

APPLICATION OF IMMOVABLE PROPERTY TAX IN THE REGIONS OF LATVIA

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Abstract. Taxes are an instrument allowing the state to redistribute public resources, to promote the decrease of inequality and poverty, and to ensure social protection of population. Tax policy is a fundamental instrument for investment promotion affecting the economic competitiveness. The research is aimed at the analysis of basic socio-economic development indicators and the application of immovable property tax by the regions of Latvia as well as the discussion of amendments in the application of immovable property tax in Latvia effective from 2013. The research leads to a conclusion that the diverse basic indicators of socio-economic development of the statistical regions of Latvia – size of the region, number and density of population, and different economic development of regions, and prices of real estate serve as the reason for different immovable property tax revenues. Larger amount of immovable property tax is collected in cities – Riga, Jurmala, Daugavpils, Liepaja, and Jelgava as well as in individual counties of Pieriga (Marupe county, Adazi county), i.e. places with the highest population density and real estate market activities. Starting from 2013, the local governments in their administrative territories have the rights to determine the immovable property tax rates within the range of 0.2%-3% set by the central government, yet, observing the principles of equitable grouping, efficiency, responsible budget planning, predictability and stability, business support, social responsibility, and the principle of territorial development and arrangement.

Key words: regions of Latvia, socio-economic development, immovable property tax.

JEL code: H29

Introduction

Tax revenues are a factor characterising financial autonomy, stability, and legal capacity of every local government. Correctly developed tax policy is an issue of a socially responsible economy. Immovable property tax policy could impact the development of Latvia's regions, create a more favourable business environment, and promote capital inflow in business structures.

Topicality and choice of the research theme is based on the lack of scientific papers which provide the study on the application of immovable property tax in the regions of Latvia among relatively few studies aimed at immovable property tax issues.

The research is based on the **hypothesis** that the diverse level of regional socio-economic development serves as the main reason for the differences in immovable property tax revenues in the regions of Latvia.

The following research **aim** is set to verify the hypothesis: to analyse the basic socio-economic development indicators and the application of immovable property tax by the regions of Latvia as well as to discuss the amendments in the application of immovable property tax in Latvia effective from 2013.

The following **tasks** are advanced to achieve the set aim:

- 1) to characterise the basic GDP indicators, and the number and density of population by the statistical regions of Latvia;
- 2) to compare immovable property tax revenues and their burden in total revenues of the local government basic budgets by the statistical regions of Latvia;

- 3) to analyse the novelties in the application of immovable property tax introduced in 2013.

The monographic descriptive method, the methods of economic analysis and statistical data analysis are used as the main methods for the research purpose. The research is based on the application of statistical data on socio-economic development of regions from the Central Statistical Bureau of the Republic of Latvia, data on immovable property tax revenues from the Ministry of Finance of the Republic of Latvia, and research on regional development and immovable property tax revenues by the regions of Latvia done by the State Regional Development Agency.

Research results and discussion Characteristics of economic development basic indicators by the regions of Latvia

After the implementation of the administrative territorial reform, there were 118 local governments in Latvia from 1 July 2009, while there have been 119 local governments (9 local governments of republican cities and 110 local governments of counties), where the local governments implement management within their sphere of competence from 3 January 2011.

There are five planning regions in Latvia – Riga, Vidzeme, Kurzeme, Zemgale, and Latgale - which are established for the sake of regional development planning, coordination, and ensuring the cooperation of local governments. Six statistical regions are established in Latvia for the purpose of information registration. Riga planning region in the statistical system of regions is divided into two statistical regions - Riga (encompassing

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Table 1

Gross Domestic Product by statistical regions of Latvia for the period of 2006 - 2010

