

Ministry of Finance  
Republic of Latvia

# **TAX INCENTIVES & EXPENDITURES 2024**

FEBRUARY 2026



# 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

Tax expenditures describe tax revenue losses or the amount of theoretically **foregone** tax revenue due to existence of tax incentives.

### Reliefs/ Allowances

Tax relief is a **reduction** in the amount of tax that a person or company must pay.

Tax allowance is a **reduction** in the amount of gross income from which the tax is calculated.

### Exemptions

A tax exemption **excludes** certain income, revenue, or even taxpayers from tax altogether.

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



# The expenditures in 2024 were around **3.5 billion euro**, which is **8.57%** of GDP

## Tax expenditures in 2024\*

Tax expenditures	2024		
	Mln. euro	Share (%) of TR**	Share (%) of GDP
1. Value Added Tax	<b>1 405.7</b>	36.2	3.48
2. Personal Income Tax	<b>1 317.0</b>	46.9	3.26
3. Natural Resources Tax	<b>300.5</b>	454.7	0.74
4. Excise Duty	<b>266.5</b>	22.4	0.66
5. Corporate Income Tax	<b>118.3</b>	16.4	0.29
6. Vehicle Operation Tax	<b>19.4</b>	19.0	0.05
7. Real Estate Tax	<b>18.0</b>	7.6	0.04
8. Company Car Tax	<b>11.9</b>	41.6	0.03
9. Electricity Tax	<b>2.5</b>	50.1	0.01
<b>TOTAL</b>	<b>3 459.8</b>	<b>24.0</b>	<b>8.57</b>

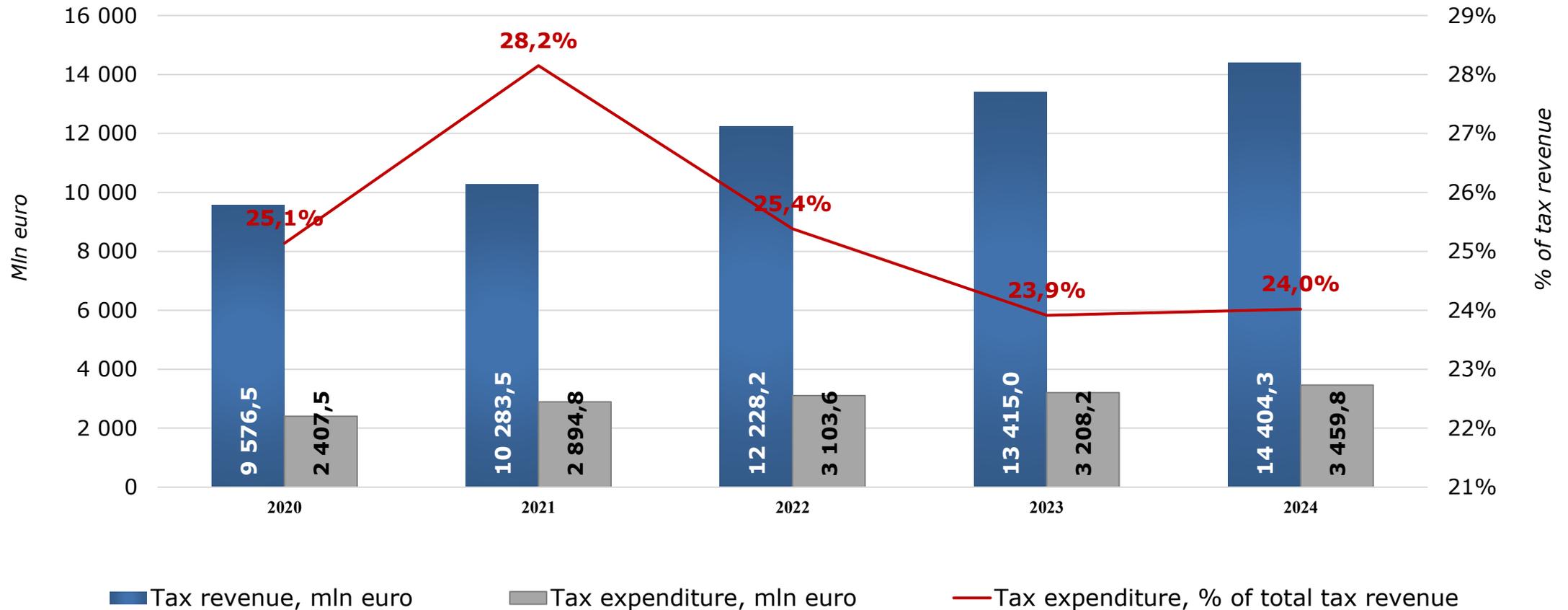
\* Here and in the following tables, minor differences between the reported totals and the calculated sums may occur as a result of rounding. Changes in indicators and proportions are based on data that have not been converted into millions.

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



# The tax expenditures in 2024 compared to 2023, increased by **7.8%**, amounting for almost **1/4** of the total tax revenues

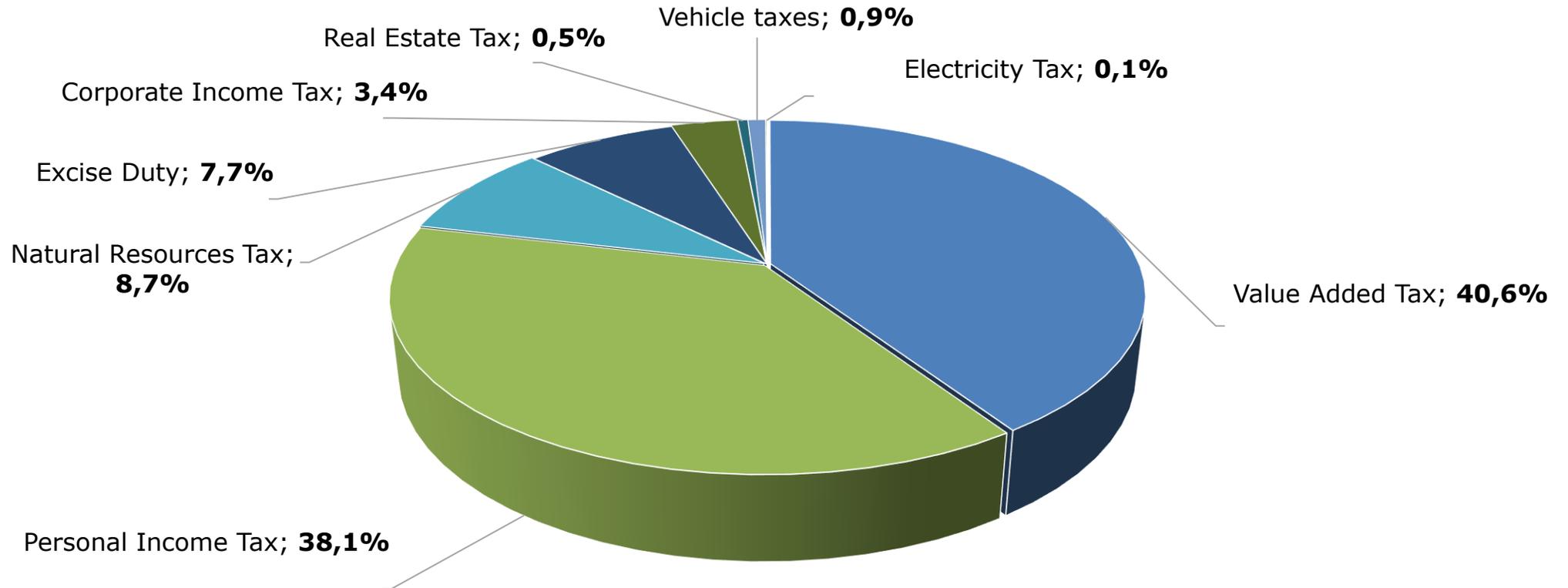
### Tax revenue and total estimated tax expenditures, 2020-2024





