

## *Taxing Energy Use 2019: Country Note – Latvia*

*This note explains how Latvia taxes energy use. The note shows the distribution of effective energy tax rates – the sum of fuel excise taxes, explicit carbon taxes, and electricity excise taxes, net of applicable exemptions, rate reductions, and refunds – across all domestic energy use. It also details the country-specific assumptions made when calculating effective energy tax rates and matching tax rates to the corresponding energy base.*

*The note complements the Taxing Energy Use 2019 report that is available at <http://oe.cd/TEU2019>. The report analyses where OECD and G20 countries stand in deploying energy and carbon taxes, tracks progress made, and makes actionable recommendations on how governments could do better to use taxes to reach environmental and climate goals.*

*The general methodology employed to calculate effective energy tax rates and assign tax rates to the energy base is explained in Chapter 1 of the report. The official energy tax profile for Latvia can be found in Chapter 2 of the report. Chapter 3 additionally shows effective carbon tax rates per tonne of CO<sub>2</sub>, and presents the corresponding carbon tax profiles for all countries. The report also contains StatLinks to the official data.*

### **Structure of energy taxation in Latvia**

Energy and carbon taxes in Latvia are levied within the framework of the 2003 European Union (EU) Energy Tax Directive, which sets minimum rates for the taxation of energy products in EU member states. Within this framework, as at 1 July 2018, the main taxes on energy use in Latvia are the following:

- Excise taxes (*akcīzes nodoklis*) apply to mineral oils and natural gas. Certain uses benefit from reduced rates or are tax exempt as further discussed below.
- The procedure of taxation applicable for coal, coke and lignite is prescribed by the *Natural Resources Tax Law*. In TEU this tax is classified as a fuel excise tax. Coal utilised for electricity production and combined heat-power production is tax exempt.
- The taxation procedure of CO<sub>2</sub> emissions in combustion installations that fall below the threshold for inclusion in the EU emissions trading system (ETS) (see below) is prescribed by the *Natural Resources Tax Law*. Such are taxed at a rate EUR 4.5 per tonne of CO<sub>2</sub>, unless installations are using renewable energy or peat. In TEU this tax is classified as an explicit carbon tax.
- Taxation applicable for the use of water for electricity production in hydropower plants (HPP) is prescribed by the *Natural Resources Tax Law*. All HPP are taxed at a rate of 0.00853 EUR per 100 m<sup>3</sup> water flow through the hydro technical construction. However, as it was not possible to translate this tax into a rate per unit

of energy use, it was decided, in consultation with country delegates, to not include the tax in TEU.

- The electricity tax (*elektroenerģijas nodoklis*) applies to electricity consumption. The carriage of goods and public carriage of passengers, including on rail transport and in public carriage of passengers in towns, household users, and street lighting services are tax exempt.

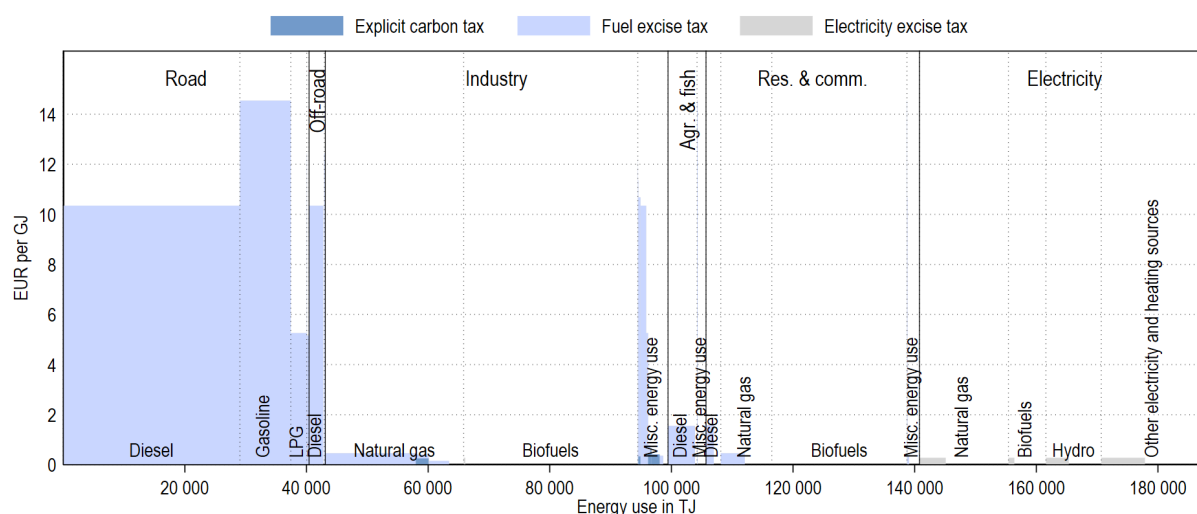
Latvia participates in the EU ETS (OECD, 2018<sup>[1]</sup>). Allowance prices are not shown in the energy tax profiles. However, the carbon tax that applies to CO<sub>2</sub> emissions in combustion installations that fall below the threshold for inclusion in the EU emissions (see above) is shown.

