

# Corporate Income Tax Act to be amended (2)

## (2/33/19)

This article completes what we wrote last week about proposals for amending the CIT Act.

### Adjusting irregularities found on a tax audit

If a tax audit finds that a taxpayer has unlawfully understated or omitted any revenue from their books, the discrepancy will be included in the CIT base.

### Measuring the acquisition cost of an executive luxury vehicle

Provisions of the CIT Act are to be adjusted so that the acquisition cost of an executive luxury vehicle for tax purposes should include the cost of any improvements made in the 12-month period after the acquisition. However, the cost of annual mandatory vehicle maintenance should be excluded from the acquisition cost.

### A non-resident entity's income from selling and leasing real estate in Latvia

The taxable items of a non-Latvian resident entity are to be adjusted to provide that a 5% tax must be withheld on any consideration paid for leasing or renting out real estate in Latvia.

### Provisions for bad debts

Section 9 of the CIT Act is to have a new subsection (7) prescribing conditions for excluding provisions for receivables from the CIT base. This rule will apply to provisions made under IFRS 9 *Financial Instruments*, which lays down procedures for making provisions for bad debts as a percentage of total receivables and classifying them into groups depending on their recovery risk levels. The exemption will be available if the following requirements are met:

1. A certified auditor provides a report on whether the provisions for bad debts made in the financial year comply with the IFRS requirements;
2. Each debt included in the provisions can be traced;
3. The taxpayer has adopted a policy for recovering and writing off the debts included in provisions.

### A new time limit for permanent establishment filings

A permanent establishment will be required to file its balance sheet and profit & loss account within four months after the end of the financial year. This means that the CIT return should still be filed by the 20th day of the following month, but the B/S and P&L can be filed at a later date, as prescribed for other taxpayers.

### Reorganisation

The wording of section 18 of the CIT Act is to be adjusted to clarify the tax treatment of a reorganisation. Any property transferred to another person in the course of reorganisation will be a deemed profit

distribution constituting a taxable item. However, if another taxpayer continues to use those assets in a trade or business, they will not constitute a taxable item.

Excluding share disposal income from the CIT base

The share disposal relief prescribed by section 13 of the CIT Act will not be available on a disposal of shares in a person that has real estate in Latvia representing more than 50% of its assets.

With only the meeting of state secretaries having debated the proposals, they may still be altered and supplemented before their final adoption. However, if the amendments are passed, they could take effect from 1 January 2020.