Latvia Country Profile

EU Tax Centre

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Key tax factors for efficient cross-border business and investment involving Latvia

EU Member State

Yes.

Double Tax Treaties

With the following countries, territories and jurisdictions:

Albania	Georgia	Luxembourg	Slovakia
Armenia	Germany	Malta	Slovenia
Austria	Greece	Mexico	Spain
Azerbaijan	Hong Kong SAR	Moldova	Sweden
Belarus	Hungary	Montenegro	Switzerland
Belgium	Iceland	Morocco	Tajikistan
Bulgaria	India	Netherlands	Turkey
Canada	Ireland	North Macedonia	Turkmenistan
China	Israel	Norway	UAE
Croatia	Italy	Poland	UK
Cyprus	Japan	Portugal	Ukraine
Czech Republic	Kazakhstan	Qatar	US
Denmark	Rep. of Korea	Romania	Uzbekistan
Estonia	Kuwait	Russia	Vietnam
Finland	Kyrgyzstan	Serbia	
France	Lithuania	Singapore	

Most important forms of doing business

Limited Liability company, joint-stock company.

Legal entity capital requirements

Limited Liability company – EUR 2,800, joint-stock company – EUR 35,000.

Residence and tax system

A company is deemed to be a resident if it is incorporated in Latvia. Latvian tax law treats branches as taxpayers (permanent establishments) whether they are formally registered or should have been registered.

Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Latvian source income. Both resident and non-resident companies are taxed when a taxable event occurs (see Compliance requirements for CIT purposes).

Compliance requirements for CIT purposes

In 2018, the Latvian Corporate Income Tax Law changed significantly. The new Tax Act provides for a tax on distributions and deemed distributions rather than on income. Undistributed corporate profits are exempt. The taxation of profits is deferred until those profits are distributed as dividends or are deemed to be distributed.

Examples of deemed distributions are non-business expenses, bad debts or excess interest payments.

The taxation period is a calendar month. CIT is payable by the 20th of the following month if a taxable event occurs. If no taxable events occur in a particular month, no return needs to be filed, with the exception of the last month of the year. A taxable event is when a liability is created, e.g. a non-business expense is booked or a shareholder resolution on a dividend distribution is adopted. Non-business expenses and dividends have to be declared on a monthly basis, while all other taxable items have to be reported in the CIT return for the last month of the financial year.

Corporate income tax rate

Tax rate is 20 percent, but it is calculated at 0.2/0.8 of the net dividend or distribution.

Withholding tax rates

On dividends paid to non-resident companies

No withholding tax. Dividends are subject to CIT (see Corporate income tax rate) once payment has been made.

On interest paid to non-resident companies

No WHT, except if interest paid to entities registered in listed low tax territories.

On patent royalties and certain copyright royalties paid to non-resident companies

No WHT, except if royalties are paid to entities registered in listed low tax territories.

On fees for technical services

No WHT.

On other payments

- 20 percent on management and consultancy fees;
- 20 percent on payments to entities registered in blacklisted territories;

- 3 percent on proceeds from the sale of real estate in Latvia or proceeds from the sale of shares in a real estate company (a real estate company is a company which has more than 50 percent of its assets comprised of real estate in Latvia). As an alternative, non-residents of countries with that Latvia has signed double tax treaty can choose to pay 20 percent on profits by submitting a tax return disclosing acquisition costs;
- 5 percent on Income from renting or leasing real estate located in Latvia.

Branch withholding taxes

No.

Holding rules

Dividend received from resident/non-resident subsidiaries

Dividends 'passing through' companies are not subject to CIT, if received from taxed profits (CIT or WHT), or if the distributing company is subject to CIT in the country of residence. This exemption does not apply to:

- dividends received from a company established in a low or no tax jurisdiction;
- micro-enterprise taxpayers;
- if the main purpose of a structure or transaction is to take advantage of allowances provided for in CIT Law.

Capital gains obtained from resident/non-resident subsidiaries

All gains are taxable as ordinary income and therefore are taxed upon profit distribution. However, gains on the disposal of shares are tax-exempt if these were held for at least 36 months, with the exception of the disposal of shares in a company established in a low or no tax jurisdiction, a real estate company (i.e. in the accounting year of the disposal or the prior year more than 50% of the assets are real estate located in Latvia), and the shares of investment funds and alternative investment funds.

