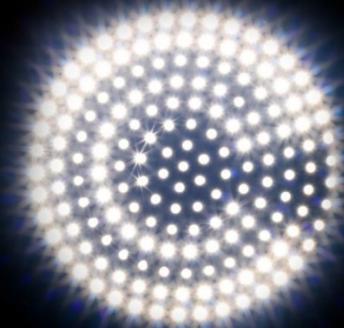


## International Tax Latvia Highlights 2017



### Investment basics:

**Currency** – Euro (EUR)

**Foreign exchange control** – No

**Accounting principles/financial statements** – National standards (following IAS) and IFRS. Financial statements must be prepared annually.

**Principal business entities** – These are the private limited liability company (SIA), joint stock company (AS), general and limited partnership and branch of a foreign company.

### Corporate taxation:

**Residence** – A company is considered tax resident if it is incorporated in Latvia (i.e. registered with the Company Register).

**Basis** – Residents are taxed on worldwide income. Nonresidents are taxed only on Latvian-source income. Permanent establishments of foreign companies are taxed in the same way as resident companies, although certain restrictions apply to payments made to a head office.

**Taxable income** – Corporate income tax is imposed on annual accounting profits, adjusted in accordance with the CIT law. General business expenses incurred are deductible in computing taxable income, which is taxed at a flat 15% rate.

Interest and sales proceeds from public bonds may be tax exempt in Latvia. To qualify for the tax exemption, the bonds must be quoted in EU/European Economic Area (EEA) regulated markets.

**Taxation of dividends** – Dividends are exempt from tax, irrespective of whether the source state is within the EU/EEA or is a third country. The exemption does not apply, however, to dividends received from companies located in black-list jurisdictions.

**Capital gains** – Capital gains on sales of property are calculated as the difference between the property's sales price and its net tax value. Such gains are subject to tax at the standard corporate rate of 15%. Capital gains from the sale of shares are exempt from tax (see under "Holding company regime," below), and sales proceeds from public bonds also may be exempt (see under "Taxable income," above).

**Losses** – Losses from 2008 and after may be carried forward indefinitely and used to offset current year profit, but not in excess of 75% of taxable income for the year. Carryback of losses is not permitted.

**Rate** – The general rate is 15%. Permanent establishments operating in Latvia for no more than 12 months may use a simplified tax regime under which tax is imposed on 20% of turnover.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – A foreign tax credit is available for tax paid abroad, but the credit is limited to the lower of the foreign tax paid or the Latvian tax attributable to the foreign income.

**Participation exemption** – Dividends received from a nonresident company are exempt from tax if the nonresident payer is not from a black-list country (in which case dividends are subject to 15% tax).

**Holding company regime** – The holding company regime exempts dividends and capital gains from shares from corporate income tax. Withholding tax on dividend payments to corporate shareholders was also abolished.

**Incentives** – A rebate of up to 80% of tax is available for licensed entities located in special economic zones and free ports. The rebate has been approved as compatible with the EU state aid rules.

A corporate tax credit in the amount of 25% of amounts invested may be granted for long-term investments above EUR 10 million in state-supported industries (manufacturing, information technology, telecommunications, logistics), subject to approval by the Cabinet of Ministers. For an investment between EUR 50 million and EUR 100 million, a tax credit in the amount of 15% may be granted.

A 300% super deduction is applied to qualifying R&D costs (direct labor costs of R&D staff and R&D services from scientific institutions and accredited laboratories in the EU/EEA) for corporate income tax purposes. Specific requirements must be fulfilled to qualify for the deduction.

Start-up companies are entitled to make fixed monthly payments equal to two minimum compulsory state social insurance contributions (i.e. a total of EUR 259 in 2017) per employee, instead of paying full payroll taxes, and also are entitled to corporate income tax rebates. Start-up company status is granted by a state-formed commission according to criteria set by the law.

#### Withholding tax:

**Dividends** – Latvia does not levy withholding tax on dividends, except for dividends payable to persons resident in black-list jurisdictions, which are subject to 15% withholding tax.

Interim dividends are not subject to withholding tax, except for those dividends paid to persons resident in black-list jurisdictions, which are subject to 30% withholding tax.

**Interest** – Latvia does not levy withholding tax on interest (whether EU or non-EU), except for interest payable to persons resident in black-list jurisdictions, which is subject to a 15% withholding tax (5% for interest paid by Latvian banks).

**Royalties** – Latvia does not levy withholding tax on royalties, except for royalties payable to persons resident in black-list jurisdictions, which are subject to a 15% withholding tax.

**Technical service fees** – Latvia does not levy withholding tax on technical service fees.

**Branch remittance tax** – No

**Other** – Consulting and management fees paid to a nonresident company are subject to 10% withholding tax, unless the rate is reduced under a tax treaty. Rental payments made to a nonresident for use of property in Latvia are subject to 5% withholding tax, except for use of airplanes and commercial, manufacturing or scientific equipment. Remuneration received from participation in

Latvian partnerships also is subject to withholding tax at 15%.

A nonresident's income from the sale (or from the contribution into share capital) of real estate located in Latvia or the sale of a company's shares where more than 50% of its assets consist of Latvian real estate is subject to a 2% withholding tax.

Withholding tax is payable at the time the payment is made.

#### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – Employers are required to withhold personal income tax (23%) and remit the amount to the tax authorities on a monthly basis.

**Real estate tax** – The local authorities levy a real estate property tax, in an amount equal to 1.5% of the cadastral value of land and buildings. A 3% tax is levied on agricultural land not in use.

**Social security** – Employers must make social security contributions at a rate of 34.09% of an employee's salary (23.59% as the employer's portion, and 10.5% from the employee's salary). The contributions must be paid on monthly basis and reporting requirements apply. Nonresident employers must register with the tax authorities or authorize employees to register and settle payments on behalf of the foreign employer. The amount of annual income subject to social security contributions is capped at EUR 52,400.

