



## LATVIA - March 2017

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**LATVIAN FINMIN SUPPORTS JUSTICE MINISTRY’S PROPOSAL ON PROPERTY TAX HIKE THAT DOES NOT EXCEED 10%..... 1**

**LATVIA’S PROPERTY TAX IS UNFRIENDLIEST IN THE BALTICS..... 1**

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### Latvian FinMin supports Justice Ministry’s proposal on property tax hike that does not exceed 10%

The Latvian Finance Ministry supports the proposal of the Justice Ministry, providing that the property tax hike may not exceed 10%, Finance Minister Dana Reizniece-Ozola told LETA.

Since the end of last year, the Finance Ministry has been working on possible solutions for the property tax changes, but the work group could not reach an agreement on principles. As a result, a political work group was established that agreed to move forward the proposal of the Justice Ministry to "freeze" cadastral values of properties until 2020, and provide that the property tax hike may not exceed 10% starting from 2018. Also, methodology of cadastral values should be improved.

The finance minister was skeptical about completely lifting property tax on the only home. She said that local governments already now have the rights to apply different tax exemptions to make this tax payable for residents.

She also said that local governments should explain their residents in more detail why property tax should be paid and what their benefits from this tax are.

### Latvia’s property tax is unfriendliest in the Baltics

BDO Latvia partner and tax consultant Janis Zelmenis said that the company has studied property tax systems in all three Baltic states and concluded that the range of objects on which the tax is applied is the broadest in Latvia, and Latvia also has the highest tax rates.

The majority of Lithuanian residents are not paying property tax for their housing – the tax is applied only on expensive properties – over EUR 220,000 per family.

Meanwhile, in Estonia, the tax is not applied on buildings. Property tax is not paid for land plots of up to 1,500 square meters. The property tax rate in Estonia is among the lowest ones in the Baltics. The property tax is not applied on land that cannot be used for business purposes and on land with residential houses.

The study revealed that the share of property tax among all tax revenues is not large – 1.25 percent in Lithuania, 0.77 percent in Estonia, and 2.28 percent in Latvia. In 2016 property tax in Latvia was collected in the amount of EUR 220 million, and more than half of it was collected in Riga.

When purchasing an apartment, the duty to be paid to the state amounts to 2 percent of the sum in Riga, 0.5 percent in Tallinn, and 0.8 percent in Vilnius. If an apartment costs about EUR 100,000, one will have to pay EUR 2,000 for registering the apartment in Riga, EUR 1,300 in Tallinn and slightly above EUR 500 in Vilnius. Later, no property tax would be collected for such

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an apartment in Vilnius or Tallinn, while in Riga there will be the annual property tax payment of EUR 400 if the cadastral value does not change and the person has declared his place of residence in this apartment.

Zelmenis also noted that calculation of cadastral values in Latvia is unfair. "The cadastral value is calculated based on the property transactions in the neighborhood. If there is a hut next to a palace, and the palace has been sold three times for a higher and higher price, the hut's cadastral value will grow along, even though its actual value has not improved," he said.

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