



## International tax

# Latvia Highlights 2012

### Investment basics:

**Currency** – Latvian Lats (LVL)

**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 Latvia-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 the annual accounting profits adjusted in accordance with the tax law. General business expenses incurred are deductible in computing taxable income.

**Taxation of dividends** – Dividends are exempt from tax if received from domestic subsidiaries or subsidiaries in EEA countries. Dividends received from nonresidents in third countries also are exempt if the Latvian recipient holds more than 25% of the capital and voting power of the payer and the payer is not located in a "black list" country. Other dividends are taxed at a 15% rate, with a credit for foreign tax withheld.

**Capital gains** – Capital gains are taxed as general business income and taxed at the normal corporate rate.

**Losses** – Losses arising in 2008 and later may be carried forward indefinitely. Losses arising in prior years may be carried forward for 8 years. The carryback of losses is not permitted.

**Rate** – The general rate is 15%, with a 9% rate on annual turnover for microenterprises.

**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 and the Latvian tax attributable to the foreign income before the credit.

**Participation exemption** – Dividends received from a nonresident company are exempt from tax if, at the time the dividends are distributed, the Latvian company holds directly at least 25% of the capital and voting power of the nonresident payer and it is not resident in a black list country.

**Holding company regime** – No

**Incentives** – Tax is rebated up to 80% for licensed entities located in special economic zones and free ports. The rebate has been approved as compatible with the EC state aid rules and is anticipated to be effective until 2017. Tax rebate for long-term investments made in State supported fields are as follows: 1) 25% from total initial investments made up to LVL 35 million; 2) 15% for the amount exceeding LVL 35 million. Certain restrictions apply.

### Withholding tax:

**Dividends** – Dividends paid to a nonresident company are subject to a 10% withholding tax unless the rate is reduced under a tax treaty or the recipient company is located in an EEA member state, in which case no tax is withheld.

**Interest** – A 10% withholding tax is imposed on interest paid to nonresident related parties and 5% on interest paid by commercial banks to nonresident related parties. Under the EC interest and royalties directive, Latvia may continue to impose WHT of 5% on interest payments to EU countries until 1 July 2013.

**Royalties** – The withholding tax on royalties paid to nonresidents is 5% on license fees and other industrial property rights, and 15%

on royalties paid for the use of artistic works, including films, audio tapes, etc. Under the EC interest and royalties directive, Latvia may continue to impose withholding tax of 5% on royalty payments to related parties from EU countries until 1 July 2013.

**Technical service fees** – Technical service fees paid to a nonresident company are subject to a 10% withholding tax unless the rate is reduced under a tax treaty.

**Branch remittance tax** – No

**Other** – Rental payments made to a nonresident for the use of property in Latvia are subject to a 5% withholding tax. Management fees are subject to a 10% withholding tax unless the nonresident is entitled to an exemption under a tax treaty and does not have a permanent establishment in Latvia.

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – Companies are required to withhold personal income tax (at 25%) and remit the amount to the tax authorities on a monthly basis.

**Real estate property 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 pay social security contributions at a total rate of 35.09% on an employee's salary (24.09% as the employer's portion and 11% from the employee's salary). The contributions must be paid into the budget on a monthly basis and reporting requirements apply. A nonresident employer must register with the tax authorities or can authorize the employee to register and settle the payments on behalf of the foreign employer. A foreign taxpayer employed by a nonresident employer for more than 183 days in any 12-month period to whom the EC social regulation does not apply and who does not permanently reside

in Latvia is subject to social security contributions at a rate of 33.18%.

**Stamp duty** – Stamp duty is levied on the registration of real property by a legal entity. The rate is 2% of the higher of the sales price or cadastral value, capped at LVL 30,000. Different rules apply in cases of reorganizations and contributions in kind.

**Transfer tax** – No

**Other** – No

### **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. There are no special documentation requirements, but the OECD guidelines may be applied to substantiate a transaction price.

**Thin capitalization** – interest deduction is disallowed to the extent to which: 1) average liabilities multiplied by 1.2 times the short-term interest rate exceed interest expensed to the profit and loss account; 2) debt-to-equity ratio exceeds 4:1. The taxable income is increased by the largest sum resulting from the calculations. Thin capitalization rules do not apply on the interest payments made to EEZ credit institutions or credit institutions resident in a country with which Latvia has an effective double tax treaty and other certain institutions.

**Controlled foreign companies** – No

**Other** – A 15% withholding tax is imposed on payments to entities located in blacklisted offshore jurisdictions.

**Disclosure requirements** – No

### **Administration and compliance:**

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

**Consolidated returns** – Consolidated returns are not permitted. Each company must file a separate return. However, the surrender of losses within a group of companies is possible in certain circumstances. Current year losses may be carried over within a group of companies if certain requirements are fulfilled. Further, foreign losses may be surrendered to the Latvian company only if they cannot be utilized in the country where the surrendering company is resident, and the annual accounts must be submitted to the tax authorities as prepared and audited according to the law of that country, as well as the annual accounts prepared according to the Latvian Corporate Income Tax law.

**Filing requirements** – The tax return must be filed within 4 months after the end of the financial year. For large companies the tax return must be filed within 7 months after the end of the financial year. The tax is due on the 15<sup>th</sup> day after the relevant period. However, companies must make monthly advance payments based on the previous year's profits.

**Penalties** – Interest of 0.05% is imposed for late payments per day of delay. Fines may be charged as the result of a tax audit in the range of 50% - 300% of the tax due.

**Rulings** – Advance rulings may be obtained from the tax authorities to ascertain their opinion on disputed tax issues.

### **Personal taxation:**

**Basis** – Resident individuals are taxed on annual employment income and any other worldwide income; nonresidents are taxed only on income sourced in Latvia.

**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.

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

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

**Capital gains** – A tax of 10% is levied on dividends, interest payments and income from pension and life insurance funds. A 15% tax is levied on gains derived from the sale of capital assets (e.g. real estate, shares, etc.). A 2% tax must be withheld by a Latvian legal entity from the sales price of real property 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 25% 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 cadastral value when real property is registered in the land register, but capped at LVL 30,000. Stamp duty is also levied on the registration of a mortgage. Different rules for related persons apply.

**Capital acquisitions tax** – No

**Real estate property tax** – The local authorities levy a real estate property tax equal to 1.5% of the cadastral value of land and buildings. The tax rate for 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 32.46% (with the minimum base being LVL 200 per month).

### **Administration and compliance:**

**Tax year** – Calendar year

**Filing and payment** – The annual income tax return is due by 1 April 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 3 monthly 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 company.

**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 50% - 100% 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 the importation of goods and services.

**Rates** – The standard rate is 22%, with a reduced rate of 12% applying to certain goods/services. Some items are zero-rated and others exempt (e.g. financial and insurance services).

**Registration** – Persons whose taxable supply (excluding import) exceeds LVL 35,000 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** – Generally the taxable period is the calendar month. In certain cases it may be a quarter or a 6-month period. Returns must be submitted and paid by the 15<sup>th</sup> day of the month following the taxable period.

**Source of tax law:** 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 51 tax treaties.

**Tax authorities:** State Revenue Service

**International organizations:** EU, European Council, UN

**Deloitte contact**

Janis Cupans

E-mail: [jcupans@deloittece.com](mailto:jcupans@deloittece.com)

**Security | Legal | Privacy**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see <http://www.deloitte.com/about> for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 182,000 professionals are committed to becoming the standard of excellence.

This publication 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 publication, 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 publication.