# Most significant tax expenditures are those that arise from the application of **value added tax** and **personal income tax** incentives

**Distribution of tax expenditures in 2024, per cent**





Ministry of Finance  
Republic of Latvia

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



Ministry of Finance  
Republic of Latvia

In 2024 VAT expenditures amounted to **1 406 mln euro**, which is around **1/3** of VAT revenue

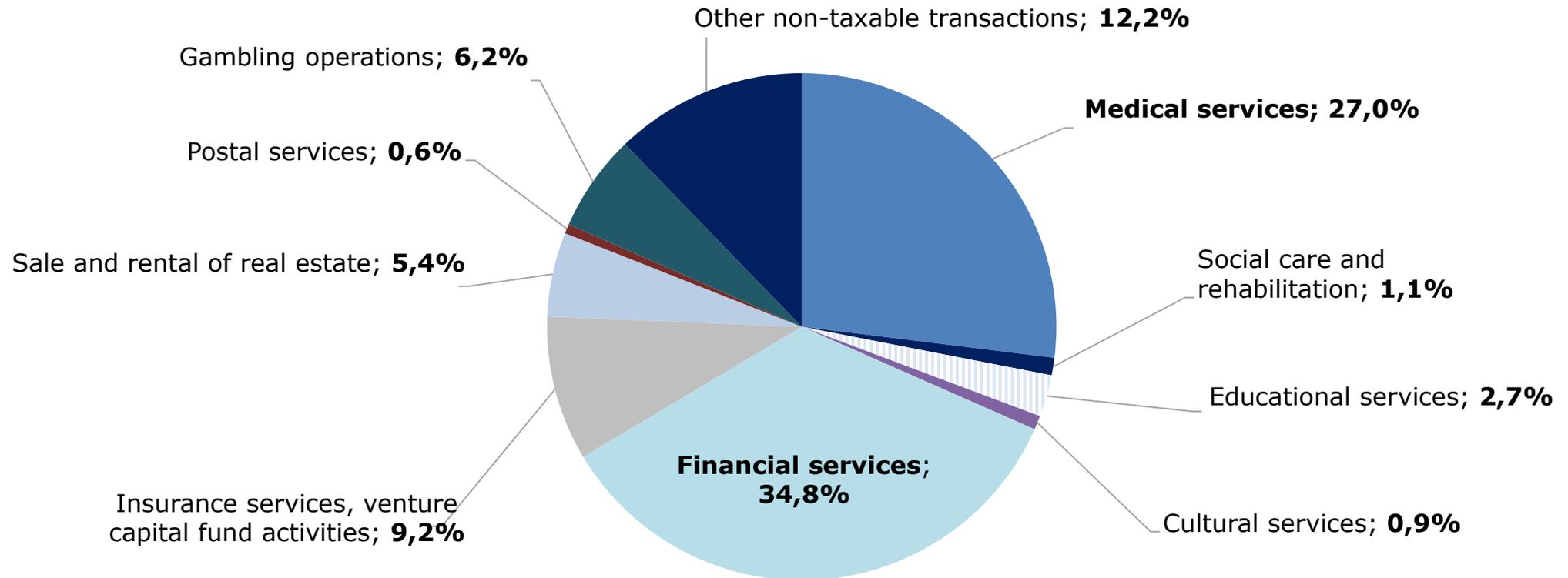
**VAT expenditures (exemptions and reduced rates) in 2024, mln. euro**

<b>Tax expenditures</b>	<b>2024</b>
VAT exemptions	1 254.7
VAT reduced rates	151.0
<b>TOTAL</b>	<b>1 405.7</b>
<i>Share of VAT revenue</i>	<i>36.2%</i>



## In 2024 the most significant VAT expenditures in form of VAT exemptions were on **financial, medical and insurance services**

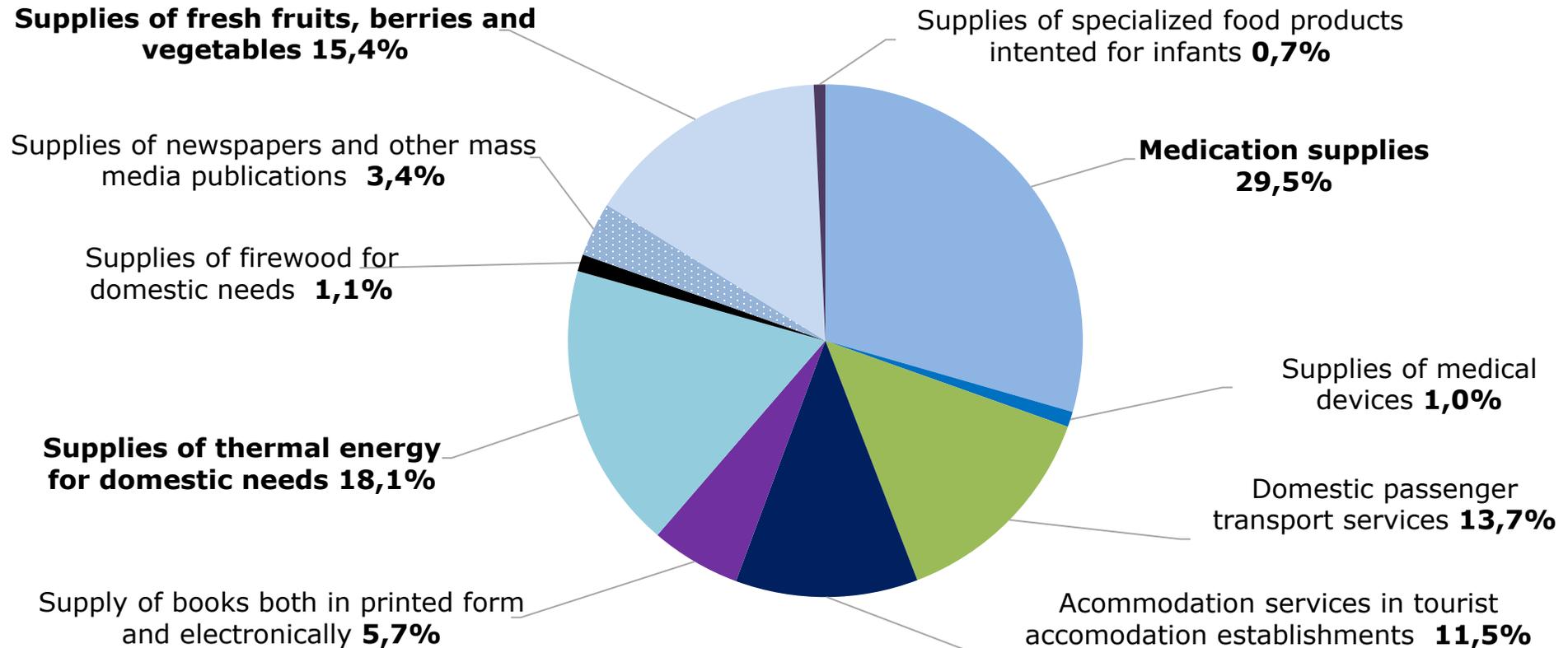
**Distribution of VAT expenditure in form of VAT exemptions in 2024, per cent**





