

Ministry of Finance
Republic of Latvia

TAX EXPENDITURES 2020

JANUARY 2022



Definition of Tax Expenditures (Exemptions and Reliefs)

In international practice, for tax reliefs and exemptions a broader term, namely - «tax expenditures» is used.

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

Tax expenditures *are also government foregone revenue, due to the existence of tax reliefs and exemptions.***

Types of Tax expenditures:

- 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.



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

**Schick A., *Performance Budgeting and Accrual Budgeting: Decision Rules or Analytic Tools*, 2007



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Tax Expenditures – government foregone revenue – above **2,5 billion euro, ~1/4** of total tax revenue and **8.4%** of GDP

Estimated amount of tax expenditures in 2018 –2020

Tax	2020			2019			2018		
	Mln. euro	% of TR*	% of GDP	Mln. euro	% of TR*	% of GDP	Mln. euro	% of TR*	% of GDP
Personal Income Tax	968.2	53.2	3.30	890.4	46.1	2.93	839.4	48.6	2.88
Corporate Income Tax	20.7	10.0	0.07	20.8	46.4	0.07	6.9	2.3	0.02
Micro-enterprise Tax	66.1	99.6	0.23	84.7	104.1	0.28	112.4	124.9	0.39
Real Estate Tax	18.8	8.5	0.06	19.2	8.5	0.06	18.2	8.2	0.06
Value Added Tax	895.6	35.2	3.05	928.0	35.0	3.05	901.3	36.7	3.09
Excise Duty	239.1	22.6	0.81	176.4	16.6	0.58	186.3	18.1	0.64
Natural Resources Tax	246.8	721.3	0.84	241.5	793.2	0.79	211.2	700.8	0.72
Vehicle Operation Tax	15.6	16.0	0.05	14.8	15.5	0.05	13.3	14.1	0.05
Company Car Tax	5.0	23.1	0.02	5.2	24.5	0.02	4.8	22.4	0.02
Electricity Tax	2.2	46.8	0.01	2.3	45.0	0.01	2.3	45.4	0.01
TOTAL	2 478.2	25.9	8.45	2 383.2	24.7	7.83	2 296.1	25.0	7.88

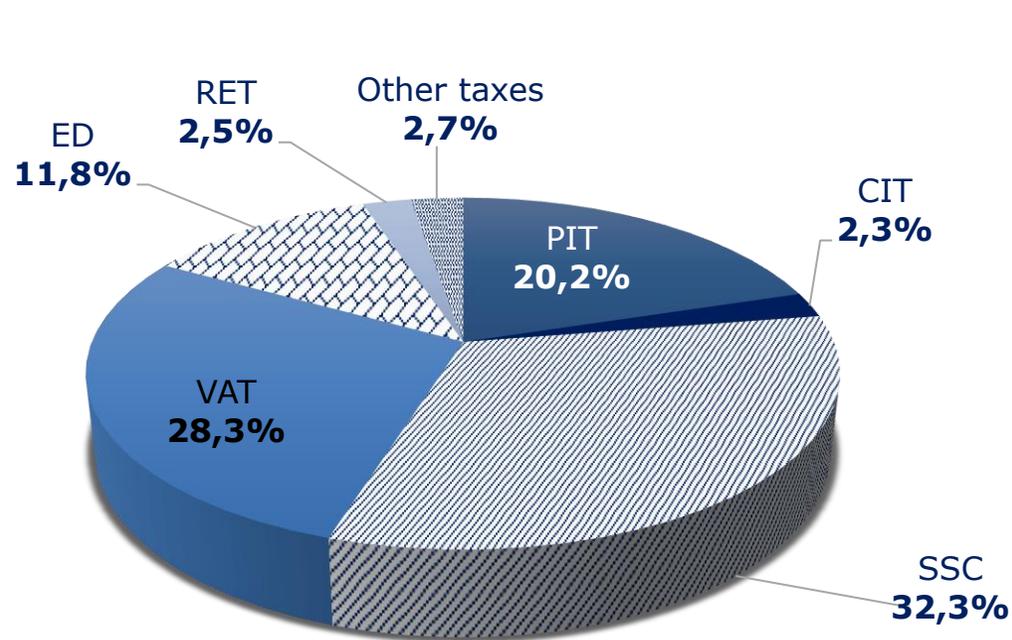
* % of analyzed tax revenue, column **TOTAL** – % of total analyzed tax revenue



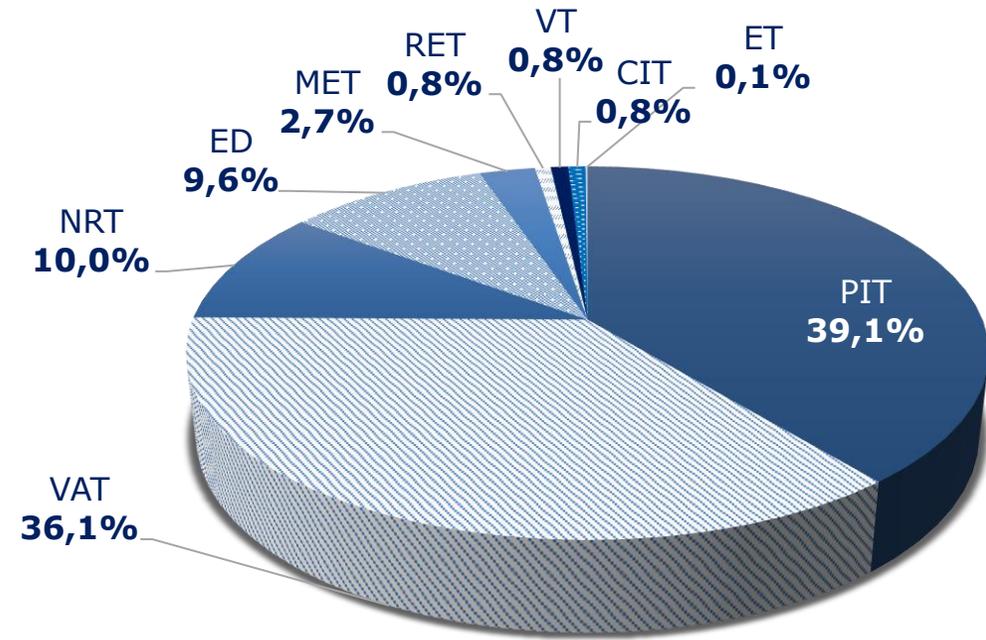
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Main Tax Expenditures in 2020 in Latvia - VAT and PIT

