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# **TAX INCENTIVES & EXPENDITURES 2022**

FEBRUARY 2024



# Tax Incentives

**Tax incentives** are legal norms, regulations or practices that reduce or defer the payment of taxes to a relatively small group of taxpayers.\*

**Tax incentives** are an important tool for the implementation of tax policy, as well as the goals of the country's sustainable development and environmental policy, providing considerable support to citizens, especially socially disadvantaged citizens (for example, low-income earners, pensioners and persons with dependent children).

## Types of Tax incentives:

- exceptions in taxable base;
- the non-taxable part of the base (for example, non-taxable minimum);
- reduced rates;
- tax holidays;
- special economic zones;
- tax credits;
- deferred tax payment;
- reduction in tax liabilities, etc.

Expenditures	Reliefs/ Allowances	Exemptions
Tax expenditures describe tax revenue losses or the amount of theoretically <b>foregone</b> tax revenue due to existence of tax incentives.	Tax <u>relief</u> is a <b>reduction</b> in the amount of <u>tax</u> that a person or company must pay. Tax <u>allowance</u> is a <b>reduction</b> in the amount of <u>gross income</u> from which the tax is calculated.	A tax exemption <b>excludes</b> certain income, revenue, or even taxpayers from tax altogether.

\* OECD (2010) Tax expenditures in OECD countries, OECD publishing with reference to Anderson, B. (2008)



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The expenditures in 2022 were around **3.0 billion euro**, which is **7.8%** of GDP

### Tax expenditures in 2022

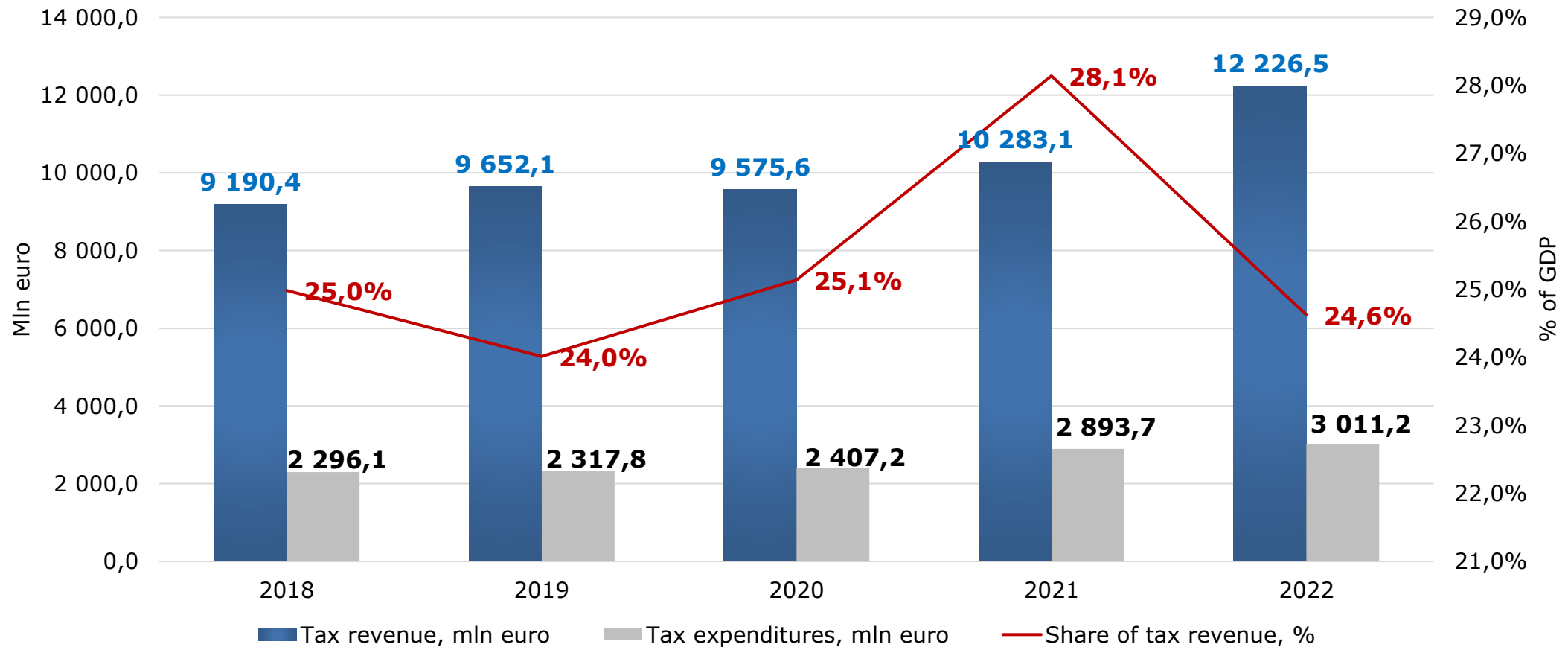
Tax expenditures	2022		
	Mln. euro	Share (%) of TR*	Share (%) of GDP
1. Value Added Tax	<b>1 203.4</b>	33.8	3.10
2. Personal Income Tax	<b>1 143.9</b>	50.6	2.94
3. Natural Resources Tax	<b>272.6</b>	501.2	0.70
4. Excise Duty	<b>227.1</b>	20.1	0.58
5. Corporate Income Tax	<b>118.9</b>	31.4	0.31
6. Real Estate Tax	<b>18.5</b>	18.2	0.05
7. Vehicle Operation Tax	<b>18.2</b>	7.9	0.05
8. Company Car Tax	<b>6.4</b>	28.4	0.02
9. Electricity Tax	<b>2.2</b>	44.2	0.01
<b>TOTAL</b>	<b>3 011.2</b>	<b>24.6</b>	<b>7.75</b>

\* Share (per cent) of analyzed tax revenue, row **TOTAL** – Share (per cent) of total analyzed tax revenue.



# The tax expenditures in 2022 compared to 2021, increased by approximately **4%**, amounting for almost **1/4** of the total tax revenues

