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# **TAX INCENTIVES & EXPENDITURES 2023**

FEBRUARY 2025



# 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)



# The expenditures in 2023 were around **3.1 billion euro**, which is **8.0%** of GDP

## Tax expenditures in 2023\*

Tax expenditures	2023		
	Mln. euro	Share (%) of TR**	Share (%) of GDP
1. Value Added Tax	<b>1 305.1</b>	33.6	3.3
2. Personal Income Tax	<b>1 202.9</b>	48.1	3.1
3. Natural Resources Tax	<b>284.3</b>	459.5	0.7
4. Excise Duty	<b>207.1</b>	17.9	0.5
5. Corporate Income Tax	<b>68.7</b>	12.6	0.2
6. Vehicle Operation Tax	<b>18.9</b>	18.5	0.05
7. Real Estate Tax	<b>17.7</b>	7.5	0.05
8. Company Car Tax	<b>6.3</b>	25.1	0.02
9. Electricity Tax	<b>2.4</b>	49.6	0.01
<b>TOTAL</b>	<b>3 113.5</b>	<b>23.2</b>	<b>8.0</b>

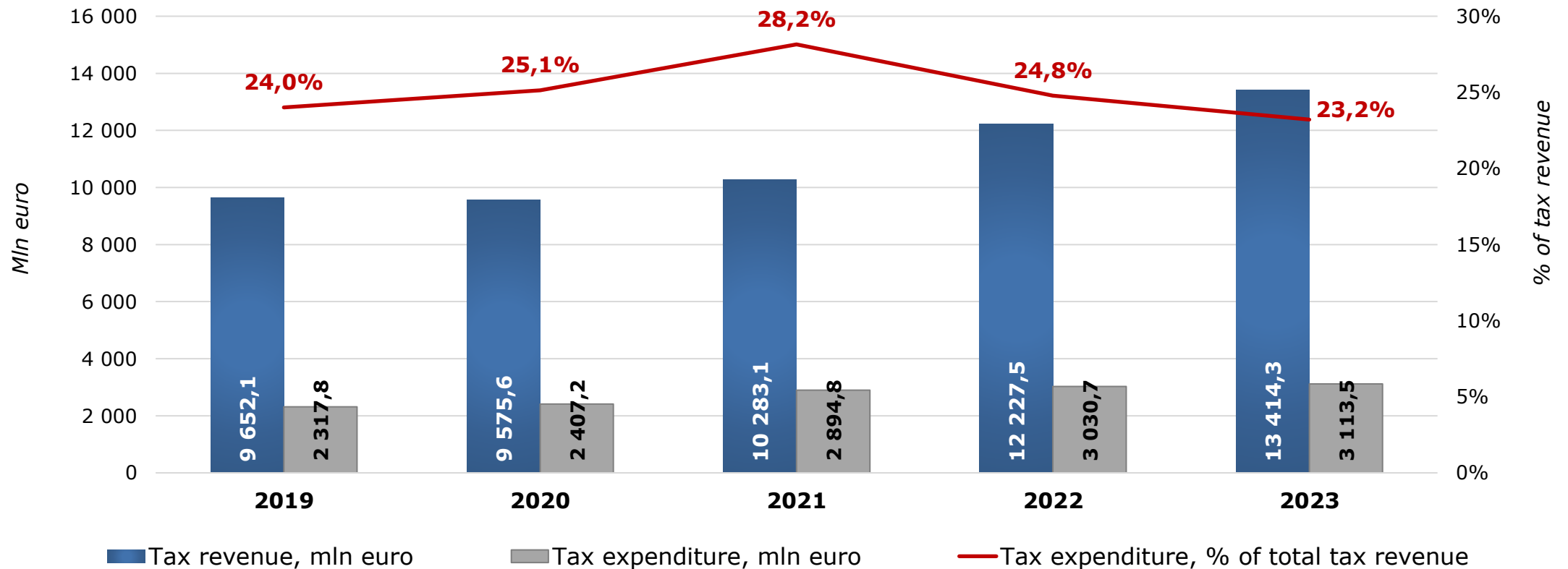
\* Here and in the following tables, in some cases, due to rounding of figures, slight differences between the total amount reported and the totals to be counted are possible. Changes in indicators and proportions are calculated from data that have not been converted into millions.

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



# The tax expenditures in 2023 compared to 2022, increased by approximately **2.7%**, amounting for almost **1/4** of the total tax revenues

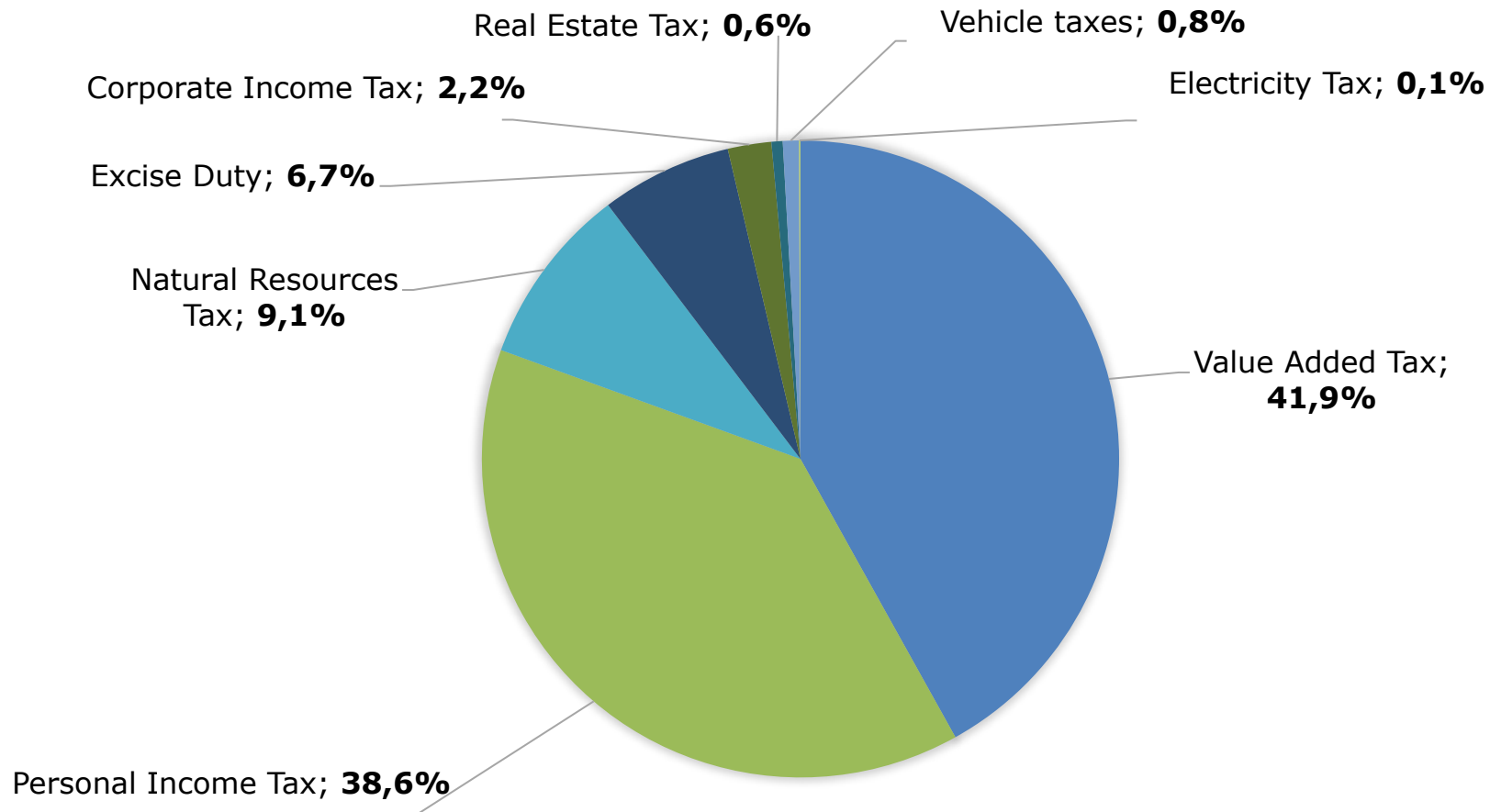
### Tax revenue and total estimated tax expenditures, 2019-2023





