

Corporate income tax relief (2/25/20)

The CIT Act offers a variety of reliefs that taxpayers may claim if they have a taxable base that qualifies for a particular relief. This article explores some of the available CIT reliefs.

Relief for dividends received

A taxpayer may reduce the amount of dividends included in the taxable base for the tax period to the extent that a dividend has been received from a company that is subject to CIT in its residence country or if tax has been withheld on the dividend in the country where the company having paid it is established ([section 6 of the CIT Act](#)). Accordingly, if a company in Latvia receives a dividend from another Latvian company or from a foreign company having paid CIT in its residence country, the company may pay that dividend free of tax.

Relief for income arising on the sale of shares

A taxpayer may deduct any income arising on the sale of direct participation shares held for at least 36 months from the amount of dividends included in the taxable base for the tax period ([section 13 of the CIT Act](#)). The relief is not available on any shares held in a tax-haven company or a real-estate company (real estate in Latvia representing more than 50% of total assets).

Relief for foreign tax paid

A taxpayer may deduct any foreign tax paid from the tax charged on dividends if payment is supported by documents confirmed by the foreign tax authority stating the taxable income and the foreign tax paid ([section 15\(1\) of the CIT Act](#)). The amount of relief in a particular tax period (month) must not exceed the amount of tax charged on dividends.

Relief for donors

For tax relief purposes, a donation is any property or funds that a taxpayer gives away for free under a contract to a public benefit organisation, a state-funded institution or any other organisation specified by section 12(1) of the CIT Act for achieving the aims stated in their charter or articles of association as long as the donee is under no counter-obligation to carry out any activities amounting to a consideration. The taxpayer may choose to claim one of three reliefs during the financial year ([section 12\(1\) of the CIT Act](#)).

Relief for taxpayers that carry out agricultural activities

Tax relief for taxpayers doing agricultural activities involves deducting 50% of any amount received as state aid for agriculture or as EU aid for agriculture and rural development from the taxable base for the financial year ([section 14 of the CIT Act](#)).

Tax loss carryforward

15% of CIT losses arising before 2018 may be offset against the tax charged on dividends in subsequent financial years, capped at 50% of the tax charged on dividends in the financial year. This relief is available

to taxpayers up to 2022 ([paragraphs 13 and 14 of the transition rules of the CIT Act](#)).

Reducing provisions made before 2018

After 2017, any provisions appearing on the balance sheet at the end of 2017 that have been recorded separately from other provisions since 2018 and were included in taxable income in the period they were made may be multiplied by a coefficient of 0.75 and deducted from the taxable base ([paragraphs 17 and 19 of the transition rules of the CIT Act](#)). It is important to note that any 2017 excess provisions (over 2016) may be offset against taxable income only in respect of dividends and equivalent costs.

Representation expenses and staff sustainability event expenses

A taxpayer may exempt representation expenses and staff sustainability event expenses up to 5% of the gross employment wage for the previous tax year on which national insurance contributions have been paid if these expenses are recorded separately from other expenses ([section 8\(2\)\(7\) of the CIT Act](#)).