

Taxation and Inequalities

National Report

Latvia

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Section I. Taxation and Inequalities: Constitutional Underpinnings

(1) Equality and Non-Discrimination Legislation

The principle of equality and non-discrimination constitutionally protected in Latvia as a stand-alone provision. Link to international treaties is made when identifying the grounds on which discrimination is prohibited, as well as recognizing Latvia's international obligations, which form a part of Latvian legal system and are respected in Latvia as a unitary state.

Art 91 of the Constitution of the Republic of Latvia (hereinafter Satversme) states: "All human beings in Latvia shall be equal before the law and the courts. Human rights shall be realised without discrimination of any kind." Art 89 Satversme states: "The State shall recognise and protect fundamental human rights in accordance with this Constitution, laws and international agreements binding upon Latvia."¹

It can be seen from the Art 91 Satversme that the principles of equality and non-discrimination are expressly protected by Satversme. However, the grounds on which discrimination are not laid down in Satversme. Nevertheless, it follows from Art 89 Satversme that the goal of the legislator is to achieve the harmony of the human rights norms contained in Satversme with the norms of international law. The international human rights norms binding on Latvia and the practice of their application at the level of constitutional law also serve as a means of concretization in order to determine the content and scope of the principles of a democratic state governed by the rule of law, insofar as this does not lead to a reduction in the protection of fundamental rights contained in Satversme. Therefore, the Constitutional court of the Republic of Latvia (hereinafter Court) makes recourse to international treaties to identify the prohibited grounds of discrimination and determine

¹ Latvijas Republikas Satversme (The Constitution of the Republic of Latvia), available in English: <https://likumi.lv/ta/en/en/id/57980-the-constitution-of-the-republic-of-latvia>

whether the principle of non-discrimination applies or if the situation is regulated solely by the principle of equality.

Latvian law addresses all types of inequalities in so far as the two identified groups of persons are in analogous or relevantly similar situations, or conversely if the inequality arises from the failure to treat differently persons in relevantly different situations. Unlike Art 14 of the European Convention on Human Rights (hereinafter ECHR), Satversme protects equality regardless of whether the other substantive provisions of Satversme have been affected (Art 91 Satversme is of independent, not ancillary nature).

As mentioned above, the international human rights norms and the practice of their application supplement the principles contained in and lay down the minimum level of protection of Art 91 Satversme. Therefore, situations regulated by the international human rights norms which protect the principle of equality and are binding to Latvia, will always be covered by Art 91 Satversme. Moreover, the 'protected grounds' of discrimination are relevant to the application of Art 91 Satversme only so far as they are relevant to the application of international instruments. In such cases these instruments and the practice of their application are considered. However, if difference of treatment is not based on any of the prohibited grounds of discrimination, such situation will most likely be governed by the principle of equality contained in Art 91 Satversme.

The principle of equality is protected throughout the whole legal system (constitutional protection, secondary legislation protection, case law protection). As mentioned above, the principle of equality applies regardless of the grounds on which the treatment is based to all cases when persons in analogous or relevantly similar situations are treated differently or persons in relevantly different situations are treated equally. However, there have most certainly been changes in the legal approach to the scope of protection of the principles of equality and non-discrimination.

Evolution in legal standards is a result of the change of understanding in society, which has resulted both in the change of legislation and change in legal (judicial) interpretation. A change of legislation has been introduced as part of the steps towards Latvia's accession to the European Union (hereinafter EU) in 2004, complying with EU anti-discrimination laws. A change of legal interpretation can be seen for example in the Court's ruling in the case of 2019 (case no. 2018-25-01), in which the Court evaluated whether differential treatment of men and women who have been sentenced to deprivation of liberty was permitted.²

The Court noted firstly that until the beginning of the 20th century, in most countries of the world, women were not considered full members of society, and society as a whole was patriarchal. However, in the second half of the 20th century, modern society came to understand that certain groups within society, including women, are more vulnerable and less protected than other members of society. Therefore, countries have an obligation to act - to take specific measures to improve the situation of these individuals. The Court further acknowledged that in recent decades, there has been a deconstruction of traditional gender roles within the European cultural space. Namely, in a democratic legal state and society, as the understanding of equality between men and women has strengthened, stereotypes or perceptions of each gender's traditional roles, including

² Judgement of the Constitutional court of the Republic of Latvia of 7 November 2019 in case No. 2018-25-01. Available : <https://likumi.lv/ta/id/310595-par-latvijas-sodu-izpildes-kodeksa-50-4-panta-atbilstibu-latvijas-republikas-satversmes-91-pantam>

within the family, have significantly changed. Considering that, the Court finally admitted that there is no objective and reasonable basis for the different treatment of convicted men.

Nevertheless, in another case of 2021 (case no. 2020-39-02), the Court admitted that in Latvia, there are currently such conditions that allow the implementation of special measures in relation to women, anticipating a different attitude towards them. In this judgment the Court concluded that the Council of Europe Convention on preventing and combating violence against women and domestic violence (Istanbul Convention) conforms with Art 91 Satversme.³

Moreover, in its judgment of 2020 (case no. 2019-33-01), the Court referred to the case-law of ECtHR and noted that Art 14 ECHR essentially includes the prohibition of discrimination based on sexual orientation. In this judgment the Court concluded that Satversme does not allow to grant vacation to a child's father in relation to the birth of a child, insofar there is no protection and support to a female partner of the child's mother in the same circumstances. Latvian parliament hesitated to comply with the conclusions made in this judgment, however, at the end of 2023 it amended several laws to ensure the protection of same-sex partnership which will come into force this July.⁴

(2) Constitutional Links between Equality and Taxation

Satversme indirectly supports the concepts of taxation equity, including the ability-to-pay principle, horizontal and vertical equity, and, to a certain extent, the progressivity of the personal income tax system. While Satversme does not explicitly detail taxation mechanisms or the progressivity of taxes, these principles are inferred and elaborated upon through legislation, case law, and administrative practices within the Latvian legal framework.

