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COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU

Latvia

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Country fiche: Latvia

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Latvia assesses various tax gaps and seems to follow up to reduce those.** Latvia estimates the personal income tax (PIT) gap and social security contribution gap for the undeclared wages component (payroll taxes), and provides data on the VAT gap. In contrast to most EU countries active in the area of tax gap estimation, it publishes most of its tax gap estimates. Next to tax gap analyses, Latvia also assesses and monitors the size of its informal economy. Latvia has also laid out a detailed action plan with the aim to reduce the shadow economy by 1 percentage point of GDP by 2027.

- **Latvia has made significant improvements in reducing the VAT compliance gap.** The VAT compliance gap has been reduced from 12% of the VAT Total Tax Liability in 2020 to 5% in 2023 and appears to remain at a similar level in 2024.

- **The country has achieved a high level of digitalisation of the state revenue service.** Almost all the services of the Latvian state revenue service are available electronically, and a strategy for a full digitalisation has been developed. All corporate income tax and VAT returns and 94.9% of personal income tax returns are submitted electronically, and a taxpayer portal provides an overview across the major taxes.

Areas for Improvement

- **Tax expenditures are widely used and increasing, with considerable budgetary implications.** In 2023, national authorities estimate tax expenditures at 8.0% of GDP and 23.2% of total tax revenues. There could be potential to reduce policy gaps and boost Latvia's tax revenues, which are below the EU average. Tax expenditures related to VAT and PIT are responsible for most foregone revenues (although the VAT policy gap is relatively low in EU comparison). A systematic assessment of the effectiveness and cost efficiency of tax expenditures could provide valuable insights.

- **The proportion of undeclared salaries ('envelope wages') is still high.** The overall trend is positive, and the share of undeclared wages has decreased in the last years despite an unfavourable economic situation. However, the underreporting of salaries and envelope wages is still very common and makes up the biggest proportion of the shadow economy in Latvia. In this regards, high tax wedge for lower earners can have played an important a role in this past. What is more, European Commission estimates suggest a relatively high corporate income tax (CIT) gap in Latvia. Broadening the bases of corporate and personal income taxes by moving informal or undeclared activities into the formal economy could help increase tax revenues, as also recommended in the 2025 Country-Specific Recommendations (CSR).

1. Snapshot of Tax System: Tax Revenues and their Sources

Latvia's tax revenue remains well below the EU average, with a strong reliance on consumption taxes. In 2023, total tax revenue amounted to 32.9% of GDP in 2023 compared to the EU average of 39.0% ([1]). Latvia's main revenue sources are labour taxes, that represent 49.8% of total tax revenue (slightly below the EU average of 51.2%). Consumption taxes account for 40.1% of total tax revenue, which is one of the highest shares in the EU (26.9% on average). By contrast, capital taxes only represent 9.3% of total tax revenue, one of the lowest shares in the EU (average of 21.9%). Among the different tax types, VAT revenue amounted in 2023 to 29.3% of total tax revenues (EU average of 18.3%) and 9.7% of GDP (EU average of 7.1%).

Low progressivity of labour taxation leads to limited results in reducing income inequality. In 2024, Latvia's tax wedge ([2]) was higher than the EU average for lower earners, and lower for higher earners. The difference in the tax wedge between high-income (167% of average wage) and low-income earners (67% of average wage) was of 4.7 percentage points (3.1 percentage points below the EU average). Therefore, labour taxation in Latvia is less progressive than in the EU on average. This is reflected in the relatively limited impact of taxes and social transfers on inequality. In 2023, taxes and social benefits reduced the Gini index of income inequality by 5.5 points in Latvia as compared to 7.7 points in the EU average ([3]). Overall, the Gini coefficient of equivalised disposable income was, at 34.2%, one of the highest in the EU (average: 29.3%) in 2024 ([4]). Moreover, the share of people at-risk-of-poverty or social exclusion is relatively high (24.3% in 2024, 3.3 percentage points above the EU average) ([5]). The labour tax reform adopted in 2024 ([6]) provides for changes in personal income tax rates, brackets and non-taxable minimums, including for pensioners, as well as an additional personal income tax rate of 3% on income exceeding EUR 200 000 per year. Notably, it lays down the lowering of the tax wedge on low and medium-income earners in order to increase the levels of net disposable incomes and reduce income inequality.

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 32.5% of GDP), followed by an increase of total tax revenues to 34.9% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

[2] The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: Tax and Benefits Database.

[3] European Commission, DG EMPL calculations based on EU-SILC survey data.