Distribution of tax revenues* in 2020



Distribution of tax expenditure amount in 2020



SSC - Compulsory State Social Security Contributions

VAT - Value Added Tax

PIT - Personal Income Tax

CIT - Corporate Income Tax

ED - Excise Duty

RET - Real Estate Tax

NRT - Natural Resources Tax

MET - Micro-enterprise Tax

VT - Vehicle Taxes

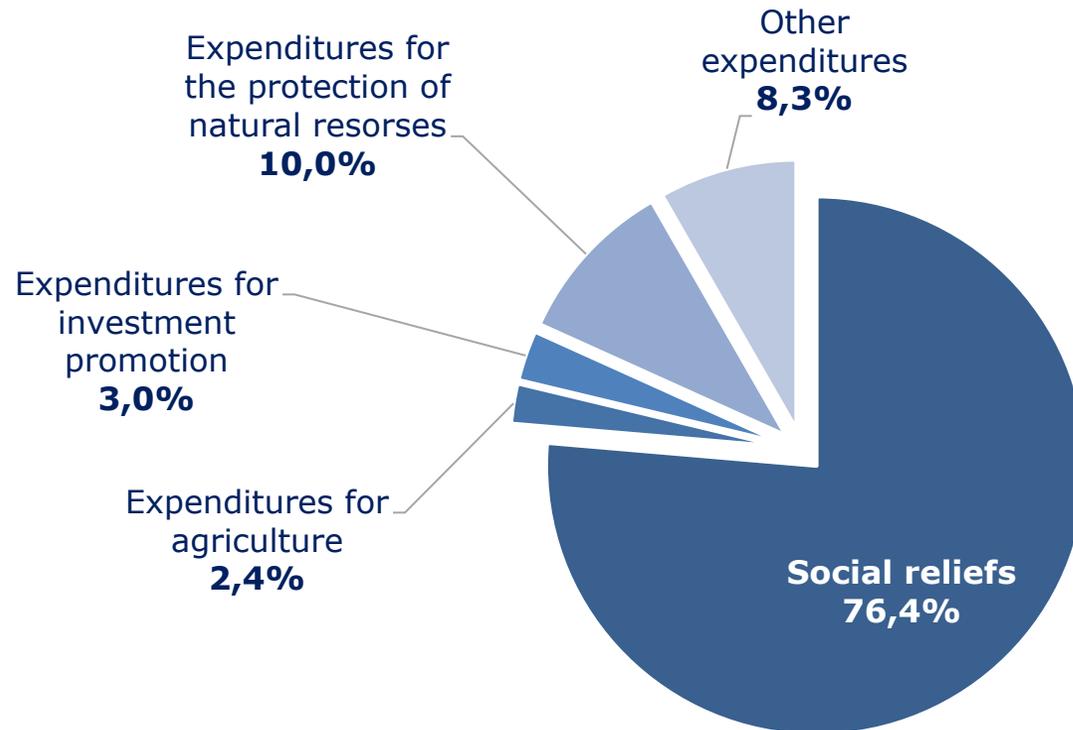
ET - Electricity Tax

* Excluding contributions to the state funded pension scheme



Highest Amount of Expenditures – social reliefs for citizens

Tax expenditures by amount and purpose in 2020, per cent



- *Social reliefs are aid to different groups of citizens in increasing their income and reducing their costs by providing support for socially disadvantaged people.*
- *The expenditures for investment promotion consist of CIT reliefs and the impact of the Micro-enterprise Tax regime. Also, the CIT system itself has already been designed to encourage investment.*



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PERSONAL INCOME TAX (PIT) EXPENDITURES





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PIT expenditures ~1 billion euro, slightly more than half of PIT revenue in 2020

Estimated amount of PIT expenditures in 2018 – 2020, mln. euro

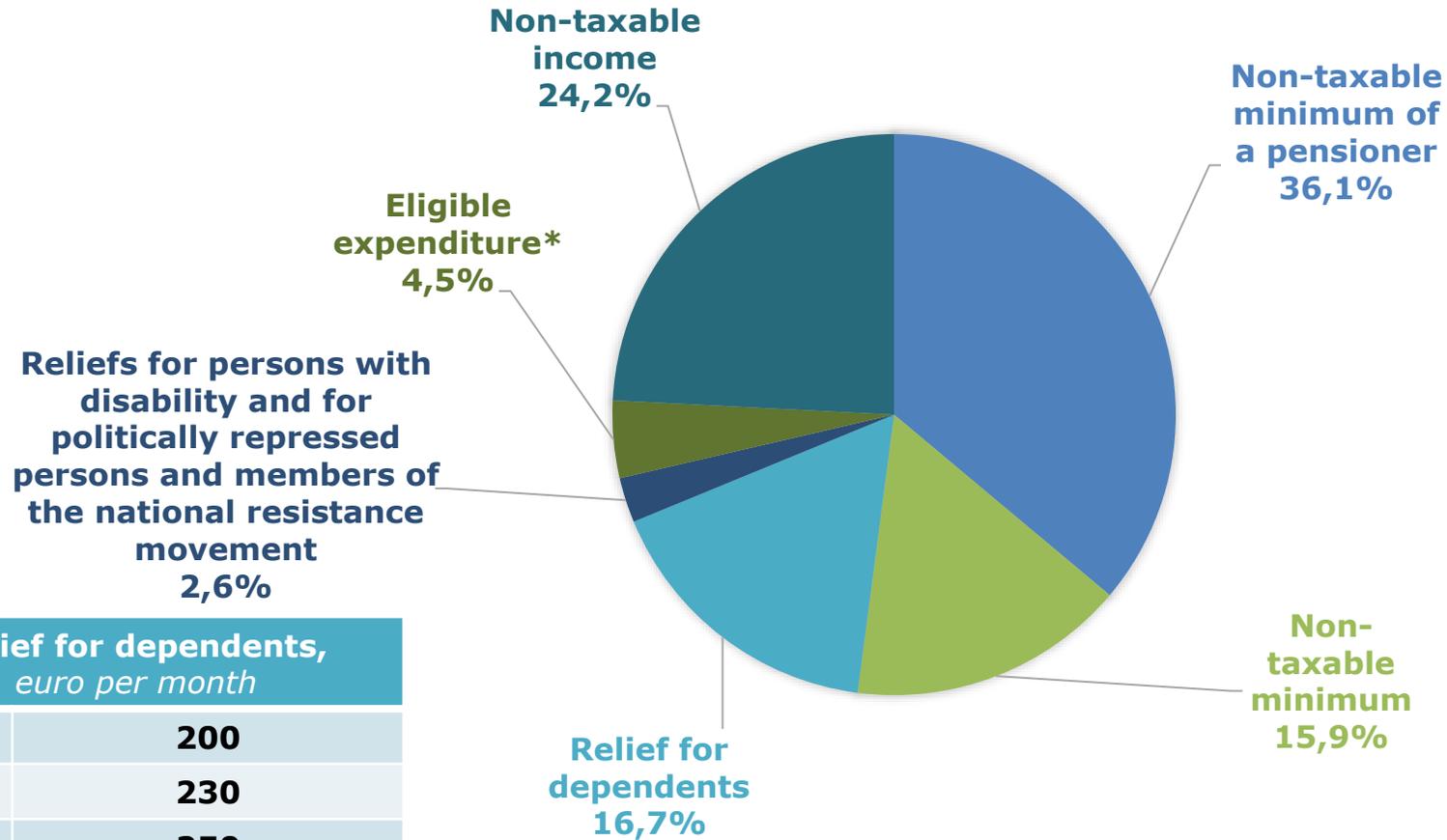
Tax reliefs	2020	2019	2018
Non-taxable minimum, including:	504.1	464.0	443.7
1. Non-taxable minimum	154.4	140.7	140.0
2. Non-taxable minimum of a pensioner	349.7	323.3	303.7
Tax reliefs, including:	186.7	176.5	153.5
1. Relief for dependents	161.7	151.8	130.3
2. Relief for persons who have been recognized as persons with disability	22.7	22.2	20.7
3. Relief for politically repressed persons and members of the national resistance movement	2.4	2.5	2.5
Eligible expenditure for:	43.1	50.3	50.3
1. Education, medical services, donations and gifts	24.3	29.1	29.1
2. Contributions to private pension funds and payments of insurance premiums	18.8	21.1	21.1
Non-taxable income*, such as:	234.2	199.6	191.9
1. Benefits and reimbursements paid by the State Social Insurance Agency	143.4	128.2	120.9
2. Income obtained as a result of reduction or repayment of loan (credit) liabilities	20.1	1.5	2.3
3. Income from the alienation of personal property (except immovable property)	16.1	20.3	19.5
TOTAL RELIEFS (except non-taxable income)	734.0	690.8	647.5
TOTAL	968.2	890.4	839.4
Per cent of PIT revenue	53.2%	46.1%	48.6%