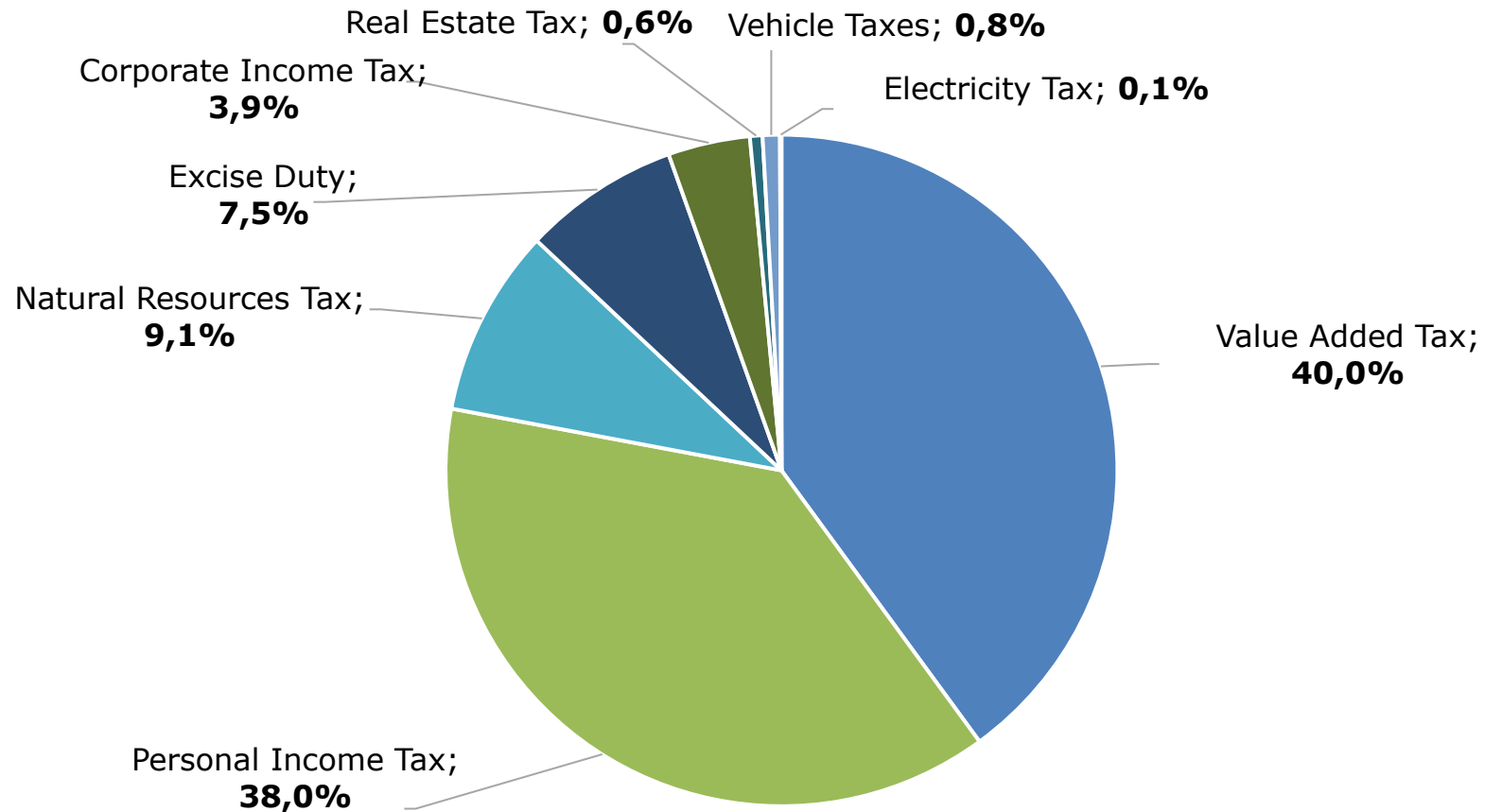
### Tax revenue and total estimated tax expenditures, 2018-2022





## Most significant tax expenditures are those that arise as a result of the application of **value added tax** and **personal income tax** incentives

Percentage distribution of the tax expenditure in 2022, *per cent*





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# **PERSONAL INCOME TAX (PIT) EXPENDITURES**



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In 2022 PIT expenditures were **~1 144 mln euro**, which is **slightly more than half of PIT revenue**

**PIT expenditures in 2022, mln euro**

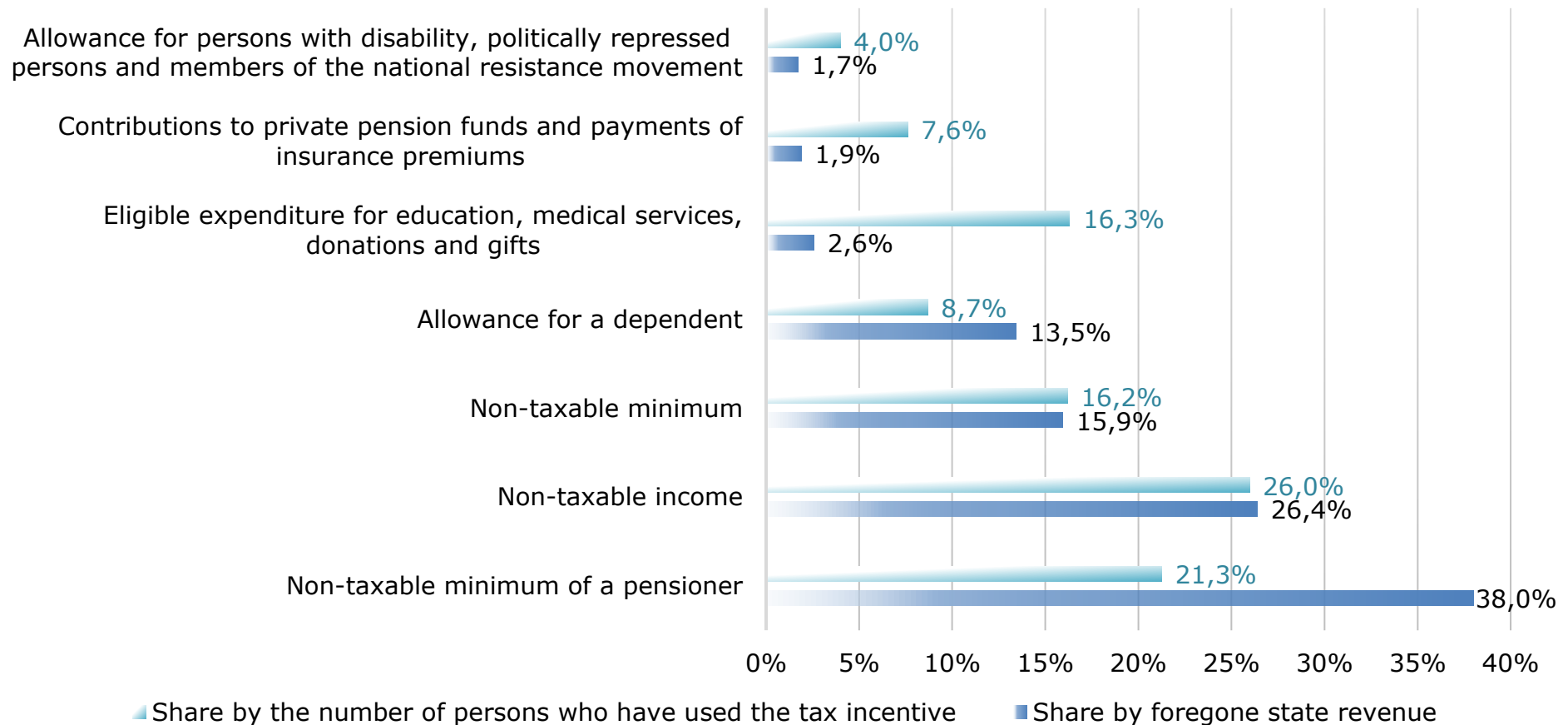
<b>Tax expenditures</b>	<b>2022</b>
<b>1. Non-taxable minimums, of which:</b>	<b>616.9</b>
1.1. Non-taxable minimum	182.3
1.2. Non-taxable minimum of a pensioner	434.6
<b>2. Tax allowances, of which:</b>	<b>173.7</b>
2.1. Allowance for a dependent	153.9
2.2. Allowance for persons who have been recognized as persons with disability	18.2
2.3. Allowance for politically repressed persons and members of the national resistance movement	1.7
<b>3. Eligible expenditure, of which:</b>	<b>51.3</b>
3.1. Education, medical services, donations and gifts	29.5
3.2. Contributions to private pension funds and payments of insurance premiums	21.7
<b>4. Non-taxable income*, including</b>	<b>302.0</b>
4.1. Benefits and reimbursements paid by the State Social Insurance Agency	166.2
4.2. Non-taxable income from support of agriculture and rural development	22.5
4.3. Income from the alienation of personal property (except immovable property)	29.3
<b>TOTAL</b>	<b>1 143.9</b>
<b>Share of PIT revenue</b>	<b>50.6%</b>

