

**PRACE NAUKOWE**

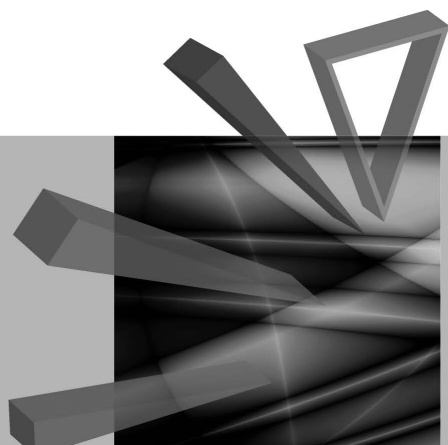
Uniwersytetu Ekonomicznego we Wrocławiu

**RESEARCH PAPERS**

of Wrocław University of Economics

**269**

# **Dziś i jutro polityki spójności w Unii Europejskiej**



Redaktorzy naukowi

**Ewa Pancer-Cybulska**

**Ewa Szostak**



Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu  
Wrocław 2012

Recenzenci: Urszula Kalina-Prasznic, Marek Kozak, Barbara Kryk, Kazimierz Pająk,

Redaktor Wydawnictwa: Barbara Majewska

Redaktor techniczny: Barbara Łopusiewicz

Korektor: Marcin Orszulak

Łamanie: Comp-rajt

Projekt okładki: Beata Dębska

Publikacja jest dostępna w Internecie na stronach:

[www.ibuk.pl](http://www.ibuk.pl), [www.ebscohost.com](http://www.ebscohost.com),

The Central and Eastern European Online Library [www.ceeol.com](http://www.ceeol.com),

a także w adnotowanej bibliografii zagadnień ekonomicznych BazEkon

[http://kangur.uek.krakow.pl/bazy\\_ae/bazekon/nowy/index.php](http://kangur.uek.krakow.pl/bazy_ae/bazekon/nowy/index.php)

Informacje o naborze artykułów i zasadach recenzowania znajdują się

na stronie internetowej Wydawnictwa

[www.wydawnictwo.ue.wroc.pl](http://www.wydawnictwo.ue.wroc.pl)

Kopiowanie i powielanie w jakiegokolwiek formie

wymaga pisemnej zgody Wydawcy

© Copyright by Uniwersytet Ekonomiczny we Wrocławiu

Wrocław 2012

**ISSN 1899-3192**

**ISBN 978-83-7695-282-6**

Wersja pierwotna: publikacja drukowana

Druk: Drukarnia TOTEM

## Spis treści

Wstęp .....	9
<b>Tatyana Andreeva:</b> Present taxation policy in Latvia .....	11
<b>Iwo Augustyński:</b> Wpływ globalnego kryzysu finansowego na strukturę zadłużenia europejskich korporacji .....	23
<b>Krzysztof Biegun:</b> Realizacja antycyklicznej funkcji polityki budżetowej w Polsce w kontekście przygotowań do członkostwa w strefie euro .....	34
<b>Jan Borowiec:</b> Wpływ kryzysu gospodarczego i finansowego na spójność gospodarczą i społeczną Unii Europejskiej .....	47
<b>Jarosław Czaja:</b> Ograniczenia wzrostu emisji obligacji korporacyjnych na obszarze Eurolandu .....	58
<b>Mariusz Czupich, Aranka Ignasiak-Szulc:</b> Wybrane aspekty wzrostu innowacyjności regionu w opinii mieszkańców województw kujawsko-pomorskiego i warmińsko-mazurskiego .....	70
<b>Marek A. Dąbrowski:</b> Źródła wahań realnych kursów walutowych na Litwie, Łotwie i w Polsce w kontekście kryzysu gospodarczego .....	82
<b>Aneta Jarosz-Angowska:</b> Struktura działalności gospodarczej a konkurencyjność regionu .....	97
<b>Wojciech Kosiedowski, Maria Kola-Bezka, Saulius Stanaitis:</b> Przedsiębiorczość w regionach wschodniego pogranicza UE. Wybrane wyniki międzynarodowego badania ankietowego .....	107
<b>Ewa Małuszyńska:</b> Problemy definiowania oraz szacowania wielkości delokalizacji .....	121
<b>Adam Pawlewicz, Piotr Szamrowski:</b> Perspektywy funkcjonowania osi LEADER w nowym okresie programowania 2014-2020 .....	133
<b>Marzena Piotrowska-Trybull, Aranka Ignasiak-Szulc:</b> Rola jednostki wojskowej w rozwoju społeczno-gospodarczym gmin w świetle badań ankietowych .....	144
<b>Mariusz Ratajczak:</b> Zreformowana polityka spójności i jej związek z priorytetami odnowionej Strategii Lizbońskiej .....	158
<b>Adam Roznoch:</b> Podstawowe problemy polityki spójności w Unii Europejskiej po roku 2013 .....	169
<b>Monika Słupińska, Mariusz Wypych:</b> Realizacja zasady partnerstwa na rzecz rozwoju kapitału ludzkiego na poziomie regionu .....	197
<b>Artur Szmaciarski:</b> Rola polityki spójności w realizacji strategii Europa 2020.....	212
<b>Zhanna Tsaurkubule, Alevtina Vishnevskaya:</b> Economic trends analysis of Latvia in EU cohesion policy conditions .....	223