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



PIT expenditures– substantial social support

Distribution of PIT expenditures by the amount in 2020, per cent



Relief for dependents, euro per month	
2018	200
2019	230
2020	250
2021	250

Non-taxable minimum of a pensioner, euro per month	
2018	250
2019	270
2020	300
2021	330

Max. differentiated non-taxable minimum, euro per month	
2018	200
2019	230
2020	300
2021	300

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



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VALUE ADDED TAX (VAT) EXPENDITURES





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VAT expenditures ~0.9 billion euro, about 1/3 of VAT revenue in 2020

Estimated amount of VAT expenditures in 2018 – 2020, mln. euro

Taxable goods and services	2020	2019	2018
Transactions subject to reduced VAT rates, including:	118.2	134.8	127.4
1. Medication supplies	35.7	34.1	33.5
2. Supplies of medical devices	3.5	4.0	3.6
3. Supplies of specialized food products intended for infants ¹	0.99	1.1	1.1
4. Inland transport services of passengers and their luggage	14.9	23.6	22.3
5. Supplies of educational and original literature editions	1.4	1.6	1.6
6. Supplies of newspapers, magazines, bulletins and other periodicals	2.9	3.0	3.2
7. Accommodation services in tourist accommodation sites	5.6	14.0	12.2
8. Supplies of thermal energy for domestic needs	15.7	16.8	17.2
9. Supplies of firewood for domestic needs ¹	11.9	12.0	12.3
10. Supplies of fresh fruits, berries and vegetables	25.7	24.7	20.6
Non-taxable supplies²	777.4	793.1	773.9
TOTAL	895.6	928.0	901.3
Per cent of VAT revenue	35.2%	35.0%	36.7%

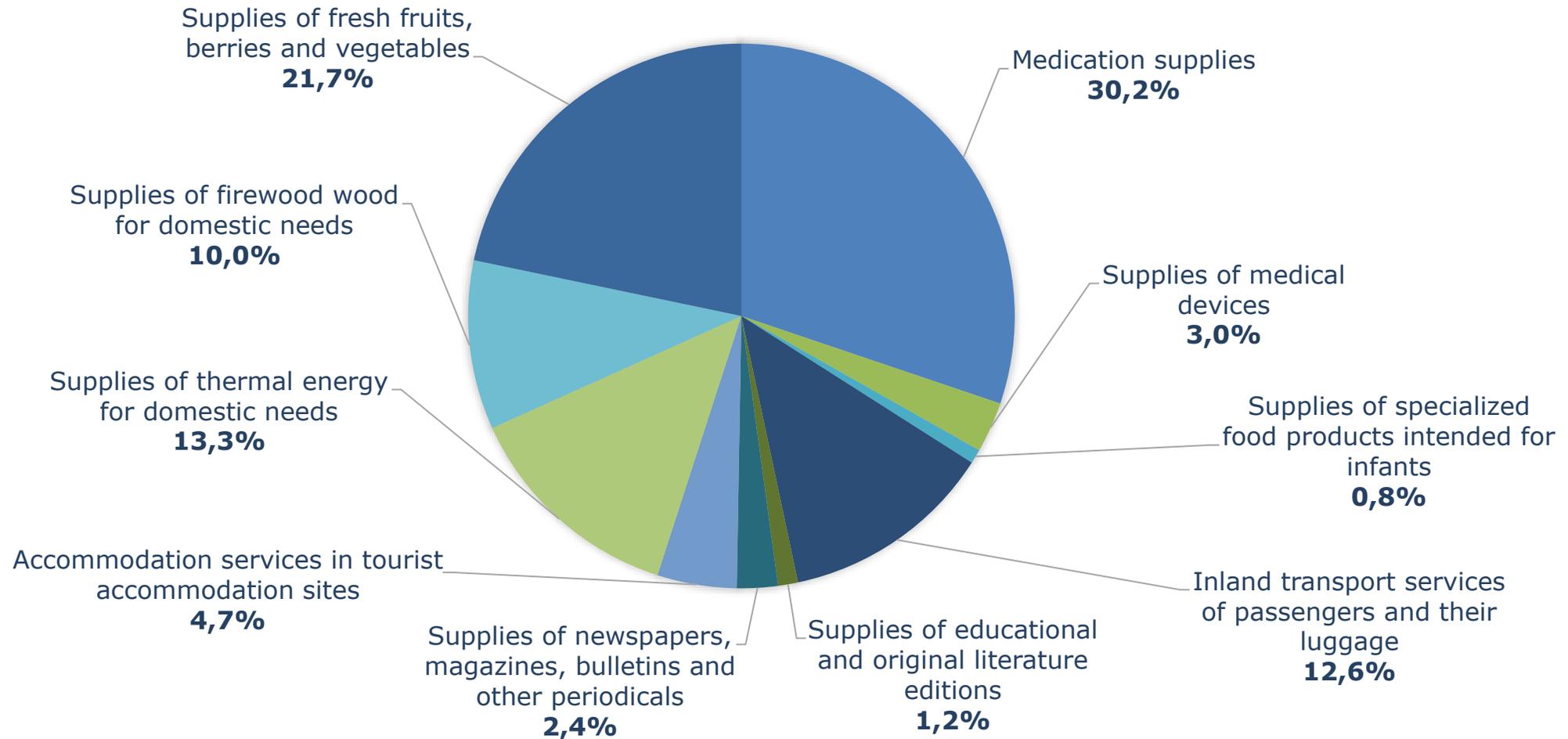
¹ Data available for 2018, for 2019 and 2020 an indicative assessment was calculated

² Non-taxable supplies, according to Value Added Tax Law, Section 52 and non-taxable supplies of investment gold, according to Section 139. 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.



