LATVIA

BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile
With a GDP per capita of USD 14,118 (World Bank) and a median age of 43.6 years, the average Latvian consumer is less wealthy than their neighbours and older than most of their European counterparts (EU average being 42.9 years in 2017). The Latvian population follows similar demographic trends to the rest of the Baltics with a rapidly shrinking (net growth rate -1.08% in 2017) and ageing population (people aged 0-24 years comprise 24% of the total population). Latvian consumer has recovered from the financial crisis and is now able to save more money (disposable income rising from EUR 286 in 2010 to EUR 437 in 2016 - Latvian Central Statistics Bureau). Nonetheless, the market remains highly divided with Latvia having one of the highest income inequalities in the EU (Gini score of 34.5 points as opposed to the EU average of 31 points).

Consumer Behaviour
Price is the most prominent factor in consumer spending, ahead of product quality and store features. More affluent consumers are brand-conscious and willing to pay a higher price to purchase from their favourite brand. Consumers spend an important part of their income on food as well as housing and utilities, nonetheless their share in total expenditure has been declining in recent years. The share of food in total expenditure fell from 28.2% to 26.2% between 2013 and 2016 whereas housing and utilities accounted for 15.3% in 2016 as opposed to 16.5% in 2013. Spending on recreation as well as hotels, cafes and restaurants increased in the meantime (7.6% as opposed to 7.1% and 4.8% as opposed to 4.4%) (Latvian Central Statistics Bureau - 2017). Moreover, there is a growing interest in e-commerce as the country boasts 890,000 online shoppers (out of 1.96 million inhabitants) (Eshop World) and the country had the highest e-commerce growth among Baltic countries in 2017 (28.5%) (Eurostat).

Consumers Associations
Latvian Association for the Protection of Consumer Interests
Consumer Rights Protection Centre

IMPORTING & DISTRIBUTING
Import Procedures
When goods from inside the community are brought into Latvia, the exporter must obli
gatorily fill in a Declaration of Exchange of Goods (DEB) or an Intrastat Declaration at the end of the month. The Customs declaration (SAD) remains in force for trade between Latvia and third countries.

When the country of origin of the goods exported to Latvia is not part of the European Union, Customs duties are in accordance with the Common Customs Tariff (CCT) for all the countries in the Union.

The TARIC code (composed of 10 figures) defines the Customs duty rate and the community regulations applicable to products whose origin is in a country outside Europe.

As part of the “SAFE” standards set forth by the World Customs Organization (WCO), the European Union has set up a new system of import controls, the "Import Control System" (ICS), which aims to secure the flow of goods at the time of their entry into the customs territory of the EU. This control system, part of the Community Program eCustoms, has been in effect since January 1, 2011. Since then, operators are required to pass an Entry Summary Declaration (ENS) to the customs of the country of entry, prior to the introduction of goods into the customs territory of the European Union.

For more information, please visit the Latvian State Revenue Service.

Distribution market players
The Latvian market is largely dominated by supermarkets and hypermarkets (45% market share), while markets and local shops represent respectively 30% and 25% market share.
Major mass merchandisers include:
- Elvi
- Maxima
- Rimi
- Latts

OPERATING A BUSINESS

Type of companies

The sabiedriba ierobeziatbildiba (SIA) is a Private Limited Company.

Number of partners: No minimum
Capital (max/min): Minimum EUR 2,878. 50% of the capital must be released at the incorporation and the remainder within the year.
Shareholders and liability: Liability is limited to the amount contributed.

The akciju sabiedriba (AS) is a Public Limited Company.

Number of partners: No minimum
Capital (max/min): Minimum EUR 35,976. 50% of the capital must be released at
Pilnsabiedrība (PS) is a General Partnership

**Number of partners:** Minimum of 2 partners.
**Capital (max/min):** No minimum.
**Shareholders and liability:** Unlimited and joint for all Partners

<table>
<thead>
<tr>
<th>Setting Up a Company</th>
<th>Latvia</th>
<th>Eastern Europe &amp; Central Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures (number)</td>
<td>4.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Time (days)</td>
<td>5.5</td>
<td>10.2</td>
</tr>
</tbody>
</table>

*Source: Doing Business.*

Cost of Labour

**Minimum Wage**
The minimum wage was EUR 370 per month in 2016 according to ILO data (latest available data).
According to Eurostat data, the minimum wage amounted to EUR 430 per month in 2018.

**Average Wage**
In 2015, the gross monthly average wage was EUR 785 according to the ILO (latest available data).
According to data from the Latvian government, the average salary was EUR 926 per month in 2017.