Latvia also taxes the extraction of local natural resource, in particular peat. In line with the TEU methodology, such taxes are not included. Note that peat production in Latvia is minimal.

## Effective tax rates on energy use in Latvia

Tax rates can differ across energy products and users, as described below. Figure 1 provides an overview of how energy and CO<sub>2</sub> taxes apply to different energy categories across the economy. The remainder of this document discusses details on tax rates and tax bases for each of the six economic sectors.

Figure 1. Effective tax rates on energy use by sector and energy category

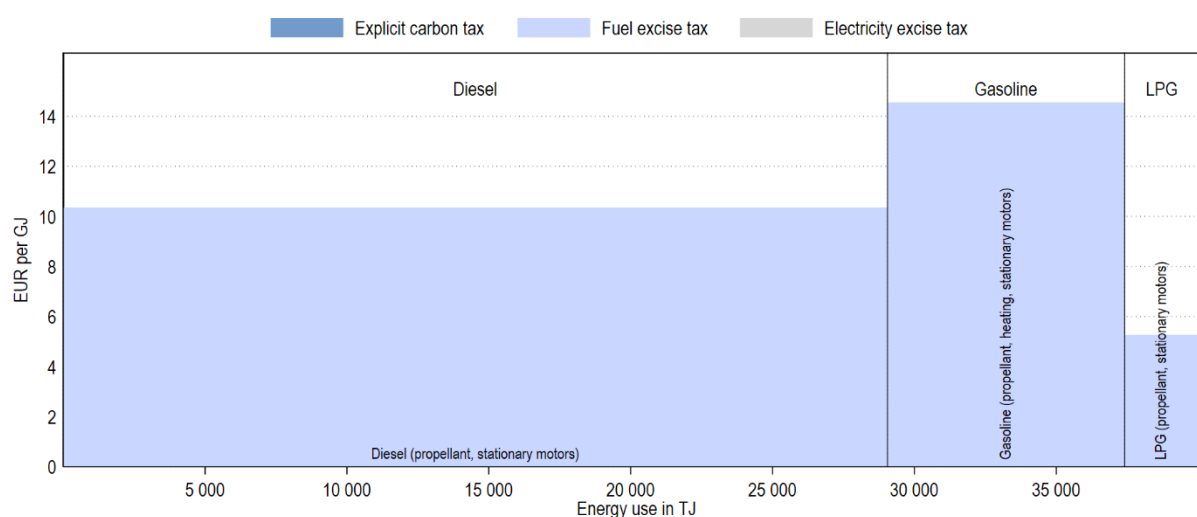


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the bottom) that represent less than 1% of a country's energy consumption are grouped into "misc. energy use" and may not be labelled.

## Road

Figure 2 shows that within the road sector, gasoline is taxed at a higher effective tax rate than diesel. LPG is also taxed.