\* Non-taxable income, according to law "On Personal Income Tax", Section 9.



## The most significant PIT expenditures are the **non-taxable minimum of a pensioner, the differentiated non-taxable minimum and the allowance for dependents**

### Proportion of the PIT expenditures and the number of natural persons who have used PIT incentives in 2022, %







## Changes and aim of the most important PIT incentives

Max. differentiated non-taxable minimum (DNM), euro per month	
2019	<b>230</b>
2020-2021	<b>300</b>
2022	<b>350 / 500*</b>
2023	<b>500</b>

❖ **The aim** of DNM is to reduce the tax wedge on labour costs, especially for working individuals who are paid up to the average income level and in most cases are socially and economically less protected, also to increase their income and to improve the standard of living of this group of persons.

❖ **The aim** of NMP is to ensure a certain level of income exempt from PIT for pensioners, considering the pension earned during (in case of loss of the provider - of the deceased provider's) person's working life.

Non-taxable minimum of a pensioner (NMP), euro per month	
2019	<b>270</b>
2020	<b>300</b>
2021	<b>330</b>
2022	<b>350 / 500*</b>
2023	<b>500</b>

Allowance for dependents (AD), euro per month	
2019	<b>230</b>
2020-2023	<b>250</b>

❖ **The aim** of AD is to reduce the tax wedge on labour costs for working individuals with dependent children and/or spouses who take care of dependent children, promoting these individuals' employment and pursuit higher income.

\* From 1 January to 30 June 2022, the maximum differentiated non-taxable minimum and the non-taxable minimum of a pensioner was **350 euros** per month, and from 1 July - **500 euros** per month.



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# **VALUE ADDED TAX (VAT) EXPENDITURES**



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**In 2022 VAT expenditures amounted  $\sim 1\,203$  mln euro, which is around  $\sim 1/3$  of VAT revenue**

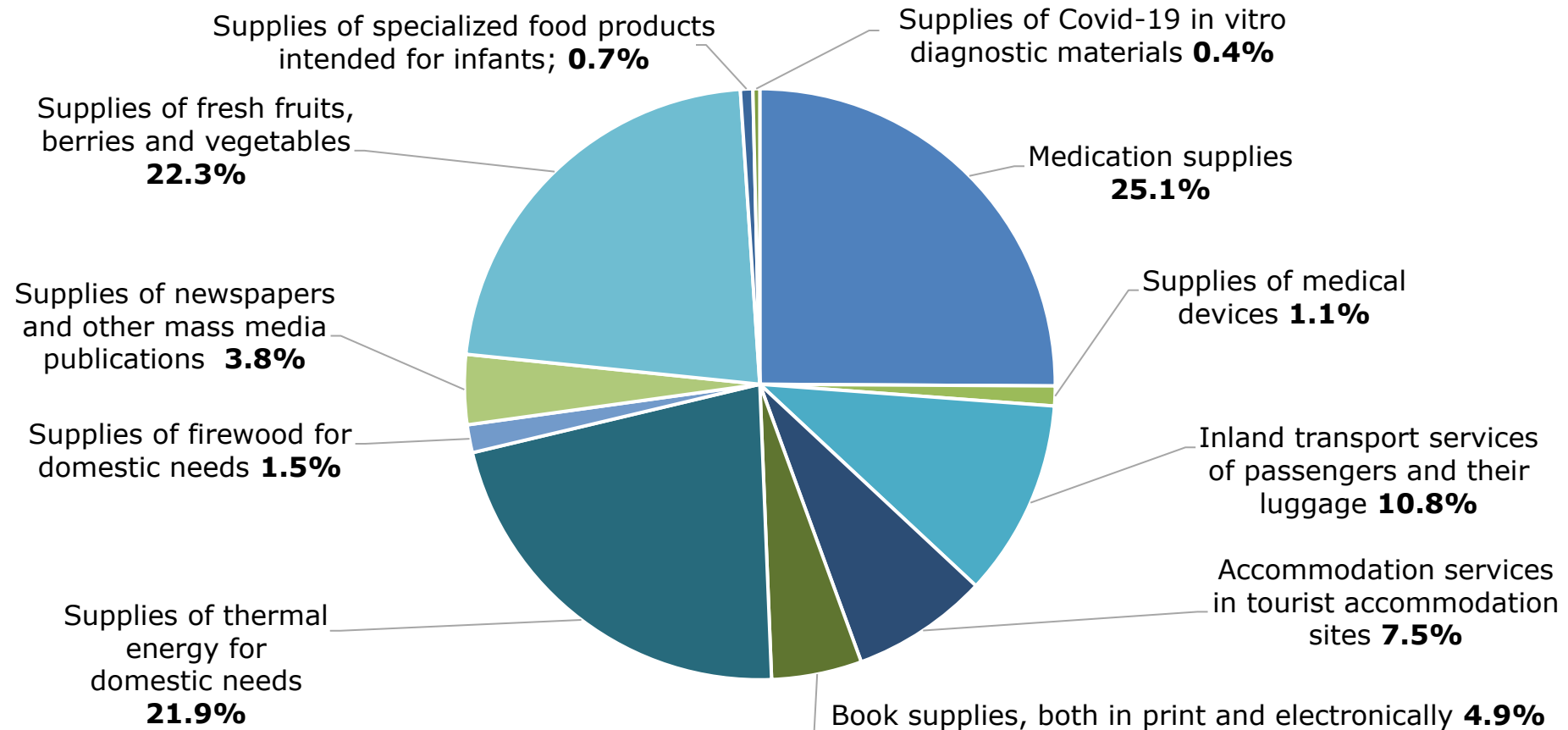
**VAT expenditures (exemptions and reduced rates) in 2022, mln. euro**

