

# **Latvia: Tax Policy and Equity Study**

## **Context and Study Plan**

**Riga**  
**January 28, 2016**

# What is the World Bank?

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- International financial institution based in Washington D.C. with offices in Brussels and Warsaw for the EU (including Baltics)
  - ▣ Provides **advisory services on a non-commercial basis** with global perspective
    - Country collaboration on structural reforms(covering multiple sectors from health to infrastructure)/macro/fiscal/trade/equity issues worldwide
    - Global products focusing on competitiveness and growth (e.g. <http://www.worldbank.org/en/publication/global-economic-prospects>)
  - ▣ Provides loans for projects and budget support
  - ▣ **Latvia is a shareholder** (Nordic-Baltic representative on the Board of Executive Directors)

# Role of the World Bank and government in collaboration

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- Provide rigorous analytical assessments
  - ▣ Array of tools and framework to deploy, e.g.: Domestic revenue mobilization assessment framework, Integrated assessment model for tax administration, Tax reform simulation models
- Draw from diverse range of global experience
- Collaboration with Latvia
  - ▣ Public expenditure review, Social protection review, Health review
- World Bank provides
  - ▣ Team of World Bank international and local (policy and academic) experts
  - ▣ Analysis, relevant international experience and policy options
  - ▣ Consult widely in collaboration with the government during report preparation and presentation stages

# Objective of study

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- **Review tax system**—focusing on efficiency, competitiveness, revenue mobilization, and equity—with the aim of:
  - Maintain competitiveness of the tax system
  - Reduce high labor tax wedge faced by low-income workers
  - Analyze options to improve equity
  - Reduce evasion and the grey economy
  - Identify options to increase government revenues to finance increased spending needs (particularly health, social protection and national defense)
- **Inform medium-term tax strategy of Government of Latvia, including 2017 budget proposals**

# Latvia: Tax study components

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## Rapid assessment

Stage 1 (Report: June 2016)

Stage 2 Report:  
December 2016)

Revenue adequacy, options for increasing tax collection

How to balance PIT on wages and capital?

Corporate tax review, including micro-enterprise tax

Equity analysis, tax-benefit model, simulations of reform options

Who is not paying income taxes (admin data)?

Equity analysis of taxes (admin data)

Social security contributions: balance between employers and employees

# Timetable and Outputs

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- ▣ Final terms of reference **January 2016**
- ▣ Rapid assessment of tax system **March 2016**
- ▣ Final report Stage 1 **July 2016**
- ▣ Conference on Stage 1 **July 2016**
- ▣ Final report (Stage 1 plus 2) **December 2016**



Thank you