



GLOBAL  
EMPLOYER  
GUIDE

**LATVIA**





## Basic Country Facts

### Full name

- Republic of Latvia

### Capital

- Riga

### Main Languages

- Latvian
- Russian
- Belarusian
- Ukrainian
- Polish

### Population

- 1.92 million

### Monetary unit

- Euro

### Internet domain

- .lv

### International dialing code

- +371

### Currency

- Euro



# STATUTORY LABOR REQUIREMENTS

## Probation Period

- The maximum term of probationary periods is three months.

## Annual Leave

- Employees are entitled to at least 4 weeks of paid annual leave.

## Public Holidays

- New Year's Day (1st January)
- GoodFriday (10th April)
- Easter Monday (13th April)
- Labor Day (1st May)
- Declaration of Independence (4th May)
- Midsummer Eve (23rd June)
- St. John's Day (24th June)
- Latvian National Day (18th November)
- Christmas Day (25th December)
- 2nd day of Christmas (26th December)
- New Year's Eve (31st December)

## Maternity Leave

- Female employees are generally entitled to 112 days of maternity leave: 56 before the birth and 56 after, although the employee may use all 112 days regardless of how many she used before the birth.
- Social insurance covers the employee's wages during leave if she is insured.

## Paternity Leave

- Fathers are generally entitled to 10 days of paternity leave to be taken with two months of the child's birth.



## Sick Leave

- Employees are generally eligible for 10 days of employer paid sick leave.
- The second and third days should be paid at least 75% of regular wages, and the 4th through 10th days at least 80%.
- The State Social Insurance Agency pays for sick leave from the 11th day through 26 weeks at 80% of the regular wages.

## Work Hours

- In general, Latvians work 40 hours per week with 5, 8-hour days.

## Overtime

- Work exceeding the daily working time of 8 hours is considered to be overtime.
- It is interpreted restrictively and, for instance, where the duration of working time is reduced by agreement, overtime is still computed only after 8 hours of work.
- The limit of allowed overtime hours is laid down in Section 136 (5) of the Labor Law stipulating that overtime work may not exceed 48 hours within a four-week period and 200 hours within a calendar year.

## Notice Period

- The minimum notice period to be provided by the employer is one month, unless the employment contract or collective bargaining agreement provides for a longer period.

## Severance

- Employees are generally eligible for severance payment as follows:
  - up to 5 years' service: one month's wages
  - 5-10 years' service: two month's wages
  - 10-20 years' service: three month's wages
  - 20+ years' service: four month's wages

## 13th Month

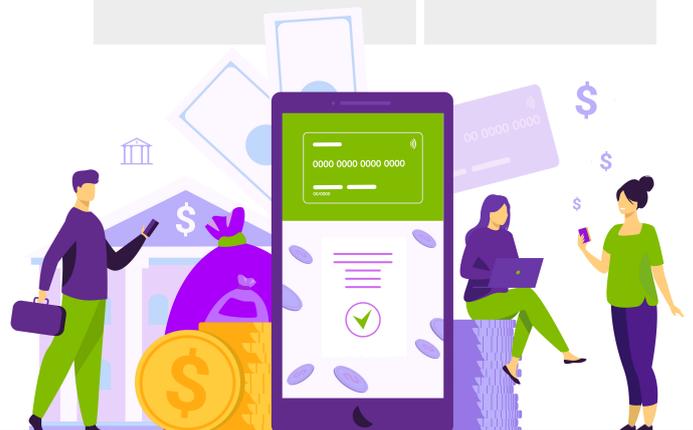
- 13th month pay is not mandatory in Latvia.



