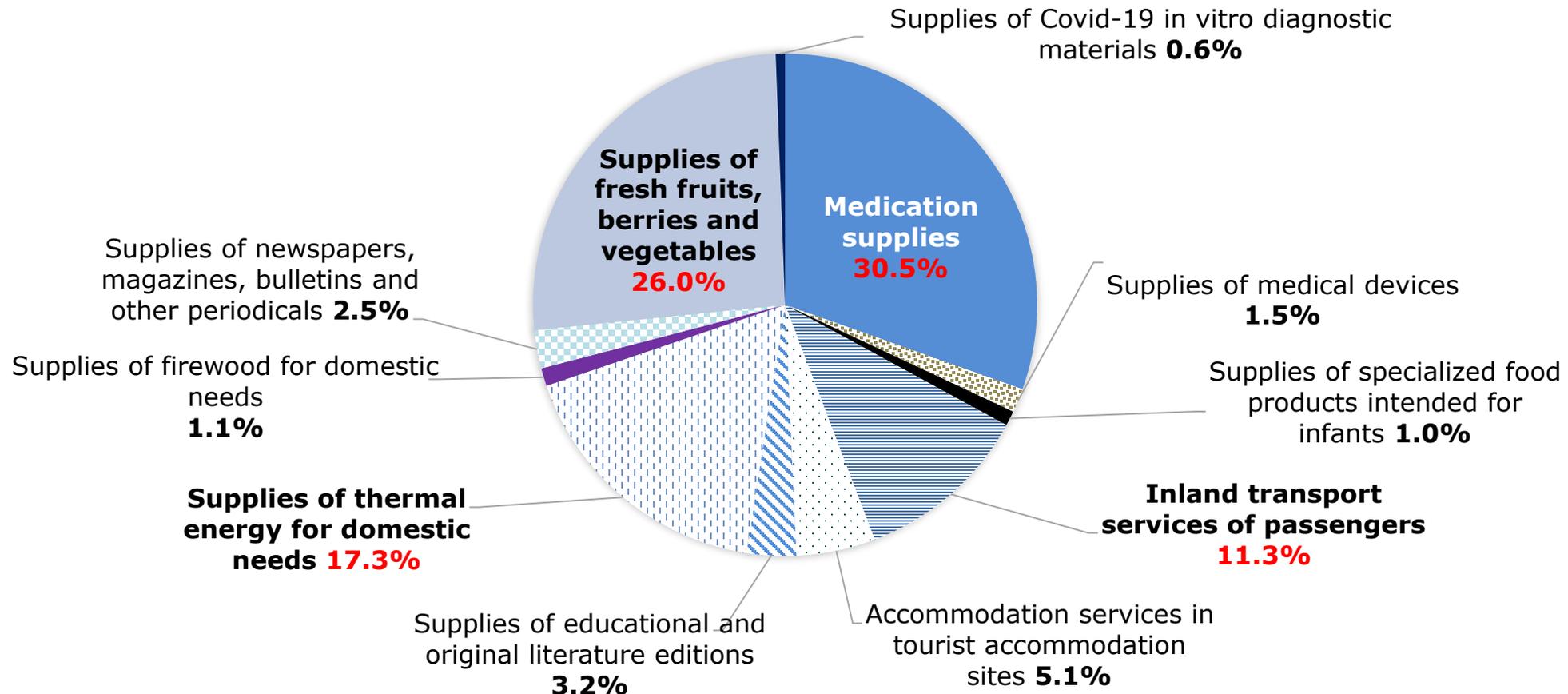
Taxable goods and services	Reduced rate	2021
<b>1. Transactions subject to reduced VAT rates, including:</b>		<b>112.9</b>
1.1. Medication supplies	12%	34.4
1.2. Supplies of medical devices	12%	1.7
1.3. Supplies of specialized food products intended for infants	12%	1.1
1.4. Inland transport services of passengers and their luggage	12%	12.7
1.5. Supplies of educational and original literature editions	12%	3.6
1.6. Supplies of newspapers, magazines, bulletins and other periodicals	12%	2.8
1.7. Accommodation services in tourist accommodation sites	12%	5.7
1.8. Supplies of thermal energy for domestic needs	12%	19.6
1.9. Supplies of firewood for domestic needs	12%	1.3
1.10. Supplies of fresh fruits, berries and vegetables	5%	29.3
1.11. Supplies of Covid-19 <i>in vitro</i> diagnostic materials	0%	0.7
<b>2. Non-taxable supplies<sup>1</sup></b>	-	<b>846,9</b>
<b>TOTAL</b>		<b>959.8</b>
<b>Share of VAT revenue</b>		<b>34.7%</b>

<sup>1</sup> Non-taxable supplies, according to Value Added Tax Law, Section 52. Approximate calculation, as VAT return data provides information on all transactions, including multiple supplies of the same product, not just those released for final consumption.