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

**Distribution of tax expenditures in 2023, per cent**





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



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In 2023 VAT expenditures amounted **~1 305 mln euro**, which is around **~1/3** of VAT revenue

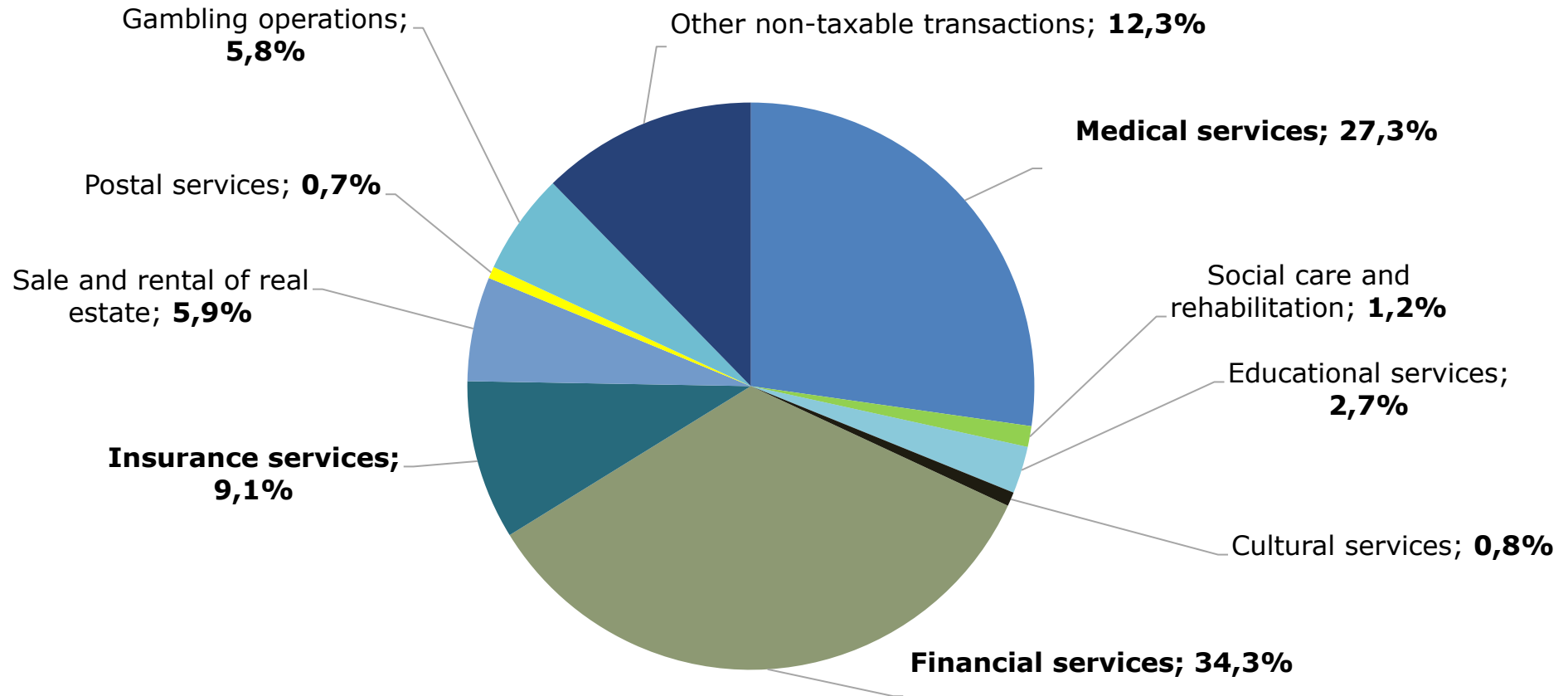
**VAT expenditures (exemptions and reduced rates) in 2023, mln. euro**

<b>Taxable goods and services</b>	<b>2023</b>
Transactions exempt from VAT	1 129.6
VAT reduced rates	175.5
<b>TOTAL</b>	<b>1 305.1</b>
<i>Share of VAT revenue</i>	<i>33.6%</i>



## In 2023 the most significant VAT expenditures in form of VAT exemptions were on **financial, medical and insurance services**