## Income Tax

- Latvia has adopted a progressive PIT system from 1 January 2018. Unless the law provides for a different rate, the progressive rate is based on the level of annual income as follows:
  - A rate of 20% applies to income up to EUR 20,004.
  - Any portion of income between EUR 20,004 and EUR 62,800 attracts a rate of 23%.
  - Any income over EUR 62,800 attracts a rate of 31.4%.
- PIT on dividends is 20%. However, where a company has already charged its profits to CIT, there will be no PIT to pay.
- This applies to Latvian companies, European Union (EU)/European Economic Area (EEA) companies, and others, except for companies from tax havens and MBT payers.
- To zero-rate dividends for PIT, evidence of PIT or CIT paid abroad should be presented.
- Before 31 December 2017, dividends attracted a 10% PIT. dividends were paid out of profits already charged to a 15% CIT, thus dividends were first charged to CIT and then to PIT.
- The current regime allows a two-year period of transition, during which dividends paid out of profits appearing on the balance sheet as at 31 December 2017 may be distributed at a 10% PIT (applicable for dividends calculated until 31 December 2019).
- In case the dividends from the profits accumulated till 31 December 2017 are distributed on 2020 and later, the PIT at a 20% rate is applicable.
- Other income from capital, including interest, also attracts a fixed PIT rate of 20%. No period of transition applies.
- From 1 January 2018, the rate on income from capital gains is 20%.
- As of 2019, the Latvian PIT Act defines cryptocurrency as a capital asset subject to the general capital gains tax rules. The only difference is the requirement to match capital gain with the capital loss from cryptocurrency to assess annual total gain or loss from the trading in cryptocurrency. Other capital assets should not be matched and can be set off against each other.
- Latvian tax resident recipients of royalties are subject to progressive PIT rates, while Latvian taxpayers need to withhold a fixed rate of 20% on resident's royalties. Non-residents attract a fixed rate of 23%.

Personal Income Tax Rate	
Income	Tax Rate
Up to EUR 20,004	20%
Income between EUR 20,004 and EUR 62,800	23%
Income over EUR 62,800	31.4%





## Social Security

- Employers and employees make social security contributions on monthly salaries at general rates of 24.09% and 11%, respectively.
- Foreign employees, who do not have a permanent place of residence in Latvia, but who remain in Latvia for more than 183 days in any 12-month period and who are employed by a non-EU company, pay quarterly social security contributions at a rate of 32.72%.
- The income cap for social security contributions is EUR62,800.
- However, solidarity tax is imposed on
- income that exceeds the cap at the same rates as the social security contributions.
- Part of solidarity tax covers the highest rate of personal income tax (that is, used as credit against personal income tax imposed at a 31.4% rate).
- If a company from an EU/EEA member state employs citizens of Latvia, it must register with the State Revenue Service in Latvia for the purpose of social security contributions or the employee can register as a social security contribution payer.

### Social Security Contributions

<b>Employees</b>	11%
<b>Employers</b>	24.09%
<b>Self-employed Individuals</b>	32.72%

## Deductible Expenses

- Residents may deduct the following non-business expenses:
- Compulsory NSIC (employee part) paid on income subject to Latvian PIT. NSIC is payable in Latvia and EU/EEA/Organization for Economic Co-operation and Development (OECD) countries.
- Spending on education and medical services (including dental services and scheduled operations), donations to public benefit organizations, and donations to political parties of up to 50% of the person's annual taxable income, capped at EUR 600 a year for each family member.
- Amounts paid by the individual during the year to an insurance company registered in Latvia or the EU/EEA of up to 10% of their total gross taxable income for the tax year are not subject to payroll taxes. The policy should mature in at least ten years.
- Contributions to private pension funds and endowment insurance at 10% of taxable income, capped at EUR 4,000.
- A person planning to deduct expenses for completing their children's interest-related programs should consider the following factors:
  - These expenses do not apply to any income a micro-business employee and owner derives from the micro-business, any borrowing treated as income, any income from capital (other than capital gains), any income from property, seasonal farm workers' income, or any business income for which so-called 'patent fees' are paid.
  - These expenses are not deductible if covered out of funds received from public benefit organizations or as a gift.

- Residents and non-residents (who are residents of EU/EEA member states and earn at least 75% of their worldwide income in Latvia) can deduct these expenses from their total taxable income, except for income from capital and capital gains.
- If a person is registered as a sole trader, business expenses are deductible, provided that appropriate supporting documents are in place and the expenses do not exceed 80% of the individual's total operating revenue.