**Figure 2. Effective tax rates on energy use in the road sector**

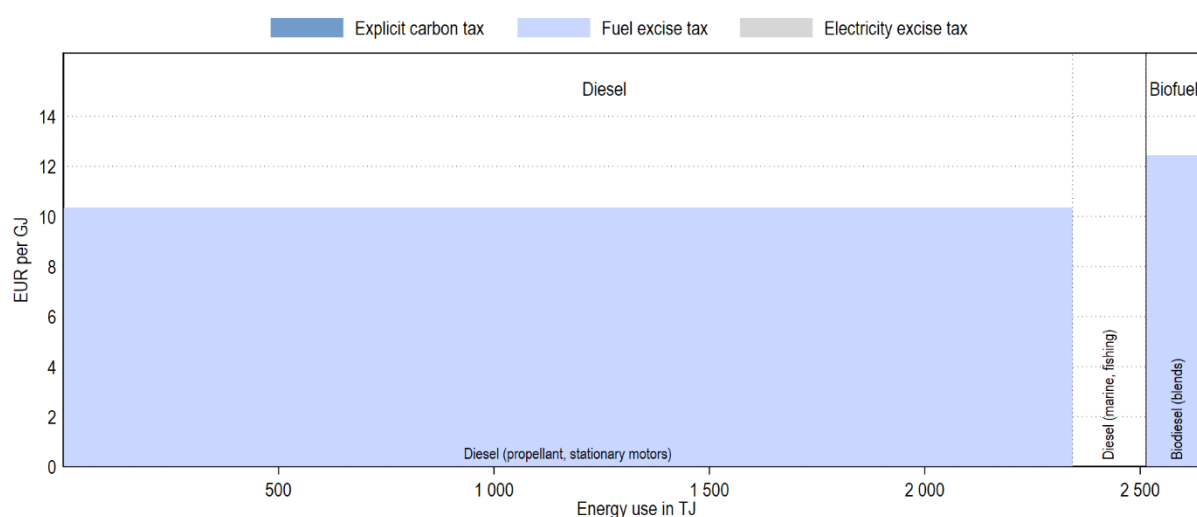


*Note:* Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

### Off-road

Diesel used in rail transport is taxed at the standard diesel excise tax rate. Fuels used for commercial navigation (“marine”) and commercial aviation (no use reported) are untaxed.<sup>1</sup>

**Figure 3. Effective tax rates on energy use in the off-road sector**



*Note:* Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector’s energy consumption are grouped into “misc. energy use” and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into “misc. rates” using the same threshold.

<sup>1</sup> Fossil fuels used in private pleasure craft would be taxed (not modelled in TEU due to a lack of consumption data).

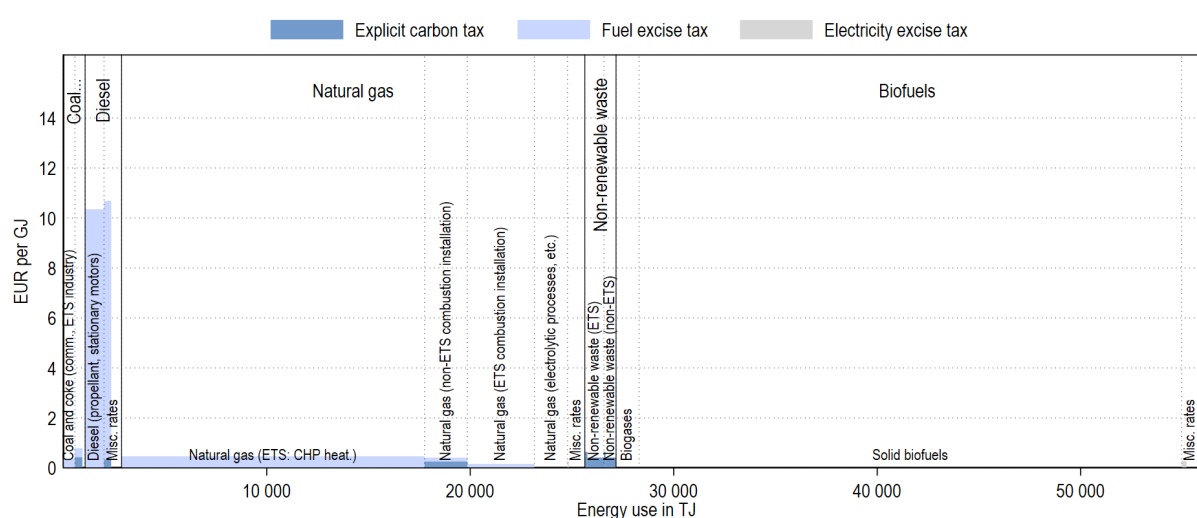
## Industry

Fossil fuels used in industry are generally subject to fuel excise taxes as defined in TEU (this includes relevant provisions from the Natural Resource Tax Law as discussed above), unless specific exemptions apply, e.g. use in electrolytic processes and coal and coke and mineral oils used in combined heat and power plants and for electricity generation.