**Distribution of VAT expenditure in form of VAT exemptions in 2023, per cent**

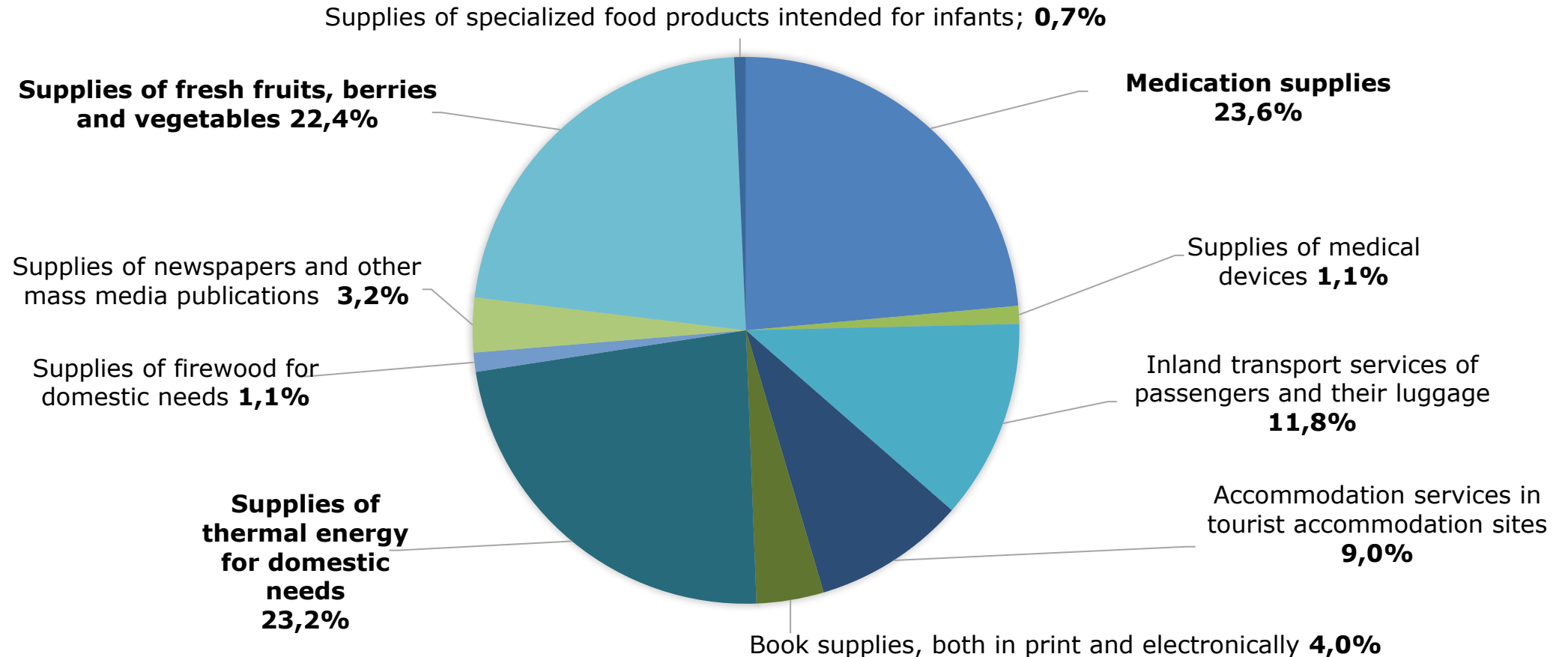






## In 2023 the most significant VAT expenditures in form of reduced VAT rates were on **supplies of medication, thermal energy for domestic needs and fresh fruits, berries and vegetables**

**Distribution of VAT expenditures in form of reduced VAT rates in 2023, per cent**





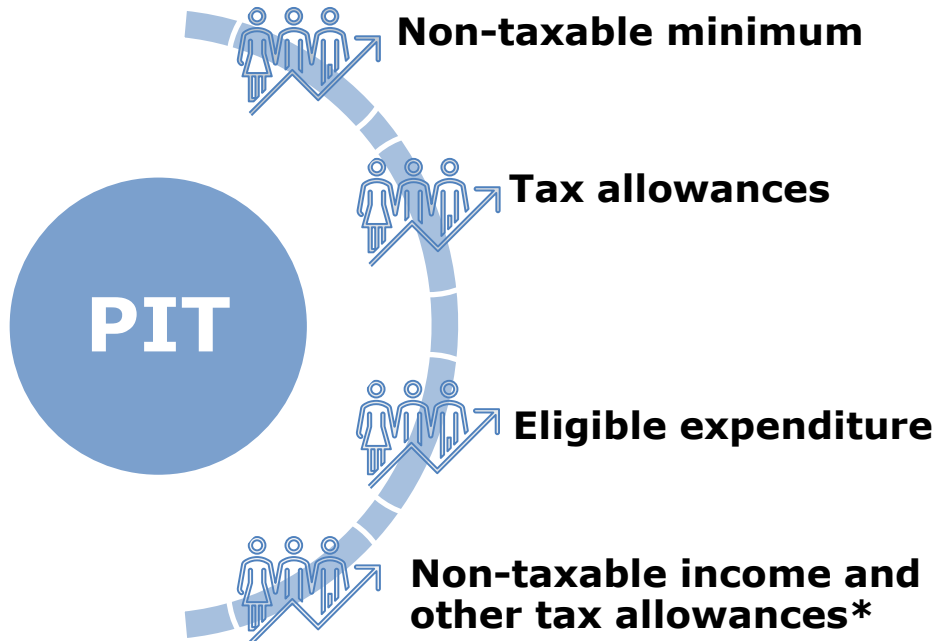
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# **PERSONAL INCOME TAX (PIT) EXPENDITURES**



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In 2023 PIT expenditure are estimated **~1 203 mln euro**, which is **almost a half** of PIT revenue



**PIT expenditures in 2023, mln euro**

<b>Tax expenditures</b>	<b>2023</b>
Non-taxable minimums	686.1
Tax allowances	178.7
Eligible expenditure	56.4
Non-taxable income and other tax allowances	281.6
<b>TOTAL</b>	<b>1 202.9</b>
<b>Share of PIT revenue</b>	<b>48.1%</b>

\* Non-taxable income specified in Article 9 of the law "On Personal Income Tax" and other tax allowances included in Article 8, Paragraph 15 and Paragraphs 44, 52, 94, 123, 159 of the transitional provisions, as well as in Article 72 of the law "On the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025".



## Changes and aim of the most important PIT incentives

Max. differentiated non-taxable minimum (DNM), euro per month	
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	
2021	<b>330</b>
2022	<b>350 / 500*</b>
2023	<b>500</b>