Regions	Indicator	2006	2007	2008	2009	2010
Riga	GDP total, mln LVL	6 381.12	8 097.87	8 036.23	6 928.27	6 797.27
	GDP per capita, LVL	9055	11556	12766	10181	10201
	Share,%	57.4	55.0	54.4	53.0	53.2
Pieriga	GDP total, mln LVL	1 363.87	1 908.79	1 818.26	1 702.73	1 759.49
	GDP per capita, LVL	3709	5146	5598	4549	4719
	Share,%	12.3	13.0	12.3	13.1	13.8
Vidzeme	GDP total, mln LVL	684.80	970.66	990.39	899.18	860.22
	GDP per capita, LVL	2929	4217	4355	4065	4000
	Share,%	6.2	6.6	6.7	6.9	6.7
Kurzeme	GDP total, mln LVL	1 111.36	1 514.57	1 517.69	1 387.19	1 315.49
	GDP per capita, LVL	3754	5179	5793	4907	4781
	Share,%	10.0	10.3	10.3	10.7	10.4
Zemgale	GDP total, mln LVL	759.98	1 083.16	1 180.16	1 035.39	1 031.98
	GDP per capita, LVL	2762	3974	4442	3912	3995
	Share,%	6.8	7.4	8.1	7.9	8.1
Latgale	GDP total, mln LVL	814.23	1 128.15	1 219.61	1 092.34	999.14
	GDP per capita, LVL	2386	3370	3872	3429	3228
	Share,%	7.3	7.7	8.2	8.4	7.8

Source: *Iekszemes kopprodukts...., 2012*

Riga city) and Pieriga (encompassing the rest of the territory of Riga planning region) (Regionu attistiba...., 2009).

The authors will analyse the basic indicators of socio-economic development by regions separating Riga and Pieriga regions to provide an insight in the regional development of Latvia.

Gross Domestic Product (GDP) by regions is used to evaluate the total value of final products and services produced in the territory of a particular region during one year. The GDP may be considered as one of the principal indicators of territorial economic development (Skapars R., 2010).

The GDP breakdown by statistical regions (Table 1) shows the explicit dominant of Riga statistical region in Latvia's economy. In 2010, the GDP produced in Riga statistical region composed LVL 6 797.27 million or 53.2% of the total GDP in the country. The proportion of GDP produced in other regions ranged between 6.7% (Vidzeme statistical region) and 13.8% (Pieriga statistical region). According to the GDP per capita indicator, Riga statistical region supersedes the others, too. The GDP per capita indicators in the rest regions were below the average indicator of the country in 2010 (LVL 5797) (Iekszemes kopprodukts...., 2012).

The data summarised in Table 1 indicate that all statistical regions of Latvia have declared an increase in the GDP volume in 2007. However, the global financial crisis of 2008-2010 has caused the economic crisis and the GDP decline in Latvia.

The largest GDP decrease was observed in Riga statistical region in 2009, where the GDP volume declined by LVL 1 169.6 million or 14.4% compared with 2007.

Yet, the smallest GDP decrease was declared by Pieriga statistical region (LVL 206.06 million or 10.8%). The economic fall-down of 2009 is also seen through the GDP per capita indicators by regions – the decrease in the GDP volume was observed in all the statistical regions of Latvia.

From 2010, the GDP increase was observed only in Pieriga statistical region; while GDP per capita by regions increased in the statistical regions of Riga, Pieriga, and Zemgale. This could be explained by better geographical location of regions, better infrastructure and concentration of companies producing goods and services with higher value added, for example, the JSC "Latvijas Dzelzceļš", the JSC "Rīgas Brīvosta", the JSC "Latvenergo" etc. in Riga statistical region, the international airport "Rīga", the JSC "Olainfarm", the JSC "Tukuma piens" and so on in Pieriga statistical region, the JSC "Dobeles dzirnavnieks", "Agrolats" Ltd and others in Zemgale statistical region.

As to the area, Vidzeme statistical region (15246 km²) covering 23.6% of total territory of the country is the largest region (Table 2).