Reduced VAT rates (5 per cent and 12 per cent) – socially sensitive issue

Distribution of goods and services subject to reduced VAT rates by the amount in 2020, per cent





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CORPORATE INCOME TAX (CIT) EXPENDITURES





From 2018 a new tax model is introduced – the **payment of CIT is deferred** until the profit is distributed or otherwise directed to expenditure which does not ensure the further development of the company

The new CIT model itself is a relieved tax regime, so most of the tax expenditures that existed until 2018 were not maintained.

Retained expenditures:

- relief for donations to Public Benefit Organizations (in order to increase the intensity of donations, **between 2020 and 2022**, companies that donate to public benefit organizations will be able to reduce the CIT to be paid for dividends calculated in the accounting year by **85%** of the amount donated, while at the same time not exceeding **30%** of the calculated CIT amount for the calculated dividends);
- relief for income from the share alienation;
- relief for subsidies to taxpayers who carry out agricultural activities;
- relief for shipping industry for shipments to domestic companies.

The transitional rules include the following expenditures, which have been taken over for a specified period from the Law on Corporate Income Tax:

- transfer of losses of the previous years - 5-year transitional period;
- 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;
- tax relief for the supported investment projects - approved by the Cabinet by 31 December 2017;
- tax relief for investments in Free ports or Special Economic Zones - investments made by 31 December 2035 or the estimated wage costs made by 31 December 2024 (effective from 2020).



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The CIT expenditure amount in 2020 has decreased by 0.3 per cent compared to 2019

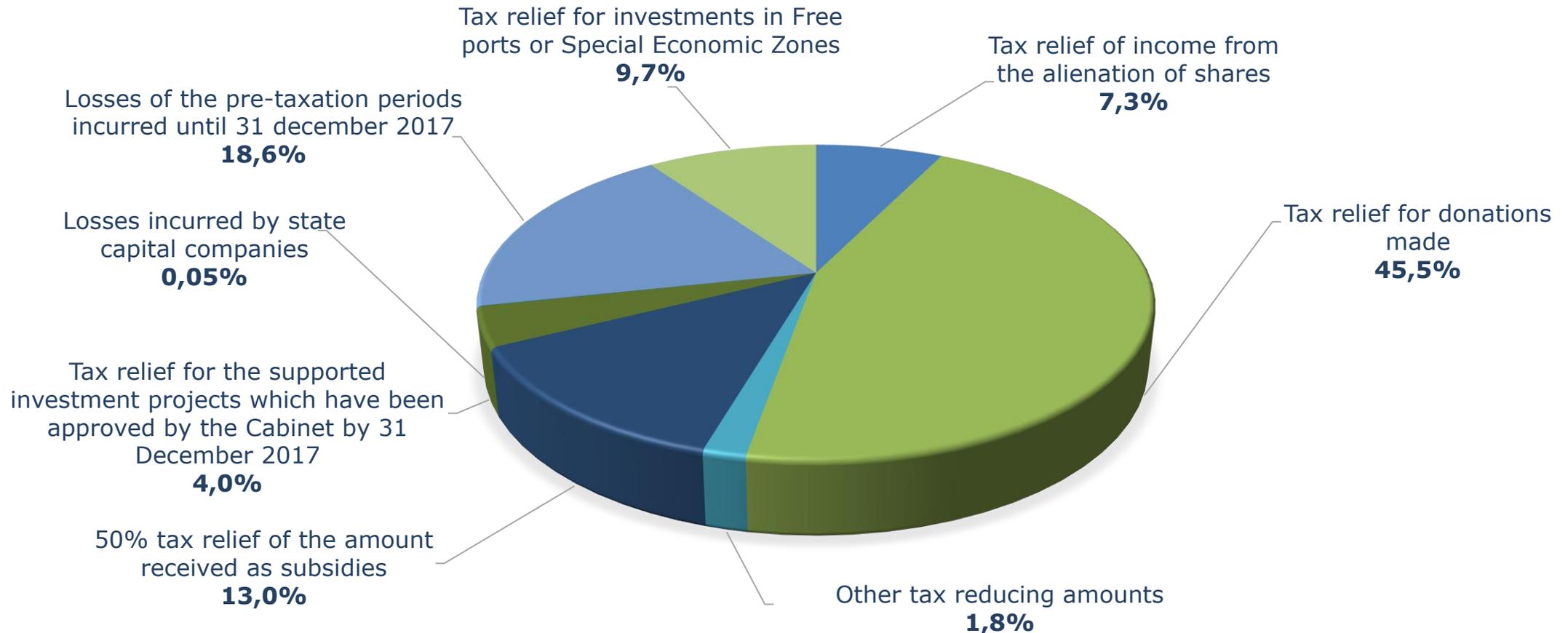
Estimated amount of CIT expenditures in 2018 - 2020, mln. euro

Tax reliefs	2020	2019	2018
Statutory tax reliefs, including:	14.0	14.1	5.8
1. Tax relief for donations	9.4	8.2	0.2
2. Tax relief for income from the alienation of shares	1.5	3.1	3.3
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	2.7	2.0	1.4
4. Other tax reducing amounts	0.4	0.7	0.9
Tax reliefs with transitional period, including:	6.7	6.7	1.1
1. Tax relief for the possibility to cover losses of the taxation period and the previous period (with five years transitional period)	3.9	4.9	0.4
2. Tax relief for losses incurred by a state capital companies, the shares of which may not be alienated, which performs functions delegated by the state not related to economic activity	0.01	0.01	0.02
3. Tax relief for the supported investment projects which have been approved by the Cabinet by 31 December 2017	0.8	0.8	0.7
4. Tax relief for investments in Free ports or Special Economic Zones	2.0	0.9	0.0
TOTAL	20.7	20.8	6.9
Per cent of CIT revenue	10.0%	46.4%	2.3%



Main CIT expenditures in 2020 – tax relief for donations and the possibility to cover losses of pre-taxation periods

Distribution of CIT expenditures by the amount in 2020, per cent





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CIT expenditures by sectors - most used in wholesale, retail and manufacturing

Wholesale and retail; repair of motor vehicles and motorcycles 10,6%

Manufacturing industry 9,8%

Information and communication services 9,4%

Agriculture, forestry, fisheries 4,7%

Transport and storage 4,6%

**Real estate
operations 3,3%**

Construction 2,4%

**Professional, scientific and
technical services 0,6%**

Other 54,5%



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NATURAL RESOURCE TAX (NRT) EXPENDITURES