[4] European Commission, Eurostat [ilc_di12]

[5] European Commission, Eurostat [ilc_peps01n]

[6] Ministry of Finance, Changes in taxation and finances from 2025 | Finanšu ministrija

2. Monitoring of Compliance Gaps

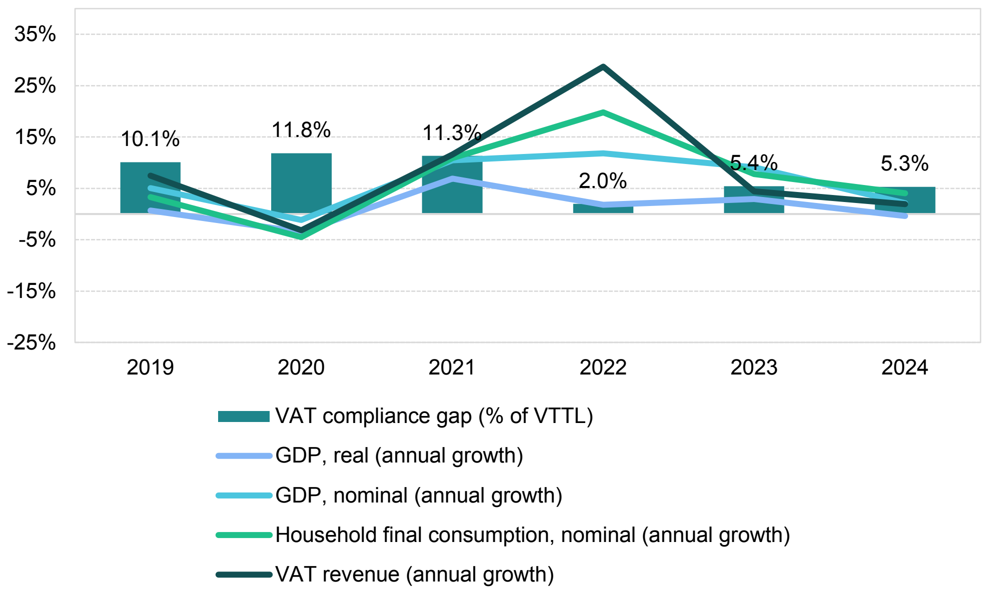
2.1. Overview

Latvia reports and publishes tax gap estimates for compulsory national social security contributions and personal income tax ([7]). The tax gap is assessed using analytical methods by comparing the amount of tax liabilities declared by taxpayers with the amount of tax liabilities resulting from macroeconomic indicators or sector-specific trends. Latvia also participates in the FISCALIS Tax Gap Project Group. Latvia does not publish CIT tax gaps.

2.2. Monitoring VAT Compliance Gap

Latvia is among the good performers among EU Member States with the VAT compliance gap of 5% (EUR 220 million) well below the EU average of 9.5% ([8]). The VAT compliance gap increased from 2% in 2022 to 5% in 2023, but remained well below pre-pandemic levels, when it ranged between 10% and almost 12% (2019-2021). In this context it should be noted that in 2023, VAT revenues in Latvia grew by more than 4% in 2023, a slower pace than the post-pandemic rebound in 2022. An early estimate for 2024 indicates that the VAT compliance gap appears to remain at a similar level as in 2023.

Figure 1: GDP, household final consumption, VAT revenue and VAT compliance gap in Latvia, 2019–2024.



[7] [Nodokļu plaisu apmēri par 2024.gadu | Valsts ieņēmumu dienests]

[8] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

Source: VAT Gap in Europe – report 2025 ([9]).

Growth in sectors typically associated with lower compliance levels may have offset some of the positive structural effects on compliance. Inflation remained high in 2023 at 9%, though lower than the peak of 17% in 2022, and continued to decline throughout 2024. Price increases were broad-based, driven mainly by housing, water, electricity, gas, and other fuels, as well as food, transport, and services such as restaurants and hotels. Within household consumption, recreational services, restaurants, and accommodation were among the fastest-growing categories in nominal terms, thought largely reflecting trends from 2022. Tourism growth slowed sharply, with nights spent in tourist accommodations rising by approximately 13% in 2023, compared to an exceptionally large rebound of 63% in 2022 as tourism normalised after COVID-19. On the supply side, performance varied across sectors. Services continued to expand, while growth industry and manufacturing contracted due to supply chain disruptions, high energy costs, weak external demand, and a tight labour market. Construction sector grew strongly in real terms in 2023 (+21%), reflecting higher investments. Overall, services increased their share in the economy by nearly 0.5 percentage points. As services typically carry a higher risk of non-compliance, this shift may have had a negative impact on VAT compliance.

A positive trend on bankruptcy rates also influenced the VAT compliance gap. The bankruptcy filings decreased by 20% in 2023, with declines across most sectors, except IT, finance, and insurance However, in 2024, bankruptcies increased again by 19%, affecting all major sectors. Since the VAT compliance gap also captures VAT revenues lost due to bankruptcies and insolvencies, these developments may also have contributed to the slight increase of the VAT compliance gap between 2022 and 2023. Moreover, the nominal value of digital payments rose sharply in 2023, at a much faster pace than in 2022. This development may have contributed to downward pressure on the VAT compliance gap.

