

# GMS Flash Alert



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## Latvia - Suspension of Income Tax Treaty with Russia

The income tax treaty (“the Treaty”) between Latvia and the Russian Federation was unilaterally suspended by the Latvian government indefinitely as of 16 May 2022.

In this *GMS Flash Alert* we will look at the most common situations when the presence of a tax treaty is relevant and when its absence leads to tax consequences.

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### WHY THIS MATTERS

From a global-mobility standpoint, the suspension (or absence) of the tax treaty can lead to various unforeseen consequences in terms of the cross-border flow of workers, business activity, and personal income tax between/across the two countries. It makes Latvia-Russia cross-border business more challenging and may inhibit commercial development, business activity, investment, and the transfer of employees between the countries.

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### More Details on the Consequences of Treaty Suspension

On 12 May 2022, amendments were made to the Law On Agreement between the Government of the Republic of Latvia and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, suspending the Treaty indefinitely.<sup>1</sup>

The tax treaty is an important tool in promoting economic and commercial cooperation and cross-border investment. Its main effects are:

- the elimination of double taxation;
- the prevention of tax evasion;
- the precise allocation of taxation powers among the Contracting States;
- the elimination of discrimination in the form of taxation.

Suspension of the Treaty may have tax consequences when:

- **It is necessary to determine the residence status of a natural person for tax purposes.** Until now, if a person was considered a resident for tax purposes in both Latvia and Russia (based on the legislation of each country), his residence status was determined in accordance with the provisions of the Treaty (evaluating aspects of permanent residence, centre of vital interests, etc.).

Since the Treaty is no longer in force, if a Russian citizen complies with the residency provisions of Latvian domestic law, he is considered a resident for tax purposes in Latvia. From this follows the obligation to pay personal income tax not only on the income earned in Latvia, but also on the income he receives in other countries. There is a possibility that the person is considered a resident by Russia as well, creating the risk of double taxation of worldwide income.

- **Latvian residents earn income from employment in Russia.** Income of a Latvian resident, including income from employment, is taxable in Latvia. By applying the Treaty, the employment income of a Latvian resident earned in Russia was exempt from taxation in Latvia.

With the suspension of the Treaty, this exemption is no longer available. Now, in order to prevent double taxation, only the reliefs provided in Latvian legislation can be applied. Latvian legislation allows the tax calculated on the employment income to be reduced by the amount of tax paid in Russia, with the confirmation of the Russian tax collection authority to the Latvian tax authority that the tax has been paid.

- **A Russian resident receives income from employment in Latvia.** Previously, the Treaty provided that a Russian resident's employment income can be taxed only in Russia, if he was in Latvia for a period shorter than 183 days in any 12-month period and the remuneration for the work is paid by the Russian employer (it is not paid by another person for its benefit or permanent establishment of this employer in Latvia).

Since the tax Treaty is not in force, the employment income of a Russian resident is taxable in Latvia even in cases of short-term employment from the first day.

- **A Latvian resident receives a pension from the Russian state.** Similar to employment income, the tax Treaty provided that a pension received by a Latvian resident from the Russian state is exempt from taxation in Latvia. Similarly, after the suspension of the Treaty, a pension received from Russia is now taxable in Latvia. The calculated tax can be reduced by the tax paid in Russia by submitting a confirmation from the foreign tax collection authority that the tax has been paid.
- **A Russian resident receives other income subject to tax in Latvia.** Other income – interest income, dividend income, royalties – was previously subject to a special (lower) tax rate according to specific rules set out in the Treaty.

After the suspension of the Treaty, this income is subject to the full tax rate, applicable to all other types of income as per Latvian legislation.

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## KPMG NOTE

The suspension of the Treaty affects all Russian and Latvian residents with income sourced from the other state; therefore, it is recommended that employers review all cases involving such persons and evaluate the effects on the taxation of their income.

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## FOOTNOTE:

1 See [Grozījums likumā "Par Latvijas Republikas valdības un Krievijas Federācijas valdības līgumu par nodokļu dubultās uzlikšanas un nodokļu nemaksāšanas novēršanu attiecībā uz ienākuma un kapitāla nodokļiem un tā Protokolu"](#).

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## **Please Consider Participating in the KPMG Global Assignment Policies and Practices (GAPP) Survey**

Participation in the [survey](#) allows you to benchmark your organisation in relation to other survey participants on numerous aspects of a global mobility program including: assignee selection and assessment, assignment preparation and planning, automation and robotics, talent and performance management, assignment compensation and allowances, administration and outsourcing, immigration compliance, the use of data and analytics, assignment management technology as well as tax reimbursement approaches.

Key highlights of the [2022 KPMG Global Assignment Policies and Practices Survey](#) will be made available later in the year.

## Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Latvia:



**Alise Papina**  
**Senior Manager**  
Tel. +371 26014399  
[apapina@kpmg.com](mailto:apapina@kpmg.com)



**Linda Kamola**  
**Senior Advisor**  
Tel. +371 29876819  
[lkamola@kpmg.com](mailto:lkamola@kpmg.com)

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