For example, in its 7 January 2022 judgment (case no. 2021-06-01) the Court noted:

“The adherence to the principle of fairness in the area of personal income tax manifests in the implementation of both vertical and horizontal equity. According to the principle of horizontal equity, taxpayers with the same ability to pay taxes are subjected to an equal tax burden. Meanwhile, the implementation of the principle of vertical equity takes into account the taxpayer's ability to pay the tax. Thus, to uphold the principle of horizontal equity in tax law, the legislature must create a legal framework that promotes voluntary tax payment. From the principle of vertical

³ Judgement of the Constitutional court of the Republic of Latvia of 4 June 2021 in case No. 2020-39-02. Available : <https://likumi.lv/ta/id/323743-par-eiropas-padomes-2011-gada-11-maija-konvencijas-par-vardarbibas-pret-sievietem-un-vardarbibas-gimene-noversanu-un-apkarosanu-3-panta-c-punkta-4-panta-3-punkta-un-12-panta-1-punkta-atbilstibu-latvijas-republikas-satversmes-ievadam-1-99-un-110-pantam-4-panta-4-punkta-atbilstibu-latvijas-republikas-satversmes-91-pantam-un-14-panta-atbilstibu-latvijas-republikas-satversmes-112-pantam>

⁴ Judgement of the Constitutional court of the Republic of Latvia of 12 November 2020 in case No. 2019-33-01. Available: <https://likumi.lv/ta/id/318716-par-darba-likuma-155-panta-pirmas-dalas-atbilstibu-latvijas-republikas-satversmes-110-panta-pirmajam-teikumam>

equity arises the requirement to tax the real income that has been formed as the difference between income earned in economic activities and the expenses associated with generating that income.”⁵

The Court further noted that in implementing the horizontal aspect of the fairness principle in tax law, it is necessary to rely on indicators that truly reflect the financial situation of taxpayers, including their income. The vertical aspect of the fairness principle ensures that tax payment is demanded only from those who are capable of paying the tax. Deviation from the assessment of the ability to pay taxes, as required by the principles of fairness and legal equality, is usually considered permissible only if it is sufficiently justified, at least in relation to taxes that are inherently dependent on whether individuals have earned any income at all.

As regards the progressivity of the personal income tax, Art 15 of the Latvian Personal Income Tax Act lays down the progressive tax rates of personal income tax.⁶ For example, Art 15 (2) states that tax rate which must be paid from the annual taxable income, shall be as follows: 1) 20 per cent - for annual income of up to EUR 20 004; 2) 23 per cent - for the share of annual income which exceeds EUR 20 004, but does not exceed the maximum amount of the object of mandatory contributions determined in accordance with the law On State Social Insurance; 3) 31 per cent - for the share of annual income which exceeds the maximum amount of the object of mandatory contributions determined in accordance with the law On State Social Insurance.

Latvia does not have a document explicitly titled “Taxpayer’s Bill of Rights” or “Taxpayer’s Charter” in the form that some other countries might have, which would specifically enumerate the rights of taxpayers in a single, dedicated document. However, the rights, obligations, and protections of taxpayers are embedded within various legal acts, the most prominent of which is the “Law on Taxes and Fees”⁷, as well as other relevant laws and regulations governing taxation processes and taxpayer interactions with the tax authorities.

The Latvian tax legislation framework, guided by the principles set out in the Satversme, reflects concerns over respect for equality and non-discrimination in several ways:

1) Tax laws and their implementation are designed to ensure that taxpayers in similar conditions are treated equally, without unjustified differentiation.

2) Taxpayer rights include the right to be informed about tax obligations, the right to appeal administrative decisions (including tax assessments), and the right to access fair administrative and judicial review processes. These provisions ensure that taxpayers can contest decisions they perceive as unfair or discriminatory.

3) Tax authorities are bound by law to act transparently and are accountable for their actions, ensuring that taxpayers can expect a consistent and non-discriminatory application of tax laws.

⁵ Judgement of the Constitutional court of the Republic of Latvia of 7 January 2022 in case No. 2021-06-01. Available: <https://likumi.lv/ta/id/329044-par-likuma-par-iedzivotaju-ienakuma-nodokli-11-panta-3-1-dalas-un-11-1-panta-6-1-dalas-atbilstibu-latvijas-republikas-satversme...>

⁶ Likums Par iedzīvotāju ienākuma nodokli (Personal Income Tax Act). Available in English: <https://likumi.lv/ta/en/en/id/56880-on-personal-income-tax>

⁷ Likums par nodokļiem un nodevām (Law on Taxes and Fees). Available in English: <https://likumi.lv/ta/en/en/id/33946-on-taxes-and-fees>

Section II. National Tax Policy and Inequality

(1) Tax Policy and Income Inequality

a. Personal income tax and social security contributions

Personal income tax is a progressive tax. Art 15 of the Latvian Personal Income Tax Act lays down the rates of personal income tax. Here is a table of rates and tax bases:

Rate	Tax base
Progressive PIT: <ul style="list-style-type: none"> • income up to EUR 20 004 – 20% • income over EUR 20 004 – 78 100 – 23% • income over EUR 78 100 – 31% 	1) Annual taxable income. 2) Income from business activities.
Salary tax: 20% – monthly income up to EUR 1667 23% – monthly income over EUR 1667	Income from employment if the payroll tax booklet is submitted to the employer
23 %	1) Income from employment if the payroll tax booklet is not submitted to the employer. 2) Income from employment if the payroll tax booklet is submitted to the employer and the mark to apply 23% is made. 3) Other income if the employer pays income subject to salary taxes or other types of taxable income, e.g., income from contract work.
20 % – income from capital	Total income (dividends, interest payments, life insurance policies, investments in private pension funds, life pension insurance policies, income from an investment account, individual management of financial instruments).
20 %	A professional athlete's annual total wage income from professional sports.
20 % – royalties 25 % – income from royalties	Royalties received from collective management groups. Royalties received from 1 July-31 December 2024 (excluding from collective management groups) as long as the receiver has not registered as self-employed.
20 % income from selling capital assets: <ul style="list-style-type: none"> • immovable property (including rights to acquire immovable property) 	Deductions from the sales price of the purchase price and cost of investments in the capital asset during the period of ownership.