## In 2024 the most significant VAT expenditures in form of reduced VAT rates were on **supplies of medication, thermal energy for domestic needs and fresh fruits, berries and vegetables**

**Distribution of VAT expenditures in form of reduced VAT rates in 2024, per cent**





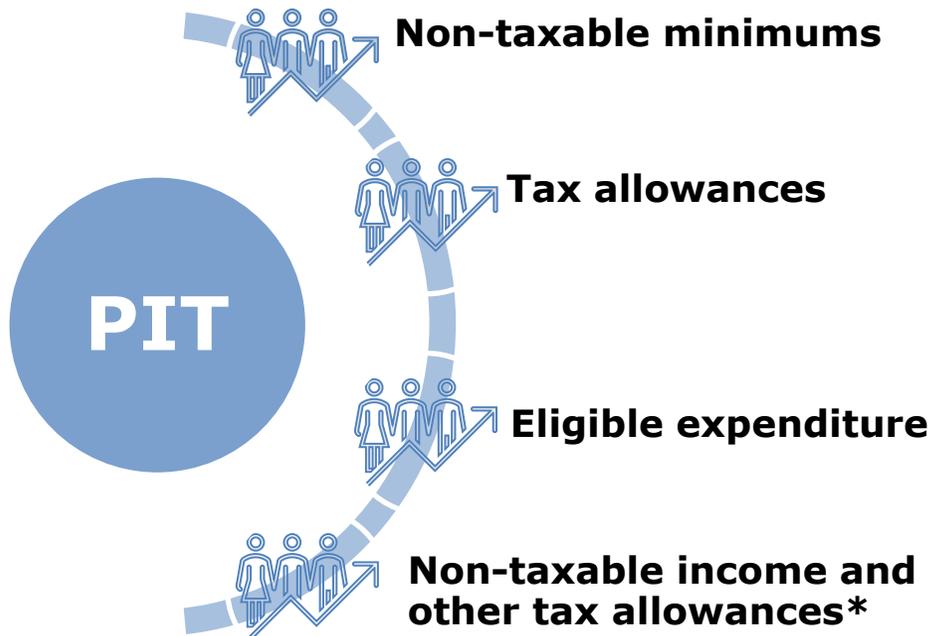
Ministry of Finance  
Republic of Latvia

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



Ministry of Finance  
Republic of Latvia

In 2024 PIT expenditure are estimated **1 317 mln euro**, which is **almost a half** of PIT revenue



PIT expenditures in 2024, mln euro

Tax expenditures	2024
Non-taxable minimums	759.8
Tax allowances	185.0
Eligible expenditure	62.3
Non-taxable income and other tax allowances	309.8
<b>TOTAL</b>	<b>1 317.0</b>
<i>Share of PIT revenue</i>	<b>46.9%</b>

\* Non-taxable income specified in Article 9 of the law "On Personal Income Tax" and other tax allowances included in Article 8, Paragraph 15 and Paragraphs 44, 52, 94, 123, 159 of the transitional provisions.



## Changes and aim of the most important PIT incentives

Max. differentiated non-taxable minimum (DNM), euro per month	
2022	<b>350 / 500*</b>
2023	<b>500</b>
2024	<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	
2022	<b>350 / 500*</b>
2023	<b>500</b>
2024	<b>500</b>

Allowance for dependents (AD), euro per month	
2022-2024	<b>250</b>

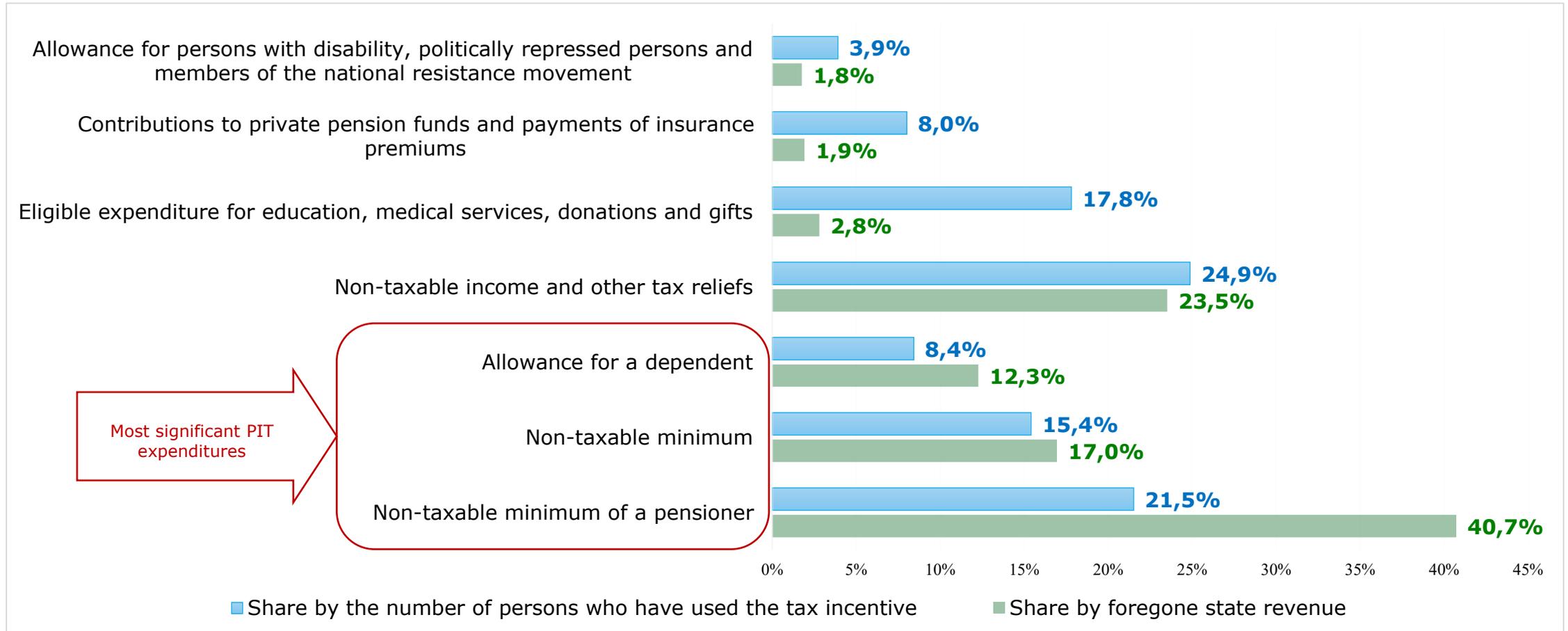
❖ **The aim** of AD is to reduce the tax wedge on labour costs for working individuals with dependent children and/or spouses who take care of dependent children, promoting these individuals' employment and pursuit higher income.