# The most significant amount of VAT expenditures at reduced rates is on medication supplies, supplies of fresh fruits, berries and vegetables, and supplies of thermal energy for domestic needs

**Distribution of goods and services subject to reduced VAT rates by the amount in 2021, per cent**





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# **CORPORATE INCOME TAX (CIT) EXPENDITURES**



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# The amount of CIT expenditures in 2021 was **~418 mln. euro**, which is **148.8%** of total CIT revenues

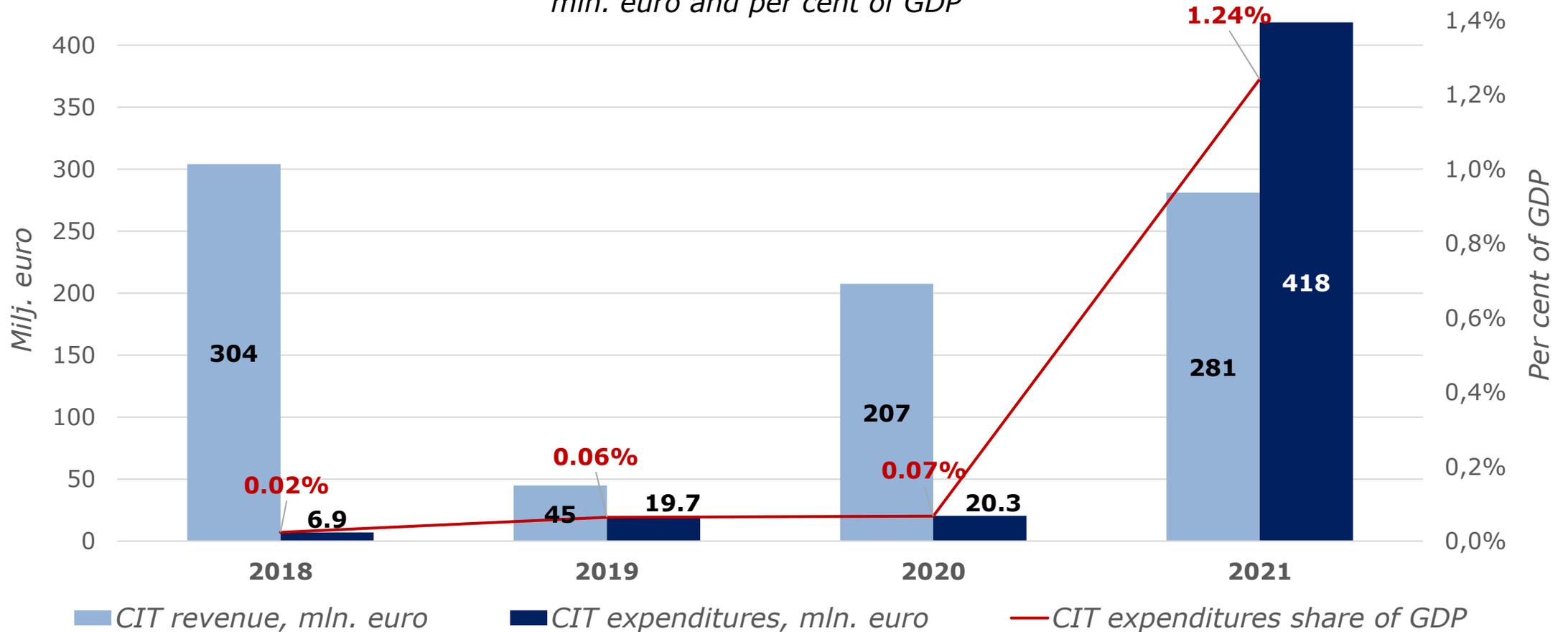
## Estimated amount of CIT expenditures in 2021, mln. euro

Tax expenditures	2021
<b>1. Statutory tax reliefs, including:</b>	<b>406.8</b>
1.1. Tax relief for donors	11.4
1.2. Tax relief for income from the alienation of shares	<b>392.0</b>
1.3. Tax relief of 50% of the amount received in the form of subsidies as State aid for agriculture or EU support for agriculture and rural development	3.1
1.4. Other tax reducing amounts	0.3
<b>2. Tax reliefs with transitional period, including:</b>	<b>11.6</b>
2.1. Tax relief for the possibility to cover losses of the taxation period and the previous period ( <i>with five years transitional period</i> )	6.3
2.2. Tax relief for losses incurred by a state capital company, the shares of which may not be alienated, which performs functions delegated by the state not related to economic activity	0.01
2.3. Tax relief for the supported investment projects which have been approved by the Cabinet of Ministers by 31 December 2017	1.4
2.4. Tax relief for investments in Free ports (FP) or Special Economic Zones (SEZ)	3.9
<b>TOTAL</b>	<b>418.4</b>
<b>Share of CIT revenue</b>	<b>148.8%</b>



# Estimated amount of CIT expenditures in 2021, compared to 2020, increased approximately **20 times**, or by **398.1 mln. euro**

The amount of CIT revenues and expenditures in 2018 – 2021,  
*mln. euro and per cent of GDP*





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# **NATURAL RESOURCE TAX (NRT) EXPENDITURES**



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## NRT incentives are an important tool for the development and implementation of **environmental policy goals**, providing an incentive for the **implementation of the waste and packaging management system** of environmentally harmful goods, thus **maintaining a cleaner environment in the long term**



The DRN relief system has been created with a **specific goal** - to ensure Latvia's obligations regarding the fulfillment of the requirements of EU directives in the field of waste management and to implement the principle of extended producer responsibility.