<ul style="list-style-type: none"> • stocks, capital shares, common stocks, investments in a partnership, and other financial instruments • investment fund certificates and other transferable securities • debt instruments (promissory notes, deposit certificates, short-term debt instruments issued by companies) and other cash instruments quoted in money markets • undertaking within the meaning of the Commercial Law • objects of intellectual property • investment gold and other precious metals, business objects on forex exchange or commodity exchange • virtual currency within the meaning of the Law on the Prevention of Money Laundering and Terrorism Financing 	
<p>10 %</p> <ul style="list-style-type: none"> • earnings from non-registered business activities of which SRS has been notified <ul style="list-style-type: none"> • when acquiring income from property: <ul style="list-style-type: none"> ○ leasing or renting immovable property (also selling of tenancy rights), ○ transferring the property further to a sub-lessor or sub-tenant, ○ leasing movable property or ○ acquiring payment for the use of natural resources or restrictions of their use or • when acquiring income from the alienation of movable property. • income from lumber sales and forest-growing • scrap metal sales 	<ul style="list-style-type: none"> 1) Income from which immovable property tax is deducted 2) Income from which expenses relating to forest restoration are deducted

The average income in Latvia (December 2023) was 1692 euros⁸, which is near to the borderline income (1667 euros). Therefore many persons are paying income tax at a rate of 20% and for the

⁸ Average monthly wages and salaries of employees 1997M01 - 2023M12. National Statistical System of Latvia. Available: https://data.stat.gov.lv/pxweb/en/OSP_PUB/START_EMP_DS_DSV/DSV010m/

part exceeding 1667 euros at a rate of 23%. The next step at a rate of 31% applies to monthly income which exceeds approximately 6500 euros.

The employer does not apply personal income tax 31% rate on a monthly basis, except in cases when (1) the employee does not pay social security contributions in Latvia and (2) the monthly income from employment exceeds EUR 6508,33. In other cases, it is applied retrospectively, that is, when submitting the annual income declaration.

Thus, the personal income tax is not very progressive.

According to Art 18 of Law on State Social Insurance, the social security contributions in Latvia are mainly flat-rate (34,09%).⁹ Depending on the person's status and situation, there are other rates of social security contributions, for example, for an employee who has reached the age that gives the right to receive or who has been granted a state old-age pension, incl. prematurely (30.02%), self-employed (31.07%), etc.¹⁰ According to Art 20.4 of Law on State Social Insurance, there is a minimum exemption for low income – if the quarterly income constitutes less than 3 minimal wages (2100 euros).

Latvia's tax system exhibits a degree of progressivity in the taxation of employment income with a clear attempt to balance the tax burden across different income levels. However, the treatment of capital income and income from self-employment shows a different approach, aiming to stimulate economic activity while ensuring tax revenue. The differences in tax treatment between types of income and taxpayer categories reflect broader policy goals, including the promotion of entrepreneurship and investment, alongside considerations of tax fairness and equity.

b. VAT and corporate income tax

Income inequality is considered in the design of Latvia's VAT system. However, income inequality is not considered in the design of corporate income tax system.

The VAT system in Latvia incorporates standard, reduced, and zero rates to address different social and economic objectives, potentially affecting income inequality indirectly by altering the tax burden on various goods and services. VAT rates are laid down in Chapter VI of the VAT Law.¹¹ Here is a table of VAT rates:

Rate	Tax base
21%	<ul style="list-style-type: none">• Supply of goods and transactions treated for consideration.• The supply of services and transactions treated as such for remuneration.• Acquisition of goods in the territory of the European union for consideration.• Import of goods.

⁹ Likums par valsts sociālo apdrošināšanu (Law On state social insurance). Available in English: <https://likumi.lv/ta/en/en/id/45466-on-state-social-insurance>

¹⁰ See full current list: <https://www.vsaa.gov.lv/lv/media/5697/download?attachment>

¹¹ Pievienotās vērtības nodokļa likums (Value Added Tax Law). Available in English: <https://likumi.lv/ta/en/en/id/253451-value-added-tax-law>

	<ul style="list-style-type: none"> • Receipt of services domestically from taxpayers of member states of the European union, taxpayers of third countries or third territories. • Acquisition of new vehicles by any person in the territory of the European union.
12%	<ul style="list-style-type: none"> • Medicinal products and medical devices in accordance with the provisions of Art 42, Paragraphs one and two of the VAT Law. • Specialised foods for infants. • Scheduled domestic services for passengers and their luggage. • Accommodation services in tourist accommodation establishments. • Supply of wood fuel to the population who buy and consume it in the household. • Supply of heat to the population buying and consuming it in the household. • Import of goods referred to in the first, second, third and sixteenth paragraphs of Article 42 of the VAT Law and acquisitions of these goods within the EU. • Fresh fruit, berries and vegetables, including washed, peeled, shelled, cut or prepacked, but not cooked or otherwise (for example, frozen, salted, dried).
5%	<ul style="list-style-type: none"> • Books, brochures, booklets, and similar printed matter. • Newspapers, magazines and other periodicals, announcements by information agencies for public distribution and publications on the internet site.
0%	<ul style="list-style-type: none"> • Export of goods and supplies of goods not released for free circulation, where supplies of goods are made in customs warehouses and free zones. • Delivery of goods, if the goods are sent to the fiscal representative for further exportation. • Intra-EU supply of goods where the consignee is a taxable person established in another Member State and the goods are supplied to another Member State. • Delivery of a new means of transport to any person in another Member State. • The purchase of goods in the EU by a fiscal representative, if they are to be exported. • Import of goods in accordance with Art 45 of the VAT Law. • Services the place of supply of which is inland and which: <ul style="list-style-type: none"> ○ Directly related to the export, import, transit of goods, as well as services in free zones and customs warehouses related to goods not released for free circulation. ○ International passenger transport. • Refuelling of ships and aircraft and supply of goods and services (the place of supply of which is inland). • Supplies of goods to non-taxable natural persons from a third country or third territory, where those persons export domestically acquired goods from the territory of the EU. • Other transactions in accordance with Arts 43 to 50 of the VAT Law, subject to the conditions laid down in Art 51.
Non-taxable services	<ul style="list-style-type: none"> • Postal services in accordance with Art 52, Paragraph one, Clause 1 of the VAT Law. • Medical services in accordance with Art 52, Paragraph one, Clauses 3 and 4 of the VAT Law. • Services provided by dentistry, dental technicians and dental hygienists

