

## International Tax Latvia Highlights 2018



### 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** – As from 1 January 2018, Latvian companies are subject to corporate income tax only on their profits that are distributed or deemed distributed, with undistributed profits generally remaining untaxed. (Previously, Latvia levied corporate income tax on the amount of annual net income).

Profit distributions include declared dividends and interim dividends, payments similar to dividends, hidden profit distributions and deemed profit distributions such as nonbusiness expenses, excessive interest payments, loans made to related parties, transfer pricing adjustments, nonqualifying bad debts and liquidation proceeds. The tax is levied at the time the profits are

distributed or deemed to be distributed (or, for dividends, at the time declared).

**Taxation of dividends** – Dividends and other distributions of profits are subject to corporate income tax at the level of the payer (see “Taxable income,” above). The corporate income tax applies at the time the dividend is declared, and no further tax is due at the time of payment.

**Capital gains** – Capital gains on sales of property are taxed only when there is a profit distribution. Capital gains from the sale of shares are exempt from tax, provided certain conditions are satisfied (see under “Holding company regime,” below). 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 consists of Latvian real estate, is subject to a 3% withholding tax.

**Losses** – Corporate income tax applies only to distributed profits, and any financial losses decrease the distributable amount.

Tax losses accumulated through 2017 can be carried forward to reduce up to 50% of taxable distributed profits in the following five consecutive years (i.e. through 31 December 2022).

**Rate** – 20%. However, certain expenses deemed to be taxable similar to profit distributions are subject to tax at an effective rate of 25%.

**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** – Redistributions of dividends received from resident and nonresident payers will not be subject to corporate income tax in Latvia under the following conditions: (i) the payer of the underlying dividends to the redistributing entity pays corporate income tax in its country of residence or the dividends have been subject to withholding tax in the distributing jurisdiction; (ii) the payer is not from a black-list country; and (iii) the dividends are not treated as a tax-deductible expense in the payer's country of residence.

**Holding company regime** – Capital gains from the sale of shares held for at least 36 months are exempt from tax, provided certain conditions are met. The exemption does not apply to capital gains from sales of shares of companies located in black-list jurisdictions.

**Incentives** – A rebate of up to 80% of corporate income tax on profit distributions and real estate 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.

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 a 20% withholding tax.

**Interest** – Latvia does not levy withholding tax on interest, except for interest payable to persons resident in black-list jurisdictions, which is subject to a 20% withholding tax.

**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 20% 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 a 20% withholding tax, unless the rate is reduced under a tax treaty.

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 and remit the amount to the tax authorities on a monthly basis. The following rates apply: 20% on income up to EUR 20,004 per year; 23% on income over EUR 20,004 per year; and 31.4% (consisting of personal income tax and solidarity tax) on income over EUR 55,000 per year. The above brackets are multiplied by 1/12 to calculate the amount to be withheld from monthly income.

**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** – Employment income is subject to social security contributions at a rate of 35.09% of an employee's gross salary (24.09% as the employer's portion, and 11% 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, in certain situations, 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 55,000, but the payments continue after this cap and are partly redistributed to personal income tax and solidarity tax.

**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 for nonresidential real estate. No duty applies for reorganizations and a 1% rate applies for contributions in kind.

**Transfer tax** – No

**Other** – If an employee's salary exceeds the social security cap of EUR 55,000, 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 transfer pricing guidelines. Mandatory transfer pricing documentation requirements apply to Latvian corporate taxpayers if annual turnover

exceeds EUR 1.43 million and the value of related party transactions 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.

Latvia has adopted country-by-country reporting requirements.

**Thin capitalization** – Under the thin capitalization rules, interest payments will be included in the taxable base if: (1) the debt-to-equity ratio exceeds 4:1; or (2) the interest payment exceeds EUR million and 30% of EBITDA. The inclusion in the taxable base is the larger amount resulting from these two calculations.

Thin capitalization rules do not apply to interest payments made to EU/European Economic Area (EEA) credit institutions or to credit institutions resident in a country that has concluded a tax treaty with Latvia, or for EU/EEA public debt securities.

**Controlled foreign companies** – No

**Disclosure requirements** – No

**Other** – A 20% 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 and EU/EEA public bonds.

#### Compliance for corporations:

**Tax year** – Calendar month and financial year

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

**Filing requirements** – The tax return must be filed on a monthly (or in some cases, quarterly) basis by the 20th day of the following month. The tax also is due before the 20th day of the following month (or quarter, where applicable).

**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 20% tax. Gains on the sale of a private residence may be exempt. A nonresident individual'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 3% withholding tax.

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

**Rates** – The rates are the following: 20% on income up to EUR 20,004 per year; 23% on income over EUR 20,004 per year; and 31.4% (consisting of personal income tax and solidarity tax) on income over EUR 55,000 per year. Capital gains and other income from capital are taxed at a 20% rate.

#### 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 for nonresidential real estate. Stamp duty also is levied on the 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** – An 11% social security tax is withheld from employment income; the rate for self-employed persons is 32.15% (with the minimum base being EUR 430 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 32.72%.

## 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 quarterly or an annual basis. Wage tax, social security contributions and some of the tax on income from capital is withheld at source.

**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. The general rules are in line with EU directives.

**Rates** – The standard rate is 21%, with a reduced rate of 12% or 5% applying to certain goods/services. Some items are zero-rated, and others are exempt (e.g. financial and insurance services).

**Registration** – Persons whose taxable supplies (excluding imports) exceed EUR 40,000 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 taxpayers with lower turnover. 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; Corporate Income Tax Law; Law on Personal Income Tax; Law on Value Added Tax; Regulations of the Cabinet of Ministers

**Tax treaties:** Latvia has concluded 61 tax treaties. Latvia signed the OECD multilateral instrument on 7 June 2017.

**Tax authorities:** State Revenue Service

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