Combustion installations that are not part of the EU ETS are additionally subject to the CO<sub>2</sub> tax.

Electricity from autonomous producer plants is generally subject to the electricity tax (see electricity section).

**Figure 4. Effective tax rates on energy use in the industry sector**

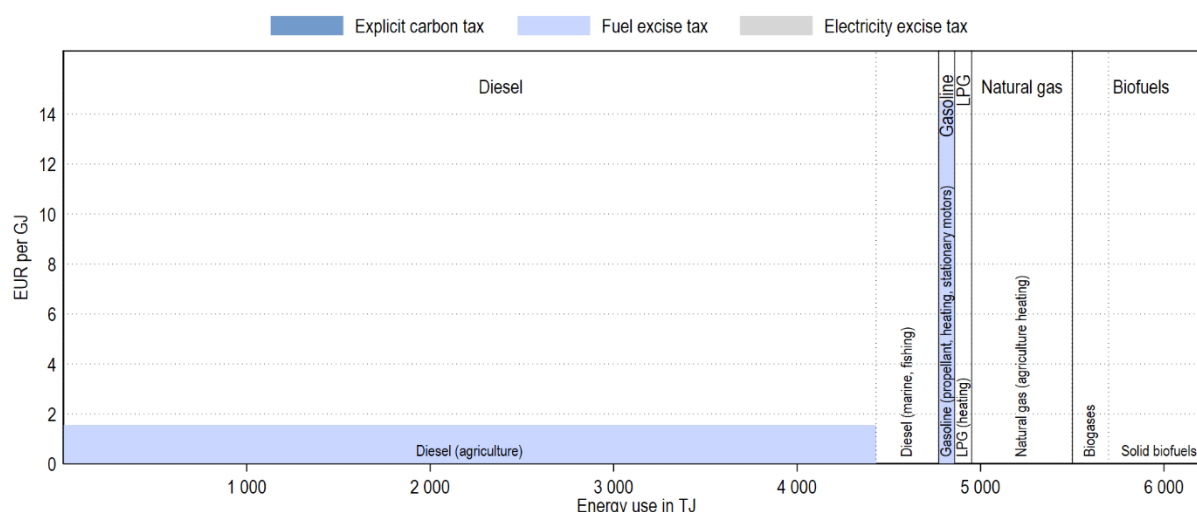


*Note:* Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

### Agriculture and fisheries

Fossil fuels used in agriculture (Figure 5) are generally subject to the fuel excise tax. Fishing fuels are not taxed. Natural gas is taxed if used as propellant, but exempt if used in the agriculture sector for providing heat for greenhouses, industrial scale henhouses/sheds and incubators.<sup>2</sup> Pure biofuels are not taxed.

Figure 5. Effective tax rates on energy use in the agriculture & fisheries sector



Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

<sup>2</sup> TEU assumes that all natural gas use in the agricultural sector benefits from the exemption.