	<ul style="list-style-type: none"> • Social care, vocational and social rehabilitation, social assistance and social work services. • Children's residence services provided by preschool educational institutions. • The participation fee specified by associations or foundations for participation in sports competitions and the fee for a sports activity. • Fees for children's stays in children's camps. • Part of the pupil transport service financed from municipal budgets and operated by licensed carriers. • Vocational training or retraining services for the unemployed. • Services of state-recognized educational institutions. • Theatre and circus performances, concerts, visits to state-recognised museums and exhibitions (provided that the conditions referred to in Art 52, Paragraph two of the VAT Law are complied with). • Remuneration received by the author for the work and its use, as well as remuneration received by the performer and the producer of phonograms for the subject matter of related rights and its use. • Insurance services. • Individual financial transactions. • Services provided to residents for the rental of residential premises. • Gambling, lotteries and lotteries. • Services supplied by an independent group of persons to members of that group, subject to compliance with Art 52.¹ of the VAT Law. • Forced lease of land.
Non-taxable goods	<ul style="list-style-type: none"> • Postal bills put into circulation and delivered in accordance with the Postal Law. • Supply of human organs, breast milk and human blood (including blood plasma and blood cells). • Supply of goods and services for the purposes of protecting the rights of children and young people by public benefit organisations. • Sale of second-hand immovable property, if the special procedure laid down in Art 144 of the VAT Act is not applied. • Import of goods referred to in Art 52, Paragraph one of the VAT Law. • Import of goods by persons specified in Art 53, Paragraph seven of the VAT Law. • Acquisition of goods within the EU if they are exempted under Art 54 of the VAT Law. • Supplies of goods the acquisition or use of which was not subject to deduction of input tax by a registered taxable person because they were intended for purposes other than the provision of taxable transactions (including luxury goods, goods for the private use and entertainment of a taxable person, his staff or other persons). • Imports of gas transported through the natural gas system or networks. • The importation of goods not subject to customs duty. • The reimportation of goods domestically after temporary exportation by the person who exported the goods.

	<ul style="list-style-type: none"> • The importation of goods imported domestically into the personal luggage of a natural person arriving from a third country or a third territory (if not for commercial purposes). • Tobacco products, alcoholic beverages and fuel imported by the traveller into his personal luggage (subject to the quantity limits laid down).
VAT does not apply	<ul style="list-style-type: none"> • Transactions which are not considered taxable transactions in accordance with Arts 5 to 7 of the VAT Law. • Supplies of goods where the place of supply is not domestic and of services the place of supply of which is not inland. • Transactions within the VAT group, subject to the conditions laid down in Art 11 of the VAT Law.

These reduced rates and exemptions are likely designed to lessen the VAT's regressive impact, as they apply to goods and services that constitute a larger proportion of lower-income household's spending. They reflect an attempt to balance revenue needs with social considerations, such as supporting healthcare, education, and reducing living costs for specific population segments. However, the effectiveness of these measures in addressing income inequality and promoting social equity is subject to debate. Latvia ranks high for income inequality within the EU, with significant disparities in income distribution. The Gini coefficient, a measure of income inequality, places Latvia among the EU member states with higher levels of inequality.¹² This suggests that while VAT rates and exemptions aim to address certain inequalities, broader fiscal policies and measures may be needed to tackle the structural aspects of income distribution more effectively.

Corporate income tax has one rate for all businesses (According to Art 3 Enterprise Income Tax Law its 20% of the calculated taxable base).¹³ Corporate income tax is levied on distributed profits rather than on the company's total income (see the taxable bases in Art 4 Enterprise Income Tax Law).

The following is considered to be distributed profit (which forms part of tax base):

- calculated dividends, including extraordinary dividends;
- pay-outs equivalent to dividends;
- conditional dividends (calculated in accordance with Section 7 of the Law).

Deemed conditional profit included in the tax base (i.e., subject to tax) consists of the following:

- expenses non-related to economic activities, which are calculated in accordance with Section 8 of the Law;
- unsafe debts of debtors, which are calculated in accordance with Section 9 of the Law;
- higher interest payments, calculated in accordance with Section 10 of the Law;
- loan to a related person, which is calculated in accordance with Section 11 of the Law;
- income, which the taxpayer would have received, or expenses, which the taxpayer would not have incurred, if commercial and financial relations were formed or established in accordance

¹² Latvia ranks quite high for income inequality. Available: <https://eng.lsm.lv/article/society/society/latvia-ranks-quite-high-for-income-inequality.a463979/>

¹³ Uzņēmumu ienākuma nodokļa likums (Enterprise Income Tax Law). Available in English: <https://likumi.lv/ta/en/en/id/292700-enterprise-income-tax-law>

with regulations, which would be in force between two independent persons, and if the value of transactions concluded between these related persons (one of which is a taxpayer) corresponded to the market price (value), the calculation methods of which are determined by the Cabinet of Ministers;

- benefits granted by a non-resident to its employees or members of the board (council) regardless of whether the recipient is a resident or non-resident, if they refer to the operation of a permanent establishment on Latvia;
- liquidation quota.

This system aims to encourage reinvestment and growth within companies but does not directly address income inequality through progressive rate structures as personal income taxes do. There are no varying corporate tax rates based on industry or turnover levels. Instead, the focus is on whether profits are distributed or reinvested, with the latter being encouraged through a deferred tax payment until distribution. Thus, the corporate income tax system's focus is more on economic growth and investment rather than directly addressing income inequality.

