

## **LATVIA – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS**

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Latvia.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Latvia, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Value added tax (VAT)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

### **INCOME TAX**

Where you earn income in Latvia, it is likely that you will be required to pay a percentage of the tax on this income to the Latvian tax authority on an annual basis. Below is a brief outline of the tax that may arise on income earned from short-term lettings in Latvia and some information on how this tax can be paid over to the Latvian tax authorities.

**Latvia's tax year** runs from 1 January to 31 December.

#### **Coming within the charge to income tax in Latvia.**

If you are in receipt of Latvian source income, you are subject to taxation in Latvia. No thresholds are applicable.

If you are self-employed, a personal allowance, that varies according to the annual income, may be claimed through the tax return.

#### **Reporting tax in Latvia.**

A tax return may be filed either electronically or on paper. The form used is the PIT return form and this is available online: <https://www.vid.gov.lv/lv/veidlapas>.

If you are registered as earning self-employed income, you must file your tax return electronically (paper filing is not an option) using the Electronic Declaration System (EDS) of the State Revenue Service (SRS): <https://eds.vid.gov.lv/login/>.

## Reporting tax - filing deadline.

The deadline for filing a tax return is between 1 March and 1 June in the year following the tax year e.g. 2018 tax return must be filed between 1 March and 1 June 2019.

However, if your total taxable income exceeds €55,000, the filing deadline is between 1 April and 1 July in the year following the tax year e.g. 2018 tax return must be filed between 1 April and 1 July 2019.

You may adjust a filed tax return within three years of the the statutory filing deadline.

## Reporting tax - payment deadline.

A tax liability of less than €640 is payable within 15 days after the statutory filing deadline (i.e. by 16 June).

A tax liability exceeding €640 may be paid in three equal instalments by 16 June, 16 July and 16 August.

## Latvia Tax Authority contact details.

The contact details for the Latvian tax authority can be found below:

- [vid@vid.gov.lv](mailto:vid@vid.gov.lv)
- +371 67120000

You can also find further information on their [website](#).

You may also visit the tax authority by using your local client support centre. By following the link below you can see the opening times for these centres:

- <https://www.vid.gov.lv/lv/klientu-apkalposana-0>

## Latvian income tax rates.

There are two tax treatment options available to an individual providing short-term lettings in Latvia.

**Option 1** - The first option is paying personal income tax (PIT) on taxable profits. Under this option you register as self-employed with the State Revenue Service (SRS). Once registered, you account for income and expenses and pay PIT on your profits (i.e. revenue less business expenses) annually. Income tax is charged at the following progressive rates, effective from 1 January 2018:

- 20% on any taxable income of up to €20,004 a year;
- 23% on taxable income between €20,004 and 55k; and
- 31.4% on any slice of taxable income exceeding €55k.

If you operate at a loss, or PIT on the profits is less than €50, then a fixed PIT charge of €50 is payable and the loss, if any, may be carried forward three years.

Mandatory national social insurance (NSI) contributions are payable if your self-employed monthly profit is €430 or more, you are free to choose your NSI base, which cannot be less than €430 in 2018. Voluntary NSI may be paid on the chosen amount even if monthly profit is below €430.

If your self-employed profit exceeds €430 but you decide to charge NSI on the minimum (i.e. €430), then a 5% surcharge applies on the difference between the actual income and the chosen NSI base. If the profit is less than €430, then a 5% NSI should be charged on this income. Where your self-employed annual profit does not reach €50 in a taxation year, no NSI is due.

**Option 2** - Under the second option, you may opt to register a tenancy agreement with the SRS and apply the simplified PIT regime and pay a 10% PIT on the rental income less local property tax. Where only part of the property is let, the property tax should be deducted in proportion to the square metres let.

No other business expenses can be deducted under this option.

Please note that in general, each tenancy agreement with tenant should be filed (registered) with the SRS within five days after signing. You may seek SRS opinion and guidance on the registration of an agreement signed with Airbnb, and as such reduce time for the administrative tax compliance while registering each agreement with tenant.

Under this option NSI is not applicable.

If you would like further information regarding your tax payment options you should consult the Latvian tax authority [website](#). Alternatively, you may want to consider seeking advice from a tax professional.

### **Typical expenses that can be deducted from an individual's income in relation to short term lettings.**

If you are a self-employed individual taxable under first option above, you may deduct all business expenses from the income earned to calculate a profit (i.e. the tax base).

If you are an individual who has a registered tenancy and taxable under option two above, you may only deduct the local property tax from the income received and apply a 10% PIT on the tax base. No other expenses related to the property can be deducted.

### **Deductions available for tax depreciation (e.g. capital allowances / wear and tear).**

If you are registered as a self-employed person, you may claim capital allowances on the property under the straight-line method.

However, if the letting is registered as a tenancy, depreciation cannot be claimed as a deduction against rental income.

