

Latvia-Russia tax treaty stopped 3/21/22



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By decision of Parliament Speaker I. Murniece, the double tax treaty (DTT) and its protocol have been suspended indefinitely from 16 May. The decision makes unavailable from this date the DTT and national reliefs that provided for an exemption on the basis that Russia had a DTT with Latvia. In this article we explore how this decision affects paying taxes. And we note that the Latvia-Russia social security agreement is still in force (link [here](#)).

Affected areas

The DTT suspension affects the following taxes:

- On the Russian side:
 - Corporate profit tax
 - Personal income tax
 - Corporate property tax
 - Personal property tax
- On the Latvian side:
 - Corporate income tax
 - Personal income tax
 - Real estate tax

The DTT suspension has the effect of cancelling DTT reliefs and restrictions on taxation as well as references in the national legislation to Russia as a country that has an effective DTT with Latvia. Below we offer a couple of examples where you can see the effects of the suspension. While these examples are not final, they give some insight into the tax treatment that Latvian tax-resident companies and individuals will face when receiving income or when making or receiving payments from Russia. This article ignores the potential impact of sanctions and the ability of Latvian residents to cooperate with Russian residents.

The corporate income tax (CIT) impact

Because of the DTT suspension, for CIT purposes we will only have our national legislation to rely on, i.e. provisions of the [CIT Act](#). Changes will affect the taxation of several types of income, for instance, a 20% withholding tax when paying management or consulting fees to Russian tax residents. Previously, a Latvian company holding the recipient's Russian tax residency certificate was released from the obligation to withhold tax on those fees under DTT article 7. Given the DTT suspension, the CIT rates will now be

applied, so the Russian company will receive the agreed fee minus 20%.

Changes will also affect the application of [section 9 of the CIT Act](#). A Russian debtor could be excluded from the CIT base under section 9(3)(1) as a person from a country that had a DTT with Latvia. The section 9(3) exemption for Russian debtors is no longer available.

The personal income tax (PIT) impact

As the DTT suspension affects income gained from 16 May 2022 onwards, these changes will not affect the preparation and filing of the PIT return for 2021. Income gained before 16 May 2022 will have to be separated from income gained after this date because taxes apply differently. As stated above, in assessing the tax treatment, we now have to rely on our national legislation, i.e. the [PIT Act](#).

The PIT treatment of the following types of income, for instance, is affected:

- Under the DTT, previously, a Latvian tax resident's Russian pension was taxed in Russia only. There was no further Latvian tax to pay. Since the DTT has been suspended, the Latvian tax resident in this situation has to start paying PIT on the pension received from 16 May 2022, after claiming the pensioner's allowance (EUR 350 a month for the first six months and EUR 500 for the last six months of 2022) and applying a method for preventing double taxation that provides for reducing the Latvian tax by the Russian tax paid on the same income if such tax payment has been made.
- Before the DTT was suspended, a Russian tax resident working for a Russian company in Latvia was exempt from paying Latvian PIT until his stay exceeded 183 days in any 12-month period or as long as the Russian company attributed this salary cost to Latvia. Because of the DTT suspension, the Russian tax resident in this situation has to pay Latvian PIT on his employment from the first day in Latvia.
- PIT was so far exempt on a Latvian resident's employment income gained in a country that had a DTT with Latvia (the exemption method). Because the DTT has been suspended, employment income in this situation will attract PIT. At the same time, the possibility of reducing the Latvian tax by the Russian tax paid on the same income will be retained (the credit method).
- In future, when paying interest income to Russian tax residents, we will have to withhold a 20% tax, not the reduced DTT rate of 10%.

A list of all double tax treaties with links to the documents is available from MindLink.lv section [Useful – Double Tax Treaties](#).