However, there is one exception made for credit institutions and consumer credit service providers. Because of the increased interest rates by the European Central Bank which increased profits of banks in 2023, the Latvian parliament decided to levy income tax from the mentioned financial institutions, before the profit is being distributed (see Art 4.¹ Enterprise Income Tax Law).

c. Taxation of wealth, capital gains and inheritance

In Latvia, wealth is not taxed through a specific "wealth tax." Instead, the country's tax system includes various forms of taxation that can indirectly affect wealth. For instance:

- 1) **Capital Gains Tax:** Gains from the disposal of capital assets (such as property, shares, dividends, interest payments, life insurance policies, investments in private pension funds, life pension insurance policies, individual management of financial instruments, income from an investment account etc.) are subject to capital gains tax. For individuals, the capital gains tax rate is 20 %.
- 2) **Immovable Property Tax:** Latvia taxes real estate ownership through immovable property tax, which can be considered a form of wealth tax. The rates for this tax can vary depending on the type of property and its location.
- 3) **Solidarity Tax:** Although the Solidarity Tax is often seen as targeting higher income rather than wealth directly, it impacts individuals with high levels of income, which could be derived from their wealth. However, it's more accurately described as an income tax rather than a wealth tax.

Latvia does not have a net wealth or worth tax, nor does it currently implement a headline inheritance or gift tax. Instead, gifts are taxable as ordinary income unless they are exempt.

In Latvia, capital is taxed differently from income. Capital gains from the sale of assets such as real estate, stocks, and other investments are subject to capital gains tax, which is distinct from the personal income tax applied to employment income. The tax rates and conditions for capital gains can vary depending on the type of asset and the duration of ownership. This differentiation in tax

treatment reflects the distinction between income derived from labor versus income derived from capital investments.

Latvia does not impose inheritance or endowment taxes. According to Art 9 (1) 9) of Personal Income Tax Law, income obtained as a result of inheritance, is not included in the annual taxable income and the tax shall not be imposed upon it. There, however, is an exception to this rule as regards the remuneration (remuneration for the copyright and related rights) which is disbursed to the heirs of the copyright and for the State funded pension capital which is inherited in case of the death of a participant of a State funded pension scheme and which is calculated for the heir prior to extinguishing the liabilities of the heir against the social insurance special budget and the State basic budget arising out of overpayments of social insurance services, State social benefits, and service pensions in accordance with the law On State Social Insurance if the heir has decided to receive it by a transfer to a payment account with a credit institution. At the same time Latvia tax inter vivos gifts through the personal income tax.

Property taxes are designed with a view to limit wealth inequality. According to Art 3 of the Law on Immovable Property Tax the immovable property tax rate or rates from 0.2 to 3 per cent from the cadastral value of the immovable property shall be determined by a local government.¹⁴ Therefore, the rate depends on the cadastral value of the immovable property, thus taxing expensive properties more than cheap ones. Moreover, Art 3.¹ (4) of the Law on Immovable Property Tax Law states that in determining the immovable property tax reliefs in conjunction with the tax rate or rates, a local government shall comply with the principle of social responsibility, according to which it shall particularly take into account the impact of the tax on the groups of socially disadvantaged and poor inhabitants. This way, the law is designed in some extent to redistribute wealth and reduce inequality.

d. Exploitation of rules to decrease the effective tax rate on personal income tax

The issue of tax evasion or optimization, particularly regarding personal income tax in Latvia, reveals nuanced challenges within the fiscal framework, especially in labor tax evasion and underreporting of income. A study applying algorithms like Random Forest and Gradient Boosting found that about 30-35% of firms are likely involved in tax evasion, with a slight reduction in the share of tax-evading firms over time. This reduction does not necessarily indicate a decrease in the overall shadow economy size or the reduction of "envelope wages".¹⁵ Another study focused on the comparison between domestic and foreign-owned households' income reporting. It found that domestic households tend to spend a higher share of their income on food, implying underreporting of income compared to households headed by employees of foreign-owned firms or public sector employees. This suggests that domestic firms' employees are more likely to receive undeclared payment. Specifically, domestic firm households are estimated to conceal 26% more income than their foreign-owned counterparts, and this estimated share rises to 40% among younger, full-time

¹⁴ Likums par nekustamā īpašuma nodokli (Law On Immovable property tax) Available in English: <https://likumi.lv/ta/en/en/id/43913-on-immovable-property-tax>

¹⁵ N.Gavoille, A.Zasova. Detecting Labor Tax Evasion Using Administrative Data and Machine-Learning Techniques. Available: <https://freepolicybriefs.org/2022/05/17/labor-tax-evasion/>

employed heads of households.¹⁶ Furthermore, tax enforcement actions by Latvia's State Revenue Service (SRS) demonstrate ongoing efforts to address tax evasion, including cases involving substantial evasion amounts by underreporting salaries or engaging in "envelope wages." For instance, criminal proceedings were launched against three individuals for failing to account for significant salary payments within a beauty sector company, avoiding over €2 million in taxes.¹⁷

e. Tax expenditures in personal income taxes

Latvia's tax system incorporates various tax expenditures to mitigate income inequality, with a focus on personal income taxes. These measures include deductions and allowances designed to reduce the taxable base, thereby potentially lessening the tax burden on lower-income earners and supporting specific expenditures that have social value.

One such mechanism is the differentiated non-taxable minimum, which is applied based on annual income levels. This system allows for a portion of income to be exempt from taxation, with the aim of ensuring that lower-income individuals retain a greater portion of their earnings.¹⁸

Eligible deductions for Latvian taxpayers further reflect this intent to address income inequality through the tax system. Taxpayers can claim deductions for expenses related to:

1) education, medical bills, health insurance payments, donations and gifts to charitable organizations. The total amount of these deductions may not exceed EUR 600 per year or 50% of the taxpayer's annual taxable income.

2) payments to private pension funds, and life insurance saving fund premium payments. The total amount of these deductions may not exceed 10% of the amount of the annual income of the payer, but not more than EUR 4000 per year.

For family members, the eligible expenses are limited to education and medical treatment expenses, with the same cap of EUR 600 per family member.

These measures aim to provide financial relief for essential expenses, encouraging investment in education and health, which are critical components of individual and societal well-being. They also promote charitable giving and retirement savings, aligning with broader social objectives.