Allowance for dependents (AD), euro per month	
2021-2023	<b>250</b>

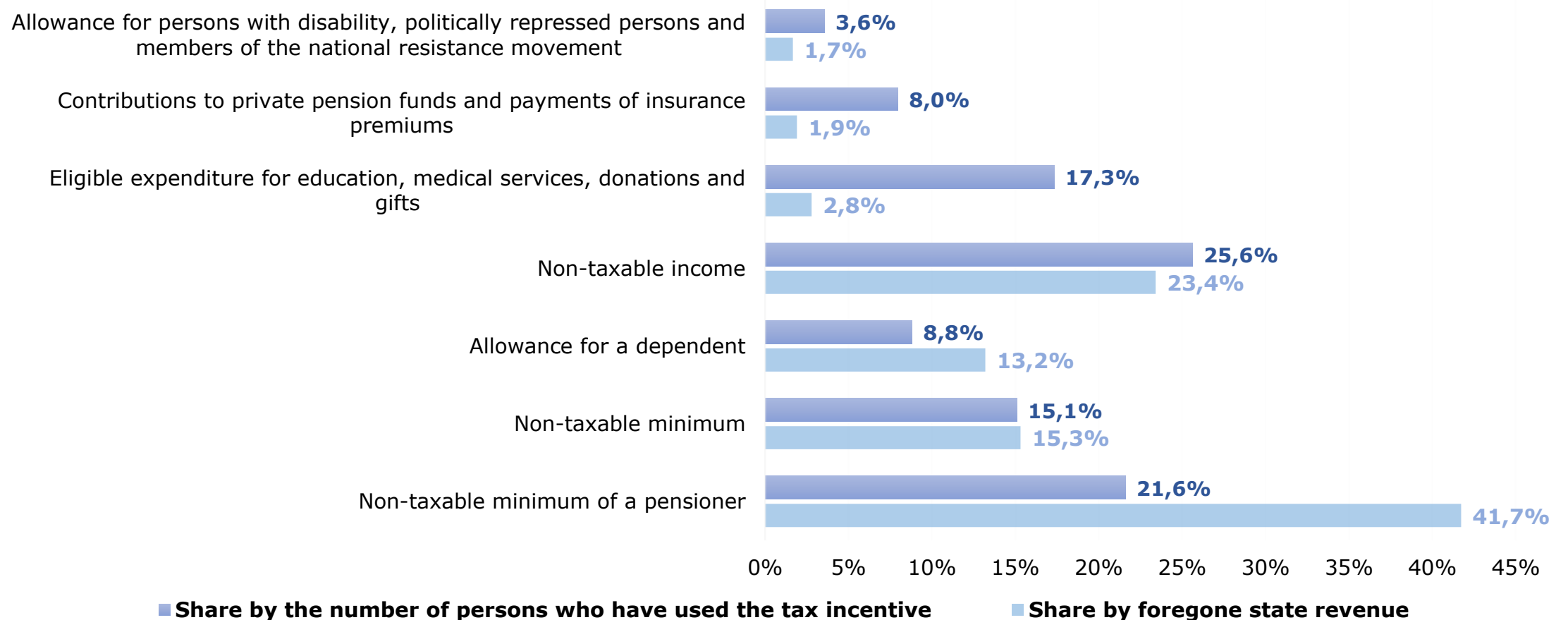
❖ **The aim** of AD is to reduce the tax wedge on labour costs for working individuals with dependent children and/or spouses who take care of dependent children, promoting these individuals' employment and pursuit higher income.

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



# 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 2023, %





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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 tax rates are 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 **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 2023, NRT expenditure amounted ~ 284 mln euro, which is ~ 4.5 times more than the total NRT revenue**

**NRT expenditure in 2023, mln euro**

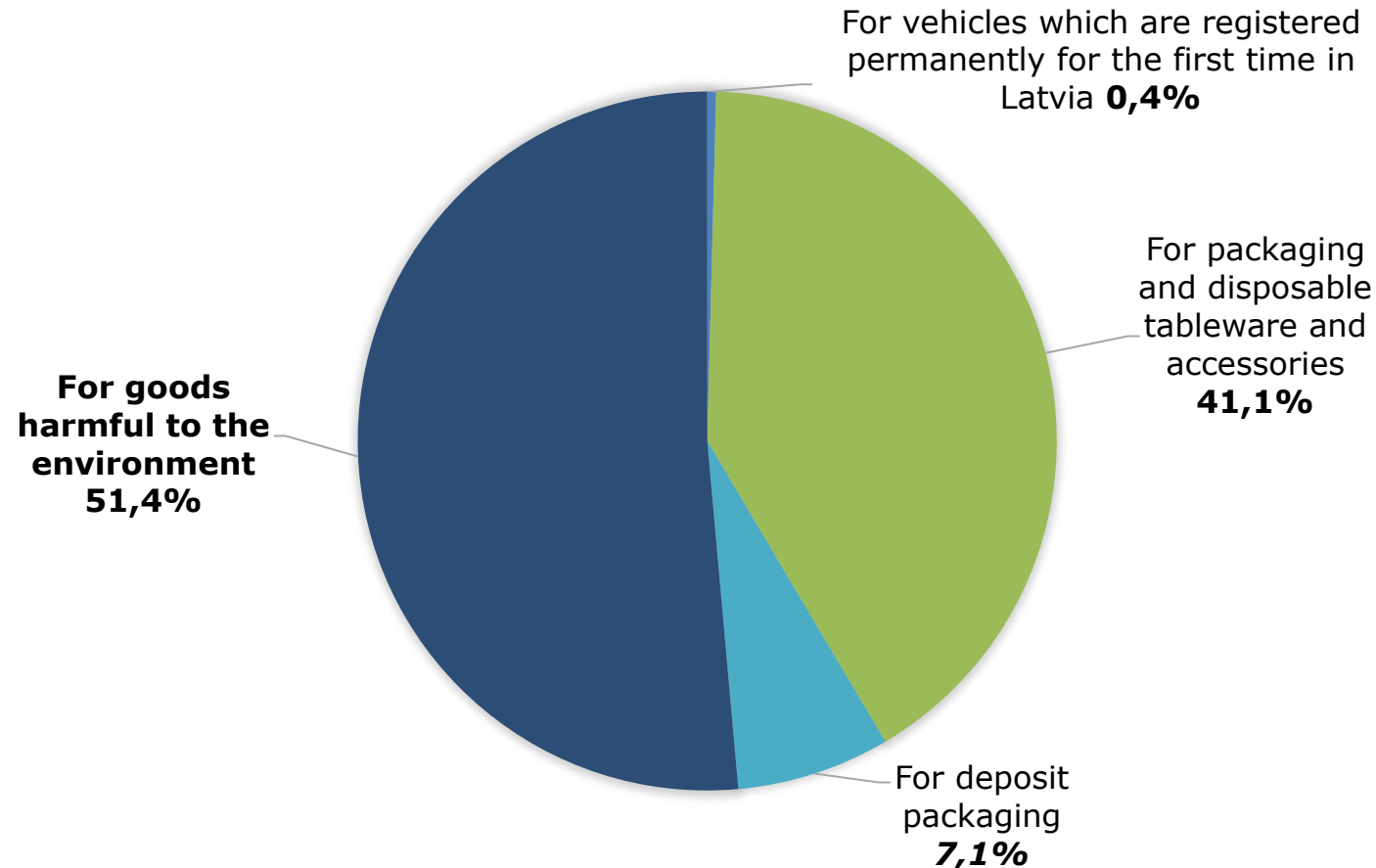
<b>Tax exemptions</b>	<b>2023</b>
For goods harmful to the environment	146.2
For packaging and disposable tableware and accessories, <i>incl.:</i> <i>for deposit packaging</i>	136.9 20.2
For vehicles which are registered permanently for the first time in Latvia	1.2
<b>TOTAL</b>	<b>284.3</b>
<b>Share of NRT revenue</b>	<b>459.5%</b>





