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# Preparing for 2025: what changes are expected to Latvian tax system 2/51/24


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As part of adopting the yearly national budget, Parliament passed several key tax amendments in their final reading on 4 December 2024, which are in force but will apply from 1 January 2025. In this article, we look at the most important changes affecting people and businesses, with changes to personal income tax (PIT) and other taxes.

## PIT changes – new rates, personal allowance and other amendments

*New rates*

As we wrote earlier, to make the Latvian system of labour taxes more competitive across the Baltic region, the PIT changes will affect rates, personal allowances and other core principles of tax treatment.

The amendments provide for replacing the three progressive PIT rates with two:

- A rate of 25.5% will apply on income of up to EUR 105,300 a year or EUR 8,775 a month.
- A rate of 33% will apply on the slice of income going over EUR 105,300 a year.

As before, the rate of 33% will not apply to taxpayers paying Latvian national social insurance (NSI) contributions until they file their annual income tax return. When paying income over the NSI income cap, the employer will have to apply NSI and a 25.5% PIT on the entire income every month, with the worker being charged to the solidarity tax part when they file their annual income tax return.

*A single rate for other types of income*

Along with new progressive rates, the flat rates of 20% and 23% will be raised on other types of income. From 2025, a flat rate of 25.5% will apply on income such as capital gains, interest, royalties, and payments to persons based, formed or incorporated in tax havens.

*Extra PIT on income exceeding EUR 200,000*

The amendments provide for a 3% surcharge applicable on the slice of total income for the year that goes over EUR 200,000. This rate will apply on the entire income a person receives during the year, including taxable income, which is income from paid work, taxable income from business reported on the annual income tax return, royalties, and taxable income from capital gains, and on a specific exempt type of income, which is dividends and dividend equivalents received by the individual.

The income slice attracting the 3% surcharge will not include other exempt income, such as benefits, gifts and income from real estate if they meet the PIT Act’s exemption criteria.

*A flat personal allowance*

To simplify the tax treatment of employment income, from 2025 the income-differentiated personal allowance will be replaced with a single personal allowance applicable to every taxpayer regardless of their income level. From 2025 the personal allowance will be EUR 510, with plans to gradually increase it in the coming years:

- EUR 550 in 2026
- EUR 570 from 2027

The personal allowance for pensioners will be doubled to reach EUR 1,000 a month from 2025 (currently EUR 500).

*Employer costs*

The range of exempt worker expenses and benefits available under a collective agreement will be widened. From next year, the basket of tax reliefs available under a collective agreement will include expenses associated with employee relocation, accommodation and transport. To avoid PIT implications, the employer's compensations must not exceed the total expense limit computed by multiplying the company's average headcount and EUR 700 a year (while meeting the current conditions for claiming relief).

Changes have finally been made to other types of expenses – the employer's exempt childbirth benefit and funeral benefit have been raised to EUR 500 a year and the amount of exempt gifts increased to EUR 100 a year.

Another initiative that goes beyond the PIT amendments of 4 December and will be debated separately has to do with amendments proposed by the Latvian President to determine that an employer's financial assistance for buying medical technology for employees and their dependants is exempt from PIT if particular conditions are met. An exemption can be claimed, for instance, if there is a medical council's approval and various documents supporting the costs and the amount of compensation. The initiative is guided by the need to address financial difficulties for people, especially those suffering from serious and rare diseases, and to reduce obstacles hindering their return to the job market.

*The royalties scheme*

The lawmaker has extended the grace period prescribed by the PIT Act's transition rules, during which royalty recipients may opt out of registering as economic operators.

According to the amendments, the royalty recipient can avoid registering as an economic operator up to 31 December 2027, and the income payer will have to continue withholding a 25% tax on the amount payable.

## Microbusiness tax

Parliament has amended the Micro Business Tax (MBT) Act to simplify the MBT scheme by reducing the administrative burden and making it more friendly to those who do not carry on a business regularly. From 2026, individuals will have the choice between registering with the State Revenue Service (SRS) as economic operators or applying for MBT payer status for one or more quarters within a tax period.

## Changes to excise, natural resource tax and vehicle tax rates

From 2025 there will a gradual increase in excise rates on fuel, natural gas and petroleum gases used as fuel according to their CO2 components as follows:

- EUR 10 per tonne of $CO_2$ in 2025
- EUR 20 per tonne of $CO_2$ in 2026

The amendments will abolish the exemption on petroleum products used in electricity production and cogeneration and will charge them to excise as petroleum products used as fuel.

Excise rates will also be raised on soft drinks with a sugar content starting from (including) 8 g per 100 ml from 2025, and for alcoholic beverages, including beer, tobacco products and products similar in purpose, from 2027.

There are also plans to increase vehicle tax rates by 10% from 2025 and company car tax rates by 10% from 2027.

Changes will also affect the minimum rate of natural resource tax on fossil fuels – coal, coke and lignite, to be charged as EUR 0.9 per GJ in 2025 and 2026, and EUR 1 per GJ from 2027.

## Cashless payments in retail

To reduce the shadow economy and promote cashless payments, the circulation of cash will be subject to new restrictions from 2025, as we discussed in an earlier article.

The main requirement is for credit institutions to notify the SRS of customers who had more than EUR 7,000 in cash paid into their accounts in the previous year (down from the turnover threshold of EUR 15,000).

Retailers and other taxpayers with annual revenues exceeding EUR 50,000 will have to enable customers to make cashless payments. The amendments also revise the requirement for entities governed by the Anti Money Laundering and Counter Terrorism and Proliferation Financing Act to report suspicious transactions and file threshold returns with the SRS if a cash transaction exceeds EUR 750.

## Updating cadastral values in 2025

As the real estate (RE) market landscape has considerably changed in the last decade and the current cadastral values fail to give an approximate view of the fair value of RE, Parliament passed a bill in early 2024 to change the cadastral value base system. Each cadastral item will have two cadastral values – fiscal and universal – computed and registered temporarily.

According to an earlier article, fiscal value will be used to compute real estate tax and other charges and will match the current cadastral value (this value is based on the RE market data for 2012–2013). Universal value will give a fairer view of property value, as it will be based on information on RE market transactions over the period from 1 January 2012 to 1 July 2022, not exceeding 80% of the average RE price level on 1 July 2022. This value can be used, for instance, to set fees for statutory use of land in the case of a split property, as well as in accounting records and financial statements.

## Solidarity contributions – an extra obligation on banks

In addition to the current corporate income tax surcharge for credit institutions and providers of consumer credit services, from 2025 Latvian-registered credit institutions and branches of foreign credit institutions in Latvia will be liable to pay solidarity contributions for the next three years.

These will be based on an increase in the bank’s or branch’s net interest income compared to its average indicators in previous years. More precisely, the calculation will be based on an increase in the bank’s or branch’s net interest income exceeding the average net interest income in five financial years (2018–2022) by more than 50%, multiplied by the base coefficient for solidarity contributions and applying a rate of 60%.

## Getting ready for the changes

To make sure you are well prepared and meet the new requirements, we encourage you to familiarise yourself with the amendments and adjust your business processes early on. If you need any further information or wish to understand particular changes in detail, PwC experts are happy to help you.