However, it's less clear how regularly the Latvian government assesses the distributional impact of these tax expenditures. Typically, such assessments would be part of broader tax expenditure reports or fiscal policy reviews, but detailed, periodic public reports specifically analyzing the impact on income distribution are not prominently highlighted in available resources.

¹⁶ N.Gavoille, A.Zasova. Foreign-Owned Firms and Labor Tax Evasion in Latvia. Available: <https://biceps.org/2021/11/29/foreign-owned-firms-and-labor-tax-evasion-in-latvia/>

¹⁷ Criminal case launched for EUR 2 million tax evasion. See: <https://eng.lsm.lv/article/society/crime/30.03.2023-criminal-case-launched-for-eur-2-million-tax-evasion.a503013/>

¹⁸ see: <https://www.vid.gov.lv/en/personal-income-tax#filing-annual-tax-return>

f. Public debate on wealth taxation

OECD's report "Inheritance Taxation in OECD Countries" has found that inheritance, estate and gift taxes could play a stronger role in addressing inequality and improving public finances.¹⁹ This raised discussions as to whether Latvia should introduce inheritance tax.²⁰

The Ministry of Finance has made a proposal to introduce a 1% inheritance tax if the value of the inheritance exceeds EUR 500,000.²¹

However, there has not been real attempts to introduce inheritance tax in Latvia. Moreover, as personal income tax progressivity has been introduced in Latvia relatively recently, it has also been subject to an ongoing debate.

In Latvia, discussions regarding the unequal distributional effects of taxation have been an ongoing concern, reflecting broader trends in economic inequality and social fairness. These debates are typically centered around the progressivity of the tax system, the balance between direct and indirect taxes, and the overall impact on different income groups. There has also been an ongoing debate as to whether real estate tax should apply to the only home. The Ministry of Finance and other governmental bodies periodically release reports and analyses that address taxation issues. These documents are generally well-informed and utilize comprehensive data to inform policy decisions. Studies from institutions such as the Stockholm School of Economics in Riga and the University of Latvia often examine the effects of specific tax policies. These studies tend to be evidence-based and are crucial in providing an academic perspective to policy discussions. Media outlets play a significant role in shaping public opinion on tax matters. The quality of media reporting can vary, with some reports being well-researched and analytical, while others may lack depth or fail to accurately represent statistical data or economic theories.

(2) Tax Policy and Other Inequalities

a. Specific rules on gender equality or single parenthood in tax policy

I am not aware of tax regulation that addresses gender equality or single parenthood.

¹⁹ See: <https://web-archiver.oecd.org/2021-05-11/588040-inheritance-estate-and-gift-taxes-could-play-a-stronger-role-in-addressing-inequality-and-improving-public-finances.htm>; report: <https://www.oecd.org/tax/tax-policy/inheritance-taxation-in-oecd-countries-e2879a7d-en.htm>

²⁰ See: <https://jauns.lv/raksts/business/443744-uzjundi-viedoklu-kars-par-iespejamo-mantojuma-nodokli>

²¹ See: <https://www.fm.gov.lv/lv/media/17640/download?attachment>

b. VAT on female sanitary products)

Female sanitary products in Latvia are subject to the standard VAT rate. In March 2023 an initiative had been published for free hygiene products for girls and women in educational institutions. This initiative collected more than 10 thousand signatures when it was submitted to the parliament.²² However, there has not been a campaign in Latvia for the abolition of the “tampon tax” (VAT on female sanitary products).

c. Family taxation esp. LGBT families/partners, single or separated parents, or to disabled children/parents

In Latvia, personal income taxation operates on an individual basis. This individual-based system means that taxes are calculated and filed separately for each person, without the option for spouses to file joint returns. Personal Income Tax Law Art 13 states that personal income tax relief is provided to only one of the breadwinners. Personal income tax relief for a dependent person is 250 euros per month.²³

Art 5 (1.²) of the Law on Immovable Property Tax states that the sum of the immovable property tax shall be reduced by 50 per cent of the calculated tax sum, but not more than by 500 euros if the person (himself or herself, or together with the spouse) or his or her spouse has three or more children under 18 years of age (also children under guardianship or children placed in a foster family) or children under 24 years of age acquiring secondary, professional or higher education and if his or her spouse has the declared place of residence in the object together with at least three of the abovementioned children.

As mentioned above, Latvia does not have an inheritance tax. However, there is a State Fee for Registering Ownership rights and Pledge Rights in the Land Register, which has been subject to Constitutional court’s review as regards the amount of state fee to be paid by heirs for registering their ownership rights in the Land Register if the value of the inherited immovable property exceeds 10 minimum monthly salaries. The Court concluded that since there is so far no legal regulation of family relationships of same-sex partners which would allow to legally register a same-sex couple family relationship, it is currently not possible also to identify such a family to ensure its social and economic protection and support. Thus, the system of protection and support of a family currently in place in the state, which inter alia includes the contested provision, does not protect same-sex couple families either legally or economically and socially. Therefore, the Court concluded that the contested provision, insofar as it applies to the estate-leaver’s surviving

²² See: <https://manabalss.lv/bezmaksas-higienas-precas-meitenem-un-sievietem-izglitibas-iestades-neaizsargatam-sievietem/show>; see also: <https://zinas.tv3.lv/latvija/saeima-atbalsta-bezmakas-sieviesu-higienas-precas-skolas-un-maznodrosinatajiem-tacu-nav-skaidrs-kur-nemt-naudu/>

²³ See: <https://likumi.lv/ta/id/295500-noteikumi-par-neapliekama-minimuma-un-nodokla-atvieglojuma-apmeru-iedzivotaju-ienakuma-nodokla-aprekinasanai>

same-sex partner who lived with the estate-leaver as a family, is incompatible with the first sentence of Article 110 of the Constitution.²⁴

Because of a couple of judgments by the Court, family-related tax benefits should be available to LGBTQ families. However, it is unclear whether they are factually available, as this question may be subject to further disputes in the courts.