It should be noted that the amount of tax rates is 2-3 times higher than the costs of waste management, **in order to achieve the active involvement of producers and traders** and the responsibility for ensuring the management of waste generated as a result of their activities in the appropriate amounts, implementing the principle of producer responsibility, which also follows from the EU requirements. Therefore, the amount of NRT expenditures **can not be considered as a potential revenue share**.



The tax incentives are effective because in the last five years **more than 90 per cent** of the generated packaging or environmentally harmful product waste has been managed in the producer's extended responsibility system, as well as the recycling and regeneration goals of used packaging or environmentally harmful product waste set by the laws and regulations, resulting from the EU directives, are regularly achieved.



The state has set requirements arising from EU Directives in the field of waste management, for the fulfillment of which funds from manufacturers and traders of the corresponding goods are attracted, ensuring the implementation of the "polluter pays" principle. *Therefore, if the merchant ensures the implementation of these requirements and covers the related expenses, he does not pay NRT. **The tax must be paid if the appropriate waste processing and recovery requirements are not implemented.***



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# NRT expenditures in 2021 were **~266 mln. euro**, which is **~6 times** more than total NRT revenue

Estimated amount of NRT expenditures 2021, *mln. euro*

<b>Tax exemptions</b>	<b>2021</b>
<b>1. For vehicles which are registered permanently for the first time in Latvia</b>	<b>0.4</b>
<b>2. For packaging and disposable tableware and accessories, including:</b>	<b>146.3</b>
2.1. Of glass source materials	30.2
2.2. Of plastic (polymer) source materials	53.7
2.3. Of metal source materials	13.5
2.4. Of wood, paper and cardboard or other natural fibres and bioplastic source materials	38.0
2.5. Plastic carrier bags	8.0
2.6. Of oxy-degradable plastic and polystyrene source materials	2.9
<b>3. For goods harmful to the environment, including</b>	<b>119.5</b>
3.1. Lubricating oils	2.9
3.2. Lead-based electric batteries	4.2
3.3. Galvanic elements and galvanic pile	4.7
3.4. Other electrical batteries	4.4
3.5. All types of tires	13.4
3.6. Electrical and electronic equipment, including	89.9
3.6.1. Temperature exchange equipment	13.6
3.6.2. Screens, monitors, and equipment containing screens with a surface greater than 100 cm <sup>2</sup>	9.8
3.6.3. Light bulbs	2.6
3.6.4. Large equipment (at least one external dimension exceeds 50 cm)	42.6
3.6.5. Small equipment (no external dimension greater than 50 cm)	18.5
3.6.6. Small information technology and telecommunication equipment	2.8
<b>TOTAL</b>	<b>266.3</b>
<b>Share of NRT revenue</b>	<b>610.1%</b>



# The aim of NRT incentives is to achieve active involvement of producers and traders and responsibility for ensuring waste management\*

## Distribution of NRT expenditures by the amount in 2021, per cent

For vehicles which are registered permanently for the first time in Latvia  
**0.1%%**



\* *The taxpayer shall not pay the NRT for packaging and disposable tableware and accessories, as well as environmentally harmful goods, if the taxpayer ensures compliance with the recovery norms, has established a system for the management of these accessories and goods, submitted financial security to the subordinate institution of the Ministry of Environmental Protection and Regional Development and concluded agreement on the application of the management system.*



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# EXCISE DUTY (ED) EXPENDITURES



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# The amount of ED expenditures in 2021 was **~209 mln. euro**, which is almost **19%** of total ED revenue