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

**Distribution of NRT expenditures in 2023, 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 2023 the ED expenditures amounted **~207 mln euro**, which is around **18%** of total ED revenue

**ED expenditures (reduced rates and exemptions) in 2023, mln. euro**

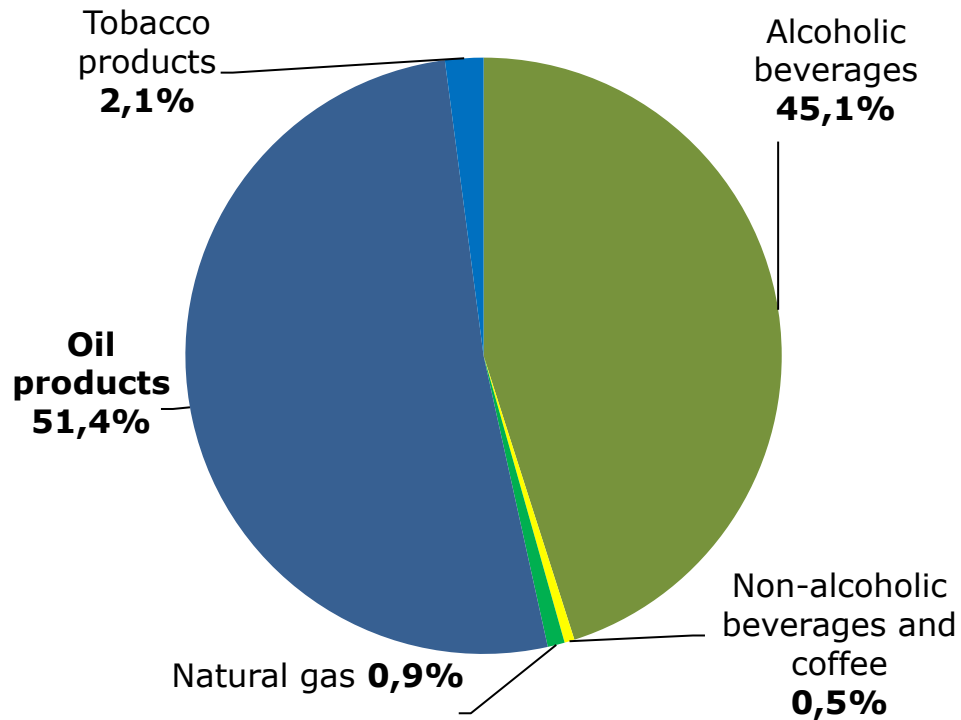
<b>Tax exemptions and reliefs</b>	<b>2023</b>
<b>Reduced ED rates, of which:</b>	<b>83.5</b>
<b>For oil products</b> ( <i>for labelled oil products which are used as fuel, for agricultural purposes and in special economic zones, as well as biofuels, petroleum gases and other gaseous hydrocarbons used for heating</i> )	80.7
<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> )	2.3
<b>For natural gas</b> ( <i>for use as fuel in industrial production and processing of agricultural raw materials</i> )	0.6
<b>Exemptions, of which:</b>	<b>123.5</b>
<b>Oil products</b> ( <i>mainly used in aircrafts which are not used for private recreation and entertainment</i> )	63.5
<b>Alcoholic beverages and other products containing alcohol</b> ( <i>mainly denatured alcohol</i> )	55.7
<b>Tobacco products</b> ( <i>delivered to ships and aircrafts engaged in international transport, diplomats and international organisations</i> )	2.6
<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
<b>Non-alcoholic beverages and coffee</b>	0.7
<b>TOTAL</b>	<b>207.1</b>
<b>Share of ED revenue</b>	<b>17.9%</b>



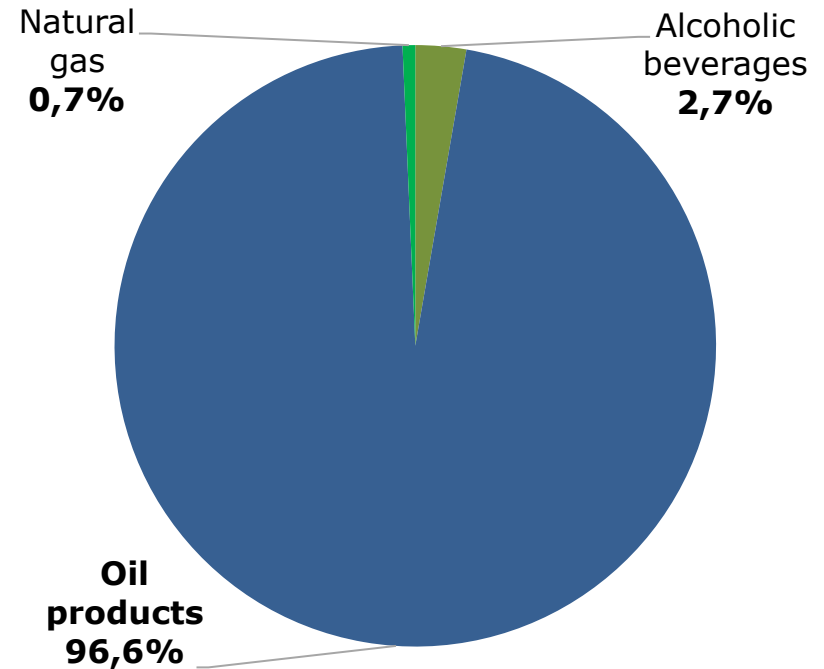
The largest amount of ED expenditures when applying reduced ED rates is on oil products (agriculture and heating) – **96.6%**, and when applying ED exemptions - on alcoholic beverages (mainly denatured alcohol) – **51.4%**

**Distribution of ED expenditures (reduced rates and exemptions) in 2023, per cent**

**Distribution of ED exemptions**



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





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



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**In 2023 the CIT expenditures amounted *~69 mln euro*, which is **12.6%** of total CIT revenues**