<b>Taxable goods and services</b>	<b>2022</b>
<b>VAT reduced rates</b>	<b>151.3</b>
<b>Transactions exempt from VAT</b>	<b>1 052.0</b>
<b>TOTAL</b>	<b>1 203.4</b>
<i>Share of VAT revenue</i>	<i>33.8%</i>



## In 2022 the most significant VAT expenditures under the reduced VAT rates were on **supplies of medication, fresh fruits, berries and vegetables and thermal energy for domestic needs**

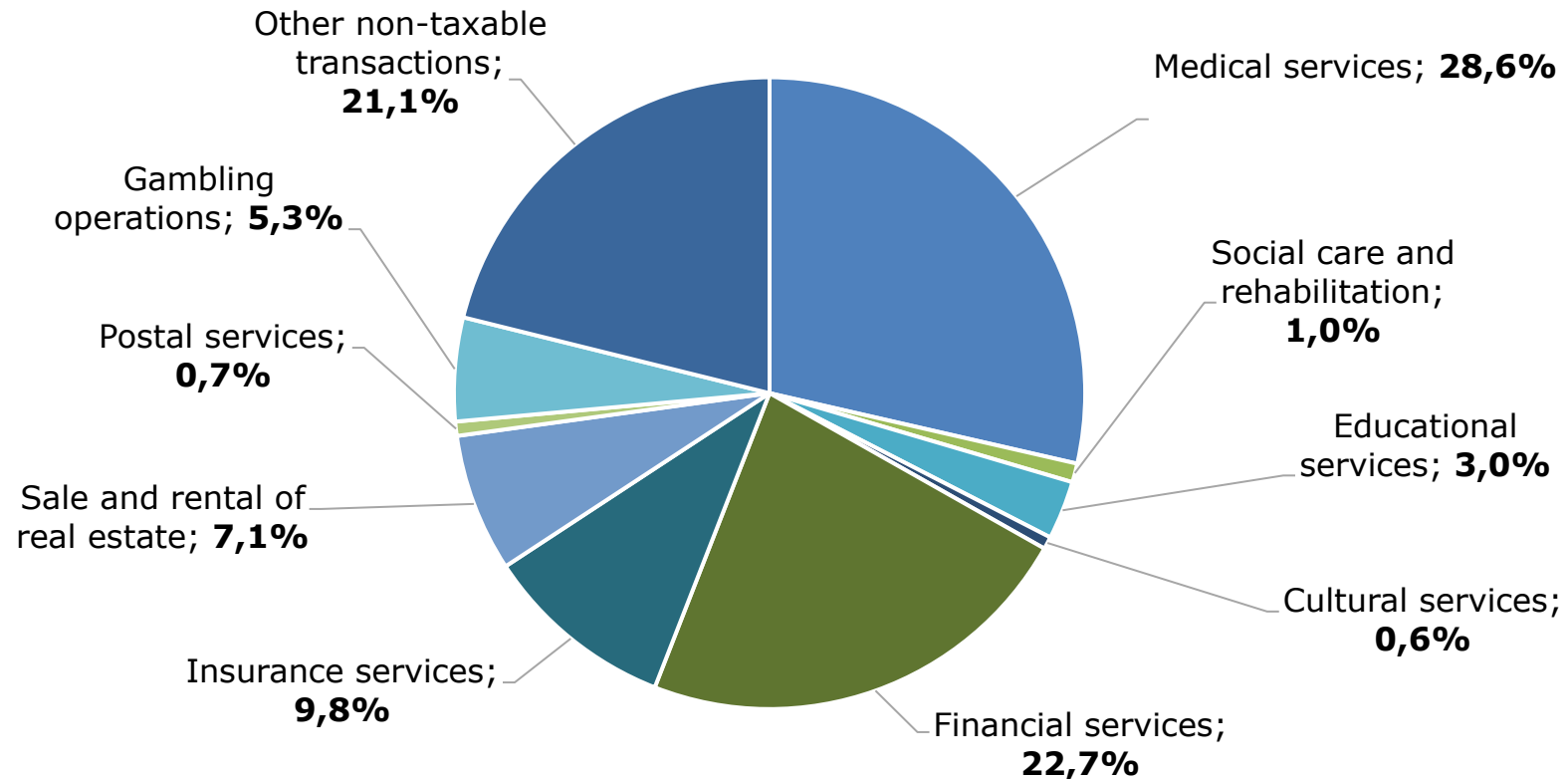
**Percentage distribution of VAT expenditures through the application of reduced VAT rates in 2022, per cent**





## In 2022 the most significant VAT expenditures under VAT exemptions were on **medical, financial and insurance services**

**Percentage distribution of VAT expenditure through the application of VAT exemptions in 2022, per cent**





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# **CORPORATE INCOME TAX (CIT) EXPENDITURES**



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## In 2022 the CIT expenditures amounted **~119 mln euro**, which is **31.4%** of total CIT revenues