VAT fraud remains a challenge. In 2023, Latvia lost EUR 80 million due to the Missing Trader Intra-Community (MTIC) fraud ([10]), equivalent to 2% of VAT revenue ([11]). Between 2010 and 2023, in Latvia forgone revenue due to MTIC fraud averaged at 2.5-6% of the VAT revenue, with a peak in 2014 (nearly 8%, EUR 135 million) linked to schemes involving among others petroleum oil, mobile phones and food products. To address these risks, Latvia gradually extended the scope of the domestic VAT reverse charge mechanism between 2017 and 2019 to products such as gaming consoles, raw and semi-finished precious metals, as well as selected metal products.

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[9] Ibidem..

[10] Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

[11] European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.

2.3. Personal and Corporate Income Tax Compliance Gaps, and Measures of the Shadow Economy

The European Commission is not aware of any CIT compliance gap estimation activities in Latvia at the time of writing of this document. Since 1 January 2018, Latvia applies Corporate Income Tax only to distributed profits of companies.

European Commission estimates suggest a relatively high CIT compliance gap in Latvia. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data, the CIT compliance gap of Latvia was at around 18% of collected CIT revenues in 2018 (using the GVA-based methodology). ([12]) Based on the same methodology, the (unweighted) average for the CIT compliance gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States.

Latvia assesses the gap of Personal Income Tax (PIT) from labour and the gap of Social Security Contributions (SSC). In 2024, the PIT gap was estimated at 15.8%, following a decreasing trend. The PIT gap decreased by 5.5 percentage points compared to 2020 (the PIT gap stood at 21.3 % in 2020 and 2021, 20.6 % in 2022 and 15.8 % in 2023). The SSC gap also decreased by 4 percentage points in the same timeframe. It stood at 17.8% in 2020, 18% in 2021, 17.5% in 2022, 14.6% in 2023 and 13.8% in 2024 ([13]). The highest income from undeclared work is typically in sectors including retail trade, land and pipeline transport, and wholesale trade ([14]). Various macroeconomic factors contributed to the narrowing of the gaps, including the significant increase in the minimum wage (from EUR 500 to EUR 620 in 2023 and to EUR 700 in 2024) and the increase in the average wage level in the country.

The PIT and SSC gap results from widespread use of envelope wages and seems to be related to high labour costs and the general economic context. The development of the tax gap suggests that there has been no increase in the share of 'envelope' wages in recent years. The State Revenue Service (SRS) considers this as a positive trend, especially in the light of the unfavourable economic situation in recent years. In the past, a strong link had been observed with the share of income of undeclared work increasing during economic downturns ([15]). According to the OECD, the use of envelope wages is

[12] European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/0541549. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

[13] Valsts Ieņēmumu Dienests, Nedeklarētā darba samaksa ("aplokšņu alga") vispārējā nodokļu režīmā strādājošiem un tās radītā nodokļu plaisa 2024. gadā

[14] Ibidem.

[15] Ibidem.

strongly affected by the high tax wedge on lower incomes, caused by high social security contributions ([16]).

In line with national estimates discussed above, additional studies suggest that the size of the informal economy is substantial in Latvia. In 2022, the shadow economy in Latvia represented 19.9% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament ([17]) above the EU average. This ratio is 2.3 percentage points above the EU-27 unweighted average, despite the declining trend over the last decade (26.1% of GDP in 2012). Meanwhile, the 'Shadow Economy Index for the Baltic Countries' estimates the size of the shadow economy in Latvia at 21.4% in 2023 – below Lithuania but above Estonia ([18]). The report is based on a survey to company managers that indicates a high level of undeclared pay. According to it, the biggest component of the shadow economy in Latvia is the underreporting of salaries (estimated to account for 50% of Latvia's shadow economy in 2024), with 20.7% of total salaries being paid informally ('envelope wages') in 2024. Nevertheless, it also shows a decrease of the envelope wages in recent years.

Latvia received a country-specific recommendation (CSR) in 2025 to broaden taxation by moving informal or undeclared activities into the formal economy ([19]). In addition, the IMF estimates that broadening the bases of corporate and personal income taxes by reducing the shadow economy could have a budgetary impact of 0.2% of GDP ([20]). Accordingly, Latvia has introduced a "Shadow Economy Reduction Plan for 2024–2027", including a wide range of ministerial services aimed at reducing the shadow economy ([21]).

2.4. Other Compliance Gaps

Latvia does not publish any information on possible other compliance tax gaps. There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes, or capital taxes.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Tax expenditures are widely used in Latvia with considerable budgetary implications. There are currently more than 300 different tax incentives (credits, allowances, deductions, exemptions, reduced

[16] The OECD Economic Surveys: Latvia 2024, states: "High social security contributions, particularly for low-wage earners, reduce incentives to formalise work. The shadow economy has not decreased since 2012, which is mainly related to the practice of envelope wages, where workers earn the minimum wage and receive top-up payments in cash. Reducing the labour tax wedge for lower incomes while financing the reform through general tax revenue should be a priority."

[17] European Parliament (2022), *Taxation of the informal economy in the EU*. https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf

[18] Sauka and Putniņš, 2024, Shadow Economy Index for the Baltic Countries 2009–2024

[19] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Latvia.

