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Mind the Gap 2026: Country fiche – Latvia

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

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Country fiche: Latvia

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Latvia's VAT compliance gap was lower than the EU average in 2023, at 5% of the VAT Total Tax Liability (VTTL).** The mandatory roll-out of e-invoicing by 2028 is expected to help improve VAT compliance in the future.

- **Latvia is making good progress on digital tax administration, compliance tools and arrears management.** Auto-populated personal income tax (PIT) and VAT returns and emerging chatbot support help improve compliance. The comprehensive compliance risk management (CRM) system, featuring a transparent taxpayer rating system and rule-based risk-analysis tool (ESKORT), also boosts compliance, as evidenced by low arrears ratios (5.6% of revenue in 2024).

- **Latvia is carrying out a comprehensive evaluation of the effectiveness of its tax expenditures.** Following on from a recommendation in 2019 from the State Audit Office, the three-stage process aims to assess the effectiveness of tax expenditures. The first two stages relating to planning and information gathering have already been completed. The final stage will assess how well the existing tax expenditures achieve their goals and will evaluate the overall support available for a specific objective, group or sector.

Areas for Improvement

- **Compliance risks under the distributed-profit corporate income tax (CIT) model require continued monitoring.** Latvia's system includes safeguards for deemed profit distributions, but effective enforcement is important to ensure that profit extraction through related-party transactions, excessive interest payments or non-business expenses is properly identified and taxed.

- **Latvia could take action to increase the transparency of the benefits stemming from the use of Directive on administrative cooperation in the field of taxation (DAC) data and share the metrics related to the identification of taxpayers for DAC7.** To harness the full potential of the DAC, Latvia could also explore the possibility of using DAC7 data to identify undeclared economic activities through digital platforms and tackle VAT fraud.

1. Introduction and policy context

1.1. Snapshot of the tax system

The tax-to-GDP ratio has increased recently in Latvia on the back of labour taxes. Tax revenue (including social contributions) reached 34.9% of GDP in 2024, new historic high ([1]), but still 4.5 percentage points (pps) below the EU average. The reliance on labour taxes has increased gradually and their share in the tax mix reached 50.0% in 2024 (EU average: 51.5%), on the back of increasing revenues from social contributions. Consumption taxes accounted in 2024 for 38.3% of total tax revenue, one of the largest in the EU (26.8% on average). VAT revenues are relatively high and amounted to 9.5% of GDP, 2.4 pps above the EU average, of 11.9% in a context of relatively low compliance gap. By contrast, at 11.7%, capital taxes represent one of the smallest shares on total tax revenue among all the Member States (average: 21.6%), with comparatively low revenues from corporate income taxes (CIT) and property taxes.

The redistributive effect of the tax-benefit system is low, and labour taxes have a limited progressivity. The tax wedge ([2]) for low-income earners (50% of average wage) is above the EU average, while the wedge for high-income earners (167% of average wage) is below average ([3]). This results in a difference of 7.7 pps between both income levels, compared to an EU average of 12.5 pps. Latvia's tax-and-benefit system reduced the Gini coefficient ([4]) by 5.5 pps in 2024, also below the EU average (7.8 pps). Income concentration is very high, as the income quintile share ratio (S80/S20) was 6.68 in income reference year 2024, compared to an EU average of 4.62 ([5]). The at-risk-of-poverty or social exclusion rate (AROPE) is also relatively high ([6]), affecting 24.7% of the population (EU average: 20.9%).

In 2026, Latvia has received the following country-specific recommendations (CSRs) in the area of taxation ([7]):

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2026 (reference year 2024), which are produced by DG Taxation and Customs from ESA table 9 and National Tax List data, as collected and validated by Eurostat. The 2027 edition (reference year 2025) will be published in the first quarter of 2027. Recent Eurostat release shows a tax-to-GDP ratio of 33.7% in 2025, compared to an EU average of 39.7% (data of 30/10/2026 on [GOV_10A_TAXAG]).

[2] The tax wedge is an indicator of the tax burden on labour that can be assessed at different earnings levels. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). Data are based on the EUROMOD model, calculated by the Joint Research Centre of the European Commission. Unless indicated differently, values indicated in this country fiche refer to single earners.

[3] The tax wedge for an earner of 50% of the average wage is of 35.0%, 3.4 pps above the EU average. Earners of 100% of the average wage have a tax wedge of 40.5% (0.5 pps above the EU average), and earners of 167% of the average wage have a tax wedge of 42.7% (1.4 pps below the EU average).

[4] European Commission, DG ECFIN calculations based on EU-SILC survey data. A Gini coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income. The difference between the "gross" (excluding pensions from social transfers) and the "net" Gini coefficient, i.e. before and after application of the tax-benefit system, reflects the difference between market income and disposable income.

[5] The income quintile ratio (S80/S20) is a headline indicator in the EU Social Scoreboard used to monitor income inequality. It measures the ratio between the total equivalised disposable income received by the top 20% of the population and the bottom 20%.

[6] Share of people living in households experiencing at least one of the three poverty and social exclusion risks: risk of poverty, severe material and social deprivation, and/or living in a household with very low work intensity.

[7] https://data.consilium.europa.eu/doc/document/ST-11126-2026-INIT/en/pdf.

- *Make public finances fit to cope with structural spending needs including for defence and resilience against hybrid threats, healthcare and social protection, such as by broadening taxation to sources less detrimental to growth, promoting measures to move informal or undeclared activities into the formal economy, and embedding the practice of redirecting expenditure to priority areas based on public spending reviews, while expanding their scope and ambition.*

1.2. Tax complexity and simplification measures

1.2.1. Measures of tax complexity

Latvia's tax system appears comparatively simple in structural terms, though taxpayer perceptions point to some practical compliance burdens. Survey-based evidence from the Tax Complexity Index (TCI) places Latvia among the less complex systems in the EU, ranking 6th among Member States. The underlying components of the TCI suggest relatively favourable outcomes for both the tax code and administrative framework ([8]). Citizen perceptions are also somewhat more positive than the EU average: 55% of respondents report that completing their tax return is easy, compared with 49% in the EU, while reliance on professional assistance remains very limited at 3% ([9]).