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NRT expenditures **0.3 billion euro**, which is **7 times** more than total NRT revenue in 2020

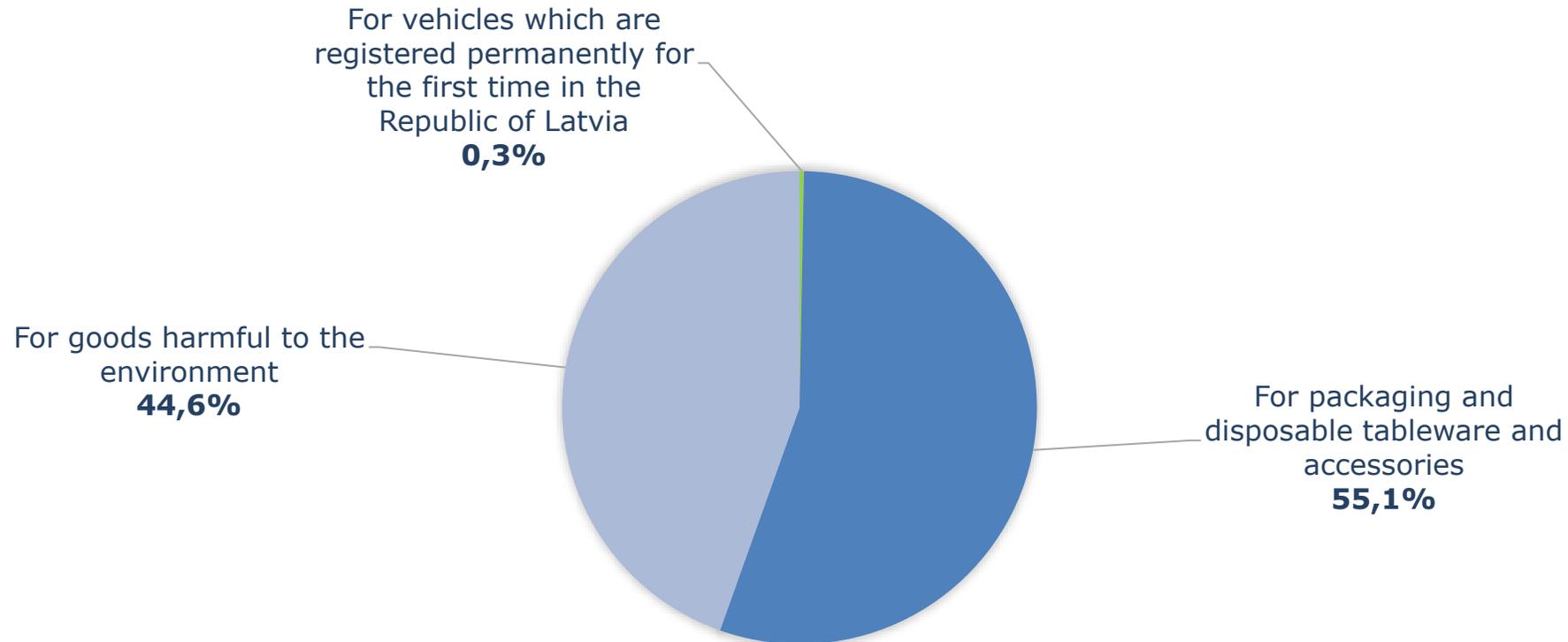
Estimated amount of NRT expenditures 2018 - 2020, *mln. euro*

Tax exemptions	2020	2019	2018
For vehicles which are registered permanently for the first time in the Republic of Latvia	0.7	1.0	0.9
For packaging and disposable tableware and accessories, including:	136.1	132.8	133.7
1. Of glass source materials	29.0	28.9	27.6
2. Of plastic (polymer) source materials	49.9	46.7	47.2
3. Of metal source materials	12.7	12.9	13.5
4. Of wood, paper and cardboard or other natural fibres and bioplastic source materials	35.0	33.8	32.9
5. Plastic carrier bags	7.2	8.3	10.0
6. Of oxy-degradable plastic and polystyrene source materials	2.2	2.3	2.5
For goods harmful to the environment, including	110.0	107.8	76.6
1. Lubricating oils	2.9	3.1	2.9
2. Electric batteries, lead	3.3	3.3	3.6
3. Galvanic elements and galvanic pile	4.6	4.4	3.7
4. Other electrical batteries	3.4	3.2	3.2
5. All types of tyres	10.6	10.2	10.8
6. Electrical and electronic equipment, including	85.3	83.6	52.5
6.1. Temperature exchange equipment	13.6	12.6	Electrical and electronic equipment classification and tax rates have been changed since 1st July 2018, grouping them in 6 categories instead of previous 11
6.2. Screens, monitors, and equipment containing screens having a surface greater than 100 cm ²	10.6	10.3	
6.3. Light bulbs	2.3	2.7	
6.4. Large equipment (at least one external dimension exceeds 50 cm)	37.6	38.9	
6.5. Small equipment (no external dimension greater than 50 cm)	18.3	15.8	
6.6. Small information technology and telecommunication equipment	2.8	3.3	
TOTAL	246.8	241.5	211.2
Per cent of NRT revenue	721.3%	793.2%	700.8%



The purpose of NRT expenditures is to achieve active involvement of producers and traders and responsibility for ensuring waste management*

Distribution of NRT expenditures by the amount in 2020, per cent



* 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 MEPRD subordinate institution and concluded agreement on the application of the management system.



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MICRO – ENTERPRISE TAX (MET)





Theoretically, the amount of foregone tax revenue is **66.1** mln. euro, which is **99.6%** of total MET revenue in **2020**

MET regime – theoretically foregone tax revenue 2018 – 2020*, mln. euro

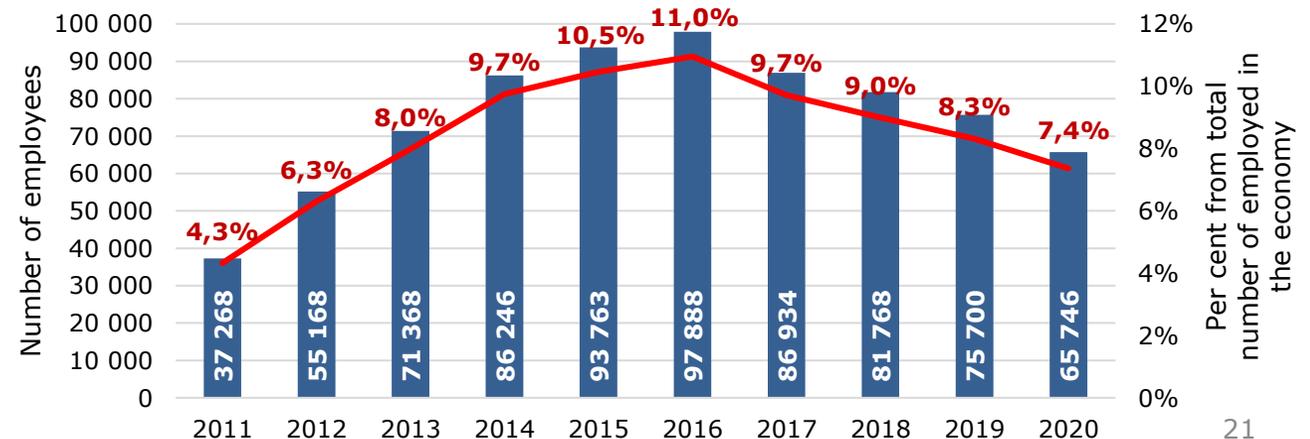
MET regime	2020	2019	2018
Total impact of MET, including:	66.1	84.7	112.4
MET impact on SSC	56.4	65.5	83.1
MET impact on PIT	9.7	19.2	29.4
Per cent of MET revenue	99.6%	104.1%	124.9%