[20] IMF 2025 Article IV report for Latvia

[21] The Shadow Economy Reduction Plan for 2024–2027.

rates and tax deferrals) in Latvia. In 2023, the total estimated government revenue foregone from tax expenditures amounted to EUR 3 113.5 million, representing 8.0 % of GDP and 23.2 % of total tax revenues analysed ([22]). In its 2025 Article 4 report, the IMF suggests taking measures to reduce tax exemptions as a means to mobilize revenue and reorient spending, and attributes to it the highest estimated budgetary impact among the measures it suggests (1.3% of GDP by 2030) ([23]).

The use of tax expenditures has recently expanded for most tax types. In 2023, compared to 2022, the total revenue foregone by the Latvian State resulting from the tax expenditures increased by EUR 82.8 million, or by 2.7 %. In 2023, the country's revenue foregone resulting from the application of value added tax incentives (EUR 102.5 million or 8.5 %), personal income tax relief (by EUR 53.0 million or 4.6 %) and the application of the environmental tax (by EUR 11.7 million or 4.3 %) have increased significantly compared to the previous year. By contrast, the forgone revenues of the State resulting from the application of corporate income tax relief have decreased by EUR 64.1 million or 48.3 % in 2023 compared to 2022 ([24]).

Tax expenditures related to VAT and PIT are responsible for most foregone revenues. According to the analysis, the highest revenue foregone in 2023 results from the application of value added tax relief and personal income tax, respectively 41.9 % and 38.6 % of the total national foregone revenue resulting from the application of tax advantages. These are followed by reductions in environmental taxes, excise duties and corporate taxes of 9.1 %, 6.7 % and 2.2 % respectively. The revenue foregone resulting from the application of other tax expenditures is relatively small ([25]).

Tax expenditures in personal income taxation made up EUR 1.2 billion in 2023, worth 3.1% of GDP. More than half of it stems from the basic tax allowance for labour incomes (EUR 184.2 million) and pensioners (EUR 501.9 million), and the allowance for dependent persons (EUR 158.8 million) ([26]). The 2025 tax reform included several changes in personal income taxation, including adjustments to income brackets and their progressivity and an increase in the basic tax allowances, putting further strain on tax revenues.

Latvia's corporate income tax system only taxes distributed earnings, allowing companies to reinvest their profits tax-free but increasing the policy gap. While this makes Latvia's business taxation system attractive and Latvia ranked second in the Tax Foundation's 2024 International Tax Competitiveness Index Rankings ([27]), it also helps to explain why CIT revenues are markedly lower in Latvia (1.4% of GDP in 2023) compared to the rest of the EU (3.2% of GDP in 2023). While the tax reform that entered into force in January 2025 addressed some aspects related to capital taxation, the estimated fiscal impact on capital tax revenue is rather minor, amounting to less than 0.1% of GDP in 2025 and in 2026 ([28]).

[22] Finanšu ministrija, Nodokļu atvieglojumu novērtējums par 2023. gadu.
[23] IMF 2025 Article IV report for Latvia.
[24] Ibidem
[25] Ibidem
[26] Tax incentives | Ministry of Finance
[27] Tax Foundation (2024): International Tax Competitiveness Index 2024.
[28] Commission estimates.

3.2. VAT Policy Gap

In 2023, Latvia had the second-lowest VAT policy gap ([29]) in the EU at 34% of the notional ideal revenue ([30]), just above Bulgaria ([31]). The VAT policy gap in Latvia increased from 32% in 2022 to 34% in 2023 and is estimated to have increased further to 35% in 2024 (percentages indicate the share of the notional ideal revenue). This rise was primarily driven by the national exemption gap in 2023 and by the non-actionable policy gap in 2024 ([32]).

Policy measures also influenced the development of the VAT gap. In 2023, Latvia phased out the 0% VAT rate on COVID-19 vaccines and related medical devices, extended the 5% rate for certain fresh produce until the end of the year, and eased rules for input tax adjustments on bad debts by raising threshold and improving conditions. These measures contributed to VAT revenue performance. In 2024, however, VAT on fresh fruits, berries, and vegetables increased from 5% to 12%, while fees for sports competitions and training in registered associations or foundations were made VAT-exempt.

Table 1: VAT policy gap decomposition in Latvia, 2019-2024

[29] The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

[30] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

[31] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[32] The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products. The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