Legislative activity has generally remained moderate in recent years. Latvia recorded 14 tax changes entering into force or announced in 2025, in line with the EU average of around 14 ([10]). Previous years saw 27 tax changes in 2024, 13 in 2023 and 8 in 2022. With the exception of 2024, legislative activity remained at or below the corresponding EU average, pointing overall to a relatively moderate pace of tax policy change. Many reforms concern excise duties, environmental taxation and other revenue-raising measures, while some also affect business taxation, including a relaxation of corporate income tax restrictions on interest payments and measures to balance the tax treatment of individual investors. Although the number of changes is not unusually high, the breadth of the reforms requires businesses and taxpayers to adapt to a range of new provisions in the short run. At the same time, several measures pursue broader objectives related to tax neutrality, environmental sustainability and revenue mobilisation rather than representing fundamental changes to the tax system.

Demand-side indicators are broadly consistent with a relatively low-complexity environment. The accounting, bookkeeping and tax consultancy sector accounts for around 0.6% of gross operating surplus, below the EU average of 0.9% ([11]). While this indicator is influenced by several factors, it does not point to a particularly important professional services sector or

[8] The Tax Complexity Index (TCI), developed under the Global MNC Tax Complexity Project, measures the complexity of countries' corporate income tax systems as faced by multinational firms. Based on survey data from tax professionals, it captures both the complexity of tax rules (tax code) and administrative procedures (tax framework), with values ranging from zero (not complex) to one (extremely complex).

[9] European Commission (2025), Flash Eurobarometer 562: Citizens' attitudes towards taxation, fieldwork conducted between 9 and 17 April 2025. Available at: https://europa.eu/eurobarometer/.

[10] The information is based on the tax measures reported by national administrations in the Joint OECD-European Commission Annual Tax Policy Reform Questionnaire, by aggregating and processing the responses received to the 2026 questionnaire. Responses to the 2026 questionnaire are relative to tax policy measures self-reported by the Member States that were implemented, legislated, or announced in each country between 1 January and 31 December 2025. While comprehensive, the list of tax measures is non-exhaustive.

[11] A higher share of gross operating surplus indicates that the accounting, bookkeeping and tax consultancy sector generates a relatively larger share of operating profits and value added in the economy. While not a direct measure of tax complexity, it may point to a comparatively important professional services sector and, indirectly, to greater demand for specialised tax and accounting expertise.

unusually strong demand for specialised tax and accounting expertise ([12]). Taken together, the evidence suggests that Latvia combines comparatively simple tax structures with relatively accessible filing procedures and moderate compliance burdens.

1.2.2. National simplification efforts

Latvia simplified its tax system in 2025–2026 by consolidating Personal Income Tax (PIT) brackets, introducing a fixed personal allowance from 1 January 2025. The former three-tier progressive system was simplified to two main rates: 25.5% on income up to EUR 105 300 per year and 33% above that threshold, with an additional 3% surtax above EUR 200 000. Latvia also replaced its income-differentiated allowance system with a fixed personal allowance of EUR 510 (increased to EUR 550 in 2026) per month, now available to all taxpayers regardless of income level, simplifying tax calculations and providing consistent relief. Previously, the allowance tapered off as income rose, creating complexity in payroll administration.

Latvia has also extended VAT exemptions to cross-border SMEs. From 2025, Directive 2020/285 (SME directive) is transposed into the Value Added Tax Law. Changes in SME VAT scheme open the VAT exemption simplification to the cross-border activity. Small enterprises established in another Member State can apply VAT exemption to their supplies in Latvia if their annual turnover stays below EUR 50 000 and a total annual turnover of no more than EUR 100 000 in all Member States in the current and previous calendar year. The small enterprises established in Latvia are eligible for VAT exemption in another Member States, in the same way.

Concerning CIT and its link to PIT, Latvia has created an optional split dividend regime for owner-managed companies. As of 1 January 2026, amendments to the CIT Law and PIT Law introduce a voluntary alternative split dividend tax regime for companies whose members are exclusively natural persons. Under this regime, the company pays 15% CIT on distributed profits, and 6% PIT is withheld from dividends paid to individual shareholders. It was introduced specifically to ensure that non-resident individuals can apply a credit or exemption on the Latvian PIT paid in their state of residence to address a longstanding cross-border tax credit problem under the existing distribution model, where no PIT was separately withheld and thus no foreign credit could be claimed.

Finally, Latvia has modernised its transfer pricing framework. A modernised Transfer Pricing (TP) framework enacted in 2025 took effect for financial years beginning in 2025 (first Controlled Transactions Report filing is due 31 December 2026). It introduces structured reporting, clarifies documentation thresholds, and streamlines submission procedures. Separately, as of 1 May 2025, local TP documentation may be prepared in either Latvian or English, which is a practical compliance simplification for international groups.

1.3. Measures of the non-observed economy and the shadow economy

Estimates of economic activities outside the formal economy are relevant for gauging tax gaps. The non-observed economy (NOE) is an official figure provided by national statistical

[12] While some cross-border provision of accounting, tax consultancy and related services may be captured through imports and exports of services, available evidence suggests that such flows are relatively limited. In particular, data from the Eurostat's EU inter-country supply table at basic prices (reference year 2023) indicate that cross-national transactions in these services represent only a small share of overall activity, if any, suggesting that their impact on the interpretation of domestic sector size is likely to be limited.

authorities estimating all economic activities that may not be captured in the basic data sources used for compiling national accounts. It includes underground, informal, illegal, and household self-use production, as well as activities missed due to imperfect data collection ([13]). The shadow economy is an analogous but narrower concept — used in the economic literature and measured via macroeconomic models — that usually encompasses only legal, market-based productive activities deliberately concealed from public authorities to evade taxes or regulations. Due to limitations and methodological differences between the two approaches, model-based estimates of the shadow economy paradoxically often turn out to be considerably higher than NOE-based estimates.

