

# Is inheritance tax coming to Latvia? 1/32/24



Manager, Tax, PwC Latvia  
Viktorija Lavrova



Senior Consultant, Tax, PwC Latvia  
Madara Hmelevska

Inheritance tax is payable by individuals that receive property or money from a testator. Rates and exemptions may vary from country to country according to the degree of relationship between heirs, the inherited value and other criteria. Latvia has not introduced inheritance tax. This article explores the Finance Ministry's proposal for introducing inheritance tax in Latvia, as identified in the report 'An assessment of the current workforce cost situation and proposals for future action', a tax policy planning document.

Latvia does not collect inheritance tax, except for a few cases of personal income tax (PIT) being charged on inherited capital from pension schemes or on the income of copyright heirs clearly defined in the PIT Act. No PIT is payable on gifts from the spouse or relatives up to the third degree. The policy planning document published in June includes proposals for introducing inheritance and gift tax in Latvia to reduce income inequality and increase national budget revenues. Such a tax has been introduced in many OECD countries, including Lithuania.

Based on Lithuania's experience, inheritance tax is payable by individuals that have inherited real estate and movables (including securities and money). The tax base is 70% of the inherited assets, and the tax rate depends on the inherited value and the degree of relationship between heirs. For example, an inheritance of up to EUR 150,000 is taxable at a rate of 5%, while an inheritance exceeding this threshold attracts a rate of 10%. The fiscal impact of inheritance tax on the budget generates revenue ranging from EUR 1.95 million in 2020 to EUR 3.11 million in 2022.

As regards gifts, Lithuania does not charge gift tax on gifts from relatives. In other cases a 15% PIT is charged on the excess of a gift over EUR 2,500 as long as total gifts do not exceed 120 average salaries.

In the light of Lithuania's experience and the prevalence of inheritance tax in OECD countries, the Finance Ministry has drawn up a proposal for introducing inheritance and gift tax if an inheritance or a gift exceeds EUR 500,000 a year. The rate of inheritance tax would be 1%, it would be payable by the recipient of the inheritance or gift, and its fiscal impact on the national budget is estimated at EUR 1-3 million. A similar proposal for introducing inheritance tax is included in the national research programme 'Reducing the shadow economy for sustainable national development'. While a particular rate applicable on inheritance is not specified, introducing this tax would generate an estimated revenue of up to EUR 11,200,000 a year based on the information available from the national registers on stamp duties paid by heirs entering their legal title on the land register.

Despite what the report says, the proposal poses questions and challenges, for instance:

- How to prevent potential tax evasion mechanisms and property or gift restructuring
- How to align the proposed rates and exemptions in Latvia with the tax laws in other member states
- How to communicate the goals and benefits of the new tax to the public, especially given plans to introduce the taxation of gifts from relatives together with inheritance tax

Introducing inheritance and gift tax in Latvia is a complex matter associated with the public debate over

the last three years and political consensus on how this tax will benefit the public at large, so we will be monitoring how the proposal develops among the policymakers.