**Estimated amount of ED expenditures in 2021, mln. euro**

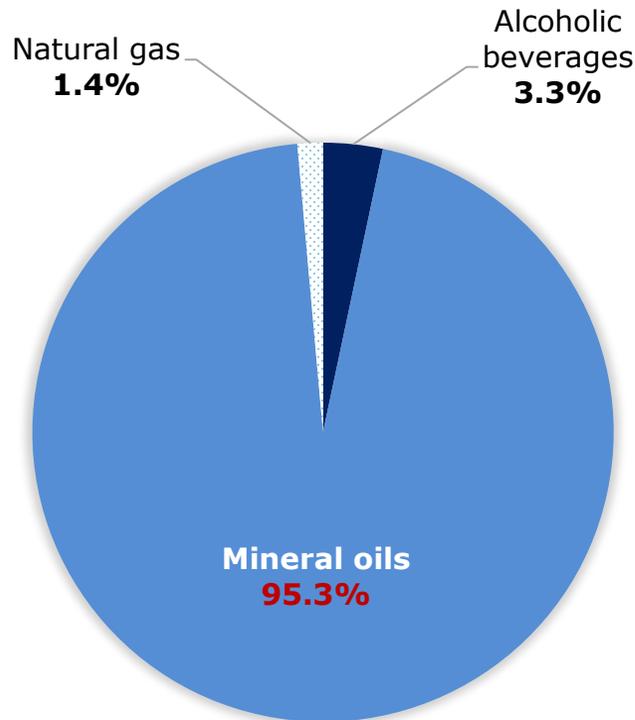
<b>Tax exemptions and reliefs</b>	<b>2021</b>
<b>1. Reduced ED rates, including:</b>	<b>72.1</b>
1.1. <b>Alcoholic beverages</b> ( <i>for small brewery beer realization</i> )	2.4
1.2. <b>Mineral oils</b> ( <i>for labelled mineral oils which are used as fuel and for agricultural purposes, as well as biofuels</i> )	68.7
1.3. <b>Natural Gas</b> ( <i>for use as fuel in industrial production and processing of agricultural raw materials</i> )	1.0
<b>2. Exemptions, including:</b>	<b>136.4</b>
2.1. <b>Alcoholic beverages</b> ( <i>mainly denatured alcohol</i> )	91.7
2.2. <b>Tobacco products</b> ( <i>delivered to ships and aircrafts engaged in international transport</i> )	2.6
2.3. <b>Mineral oils</b> ( <i>used in aircrafts which are not used for private recreation and entertainment</i> )	40.1
2.4. <b>Natural gas</b> ( <i>which is used for – purposes other than as fuel; in two ways (both as a fuel and for purposes other than use as fuel); mineralogical processes; the heating of covered areas of agricultural land (greenhouses) and the heating of industrial poultry houses (barns) and incubators</i> )	1.4
2.5. <b>Non-alcoholic beverages and coffee</b>	0.6
<b>TOTAL</b>	<b>208.6</b>
<b>Share of ED revenue</b>	<b>18.9%</b>



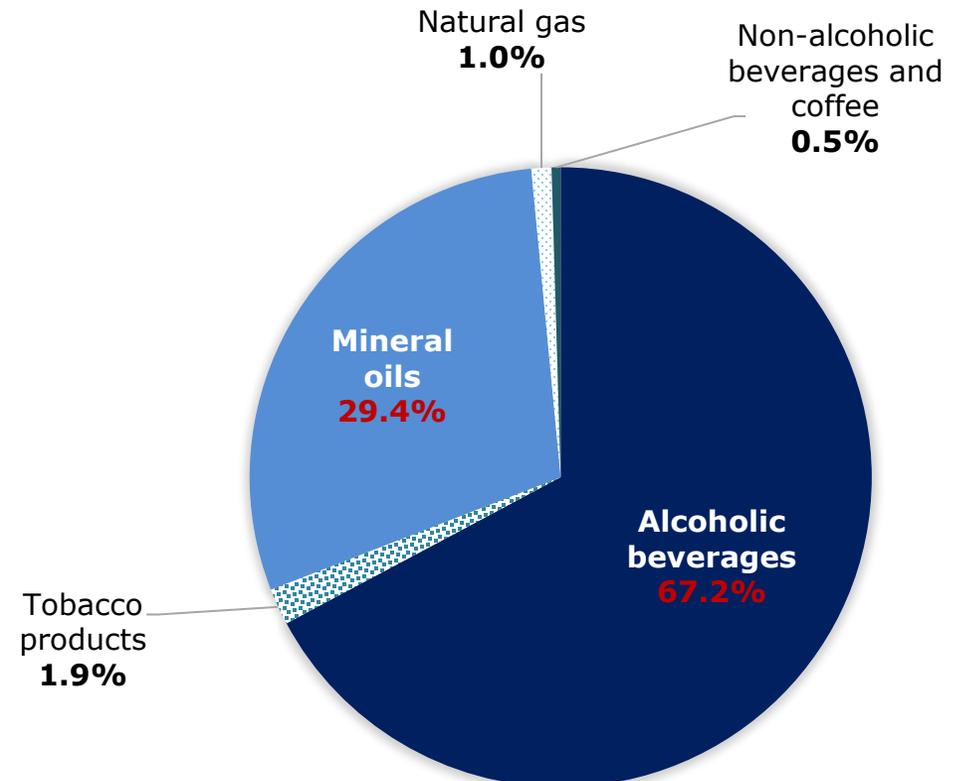
The largest amount of expenditures for reduced ED rates is for mineral oil products (agriculture and fuel) - **95.3%**, and exemptions for alcoholic beverages (mainly denatured alcohol) - **67.2%**

Distribution of ED expenditures by the amount in 2021, *per cent*

**Distribution of ED reliefs**  
(products subject to reduced ED rate)



**Distribution of ED exemptions**





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# VEHICLE TAX\* EXPENDITURES

\* The following can be added to vehicle taxes in Latvia:  
VEHICLE OPERATION TAX (VOT)  
COMPANY CAR TAX (CCT)



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# The amount of vehicle tax expenditures in 2021 was **~23 mln. euro**, which is **19%** of vehicle tax revenues