**Stamp duty** – Stamp duty is levied on registration of real estate by a legal entity. The rate is 2% of the higher of the sales price or the cadastral value, capped at EUR 42,686. Different rules apply for reorganizations and contributions in kind.

**Transfer tax** – No

**Other** – If an employee's salary exceeds the social security cap of EUR 52,400, the excess amount is subject to solidarity tax, which is applied at the same rates and principles as for social security contributions.

#### Anti-avoidance rules:

**Transfer pricing** – Latvia's transfer pricing rules generally follow the OECD guidelines, and transactions between related parties must be set at market prices. Special reporting requirements apply for taxpayers with turnover exceeding EUR 1.43 million, and when the amount of the transaction exceeds EUR 14,300. A taxpayer must retain documentation substantiating the arm's length nature of a transaction for five years, and the documentation must be provided to the tax

administration within one month following a request.

**Thin capitalization** – Under the thin capitalization rules, interest deductions will be disallowed to the extent that: (1) average liabilities multiplied by 1.57 times the short-term interest rate exceed interest expensed to the profit and loss account; or (2) the debt-to-equity ratio exceeds 4:1. Taxable income is increased by the larger amount resulting from these two calculations.

Thin capitalization rules do not apply to interest payments made to EEA credit institutions, or to credit institutions resident in a country that has concluded a tax treaty with Latvia.

**Controlled foreign companies** – No

**Disclosure requirements** – No

**Other** – 15% withholding tax is imposed on payments to entities located in black-list jurisdictions (see under “Withholding tax,” above), although exemptions may be possible for acquisitions of goods.

#### Compliance for corporations:

**Tax year** – Calendar year or financial year

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – The tax return must be filed within four months after the end of the financial year. For large companies, the tax return must be filed within seven months after the end of the financial year. The tax is due on the 15th day after the relevant period. However, companies must make monthly advance payments based on profits of the previous year.

**Penalties** – Interest of 0.05% per day is imposed for the late payment of tax. Fines may be charged as a result of a tax audit, in the range of 10%-300% of the tax due.

**Rulings** – Advance rulings and advance pricing agreements may be obtained from the tax authorities to ascertain their opinion on the application of tax and transfer pricing rules.

#### Personal taxation:

**Basis** – Resident individuals are taxed on worldwide income; nonresidents are taxed only on Latvian-source income.

**Residence** – An individual is resident in Latvia if his/her permanent place of residence is in Latvia or if he/she is present in Latvia for 183 days or more in any 12-month period, starting from the date of arrival in Latvia. If relevant, tax treaty rules may apply to determine residence.

**Filing status** – Each individual must file a return; joint filing for spouses is not permitted.

**Taxable income** – Taxable income includes income from employment, income from the exercise of a business and investment income.

**Capital gains** – Gains on the sale of an individual's capital assets (real estate, shares, etc.) are subject to a 15% tax. Gains on the sale of a private residence may be exempt. A 2% tax must be withheld by a Latvian legal entity from the sales price of real estate and shares of a real estate company if the seller is a nonresident individual.

**Deductions and allowances** – Minor deductions and allowances are granted.

**Rates** – The rate is 23% on employment and business income, 15% on capital gains and 10% on other income from capital.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – A stamp duty of 2% is levied on the higher of the sales price or the cadastral value when real property is registered in the land register, capped at EUR 42,686. Stamp duty also is levied on registration of a mortgage.

**Capital acquisitions tax** – No

**Real estate tax** – The local authorities levy a real estate property tax equal to 1.5% of the cadastral value of land and buildings. The rate on residential property not used for commercial purposes ranges from 0.2% to 0.6%. A 3% tax is levied on unused agricultural land.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – A 10.5% social security tax is withheld from employment income; the rate for self-employed persons is 31.13% (with the minimum base being EUR 380 per month). A nonresident individual employed by a nonresident employer for more than 183 days in a 12-month period (where the EU social regulation does not apply) and who does not permanently reside in Latvia is subject to social security contributions at a rate of 31.71%.

#### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – The annual income tax return is due by 1 June following the tax year. The tax is due within 15 days after the tax return is submitted, but the actual tax payment may be divided into three installments. Tax on capital gains is paid on a monthly and quarterly basis. Wage tax, social security

contributions and some of the tax on income from capital is withheld at source by the employer.

**Penalties** – Interest of 0.05% is imposed daily on late payments. Fines may be charged as the result of a tax audit, in the range of 10%-300% of the tax due.

**Value added tax:**

**Taxable transactions** – VAT is charged on supplies of goods and services, intra-Community acquisitions of goods and services and importation of goods and services. General rules are in line with EU directives.

**Rates** – The standard rate is 21%, with a reduced rate of 12% applying to certain goods/services. Some items are zero-rated, and others are exempt (e.g. financial and insurance services).

**Registration** – Persons whose taxable supply (excluding imports) exceeds EUR 50,000 in a 12-month period must register for VAT purposes. A foreign person engaged in

business in Latvia is required to register on the date there is a taxable supply.

**Filing and payment** – The taxable period generally is the calendar month, although it may be quarterly for lower turnovers. Returns must be submitted and tax paid by the 20th day of the month following the taxable period.

**Source of tax law:** Law on Taxes and Duties; Law on Corporate Income Tax; Law on Personal Income Tax; Law on Value Added Tax; Regulations of the Cabinet of Ministers

**Tax treaties:** Latvia has concluded 59 tax treaties.

**Tax authorities:** State Revenue Service

**Contact:**

Janis Cupans (jcupans@deloittece.com)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see <https://www.deloitte.com/about> to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.