<b>Piotr Zapalowicz:</b> Krytyka polityki spójności z punktu widzenia teorii monetaryzmu .....	231
<b>Andrzej Żuk:</b> Ukierunkowane terytorialnie zintegrowane podejście do rozwoju Unii Europejskiej w kontekście roli polityki spójności do 2020 r. ....	241

## Summaries

<b>Tatyana Andreeva:</b> Aktualna polityka podatkowa Łotwy .....	22
<b>Iwo Augustyński:</b> The effects of the financial crisis on EU corporate debt structure .....	33
<b>Krzysztof Biegun:</b> The implementation of anticyclical fiscal policy in Poland in the context of preparations for membership in the euro area .....	46
<b>Jan Borowiec:</b> The impact of economic and financial crisis on economic and social cohesion of the European Union .....	57
<b>Jarosław Czaja:</b> Limitation of corporate bond issues increase in the Eurozone .....	69
<b>Mariusz Czupich, Aranka Ignasiak-Szulc:</b> Selected aspects of innovativeness improvement in the opinion of the inhabitants of Kujawsko-Pomorskie and Warmińsko-Mazurskie voivodeships .....	81
<b>Marek A. Dąbrowski:</b> Sources of fluctuations in real exchange rates in Lithuania, Latvia and Poland in the context of the global financial crisis .....	96
<b>Aneta Jarosz-Angowska:</b> Structure of economic activity and region competitiveness .....	106
<b>Wojciech Kosiedowski, Maria Kola-Bezka, Saulius Stanaitis:</b> Entrepreneurship in eastern borderlands of the European Union. Selected results of an international survey .....	120
<b>Ewa Maluszyńska:</b> Problems of defining and estimating the size of relocation .....	132
<b>Adam Pawlewicz, Piotr Szamrowski:</b> The perspectives of LEADER axis functioning in the new programming period 2014-2020 .....	143
<b>Marzena Piotrowska-Trybull, Aranka Ignasiak-Szulc:</b> Role of military units in social and economic development of communes according to questionnaire research .....	157
<b>Mariusz Ratajczak:</b> The reformed cohesion policy and its relationship with the priorities of the renewed Lisbon Strategy .....	168
<b>Adam Roznoch:</b> Basic problems of cohesion policy in the European Union after 2013 .....	196
<b>Monika Słupińska, Mariusz Wypych:</b> Implementation of the partnership principle within human capital development policies at the regional level .....	211
<b>Artur Szmaciarski:</b> The role of cohesion policy in the realization of Europe 2020 strategy .....	221

---

<b>Zhanna Tsaarkubule, Alevtina Vishnevskaya:</b> Analiza tendencji w gospodarce Łotwy w warunkach polityki spójności Unii Europejskiej .....	230
<b>Piotr Zapalowicz:</b> Criticism of the cohesion policy from the point of view of monetarism .....	240
<b>Andrzej Żuk:</b> Place based integrated approach to development of the European Union in the context of the role of the cohesion policy up to 2020 ....	248

**Tatyana Andreeva**

Baltic International Academy, Riga, Latvia

---

## PRESENT TAXATION POLICY IN LATVIA

---

**Summary:** The article is devoted to the studying of the problems concerning the state regulation in the field of taxation. Considering some running improvements in the given area, the aim of the article is to analyse the current tax policy in Latvia.