## Estimated amount of VOT and CCT expenditures in 2021, mln. euro

Tax exemptions and reliefs	2021
<b>1. Vehicles exempted from VOT<sup>2</sup>, including:</b>	<b>12.8</b>
1.1. Vehicles for persons with disabilities	10.0
1.2. Vehicles of persons who have dependent children with disabilities	0.6
1.3. For vehicles, for the time from the moment of the person's death to the moment of the change of owner	0.6
1.4. For vehicles with historic vehicle status	0.3
<b>2. VOT reliefs:</b>	<b>4.9</b>
2.1. <b>50 per cent</b> for a vehicle of institution subordinate to the Ministry of the Interior, an institution subordinate to the Ministry of Defense or the National Armed Forces, a local government police institution	0.4
2.2. <b>75 per cent</b> for a vehicle of a producer of agricultural products, an agricultural service co-operative society and a recognized aquaculture farm	2.0
2.3. <b>50 per cent</b> for one vehicle if the owner or holder has a large family (with 3 and more children)	2.0
2.4. <b>10 per cent</b> for cars and trucks with a gross weight of up to 3,500 kg, which are additionally equipped with gas as a fuel supply device	0.5
<b>3. Exemptions from the payment of CCT<sup>3</sup></b>	<b>5.6</b>
<b>TOTAL</b>	<b>23.3</b>
<i>Share of vehicle taxes revenue</i>	<i>19.0%</i>



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# **REAL ESTATE TAX (RET) EXPENDITURES**



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# The amount of RET expenditures in 2021 was **~19 mln. euro**, which mainly consists of tax incentives granted by local governments

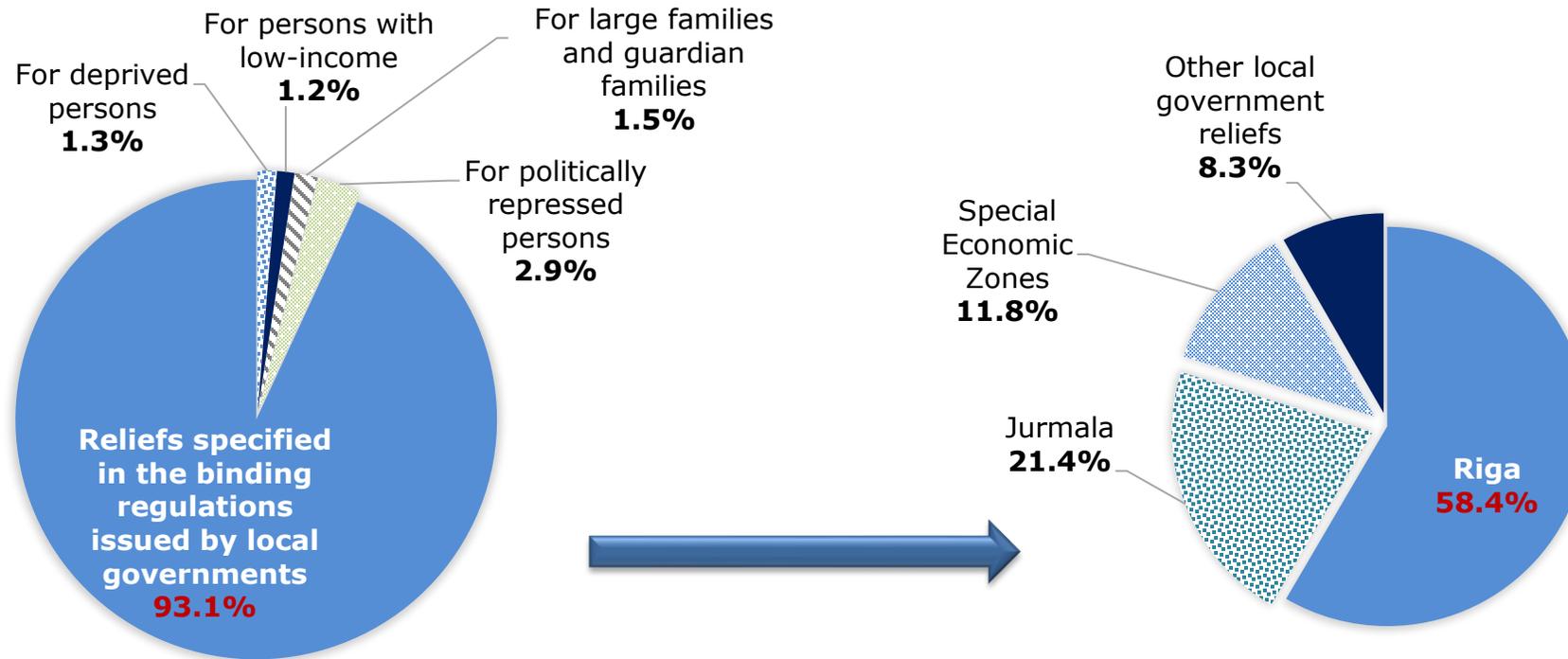
Estimated amount of RET expenditures 2021, *mln. euro*

