

New tax return (1/14/18)

While many companies are still at work on preparing their financial statements for 2017, we are eager to see a template of the new tax return to be filed for the first six months of 2018 and for each subsequent month. This article explores the contents of the new tax return and offers some practical suggestions for preparing it.

The legal framework

On 13 February 2018 the Cabinet of Ministers passed Regulation No. 93, *Disclosures on the CIT return*. The new rules no longer offer a template for the CIT return and merely prescribe disclosures required for calculating and administering CIT under the new CIT Act, including details of profit distributions and other expenses the taxpayer incurred in the tax period and in the reporting year, necessary details for calculating tax relief etc.

The new CIT return can be completed via the SRS's Electronic Declaration System (the draft tax return available from the Finance Ministry's website under *Corporate income tax; Rules for disclosures on the CIT return* is merely informational material at a developmental stage).

Please note that the tax return for the tax period up to 31 December 2017 should be filed in accordance with Cabinet Regulation No. 548 of 29 September 2015, *The CIT return for the tax period and the calculation of advance payments*.

Preparing the tax return

In September 2017 we wrote about [the procedures for filing the new tax return and the interim report](#).

Like the transition rules designed for preparing the first tax return and the interim report, the core principles for preparing the tax return laid down by section 17 of the CIT Act remain unchanged. The new Cabinet Regulation No. 93 merely lists all the details that should appear on the CIT return:

1. Retained earnings as at 31 December 2017;
2. Tax losses brought forward;
3. Provisions made before 2018;
4. Dividends and payments treated as dividends from 1 January 2018;
5. Dividends received in the tax period;
6. The tax base from dividends, deemed dividends and deemed distributions;
7. Deemed dividends;
8. Tax relief for foreign tax paid;
9. Donations;
10. Discounts;
11. Income arising on the disposal of direct participation shares held for a minimum of 36 months;
12. Part of the provision as at 31 December 2017 that exceeds the provision appearing on the balance sheet as at 31 December 2016;
13. Amounts received as state aid for farming or EU aid for farming and rural development;
14. Receivables recovered and included in the tax base for the previous period, and any receivables arising before 2018;

15. Amounts of tax on a non-resident's income and on a related party enjoying tax breaks under the Taxation of Free Ports and Enterprise Zones Act where CIT has not been withheld or paid, including amounts of tax on –

- management and consulting fees,
- proceeds from the sale of property in Latvia, and
- payments to a person in a tax haven.

Layout of the tax return

Paragraphs 1.1–1.3 of the initial chapter of the new tax return should give details of retained earnings available as at 31 December 2017, details of any tax losses not brought forward before the tax period, and details of provisions. The tax return provides a clear view of how these figures can be used in subsequent periods, reflecting the procedures laid down by the transition rules of the CIT Act (Paragraphs 10, 13, 17, 18, and 19).

Paragraph 1–4 of the next chapter should give details of dividends or payments treated as dividends, paragraph 5 should give details of deemed dividends, paragraph 6 should give details of deemed distributions, and paragraph 7 should disclose the tax base from deemed dividends and deemed distributions. A large chapter of the tax return (paragraphs 8–26) deals with various tax reliefs, including tax deductions. At the end of the tax return, there is a calculation of any tax not withheld or paid on a non-resident's income, and any overpayment of tax where a loan or receivable included in the tax base earlier was repaid or recovered in the tax period.

Since many of the amounts can be carried forward for use in subsequent tax periods and the figures entered on the EDS will be imported automatically, it is crucial that you complete your first tax return correctly.

To be ready for completing the new tax return, we encourage MindLink subscribers to read our series of articles on the CIT reform (search the archive for all articles on the topic *Corporate income tax*.)