

Latvia



Latvia offers a super deduction of 300% for qualifying R&D expenses.

Background

The corporate income tax rate is 15%. Latvia increased the rate of the super deduction for eligible qualifying expenditure from 150% to 300% (effective 1 July 2014).

Nature of incentives

The 300% super deduction is allowed for the following types of expenses:

- Labor costs of personnel directly involved in qualifying R&D activities.
- Payments made to registered scientific institutions (SIs) for qualifying R&D activities. Latvia has a register of SIs that includes universities and other public and private research institutions. SIs must meet formal criteria, including having at least five employees with doctoral degrees in relevant research areas, preparing scientific publications and developing and/or registering IP. If a Latvian company outsources its R&D to a foreign institution within the EU/EEA, that institution must meet the same formal criteria as a Latvian SI.
- Payments made to accredited institutions for performing certification, calibration and testing services are qualified research expenses.

Entrepreneurs from Latvia also can apply for aid for R&D projects under the Program Horizon 2020 financed by the European Commission.

Eligible industries and qualifying costs

The R&D incentive is not limited to particular industries. To claim the benefit, the taxpayer must prove that activities performed are R&D activities, meaning that they must have an element of novelty and the underlying activities address scientific and/or technological uncertainty.

Definitions of qualifying R&D activities to a large extent are based on the OECD Frascati Manual, and the following types of R&D activities will qualify:

Applied research: Planned research or critical investigation to acquire new knowledge and skills for the development of new products and technology or for the significant improvements of existing products or technology.

Experimental development: The use of scientific, technological, commercial or other relevant knowledge or skills to create new or significantly improved products or technologies, or activities aimed at defining, planning and documenting conceptually new products or technology.

Qualifying research activities include industrial or experimental production in both the manufacturing and service industries. The anticipated result of the R&D activities must be innovation or providing new insight into scientific or technology problems.

R&D generally involves the search for a solution to a problem that is not obvious to the relevant industry experts.

The innovation or scientific/technology problem that is addressed must be related to the current business operations of the taxpayer or business operations the taxpayer is about to undertake.

While qualified research projects generally produce a new product or technology that neither the company nor anyone else has ever made, projects involving the development of non-innovative products can qualify if the taxpayer proves that the company was not aware of such a product or research or it was not available at the time.

Qualifying labor includes costs for the following types of employees:

- Scientists and professionals holding academic degrees who carry out R&D activities to acquire new knowledge, products, processes, methods and systems; and
- Persons with technical knowledge and expertise participating in R&D activities (engineers, technicians, operators etc.).

IP and jurisdictional restrictions

The tax incentive can be applied for by companies incorporated in Latvia and by registered branches of foreign companies. If a company aims to outsource R&D, Latvian or EU/EEA SIs/test laboratories can be contracted. However, those institutions must be publicly recognized or must meet specific criteria set out in Latvian law.

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In the event that the company applying for R&D tax incentives creates IP, it must retain ownership of the IP for at least 3 years. Licensing of the IP is permitted. There is, however, no requirement that the research result in IP, i.e., unsuccessful or abandoned research projects can qualify for research tax incentives.

Other concerns

A taxpayer must have appropriate documentation to support eligible expenses. These documents include project descriptions prior to execution of the project and annual reports.

A taxpayer may seek approval from a commission under the Ministry of Economics that particular projects meet eligibility requirements, but pre-approval is not required. The R&D tax benefits are claimed on the taxpayer's annual corporate income tax return. Unused super deductions can be carried forward for an unlimited period; however, super deductions cannot be carried back. Corporate income tax returns can be amended three years after submission.

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward
Super deduction	300% super deduction for qualified expenses.	No	Carryforwards are allowed for an unlimited period.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	There is no obligation to create an IP as a result of the R&D projects and unsuccessful R&D is still eligible. However, if company applying for R&D tax relief creates IP, it must retain IP ownership for at least three years. Licensing of such IP is allowed.	No