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



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

**Proportion of the PIT expenditures and the number of natural persons who have used PIT incentives in 2024, %**





Ministry of Finance  
Republic of Latvia

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



Ministry of Finance  
Republic of Latvia

## 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 NRT relief system has been designed with a specific **purpose** – to ensure Latvia’s compliance with EU directive requirements in the field of waste management and to implement the extended producer responsibility principle.”\*\*



It should be noted that the tax rates have been set 2-3 times higher than the actual waste – management costs, **in order to ensure the active involvement and responsibility of producers and traders** for managing the waste generated as a result of their activities, in line with the extended producer responsibility principle, as required by EU legislation. Therefore, the amount of NRT expenditures **can not be considered as potential revenue**.



The tax reliefs are effective, as the extended producer responsibility systems manage **more than 90%** of the generated packaging waste and waste from environmentally harmful goods. Moreover, the recycling and recovery targets for used packaging and waste from environmentally harmful goods, as set out in national legislation and derived from EU directives, are regularly achieved.



The State has established requirements in the field of waste management derived from EU Directives, and the compliance with these requirements is ensured through the financial contributions of producers and traders of the respective goods, thus implementing the ‘polluter pays’ principle. *Consequently, if a company fulfils these requirements and covers the related costs, it is exempt from paying the NRT. **The tax must be paid** only if the relevant waste recycling and recovery requirements are not met*



Ministry of Finance  
Republic of Latvia

In 2024, NRT expenditures amounted to **300 mln euro**, which is **~ 5 times** more than the total NRT revenue

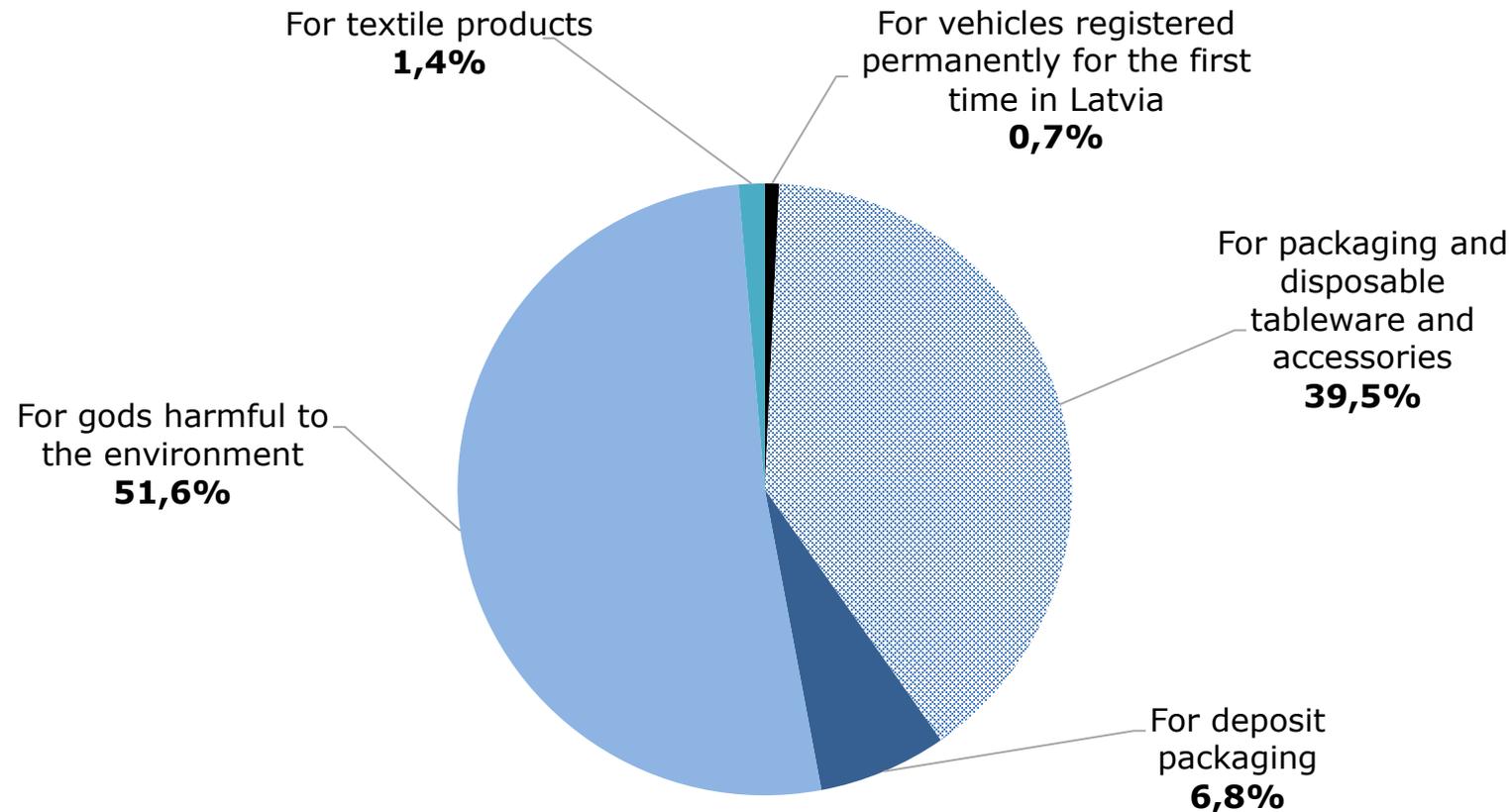
**NRT expenditure in 2024, mln euro**

<b>Tax exemptions</b>	<b>2024</b>
For goods harmful to the environment	155.0
For packaging and disposable tableware and accessories, <i>incl.:</i>	139.1
<i>for deposit packaging</i>	20.3
For vehicles which are registered permanently for the first time in Latvia	2.3.
For textile products	4.1
<b>TOTAL</b>	<b>300.5</b>
<b><i>Share of NRT revenue</i></b>	<b><i>454.7%</i></b>



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

**Distribution of NRT expenditures in 2024, per cent**



\* A taxpayer is exempt from paying the NRT for packaging, disposable tableware and accessories, as well as environmentally harmful goods, if the taxpayer ensures compliance with the recovery targets, has established a management system for these accessories and goods, has submitted financial security to the institution subordinate to the Ministry of Climate and Energy, and has concluded an agreement with this institution on the application of the management system.