### Deductible Expenses

- Education and medical services donations to public benefit organizations donations to political parties of up to 50% of the person's annual taxable income capped at EUR 600 a year for each family member.
- Amounts to an insurance company registered in Latvia or the EU/EEA of up to 10% of their total gross taxable income for the tax year are not subject to payroll taxes.
- Contributions to private pension funds and endowment insurance at 10% of taxable income, capped at EUR 4,000.

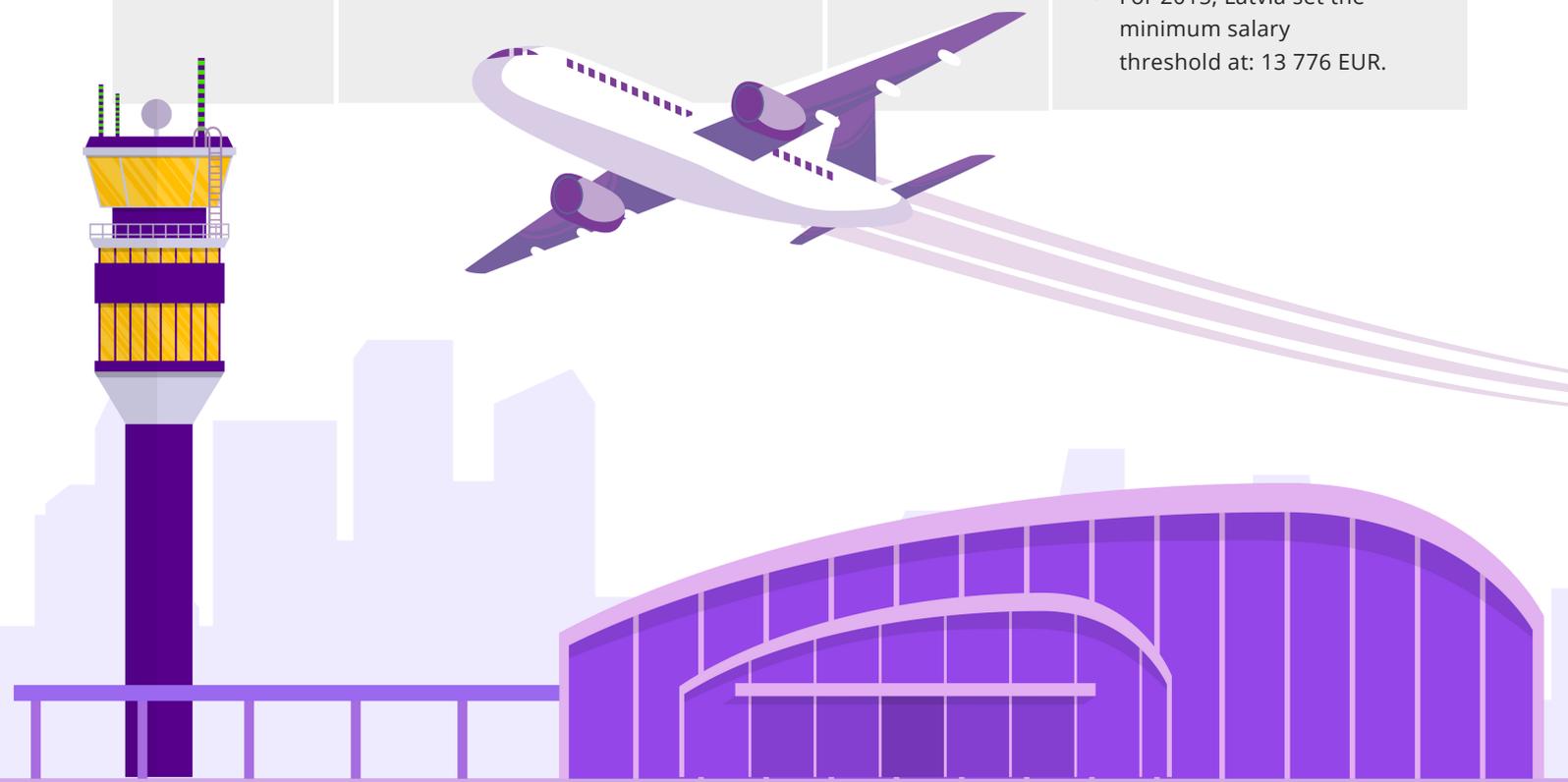


# Immigration

- A residence permit is required if a foreigner wants to reside in Latvia for a time period exceeding 90 days within a half year, beginning from the date of first entry.
- EU citizens are not required to obtain a residence permit.
- However, they must register and obtain a residence card or permanent residence card (with the exception of an EU citizen who works in Latvia but travels back to his or her residence country on a weekly basis).
- Residency permit for non-EU citizens.
- Non-EU citizens can obtain five-year residency permits in Latvia, which allow unrestricted travel within the territory of Schengen member states.
- An individual can apply for a residency permit if he or she makes the following investments in Latvia and complies with certain criteria provided by law:
  - Investment in a company
  - Purchase of real estate
  - Investing in a bank's subordinate capital (deposit)
- EU Blue Card
  - To live and work in Latvia as a highly-qualified worker you may apply for an EU
- Blue Card
  - To qualify for the Blue Card, you must hold a university or college diploma from an educational programme that lasted three years or more.



Type of Visa	Documentation	Validity	Eligibility