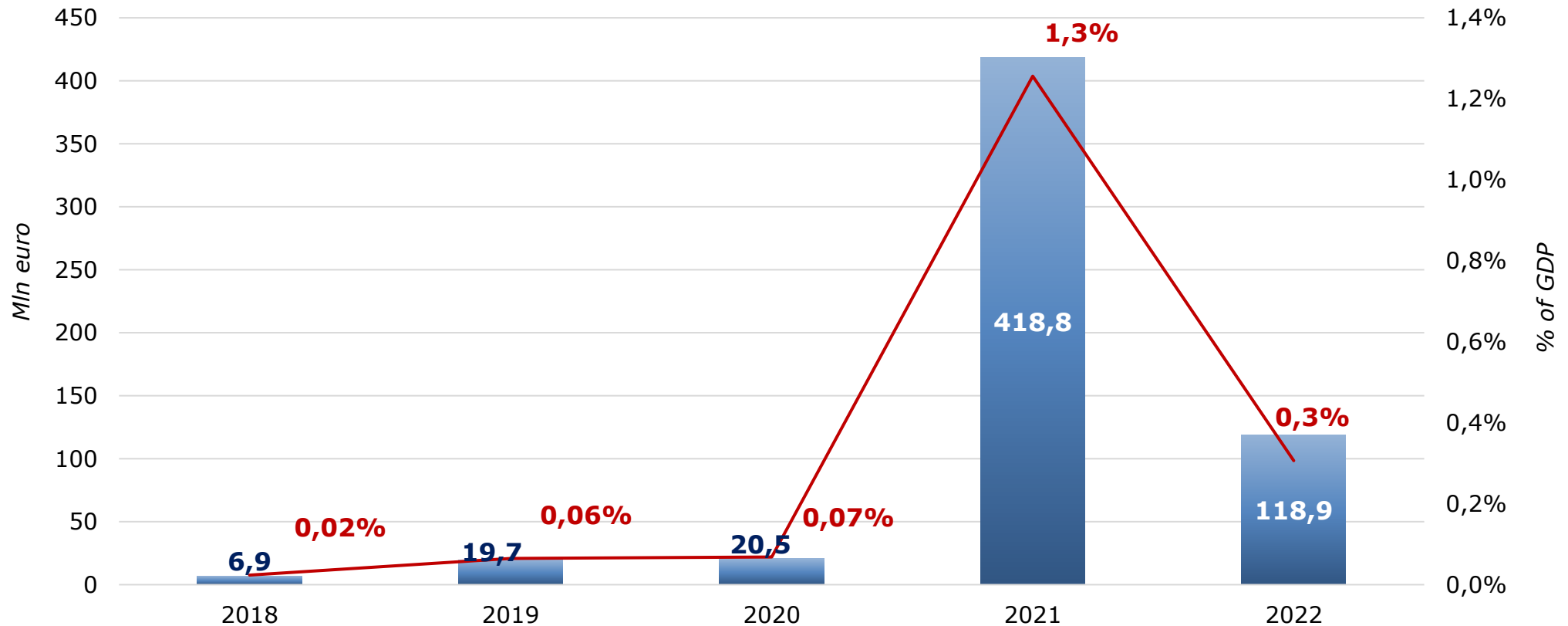
### CIT expenditures in 2022, mln euro

Tax expenditures	2022
<b>1. Statutory tax reliefs, of which:</b>	<b>95.9</b>
1.1. Tax relief for donors	14.1
1.2. Tax relief on income from the alienation of shares	77.2
1.3. Tax relief of 50% of the amount received in the form of subsidies as State aid for agriculture or EU support for agriculture and rural development	4.6
1.4. Other tax reducing amounts	0.02
<b>2. Tax reliefs with transitional period, of which:</b>	<b>23.0</b>
2.1. Tax relief for the possibility to cover losses of the taxation period and the previous period ( <i>with five years transitional period</i> )	15.6
2.2. Tax relief for losses incurred by a state capital company, the shares of which may not be alienated, which performs functions delegated by the state not related to economic activity	0.01
2.3. Tax relief for the supported investment projects which have been approved by the Cabinet of Ministers by 31 December 2017	1.0
2.4. Tax relief for investments in Free ports (FP) or Special Economic Zones (SEZ)	6.4
<b>TOTAL</b>	<b>118.9</b>
<b>Share of CIT revenue</b>	<b>31.4%</b>



In 2022, compared to 2021, CIT expenditures have decreased by **~300 mln euro** or **72%**, mainly due to the lower use of CIT relief on income from the alienation of shares

**CIT expenditures in 2018 – 2021, mln euro and per cent of GDP**







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# **NATURAL RESOURCE TAX (NRT) EXPENDITURES**



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## NRT incentives are an important tool for the development and implementation of **environmental policy goals**, providing an incentive for the **implementation of the waste and packaging management system** of environmentally harmful goods, thus **maintaining a cleaner environment in the long term**



The DRN relief system has been created with a **specific goal** - to ensure Latvia's obligations regarding the fulfillment of the requirements of EU directives in the field of waste management and to implement the principle of extended producer responsibility.



It should be noted that the amount of tax rates is 2-3 times higher than the costs of waste management, **in order to achieve the active involvement of producers and traders** and the responsibility for ensuring the management of waste generated as a result of their activities in the appropriate amounts, implementing the principle of producer responsibility, which also follows from the EU requirements. Therefore, the amount of NRT expenditures **can not be considered as a potential revenue share**.



The tax incentives are effective because in the last five years **more than 90 per cent** of the generated packaging or environmentally harmful product waste has been managed in the producer's extended responsibility system, as well as the recycling and regeneration goals of used packaging or environmentally harmful product waste set by the laws and regulations, resulting from the EU directives, are regularly achieved.



The state has set requirements arising from EU Directives in the field of waste management, for the fulfillment of which funds from manufacturers and traders of the corresponding goods are attracted, ensuring the implementation of the "polluter pays" principle. *Therefore, if the merchant ensures the implementation of these requirements and covers the related expenses, he does not pay NRT. **The tax must be paid if the appropriate waste processing and recovery requirements are not implemented.***



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## In 2022, NRT expenditure amounted **~ 273 mln euro**, which is **~ 5** times more than the total NRT revenue