Specifically, recent data from official sources ([14]) allow to estimate the size of the NOE in Latvia at 9.1% of GDP for 2022. The NOE consists primarily of the underground economy (7.64%). The other components of NOE represent small adjustments: 0.72% of GDP for the informal economy, 0.62% for the illegal economy and 0.17% for the statistical deficiencies. Latvia thus records a NOE above the EU average (7.4% of GDP) ([15]). The largest portion of the NOE is concentrated in 'Wholesale and retail trade' (3% of total GVA) and 'Construction' (1.6%). At industry level, the highest shares of NOE are presented by 'Activities of households as employers' (100% of its GVA), 'Construction' (27.5%), 'Accommodation and food service activities' (26.8%) and 'Other service activities' (23.8%).

Different models produce substantially different estimates for the shadow economy, reflecting the complexity of such estimation. As in most EU Member States, model-based estimates of the shadow economy for Latvia are higher than the NOE estimate discussed above. In 2022, the shadow economy in Latvia represented 19.9% of its GDP, according to estimates by Schneider and Asllani for the European Parliament ([16]). This ratio is 2.3 pps above the EU-27 average, and it has decreased compared to 2003 (30.4% of GDP). The report indicates that indirect taxes and unemployment are the main drivers of the shadow economy in Latvia. Several other studies provide estimates of similar magnitude for the size of the shadow economy ([17]). However, using a currency demand approach (CDA), a recent study by EY ([18]) reports lower estimates for the Latvian shadow economy at 9.3% of GDP in 2023 (EU average 7.9%), down from 19.3% in 2000 (EU average 13.2%). According to data from 2025 survey by Stockholm School of Economics ([19]), the shadow economy remains high at 21.8% of GDP and undeclared wages constitute its largest component, while significant levels of shadow economy activity are observed in the construction and retail sectors.

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[13] Statistical deficiencies (N7) are related to incomplete, not collected or not directly collectable data. See Fernandes, A. (2025), The non-observed economy in the national accounts: New evidence for EU and EFTA Member States - available at https://www.sciencedirect.com/science/article/pii/S0313592625000712 - for the definitions of the other components of NOE: Producers deliberately not registering (N1); Illegal economy (N2); Producers not required to register (N3); Registered legal persons not surveyed (N4); Registered entrepreneurs not surveyed (N5); Producers deliberately misreporting (N6). Informal economy = N3+N4+N5. Underground economy= N1+N6. In other words, the informal economy specifically covers unregistered or small-scale unincorporated enterprises run by households.

[14] For data and documents used for calculations by TAXUD, see Section 1.3 "Measures of the non-observed economy and the shadow economy" in Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[15] The (unweighted) EU average does not include Luxembourg.

[16] This study uses a MIMIC approach (Multiple Indicator Multiple Cause). European Parliament (2022), Taxation of the informal economy in the EU. Study available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.

[17] See Fernandes op. cit. (2025) for an overview of various studies.

[18] The report is available at https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.

[19] https://www.sseriga.edu/shadow-economy-index-baltic-countriesLatvia's shadow economy remains high – Is it time for new initiatives? | Stockholm School of Economics in Riga.

The central instrument for tackling the shadow economy is the Shadow Economy Restriction Plan for 2024–2027, adopted in 2024 ([20]). The plan's goal is to reduce the share of the shadow economy from 19.9% to 18.9% of GDP by 2027. It takes an integrated approach linking the regulatory environment, oversight, and digital solutions, as well as interaction with business organisations including the Latvian Confederation of Employers, the Chamber of Commerce and Industry, and the Foreign Investors Council. The measures include promoting tax morale, ensuring transparency, automating procedures, expanding electronic payments, and targeted control in high-risk sectors. Alongside horizontal measures, the plan identifies three priority sectors for action: (i) construction (ii) healthcare and (iii) the use of cash in mutual transactions and data exchange. The Ministry of Finance sets the policy framework and is the lead coordinating body responsible for the above plan by setting its targets, monitoring implementation progress across all participating ministries and agencies, and reporting on results to government and publicly.

2. Compliance tax gaps

2.1 Overview

Latvia reports and publishes certain tax gap estimates. The primary authority responsible for tax gap estimation is the State Revenue Service (SRS). It conducts and publishes the annual tax gap estimates from labour for PIT and social security contributions ([21]), using micro-analysis methods that compare tax liabilities against sector-specific benchmarks ([22]). Latvia's provides necessary VAT-related data that feed into the European Commission's annual VAT Gap Report for VAT gap estimates.

Latvia has contributed to the TADEUS/Fiscalis project on estimating tax gaps. The Fiscalis Project Group on Tax Gap Estimation, a collaborative initiative launched with the support of the European Commission, aims to develop a harmonised approach to estimating tax gaps across EU Member States. Latvia participated in the first cycle of the project, which was completed in 2025 ([23]). The second cycle of the project was launched in 2026.

2.2 Compliance tax gaps in VAT

For 2023, the VAT compliance gap ([24]) in Latvia was estimated at around 5% of the VAT Total Tax Liability (VTTL) ([25]), **4 pps below the EU average.** After falling from around 10-11% between 2019 and 2021 to 2% in 2022, it increased sharply in 2023; however, remaining at around half of the 2019 level ([26]). This rise was linked to a sharp reduction in the growth in consumption of easily taxable, low risk goods (such as food and non-alcoholic beverages) and an increase in the share of services in GDP.

[20] https://www.fm.gov.lv/en/media/18936/download?attachment.
[21] See, e.g., https://www.vid.gov.lv/lv/nozaru-statistikas-katalogs/iedzivotaju-ienakuma-nodokla-iin-un-valsts-socialas-apdrosinasanas-obligato-iemaksu-vsaoi-plaisa.
[22] See, e.g.: (1) https://www.vid.gov.lv/lv/nodoklu-plaisu-apmeri and (2) https://www.vid.gov.lv/lv/media/35439/download?attachment.
[23] For details, please refer to the TADEUS website, the FISCALIS programme website and the Final Report of the Project..
[24] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.
[25] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.
[26] 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.

