

SRS guidance on CIT treatment amid emergency (2/23/20)

Latvia has extended the emergency situation to 9 June. COVID-19 is causing businesses to incur additional expenses in providing a safe working environment. Accountants have questions about recording such expenses in the books and applying the correct tax treatment. The State Revenue Service ("SRS") has published guidance interpreting the corporate income tax ("CIT") and VAT treatment in the emergency situation. This article explores the interpretation of CIT treatment.

The SRS guidance¹ interprets the CIT treatment of various expenses, such as those incurred in providing the worker with a suitable working environment when working remotely, purchases of disinfectants and other personal protective equipment, expenses incurred in buying flight tickets, booking hotels etc.

Fuel expenses on a worker's private car

During the emergency situation, an employer enables a worker to safely travel from home to work and back, as well as covering the cost of fuel for the worker's private car travelling between home and work.

According to the SRS guidance, these are business expenses that do not attract CIT or payroll taxes. At the same time, the SRS states that the following conditions must be satisfied:

- The worker must submit receipts for fuel required for trips from home to work and back;
- The employer must draw up an internal document to support the amount of fuel consumed during the month. The document must specify the trip from home to work and the trip from work to home, as well as the number of trips made during the month;
- No individual trip notes are required and no contract is required between the employer and the worker for using the private car.

COVID-19 lab tests

Two situations can arise here:

1. The employer sends workers to have lab tests done in order to find out whether they are infected with COVID-19, and covers the costs;
2. A worker has a lab test done on their own initiative, and the employer reimburses the expense.

The SRS guidance invokes section 8(5)(3) of the CIT Act, which provides that business expenses include expenses incurred to satisfy the requirements of the Work Protection Act and expenses incurred in taking preventive health measures if the working conditions require this. So the employer's cost of lab tests in either case is a business expense free of CIT.

The SRS guidance states that the worker's compensation for COVID-19 tests does not attract salary tax. The employer can compensate the worker only if a valid receipt is submitted. The worker should be aware that if the employer reimburses the cost of a COVID-19 test, this cannot be claimed as an allowable medical expense through the annual income tax return or recovered from an insurance company.

The guidance also describes how the SRS interprets other expense items. However, if your company has incurred some expenses during the emergency situation that raise doubts about qualifying as business

expenses, we recommend applying to the SRS for a private ruling.

¹ SRS guidance “Topical issues of tax treatment after the emergency situation was declared as a result of the outbreak of the coronavirus (Covid-19)”