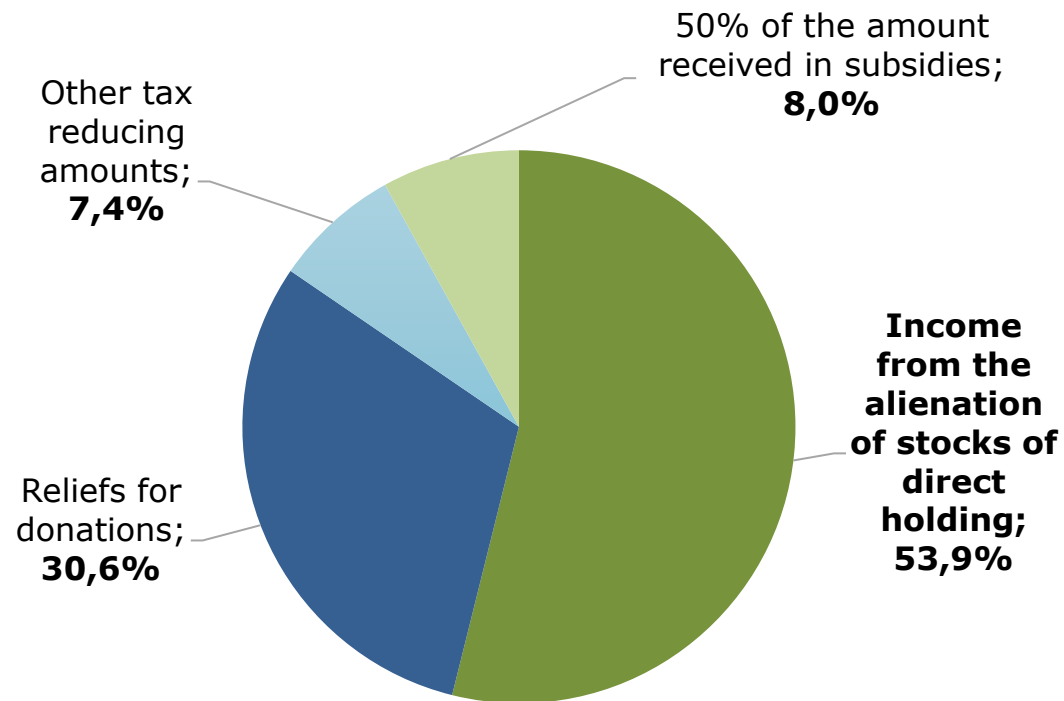
**CIT expenditures in 2023, mln euro**

<b>Tax expenditures</b>	<b>2023</b>
Statutory tax reliefs	56.9
Tax reliefs with transitional period	11.9
<b>TOTAL</b>	<b>68.7</b>
<i>Share of CIT revenue</i>	<i>12.6%</i>

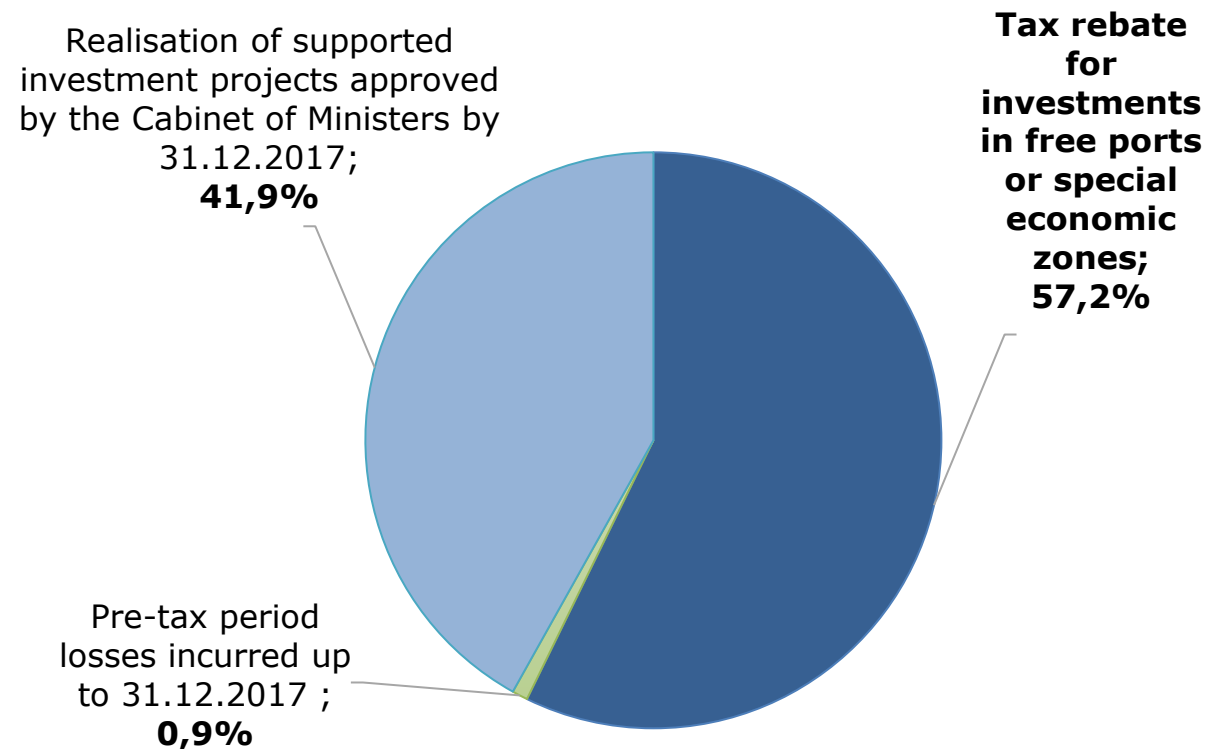


In 2023, the largest CIT expenditure share of the amount of statutory reliefs was on income from the alienation of stocks of direct holding - **53.9%**, and of the amount of reliefs with transitional period - on investment in free ports or special economic zones - **57.2%**

**Distribution of statutory CIT reliefs in 2023, per cent**



**Distribtuion of CIT reliefs with transitional period in 2023, per cent**





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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 2023, the vehicle tax expenditures were **~25 mln euro**, which is **20%** of vehicle tax revenue