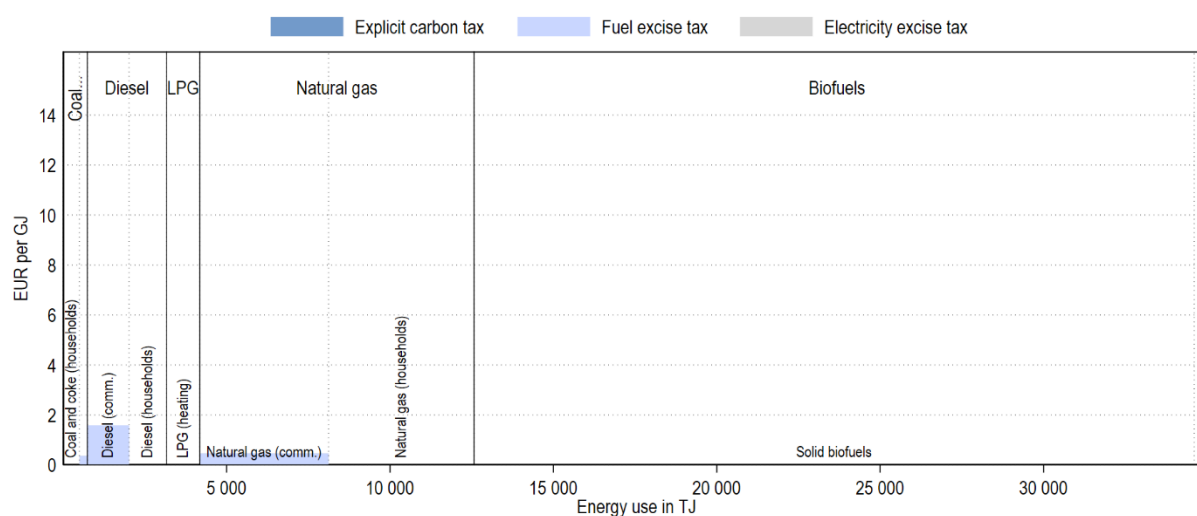
### Residential and commercial

Fossil fuels are generally not taxed when used by households for non-transport purposes.

Notice that TEU reports the energy use associated with electricity and district heating consumption in the industry and electricity sector as that is where the primary energy consumption occurs.

The use of solid biofuels is not taxed.

**Figure 6. Effective tax rates on energy use in the residential & commercial sector**



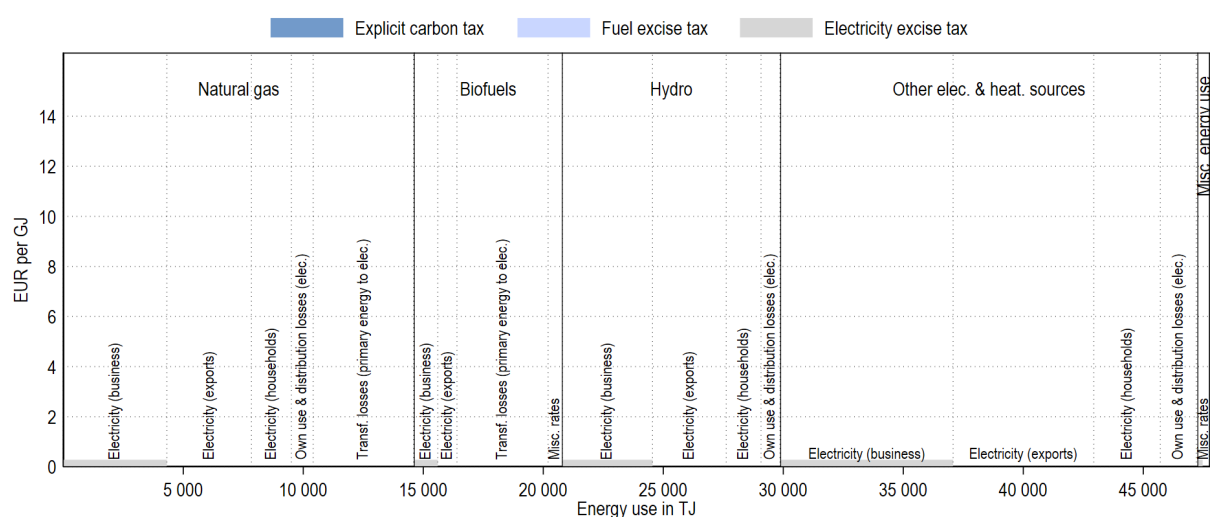
*Note:* Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

## Electricity

Figure 7 shows how the electricity sector, as defined in TEU, is taxed in Latvia. Fossil fuels used to generate electricity for sale generally benefit from exemptions from excise taxes and the Natural Resources Tax Law. However, the electricity sector is covered by the EU ETS (OECD, 2018<sup>[1]</sup>). Hydro power plants are taxed at a rate of 0.00853 EUR per 100 m<sup>3</sup> water flow through the hydro technical construction. Due to data limitations, this tax is not included in TEU.

The use of electricity, on the other hand, is subject to a tax if the electricity is used by businesses. Electricity used by households is not taxed. As is standard, electricity exports are not subject to the electricity tax in Latvia, but may be subject to electricity taxes elsewhere.

**Figure 7. Effective tax rates on energy use in the electricity sector**



Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018<sup>[2]</sup>), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

## References

- IEA (2018), "Extended world energy balances", *IEA World Energy Statistics and Balances* (database), <http://dx.doi.org/10.1787/data-00513-en> (accessed on 16 October 2018). [2]
- OECD (2018), *Effective Carbon Rates 2018: Pricing Carbon Emissions Through Taxes and Emissions Trading*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264305304-en>. [1]