The most significant recent initiative is the mandatory e-invoicing rollout. E-invoicing has been embedded in the Shadow Economy Restriction Plan and framed explicitly as a VAT compliance and transparency tool. Latvia adopted a new Cabinet Regulation in December 2025 establishing the legal and technical framework for structured electronic invoicing and the reporting of e-invoices to the SRS ([27]). E-invoices are mandatory in state and municipal procurement (business-to-government, B2G) in Latvia and are gradually being introduced in business-to-business (B2B) transactions. As of 2026, B2B e-invoices are voluntary, but from 1 January 2028 they will be the only acceptable standard for all merchants.

2.3 Compliance tax gaps in corporate and personal income tax

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 CIT only to distributed profits of companies.

Latvia's distributed-profit CIT model may also create specific compliance risks that require careful monitoring. Under this system, corporate profits are generally not taxed when they are earned, but only when they are distributed or deemed to be distributed. While this design supports reinvestment, it may create incentives to extract profits through payments or transactions that economically substitute dividends. Relevant risk channels include non-business expenses, excessive interest payments, related-party loans, non-arm's-length transfer pricing adjustments and intra-group service charges. Latvian legislation addresses several of these risks by including such items in the taxable base as deemed or conditionally distributed profits. Nevertheless, the effectiveness of the system depends on the tax administration's ability to identify cases where intra-group financing, service charges or other related-party transactions are used to reduce profits available for future taxable distribution. This is particularly relevant for multinational groups, where profit extraction may take place through cross-border financing structures or other intra-group payments rather than formal dividend distributions ([28]).

Latvia assesses tax gaps from undeclared labour for both PIT and SSC. In the analysis of undeclared employment income, the SRS uses data from employers' reports for the tax month, information about employees and taxpayer registration data. Only workplaces where average remuneration is below 80% of the "normal" wage for the profession and region are selected for the undeclared income estimate. The SRS estimated the PIT gap at 16.8% and the SSC gap at 11.8% in 2025 ([29]). The highest undeclared income is found in the retail, wholesale, land and pipeline transport sectors.

2.4 Other compliance tax gaps

The Commission continues its work on excise gap estimation, developing and scrutinising methodologies with experts from over 20 Member States, with the aim of delivering more robust estimates that better support policy and operational work. This work also illustrates Member States' growing engagement in the field.

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[27] See: https://likumi.lv/ta/id/365040-kartiba-kada-organize-un-isteno-strukturetu-elektronisko-rekinu-apriti-un-kada-strukturetu-elektronisko-rekinu-datus-iesniedz-v.

[28] For See Bunda, I. and T. Hanappi (2025), "Options to Strengthen the Tax System in Estonia", IMF Selected Issues Paper No. 2025/102. The paper discusses Estonia's distributed-profit CIT model, which applies a comparable distributed-profit CIT model.

[29] State Revenue Service, Gap between Personal Income Tax (PIT) and Mandatory State Social Insurance Contributions (VSAOI).

While Latvia does not currently estimate excise tax gaps, it devotes resources to strengthening EU cooperation on excise matters through its participation in the Fiscalis project group on Excise Gap and Risk.

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 other tax measures.

3. Policy Tax Gaps

3.1 Tax expenditure reporting and evaluation

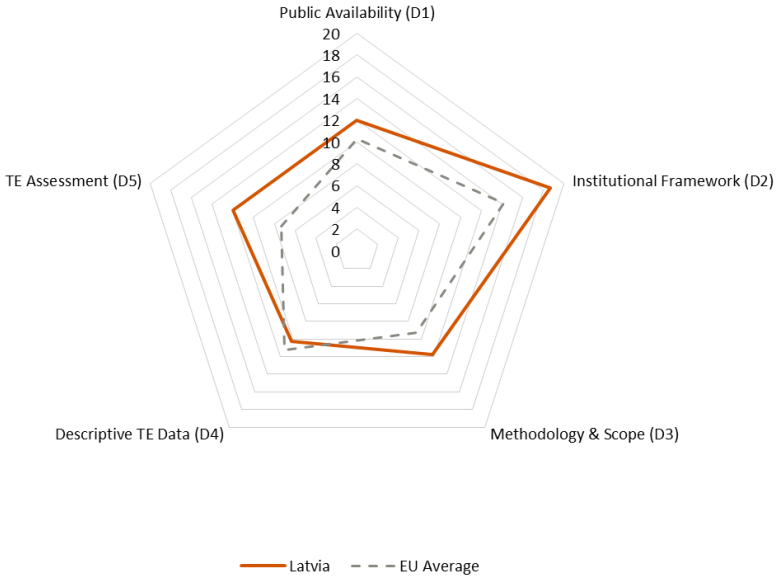
The Ministry of Finance publishes an annual Assessment of Tax Expenditure ([30]). The report provides a definition of tax incentives and an explanation of their nature, describing the methods for assessing tax incentives and calculating the hypothetical tax revenues forgone. The appendix lists all current tax incentives and recent reforms.

Currently, Latvia has more than 300 different tax incentives. According to the calculations of the Ministry of Finance in 2024, the total estimated state revenue forgone resulting from the application of the most significant tax incentives was around EUR 3.5 billion, which was 8.57% of GDP and almost one quarter of total tax revenue. In 2024, the total state revenue forgone resulting from the application of tax incentives increased by EUR 251.5 million or 7.8%, compared to 2023. The largest share of revenues forgone resulted as in previous years from the application of tax reductions of VAT and PIT incentives, with 40.6% and 38.1% of all revenue forgone. They are followed by natural resource tax, excise tax and CIT incentives, respectively 8.7%, 7.7% and 3.4% of revenues forgone ([31]).

Compared to other Member States, tax expenditure reporting in Latvia is well developed (ranked 8th in the EU according to the Global Tax Expenditures Transparency Index (GTETI) score). According to the GTETI analysis, transparency in tax expenditure reporting in Latvia is above the EU average overall. Figure 1 depicts the GTETI results for the five dimensions analysed in comparison to EU averages ([32]). Maximum value for each dimension is 20. Latvia performs above the EU average on 'Public Availability', 'Institutional Framework', 'Methodology and Scope', and 'Tax Expenditure Assessment'. Latvia is on par with the EU average on 'Descriptive Tax Expenditure Data' (10.27 vs 11.28). The strong performance on 'Institutional Framework' reflects a clear legal requirement to report, mandatory parliamentary submission, integration in the budget proposal, clear institutional responsibility. The strong performance on 'Tax Expenditure Assessment' reflects backward estimates, forward projections, and an evaluation framework.