**Keywords:** Latvia, taxes, tax rate, tax policy.

### 1. Introduction

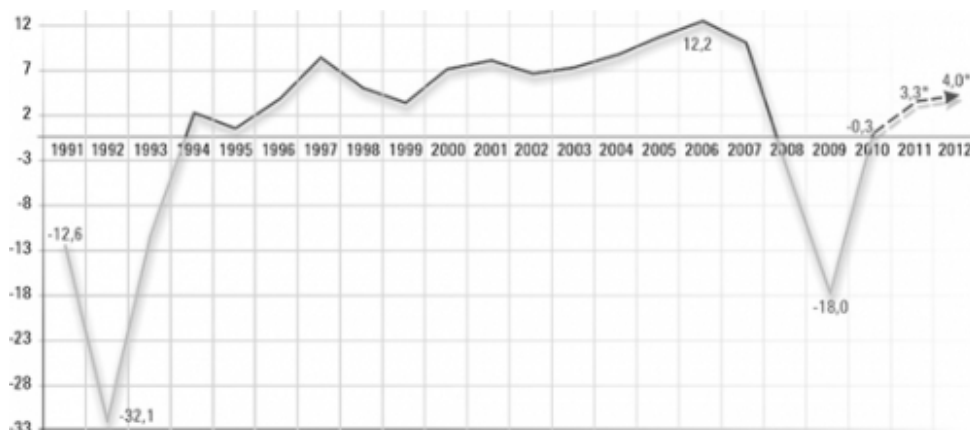
From 2004 to the first half of 2008 Latvia had the most rapidly developing economy throughout the European Union, with the GDP growth reaching 12.2% in 2006. Vigorous growth was mostly related to the real estate market and rise in property prices, stimulated by cheap loans accessible in economy. In its turn, in 2009 Latvia suffered the most impetuous economic decline among the European Union Member States – 18%.

Latvia obtained a loan equal to 7.5 billion EUR granted by the European Commission, the World Bank and the International Monetary Fund, as well as other organizations and governments.

In 2010 Latvia managed to overcome the recession, and in 2012 4.0% GDP growth for its economy was predicted.

Priority Industries:

- The most important sector of Latvian GDP – 72% – is formed by the service industry. The processing industry sector in the national economy constitutes about 10% of GDP.
- The state political leaders defined the development of production companies and increase in export volumes as a basis for economic recovery.
- Woodworking, metalworking, food production, chemical and pharmaceutical industry are considered to be the national priority industries.



\* Forecast

**Figure 1.** GDP changes, %

Source: Statistical Yearbook of Latvia. [www.csb.gov.lv](http://www.csb.gov.lv).

- The tourism development is purposefully promoted by the government, investing funds into the marketing campaigns and developing the infrastructure projects, for example the International Airport of Riga.
- The geographical location of the state made it an important transit partner. Latvia has three large ports – in Ventspils, Riga and Liepaja. At Ventspils and Riga ports there is a free economic area, and Liepaja port is a component of a special economic area. In these kinds of territories in Latvia tax reliefs or other benefits are offered to the companies operating there.

## 2. Tax system in Latvia

The Ministry of Finance shall develop state tax and customs policy, as well as prepare recommendations for institutions responsible for tax and customs administration on the implementation of tax and customs policy activities.

Taxes and fees system in Latvia consists of:

- state taxes, object and rate of which shall be set by the Saeima,
- state fees, which shall be applicable according to Law “On Taxes and Fees”, specific to other laws and regulations of the Cabinet of Ministers,
- local government fees which shall be applicable according to Law “On Taxes and Fees” and binding regulations issued by the council of local government,
- directly applicable taxes and other obligatory payments set in the European Union regulatory enactments.

The Republic of Latvia has the following state taxes:<sup>1</sup>

**A. Enterprise Income Tax**

It shall be paid by legal entities and non-resident permanent establishments for their income. Tax rate is 15%.

**B. Personal Income Tax**

It shall be paid by natural persons for their income. Tax rate is 25%.

**C. Real Estate Tax**

It shall be paid by real estate owners or legal possessors. General tax rate is 1,5% from cadastral value of property unit. Residential property is taxed at a rate 0.2%-0.4%-0.6% depending on the value of property.

