

Amendments to Corporate Income Tax Act effective from 12 February (1/8/20)

We have published a number of articles since last summer about proposals for amending the CIT Act. This article summarises amendments that were adopted by Parliament in their third reading on 30 January and came into force on 12 February 2020 to update the existing rules and introduce some new ones.

A prepayment to a supplier

The CIT Act provides that if a transaction does not begin within 12 months after an advance, a guarantee or deposit was paid for it, the payment should be included in the tax base for the last month of the financial year. However, if the transaction takes place within 36 months after the payment, the taxpayer may adjust the tax return for the period and reduce payments included in the tax base.

The acquisition cost of an executive luxury vehicle

When measuring the acquisition cost of an executive luxury vehicle for tax purposes, the cost of any improvements made to it within 12 months after the purchase should also be taken into account.

A non-Latvian resident entity's income from selling and renting real estate in Latvia

A new addition to the non-Latvian resident entity's taxable items provides that a 5% tax should be withheld also on amounts receivable from individuals or organisations for real estate rented in Latvia.

Staff sustainability event expenses

Funeral benefits and any expenses incurred in transporting workers between home and work are no longer treated as staff sustainability event expenses. These expenses and any expenses incurred in providing extra prizes for receipt lottery draws under the Receipt Lottery Act are now treated as business expenses.

As to the cost of worker transportation, the CIT Act explains that these are business expenses if a worker's job means they are unable to get to work, or if any public transport service is not efficient in terms of time spent commuting and available timetables compared to the employer's own transport service.

Investment in public infrastructure

The cost of investing in state- or municipality-owned public infrastructure or in maintaining such a road may be excluded from the tax base after meeting statutory criteria.

The deadline for filing PE balance sheets and income statements

A permanent establishment should file its balance sheet and income statement within four months after the end of the financial year. This means the tax return should still be filed on or before the 20th day of the following month, while the balance sheet and income statement may be filed at a later date, as other taxpayers do. PEs will not be charged a late fee for adjusting the tax return for the last reporting period.

Interest charges

Section 10 of the CIT Act now provides that if interest charges for the financial year exceed EUR 3 million, the excess interest rule will not apply to any interest paid on a borrowing from an EU resident for financing long-term public infrastructure projects.

Handling breaches discovered by an audit

If a tax audit finds that the taxpayer has omitted or understated revenues, the discrepancy will be included in the tax base.

Excluding share disposal income from the tax base

The relief available under section 13 of the CIT Act no longer applies to selling shares in an entity that has real estate in Latvia representing more than 50% of its assets.

The CIT treatment of a reorganisation

Section 18 of the CIT Act now provides that any asset transferred in the course of a reorganisation is a deemed profit distribution creating a taxable item. However, if another taxpayer continues to use the asset for doing business in Latvia, then it is not a taxable item.

The CIT Act now also has some additional rules on exit tax and hybrid mismatches.¹ The treatment of provisions made according to IAS 9 Financial Instruments² and the treatment of debt assignments,³ which we have written about earlier, remain unchanged. These issues are still under debate in order to amend the rules laid down by the CIT Act.

¹ Flash News edition of 6 August 2019 "Corporate Income Tax Act to be amended"

² Flash News edition of 13 August 2019 "Corporate Income Tax Act to be amended"

³ Flash News edition of 20 November 2019 "New rules on debt assignment"