	2019	2020	2021	2022	2023	2024
Notional ideal VAT revenue (EUR m)	**4 592**	**4 526**	**4 995**	**5 651**	**6 327**	***6 602***
VTTL (EUR m)	**2 951**	**2 913**	**3 232**	**3 762**	**4 072**	***2 930***
VAT policy gap (EUR m)	**1 561**	**1 538**	**1 680**	**1 793**	**2 150**	***2 299***
VAT policy gap (%)	**34.0**	**34.0**	**33.6**	**31.7**	**34.0**	***34.8***
For comparison: EU median policy gap (%)	*46.1*	*47.1*	*46.1*	*46.0*	*46.4*	*46.8*
Actionable VAT policy gap	**742**	**685**	**708**	**689**	**965**	***976***
o/w VAT rate gap (EUR m)	**169**	**139**	**171**	**219**	**239**	***236***
o/w agricultural products, foodstuffs, beverages	*36*	*41*	*51*	*52*	*52*	*54*
o/w pharmaceuticals	*29*	*27*	*37*	*41*	*45*	*48*
o/w accommodation and restaurant services	*21*	*15*	*15*	*17*	*24*	*24*
o/w utilities services	*17*	*16*	*21*	*31*	*24*	*25*
o/w transport services	*77*	*44*	*52*	*72*	*98*	*103*
o/w other	*-12*	*-5*	*-5*	*5*	*-4*	*-18*
o/w National policy-driven VAT exemption gap (EUR m)	**361**	**361**	**366**	**242**	**461**	***458***
o/w EU policy-mandated VAT exemption gap (EUR m)	**212**	**185**	**171**	**229**	**266**	***283***
Non-actionable VAT policy gap (EUR m)	**819**	**853**	**973**	**1 103**	**1 185**	***1 323***
o/w imputed rents	*256*	*269*	*286*	*318*	*321*	*334*
o/w public education	*213*	*216*	*217*	*150*	*146*	*179*
o/w public healthcare	*119*	*136*	*193*	*143*	*138*	*171*
o/w other	*231*	*233*	*277*	*492*	*580*	*639*
C-efficiency (%)	**62.1**	**61.6**	**61.5**	**68.8**	**65.5**	***63.3***

Source: VAT Gap in Europe - report 2025 ([33]).

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

The Latvian state revenue service informs taxpayers about their VAT registration obligations and the registration procedure online ([34]). The availability of online registration in Latvia is non-mandatory, but possible. There is an automatic exchange of information between the state revenue service and other national bodies in charge of registration.

The database of VAT-registered taxpayers is well maintained, it includes most of the relevant details on taxpayers, and the information contained is adequate for effective interaction with them. The tax administration carries out systematic preliminary checks before VAT registration based on risk indicators. In 2019 more than 20% of VAT registration requests were refused. Latvia cross-checks the information held in the VAT registration database against third-party information sources, such as other government registries, to improve the integrity and accuracy of their databases and it keeps a record of applicants to whom registration has not been granted. Similarly to more than half of

[33] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[34] Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

the EU Member States, Latvia's state revenue service does not keep a record of the number of e-commerce taxpayers.

Major IT improvements (e.g. digitalisation projects, new functionalities) in Latvia's state revenue service have resulted in a more consistent reduction of the VAT gap and a greater increase in VAT revenue. Latvia's state revenue service has a VAT compliance improvement plan. It has procedures ensuring regular and systematic update of information on VAT rules for taxpayers, has service delivery standards in relation to time taken to respond to taxpayer enquires and a dedicated information channel for a (Mini) One Stop Shop ((M)OSS). The plan makes a service delivery channel strategy, or a catalogue of services offered to taxpayers publicly available as well as makes simplified record keeping and reporting arrangements available to small taxpayers and makes information on VAT rules also available in foreign languages. In addition, it publishes on the performance achieved in providing taxpayer services. Latvia has made progress on the inclusiveness of VAT information and the general navigation experience. However, Latvia is one of nine Member States which does not have in place an online channel solution for interaction with VAT taxpayers.

Latvia has annual targets for VAT collection and its estimates are very close to the actual VAT revenue collection values in its predictions or target setting. In Latvia compliance with taxpayers' deadlines for e-filing of VAT returns is monitored automatically. The state revenue service makes use of risk criteria and profiling techniques allow to achieve close to 100% on-time VAT-filing rates. However, Latvia did not analyse the effectiveness of the penalty system for late filing and/or late payment of VAT. The electronic payment of VAT obligations is compulsory. The IT system used by Latvia's state revenue service to manage VAT arrears can prioritise cases based on their size, and it can determine the origin of arrears.

The Latvian state revenue service has in place procedures to ensure that a significant part of low-risk VAT refund requests is promptly processed. To ensure swift payment of legitimate VAT refunds and to prevent payment of fraudulent claims for VAT refunds, the procedures based on risk assessment methodologies ensure that a significant part of low-risk VAT refund requests is promptly processed. Additionally, the state revenue service routinely monitors the time taken to pay (or offset) VAT refunds. The Latvian state revenue service also has dedicated a VAT refund unit and a specific procedure for dealing with VAT refunds requests submitted by exporters.

The VAT audit performed by Latvia state revenue service uses technology to cross-check, on a large scale, amounts reported in tax declarations with information obtained from third parties and may be carried out in cooperation with other governmental agencies. Latvia indicates strong performance in complementing the audit programmes with other measures, such as cooperative compliance approaches to manage risks of inaccurate reporting, uses rulings to provide answers about the tax treatment of specific transactions and engages in analytics of large data sets. As good practice, the automated accounting system for VAT liabilities of the state revenue service interfaces with other accounting systems in the administration and includes procedures to systematically review the taxpayer record to correct any eventual accounting errors.

