

Taking customers abroad (3/36/18)

Companies often hold events abroad for the information of their customers. Accountants may be wondering about the correct tax treatment when a company takes customers to factories, exhibitions or supplier offices abroad, and pays for their plane tickets, visas and other expenses. Braver taxpayers either lump all these items together under advertising expenditure or record this as a business trip and write those expenses off as business expenses. Other taxpayers write off only flight and hotel costs, while treating meal costs as so-called representation expenses. This article looks at the latest advance ruling the State Revenue Service (SRS) has issued to explain the tax treatment in this situation.

In July 2018 the SRS published an advance ruling on the corporate income tax (CIT) treatment of flight and visa expenses a Latvian company incurred in sending its customer representatives to a technical training workshop abroad.

The workshop was held by a foreign company represented by the Latvian company. The foreign company covered the overnight accommodation, catering and transfer expenses incurred by the Latvian company's customer representatives, while the Latvian company covered their flight and visa expenses.

The ruling says the customer flight and visa expenses are advertising costs exempt from CIT. It is clear, however, that the SRS expressed this opinion after evaluating the programme of the corporate event, which should –

- popularise the company's goods or services or increase the demand for them; and
- involve training and visiting factories or exhibitions that match the product or service being advertised.

Unfortunately the ruling does not deal with the customer hotel and meal expenses, which might have been paid also by the Latvian company. In this case we can take the view that such accommodation and catering are part of the advertising event and not, therefore, subject to CIT, but we are not aware of how the SRS interprets this matter.

A slightly safer yet administratively more complicated way is to send customer representatives on a business trip and treat those expenses as business trip expenses.