

# Changes to SRS guidance “How to complete CIT return” (2/46/20)

In September 2020 the State Revenue Service published an updated version of “How to complete the corporate income tax return.” In this article we summarise information on what has changed, and we look at some new examples offered by the SRS in explaining CIT treatment.

Having examined the new guidance, we find that the changes mainly reflect the latest amendments to the CIT Act. And the guidance gives new examples for costs of staff sustainability events.

## Changes to procedures for completing the CIT return

We have informed our MindLink subscribers that [amendments to the CIT Act, which were passed on 30 January and came into force on 12 February 2020](#), have increased the number of items within taxable income and expanded the range of persons subject to CIT.

The guidance gives information on new lines of the CIT return for disclosing the new taxable items:

- Line 6.8 is to show assets transferred as a result of a reorganisation if they cease to be used in business in Latvia;
- Lines 6.9 and 6.10 are to show the value of assets transferred if Latvia loses the right to tax them; and
- Line 6.11 is to show the outcome of a hybrid mismatch.

Line 6.8 should be completed for the tax period in which the amount was calculated, but lines 6.9, 6.10 and 6.11 should be completed on the CIT return for the last tax period of the financial year. The guidance merely indicates the new lines but fails to offer any examples of when those lines might have to be completed.

The way of completing lines 27 and 30 has changed:

- Line 27 is to show a 5% tax on payments a non-resident receives for renting out real estate situated in Latvia (the amount of payment divided by 0.8 and multiplied by 5%);
- When it comes to completing line 30, remember that the minimum tax charge of EUR 50 is not due if personal income tax (“PIT”) and national social insurance (“NSI”) contributions paid for the employee in the financial year are at least EUR 100.

## Staff sustainability event expenses and the SRS interpretation

One of the cornerstones of proper application of CIT is proper identification of costs: what expenses can be allocated to staff sustainability events and in what cases they will still be classified as a taxable item. The guidance gives new examples in which the SRS offers its interpretation.

The costs of maintaining an apartment or hostel accommodation are treated as staff sustainability event expenses if workers stay overnight or temporarily at the apartment or hostel and are unable to go back home because of the nature of the business. These expenses do not attract PIT for the employee.

If expenses incurred in having workers run a marathon (a fee for each employee and sports clothing with

the company's logo) can be traced and allocated to each person, the expenses are treated as the employee's benefit attracting both PIT and NSI. For the company, those are business expenses.

It should be noted that the earlier opinion issued by the SRS was that expenses incurred on a team of workers taking part in public sports activities (a marathon or a cycle race) are staff sustainability event expenses. We can see that when it comes to classifying expenses the main requirement is to determine whether they can be traced and allocated to each person.

Expenses incurred in providing workers with fruit, coffee, tea and soft drinks on company premises are treated as staff sustainability event expenses if they are linked to a particular staff motivation or team-building event or mandated by a collective agreement. They are generally treated as non-business expenses.

It is important to note that the updated guidance does not include the CIT return form, so this is available only from the Electronic Declaration System (EDS). The visuals of the guidance have been renewed, the information is easier to grasp, and it includes some views from the EDS that help us figure out what lines of the CIT return need completing in a particular situation.

The guidance also gives information on the CIT treatment of gifts made to help overcome the consequences of the Covid-19 pandemic, something we will be discussing in a separate article.