**D. Value Added Tax**

It shall be paid by legal entities and natural persons. Standard tax rate is 22%, reduced tax rate – 12%.

**E. Excise Duty**

It shall be applied to oil products, natural gas, alcoholic drinks, beer, tobacco products, coffee and non-alcoholic drinks (except natural juice and mineral water).

**F. Customs Duty**

It shall be paid by natural persons and legal entities when importing goods into the EU.

**G. Natural Resources Tax**

It shall be paid by legal entities and natural persons if extracting natural resources, distributing or importing environmentally unfriendly goods or those which are allowed to perform such activities.

**H. Lottery and Gambling Tax**

It shall be paid by lottery and gambling providers.

**I. State Social Insurance Mandatory Contributions**

It shall be paid by insured persons and their employers. Total rate is 35.09%, which varies for different categories of insured persons.

**J. Tax on Cars and Motorcycles**

Tax shall be paid when the car or motorcycle is registered in Latvia for the first time.

**K. Electricity Tax**

It shall be paid by persons supplying electricity to the end-users and self-governing producers. Tax rate shall be set in *lats* (Latvian currency) per megawatt-hour.

**L. Microenterprise tax**

Tax rate is 9% from turnover. Tax replaces state social contributions both for employees and proprietors and business risk state fee as well as personal income tax or corporate income tax depending on the legal form of a taxpayer. Legal form of microenterprise could be Limited Liability Company or individual merchant or

---

<sup>1</sup> Law “On Taxes and Fees”, [www.likumi.lv](http://www.likumi.lv).



individual performing economic activity without registration as an individual merchant. To qualify for the status of a microenterprise taxpayer the following criteria shall be met: employee's income does not exceed 500 *lats* per month, turnover does not exceed 70 000 *lats* per year, the number of employees may not exceed five.

**Table 1.** Budget revenues, in million *lats*

	2007	2008	2009	2010	2011
General government consolidated budget revenues	5350.1	5727.2	4728.4	4607.0	4999.8
1. Tax revenues	4363.1	4737.4	3509.7	3402.8	3630.4
1.1. Direct taxes:	2626.9	3004.6	2161.1	2073.9	2104.7
– Corporate Income Tax	399.8	503.1	197.2	112.2	111.2
– Personal Income Tax	888.0	1029.1	724.1	778.8	720.0
– Social Insurance Contributions	1265.0	1401.7	1166.7	1093.2	1174.1
– Real Estate Tax	74.2	70.7	73.1	89.7	99.5
1.2. Indirect taxes:	1696.1	1694.8	1320.8	1305.0	1500.9
– Value Added Tax	1202.9	1117.2	798.4	825.3	939.3
– Excise Duty	448.1	540.9	504.1	458.1	476.9
– Tax on Cars and Motorcycles:					3.5
– Vehicle Operating Tax					45.3
– Company Car Tax	16.7	9.5	2.6	3.6	17.0
– Electricity Tax	0.5	0.8	0.6	0.7	0.6
– Customs Duty	27.8	26.4	15.1	17.3	18.3
1.3. Other taxes	40.1	38.0	27.8	23.9	24.9
2. Other revenues	987.0	989.8	1218.7	1204.2	1369.4

Source: Data of the Treasury, [www.kase.gov.lv](http://www.kase.gov.lv).

### **M. Vehicle Operating Tax**

It shall be paid by legal entities and natural persons who own, possess or hold a vehicle which is registered or is going to be registered in Latvia, or whose owned, possessed or held vehicle is given transit number plates.

### **N. Company Car Tax**

It shall be paid by commercial entities who own or hold passenger vehicle which is also used for personal needs of employees and/or proprietors.

## **3. Efficiency of revenue structure and system**

The global financial crisis severely affected the Latvian economy. The most difficult period for the Latvian economy was late 2008, when a critical situation formed in the financial sector and state budget and it was necessary to ask for financial assistance of international organizations. The government did not allow the situation to get out of control in the financial sector and in December 2008 the Saeima passed the Latvian Economic Stabilization and Growth Revival Programme,

which set out the main directions of managing the economic crisis, and launched the programme within the framework of which Latvia concluded a Memorandum of Understanding with the EU, which set out the main measures for immediate and long-term fiscal consolidation, comprehensive strategy for solving bank issues, improving crisis management capabilities of supervising institutions, implementing comprehensive structural reforms, as well as performing other important measures. The Memorandum of Understanding was revised regularly entering into Supplemental Memorandums of Understanding.

