

Practical tips for preparing corporate tax return for 2016 (1/8/17)

As we approach the deadline for filing the annual financial statements and corporate income tax (CIT) returns, this article summarises information about key changes to the procedures for completing the CIT return for 2016 and about other important matters associated with preparing the CIT return.

Accrued vacation pay

Under last year's amendments to Cabinet Regulation No. 775, *Application of Provisions of the Financial Statements and Consolidated Financial Statements Act*, from 2016 the part of accrued vacation pay related to the current year should be recorded under "Accrued Liabilities." So the CIT return does not need adjusting for accrued vacation pay, and such costs accrued in the tax period from 1 January to 31 December 2016 are deductible. Any earlier reduction in the vacation accrual is also deductible for 2016.

Advance CIT payments

Taxpayers are no longer required to calculate their advance CIT charges because those will be calculated by the SRS. In other words, when the CIT return is filed through the Electronic Declaration System, the SRS will automatically calculate the taxpayer's advance CIT charges.

Executive luxury vehicle expenses

Last year's amendments to the CIT Act have expanded the definition of an executive luxury vehicle, and so special attention should be paid to taxable income adjustments for the running and maintenance expenses on any vehicle costing more than €50,000 and essentially qualifying as a light-duty passenger car.

Payments to non-residents

Where management consulting fees have been paid to non-residents with double tax treaty relief during the tax period (i.e. with no tax withheld), the Latvian taxpayer should make sure he holds the payee's residency certificate approved by the SRS at the time of preparing the CIT return. If the taxpayer holds a residency certificate approved by the foreign tax office but not approved by the SRS, this can still be done before filing the CIT return. Otherwise the gross amount paid to the non-resident must be shown on line 7 of the CIT return and added to taxable income.

Deductible interest for CIT purposes

On 23 January 2017 the Bank of Latvia website featured interest rates for the purpose of applying section 6.4(1) of the CIT Act. The annual weighted average interest rate on euro loans issued by domestic non-financial companies for 2016 is 2.67%, applicable to taxpayers for the tax period from 1 January to 31 December 2016. The interest rate for taxpayers with a shorter or longer tax period than this is included in [a separate table](#).

Transactions with related companies

If the taxpayer had any transactions with related companies during the tax year, those should be reported on line 99 of the CIT return. Also, appendix 2 to the CIT return must be filed for –

- any transaction that is not arm's length;
- any arm's length transaction exceeding €5,000.

Multiple supplies or acquisitions of goods or services from one supplier are treated as a single transaction under the CIT Act, and their amounts should be added up.

Filing deadlines

Under section 22(1–2) of the CIT Act, the taxpayer must submit the CIT return for the tax year along with the financial statements within the time limits specified by the Financial Statements and Consolidated Financial Statements Act, the Credit Institutions Act, and the Insurance Companies and Supervision Act. The tax charged according to the tax return must be paid to the government within 15 days after filing the financial statements and the tax return.

One of our upcoming editions of Flash News will summarise information about common adjustments and errors in preparing the CIT return.