<b>Residence Permit</b>	<ul style="list-style-type: none"> <li>• Passport</li> <li>• Visa</li> <li>• Travel medical insurance policy</li> <li>• OCMA decision</li> </ul>	5 years	<ul style="list-style-type: none"> <li>• Residency permit for non-EU citizens</li> <li>• Foreigners are eligible if they meet the following               <ul style="list-style-type: none"> <li>◦ Investment in a company</li> <li>◦ Purchase of real estate</li> <li>◦ Investing in a bank's subordinate capital (deposit)</li> </ul> </li> </ul>
<b>EU Blue Card</b>	<ul style="list-style-type: none"> <li>• A valid work contract or binding job offer</li> <li>• A valid travel document</li> <li>• An application for a visa or a visa</li> <li>• A valid residence permit or a national long-term visa</li> <li>• A proof of sickness insurance</li> <li>• Bachelors or Master's degree</li> </ul>	5 years	<ul style="list-style-type: none"> <li>• High skilled employees</li> <li>• The gross annual salary resulting from the monthly or annual salary specified in the work contract or binding job offer must be equal to or higher than the relevant salary threshold defined by the Member State (at least 1.5 times the average gross annual salary in the Member State concerned).</li> <li>• For 2015, Latvia set the minimum salary threshold at: 13 776 EUR.</li> </ul>



## Value Added Tax (VAT)

- Latvian VAT rules are based on regulations drawn up by the EU, of which Latvia was a founding member.
- The Standard Latvian VAT rate is currently 21%, with a reduced rate of 12%. As an EU member, Latvia is obliged to implement the EU's VAT Directives which provide guidance on VAT.
- Where there is a conflict, the European Directive takes precedence.

VAT Rates	
Standard Rate	21%
Reduced Rate	12%

## Withholding Tax

### Dividends

- Latvia does not levy withholding tax on dividends, except for dividends payable to persons' resident in black-list jurisdiction, which are subject to a 20% withholding tax

### Interest

- Latvia does not levy withholding tax on interest, except for interest payable to persons' resident in black-list jurisdiction, which is subject to a 20% withholding tax.