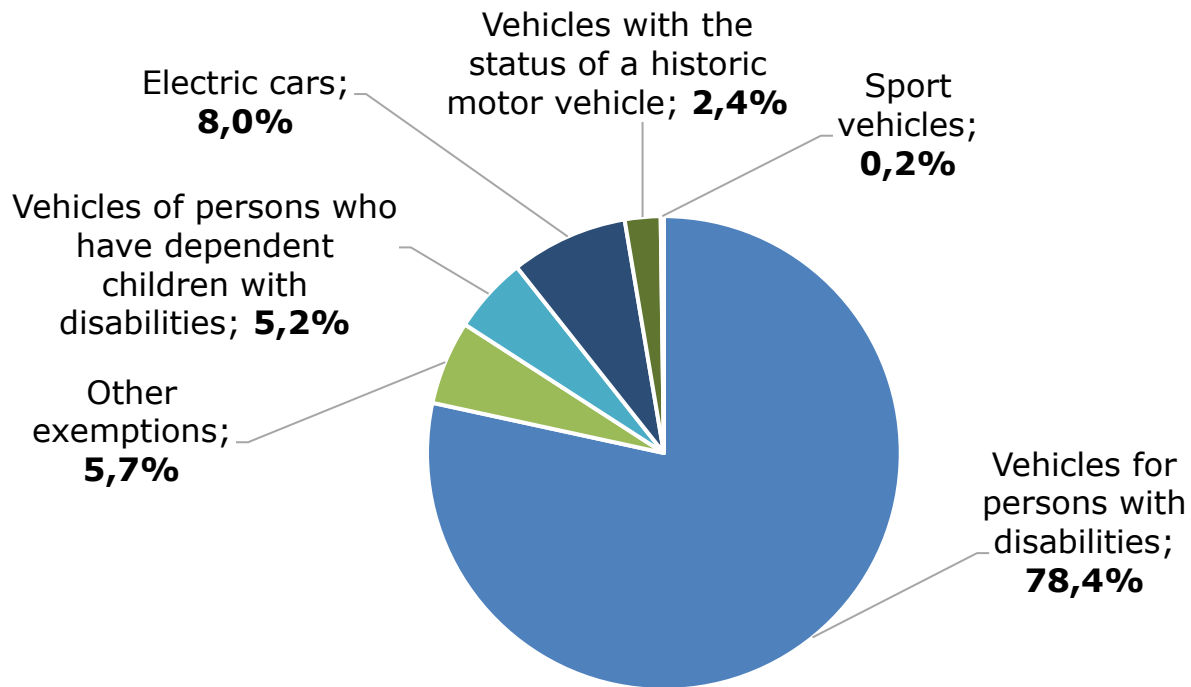
**VOT and CCT expenditures in 2023, mln euro**

<b>Tax exemptions and reliefs</b>	<b>2023</b>
VOT exemptions	13.9
VOT reliefs	5.0
CCT exemptions	6.3
<b>TOTAL</b>	<b>25.3</b>
<i>Share of vehicle taxes revenue</i>	<i>19.8%</i>

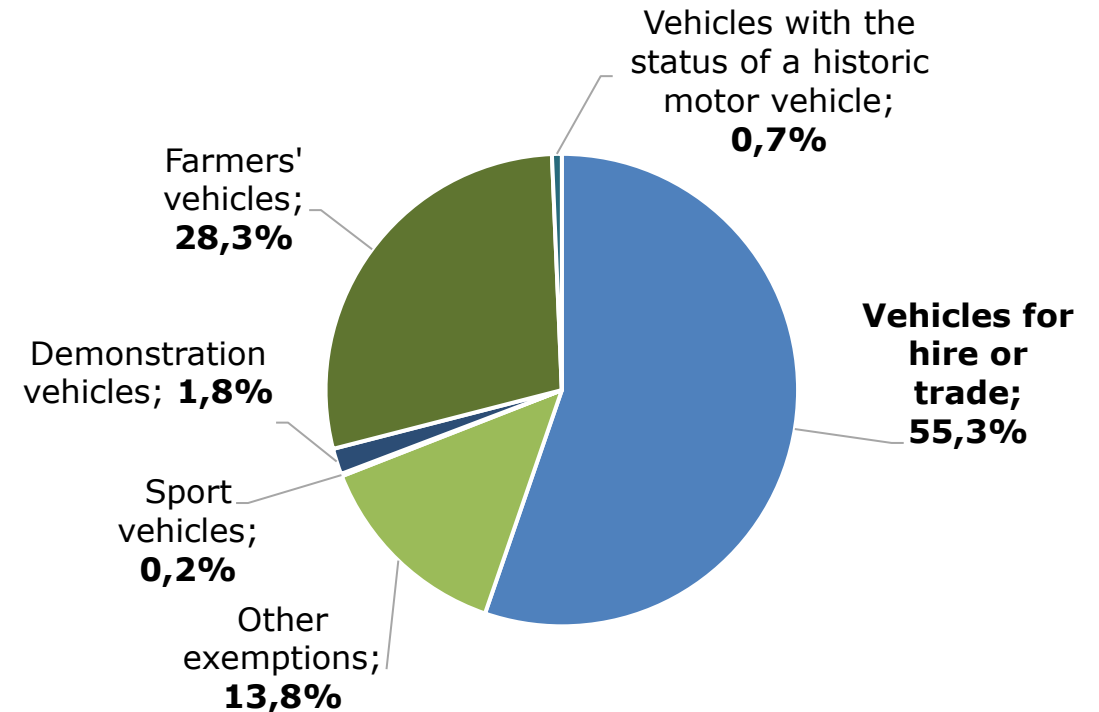


# The largest vehicle tax expenditure amount - for vehicles owned by disabled persons - **78.4%** of the VOT exemptions or **43.2%** of all vehicle tax expenditures

**Distribution of VOT exemptions in 2023, per cent**



**Distribution of CCT exemptions in 2023, per cent**





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



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**In 2023, the RET expenditures amounted ~ 18 mln euro, mainly due to tax incentives granted by local governments**

**RET expenditures in 2023 , mln euro**

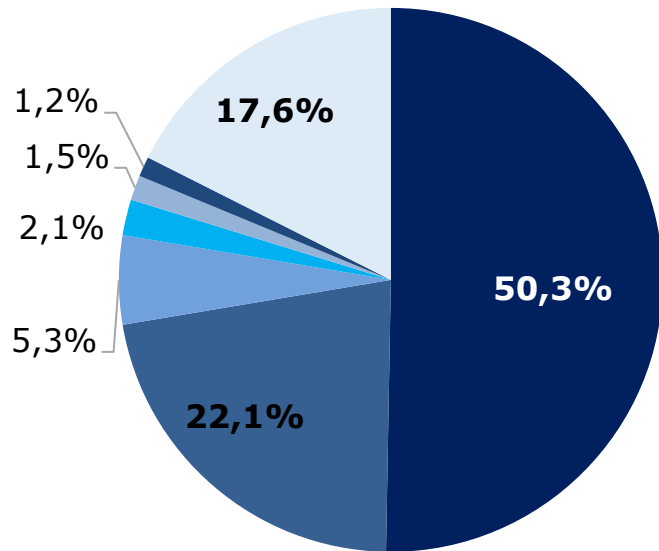
<b>Tax expenditures</b>	<b>2023</b>
Tax reliefs under the <i>Law on Immovable property tax</i>	3.7
Tax reliefs specified in the binding regulations issued by local governments	14.0
<b>TOTAL</b>	<b>17.7</b>
<i>Share of RET revenue</i>	<i>7.5%</i>



