

Corporate Income Tax Act amended (3/6/20)

The long-awaited amendments to the CIT Act have been finally adopted. This article explores amendments that increase the number of items to be included in the tax base and expands the range of taxpayers.

Taxable items and an exception

To meet the requirement for implementing the remaining provisions of the EU Anti-Tax Avoidance Directive, including the exit tax provisions and the rules on hybrid mismatches, the Latvian lawmaker has widened the tax base to include the following items:

1. Assets transferred in the course of a reorganisation unless they continue to be used for business purposes in Latvia;
2. The market value of an asset that a Latvian company transfers to its permanent establishment (PE) abroad so that Latvia loses the right to tax the asset transferred. This requirement will apply to any tangible and intangible assets transferred permanently. Any liabilities transferred along with assets (except for any accrued liability attributable to future expenditure) can be deducted from their market value. PwC believes this requirement will not apply to any assets the PE uses for a certain period without including them on its separate balance sheet;
3. Depreciation: if the PE keeps books separately from its head office, the market value of the asset can be included in the tax base gradually in proportion to how the foreign PE deducts depreciation charges, and only for the period in which the head office distributes profit;
4. The value of an asset that a foreign taxpayer's PE in Latvia transfers to its head office or to another PE abroad so that Latvia loses the right to tax the asset transferred. Again, this requirement should not apply to any assets the PE uses for a certain period without inclusion on its separate balance sheet and returns to its head office;
5. The outcome of a hybrid mismatch. This is a situation created deliberately between related companies or their PEs or a structured arrangement in which –
 - an amount is deducted for tax purposes in one country and not added to income in another country in the same period or within the next 12 months; or
 - the amount is deducted from taxable income in both countries.

All of these items (except for 3) should be included on the CIT return for the last month of the financial year, which will be December for most companies or PEs.

A special exception is available if a taxpayer transfers assets to its foreign PE for a period of up to 12 months –

1. to finance securities;
2. as collateral;
3. to meet capital adequacy (prudential capital) requirements;
4. to manage liquidity.

Private pension funds, investment funds and alternative investment funds have so far been exempt as the CIT payment obligation was shifted to members of the fund. In future, funds will also have to report hybrid mismatches on the CIT return for the last month of the financial year and pay tax.

For other CIT amendments that we have explored on MindLink.lv earlier please read our Flash News editions of [9 August 2019](#), [16 August 2019](#) and [29 August 2019](#).