The density of population is the smallest in Vidzeme statistical region (15.0 people/km²). Though, Riga statistical region occupies only 0.5% of total territory of the country, the density of population here reaches 2356.2 people per square metre, which exceeds the average population density indicator of Latvia more than 67 times in 2012 (34.5 people/km²). Pieriga statistical region (67.9 people/km²) almost twice exceeding the average population density indicator of Latvia is the second largest region by the density of population. Pieriga

Table 2

Territory of the statistical regions of Latvia and population density in 2012

Regions	Area, km ²	Share of area in the total territory of the country, %	Density of population, people/km ²
Riga	307	0.5	2356.2
Pieriga	10 130	15.7	67.9
Vidzeme	15 246	23.6	15.0
Kurzeme	13 596	21.1	21.6
Zemgale	10 733	16.6	25.5
Latgale	14 550	22.5	22.7

Source: data summarised and calculated by the authors based on Zinojums par..., 2012

Table 3

Number of population in the statistical regions of Latvia for the period of 2006-2012, thousand

Region	2006	2007	2008	2009	2010	2011	2012	Changes 2012/2006
Riga	706.6	702.6	697.3	687.4	673.4	659.4	650.5	-56.1
Pieriga	366.4	368.9	372.7	374.5	373.9	372.0	368.2	1.8
Vidzeme	235.8	231.8	228.4	224.1	218.2	211.9	208.1	-27.7
Kurzeme	297.9	294.0	290.6	286.0	279.3	271.1	266.3	-31.6
Zemgale	276.5	273.8	271.1	267.7	261.6	255.1	250.2	-26.3
Latgale	344.7	337.8	331.6	323.0	314.1	304.9	298.5	-46.2

Source: Iedzīvotāju skaits ..., 2012

statistical region is also the second smallest region in Latvia by the territory (15.7% of total territory of the country).

As to the number of population, Riga statistical region is also the largest region in Latvia (Table 3). Almost one third of the population of Latvia live in Riga city, i.e. 650.5 thousand people or 32% of the total population.

The number of population in Latvia has gradually decreased since the regaining independence; mainly due to migration and demographic processes. More substantial emigration wave related with the expansion of labour force mobility opportunities was evident after Latvia's accession to the European Union in 2004. The next emigration wave started with the beginning of the economic crisis in 2009.

Data of Table 3 show that in 2012 (compared with 2006) a quantitatively significant decrease in the number of population was evident in Riga statistical region where the number of population decreased by 56.1 thousand people or 7.9%. The change of place of residence for Pieriga region might explain the large decline in the population number. This is evidenced also by the fact that Pieriga region is the only region where the number of population has increased by 1.8 thousand people or 0.5%. As to the data analysis by regions, the number of population has particularly increased in the counties of Adazi, Babite, Carnikava, Garkalne, Ikšķile, Kekava, Marupe, and Stopini. The most rapid decrease of population was observed in Latgale where the population has declined by 46.2 thousand people or 13.4% (2012 vs. 2006). As to the counties, the largest population decrease was

evident in Baltinava, Cibla, Aglona, Vilaka, and Dagda counties. Hence, the number of population in Latvia has decreased by 186 thousand or 8.4% for the period of 2006-2012.

The analysed socio-economic indicators of the statistical regions of Latvia allow the authors to conclude that the statistical regions of Latvia are very diverse by their territory, number of population, density of population, and economic development level. Better socio-economic situation is evident in the central part of Latvia, especially in Riga and Pieriga. The situation deteriorates in the regions farther from Riga, especially in Latgale and the South-western part of Kurzeme. The development of Latvia's regions is heterogeneous. General performance of the regions is significantly affected by the size and number of cities and towns located in particular regions, for example, there is only one big city Daugavpils in Latgale which produces almost a half of total GDP in the region. If adding another big town Rezekne, these two towns already ensure more than two thirds of the GDP produced in Latgale. Liepāja and Ventspils, in turn, compose more than a half of the GDP produced in Kurzeme. The structure of sectors also play an essential role in the development of regions; here, the most important aspects being the available natural resources, geographical location, developed infrastructure, and historical traditions.

Immovable property tax by the regions of Latvia

Tax policy operates as one of the government instruments for the development of state competitiveness.