* Theoretical assessment of the Ministry of Finance of how much the state loses in the form of taxes, allowing the application of the MET regime, assuming that the existing MET payers would have paid PIT and SSC as in a general regime

MET rates from 2016 to 2020

	2016	2017	From 2018 to 2020
Turnover, euro per year			
Up to 7,000		12%	15%
From 7,000 to 100,000 (from 1 January 2018 – up to 40,000)	9%	15%	
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





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EXCISE DUTY (ED) EXPENDITURES





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ED expenditures ~239 mln. euro, which is almost 23% of total ED revenue in 2020

Estimated amount of ED expenditures in 2018 - 2020, mln. euro

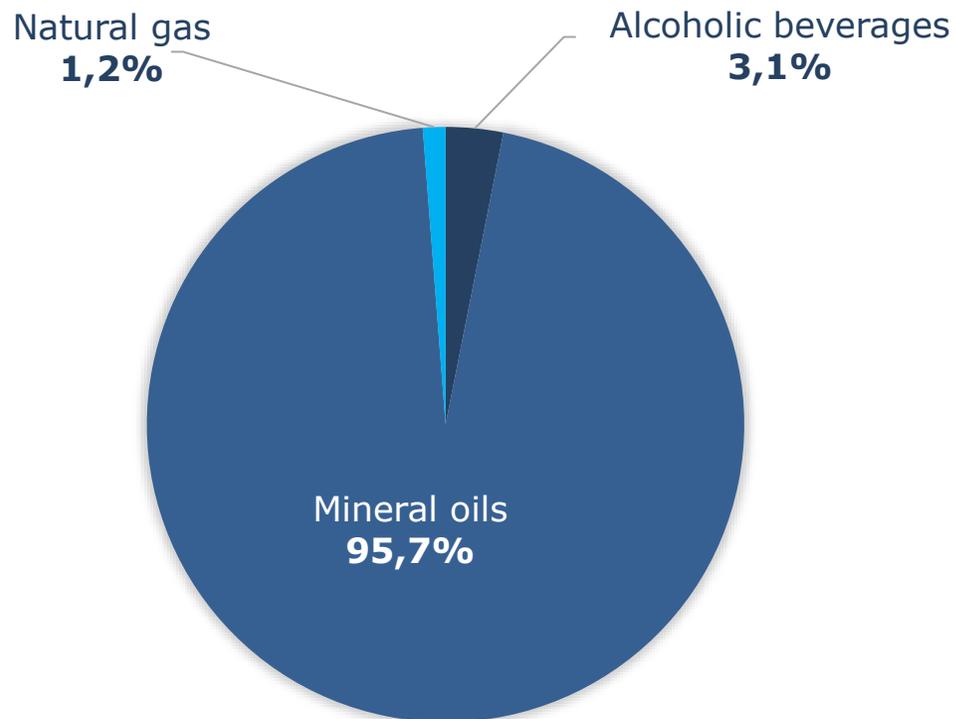
Tax exemptions and reliefs	2020	2019	2018
Reduced ED rates, including:	74.7	65.3	60.9
1. Alcoholic beverages (for small brewery beer realization)	2.3	2.2	1.6
2. Mineral oils (for labelled mineral oils used as fuel and for agricultural purposes, as well as biofuels)	71.5	62.2	58.2
3. Natural Gas (for use as a fuel in industrial production and processing of agricultural raw materials)	0.9	0.9	1.1
Exemptions, including:	164.3	111.1	125.3
1. Alcoholic beverages (mainly denatured alcohol)	129.5	41.9	58.4
2. Tobacco products (delivered to ships and aircrafts which engaged in international transport)	2.6	3.0	3.3
3. Mineral oils (supplied and used in aircrafts which are not used for private recreation and entertainment)	30.7	64.6	62.2
4. Natural gas (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)	1.4	1.5	1.3
5. Non-alcoholic beverages and coffee	0.1	0.1	0.1
TOTAL	239.1	176.4	186.3
Per cent of ED revenue	22.6%	16.6%	18.1%



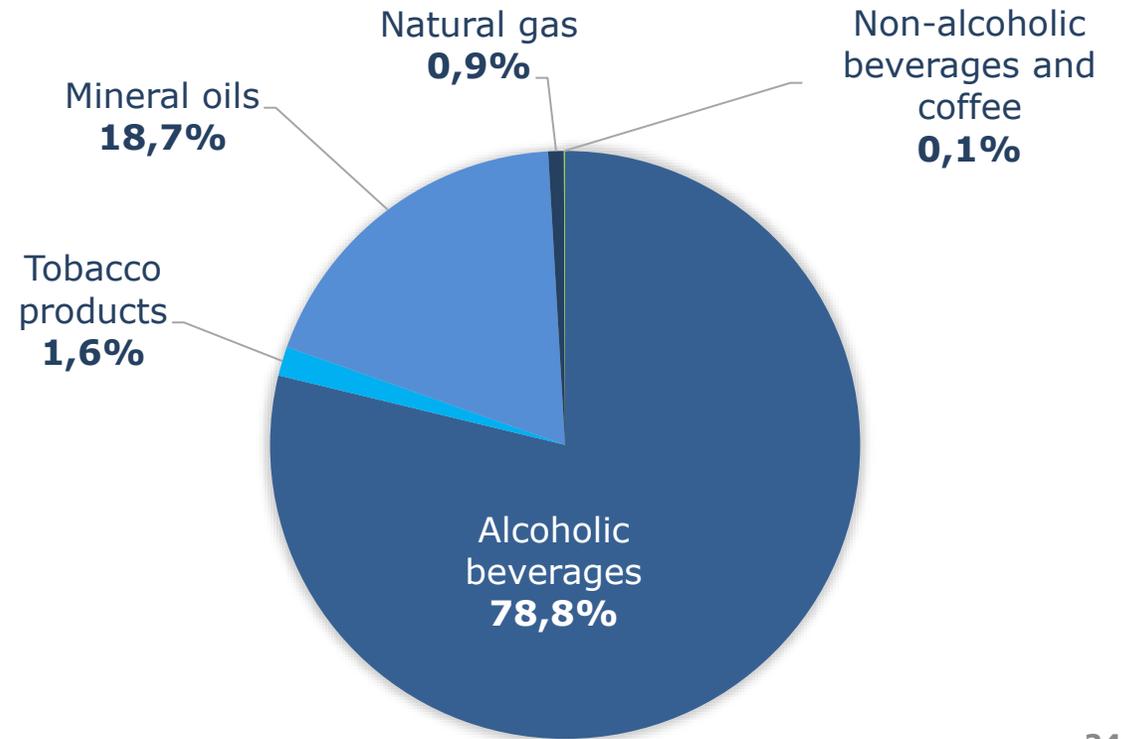
Highest ED expenditure amount of reduced rates – ~96% mineral oils (agriculture, fuels and biofuels), of exemptions ~79% for mineral oils (mainly for use in aircraft for commercial purposes)