The average time needed to decide on contestations of tax claims in Latvia remained stable over the previous years. In 2024 the average time needed to decide at administrative level on contestations of tax claims stood between 1 and 4 months. Furthermore, in 2024 on average two years were needed for a final decision to solve contestations of tax claims.

4.2. Tax Recovery

As of 1 January 2025, the general budget payments administered by the State Revenue Service amounted to EUR 844.3 million. Tax arrears in Latvia are below the EU average and have decreased in recent years**.** The closing stock of tax arrears at year-end in Latvia was nearly halved over 2018-2023, with 6.2% of total net revenue in 2023, 24.5% below the EU average, 40.6% of which were deemed collectible ([35]). Total tax arrears have decreased by EUR 18.1 million or 2.1% compared to 1 January 2024. The biggest decrease is for value added tax debts, by EUR 30.1 million, while labour tax debts have increased by EUR 39.55 million or 8.5% ([36]). During the period 2022-2024, the global recovery rate for all taxes has decreased from 7.1% in 2022 to 5.7% in 2024. The lack of systematic statistics on the timeline for administrative contestations of tax claims makes it difficult to fully assess the impact of disputes on recovery.

The same recovery rules apply across VAT, personal and corporate income taxes, excise duties and other national taxes, all under the competence of the SRS, which allows for centralised management. Under Section 25 of the Law on Taxes and Duties, tax debts may be written off in cases such as taxpayer death without heirs, expiry of the statutory limitation period, deregistration of companies, or where claims are no longer enforceable. Local governments are responsible for extinguishing property tax debts under the same framework. There is no specific legislation on cooperation between tax recovery authorities and insolvency administrators, which limits structured exchanges of information in insolvency proceedings.

As regards the mutual assistance for the recovery of tax claims between the EU Member States, Internal controls are in place for the execution of recovery assistance requests. They include monthly monitoring carried out centrally by the SRS. As a requested Member State, Latvia fully respects deadlines for acknowledgements and replies under Regulation 1189/2011 ([37]).

In practice, mutual assistance yields very low results: Latvia reports recovery rates of only around 5% of amounts requested in 2022–2024. The structural reason for low recovery rates is that debtors often have no recoverable assets abroad. Latvia has adopted a tax recovery strategy for 2023–2026 ([38]) and publishes regular tax recovery activity reports, enhancing transparency and providing a structured framework for debt management.

4.3. Use of DAC ([39]) Instruments and Data ([40])

Latvia uses DAC1 ([41]) and DAC2 ([42]) data for assessing taxation on individuals in the field of **personal income tax,** and other fields of taxation where relevant**.** DAC1 (categories of income) ([43])

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[35] Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", http://isoradata.org.

[36] Valsts ieņēmumu dienesta Publiskais pārskats 2024.

[37] Implementing Regulation - 1189/2011 - EN - EUR-Lex.

[38] Valsts ieņēmumu dienesta attīstības stratēģija 2023.–2026. Gadam.

[39] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended.

[40] Source: Yearly Assessment 2025; EU AIAC Statistics 2024 – Subject to confidentiality clause on DAC art. 23a

and DAC2 (financial accounts) data is currently used for compliance actions including notifications to taxpayers for disclosure, and domestic risk assessment analysis ([44]). It is followed by tax assessments after a case selection process, leading to significant increases in tax revenues.

DAC data matching rates concerning individuals ([45]), are not available. Latvia is among the few Member States that are not able to report the average matching rate measuring success in identifying taxpayers.

Latvia does not process DAC3 ([46]) (rulings), DAC4 ([47]) (country-by-country report) and DAC6 ([48]) (potentially harmful cross-border arrangements) data systematically. As the total number of reports is relatively low, the data is manually matched and the use for risk-analysis purposes in the field of corporate income taxation is based on a case-by-case approach. Reports are taken into account for assessing risks on transfer pricing, base erosion and profit shifting matters, economic and statistical analysis; and audits limited to specific categories of transactions (e.g. transfer pricing).

Latvia makes use of the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. The synergies between participating Member States derived from these coordinated activities usually lead to an increase of the tax assessed and, therefore contribute to reducing the tax gap. Looking at the past three years, Latvia initiated one simultaneous audit and was involved in five other cases initiated by other Member States. In conclusion, Latvia has established principles for using the data obtained from the automatic exchange of information, in coherence with the objectives of the DAC. Latvia has demonstrated well-developed risk analysis systems that integrate a wide range of information sources, including DAC1 and DAC2 data. To further improve their risk analysis system, Latvia can include further sources of information. . Latvia needs to continue its efforts to improve the identification of taxpayers, to enhance the impact of these exchanges of information in terms of increased revenues and the monitoring of the outcome of the use of data.

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[41] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC.

[42] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.

[43] Income from employment, Director's fees, Pensions, Immovable properties

[44] Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

[45] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.