Table 4

Tax revenues in the basic budgets of local governments by the statistical regions of Latvia in 2011

Region	Total budget revenues, mln LVL	Tax revenues, total, mln LVL	Personal income tax		Immovable property tax		Other taxes, mln LVL
			amount, mln LVL	Share,%	amount, mln LVL	Share,%	
Riga	459.70	321.73	263.82	82.0	55.25	17.2	2.66
Pieriga	249.15	154.95	131.86	85.1	22.65	14.6	0.44
Vidzeme	154.71	58.64	52.05	88.8	6.36	10.8	0.23
Kurzeme	183.66	83.91	72.58	86.5	10.96	13.1	0.37
Zemgale	167.05	77.93	69.11	88.7	8.53	10.9	0.29
Latgale	201.18	66.85	60.03	89.8	6.45	9.6	0.37

Source: data summarised and calculated by the authors based on *Regionu attistiba...., 2011*

Table 5

Immovable property tax revenues by the statistical regions of Latvia for the period of 2009-2012, mln LVL

Region	Immovable property tax revenues per capita on average, LVL				Immovable property tax revenues, mln LVL			
	2009	2010	2011	Forecast for 2012	2009	2010	2011	Forecast for 2012
Riga	54	65	79	85	38.63	45.86	55.25	58.64
Pieriga	32	41	53	65	13.73	17.17	22.65	26.89
Vidzeme	16	23	28	32	3.92	5.35	6.36	6.76
Kurzeme	25	31	40	42	7.45	9.21	10.96	12.30
Zemgale	18	24	31	37	5.11	6.69	8.53	9.27
Latgale	13	18	22	23	4.18	5.41	6.45	6.83

Source: data summarised and calculated by the authors based on *Regionu attistiba...., 2009, 2011, Zinojums par, 2012*

Regionally, taxes are used to support a certain sector or region, thus, obtaining tax advantages. Taxes should also promote social and economic development of the country (Ketners K., 2009).

Immovable property tax is a public tax which is administered by local governments and its revenues are accrued to the budgets of local governments. Immovable property tax is usually a relevant source of budget revenues for local governments thanks to a relatively simple tax administration and fixing to a certain territory.

The analysis of tax revenues by the statistical regions of Latvia (Table 4) show that tax revenues play a significant role in the revenue formation in the basic budgets of local governments.

The share of tax revenues in total basic budget revenues of 2011 of the statistical regions of Latvia was the following: 69.9% in Riga, 62.2% - Pieriga, 46.7% - Zemgale, 45.7% - Kurzeme, 37.9% - Vidzeme, and 33.2% - Latgale (*Regionu attistiba...., 2011*).

The analysis of tax significance in total tax revenues of local governments reveals that personal income tax revenues compose the largest share of revenues in 2011. Personal income tax revenues in the statistical regions of Latvia ranged between 89.8% (Latgale statistical region) and 82.0% (Riga statistical region) of total tax revenues.

The second largest group of revenues is made by immovable property tax revenues. The share of immovable property tax by the statistical regions of Latvia in total tax revenues ranged between 17.2% (Riga statistical region) and 9.6% (Latgale statistical region).

Table 5 depicts the analysis of immovable property tax revenues broken down by the statistical regions of Latvia for the period of 2009-2012.

According to the information summarised in Table 5, the largest immovable property tax revenues in absolute figures are collected in Riga, followed by Pieriga, Kurzeme, Zemgale, Latgale, and Vidzeme statistical regions. Riga presents also the largest average immovable property tax revenues per capita. However, analysing immovable property tax revenues by counties, it may be concluded that the largest immovable property tax revenues per capita in 2011 were characteristic to Jurmala city (LVL 113), Marupe county (LVL 110), Saulkrasti county (LVL 103), Garkalne county (LVL 95), Carnikava county (LVL 89), and Babite county (LVL 85), while Riga city ranked only in the 7th position (LVL 79). Similarly the analysis of immovable property tax revenues in absolute figures in 2011 reflects that Jurmala city (LVL 6.37 million or 28%) ensures the largest revenues in Pieriga statistical region, Valmiera town (LVL 8.99 million or 14%) in Vidzeme statistical region,