[30] See, e.g., Nodokļu atvieglojumu novērtējums par 2024. gadu, https://www.fm.gov.lv/lv/nodoklu-atvieglojumi.
[31] Nodokļu atvieglojumu novērtējums par 2024. gadu, https://www.fm.gov.lv/lv/nodoklu-atvieglojumi.
[32] See the Global Tax Expenditures Transparency Index (GTETI) companion paper (2026) and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches) for details. The GTETI summarises information in five dimensions. These are (1) Public availability — whether a TE report exists and is accessible; (2) Institutional framework — its legal mandate, periodicity, and integration into the budget process; (3) Methodology and scope — the benchmark definition, estimation method, and coverage of taxes; (4) Descriptive tax expenditure data — the granularity and classification of reported provisions; and (5) Tax expenditure assessment — the quality of revenue-forgone estimates and whether TEs are evaluated for effectiveness.

Figure 1: Latvia vs EU average — GTETI v2.1 dimension scores (max 20 per dimension)



Source: GTETI v2.1.

The Latvian Ministry of Finance is carrying out an evaluation of the effectiveness of tax expenditures ([33]), following a recommendation from the State Audit Office. The process which began following the 2019 report of the State Audit Service on tax expenditures ([34]), foresees three stages**.** The first stage (concluded in 2021) consisted in a plan for defining the objectives and performance indicators for existing tax expenditures. The second stage (concluded in 2025) included tax expenditures forms containing information on the objectives and performance of tax expenditures. The final stage, which is planned to be submitted by the end of 2026, will assess the effectiveness of tax expenditures against defined objectives and performance indicators, including an analysis of alternative financial support instruments available to the respective sectors and target groups. The Ministry of Finance participated in several projects funded by the Technical Support Instrument (TSI) ([35]) to improve public financial management, including budget preparation and implementation processes, and to strengthen the medium-term expenditure framework.

3.2 Policy tax gaps in VAT

Latvia has introduced a number of changes to VAT rates in recent years. In 2024, the reduced VAT rate on fresh fruits, berries, and vegetables shifted from 5% up to a now permanent 12% rate. VAT on essential foods, including certain breads, fresh milk, fresh chilled poultry and eggs, has been reduced from 21% to 12% from 1 July 2026 until 30 June 2027. Furthermore, since 2026, the 5% reduced rate for books, educational materials, and electronic media subscriptions is restricted to publications in specific languages (i.e., Latvian and official EU/EEA/OECD languages), while publications in non-qualifying languages fall under the standard 21% rate ([36]).

[33] Nodokļu atvieglojumi, Finanšu ministrija, https://www.fm.gov.lv/lv/nodoklu-atvieglojumi.
[34] Nodokļu atlaides – neredzamie budžeta izdevumi, https://www.fm.gov.lv/lv/media/6489/download?attachment.
[35] Latvia - Reforms and Investments - European Commission
[36] VAT Update, 2026. Latvia cuts VAT on basic foods and permanently reduces tax for local produce in 2026. Accessed at: https://www.vatupdate.com/2026/03/06/latvia-cuts-vat-on-basic-foods-and-permanently-reduces-tax-for-local-produce-in-2026/.

Latvia's national policy-driven VAT exemption gap and VAT rate gap were lower than the EU average in 2023. Revenues forgone due to the application of reduced rates and national policy-driven exemptions reached over EUR 700 million in 2023 ([37]). The national policy-driven VAT exemption gap ([38]) was estimated at around EUR 460 million in 2023, or 7% of the notional ideal revenue ([39]), while the EU average was 11%. The VAT rate gap ([40]) was estimated at around EUR 240 million in 2023, or 4% of the notional ideal revenue, lower than the EU average of 12%.

According to national estimates, total revenue forgone in 2024 due to VAT reliefs, including exemptions and reduced rates, reached EUR 1.41 billion. This was more than EUR 100 million, or 7.7%, higher than in 2023. It was equivalent to 3.5% of GDP and around 36% of total VAT revenue. The share of revenue forgone from VAT reliefs in total VAT revenue increased by 2.6 pps. Revenue forgone due to VAT exemptions amounted to more than EUR 1.25 billion ([41]). This represented the largest share of total revenue forgone from VAT reliefs, at around 90% of the total. Compared with 2023, it increased by EUR 125 million, or by 11% ([42]). Of the total revenue forgone because of VAT exemptions, the largest share in 2024 came from financial services, at EUR 437 million or 35% of the total. This was followed by medical services, at EUR 338 million or 27%. Insurance services and venture capital fund activities accounted for EUR 116 million, or 9% ([43]).

Tax-simulations indicate that Latvia's reduced VAT rates in 2025 are concentrated in a small number of categories, led by 'food and beverages' ([44]). 'Food and beverages' accounts for the largest share of simulated forgone revenues at 27.1%, below the EU mean share of 39.8%. 'Housing, water and electricity' comes second at 21.0%, more than double the EU mean share of 8.5%. 'Health' ranks third at 18.9%, almost double the EU mean share of 10.4%. These three categories account for 66.9% of Latvia's total forgone revenue.

[37] 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.

[38] 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 VAT 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. 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.

[39] 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.

[40] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

[41] The higher value of the exemption gap compared to the VAT Gap in the EU report might be caused by inclusion of EU mandated VAT exemptions.

[42] These figures differ from the estimates of the VAT rate gap and national policy-driven VAT exemption gap produced under DG TAXUD's VAT gap in Europe study and presented above. This is due to differences in the methodology applied.

[43] Nodokļu atvieglojumu novērtējums par 2024. gadu, https://www.fm.gov.lv/lv/nodoklu-atvieglojumi.