Consequently, since 2008 Latvia has been implementing measures within the framework of the priorities set in the Programme and the Latvian Economic Stabilization and Growth Revival Programme Action Plan (since April 2010 within the framework of the Latvian Strategic Development Plan 2010-2013) – economic growth, social security and public administration reform, including compliance with general government budget balance targets and implementing significant fiscal consolidation measures.

One of essential aspects of the quality of public finances is ensuring stable and predictable tax revenue flows to the budget to finance priority of social and economic activities of the government.

It should be mentioned that for several years the overall tax burden in Latvia remained one of the lowest in the EU. In 2010 it was 27.3% of GDP, which is lower than the EU average of 38.4% of GDP<sup>2</sup>.

The majority of all tax revenue in Latvia is generated by labour taxes. In recent years the tax policy is oriented towards the reduction of the share of labour taxes in the total tax revenue (from 52.0 % in 2009 to 50.8 % in 2011) and the increase in the share of consumption tax revenue in the total tax revenue (from 38.6 % in 2006 to 39.0 % in 2011).

The Declaration of the Intended Activities of the Cabinet of Ministers includes a task regarding further substantial reduction in the tax burden on labour – by nine percentage points in long term. Work on the labour tax reform is in progress and it is planned to submit an informative report on the labour tax reform proposal to the Cabinet of Ministers. Within the framework of this reform issues of personal income tax rate reduction and non-taxable minimum and allowance for dependents increase will be addressed to boost economic activity, investment and employment, and to curb the shadow economy.

If the budget situation develops better than planned, the possibility to reduce the standard VAT rate is considered to bring indirect tax rates closer to the levels in neighbouring countries that would facilitate, in particular, regional competitiveness of the Latvian service sector and reduce the inflationary pressure on persons with low income caused by global price increases. Potential reduction in revenue will be

---

<sup>2</sup> Taxation trends in the European Union, 2012 edition, Eurostat.

covered primarily by further implementation of measures to improve tax administration measures as well as growth effects as a result of improving competitiveness of Latvian companies.

Proposals for changes in the tax burden will be elaborated as a whole and taking into account their mutual influence and impact on reaching fiscal targets. In view of fiscal responsibility further action will be determined in accordance with priorities of the Annual Growth Survey and the Euro Plus Pact, taking into account the priority objective to reduce the tax burden on labour.

After joining the European Union tax revenue growth was mainly facilitated by rapid economic growth, but in 2009 due to the economic crisis, tax revenue fell. In order to ensure fiscal consolidation and achieve reduction of the budget deficit, budget fiscal consolidation was launched from 2008 to 2012. Tax policy changes introduced in 2012 are focused on tax administration improvements that would promote tax revenue stabilization and growth.

In 2012 there were carried out tax administration improving measures such as changes in income tax payment arrangements for scrap metal (on-the-spot withholding), extending the reverse value added tax arrangements to buying of scrap metal and construction services, limiting import of excise duty free goods from third countries to once per day instead of once per seven days. In 2012 additional revenue was planned from such tax administration improving measures as strengthening administration of small and micro-enterprises, a tax support measure envisaging cancellation of delay payment and 90% penalty for taxpayers who paid the principal and respective share of the fine at certain time, as well as building administrative capacity of the State Revenue Service. In 2012 only lottery and gambling tax rates changed.

**Table 2.** Impact of tax policy changes on the main tax revenue, % of GDP

2012			
Value added tax revenue	+0.08	Lottery and gambling tax	+0.02
Excise duty	+0.01	Corporate income tax	+0.01
Real estate tax	+0.03	Other measures	+0.02
Personal income tax	+0.06	Total impact of changes:	+0.25
Social insurance contributions	+0.03		

Source: Law "On State Budget 2012", [www fm.gov.lv](http://www.fm.gov.lv).

This section discusses the main impact of tax changes according to the State Budget Law for 2012.

### **Value added tax**

Substantial share of total tax revenue is made of value added tax revenue. During the years of economic growth the growth rate of value added tax revenue was high.