### **Latvian income tax obligation for non-resident individuals.**

If you are not resident in Latvia and you are in receipt of Latvian source rental income, you are taxed in Latvia on this income in the same way as a Latvian tax resident (for more details please refer above) with a limitation on the availability of personal allowances. If the Latvian rental income received exceeds 75% of your worldwide income, and you are EU/EEA tax resident, you may request personal allowance to the same extent as a Latvian tax resident.

### **Latvian income tax obligations for a Latvian individual in receipt of foreign rental income.**

If you are resident in Latvia you are obliged to declare your income and pay associated taxes to the Latvian tax authority.

### General property taxes payable.

Property tax is calculated yearly based on the cadastral value of the property. The rates for residential properties are:

- 0.2% of cadastral value if it does not exceed €56,915;
- 0.4% of cadastral value between €56,915 and 106,715;
- 0.6% on cadastral value exceeding €106,715.

For land: 1.5% of cadastral value.

Please note that property tax may vary from region to region.

### Capital taxes in Latvia.

A 20% tax rate is applied on income received from selling a property. There are three exemptions for capital gains tax on the disposal of real estate:

1. Disposal of property owned by the individual for more than 60 months and has been their declared place of residence (not an additional address) for at least 12 months before the disposal.
2. Disposal of property owned by the individual for more than 60 months and the last 60 months before the disposal it has been their only property.
3. Disposal of property owned by the individual for more than 60 months and if such income on the sale is reinvested in functionally similar property within 12 months.

A capital gains tax return should be filed with the SRS and if the total gain exceeds €1,000 per quarter, the return should be filed by the 15th day of the month following the quarter. If the total gain is below €1,000, the return should be filed by 15 January after the end of the tax year.

Tax on capital gains is due within 15 days after filing the tax return with the SRS.

Sample Tax Computation		
Kristine owns a 2 bedroom flat in Latvia. She rents out the flat at the weekends.		
Kristine received total gross rent in 2018 of €6,000.		
Kristine incurred the following expenses in relation to this house in 2018: house insurance €500, local property tax €350, online commission payments €240 and electricity/gas €600.		
	Option 1 Self-employed (20%)	Option 2 - Registered as a letting (10%)
	€	€
Gross rental income	6,000	6,000
<i>Less allowable expenses:*</i>		

House insurance	(500)	
Mortgage interest**	(2,500)	
Electricity	(600)	
Local property tax	<u>(350)</u>	<u>(350)</u>
Taxable rental income	2,050	5,650
Mandatory NSI (5%)*****	<u>(102.50)</u>	
Personal Income Tax (PIT) base	1,947.50	
<b>Tax Charge</b>	<b>389.50</b>	<b>565</b>
<i>*Expenses are deducted annually</i>		
<i>**Mortgage interest is 100% allowable if the entire house is let (if it's a particular room, then a percentage of the let property can be deducted).</i>		
<i>*** Local property tax is an allowable deduction.</i>		
<i>**** NSI is deductible for PIT purposes.</i>		
<i>***** You may pay higher NSI voluntarily.</i>		

## **VALUE ADDED TAX**

Value added taxes can be complicated and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Latvia is a tax on consumption. Most goods and services supplied in Latvia are subject to VAT.

A person who supplies goods and/or services in Latvia may have to charge VAT and pay this to the Latvian tax authority. As with all taxes, VAT can be tricky and we encourage you to consult with a tax advisor regarding your potential VAT obligations in Latvia.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Latvian tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

### **Do I need to collect any VAT from guests if I am letting short-term accommodation in Latvia?**

In general, individuals who are considered to be in business in Latvia need to charge VAT on their supplies, once the criteria for VAT registration is met.

Currently, in Latvia, you are required to register for VAT if your taxable turnover exceeds €40,000 in any continuous period of twelve months. As such, where you supply short term accommodation and you breach this threshold, you should register for VAT.

If you are an individual who is not resident in Latvia, but your accommodation is located in Latvia, then you should also register for VAT, as no registration threshold applies to you.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Latvian VAT.

For further guidance on registering for VAT, please see the Latvian tax authorities' [website](#).

### **VAT applies to me. How do I determine how much tax I need to collect from my guests?**

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the VAT rate applicable to supplies of tourist accommodation is 12% in Latvia. You should contact your local tax advisor in order to ensure your accommodation falls within the meaning of tourist accommodation.

However, there are other VAT rates currently in force in Latvia, so we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies.

### **VAT applies to me. How do I collect VAT from guests?**

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests. VAT should be reported on a periodic VAT return which is filed online, while tax is paid to the state budget. In Latvia, the VAT return typically cover a monthly or quarterly period and is required to be filed by the 20th day of the following month (i.e. the January VAT return is due to be filed by the 20th of February). The VAT payment is required to be made on the same day that the VAT return is required to be filed.

For further guidance on filing returns, please see the Latvian tax authorities' [website](#).

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. There may also be requirements around whether you use VAT-inclusive or VAT-exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.