

Latvia

The amendments in CIT law.

The following amendments in Latvian law "On Corporate Income Tax" have been accepted by Latvian parliament effective from 1 January 2014.

The CIT calculations for the year 2013 are mainly covered by the present version, but for companies with financial year different from the calendar year the new rules might be applied proportionately, however, this needs further consideration.

Changes in tax reliefs

- The law foresees to cancel some of currently applicable tax reliefs:
 - As of year 2014, the possibility of tax loss transfer within the group is abolished;
 - As of year 2014, the right to reduce taxable income by deemed interest amount from previous year's retained earnings will be cancelled;
 - As of 1 January 2015 use of coefficient 1.5 for intangible investments, which have led to registration of trade mark or patent will be discontinued.
- The tax relief application period has been extended for investment projects with total investment more than 10 million EUR.
- Until year 2020 the tax relief for new technological machinery is extended, providing that purchase price for new qualifying machinery can be multiplied by a coefficient of 1.5.
- As of 1 July 2014 it is planned to introduce the right to reduce the taxable income for expenses directly attributable to research and development costs, all expenses will be fully deductible with coefficient 3.

Interest payment restrictions

- As of year 2014 thin cap rules will be changed, foreseeing the right to deduct interest expenses, which correspond to 1.57 times weighted average interest rate for the domestic loans to non-financial companies according to interest rate provided by Bank of Latvia, instead of previous coefficient of 1.2 times Central Statistical Bureau calculated interest rate for taxation period last month.

The representative car

- The threshold value for representative cars, for which related expenses are not tax deductible has been raised up to 50 000 EUR (excluding VAT). Under the transitional provisions it will be possible as of year 2014 to recognize as not representative vehicles those vehicles that were previously classified as such, because they exceeded the threshold of 25 424 LVL (36 175 EUR, excluding VAT), but their acquisition value is less than 50 000 EUR (excluding VAT).

Payments to non-residents

- The law foresees that WHT at 15% rate is applicable for purchased goods from low-tax or no-tax countries and territories only if the goods are purchased not at market prices, irrespective of their country of origin. Thus, if the tax payer will have documents proving that the purchase price is adequate, then it will not be necessary to obtain a permission from State Revenue Service not to apply withholding tax.
- The law foresees a possibility for non-residents to tax profits gained from sale of immovable property in Latvia at 15% rate. This means that non-residents will be entitled to choose to pay 15% tax from profits gained from sale of immovable property instead of 2% tax from the total sales proceeds.
- WHT at 15% must be withheld from interest payments and royalty payments made to low-tax or no-tax countries and territories. Accordingly, with respect to these payments there will be no longer possibility to ask permission from State Revenue Service to avoid withholding tax.
- Withholding tax of 30% must be withheld from interim dividends paid to low-tax or no-tax countries and territories. Moreover, if such dividends are paid and at the same time the year end result is a loss, the paid interim dividend amount will be treated as non-business expenses and coefficient of 1.5 must be applied.

Write-off of bad debts

- The law foresees a possibility to reduce CIT taxable income by the value added tax amount related to lost debts. Consequently, in situations of debtor's bankruptcy, when the VAT paid into the state budget according to VAT Law cannot be recovered, the taxpayer will be entitled to reduce its taxable income for the respective VAT amount.

Igor Rodin (Riga)
Partner
Deloitte Latvia
irodin@deloittece.com

Janis Cupans
Director
Deloitte Latvia
jcupans@deloittece.com