As of July 1, 2024, there will be changes in taxation. The changes will provide that, to a certain extent, the norms of personal income tax and social security contributions will apply to persons for whom information about partnership is included in the Register of Natural Persons. Tax relief will be provided for various property disposal transactions, including gifts, if the transactions occurred between persons who are in partnership. Relief for the taxpayer will also be applicable for the maintenance of the person with whom there is a partnership. Amendments to the law on personal income tax provide that before the income is taxed, the taxpayer's expenses for raising the qualifications of his family members, including his partner, obtaining a specialty, obtaining an education, and for the use of medical and therapeutic services will also be deducted from the amount of annual taxable income. The newly introduced regulation will be the beginning of the arrangement of the partnership institute and the relevant legal relations, which, of course, are not yet complete and comprehensive.

d. Specific tax rules for people with disabilities or for other vulnerable social groups

Personal income tax relief for people with disabilities amounts to €1,848 annually for individuals with first or second disability group status, and €1,440 for those with third group status.²⁵ According to Personal Income Tax Law Art 12 (5) the non-taxable minimum is 6,000 euros per year for pensioners.

e. Tax credits or other tax benefits available to immigrants or refugees

In Latvia, tax rules apply to residents regardless of nationality, meaning all residents, including immigrants and refugees, are subject to the same tax laws as native-born Latvians. Nevertheless, as mentioned above, local governments have the power to determine immovable property tax rates and reliefs.

Jūrmala municipality has provided in its local rules that immovable property tax reliefs are available only to citizens of the member states of the European Union, countries of the European

²⁴ Judgement of the Constitutional court of the Republic of Latvia of 8 April 2021 in case No. 2020-34-03. Available: <https://likumi.lv/ta/id/322297-par-ministru-kabineta-2009-gada-27-oktobra-noteikumu-nr-1250-noteikumi-par-valsts-nodevu-par-ipasuma-tiesibu-un-kilas-tiesibu-n...>, see also press release: <https://www.satv.tiesa.gov.lv/en/press-release/a-provision-regulating-state-fee-applied-to-the-estate-leavers-same-sex-partner-who-lived-with-the-estate-leaver-as-a-family-is-incompatible-with-the-constitution/>

²⁵ See: <https://likumi.lv/ta/id/42990-noteikumi-par-iedzivotaju-ienakuma-nodokla-papildu-atvieglojumiem-invalidiem-politiski-represetajam-personam-un-nacionalas-pret...>

Economic Area, the Swiss Confederation, or non-citizens of Latvia. And the Court has instituted proceedings to determine whether this clause is compatible with the principle of non-discrimination.²⁶

f. Inter-generational equality for tax policy

In Latvia, the approach to taxation demonstrates an awareness of inter-generational equity, particularly in the context of pension income taxation. The OECD highlights that many countries, including Latvia, offer some form of preferential tax treatment for pension incomes or for pensioners themselves. This often manifests as additional allowances or credits for older individuals, which may be phased out at higher income levels. Furthermore, there is a tendency in some countries to tax pension incomes less than employment incomes, reflecting an effort to support individuals in their retirement years. Specifically, public pensions in certain jurisdictions can enjoy partial or full relief from income taxes, enhancing the post-retirement financial well-being of the older population.²⁷ As mentioned above, the non-taxable minimum is 6,000 euros per year (or 500 euro per month) for pensioners. This way pension income is treated preferentially, nonetheless taking into account also the income level.

The preferential treatment is constitutionally protected through Court's case-law. However, this protection is nuanced and may not cover all pensioners. The Court has recognized that pensioners are considered a social group that needs special protection. This applies even more to those pensioners whose income is small and considered as not reaching the minimum social security.²⁸ The prohibition of discrimination based on age is based on the modern legal-philosophical recognition that all stages of a person's life are of equal value. Therefore, the protection of special age groups, such as seniors, for social reasons is permissible and necessary. Age is considered one of the criteria included in the content of Art 91 of the Constitution. The state must properly take care of seniors, including promoting their social inclusion and reducing their social exclusion. The state must provide seniors with the opportunity to live a life that corresponds to human dignity, including the opportunity to actively participate in the public, social and cultural life of the country.²⁹

There are no wide public debates in Latvia about how protecting the elderly can negatively impact income and wealth inequality, because most pensioners are poor and the above-mentioned preferential treatment is not significant enough to raise debates. However, there are debates as

²⁶ See: <https://www.satv.tiesa.gov.lv/en/press-release/a-case-has-been-initiated-regarding-the-provision-determining-countries-whose-citizens-can-property-tax-relief-in-the-city-jurmala/>

²⁷ See: <https://www.oecd-ilibrary.org/sites/8418b3e6-en/index.html?itemId=/content/component/8418b3e6-en>

²⁸ Judgement of the Constitutional court of the Republic of Latvia of 21 December 2009 in case No. 2009-43-01. Available: <https://likumi.lv/ta/id/202522-par-likuma-par-valsts-pensiju-un-valsts-pabalstu-izmaksu-laika-perioda-no-2009gada-lidz-2012gadam-2-panta-pirmas-dalas-atbilstibu-latvijas-republikas-satversmes-1-un-109-pantam-un-3-panta-pirmas-dalas-atbilstibu-latvijas-republikas-satversmes-1-91-105-un-109-pantam>

²⁹ Judgement of the Constitutional court of the Republic of Latvia of 9 July 2020 in case No. 2019-27-03. Available: <https://likumi.lv/ta/id/315986-par-ministru-kabineta-2009-gada-22-decembra-noteikumu-nr-1605-noteikumi-par-valsts-sociala-nodrosinajuma-pabalsta-un-apbedisana...>

regards the protection of pensioners in Latvia and the equal treatment between pensioners themselves.

g. Public debates on potential indirect discriminatory effects of taxation

In Latvia, discussions about the potentially discriminatory effects of taxation and the role of positive discrimination through tax policies do occur, though they may not be as prominent or widespread as debates in some other countries. Such discussions often revolve around the implications of tax policies on different socioeconomic groups, including debates on gender equality, support for families, and the elderly. Academic circles, policy analysts, and certain non-governmental organizations (NGOs) are typically active in these discussions, analyzing how tax policies can either alleviate or exacerbate social inequalities. These debates may occasionally reach broader public forums, especially when linked to legislative changes or proposals.

