

Paying dividends in 2019: aspects to consider

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Under the transition rules of the Personal Income Tax (PIT) Act, 2019 is the last year in which dividends an individual receives out of profits arising before 2018 qualify for a reduced rate of PIT. This article explores some aspects to consider where a Latvian company pays dividends to individuals in 2019.

Paying dividends to individuals

Under the general procedure laid down by section 15(5) of the PIT Act, income from capital, including from capital gains (dividends), attracts a 20% PIT.

Section 9(1)(2.1)(a) of the PIT Act effective from 1 January 2018 provides that dividends are excluded from an individual's taxable income for the year and exempt from PIT if Latvian CIT has been paid on the part of profits being paid in dividends under the new CIT Act (this PIT exemption is not available if CIT has been paid under the old CIT Act). But this exemption is only available on dividends paid by distributing profits a Latvian company made after 2017 if CIT has been paid under the new CIT Act.

It is important to note that dividends paid out of profits arising before 2018 are subject to rules stating that a company's profits and dividends attract both CIT and PIT. Under paragraph 130 of the transition rules of the PIT Act, dividends a Latvian company pays in 2018 and 2019 out of profits arising before 2018 qualify for a 10% PIT.

So dividends paid out of profits arising before 2018 qualify for a 10% PIT only up to 31 December 2019. From 1 January 2020, such dividends will attract a 20% PIT.

Paying flow-through dividends to individuals

If in 2019 a Latvian company distributes in dividends its profits for 2018 that include dividends a subsidiary has paid out of profits arising before 2018, then it is important to note that under section 6(1) of the CIT Act, a taxpayer is permitted to reduce dividends included in the tax base to the extent he has received dividends from a company subject to CIT in its country of residence or dividends on which tax has been withheld in their country of origin (except for dividends received from a company based, formed or incorporated in a blacklisted tax haven).

Paragraph 35.1 the Cabinet of Ministers' Regulation Nr. 899 of 21 September 2010, Procedures for applying the Personal Income Tax Act, provides that in applying section 9(1)(2.1) of the PIT Act, the exemption is also available on dividends and any equivalent income paid by a CIT payer that qualified to deduct those dividends and any equivalent income from dividends included in the tax base under the CIT Act.

If a Latvian company paying dividends is permitted by law to deduct its own dividend income from dividends included in the tax base under the CIT Act, the dividend income qualifies for the PIT exemption under section 9(1)(2.1) of the PIT Act. So, if in 2019 a Latvian company distributes in dividends its profits for 2018 that include dividends a subsidiary has paid out of profits arising before 2018, those dividends are

exempt from PIT.