Tax expenditures	2021
<b>1. Tax incentives provided by the <i>Law on Immovable property tax</i>, including:</b>	<b>1.3</b>
1.1. For deprived persons	0.2
1.2. For persons with low-income	0.2
1.3. For large families (with 3 or more children) and guardian families	0.3
1.4. For politically repressed persons	0.6
<b>2. Reliefs specified in the binding regulations issued by local governments, including:</b>	<b>17.7</b>
<b>2.1. In Riga, including:</b>	<b>10.4</b>
2.1.1. Reliefs for families with children	3.6
2.1.2. For buildings recognized as a State protected cultural monument and for buildings located in the State metropolitan monument area	2.1
2.1.3. For persons with disability and for pensioners	1.4
2.1.4. For residential houses owned by a municipal capital company	0.4
2.1.5. Relief for persons who have taken over the management of a residential house from the municipality	0.3
<b>2.2. In Jurmala, including:</b>	<b>3.8</b>
2.2.1. For properties, if a natural person has declared a place of residence in Jurmala	3.3
<b>2.3. For Special Economic Zones</b>	<b>2.1</b>
<b>2.4. RET reliefs to reduce Covid-19 consequences</b>	<b>0.2</b>
<b>TOTAL</b>	<b>19.1</b>
<b>Share of RET revenue</b>	<b>8.4%</b>



# More than half (~58%) of the RET expenditures granted by local governments are the incentives granted by the Riga City Council

Distribution of RET expenditures by the amount in 2021, per cent



\* More than half (**58.4 per cents**) of the total amount of incentives specified in the binding regulations of local governments is granted by the **Riga** City Council (in 2021 – 10.4 million euro). Special mention should be made of the additional tax incentives granted by the Riga City Council to families with children. Namely, in addition to the reliefs already provided by law for large families (50 per cents of the calculated RET for persons with three or more children under the age of 18, but not more than 500 euro), the Riga City Council has set additional reliefs in its binding regulations: **90 per cent** for three or more children, **70 per cent** for two children and **50 per cent** for one child.

The RET relief granted in **Jurmala** for properties, if a natural person has declared his / her basic residence in the administrative territory of Jurmala, in 2021 accounted 21.4 per cent of the total amount of reliefs and 86.3 per cent of the total amount of reliefs in Jurmala.



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# **MICRO – ENTERPRISE TAX (MET)**



**In 2021, the amount of theoretically foregone tax revenue was ~19 mln. euro, which is 33.8% of the total revenue of MET**

**MET regime – theoretically foregone tax revenue 2021\*, mln. euro**

<b>MET regime</b>	<b>2021</b>
<b>Total impact of MET, including:</b>	<b>18.9</b>
<i>MET impact on SSC</i>	9.8
<i>MET impact on PIT</i>	9.1
<b>Share of MET revenue</b>	<b>33.8%</b>

\* Theoretical assessment of the Ministry of Finance of how much the state loses in the form of taxes, assuming that existing MUN owners would have applied PIT and SSC to their remuneration in 2021 as in the general regime.



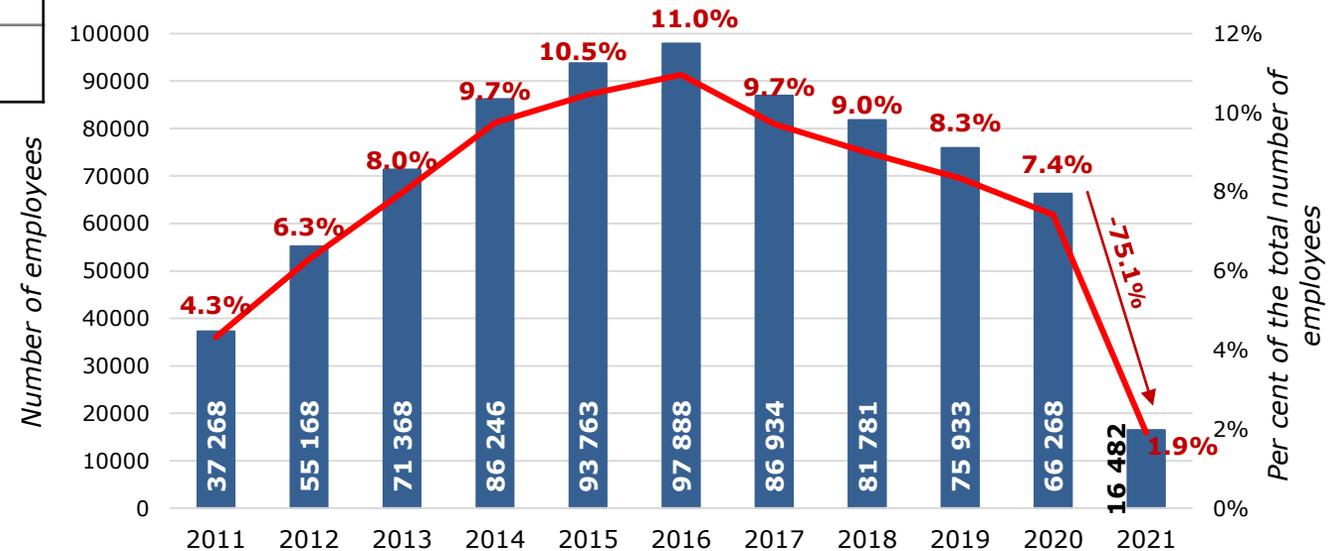
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# After the changes made in the *Microenterprise Tax Law* in 2021, the number of employees of MUN has drastically decreased