**Social Contributions**
Social Security Contributions Paid By Employers: 23.59 %
Social Security Contributions Paid By Employees: 10.5 %

Intellectual Property

**National Organisations**
Consult the [Patent Office of the Republic of Latvia](#). The application for the grant or registration of a patent can be done in the language of the country, in English, in Russian or in German. These applications have to be addressed to the patents office in Latvia, either directly or through the intermediary of a legal representative. The related law of patents was voted in 1993 and as for trademarks, the law was passed in the same year.
Latvian law is very similar to French Law but the protection of intellectual property rights will be consolidated in the near future.

**Regional Organisations**
In Latvia there are several non-governmental organizations which defend intellectual property, such as, for example, the association **LIVA**.

**TAX RATES**

**Consumption Taxes**

**Nature of the Tax**
Value added tax (VAT) - Pievienotas Vertibas Nodoklis (PVN in Latvian).

**Tax Rate**
21%

**Reduced Tax Rate**
Latvia applies a reduced VAT rate of 12% on certain categories of goods and services, including foodstuffs, baby food, medical products and equipment, public transport, heating, school textbooks, literary works, hotels and newspaper (except for digital format).

Educational services, medical services, cultural services, financial services provided by banks and insurance companies are exempt from VAT.

**Other Consumption Taxes**
Excise duty is imposed on oil products, alcoholic and non-alcoholic beverages, tobacco products and natural gas. Vehicles are subject to taxes paid on a monthly basis (higher rates apply to foreign-registered cars).

**Corporate Taxes**

**Company Tax**
20% (effective rate at 25% with the application of a 0.8 coefficient)

**Tax Rate For Foreign Companies**
Non-resident companies are subject to the same tax liabilities as resident firms, but only on their Latvia-source income.

**Capital Gains Taxation**
Capital gains arising from the disposal of shares held at least for 36 months are exempt from tax. Capital gains obtained by a non-resident on the sale of a property or a company's shares where more than 50% of its assets consists of Latvian real estate, is subject to a 3% withholding tax. Gains obtained by a resident on the sale of a property are taxed only if there is a profit distribution.
Main Allowable Deductions and Tax Credits

The new tax model only includes distributed profits in the tax base; therefore, no provision is made for depreciation of tangible and intangible assets. The tax code does not provide for any specific treatment for start-up expenses. On the other hand, VAT on goods and services acquired before the VAT registration of the company can be recovered.

Excess interest payments are considered a deemed profit distribution and subject to a 20% income tax. Bad debt that remain unrecovered 36 months after a provision was made are generally deductible.

Entertainment and all other "non-commercial" expenses (including benefits in kind offered to employees) are exempt from corporation tax up to 5% of gross salary. Excess amounts are subject to corporation tax.

Donations to Latvian charities or their equivalents in the EU Member States or the European Economic Area (that have concluded a tax treaty with Latvia) are eligible for deductions which may apply to the tax base at up to 5% of profit or at up to 2% of total gross wages. Alternatively, donations may give rise to a 75% reduction in corporate income tax on dividends.

Tax losses accumulated up to 2017 can be carried forward up to five years (until 31 December 2022) to reduce taxable distributed profits by 50% (or 15% of the loss per year).

Other Corporate Taxes

The property tax is payable on commercial properties but also on technical structures owned by private companies (highway, parking space, bridge, tunnels, etc.) and property that is part of a residential complex but used by legal entities for non-residential purposes. The rate can be determined by municipalities (between 0.2 and 3% with the stand rate at 1.5%). The rates provided for in the Latvian Tax Code apply if a municipality refuses to announce its own rates before 1 November. Stamp duties are collected on a number of legal transactions, including the registration of real estate (at 2% of the sale price or the cadastral value). Contributions in kind to the capital of the company are subject to a stamp duty of 1%.

Social security contributions payable by the employer amount to 24.09% of the salary. Employers are required to pay a solidarity tax of 24.09% for any annual salary exceeding EUR 55,000.

Natural resources obtained through a commercial activity, products harmful to the environment, radioactive substances and polluting activities are subject to a tax on natural resources (variable rate depending on the weight, volume and quantity of the product).

Lottery and gaming organisers are subject to a tax (in the form of a license fee) ranging from EUR 2,000 to EUR 427,000.

Electricity supplied to end users is subject to a €1.01/MWh tax.

Other Domestic Resources

Consult Doing Business Website, to obtain a summary of the taxes and mandatory contributions.

Double Taxation Treaties

Countries With Whom a
Double Taxation Treaty Have Been Signed
See the list of the Double Taxation Agreements

Withholding Taxes
Dividends, interest and royalties: 0/20% (only if the recipient is a resident of a country blacklisted by Latvian tax authorities).