Ministry of Finance  
Republic of Latvia

# EXCISE DUTY (ED) EXPENDITURES



Ministry of Finance  
Republic of Latvia

In 2024 the ED expenditures amounted to **267 mln euro**, which is **22.4%** of total ED revenue

**ED expenditures (reduced rates and exemptions) in 2023, mln. euro**

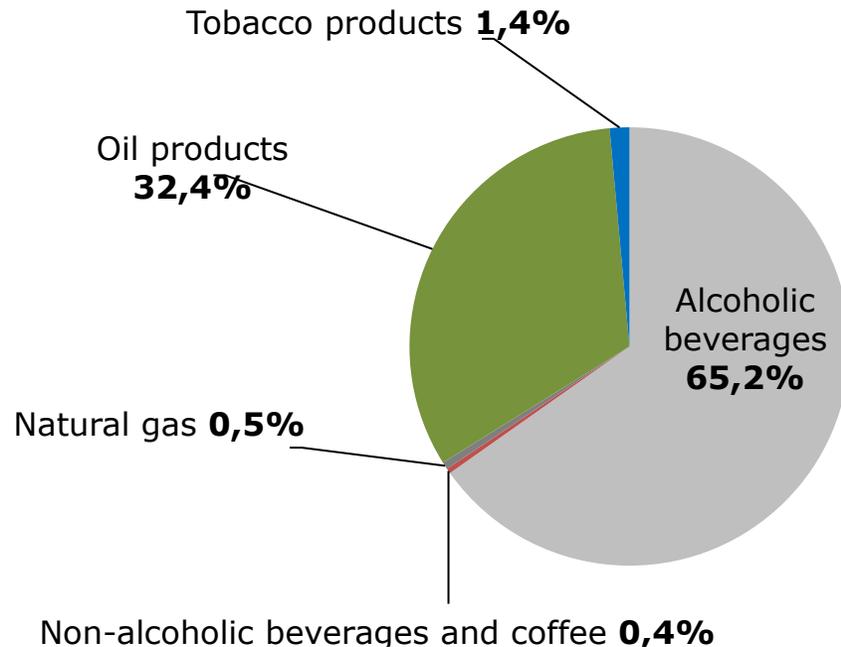
<b>Tax expenditures</b>	<b>2024</b>
<b>Exemptions, of which:</b>	<b>187.2</b>
<b>Alcoholic beverages and other products containing alcohol</b> ( <i>mainly denatured alcohol</i> )	122.1
<b>Oil products</b> ( <i>mainly used in aircrafts which are not used for private recreation and entertainment</i> )	60.7
<b>Tobacco products</b> ( <i>delivered to ships and aircrafts engaged in international transport, diplomats and international organisations</i> )	2.7
<b>Natural gas</b> ( <i>which is used for purposes other than as fuel or heating; dual use (both as a fuel and for purposes other than use as fuel or heating); mineralogical processes</i> )	1.0
<b>Non-alcoholic beverages and coffee</b>	0.7
<b>Reduced ED rates, of which:</b>	<b>79.2</b>
<b>For oil products</b> ( <i>for labelled oil products which are used as fuel, for agricultural purposes and in special economic zones, as well as biofuels, petroleum gases and other gaseous hydrocarbons used for heating</i> )	76.1
<b>For alcoholic beverages</b> ( <i>realization of the production of small breweries, small and medium-sized wineries, small and medium-sized producers of fermented beverages, intermediate products, alcoholic beverages</i> )	2.5
<b>For natural gas</b> ( <i>for use as fuel in industrial production and processing of agricultural raw materials</i> )	0.7
<b>TOTAL</b>	<b>266.5</b>
<b>Share of ED revenue</b>	<b>22.4%</b>



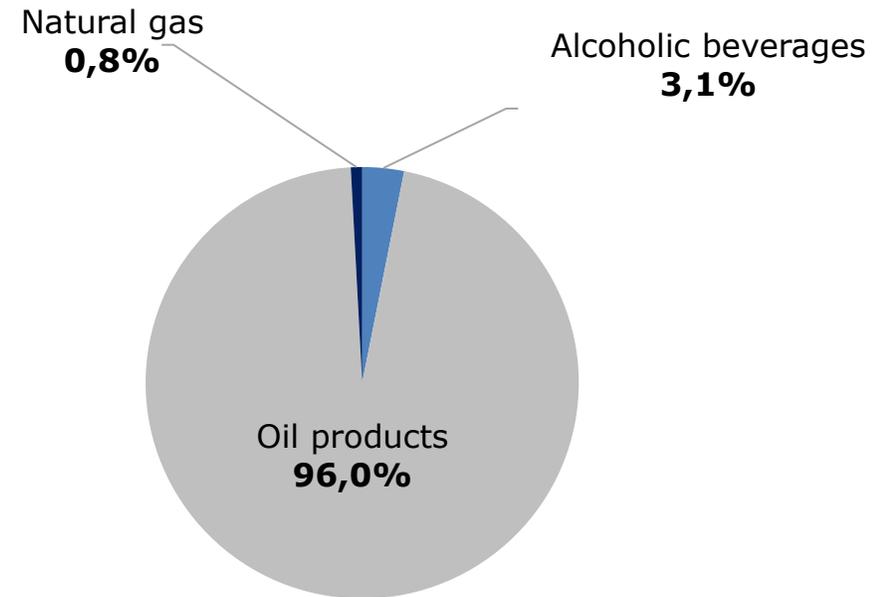
The largest amount of ED expenditures when applying reduced ED rates is on oil products (agriculture and heating) – **96.0%**, and when applying ED exemptions - on alcoholic beverages (mainly denatured alcohol) – **65.2%**

