Latvia introduces 0% tax rate on reinvested profit

Significant changes to the Latvian tax system will come into force from 1 January 2018. With the new corporate income tax law, the taxation is postponed from the moment the profit is made to the moment the profit is distributed or aimed at such expenses that would not support further economic development of a company.

Starting from 2018, 20% corporate income tax will only apply to:

a) dividends paid by a company to its shareholders,
b) deemed dividends,
c) costs comparable to dividends,
d) conditionally distributed profit (payments with the aim of actual profit distribution).

This means that a company's profit will be exempt from corporate income tax as the profit is kept in the company.

Dividends paid to private individuals will not be subject to personal income tax.

Dividends received by a company from other companies are not subject to taxation.

It is permitted for companies not to apply corporate income tax to representation expenses and costs of personnel events that does not exceed 5% of the total amount of gross salary calculated in the pre-taxation year.

According to the general rule, loans issued to related companies are considered as deemed dividends and are subject to taxation. However, there are certain rules that allow exempting such loans:

a) if the loan is issued by the shareholder to the tax payer, or
b) if the loan is issued to a foreign subsidiary of a company, or
c) if the amount of issued loans does not exceed the amounts of received loans from unrelated persons, or
d) for the loans issued in the taxation year, if at the beginning of the year, the com-pany doesn't have undistributed profit;
e) loan maturity is up to 12 months.

The taxation period will be one month. Tax returns will have to be filed for the previous month by the 20th of the following month. For the first 6 months of 2018, a single corporate tax statement should be submitted.

SERGEJS PETROVS
ATTORNEY AT LAW,
PARTNER

(+371) 67 313 315
SP@NJORDLAW.LV