However, as retail trade started to decline in 2008 and 2009, together with the decline in economic activity and imports, the value added tax revenue also fell. In addition, the impact of the economic crisis was so significant that on January 1, 2009 the increase in the value added tax standard rate by 3 percentage points from 18% to 21% could not offset the revenue reduction that occurred as a result of the economic recession.

On January 1, 2011 the value added tax standard rate was raised from 21% to 22%, the reduced rate from 10% to 12%, and the reduced rate on electricity supply to the population was raised from 10% to 22%. On July 1, 2011 the reduced rate on natural gas supplies was increased from 12% to 22%. On June 1, 2011, according to the EU directive, the application of reduced rates on medical equipment supplies was limited. In 2011 the retail trade turnover and economic activities in other sectors increased gradually, as the volume of imports did, which showed a positive effect on value added tax revenue.

As the economy grows, in 2012 it was forecasted that the revenue from value added tax would increase by 9.0% compared to 2011.

The value added tax revenue forecast for 2012 was prepared taking into account expected economic development trends, growth of private consumption, value added tax performance in 2011 and the impact of tax policy changes which is given in Table 3.

**Table 3.** Impact of tax policy changes on value added tax revenue, in million *lats*

2012	
Expanding application of the reverse VAT mechanism on scrap metal (+0.5 million <i>lats</i> ) and construction services (+5.4 million <i>lats</i> )	+5.9
Tax support measure	+6.1
Total impact of changes:	+12.0

Source: Law "On State Budget 2012", [www.fm.gov.lv](http://www.fm.gov.lv).

### Corporate income tax

It is expected that the corporate income tax rate – 15%, which is effective since 2004 and is among the lowest in the EU, will remain unchanged. As the economy developed successfully and corporate financial results improved, significant corporate income tax revenue growth was observed. However, as a result of the economic recession corporate income tax revenue significantly reduced, which was affected by the reduction of corporate income tax payments and increase in repayments.

In 2011 as the economy recovered, corporate income tax revenue, compared to 2010, increased by 75.1%, which suggested that companies closed 2010 with significantly better financial results than in 2009.

As the economy continued to grow in coming years corporate income tax revenue was projected with an upward trend. In 2012 it was forecasted that corporate income tax revenue would increase by 7.6%, compared to 2011, which would be also affected by tax policy changes introduced in 2012.

Tax policy changes introduced in 2012 and affecting the corporate income tax revenue are given in Table 4.

**Table 4.** Impact of tax policy changes on corporate income tax revenue, in million *lats*

2012	
Tax support measure	+1.1
State Revenue Service administrative capacity improvement	+0.8
Total impact of changes:	+1.9

Source: Law “On State Budget 2012”, www.fm.gov.lv.

### Excise duty

Evaluating excise duty revenue and the factors affecting it, one should note that aligning excise duty rates with EU requirements had a major role in the implementation of the excise duty policy. According to transition periods granted to Latvia, excise duty rate on oil and on tobacco products was substantially increased.

The overall economic downturn resulted in declining sales of excise goods, which directly affected excise tax revenue reduction in 2009 and 2010, while in 2011 as the Latvian economy improved, positive trends could be observed also in excise duty performance indicators. As a result, in 2011 excise duty revenue increased by 5.1%, compared to 2010.

Forecasting that in 2012 the tax base for the main types of excise goods increased slightly, taking into account the tax rate increase from mid-2011 and the excise duty on natural gas which has taken effect since July 1, 2011, excise duty revenue forecasts for 2012 were prepared with a 2.7% increase, compared to 2011. In the forecast for 2012 tax policy measures to be implemented within the state budget 2012 (Table 5) were taken into account.

**Table 5.** Impact of tax policy changes on excise duty revenue, in million *lats*

2012	
Restrictions on the importation of excise goods from third countries, not more than once every seven days instead of once a day	+1.6
Excise duty exemptions on natural gas for certain purposes for companies located in industrial parks	-0.1
Tax support measure	+0.2
State Revenue Service administrative capacity improvement	+2.4
Total impact of changes:	+4.1

Source: Law “On State Budget 2012”, www.fm.gov.lv.

### Real estate tax

In 2012 real estate tax revenue was forecasted to increase by 1.8%, compared to 2011, which was also influenced by changes in legislation.