(3) Tax Competition and Inequality

There are immigration policies in Latvia, aimed at attracting wealthy taxpayers. However, I am not aware of preferential personal tax regimes.

At the same time, the Ministry of Finance regularly follows the development of the situation and evaluates the competitiveness of the national tax system. Employers' and foreign investors' associations also make proposals to promote the attractiveness of the national tax system compared to other neighbouring countries.

Section III. Tax Enforcement and Inequality

(1) Tax Enforcement and Income Inequality

a. Selective enforcement in tax law

In Latvia, discussions around selective enforcement in taxation, particularly targeting disadvantaged groups like the poorest segments of the society, are not prominently documented in legal literature or reported cases. While there may be anecdotal references or public concerns about inequalities in tax enforcement or administration, specific legal cases or public controversies highlighting systemic selective enforcement targeting the poor are not widely reported. Generally, tax enforcement aims to be equitable and systematic, adhering to the principles set out in Latvian law and European Union guidelines.

There are no effective legal remedies available to individuals subject to specific targeting. Individuals cannot object to the administrative act issued to another person. Moreover, they cannot

ask for an unlawful administrative act solely because such act has been issued to another person. However, the principle of equality is applicable in administrative procedure (it is also reflected in Art 6 of the Administrative Procedure Act). And Supreme Court has stated, for example, that in the context of ensuring the principle of equality, it is important that if it is established that the factual circumstances are relatively similar in several cases, they would be decided similarly, because the participants in the process have the right to expect and trust that they will receive the same justice in court in all similar cases.³⁰ However, there are no specific mechanisms in law addressing specific targeting.

b. Tax amnesty

There have been two cases of tax amnesty in the last 20 years (see <https://likumi.lv/ta/id/250690-nodoklu-atbalsta-pasakuma-likums> and <https://likumi.lv/ta/id/292702-nodoklu-maksatajiem-nokavejuma-naudas-un-soda-naudas-dzesanai-paredzeta-atbalsta-likums>). The first one concerned interest and 90 percent penalty, and the second concerned interest and penalty.

c. Prosecutions for tax law fraud

Prosecutions for tax law fraud are indeed pursued in Latvia, particularly when significant tax evasion or fraud is detected. The State Revenue Service actively monitors and investigates cases of tax fraud, and such cases can lead to criminal charges if substantial evidence is found. This enforcement is part of Latvia's broader efforts to maintain the integrity of its tax system and ensure compliance with tax laws. Cases often involve undeclared income, fraudulent tax credit claims, or other types of evasion.

In Latvia, the focus of tax fraud prosecutions tends to be on more serious offenses. These include large-scale evasion, fraudulent schemes, and significant non-compliance that affects the state's revenue substantially. Lesser offenses might result in fines or administrative actions rather than criminal prosecution. This approach aims to deter the most damaging financial behaviors while managing the administrative burden of pursuing smaller cases.

146 persons were convicted for tax evasion in the period from 2015 to 2019.³¹ According to Art 218 of Latvian Criminal Law and the relevant regulations, criminal liability for tax evasion arises only when losses caused to the state in large amount (35 000 euros in 2024). In Latvia, tax settlements for high-income individuals are not commonly publicized as a widespread practice, and the tax system generally strives to be equitable. However, any perceived leniency or preferential treatment in tax settlements for wealthy individuals could potentially be controversial. This would particularly be the case if such settlements were seen as inconsistent with the treatment

³⁰ Judgement of the Supreme court of the Republic of Latvia of 28 March 2019 in case No. SKA-121/2019. Available: [judgment in case No. SKA-121/2019 \(A420425314\)](#)

³¹ See: <https://lvportals.lv/tiesas/309698-nodoklu-nemaksasana-var-maksat-cietumu-2019>

of ordinary taxpayers, possibly leading to discussions about fairness and transparency in the tax system.

(2) Tax Enforcement and Other Inequalities

a. Digitalization of tax compliance / administration

Latvia has embraced various digital solutions to make tax reporting and payment more efficient. This includes the electronic declaration system managed by the State Revenue Service, which allows taxpayers to submit tax returns, access information, and communicate with tax authorities online. This digital approach enhances transparency, reduces administrative burdens, and improves overall tax compliance.

Latvia has made significant progress in automating tax processes. The use of the electronic declaration system is a prime example, allowing for the filing and processing of tax returns online. This system supports various tax-related activities such as declarations, payments, and refunds, facilitating a more streamlined interaction between taxpayers and the tax authority. Additionally, other aspects of tax administration, like data cross-checking and audits, are increasingly automated to enhance efficiency and reduce errors. This level of automation helps ensure compliance and simplifies the tax process for individuals and businesses alike.

It is highly probable that sophisticated technologies are used by tax administration, for example, machine learning technologies used in risk profiling for machine-learning technology which determines risk of envelope wage payment.³² However, I am not aware of whether the tax administration really applies sophisticated technology, such as real-time technology and AI risk profiling.

b. Legal safeguards on the use of such technology

There is Law on the Security of Information Technologies adopted in 2010. However, I am not aware of any regulations as regards more advanced technologies. At the same time, AI is most likely to be regulated by the EU.³³

c. Assistance in tax compliance

³² See: <https://lvportals.lv/norises/335996-maksligais-intelekts-ar-lielu-varbutibu-izskaitlo-aploksnu-algu-maksatajus-2021>

³³ See: <https://lvportals.lv/norises/355065-ko-paredz-toposais-maksliga-intelekta-regulejums-2023>

Taxpayers have access to advice from consultants of the State Revenue Service. Also, according to the principle of good state administration, the State Revenue Service has introduced the principle of "advise first", providing advice whenever possible and giving time to eliminate deficiencies in tax returns.

Taxpayers have the right to receive information about their rights in a specific tax legal relationship. The State Revenue Service is obliged to respect a person's legal reliance on information if the person has followed this information.

d. Discretion of tax administration to address inequalities

Tax regulation in Latvia is mainly detailed and robust and does not provide any discretion to the tax administration. I am not aware of any positive measures as regards tax law enforcement, to address inequalities.