

France includes most favoured nation clause in double tax treaty with Latvia 3/49/24



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Having a network of double tax treaties (DTTs) helps countries work together when it comes to taxes, as DTTs aim to prevent the double taxation of income earned by individuals or companies doing business in two or more countries.

As for the latest developments in international taxation, in this article we will take a closer look at the technical aspects of the most-favoured-nation (MFN) clause, which is found in just a few DTTs and from October 2024 has been implemented in the DTT between France and Latvia. We will also look at the significance of the MFN regime for French companies wishing to expand their operations in Latvia.

What is the MFN regime?

The MFN clause in a DTT ensures that if one of the signatories offers a more favourable tax regime to a third country, the same treatment will be extended to the other signatory.

Here is how it works:

1. *Identifying a more favourable treatment.* If country A signs a DTT with country B and later signs another DTT with country C (a member of the OECD), which gives it a more favourable tax regime (e.g. lower rates or more relief), the favourable treatment is noted.
2. *Applying the MFN clause.* It ensures that country B will receive the same favourable tax treatment as country C, even if this was not expressly stipulated in the original DTT between countries A and B.
3. *Scope of the MFN clause.* It can cover various types of income, such as dividends, interest, royalties, technical service fees, and corporate profits.

New developments in the France-Latvia DTT

The French tax authority has announced the activation of the MFN regime in the France-Latvia DTT, as it contains the MFN clause. This change is due to the Japan-Latvia DTT signed in 2017, which offers more favourable terms for bank loan interest payments and royalties. Such payments between France and Latvia will be exempt from withholding taxes in their country of origin, as prescribed by the Japan-Latvia DTT.

The definition of royalty income in the France-Latvia DTT has been updated to make it consistent with the definition in the Japan-Latvia DTT by deleting payments for the use of or for the right to use copyright in radio and television recordings and films, as well as for the use of or for the right to use industrial, commercial or scientific equipment. From a legal perspective, these rules are applicable from 5 July 2017, when the Japan-Latvia DTT came into force, i.e. the MFN regime has retrospective effect.

What does this mean for companies?

Activating the MFN regime in the France-Latvia DTT will be relevant to companies operating in both countries.

French companies doing business in Latvia are likely to save more tax with the MFN regime. Since neither France nor Latvia currently withholds tax on interest paid to a resident of the other country, these changes make us pay attention to the terms of other Latvian DTTs and the scope for applying a more favourable regime.

The MFN regime is important for Latvian companies receiving royalties from French tax residents because radio and television recordings and films, as well as payments for the use of industrial, commercial or scientific equipment will be exempt.

Finally, although the MFN regime in DTTs is rarely used, its recent activation in the France-Latvia DTT suggests a desire to develop the international cooperation between French and Latvian companies. This is a welcome move that will promote fair competition and reduce tax barriers possibly resulting from the application of international taxes. So we encourage companies, especially those having close business ties with French companies, to explore potential tax benefits these changes can bring. PwC has a team of experts standing by to help you understand and evaluate the impact of the MFN regime on your company.