[46] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.

[47] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.

[48] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.

5. Digitalisation and Compliance

5.1 Digital Transformation, Skills, and Culture

In Latvia, more than 99 % of the services of the SRS are available electronically, and a strategy for a full digitalisation has been developed.

The Latvian state revenue service requires individuals and businesses to use an approved digital identity to access secure digital services ([49]). For example, it helps increase the accuracy of taxpayer identification, thereby reducing the potential of identity fraud, duplication of records and administrative errors.

The Latvian state revenue service has introduced an electronic declaration system (EDS), which has a virtual assistant, contains a structured transfer pricing documentation and a range of other services. On the EDS homepage for natural persons, a section entitled 'Submissions' is available. The measure provides customers (natural persons) with the most frequently used submissions, thus facilitating their search in the Documents section.

In 2024, several security measures have been developed and implemented to protect customers from fraud. In future, the EDS will introduce the possibility to choose a channel for receiving notifications, thus preventing the receipt of notifications in both mail and e-mail.

In 2024, a new form of overview of the calculated environmental tax has been established, which establishes classifications of tax objects and tax rates. This will ensure an automatic calculation of the tax and its distribution among the State and municipal budgets, reducing the time of completion of the report and the possibility of error in the preparation of the information. An initiative was launched in 2024 to assess the feasibility of introducing digital excise stamps to reduce the administrative burden on both the public administration and the business side.

Under the RRF a number of additional reforms to digitalise state revenue service processes have been made. For instance, one of the reforms and projects deployed moves risk systems to a single centralised analytical platform, a modernised Risk Analysis System for natural persons and Risk Analysis System for circulation of excise goods, providing analytical data transformation processes to support risk systems. Another investment project- "Development of new analysis systems" -launched a new information technology system for taxpayers for the calculation of segment and rating. Information for taxpayers is integrated into the database to be published; visualisation of the results of assessment of the taxpayer's rating in the EDS of the State Revenue Service and the taxpayer's integration of segment calculation results in the taxpayer's 360° view in the Payment Administration Information System. A risk analysis solution is also developed for customs processes. The investment financed 'Staff training with analytical platform and advice', in which 64 trainings were carried out for the employees of the SRS, including analysts and system administrators. Support for the SRS to

[49] OECD Inventory of Tax Technology Initiatives 2024. https://data-explorer.oecd.org/, Note that data is self-reported by tax administrations and therefore not 100 % objective or comparable.

develop a framework for the implementation of reforms under the RRF was delivered through the Technical Support Instrument project 'Building capacity in Latvia to design and achieve the objectives of the revenue service's operational strategy'.

5.2 Front-end Digitalisation

5.2.1 Pre-filling

With regards to PIT, the Latvian state revenue service automatically pre-fills PIT returns with data that it has collected, and persons can modify the data ([50]). Such facilities contribute to reducing the burden of tax compliance and providing greater tax certainty for individual taxpayers and the state revenue service. This indicates that taxpayers in Latvia may find it easier to complete their PIT returns and decreases the likelihood of errors, which create further administrative burden for both the taxpayer and the administration. According to a recent Eurobarometer survey, 55% of citizens in Latvia find it very easy or fairly easy to complete their tax return, placing them 9th among EU Member States ([51]).

On the contrary, there are no pre-filling facilities for corporate income tax and value added tax declarations which could help reducing the burden of tax compliance on taxpayers in these categories.

5.2.2 E-filing

In Latvia, e-filing rates are high and above the EU average for CIT, VAT and PIT:

- According to 2023 data, 100% of CIT returns are filed electronically compared to the EU average of 97.1% ([52]). In Latvia, this represents an increase of 0.7 percentage points from 2018 and highlights their push towards full adoption of e-filing for CIT.
- 100% of VAT returns are also filed electronically, compared to the EU average of 99.2% ([53]). This was also the case in 2018 in Latvia and highlights the importance placed on e-filing for VAT in terms of enabling the state revenue service to analyse trends and detect VAT fraud, as well as increased accuracy of returns and efficiency in their reviews.
- Moreover, 94.9% of PIT returns are submitted electronically, above the EU average of 87.1% ([54]). This figure has increased by 14.8 percentage points in Latvia since 2018.

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[50] OECD Inventory of Tax Technology Initiatives 2024. https://data-explorer.oecd.org/, Data is self-reported by tax administrations and therefore not 100 % objective or comparable.

[51] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713.

[52] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

[53] Ibidem.

[54] Ibidem.

5.2.3 Provision of other online Services

According to 2022 data, the Latvian state revenue service provides the following on-line services: requesting extensions of deadlines, asking for tax payment arrangements, secure communication with taxpayers, as well as filing tax related objections, uploading data files onto the state revenue service's system, the option to retrieve and send various certificates to third parties, including a certificate of residence, a taxpayer portal that provides a 'whole-of-taxpayer' view across the major taxes, ability to view taxpayer information captured from third parties and mobile applications, incl. commercial arrangements with third parties providing applications for the administration ([55]). According to a recent Eurobarometer survey, 40% of citizens in Latvia believe that support for filing tax returns provided by the state revenue service is either fully adequate or mostly adequate, placing them 20th among EU Member States ([56]).