**Distribution of ED expenditures (reduced rates and exemptions) in 2024, per cent**

**Distribution of ED exemptions**



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





Ministry of Finance  
Republic of Latvia

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



Ministry of Finance  
Republic of Latvia

**In 2024 the CIT expenditures amounted to **118 mln euro**, which is **16.4%** of total CIT revenues**

**CIT expenditures in 2024, mln euro**

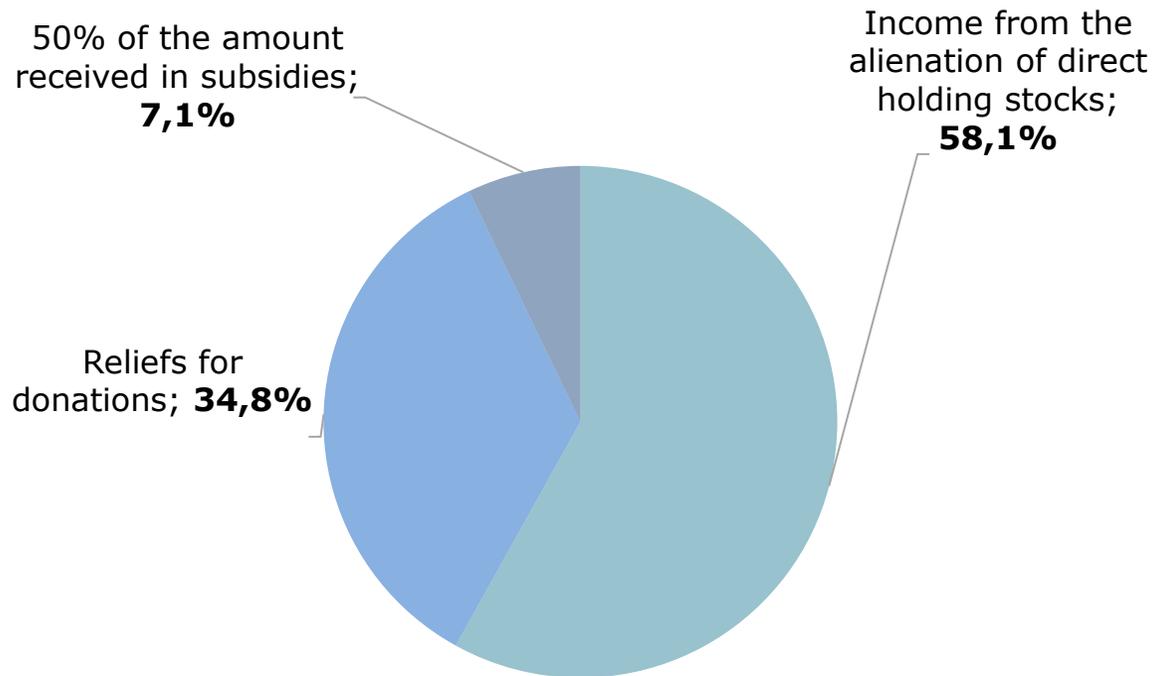
<b>Tax expenditures</b>	<b>2024</b>
Statutory tax reliefs	88.1
Tax reliefs with transitional period	30.2
<b>TOTAL</b>	<b>118.3</b>
<b><i>Share of CIT revenue</i></b>	<b><i>16.4%</i></b>



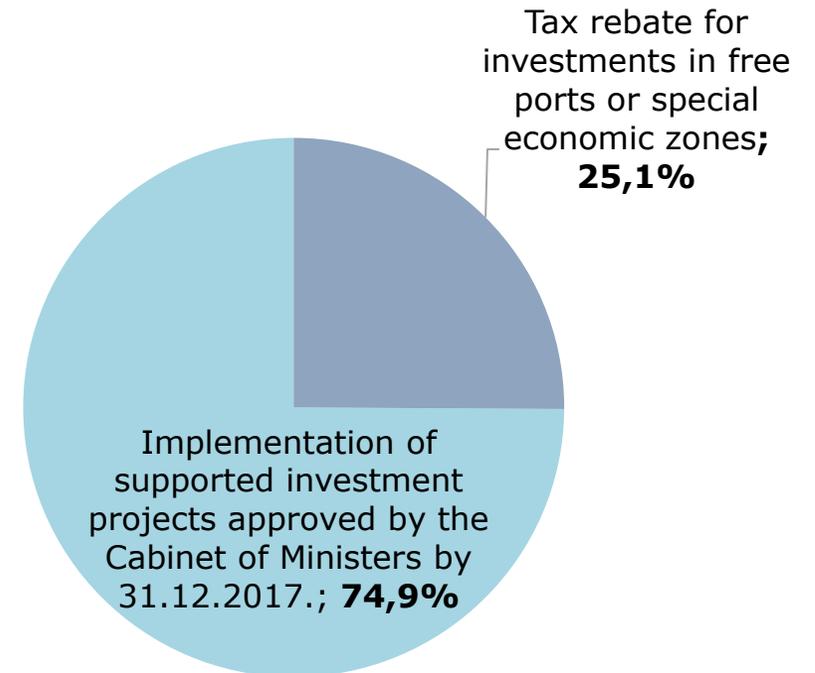
In 2024, the largest CIT expenditure share of the amount of statutory reliefs was on income from the alienation of direct holding stocks – **58.1%**, and of the amount of reliefs with transitional period – for impemented investment projects – **74.9%**

**Distribution of CIT expenditures in 2024, per cent**

**Distribution of statutory CIT reliefs in 2024, per cent**



**Distribtuion of CIT reliefs with transitional period in 2024, per cent**





Ministry of Finance  
Republic of Latvia

# VEHICLE TAX\* EXPENDITURES

- \* Vehicle taxes in Latvia include:
- Vehicle Operation Tax (VOT)
  - Company Car Tax (CCT)



Ministry of Finance  
Republic of Latvia

In 2024, the vehicle tax expenditures were **31 mln euro**, which is **23.9%** of vehicle tax revenue

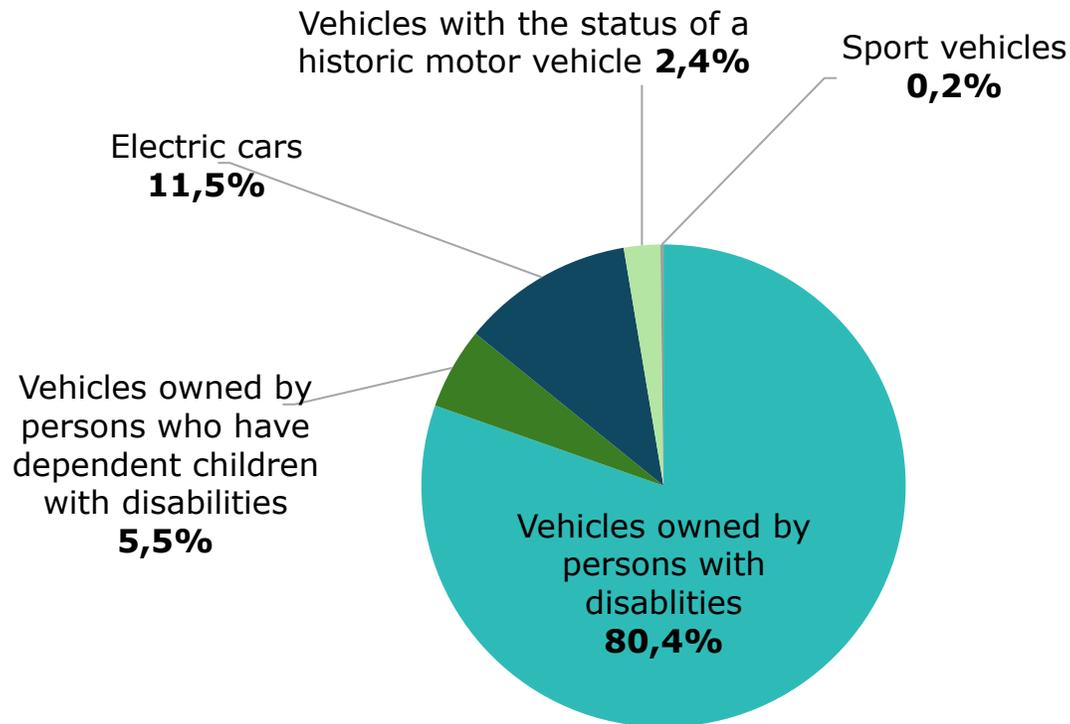
**VOT and CCT expenditures in 2024, mln euro**