In 2011 amendments to the “Law On Immovable Property Tax” were developed and approved envisaging changes in the real estate tax in 2012.

Since January 1, 2012 residential auxiliary buildings exceeding 25m<sup>2</sup> have been subject to the real estate tax (unless the local government provides otherwise in its binding regulations) and the applicable tax rate is the same as on residential buildings. Similarly, since January 1, 2012 the real estate tax has been levied on civil engineering constructions – fields that are used as parking lots (if provided by the local government in its binding regulations), as well as the real estate tax is applied to residential buildings and land under the jurisdiction of religious organizations, if it is not used for commercial activities.

Since January 1, 2012 the real estate tax growth limit of 25% in respect of land has been cancelled. In 2012 local governments with binding regulations had the right to apply the real estate tax growth limit or maintain the tax on land at the level of 2011, as well as to set the growth limit and conditions of application.

The impact of the above mentioned legislative changes on real estate tax revenue is estimated at +4.0 million *lats*.

Currently the real estate tax policy is focused on extending the right of local governments to set real estate tax provisions. According to the informative report “On proposals for the application of the real estate tax in 2012 and subsequent years” approved by the Cabinet of Ministers, in the future it is envisaged to grant more rights to local governments to set the real estate tax rate, to limit the real estate tax growth on land, as well as to set other provisions.

### **Personal income tax**

With the economic recession, in 2009 personal income tax revenue declined significantly affected by the personal income tax rate reduction from 25% to 23%. It could not be offset by reduced non-taxable minimum from 90 to 35 *lats* per month (since July 1, 2009). However, with the economic development, in 2011 personal income tax revenue grew, despite changes in legislation introduced in 2011, including the rate reduction from 26% to 25%, increase in the non-taxable minimum from 35 *lats* to 45 *lats* per month and increase in the amount of allowance for dependents from 63 *lats* to 70 *lats* per month.

Medium-term macroeconomic forecasts envisage the increase in the wage fund from 2012, which in turn will increase labour tax revenue in coming years. Similarly, personal income tax revenue will be affected by changes in legislation.

In 2012 personal income tax revenue was forecasted to increase by 4.3%, compared to 2011.

Since January 1, 2012 a personal income tax payment procedure has been changed concerning scrap metal, by providing that personal income tax is withheld at the place of payment.

Similarly, since January 1, 2012 the legislative changes have entered into force that were made in order to strengthen the administration of small and micro-enterprises by introducing a general personal income tax regime in respect of the service contracts, contracts for work-performance, labour hire and the receipt of other services from micro-enterprises.

In 2012 the personal income tax proportion between the state and local government budgets was changed, respectively, from 18% to 20% and from 82% to 80%. This legislative change does not affect total personal income tax revenue; however, it impacts personal income tax revenue in both state and local government budgets.

According to the draft of "Law on the Tax Support Measure", additional revenue was planned in personal income tax revenue from debt repayments in 2012.

**Table 6.** Impact of tax policy changes on personal income tax revenue, in million *lats*

2012	
Procedure changes for paying personal income tax on scrap metal	+3.7
Strengthening administration of small and micro-companies	+1.0
Tax support measure	+4.4
Total impact of changes:	+9.1

Source: Law "On State Budget 2012", [www.fm.gov.lv](http://www.fm.gov.lv); Law "On the Tax Support Measure", [www.likumi.lv](http://www.likumi.lv).

### **Social insurance contributions**

Dynamics of revenue from social security contributions in medium term will be determined not only by the expected increase in the wage fund, but also by changes in legislation, which came into force in 2012, and changes in the rates of contributions to the state-funded pension scheme, because, according to ESA methodology social security contributions, which are channelled to the state-funded pension scheme, are not treated as general government budget revenue.

In 2012 social security contributions were forecasted to increase by 3.3%, compared to 2011.

In 2012 revenue from social security contributions were affected by legislative changes made to strengthen administration of small and micro-enterprises introducing single personal income tax arrangements in respect of service contracts, business contracts, labour hire and other services received from micro-enterprises.

In 2012 additional revenue was planned from social insurance contributions due to debt repayments according to the draft of "Law on the Tax Support Measure".