Tax losses

Tax losses as at December 31, 2017 can be used to cover up to 50 percent of the tax calculated on taxable dividend distributions through to 2022.

Tax consolidation rules/Group relief rules

No.

Registration duties

Registration of a limited liability company: EUR 150.00.
Registration of a joint-stock company: EUR 350.00.

Transfer duties

On the transfer of shares

Proceeds from the sale of real estate company shares in Latvia if owned by a non-resident: 3 percent. Also applies if the transaction is between two non-residents.

On the transfer of land and buildings

Stamp duties apply on the transfer of immovable property: The rate is 2 percent (6 percent if a flat is purchased by a legal person that performs commercial activities) of the higher of the purchase price or cadastral value of the property or valuation for mortgage purposes. No other stamp duties apply.

Stamp duties

Please see above.

Real estate taxes

Yes, locally determined.

Controlled Foreign Company rules

As of January 1, 2019, Latvia adopted the minimum requirement of the EU Anti-Tax Avoidance Directive 2016/1164 regarding the Controlled Foreign Company (CFC) rules. An entity is treated as a CFC if the Latvian entity holds, alone or together with a related party, more than 50 percent of the shares or voting rights in a foreign entity or if the Latvian entity alone or together with a related party has the right to receive more than 50 percent of the profit of that foreign entity, or if it is a permanent establishment. The profit of the CFC should be taxed at the level of the Latvian entity if this profit was derived from an artificial arrangement designed for the purposes of a tax advantage. An exemption from the CFC rules applies if the profit of the CFC does not exceed EUR 750,000and income derived from sources other than the sale of goods or the provision of services does not exceed EUR 75,000.

Transfer pricing rules

General transfer pricing rules

Yes.

Documentation requirement

Master file: Mandatory preparation and submission of a Master file is required within 12 months of the end of the financial year, if the total volume of related party transactions exceeds EUR 5 million and company turnover exceeds EUR 50 million, or if the volume of related party transactions exceeds EUR 15 million. If the volume of related party transactions exceeds EUR 5 million, but company turnover does not exceed EUR 50 million the Master file must be prepared within 12 months of the end of the financial year and upon request be submitted within one year.

Local file: Mandatory preparation and submission of the Local file within 12 months of the end of the financial year is required if the total volume of related party transactions exceeds EUR 5 million. If the total annual value of related

	party transactions exceeds EUR 250,000 the Local file must be prepared within 12 months of the end of the financial year and upon request be submitted within one year. Transactions between two residents of the Republic of Latvia where the volume of related party transactions exceeds EUR 250.000 must be supported by a Local file if requested by the tax authorities. The Local file must then be prepared within 90 days. If the volume of related party transactions does not exceed EUR 250,000, documentation of a limited scope (functional and economic analysis) must be prepared in free form on request and submitted to the tax authorities within 30 days.
Thin capitalization rules	Debt-equity ratio of 4:1 with equity at the beginning of the financial year. As of 2018, the excess amount of interest is deemed a distribution and included in the taxable base. If the interest expense is above EUR 3 million, then the additional deductible interest cap of 30 percent of EBITDA applies. If both ratios are exceeded, then the higher amount is non-deductible. The thin cap rules do not apply to loans from Latvian credit institutions and credit institutions registered in the EU, EEA, and DTT countries.
General Anti-Avoidance rules (GAAR)	There are no specific GAAR rules. However, there is a general provision on substance over form in the Latvian Law on Taxes and Duties.
Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid rules	Yes.
Advance Ruling system	Yes.
IP / R&D incentives	No.
Other incentives	Tax allowance for enterprises engaged in agricultural activity. CIT relief is available for companies registered in a Special Economic Zone or Free Port.
VAT	The standard rate is 21 percent.
Other relevant points of attention	No.

Mandatory Disclosure Rules Updates	For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's MDR Updates page.
COVID-19 Resources	An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated KPMG page.

Source: Latvian tax law and local tax administration guidelines, updated 2020.

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