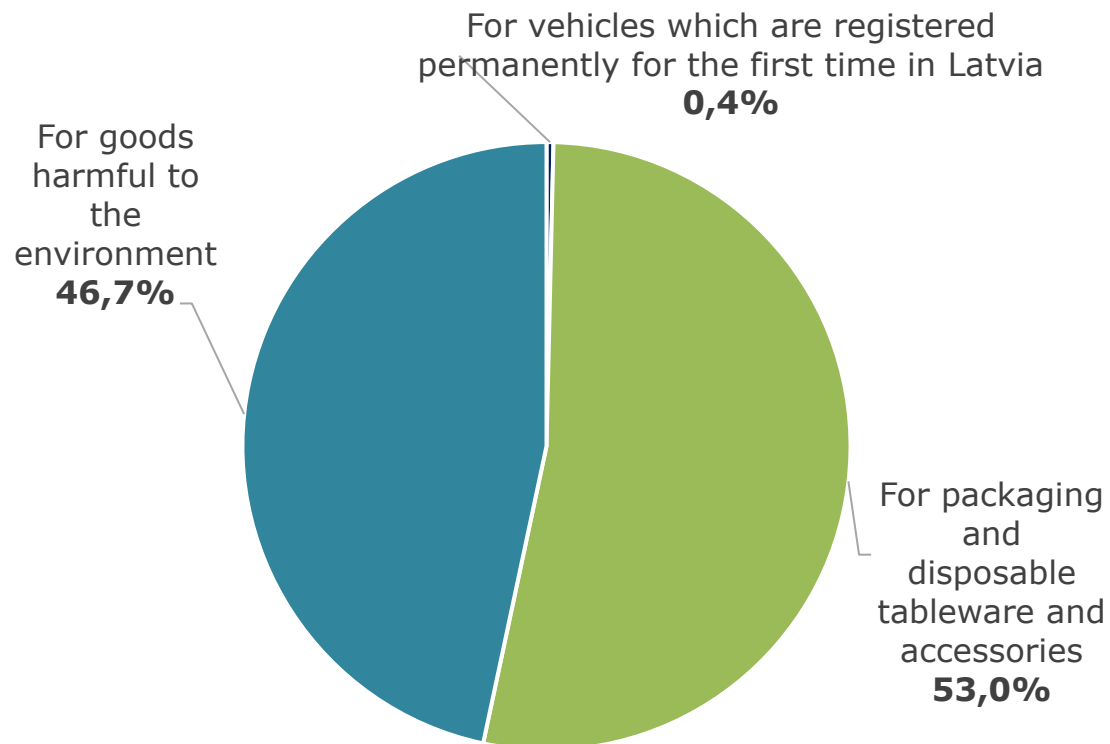
### NRT expenditure in 2022, *mln euro*

<b>Tax exemptions</b>	<b>2022</b>
<b>1. For vehicles which are registered permanently for the first time in Latvia</b>	<b>1.0</b>
<b>2. For packaging and disposable tableware and accessories, of which:</b>	<b>144.4</b>
2.1. Of glass source materials	22.0
2.2. Of plastic (polymer) source materials (including oxy-degradable plastic)	46.5
2.3. Of metal source materials	11.2
2.4. Of wood, paper and cardboard or other natural fibres and bioplastic source materials	37.9
2.5. Plastic carrier bags	8.2
2.6. Of polystyrene source materials	2.5
2.7. For deposit packaging	16.0
<b>3. For goods harmful to the environment, of which:</b>	<b>127.2</b>
3.1. Lubricating oils	3.1
3.2. Lead-based electric batteries	4.0
3.3. Galvanic elements and galvanic pile	5.2
3.4. Electrical batteries (Ni-Cd, Fe-Ni) and other electrical batteries	5.7
3.5. All types of tires	13.2
3.6. Electrical and electronic equipment, including:	96.1
3.6.1. Temperature exchange equipment	13.6
3.6.2. Screens, monitors, and equipment containing screens with a surface greater than 100 cm <sup>2</sup>	8.2
3.6.3. Light bulbs	2.1
3.6.4. Large equipment (at least one external dimension exceeds 50 cm)	49.2
3.6.5. Small equipment (no external dimension greater than 50 cm)	19.8
3.6.6. Small information technology and telecommunication equipment	3.2
<b>TOTAL</b>	<b>272.6</b>
<b>Share of NRT revenue</b>	<b>501.2%</b>



## The **aim** of NRT incentives is to achieve active involvement of producers and traders and responsibility for ensuring waste management\*

**Percentage distribution of NRT expenditures in 2022, per cent**



\* *The taxpayer shall not pay the NRT for packaging and disposable tableware and accessories, as well as environmentally harmful goods, if the taxpayer ensures compliance with the recovery norms, has established a system for the management of these accessories and goods, submitted financial security to the subordinate institution of the Ministry of Environmental Protection and Regional Development and concluded agreement on the application of the management system.*



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# EXCISE DUTY (ED) EXPENDITURES



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In 2022 the ED expenditures amounted **~227 mln euro**, which is around **20%** of total ED revenue

**ED expenditures (reduced rates and exemptions) in 2022, mln. euro**

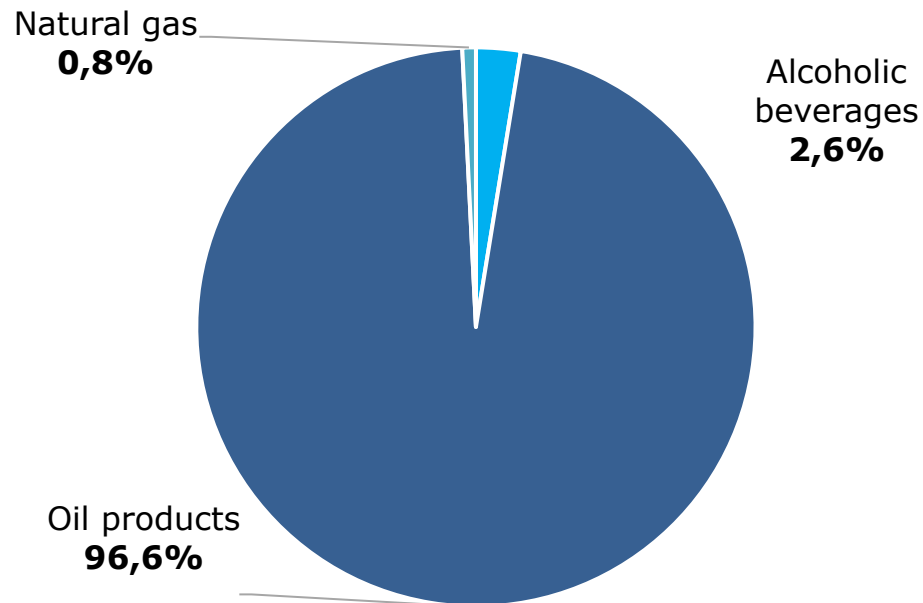
<b>Tax exemptions and reliefs</b>	<b>2022</b>
<b>1. Reduced ED rates, of which:</b>	<b>86.7</b>
1.1. <b>For alcoholic beverages</b> ( <i>realization of the production of small breweries, small and medium-sized wineries, small and medium-sized producers of fermented beverages, intermediate products, alcoholic beverages</i> )	2.2
1.2. <b>For oil products</b> ( <i>for labelled oil products which are used as fuel and for agricultural purposes, as well as biofuels, petroleum gases and other gaseous hydrocarbons</i> )	83.8
1.3. <b>For natural gas</b> ( <i>for use as fuel in industrial production and processing of agricultural raw materials</i> )	0.7
<b>2. Exemptions, of which:</b>	<b>140.4</b>
2.1. <b>Alcoholic beverages and other products containing alcohol</b> ( <i>mainly denatured alcohol</i> )	80.9
2.2. <b>Tobacco products</b> ( <i>delivered to ships and aircrafts engaged in international transport, diplomats and international organisations</i> )	2.6
2.3. <b>Oil products</b> ( <i>mainly used in aircrafts which are not used for private recreation and entertainment</i> )	55.0
2.4. <b>Natural gas</b> ( <i>which is used for – purposes other than as fuel; in two ways (both as a fuel and for purposes other than use as fuel); mineralogical processes</i> )	1.1
2.5. <b>Non-alcoholic beverages and coffee</b>	0.7
<b>TOTAL</b>	<b>227.1</b>
<b>Share of ED revenue</b>	<b>20.1%</b>



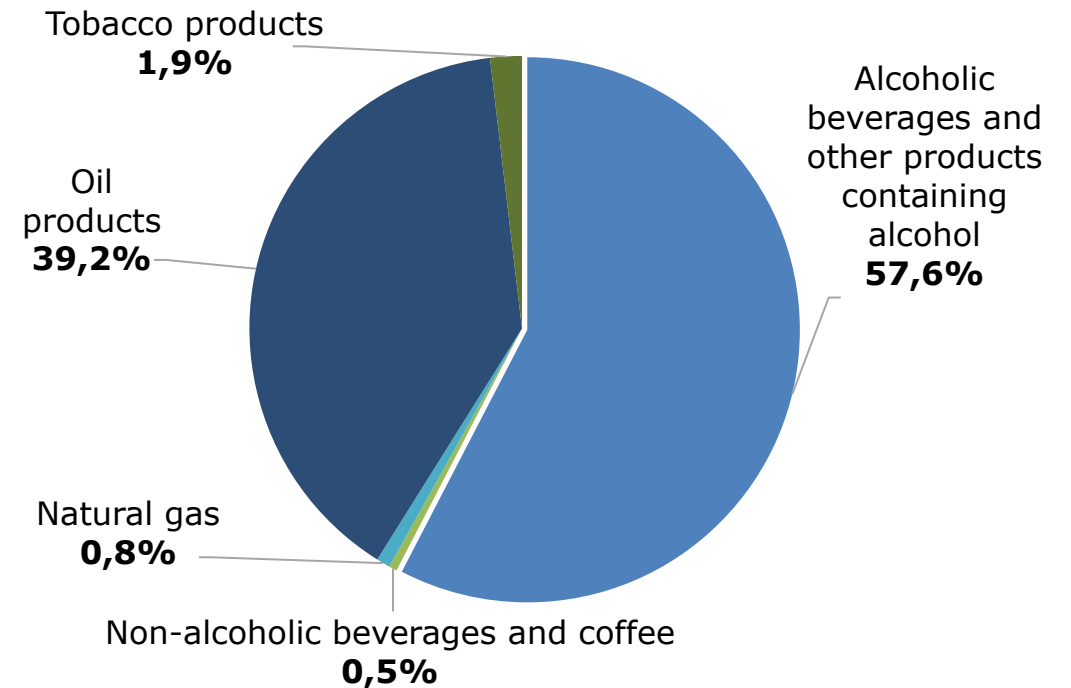
The largest amount of ED expenditures when applying reduced ED rates is on oil products (agriculture and heating) – **96.6%**, and when applying ED exemptions - on alcoholic beverages (mainly denatured alcohol) – **57.6%**