Table 6

Immovable property tax revenues and share in the statistical regions of Latvia by the type of taxable items in 2011

Region	Indicator	Land	Buildings	Engineering constructions	Residential buildings	TOTAL
Riga	amount, mln LVL	28.79	19.08	0.28	7.10	55.25
	Share,%	52.1	34.5	0.5	12.9	100
Pieriga	amount, mln LVL	15.35	3.84	0.25	3.21	22.65
	Share,%	67.8	16.9	1.1	14.2	100
Vidzeme	amount, mln LVL	4.36	1.11	0.23	0.66	6.36
	Share,%	68.6	17.5	3.6	10.3	100
Kurzeme	amount, mln LVL	7.43	2.38	0.21	0.94	10.96
	Share,%	67.8	21.7	1.9	8.6	100
Zemgale	amount, mln LVL	5.74	1.62	0.21	0.96	8.53
	Share,%	67.3	19.0	2.5	11.2	100
Latgale	amount, mln LVL	4.13	1.44	0.16	0.72	6.45
	Share,%	64.1	22.3	2.5	11.1	100

Source: data summarised and calculated by the authors based on Zinojums par..., 2012

Liepaja town (LVL 2.97 million or 27%) in Kurzeme statistical region, Jelgava city (LVL 1.95 million or 23%) in Zemgale statistical region, and Daugavpils city (LVL 2.03 million or 32%) in Latgale statistical region (Regionu attistiba..., 2011).

The data of Table 5 show that immovable property tax revenues have a tendency to increase annually in absolute figures. A significant increase in the share of immovable property tax revenues in general tax revenues of the statistical regions was experienced starting from 2010 with the increase of immovable property tax rate for land (from 1% to 1.5%) and the expansion of the set of items taxable with immovable property tax. Starting from 2010, the immovable property tax is levied upon engineering constructions (a tax rate of 1.5%) and residential buildings (a tax rate of 0.1-0.3%). In 2011, the tax rate for residential buildings was doubled to 0.2-0.6%, thus, also increasing the revenues from immovable property tax and reaching the highest indicators by the statistical regions of Latvia in 2011.

The analysis of immovable property tax rates by the statistical regions of Latvia outlined that the largest share or 50.2% of total immovable property tax revenue amount collected in 2011 was obtained in Riga statistical region followed by Pieriga statistical region with the share of collected tax revenues of 20.5%, Kurzeme statistical region – 9.9%, Zemgale statistical region – 7.7%, Latgale statistical region – 5.9%, and Vidzeme statistical region – 5.8% (Regionu attistiba..., 2011).

These data allow concluding that the immovable property tax is very significant particularly for the local government of Riga city. Immovable property tax revenues in Riga city compose more than a half of total immovable property tax revenues in Latvia.

Table 6 outlines the breakdown of immovable tax rate revenues by the type of taxable item (land, buildings, residential buildings, and engineering constructions).

According to the data analysed in Table 6, in 2011, the immovable property tax on land constituted the

largest amount of revenues in the statistical regions of Latvia. As to the amount of revenues, immovable property tax revenues on land collected by the statistical regions of Latvia exceeded half of the total amount of collected immovable property tax revenues – ranging between 68.6% (Pieriga statistical region) and 52.1% (Riga statistical region). Buildings were the second taxable item in terms of revenues, the share of which was between 34.5% (Riga statistical region) and 16.9% (Pieriga statistical region). Immovable property tax on residential buildings, in turn, composed between 14.2% (Pieriga statistical region) and 8.6% (Kurzeme statistical region) of total tax revenues. As to the revenues, the smallest amount of immovable property tax was collected on engineering constructions which constituted between 3.6% (Vidzeme statistical region) and 0.5% (Riga statistical region) (Zinojums par..., 2012).

The authors conclude that immovable property tax revenues differ by the regions of Latvia. Diverse socio-economic indicators like the size of region, number and density of population as well as different economic development of the regions and real estate prices are the main reasons for the differences observed in the statistical regions of Latvia.