## MET rates from 2016 to 2021

	2016	2017	From 2018 to 2020	2021
<b>Turnover, euro per year</b>				
Up to 7,000 (from 2021 – up to 25,000)	9%	12%	15%	25%
From 7,000 to 100,000 (from 2018 – up to 40,000) (from 2021 – above 25,000)		15%		40%
Excess turnover	+20%			-
If the number of employees exceeds 5	2% for each employee above 5			-
If the employee's income exceeds 720 euro	20% from excess income			-

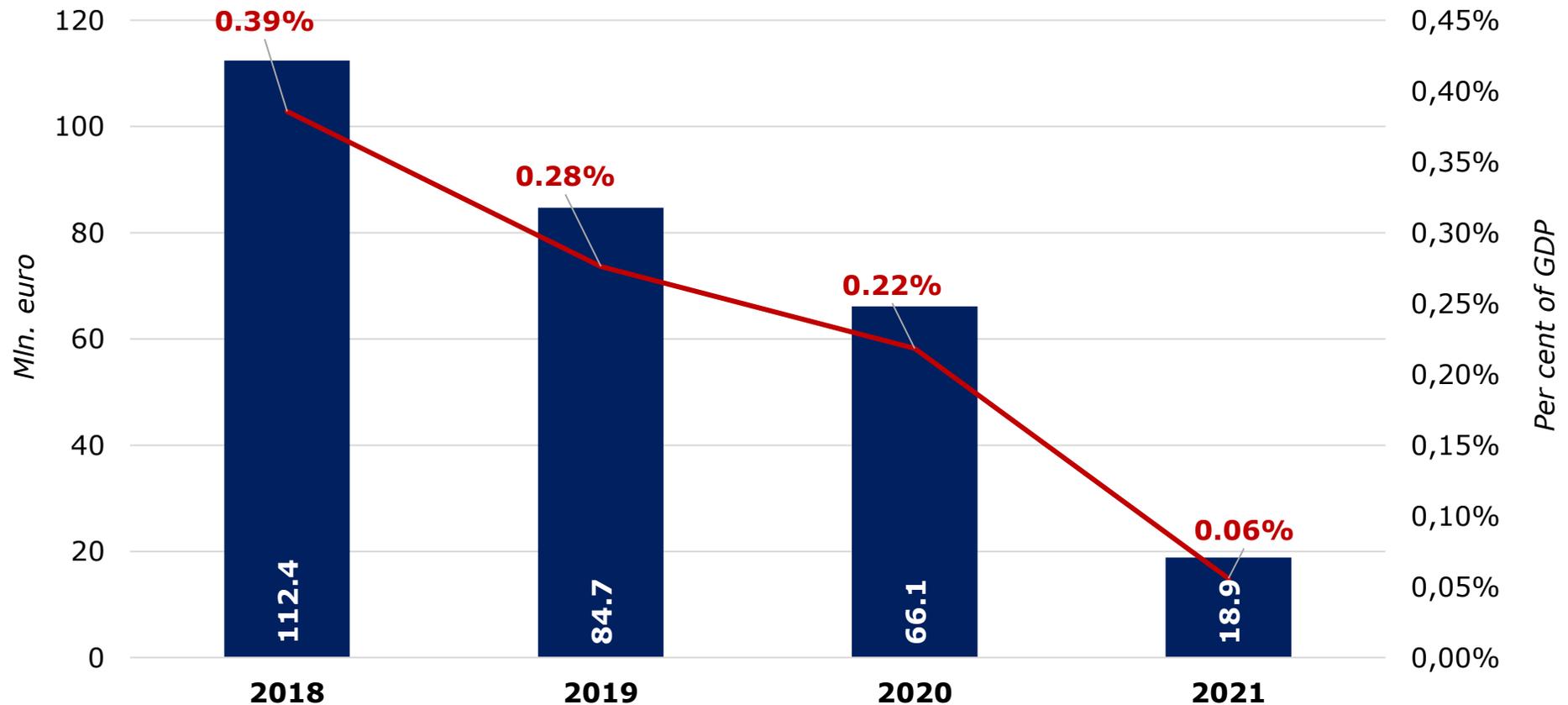
## Number of employees in micro-enterprises





**As a result of the limitation of the MET regime, the theoretically foregone tax revenue in 2021, compared to 2020, have decreased by **47.3 mln. euro** or by **71.5%****

**Distribution of MET expenditures by the amount in 2018 – 2021,**  
*mln. euro and per cent of GDP*





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# **ELECTRICITY TAX (ET) EXPENDITURES**