<b>Tax exemptions and reliefs</b>	<b>2024</b>
VOT exemptions	14.3
VOT reliefs	5.1
CCT exemptions	11.9
<b>TOTAL</b>	<b>31.3</b>
<i>Share of vehicle taxes revenue</i>	<i>23.9%</i>

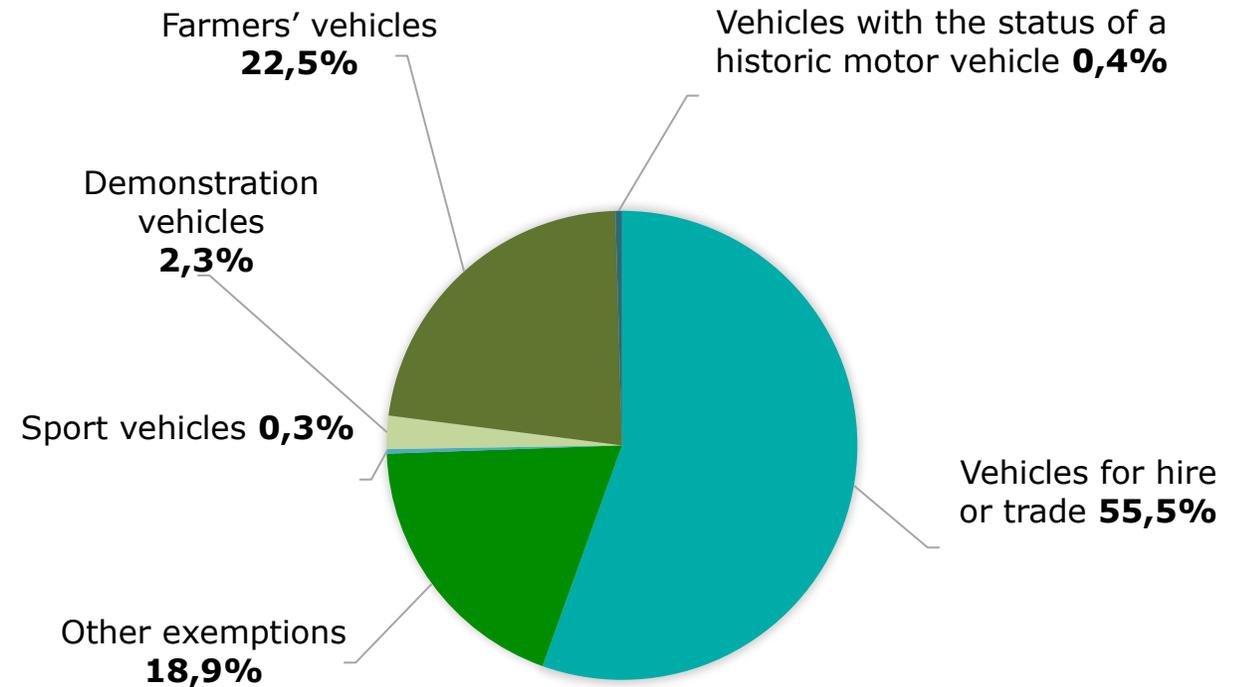


# The largest vehicle tax expenditure amount - exemption for vehicles owned by disabled persons – **36.8%** of all vehicle tax expenditures (VOT an CCT)

**Distribution of VOT exemptions in 2024, per cent**



**Distribution of CCT exemptions in 2024, per cent**





Ministry of Finance  
Republic of Latvia

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



Ministry of Finance  
Republic of Latvia

In 2024, the RET expenditures amounted to **18 mln euro**, mainly due to tax incentives granted by local governments

**RET expenditures in 2024 , mln euro**

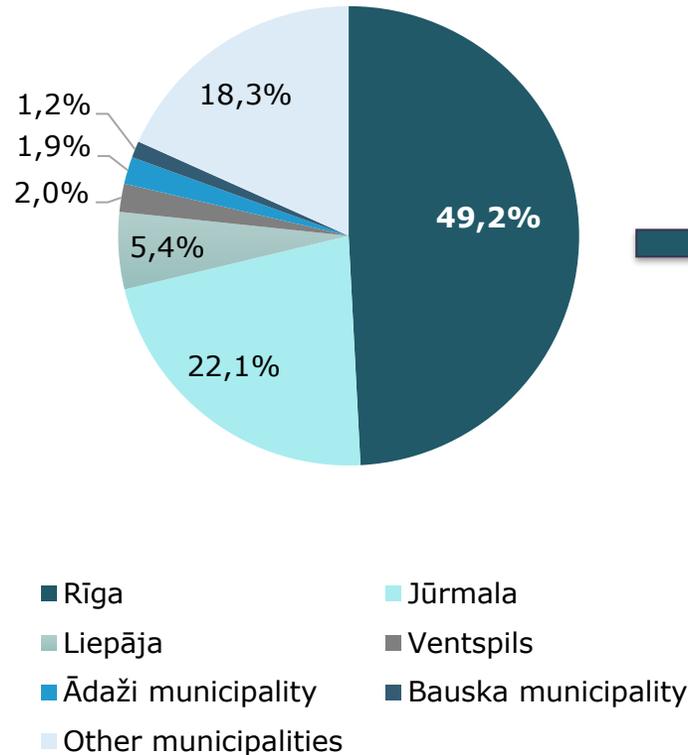
<b>Tax expenditures</b>	<b>2024</b>
Tax reliefs under the <i>Law on Immovable Property Tax</i>	3.7
Tax reliefs specified in the binding regulations issued by local governments	14.3
<b>TOTAL</b>	<b>18.0</b>
<b><i>Share of RET revenue</i></b>	<b><i>7.6%</i></b>



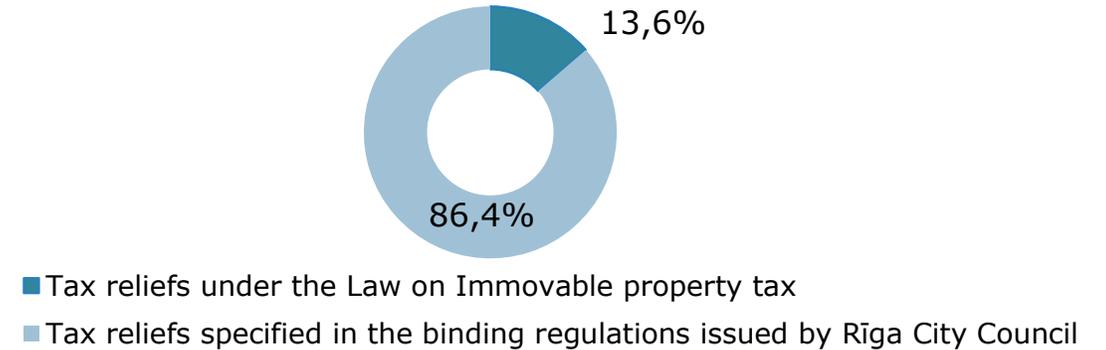
Ministry of Finance  
Republic of Latvia