[44] The VAT rate gap is analysed here using EUROMOD's household consumption tool. No behavioural adaptation is considered. Note that VAT rates are mostly not an efficient tool for redistributive policies, in part due to incomplete pass-through to consumer prices, in part due to limited targeting of reduced rates. For more details on assessing the impacts of reduced VAT rates with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Ricci et al. (2026), Fiscal Costs and Redistributive Effects of Reduced VAT Rates in the EU, European Commission, European Economy Discussion Paper 244; Trzcinski and Amores (2026), The VAT Policy Gap and Redistribution in the European Union 2025, European Commission, Seville, JRC14876; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

Latvia's reduced VAT rates lower inequality as measured by the Gini coefficient by 0.28 pps, below the EU average reduction of 0.50 pps. 'Housing, water and electricity' contributes 0.10 pps (36.5% of the total), above the EU mean contribution of 0.07 pps.

3.3 Policy tax gaps in corporate income tax

Latvia has a distribution based corporate tax system. From 1 January 2018, the CIT Law provides that an effective CIT rate of 25% is paid at the time of profit distribution on gross distribution base, rather than applied to the income earned. According to the national tax expenditure report 2024, the total revenue forgone resulting from the application of CIT exemptions was EUR 118.3 million, which is 0.3% of GDP and 16.4% of CIT revenue. In 2024, total revenue forgone from the application of CIT reliefs has increased by 68.5% or by EUR 48.1 million, compared to 2023 ([45]). This increase in revenue forgone is partly explained by a significant increase in the amount of relief used for income from the alienation of direct participation shares (up by 60.7%) and the amount of relief for implemented supported investment projects (up by 149.9%).

3.4 Policy tax gaps in personal income tax

Forgone revenue resulting from the application of PIT exemptions is estimated at EUR 1.3 billion in 2024, which constitutes 3.3% of GDP and 46.9% of total PIT revenue. While the amount of forgone revenue in absolute terms increases every year, the share of PIT revenue was relatively stable until 2021, at around 51%. In 2024, the total state revenue forgone resulting from the application of PIT relief increased by EUR 22.9 million or 1.8%, compared to 2023. The increase in revenue forgone is partly explained by the fact that the amounts of non-taxable income and other tax reliefs have increased by 9.1%.

In 2024, the most significant PIT benefits were the non-taxable amounts, i.e. basic allowances. These include the pensioner's non-taxable amount and the differentiated non-taxable amount, as well as the tax relief for a dependent person. In 2024, forgone revenue resulting from the application of these three tax benefits amounted to a total of EUR 921.5 million, or 70.0% of total revenues forgone. These are among the most important social benefits which have a relatively greater impact on those with lower incomes ([46]).

Tax-simulations suggest that PIT-related tax expenditures in Latvia in 2025 have a progressive effect ([47]). PIT-related tax expenditures imply revenue forgone equivalent to 44.4% of actual PIT revenues, well above the EU average of 19.1% ([48]). The largest share of revenue forgone arises from pensions-related tax expenditures (32.3% of PIT revenue). PIT-related tax expenditures reduce the Gini coefficient by 2.09 pps, substantially more than the EU average reduction of 0.46 pps. The relatively high revenue forgone is associated with a correspondingly large reduction in income inequality.

[45] Nodokļu atvieglojumu novērtējums par 2024. gadu, https://www.fm.gov.lv/lv/nodoklu-atvieglojumi.
[46] Ibidem.
[47] Simulations are based on EUROMOD and do not account for behavioural changes. For more details on assessing the impacts of tax expenditures in the PIT with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Leventi et al. (2026), Personal Income Tax Expenditures in the EU, European Commission, Seville, 2026, JRC148748; and the accompanying method section Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).
[48] According to the European Commission's taxation trends data, PIT revenues in Latvia amounted to approximately EUR 2.9 billion in 2024. This would imply revenue forgone of approximately EUR 1.3 billion due to PIT tax expenditures according to the microsimulation (44.4% of EUR 2.9 billion).

4. Effectiveness of tax administration

4.1 Registration/identification of taxpayers

Latvia operates a relatively highly unified identification framework. Individuals are identified by their personal identity number attributed by the Office of Citizenship and legal entities by their registration number attributed by the Register of Enterprises, and both taken over by the SRS for tax administration purposes ([49]). The VAT number typically follows the same core identifier, prefixed by "LV", ensuring consistency across VAT, PIT, and CIT.

Latvia's VAT registration is fully digitalised and streamlined. Applications are submitted online via the SRS Electronic Declaration System or simultaneously with company registration in the Enterprise Register, while in-person registration is reserved for non-resident EU taxpayers unable to use digital channels. The publicly accessible VAT database includes key details with data accuracy maintained through pre-registration risk checks, cross-referencing with government registries, and automated data exchange between the SRS and national bodies. A log of rejected applicants further supports risk analysis ([50]).

Latvia lacks a dedicated e-commerce register but uses EU administrative cooperation instruments for partial oversight. Latvia does not maintain a specific register of e-commerce taxpayers. However, the SRS cross-checks VAT registration data against third-party sources, including government registries, and accesses One Stop Shop (OSS)/ Import One Stop Shop (IOSS), Central Electronic System of Payment Information (CESOP) ([51]), and DAC7 data ([52]) under EU frameworks for risk analysis and coordinated audits. Customs data integration is facilitated by automated information exchange between the SRS and national bodies. The absence of real-time monitoring suggests room for stronger oversight ([53]).

Latvia's VAT registration includes structured risk screening, though deeper automation and EU data integration could enhance effectiveness. The SRS uses automated risk assessments and other information sources to evaluate taxpayers before registration. While DAC1 and DAC2 data are systematically integrated into risk analysis, DAC3, DAC4, and DAC6 data are processed manually due to low report volumes, focusing on transfer pricing, BEPS, and statistical analysis. Latvia records rejected VAT applicants to refine risk tracking. The SRS also participates in DAC's advanced tools, such as simultaneous audits, which have proven effective in reducing the tax gap. However, real-time integration of CESOP, DAC7, or customs data into VAT registration screening is not explicitly documented, indicating potential for further automation ([54]). Upon receiving Eurofisc fraud alerts or risk signals, Latvia appears to qualify and, where justified under Latvian legislation and administrative practice, invalidate VAT identification numbers through a relatively swift, risk-based process aligned with the timing of those alerts.