5.3 Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

The Latvian state revenue service deployed a chatbot 'Toms' in January 2020 with the goal of assisting taxpayers ([57]). 'Toms' answers frequently asked questions in particular in five tax relevant domains namely, registration of a business, e-filing, annual submission of tax returns, eligible expenses and the eligible expenses mobile application.

A report of the EU Regional Cooperation Council also indicates that Latvia uses ESKORT for risk analysis ([58]). Although ESKORT cannot be categorised as an AI system because it is a rule-based algorithm, it is an important tool that uses clearly programmed criteria to score legal persons according to their predicted level of risk of fraud. ESKORT is used for a number of tax items, to detect and prevent a wide array of non-compliance risks. ESKORT is also used to detect and prevent fraudulent or undeclared labour.

In 2024, the state revenue service started implementing the concept 'People first', developed in 2023, in order to identify the needs of the SRS recipients of services, evaluate service delivery processes and develop user-friendly and a modern service system for natural persons. The objective is to improve the service system for natural persons in order to promote the customer satisfaction. In 2024, this initiative tested an artificial intelligence tool to help taxpayers respond faster and more efficiently ([59]).

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[55] Ibidem.

[56] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713.

[57] Taxadmin.ai, Latvian country report.

[58] Ibidem.

[59] Valsts ieņēmumu dienesta Publiskais pārskats 2024.

5.4 Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Latvia's state revenue service has a formal compliance risk management strategy that includes formal approach for identifying, assessing and prioritizing key compliance risks. This approach covers return filing, payment processing, collection enforcement, verification and audit, as well as taxpayer service ([60]).

5.4.2 Audit Types

Latvia's state revenue service carries out verifications for taxpayers with the highest risk of underestimation and non-payment of taxes. SRS officials determine the type of verification to be carried out in accordance with the risks identified and information specific to the taxpayer. The SRS may carry out one of the two types of verifications: a tax control or a tax audit ([61]).

A tax control is a verification during which the tax administration evaluates and verifies the conformity of the information submitted in tax returns, information declarations and customs declarations with laws and regulations, the information held by the tax administration and the factual situation held by the tax administration. It carries out a separate inspection of the taxable person's accounting documents and the place where the taxable person's economic activity is carried out, as well as other activities which control compliance with individual taxes or customs laws and regulations. Tax controls shall be carried out within three years of the payment deadline laid down in legislation, and within five years to check the conformity of the transfer price with the market price (value) or hybrid mismatches ([62]).

A tax audit is an inspection by a tax administration of the correctness of the calculation, payment and entry into the budget of one or more tax, tax declaration items or duties and other charges imposed by the State and of compliance with laws and regulations in the prescribed tax period. The tax audit shall also verify the correctness of the calculation, payment and entry into the budget of the charges laid down in the applicable European Union legislation on customs matters. Types of tax audit: partial – covers individual components of the tax return (report, report) or specific transactions; simple – covering a single tax; complex – covers several taxes; comprehensive – covers all tax returns of the taxpayer as a whole ([63]).

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

According to 2023 data, 39.2% of full-time equivalents (FTEs) in Latvia's state revenue service were assigned to audit related functions (EU average: 32.2%). That is an increase of 9.8 percentage points comparing to 2018 (29.4%) ([64]). The number of staff dedicated to audit related functions in

[60] CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, https://data.rafit.org.
[61] https://www.vid.gov.lv/lv/nodoklu-parbaudes-veidi
[62] Ibidem.
[63] Ibidem.
[64] Own elaboration based on ISORA Database

Latvia is above the EU average and the increase of staff dedicated to audits indicates an increasing level of strategic importance placed on this function by the state revenue services. The high levels of e-filing and use of AI technologies may allow the state revenue service to target non-compliance more easily, allowing for FTEs to be assigned to other functions.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

In 2023, Latvian tax authorities raised approximately 0.13% of total net revenues from audits and other verification activities, comparing to EU average of 1.6%. This is the lowest figure in the EU in 2023 and also represents a significant decrease compared to 2018 (1.2%) ([65]). Given the high rates of e-filing and use of rule-based algorithm for risk analysis and taxpayer assistance, this likely indicates an increased level of voluntary tax compliance, rather than poorly targeted audits.

5.5 Tax Complexity

Latvia ranks 6th out of the 27 Member States in the Tax Complexity Index ('TCI') ([66]), where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Latvia 2nd among the Member States with regards to Tax Code Complexity, and 18th with regards to Tax Framework. This may indicate that whereas the structure of the tax regulations is very efficient (notably, in the area of group treatment, according to the authors), there might be some room for improvement in areas related to the tax processes carried out by the tax authorities (notably, audits).

[65] Ibidem

[66] See: https://www.taxcomplexity.org/ The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.