

Payments to non-residents: changes from 2018 (3/8/18)

Adopting the new Corporate Income Tax (CIT) Act has changed the rules for withholding tax on payments to non-residents. This article explores what we see as key changes and essential aspects of the withholding tax treatment.

Rates

CIT is withheld on payments that residents and permanent establishments make to non-residents on which PIT has not been withheld. From 1 January 2018 the number of types of payments attracting withholding tax has been reduced. The rates on payments to non-resident entities without a permanent establishment in Latvia compared to the rules applicable before 2018 are as follows:

	Before 2018 ¹	After 2017 ²
Income from share in partnership	15%	payable under general procedure ³
Profit or surplus distributed to members of a compliant agricultural or forestry services cooperative society, an apartment owners' cooperative society, a car garage owners' cooperative society, a boat garage owners' cooperative society, or a horticulture cooperative society	15%	payable under general procedure ⁴
Management and consulting fees	10%	20%
Use of property in Latvia	5%	-
Disposal of real estate in Latvia	2%	3%
Payments to tax havens *in specified cases 5% or 30%	15%*	20%

¹ Section 3(4) of the Corporate Income Tax Act

² Section 5(1) of the Corporate Income Tax Act

³ Partnerships pay CIT on profit distributions under general procedure

⁴ Cooperative societies pay CIT on profit distributions under general procedure

Calculations and exemptions

Tax is payable either at source or through the tax return for the last month of the financial year if it was not withheld and there are no grounds for claiming an exemption. For example, if a company whose financial year coincides with the calendar year pays a management consulting fee in March 2018, does not withhold tax at source, and does not receive a residency certificate before filing the tax return for the last month of the financial year, the company should calculate the tax due and pay it on or before the 20th day of the month that follows the last month of the financial year, i.e. by 20 January 2019. The CIT liability is calculated as follows: the amount paid to the non-resident is divided by a coefficient of 0.8 and multiplied by a rate of 20%. If the amount paid to the non-resident is €1,000, the tax charge will be €250 (1,000 : 0.8 x 0.2).

If Latvia has an effective double tax treaty with a particular country, then its residents may be exempted

from withholding tax on management and consulting fees on the basis of a residency certificate. The procedures for obtaining a residency certificate are laid down by the Cabinet of Ministers' Regulation No. 178. The latest amendments to these rules came into force on 11 August 2017 (see our Flash News article [Reporting payments to non-residents](#)). An exemption is available if a residency certificate is received before the tax return for the last month of the financial year is filed.

As before, the obligation to report payments made to non-residents falls into two categories:

1. in the next month after each payment;
2. once a year through the CIT return.

It is important to remember that for the period beginning 1 January 2017, information about payments made to non-residents that are exempt from withholding tax should be submitted along with the CIT return. Reporting applies to such payments if the non-resident's total income of that type exceeds €5,000 in the tax period. According to the State Revenue Service, this information should be provided in free form.