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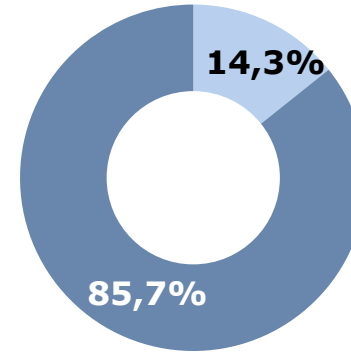
# A half (50.3%) of the RET reliefs granted by local governments are reliefs granted by the Riga City Council

Distribution of RET reliefs by place of application in 2023, per cent



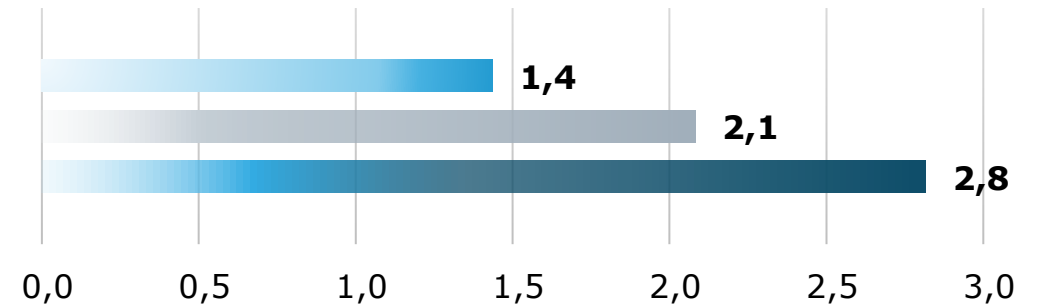
- Rīga
- Jūrmala
- Liepāja
- Ventspils
- Ādaži municipality
- Bauska municipality
- Other municipalities

Distribution of Rīga's RET reliefs by type of application in 2023, per cent



- Tax reliefs under the Law on Immovable property tax
- Tax reliefs specified in the binding regulations issued by Rīga City Council

Main RET reliefs set out in the binding regulations of Riga City Council in 2023, mln euro



- For disabled persons and pensioners
- For buildings of historical significance
- For large families and guardian families



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# **ELECTRICITY TAX (ET) EXPENDITURES**



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In 2023, the ET expenditures amounted to **2.4 mln euro**, which is **almost a half** of the ET revenue

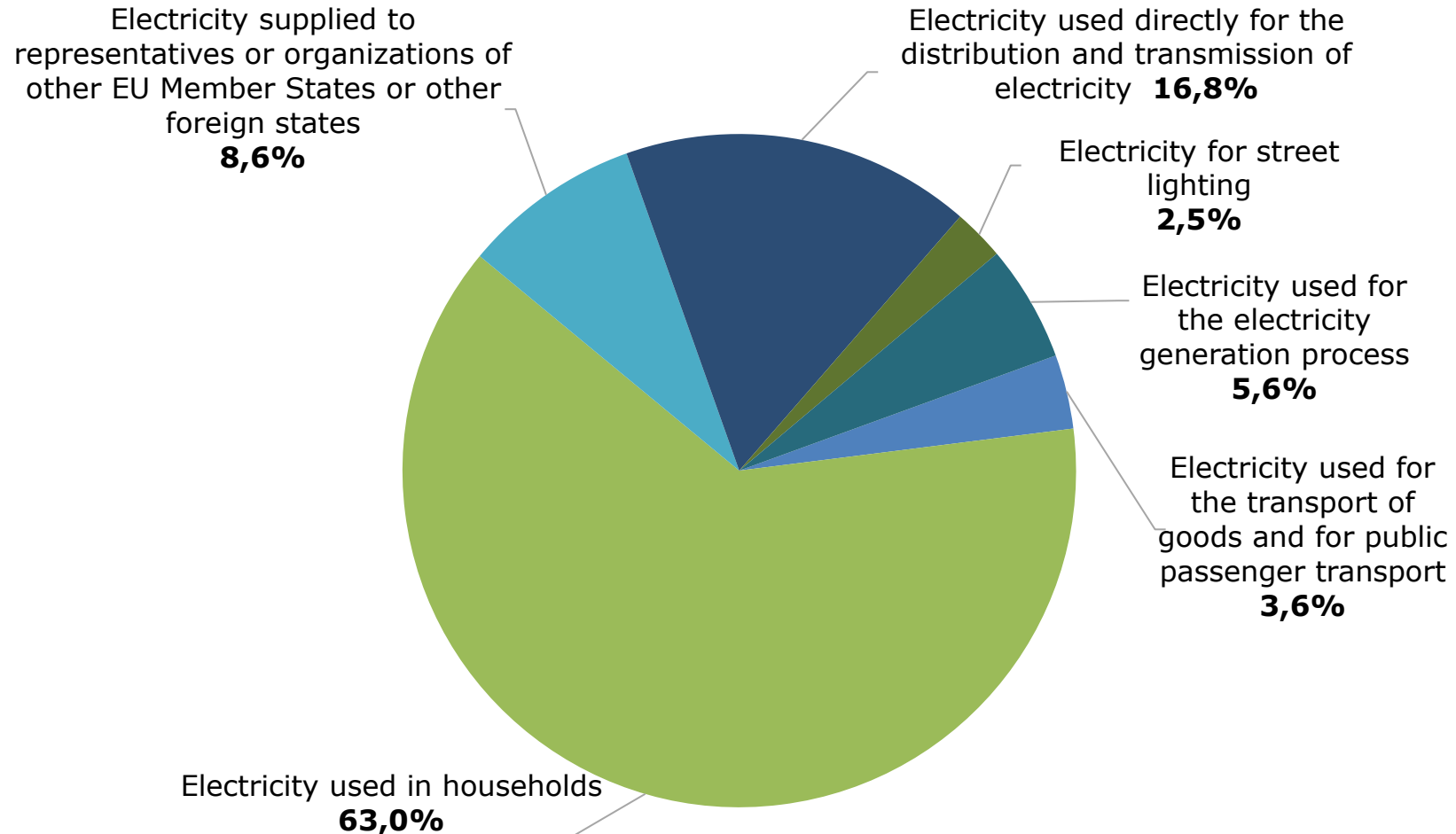
**ET expenditures (exemptions and reliefs) in 2023, mln euro**

<b>Tax exemptions and reliefs</b>	<b>2023</b>
Electricity tax exemptions	2.4
Electricity tax relief for electricity supplied to persons for the provision of street lighting services	0.1
<b>TOTAL</b>	<b>2.4</b>
<b><i>Share of ET revenue</i></b>	<b><i>49.6%</i></b>



## The largest part of ET expenditures is formed by the exemption for electricity supplied to households **(63.0%)**

**Distribution of ET expenditures in 2023, per cent**







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