# Almost a half (49.2%) of the RET reliefs granted by local governments are reliefs granted by the Riga City Council, most of which are granted to families with children

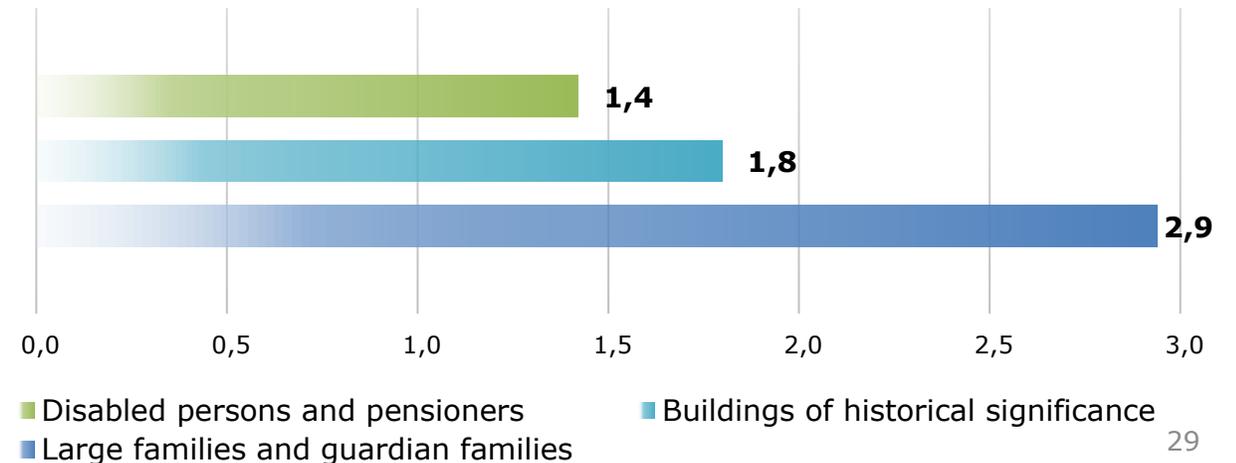
Distribution of RET reliefs by place of application in 2024, per cent



Distribution of Rīga's RET reliefs by type of application in 2024, per cent



Main RET reliefs set out in the binding regulations of Riga City Council in 2024, mln euro





Ministry of Finance  
Republic of Latvia

# **ELECTRICITY TAX (ET) EXPENDITURES**



Ministry of Finance  
Republic of Latvia

In 2023, the ET expenditures amounted to **2.5 mln euro**, which is **a half** of the ET revenue

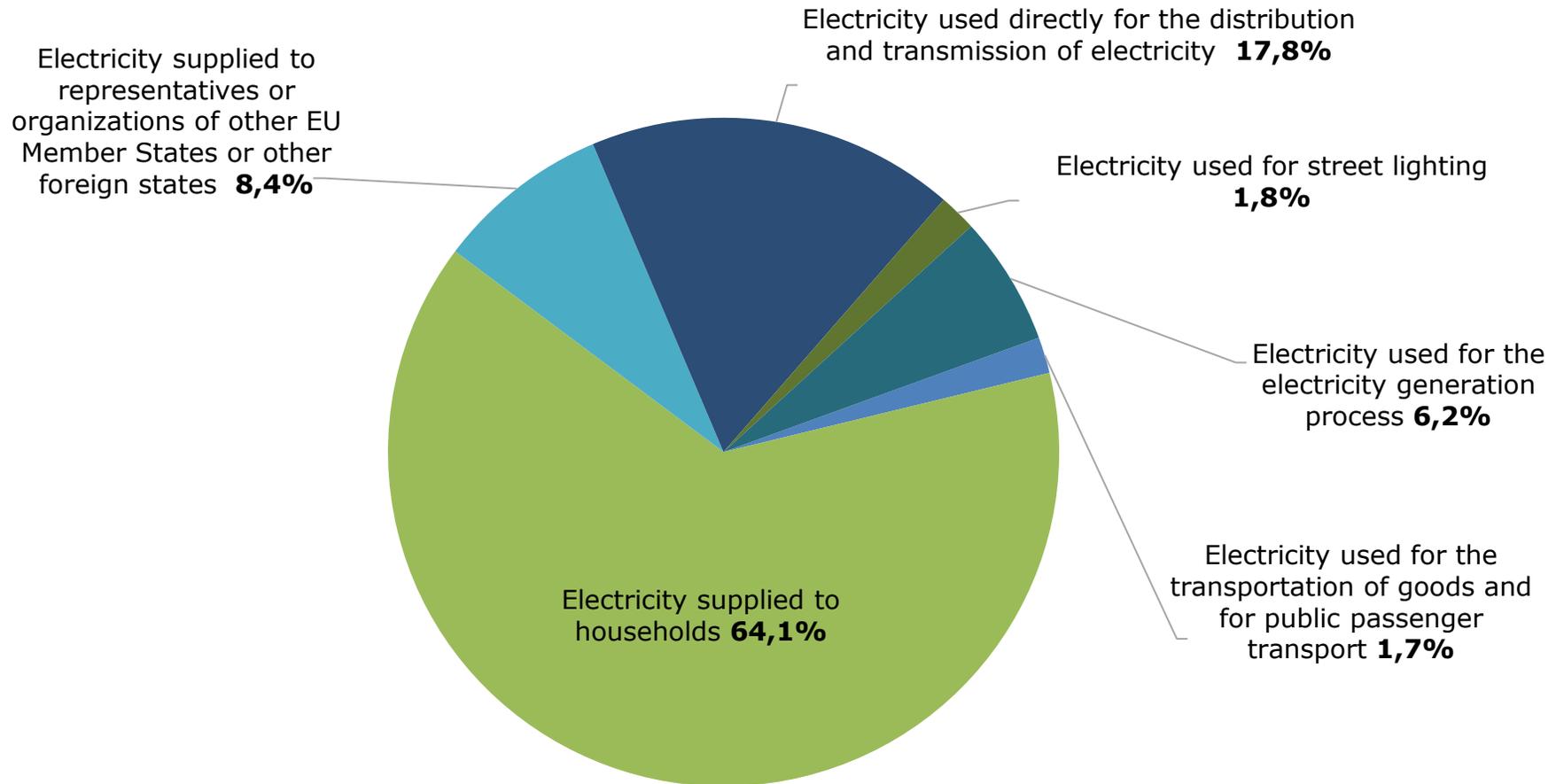
**ET expenditures (exemptions and reliefs) in 2024, mln euro**

<b>Tax exemptions and reliefs</b>	<b>2024</b>
Electricity tax exemptions	2.4
Electricity tax relief for electricity supplied to persons for the provision of street lighting services	0.05
<b>TOTAL</b>	<b>2.5</b>
<b><i>Share of ET revenue</i></b>	<b><i>50.1%</i></b>



# The largest part of ET expenditures is formed by the exemption for electricity supplied to households **(64.1%)**

**Distribution of ET expenditures in 2024, per cent**





Ministry of Finance  
Republic of Latvia

**FEBRUARY 2026**