The cadastral value of immovable property is also very significant, besides the value is most directly affected by the type of use and location of immovable property. The value of immovable property changes depending on the property location – whether it is located in a prestige area (Riga, Jurmala etc.) or its vicinity with well-developed infrastructure, or it is located in the border area of the country – a distant place without a real demand for property on the real estate market or its practical application.

Larger amount of immovable property tax is collected in cities – Riga, Jurmala, Daugavpils, Liepaja, Jelgava, and individual counties of Pieriga (Marupe county, Adazi county) with the highest population density and real estate market activities.

Changes in the application of immovable property tax effective from 2013

Starting from 2013, considerable changes have been introduced in the sphere of immovable property tax. Hence, from 2013, local governments are eligible to issue Binding Regulations for setting and administration of immovable property tax and to determine immovable property tax rates within a government set range from 0.2% to 3% consistent with the targets and needs of each local government. A limit of 1.5% is set for the tax rate fluctuations (from 0.2% to 3%) up to which local governments may voluntarily determine tax rates. The rate exceeding 1.5% may be levied only upon immovable property which is not managed consistent with the procedure prescribed by the regulatory enactments, for example, hovels located in the territory of a local government and degrading the environment and endangering the population safety as well as unutilised agricultural area (Par nekustama ipasuma..., 2012).

Under the law "On Immovable Property Tax" the local governments shall observe single principles for setting tax rates from 2013. The Law prescribes four principles which every local government shall observe when determining the immovable property tax rate:

- 1) principle of equitable grouping under which taxpayers or taxable items are grouped consistent with equitable criteria, for example, taxpayers – natural entities and legal entities; taxable items – residential buildings, production units, business units etc.;
- 2) principle of efficiency under which a local government proportionates tax administration expenses with tax revenues. This principle means that a local government shall evaluate the application of appropriate tax administration measures to proportionate them with the forecasted tax revenues resulting from the implemented measures;
- 3) principle of responsible budget planning under which a local government balances its responsibilities with the resources necessary for the performance of responsibilities. As to the immovable property tax, it means that a local government prior to the decision on the applicable tax rate or rates shall evaluate the forecasted immovable property tax revenues (so a taxpayer is sure that a tax rate for the coming year will not be unexpectedly 1.5% for all flats);
- 4) principle of predictability and stability under which tax rates are duly set for at least a two-years period if the increase or decrease of immovable property base value is less than 20% comparing the base values in the taxation year and the pre-taxation year (so a taxpayer is sure that a tax rate for the coming year will not be unexpectedly 1.5% for all flats).

The law "On Immovable Property Tax" also prescribes three optional principles which a local government may apply or not apply on its own judgement:

- 1) principle of business support under which a local government applies the tax rate as means to increase the competitiveness of businesses or certain sectors of business operating in its territory by observing the state aid provisions;
- 2) principle of social responsibility under which a local government reckons on the impact of tax rate on the groups of socially less-protected and needy population as well as ability of population to pay taxes. The principles of business support and social

responsibility are stated as optional principles, since local governments already previously had an opportunity to support both business and population through the application of tax allowances;

- 3) principle of the territorial development and arrangement under which a local government applies the tax rate to promote the development and arrangement of its territory. This principle is closely related with the principle of business support, since business promotion is one of the main instruments to ensure territorial development.

As to the application of tax allowances, the local governments are obliged to follow the principles of equitable grouping, efficiency, responsible budget planning, and social responsibility; while the application of the other principles is optional for local governments.

The immovable property tax is the only tax in Latvia which requires the consideration of the tax imposition principles for determining tax rates.

The analysis of Binding Regulations adopted by the largest cities and counties of Latvia (regulations adopted to the beginning of January 2013, since the Binding Regulations of many local governments are still under the process of development) allows concluding that the majority of local governments have retained the limitation for the increase of immovable property tax in 2013 for land (the amount of immovable property tax in 2013 may not exceed the amount of tax calculated for the previous taxation year by more than 25%) as well as the tax is not imposed upon auxiliary premises of residential buildings. Though, an additional rate of 1.5% is imposed upon degraded, crashed buildings (Par nekustama ..., 2012; Nekustama ipasuma nodokla..., 2012; Nekustama ipasuma ..., 2012; Kartiba, kada..., 2012).