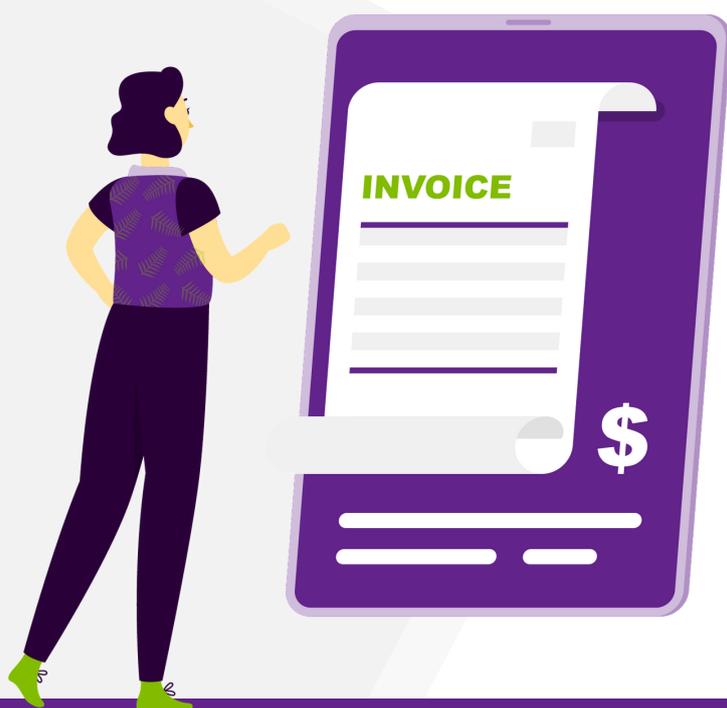
### Royalties

- Latvia does not levy withholding tax on royalties, except for royalties' payable to persons' resident in black-list jurisdictions, which are subject to a 20% withholding tax

### Technical Service Fee

- Latvia does not levy withholding tax on technical service fees

Withholding Tax	
Dividends	20 %
Interest	20 %
Royalties	20%
Technical Service Fee	N/A



## Termination

- A contract of employment can be terminated either at the initiative of an employer or an employee.
- A contract of employment may also be terminated by expiry of a fixed-term contract, by mutual consent of employer and employee, or pursuant to the request of a third party.
- Pursuant to Section 101 of the labor Law, an employer has the right to give a written notice of termination of a contract of employment only on the basis of circumstances related to the conduct of the employee, his or her abilities, or of economic, organizational, technological measures or measures of a similar nature
- Prior notice is required to terminate a contract of employment concluded for an indefinite period as well as a fixed-term contract where an employer intends to terminate such contract before the expiry of the term.
- An employer, when giving a notice of termination of a contract of employment, shall comply with different time periods, depending on the grounds of dismissal.
- The notice of dismissal will take effect either immediately, or 10 days after the notice, or one month after the notice, accordingly to Sections 103 and 101 of the labor Law
- In all cases when giving a notice of termination, an employer has a duty to notify an employee in writing those circumstances that serve a basis for the notice of termination of the contract of employment.
- The employer has to pay severance pay in accordance with the law

## Statutory Benefits

- These are benefits as postulated by law
- These include probationary period, annual leave, public holidays, maternity leave, paternity leave, sick leave, notice period, and severance pay
- Statutory benefits also include social security benefits

### Statutory Benefits

**Probationary Period**

**Public Holidays**

**Annual Leave**

**Sick Leave**

**Maternity Leave**

**Paternity Leave**

**Notice Period**

**Severance Pay**

**Social Security Benefits**



## Payments and Invoicing

- The tax year in Latvia is the calendar year.
- Employers must withhold taxes and social security contributions on personal salary and then remit the withheld amounts to the fiscal authorities monthly on the same day the salary is paid.
- Individual taxpayers must submit an annual tax return, but they may authorize a certified auditor to submit the return on their behalf.
- For income received after 1 January 2018, in general, the tax return must be filed during the period of 1 March to 1 June of the year following the tax year.
- However, if income for the tax year exceeds EUR62,800, the tax return must be filed during the period of 1 April to 1 July of the year following the tax year.
- A nonresident who permanently leaves Latvia before year-end must file an annual tax declaration within 30 days after he or she stops receiving income.
- If the tax payable exceeds EUR640, the tax may be paid in three equal installments.
- These installments are due on 16 June, 16 July and 16 August of the year following the tax year if the filing deadline is 1 June.
- If the filing deadline is 1 July, the installments must be paid by 16 July, 16 August and 16 September.

## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Latvia ranked 19th in the World in 2019 in terms of ease of doing business.



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