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Update of Tax Reform in Latvia

The Government has approved the guidelines of new tax policy, and as soon as in June the Parliament might be looking at the drafts of the laws that would also introduce a new corporate income tax regime.

TAX REFORM

- Starting 2018 changes regarding several taxes may come into force, including, most importantly, a new corporate income tax (CIT) system.
- Unlike the current CIT regime, the proposed CIT regime is based on a **cash-flow taxation model**, which provides that CIT is payable at the moment of profit distribution (including deemed profit distribution). In case of profit reinvestment CIT shall not be applied. The applicable **CIT rate will increase from the current 15% to 20%**.
- In addition, it is intended that CIT will be payable monthly regarding several expenses, e.g. representation costs, penalties, transfer pricing differences, non-business costs, etc.
- With the tax reform several benefits will be abolished, including accumulated tax losses and depreciation for tax purposes.

LATEST CHANGES

- On Tuesday, 9 May the Government approved the guidelines of the new tax policy and the drafting of the laws has started. Although there are no significant differences in the principles when comparing to the initial project, in several areas the situation has been improved by timely comments.
- For example, originally it was intended that companies will have a period of one year for **accumulated profit distribution under the current model**, but now it says that profit gained by the end of 2017 could be distributed without adverse consequences unlimitedly. However, regarding distribution of profit to individuals a **transitional period of 3 years** is determined that allows to apply the current 10% personal income tax.

LATEST CHANGES (con’t)

- Also, at first there was a proposal to abolish the CIT-free disposal of shares, while now it is being discussed that the current **«holding regime» could remain** (i.e. tax exemption re capital gains and dividends). The CIT relief for donations might also survive to the new regime.
- A significant and unclear question remains regarding the expected anti-avoidance rules, which would **restrict inter-company loans**. In a worst-case scenario it could have a very limiting impact on group financing structures, new investments and use of cash pools.

Where we can help

Currently the top issue is to assess current organizational/group structures in line with the possible impacts of the tax reform to prepare for the changes. Since those may become effective starting from 2018, any necessary restructurings need to be undertaken before the 2017 year-end.

Do not hesitate to contact us for more information regarding the changes and the impact it could have on your company.

Get in touch

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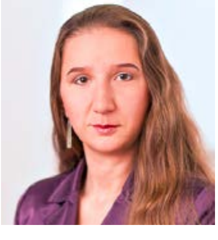

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