**Percentage distribution of ED expenditures (reduced rates and exemptions)  
in 2022, per cent**

**Distribution of ED reliefs (products subject to reduced ED rates)**



**Distribution of ED exemptions**





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# VEHICLE TAX\* EXPENDITURES

- \* Vehicle taxes in Latvia include:
- Vehicle Operation Tax (VOT)
  - Company Car Tax (CCT)





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**In 2022, the vehicle tax expenditures were ~25 mln euro, which is 20% of vehicle tax revenue**

**VOT and CCT expenditures in 2022, mln euro**

<b>Tax exemptions and reliefs</b>	<b>2022</b>
<b>1. Vehicles exempted from VOT, including:</b>	<b>24.9</b>
1.1. Vehicles for persons with disabilities	10.4
1.2. Vehicles of persons who have dependent children with disabilities	0.7
1.3. Vehicles - for the period from the death of the owner until the change of ownership	0.6
1.4. Electric cars	0.6
<b>2. VOT reliefs, of which:</b>	<b>5.1</b>
2.1. <b>50 per cent</b> for a vehicle of institution subordinate to the Ministry of the Interior, an institution subordinate to the Ministry of Defense or the National Armed Forces, a local government police institution	0.4
2.2. <b>75 per cent</b> for a vehicle of a producer of agricultural products, an agricultural service co-operative society and a recognized aquaculture farm	2.1
2.3. <b>50 per cent</b> for one vehicle if the owner or holder has a large family (with 3 and more children)	2.2
2.4. <b>10 per cent</b> for cars and trucks with a gross weight of up to 3,500 kg, which are additionally equipped with gas as a fuel supply device	0.5
<b>3. Vehicles exempted from CCT, including:</b>	<b>6.4</b>
3.1. Vehicles for hire or trade	3.7
3.2. Farmers' vehicles	2.3
<b>TOTAL</b>	<b>24.9</b>
<b>Share of vehicle taxes revenue</b>	<b>20.1%</b>



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# **REAL ESTATE TAX (RET) EXPENDITURES**



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## In 2022, the RET expenditures amounted **~ 18 mln euro**, mainly due to tax incentives granted by local governments

### RET expenditures in 2022 , mln euro

Tax expenditures	2022
<b>1. Tax incentives provided by the <i>Law on Immovable property tax</i>, of which:</b>	<b>1.7</b>
1.1. For deprived persons	0.2
1.2. For persons with low-income	0.2
1.3. For large families (with 3 or more children) and guardian families	0.3
1.4. For politically repressed persons	0.5
1.5. Application of special value to rural land*	0.4
<b>2. Reliefs specified in the binding regulations issued by local governments, including:</b>	<b>16.6</b>
<b>2.1. In Riga, including:</b>	<b>9.7</b>
2.1.1. Reliefs for families with children	3.6
2.1.2. For buildings recognized as a State protected cultural monument and for buildings located in the State metropolitan monument area	2.1
2.1.3. For persons with disability and for pensioners	1.4
<b>2.2. In Jurmala, including:</b>	<b>3.8</b>
2.2.1. For properties, if a natural person has declared a place of residence in Jurmala	3.3
<b>2.3. For real estate in Special Economic Zones or Freeports</b>	<b>2.0</b>
<b>TOTAL</b>	<b>18.2</b>
<b>Share of RET revenue</b>	<b>7.9%</b>

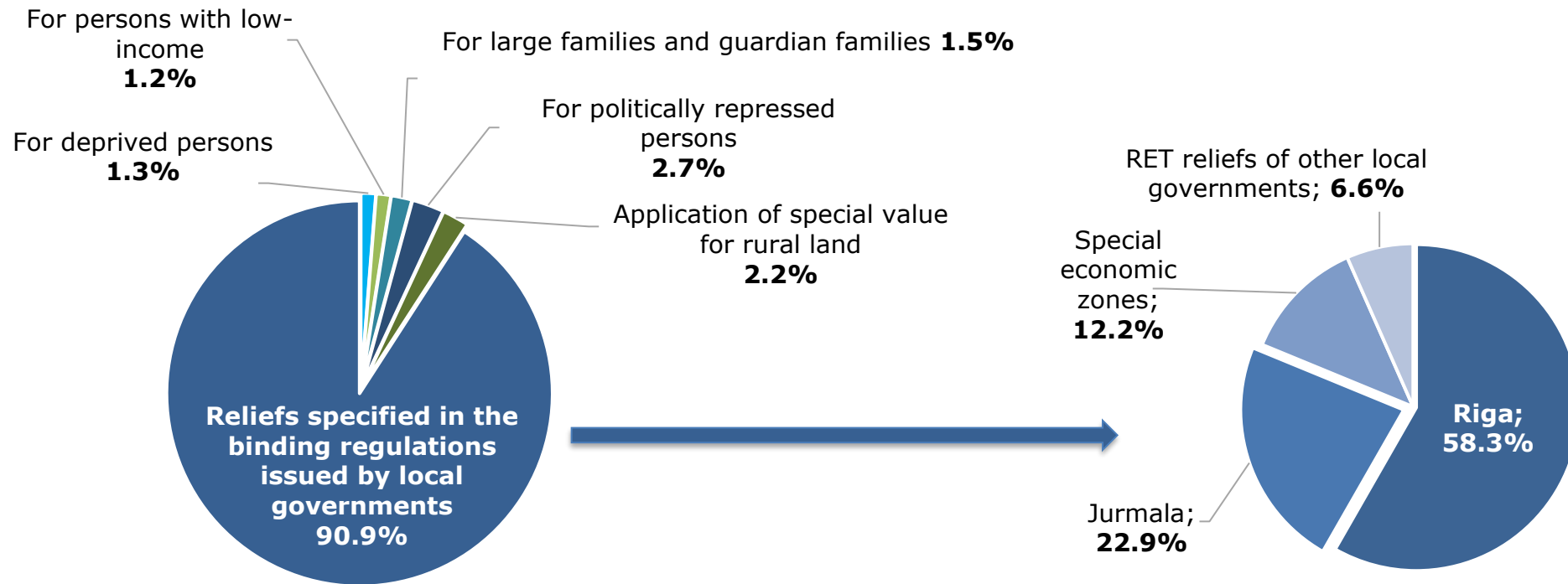
\* According to the data of the State Land Service, by applying the rate of 1.5% to the total of cadastral values and special values and calculating the difference or the amount of foregone RET



