

Foreign persons liable to pay natural resource tax

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As Europe is pressing ahead with its Green Deal, the relevance of environmental taxation is growing rapidly in Latvia and across the EU. Our experience suggests that Latvian companies are much better informed about the natural resource tax (NRT) treatment than foreign persons doing business in Latvia. This article serves as a reminder of the NRT treatment for foreign persons. This information may also help Latvian companies identify cases where a foreign supplier has Latvian NRT obligations, which are either not discharged or wrongly shifted onto the Latvian company.

The taxpayer definition covers foreign persons

Section 3 of the NRT Act defines the taxpayer. The definition is broad and includes, for instance, persons extracting taxable natural resources in Latvia and persons using the beneficial features of the Earth's underground by pumping natural gas into geological structures. While all of the NRT Act's taxpayer definitions cover foreign persons, this article looks at the most common case of a foreign person being liable to pay Latvian NRT, i.e. when a foreign person is the first to sell environmentally harmful goods or goods in packaging in Latvia or the first to import such goods into Latvia for business purposes (including any primary, secondary and tertiary packaging attached to and imported with those goods).

An obligation to file a report on NRT charges and pay tax

If a foreign person is the first to import environmentally harmful goods or goods in packaging into Latvia, we should first assess whether that person will be liable to file a report on NRT charges with the State Revenue Service (SRS).

A foreign person that is registered or was liable to register for Latvian VAT must file an NRT report with the SRS under general procedure. The obligation to pay tax then also lies with the foreign person.

However, if the foreign person is not registered for Latvian VAT and was not liable to do so, then an NRT report will be filed by their permanent establishment in Latvia, by the recipient of goods, or by another Latvian person that has agreed in writing to take over the NRT obligations. This Latvian person may also pay the tax due, but we need to remember that NRT will be a business expense in the company originally liable to pay it (the foreign person in this case). So the Latvian supplier that files an NRT report and pays tax for the foreign person should not do so out of their own pocket (otherwise it will be considered a non-business expense).

We will keep our MindLink.lv subscribers informed about the NRT treatment of foreign companies in Latvia and ways to claim an exemption.