Distribution of ED expenditures by the amount in 2020, per cent

Distribution of the amount of products subject to the reduced ED rates



Distribution of the amount of ED exemptions





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REAL ESTATE TAX (RET) EXPENDITURES





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RET expenditures ~19 mln. euro, which is not significant comparing to other tax expenditures (8.5% of RET revenue)

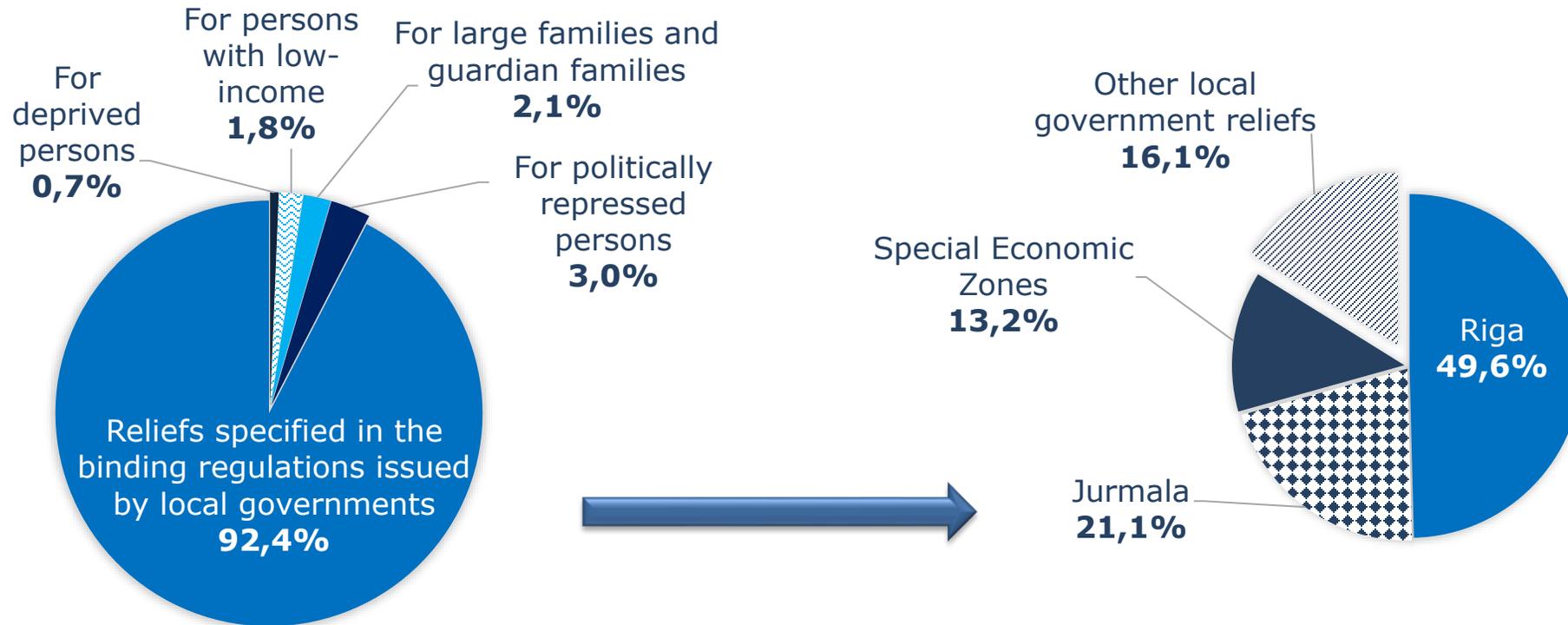
Estimated amount of RET expenditures 2018 - 2020, mln. euro

Tax and reliefs	2020	2019	2018
The Law on Immovable property tax provides the following reliefs, including:	1.4	1.4	2.0
<i>For deprived persons</i>	0.1	0.1	0.1
<i>For persons with low-income</i>	0.3	0.4	0.4
<i>For large families (with 3 or more children) and guardian families</i>	0.4	0.3	0.9
<i>For politically repressed persons</i>	0.6	0.6	0.6
Reliefs specified in the binding regulations issued by local governments, including:	17.4	17.8	16.2
In Riga, including:	8.6	10.2	9.3
<i>Reliefs for families with children</i>	3.5	3.3	3.1
<i>For buildings recognized as a State protected cultural monument and for buildings located in the State metropolitan monument area</i>	1.9	2.3	2.0
<i>For persons with disability and for pensioners</i>	1.4	1.2	1.2
<i>For residential houses owned by a municipal capital company</i>	0.5	0.6	0.5
<i>Relief for person who have taken over the management of a residential house from the municipality</i>	0.6	2.0	1.6
In Jurmala, including:	3.7	3.6	3.6
<i>For properties, if a natural person has declared a place of residence in Jurmala</i>	3.2	3.2	3.4
For Special Economic Zones	2.3	2.2	2.0
RET reliefs to reduce Covid-19 consequences	0.8	-	-
TOTAL	18.8	19.2	18.2
Per cent of RET revenue	8.5%	8.5%	8.2%



RET expenditures - dominated by reliefs granted by local governments (~92%)

Distribution of RET expenditures by the amount in 2020, per cent



* Almost half (49.6 per cents) of the total amount of reliefs specified in the binding regulations of local governments is made up of tax reliefs granted by the **Riga** City Council (in 2020 – 8.6 million euro). Special mention should be made of the additional tax reliefs 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.

On the other hand, 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 2020 accounted 17.1 per cent of the total amount of reliefs and 85.8 per cent of the total amount of reliefs in Jurmala.



