

AMENDMENTS TO CORPORATE INCOME TAX LAW

On 15 December 2011 Latvian Parliament adopted amendments to the Corporate Income Tax Law, introducing several provisions that could be particularly beneficial for foreign companies having investments in Latvia:

1. **As of year 2013 the following payments will not be subject to tax in Latvia:**

- 1) **Dividends paid out by Latvian residents**, irrespective of the receiving company's residence (currently the law provides an exemption in relation to dividends distributed to European Union (EU) and European Economic Area (EEA) companies). In that regard it shall be noted that the dividends distributed to companies registered in low tax zero tax countries will continue to be subject to tax at the rate of 15% (instead of current 10%);
- 2) **Dividends received by Latvian companies**, irrespective of the payer's residence (currently the exemption applies to dividends received from EU and EEA companies, but in relation to other dividends - only if the Latvian company owns at least 25% of the paying company and such company is not registered in low tax or zero tax country);
- 3) **Income from the alienation of the capital shares**, except for the income from alienation of shares in a company that is registered in low tax or zero tax country (currently the exemption applies only to income from alienation of the securities that are in public circulation within EU and EEZ, however income from alienation of any other shares shall be included in the taxable income). Therefore as of year 2013 the income from alienation of shares in other companies will not be regarded as taxable income for Latvian companies.

2. **As of year 2014 the following payments will not be subject to tax in Latvia:**

- 1) **Interest payments paid by Latvian companies to non-resident companies**, irrespective of the receiving companies residence (currently the law provides that interest payments to affiliated non-resident companies shall be subject to tax (5% or 10%), applying gradual exemption to affiliated EU companies);
- 2) **Royalty payments paid by Latvian companies to non-resident companies**, irrespective of the receiving companies residence (currently the law provides that such payments to non-resident companies shall be subject to tax (5% or 15%), applying gradual exemption to affiliated EU companies).

Thus, in accordance with the transitional provisions the affiliated EU companies will be entitled to the above mentioned exemptions already from 1 July 2013, but others – as of year 2014.

However it shall be noted that the respective exemptions do not apply to payments made to companies, registered in low tax or zero tax countries, as well as to private individuals.

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