Jelgava and Riga city councils are the only local governments which have used their rights to determine immovable property tax rates within the range of 0.2%-3% set by the central government.

Jelgava City Council has prescribed that the immovable property tax rate is between 0.2% and 0.6% (depending on the cadastral value of immovable property) for residential buildings which are owned by business entities or business entities have a legal possession on them, and the functional use purpose of these buildings is living, if they are rented for living and they have been a declared place of residence of a tenant in this property for at least three months. The rate of 1.5% is applied if the rental agreement is not concluded or a real estate rented by a business entity has not been a tenant's declared place of residence for at least three months from the contract conclusion date (Nekustama ipasuma..., 2012).

Though, Riga City Council does not apply the limitation for the increase of immovable property tax for land from 2013 and adjusts the tax burden through tax rates. In 2013, Riga City Council has determined an immovable property tax rate equalling 1% from the cadastral value of a land unit for legal entities and natural entities whose declared place of residence is the administrative territory of Riga city on January 1 of the taxation year. The tax rate equalling 1.5% from the cadastral value of a land unit is determined for natural entities whose declared place of residence is outside the administrative territory of Riga city on January 1 of the taxation year (Par nekustama..., 2012).

These rates are imposed in Riga city consistent with the compulsory principles prescribed by the law "On Immovable Property Tax":

- 1) principle of equitable grouping – taxpayers are grouped consistent with equitable criteria – a taxpayer is a natural entity or a legal entity; whether the natural entity is declared in Riga or outside Riga, i.e. a reduced rate will be applied if a natural entity – a payer of immovable property tax is a resident of Riga city;
- 2) principle of efficiency – application of the set rate does not require additional administrative resources, adjustment of software requires insignificant improvements;
- 3) principle of responsible budget planning – further abandonment of the application of limitation for the tax increase will partly compensate the reduction of tax rate for land up to 1%, thus, ceasing the unequal attitude towards taxpayers, since the law "On Immovable Property Tax" envisaged the limitation for the increase of tax only for a part of taxpayers. Besides, since the reduced rate is applicable only to legal entities and natural entities declared in Riga, such a regulation would encourage natural entities to declare in Riga, and thus, the increase of personal income tax revenues;
- 4) principle of predictability and stability – it is not envisaged to change the set rates also in the coming taxation year.

The determination of a reduced tax rate for land for the mentioned categories of taxpayers requires also the application of the principle of social responsibility and the principle of territorial development and arrangement prescribed by the law as an optional principle. Hence, the declaration of immovable property taxpayers – natural entities in Riga is enhanced, i.e. promoting the increase of personal income tax revenues in the budget of Riga City local government and allowing contribution of additional resources for the development of the city. Besides, business promotion is one of the main instruments to ensure territorial development.

Conclusions, proposals, recommendations

1. The statistical regions of Latvia are unequally developed and differ by size of the region, number and density of population, and economic development level. The structure of sectors also play an essential role in the development of regions; here, the most important aspects being the available natural resources, geographical location, developed infrastructure, and historical traditions.
2. The diverse basic indicators of socio-economic development of the statistical regions of Latvia – size of the region, number and density of population, and different economic development of regions and prices of real estate serve as the reason for different immovable property tax revenues.
3. Larger amount of immovable property tax is collected in cities – Riga, Jurmala, Daugavpils, Liepaja, and Jelgava as well as in individual counties of Pieriga (Marupe county, Adazi county), i.e. places with the highest population density and real estate market activities.

4. Starting from 2013, the government of Latvia has introduced considerable changes in the application of immovable property tax - to confer the rights to local governments to determine immovable property tax rates within a range from 0.2% to 3% in their administrative territories.
5. The immovable property tax is the only tax in Latvia, the determination of which requires the observance of the principles of equitable grouping, efficiency, responsible budget planning, predictability and stability, business support, social responsibility, and territorial development and arrangement.

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