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[49] Sākumlapa en | Valsts ieņēmumu dienests.

[50] Establish an LLC and register a company | Register of Enterprises.

[51] CESOP is an EU-wide system established under Directive (EU) 2020/284 to support the fight against VAT fraud in e-commerce. It requires payment service providers to report cross-border payment data on a quarterly basis to national tax authorities, which then transmit the information to CESOP. The system centralises and analyses this data, enabling Member States to detect undeclared online sales, identify fraudulent traders, and enhance administrative cooperation in combating cross-border VAT fraud.

[52] Council Directive 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation.

[53] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

[54] Ibidem.

4.2 Tax filing and assessment

Latvia's interoperable platforms streamline tax filings and services. The Electronic Declaration System (EDS) handles all PIT, CIT, and VAT filings electronically, while Latvija.gov.lv provides secure access to tax accounts, communications, and payment tracking. The system includes a "Reports" section where taxpayers can view aggregated transaction data to identify inconsistencies.

Employer and transaction data auto-populate PIT and VAT returns. Latvia's pre-filling system covers PIT and VAT, using employer-reported income for PIT and business transaction data for VAT, via the "Reports" section in EDS. The system relies on interoperable state registers and the once-only principle to minimize manual input. A future update will enable viewing e-invoices within EDS to further reduce accounting and VAT return errors ([55]).

Latvia achieves exceptionally high e-filing rates, exceeding EU averages in 2024. CIT (99.9%), PIT (95.4%), and VAT (99.9%) all surpass EU benchmarks (99.2%, 88.4%, and 97.4%, respectively). This reflects near-total digital adoption, with VAT and CIT at near-perfect compliance and PIT well above the EU average ([56]).

Latvia offers comprehensive digital support, with emerging chatbot use. Taxpayers access calculators, personalised portals, multi-channel support (web, in-person, phone), and EDS notifications for filing deadlines, and can use a chatbot for FAQs (e.g. business registration, e-filing). The focus is on user-centric design, with authenticated accounts enabling secure access to tax records and e-services.

Latvia regularly uses data obtained through the automatic exchange of information (AEOI), under the Directive on administrative cooperation in the field of taxation (DAC) ([57]). DAC1 ([58]), DAC2 ([59]), and DAC7 ([60]) are used for PIT and CIT purposes. The identification of taxpayers concerned in Latvia is very efficient for DAC2 (financial accounts and assets): in 2025, the matching rate measuring success in identifying registered taxpayers with DAC data ([61]) is 94% for DAC2, slightly above the EU-average (92%). Once the taxpayers have been identified, Latvian tax authorities use the available data for various activities: tax risk assessment to detect possible undeclared income, notification to generate disclosure and, if relevant, tax assessments or audits limited to specific categories of income or capital. Yet, Latvia does not share the matching rates for data related to different categories of income (DAC1) and from digital platforms (DAC7). In this respect, the TIN validation tool envisaged in the DAC recast proposal will support the matching process to approach a 100% automatic matching rate, ultimately allowing

[55] Ibidem.
[56] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.
[57] Sources: Yearly Assessment 2026.
[58] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC: automatic exchange of information on income from employment, pensions, director's fees, immovable properties, life insurance products, royalties.
[59] 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: automatic exchange of information on financial accounts.
[60] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.
[61] 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.

Latvia for a more efficient and targeted deployment of resources. Without the mandatory metrics ([62]), it is difficult to assess whether the information received is used to its full potential. Moreover, Latvia does not assess the benefits stemming from the use of DAC information, in terms of increase in tax base or tax assessed. This is a recurring issue, and the Latvian authorities could take concrete steps to address it.

Latvia has been very active in VAT administrative cooperation ([63]). In 2024, Latvia sent 983 requests for information and received 225 requests ([64]). Based on a standardised measure, taking into account the relative size of the Latvian economy, Latvia is significantly above the EU weighted average on the number of requests sent and also above the EU weighted average on the number of requests received ([65]).

Latvia records mixed results in automatic exchange of VAT information. In 2024, Latvia reported 283 VAT identification numbers allocated to taxable persons not established in the Member State. For information on new means of transport, it forwarded 131 cases. Based on a standardised measure, taking into account the relative size of the Latvian economy, Latvia is slightly below the EU weighted average on VAT identification numbers allocated to taxable persons not established in Latvia, but it is well above the EU weighted average on the volume of information on new means of transport ([66]).

4.3 Compliance risk management

Latvia's compliance risk management (CRM) system is formal, transparent, and covers all tax processes. The SRS operates a comprehensive strategy with a wide range of data sources, including tax records, company registers, and compliance history, to support risk assessment. A key feature is the taxpayer rating system, which provides public overall ratings and private detailed indicators to incentivize compliance. This approach ensures alignment between risk detection and enforcement actions while promoting voluntary compliance.

Latvia's risk assessment relies on rule-based analytics. The highly automated system employs ESKORT, as mentioned above a rule-based algorithm (not AI) that scores legal entities based on predefined fraud risk criteria, such as sector-specific risks and compliance history. This system supports targeted interventions for high-risk taxpayers (e.g. fraudulent labour, undeclared activities) ([67]).

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[62] Commission Implementing Regulation (EU) 2025/2263 of 12 November 2025.

[63] Based on Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (VAT), as subsequently amended, the EU and Member States' national tax authorities cooperate to help ensure the correct application of VAT rules on cross-border transactions.

[64] The data is assessed based on the annual statistics, provided pursuant to Commission Implementing Regulation 79/2012 (Annex IV) and presented to the Standing Committee on Administrative Cooperation (SCAC).

[65] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Latvia sent 24.18 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.60 requests sent per EUR 1 billion of GDP; and received 5.53 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.59 requests received per EUR 1 billion of GDP.

[66] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Latvia reported 6.96 VAT identification numbers allocated to taxable persons not established in the Member State per EUR 1 billion of GDP compared to an EU weighted average of 7.77 VAT identification numbers per EUR 1 billion of GDP; and new means of transport 3.22 requests per EUR 1 billion of GDP compared to an EU weighted average of 0.95 new means of transport per EUR 1 billion of GDP.

[67] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection.