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VEHICLE TAX EXPENDITURES



VOT – VEHICLE OPERATION TAX
CCT – COMPANY CAR TAX



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The impact of vehicle tax expenditures is relatively insignificant (only **0.07%** of GDP)

Estimated amount of VOT and CCT expenditures¹ in 2018 - 2020, mln. euro

Tax exemptions and reliefs	2020	2019	2018
Vehicles exempted from the VOT²:	11.8	11.2	10.1
1. Motorcycles, tricycles and quadricycles	0.04	0.04	0.04
2. Cars (reg. before 2005)	6.1	6.3	6.2
3. Cars (reg. after 2005)	3.4	3.0	3.1
4. Cars (reg. after December 31, 2008)	1.8	1.5	0.3
6. Buses, trucks, saddle tractors, trailers and semi-trailers	0.4	0.5	0.3
VOT reliefs:	3.9	3.6	3.1
1. 50 per cent for a vehicle the owner, holder or driver of which is an 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	0.3	0.2	0.2
2. 75 per cent (50 per cent before 2017) for a producer of agricultural products, an agricultural service co-operative society and a recognized aquaculture farm vehicles	1.7	1.6	1.4
3. 50 per cent for one vehicle if the owner or holder has a large family (with 3 and more children)	1.9	1.7	1.5
Exemptions from the Payment of the CCT³	5.0	5.2	4.8
TOTAL	20.7	20.0	18.1
Per cent of vehicle taxes revenue	17.3%	17.2%	15.6%

¹ Main exemptions and reliefs for which information is available

² Vehicle operation tax exemptions for disabled, diplomatic, consular or international representation vehicles, operational vehicles, vehicles with historic vehicle status, sports vehicles, vehicles for the care of disabled children and electric vehicles, under the Vehicle Operation Tax and Company Car Tax Law, Section 6

³ Exemptions from company car tax for emergency vehicles, manufacturer demonstration vehicles, rental vehicles with specific conditions, vehicles used exclusively for business purposes, vehicles with historic vehicle status, sports vehicles, under the Vehicle Operating Tax and Company Car Tax Law, Section 14



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ELECTRICITY TAX (ET) EXPENDITURES





From 2017 several ET reliefs have been abolished. The impact of ET reliefs is insignificant (only 0.01 per cent of GDP)

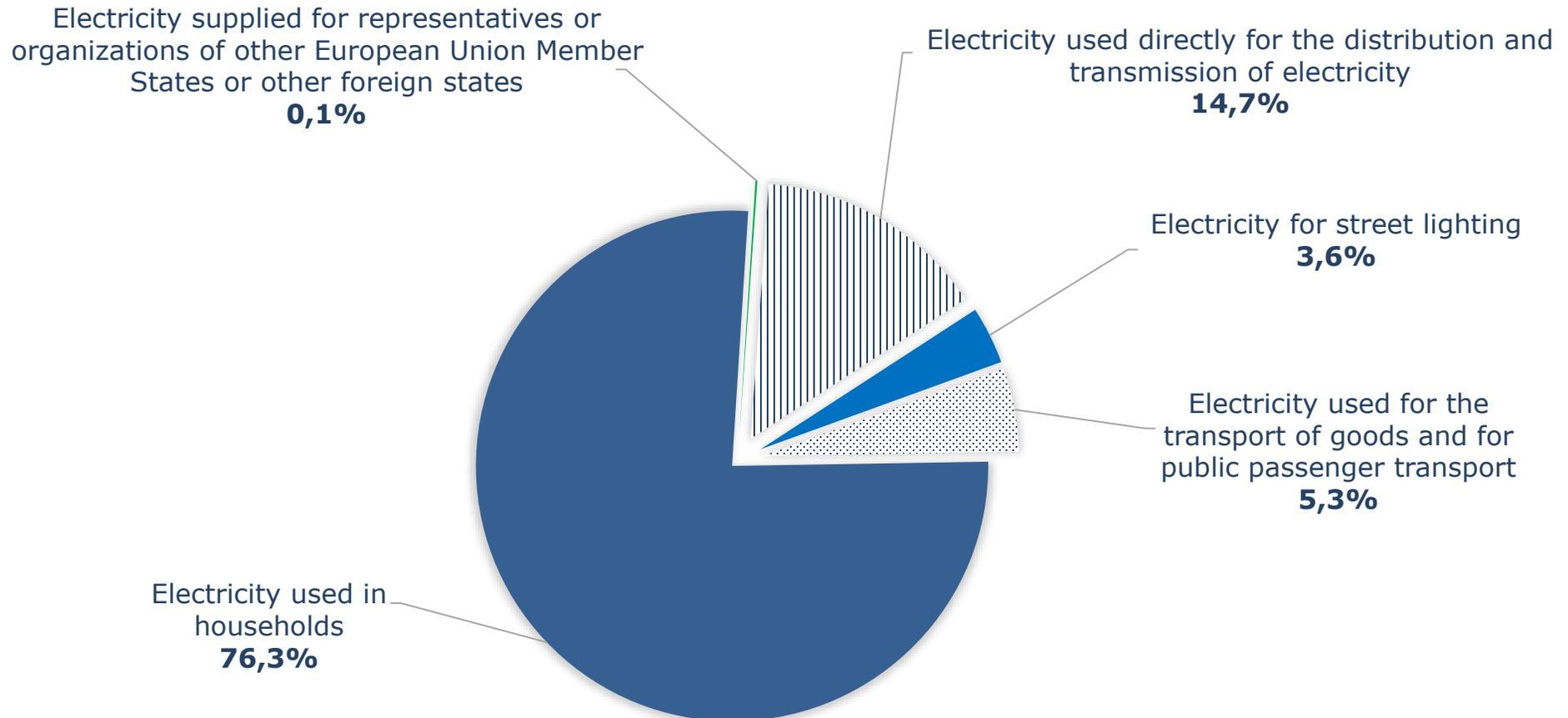
Estimated amount of ET expenditures in 2018 - 2020, mln. euro

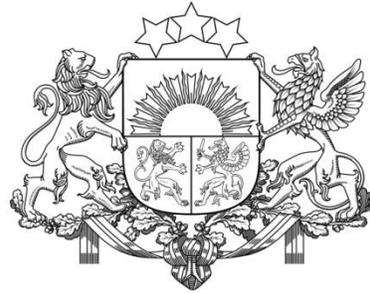
Tax exemptions and reliefs	2020	2019	2018
Electricity exempt from tax in accordance with Section 6, Paragraph two and three of the Electricity Tax Law, including:	2.2	2.2	2.2
1. Electricity used for the transport of goods and for public passenger transport	0.1	0.1	0.1
2. Electricity used in households	1.7	1.6	1.7
3. Electricity supplied for representatives or organizations of other European Union Member States or other foreign states	0.003	0.003	0.003
4. Electricity used directly for the distribution and transmission of electricity	0.3	0.4	0.4
Taxable amount of electricity supplied to person for the provision of street lighting services, which is exempt from tax in accordance with Section 6, Paragraph five of the Electricity Tax Law	0.1	0.1	0.1
TOTAL	2.2	2.3	2.3
Per cent of ET revenue	46.8%	45.0%	45.4%



ET expenditures – ~76% is for household users

Distribution of ET expenditures by the amount in 2020, per cent





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