# The amount of ET expenditures in 2021 is insignificant - **2.3 mln. euro**, but it amounts to **~46%** of EN revenues

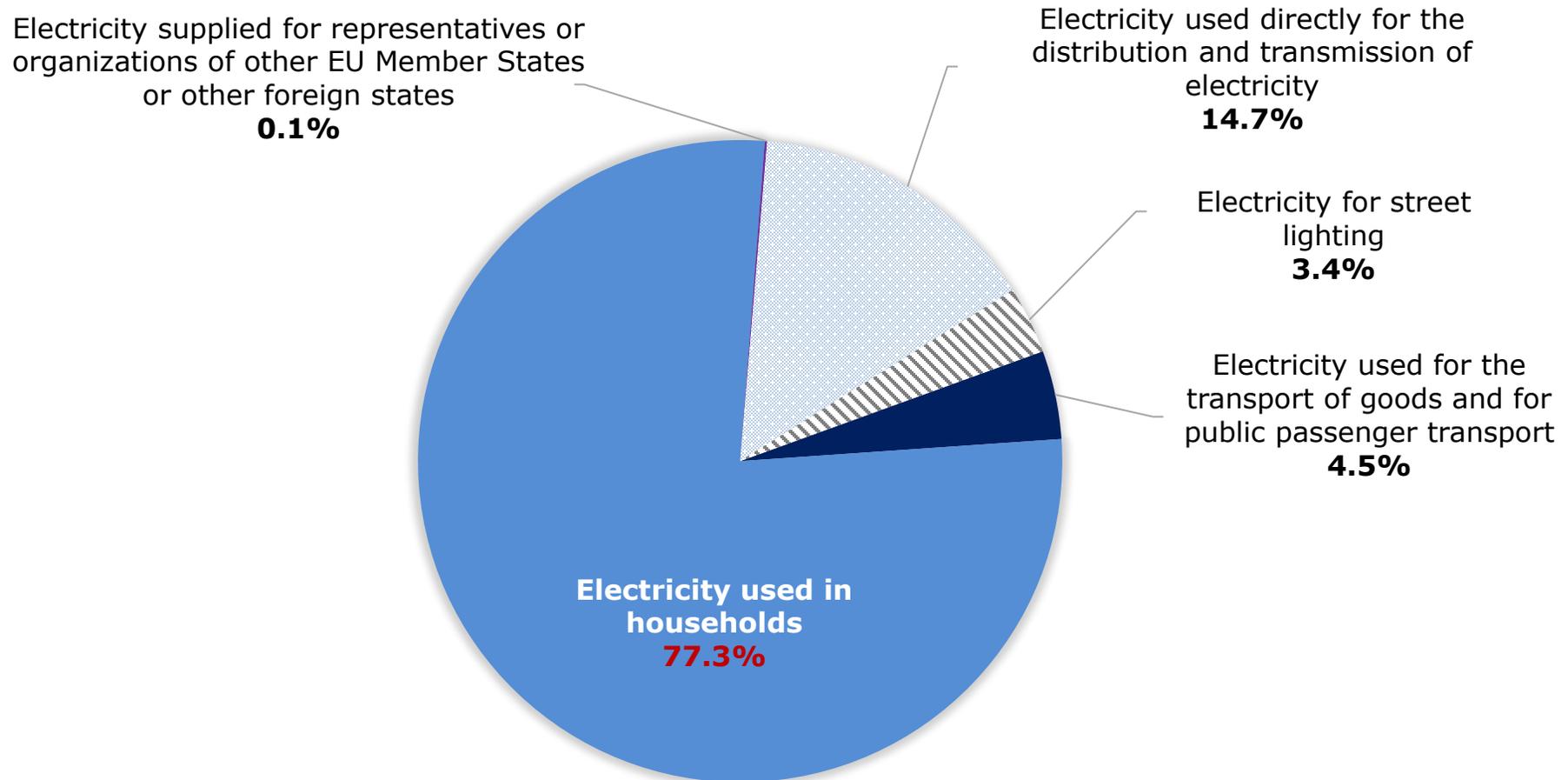
## Estimated amount of ET expenditures in 2021, *mln. euro*

<b>Tax exemptions and reliefs</b>	<b>2021</b>
<b>1. Electricity exempt from tax, including:</b>	<b>2.3</b>
1.1. Electricity used for the transport of goods and for public passenger transport	0.1
1.2. Electricity used in households	1.8
1.3. Electricity supplied for representatives or organizations of other EU Member states or other foreign states	0.003
1.4. Electricity used directly for the distribution and transmission of electricity	0.3
<b>2. Taxable amount of electricity supplied to persons for the provision of street lighting services</b>	<b>0.1</b>
<b>TOTAL</b>	<b>2.3</b>
<b>Share of ET revenue</b>	<b>46.1%</b>



# ~77% of ET expenditures are formed of ET incentives for household users

Distribution of ET expenditures by the amount in 2021, per cent





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**FEBRUARY 2023**