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## More than half (~58%) of the RET incentives granted by local governments are the incentives granted by the Riga City Council

Percentage distribution of the RET expenditures in 2022, per cent



\* More than half (**58.3 per cents**) of the total amount of incentives specified in the binding regulations of local governments is granted by the **Riga** City Council (in 2022 – 9.7 million euro). Special emphasis should be placed on the additional tax incentives granted by the Riga City Council to families with children. Namely, in addition to the reliefs already provided by law for large families (50 per cents of the calculated RET for persons with three or more children under the age of 18, but not more than 500 euro), the Riga City Council has set additional reliefs in its binding regulations: **90 per cent** for three or more children, **70 per cent** for two children and **50 per cent** for one child.

The RET relief granted in **Jurmala** for properties, if a natural person has declared his / her main residence in the administrative territory of Jurmala, in 2022 accounted 22.9 per cent of the total amount of reliefs and 87.0 per cent of the total amount of reliefs in Jurmala. <sup>28</sup>



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# **ELECTRICITY TAX (ET) EXPENDITURES**



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In 2022, the ET expenditures amounted to **2.2 mln euro**, which is **~44%** of the ET revenue

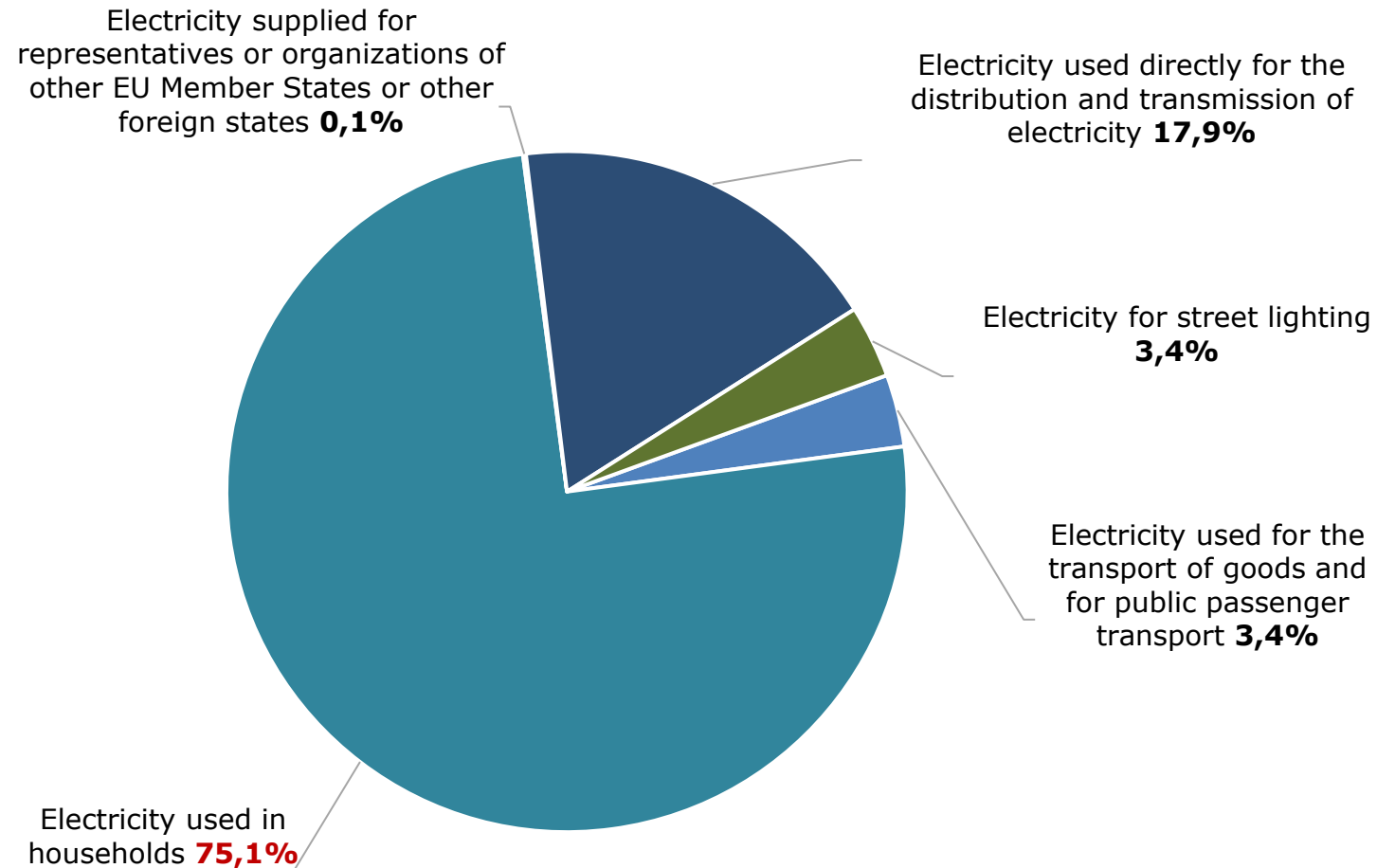
**ET expenditures (exemptions and reliefs) in 2022, mln euro**

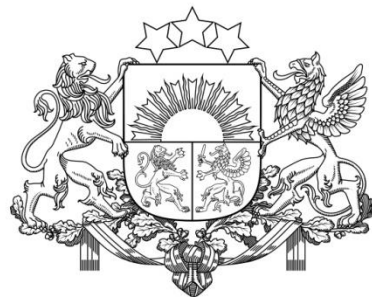
<b>Tax exemptions and reliefs</b>	<b>2022</b>
<b>1. Electricity exempt from tax, of which:</b>	<b>2.3</b>
1.1. Electricity used for the transport of goods and for public passenger transport	0.1
1.2. Electricity supplied to households	1.7
1.3. Electricity supplied for representatives or organizations of other EU Member states or other foreign states	0.003
1.4. Electricity used directly for the distribution and transmission of electricity	0.4
<b>2. Taxable amount of electricity supplied to persons for the provision of street lighting services</b>	<b>0.1</b>
<b>TOTAL</b>	<b>2.2</b>
<i>Share of ET revenue</i>	<b>44.2%</b>



## The largest part of ET expenditures is formed by the exemption for electricity supplied to households **(75.1%)**

### Percentage distribution of the state's foregone revenues resulting from the application of ET incentives in 2022, *per cent*





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**FEBRUARY 2023**