Latvia applies transparent taxpayer ratings and service improvements. The SRS continues the integration of principles of the "People First" initiative (2023–2024) to improve taxpayer services, including testing an AI tool to enhance response efficiency. The taxpayer rating system promotes compliance by offering benefits for high-rated companies and restrictions for low-rated ones, fostering trust through transparency. While no formal behavioural-insights programme is documented, the public ratings and private indicators serve as proactive compliance tools by encouraging voluntary adherence ([68]).

Latvia's use of CESOP data is limited to manual analysis. Latvia manually processes and evaluates CESOP data in comparison with other data at the disposal of SRS, including VAT declarations and VIES data, because it cannot integrate it into its CRM system as additional risk information ([69]).

Latvia also partially uses reports exchanged automatically under the DAC concerning risk of tax avoidance, i.e. DAC3 ([70]), DAC4 ([71]) and DAC6 ([72]), mainly for risk-analysis purposes in the field of corporate income taxation. The Latvian tax authorities identified successfully 100% of the taxpayers concerned by DAC3, but a large part of the process remains manual. In practice, information is used for risk-assessment (to identify risks related to transfer pricing, base erosion and profit shifting, harmful tax practices, etc) and possible follow-up actions such as tax audits. This approach could be enhanced by introducing the metrics set out in the DAC implementation act ([73]), to measure the entities or taxpayers covered by DAC4 and DAC6 which are correctly identified. Particularly, the lack of information on the number of identified taxpayers and the exclusive use of manual matching techniques highlights the need for the Latvian tax authorities to shift to an automated matching model in order to increase their efficiency as well as their effectiveness in detecting aggressive tax arrangements and profit-shifting issues. The introduction of strategies to enable better monitoring of data usage is also strongly recommended.

4.4 Audits

Latvia applies verifications based on identified risks and taxpayer-specific information. The SRS applies a two-tiered approach: it conducts tax controls to verify tax returns, declarations, and customs compliance within three to five years of payment deadlines, including on-site inspections of accounting records and economic activities. Tax audits examine the correctness of tax calculations, payments, and compliance with the European customs legislation, ranging from partial to comprehensive reviews ([74]).

Latvia's taxpayer segmentation seems to lack specialized units. SRS does not operate a large taxpayer office (LTO) or a high-net-worth individual programme, and e-commerce businesses are subject to standard tax rules without dedicated oversight. While businesses may use EU

[68] Ibidem.
[69] Ibidem.
[70] 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: automatic exchange of information on rulings and advanced pricing arrangements.
[71] Ibidem.
[72] Ibidem.
[73] Commission Implementing Regulation (EU) 2025/2263 of 12 November 2025.
[74] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Latvia, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/3476803.

schemes like OSS for cross-border supplies, there is no specialized audit segmentation for online sellers.

Latvia makes limited use of advanced instruments of administrative cooperation provided for in DAC and Regulation 904/2010 to facilitate cooperation on specific cross-border VAT issues. Such instruments entail multilateral controls (MLCs) such as simultaneous controls, joint audits and presence in administrative offices and administrative enquiries (PAOEs). The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reduce the tax gap. Between 2023 and 2025 Latvia has participated in 2 MLC and 3 PAOE, representing respectively less than 1%, and 2.3% of the total of these operations. Latvia has not initiated any MLC or PAOE ([75]).

4.5 Payment and collection

Latvia achieves full electronic tax payment adoption, though cash tax payments remain permitted. Since 2018 ([76]), 100% of tax payments were made electronically. No 2024 data is available for on-time payment rates for CIT, PIT or VAT. Taxes are generally paid by bank transfer and cash payments for transactions B2B or business-to-consumer (B2C) not registered as a trader, must not exceed EUR 7 200 ([77]).

Since 2025 Latvia has implemented a risk-based refund control system. It identifies high-risk taxpayers using a rating system and registration risk indicators. The system also flags segments with elevated VAT risks, including registration risks and negative operating history, and regularly updates risk indicators based on emerging factors.

The VAT penalty system is only partially in place. There is currently no automatic penalty system for non-submission of VAT returns, although the possible future development of automatic sanctions is being considered. At present, taxpayers who fail to submit VAT declarations are excluded from the register ([78]).

4.6 Tax debt recovery

The closing stock of tax arrears at the end of the year in percentage of total revenue has decreased in recent years and remains low (data available until 2024). In 2024, it amounted to 5.6%, below the EU average of 30.7%. The closing stock of collectable arrears as a percentage of the closing stock arears has slightly increased compared to previous years and was at 41.2% in 2024 ([79]).

Harmonised legislation applicable to all taxes are supporting effective recovery in Latvia. 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. Latvia does not have specific legislation regulating the exchange of information on a

[75] EU AIAC Statistics -2023-2025.
[76] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.
[77] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[78] Ibidem.
[79] ISORA Data - closing stock and collectable arrears.

debtor's assets between the tax (recovery) authorities and administrators of insolvency proceedings ([80]).

As regards the write-off of tax debts, **Latvia applies strict rules ensuring that debts are only written off when recovery is no longer possible.** The information on how long it takes to solve tax disputes (at administrative level or before a court) indicates that disputes are solved within a reasonable time, both at administrative and judicial appeal stages ([81]). Latvian law also allows the tax administration to take precautionary measures before there is an assessment/title, without the need for a prior court order.

Regarding cross-border recovery assistance within the EU, Latvia submits compliant requests to other Member States. Latvian recovery requests to other Member States generally comply with requirements ([82]) focusing on well-established claims. Only 118 recovery requests were suspended in 2025, while 1 441 requests for recovery were sent to other Member States in the same year ([83]).

Latvia uses the information from DAC for recovery purposes, which is a recommended practice for reducing tax gap.

[80] Latvia's replies to questions 34-36 of the 2025 survey on tax recovery.
[81] Latvia's replies to questions 12 and 13 of the 2025 survey on tax recovery.
[82] Statistics on rejections of requests, reported by Latvia as applicant State, relating to recovery assistance in 2025.
[83] Statistics on the suspension of recovery requests, sent by Latvia as applicant State, following contestation of the claim, for 2025.