It is planned to increase the rate of contributions to the state-funded pension scheme from 2% to 6% in 2013 and to maintain the 6% level in forthcoming years.

**Table 7.** Impact of tax policy changes on revenue from social insurance contributions, in million *lats*

2012	
Strengthening administration of small and micro-companies	+1.7
Tax support measure	+3.1
Total impact of changes:	+4.7

Source: Law “On State Budget 2012”, [www.fm.gov.lv](http://www.fm.gov.lv); Law “On the Tax Support Measure”, [www.likumi.lv](http://www.likumi.lv).

### Lotteries and gambling tax

Total lotteries and gambling turnover in 2011 increased by 16.1%, which is mainly due to the overall economic impact on the gambling industry. Having analyzed operative economic indicators of the gambling industry in 2011, one may conclude that operational indicators of the industry have improved and stability can be observed.

The forecasted increase in lotteries and gambling tax revenue in 2012 was due mainly to amendments to the law “On Lotteries and Gambling Tax and Fee” that were made in accordance with the law “On State Budget 2012” and provided:

- since January 1, 2012 the increase in the gambling tax rate from LVL 10 560 to LVL 12 144 for roulette (cylindrical game) – for each game table attached to the rotating device of the roulette, and card and dice games – for each table per year;
- the increase in rate on video games and mechanical machines, per each gaming place at each machine – LVL 1920 to LVL 2208 per year.

The increase in rates will not significantly reduce the number of gaming machines, which could affect revenue from the gambling tax.

**Table 8.** Impact of tax policy changes on lotteries and gambling tax revenue, in million *lats*

2012	
Increase in gambling tax rates	+2.2
Lotteries and gambling tax and fee reform	+0.1
Total impact of changes:	+2.3

Source: Law “On State Budget 2012”, [www.fm.gov.lv](http://www.fm.gov.lv).

## 4. Conclusions

The tax system of Latvia is not the simplest one. However, it cannot be considered as very complicated in comparison to the old EU Member States. But the problems are caused by its frequent changeability and unpredictability.

The tax system:

- in 2010 the tax load (tax income against GDP) reached 27.3% of GDP in Latvia, which is one of the lowest indicators in EU;
- there are 14 taxes in force in Latvia;



- tax system in Latvia is still changing. There were also several significant tax changes in 2011-2012;
- electronic declaration system has been used since January 1, 2011;
- the government considers the possibility to reduce workforce taxes in the nearest future by increasing consumption taxes.

## Literature

*Convergence Programme of the Republic of Latvia 2009-2012*, Ministry of Finance Republic of Latvia, Riga, January 2010.

*Convergence Programme of the Republic of Latvia 2008-2011*, Ministry of Finance of the Republic of Latvia, Riga, January 2008.

*Convergence Programme of the Republic of Latvia 2012-2015*, Riga, April 2012.

*Economic Development of Latvia. Report*, Ministry of Economics Republic of Latvia, Riga, June 2011.

*Economic Development of Latvia. Report*, Ministry of Economics Republic of Latvia, Riga, December 2011.

Law “On Taxes and Fees” (LV), [www.likumi.lv](http://www.likumi.lv).

Law “On State Budget 2012” (LV), [www.fm.gov.lv](http://www.fm.gov.lv).

Law “On the Tax Support Measure” (LV), [www.likumi.lv](http://www.likumi.lv).

Macroeconomic and Budgetary Review, Ministry of Finance Republic of Latvia, Riga, September – January 2011.

National Reform Programme of Latvia for the Implementation of the “Europe 2020” strategy, Riga, April 2011.

Statistical Yearbook of Latvia, [www.csb.gov.lv](http://www.csb.gov.lv).

*Taxation trends in the European Union*, 2012 edition, Eurostat, [www.europa.eu](http://www.europa.eu).

The Treasury (LV), [www.kase.gov.lv](http://www.kase.gov.lv).

## AKTUALNA POLITYKA PODATKOWA ŁOTWY

**Streszczenie:** Artykuł został poświęcony problemom dotyczącym regulacji państwa w dziedzinie podatków. Jego celem jest analiza bieżącej polityki podatkowej Łotwy z uwzględnieniem wprowadzonych w tym obszarze ulepszeń.

**Słowa kluczowe:** Łotwa, podatki, stopa opodatkowania, polityka podatkowa.