

# Income tax reform 2018 - snapshot

## Overarching goal

Stimulation of reinvestment of profits across all sectors of economy and implementation of progressiveness in taxation of personal income.

## Effective date

January 1, 2018

## Corporate taxation

### Tax base

Distributed profits and distributed conditional profits (*Adjusted profit before tax*)<sup>i</sup>.

### Distributed profits

- Dividends, inclusive of interim dividends
- Deemed dividends (reduction of share capital formed by retained earnings)

### Distributed conditional profits

- Non-business expenses
- Long-standing bad and doubtful debt provisions
- Interest expense exceeding one permitted under thin capitalisation rules
- Loans granted to related parties subject to certain exemptions
- Transfer pricing adjustments
- Liquidation quota

### Tax rate

20% of grossed-up amount subject to tax (*15% of adjusted profit before tax*).

### Withholding tax

#### Tax base and rates

- Management and advisory fees - 20% (*10%*)
- Proceeds on disposal of real estate located in Latvia or shares of a company carrying in its balance sheet real estate located in Latvia - 3% (*2%*)
- All payments to companies and individuals residing in tax havens - 20% (*15%*)

### Holding company regime

- Dividend income is exempt from tax if it is subject to CIT in the country of origin
- Capital gains on disposal of shares is not subject to CIT if holding of such shares has not been less than 36 months (*Nil months*)

### Thin capitalisation test<sup>ii</sup>

- Test 1 (as before) - does debt 4-fold exceed equity?
- Test 2 (new) - does interest expense exceed €3m and 30% of EBITDA?

### Tax losses accrued till 31/12/2017

- Can be carried forward for 5 years
- CIT payable can be reduced by 15% of tax loss carried forward but not in excess of 50% of CIT payable on dividends

### Taxation of retained earnings

- Distribution of profit accumulated before 2018 is not subject to CIT unless paid to individuals
- In case of individuals, 10% personal income tax will apply to dividends paid in 2018 and 2019. 20% tax will apply starting from 2020

### Taxation period

Calendar month (*Fiscal year*).

### Allowances

Capital allowances and relieves pertinent to new technological equipment no longer are provided.

### Personal taxation

#### Employer considerations

- Annual income below €20k taxed at 20%, from €20k to €50k - taxed at 23%, above €50k - taxed at 31.4% (*flat rate of 23%*)
- Minimum monthly salary - €430 (*€380*)
- Differentiated non-taxable minimum salary concept remains in force
- Tax allowance for dependents - €200 (*€175*)
- Rate of mandatory social insurance contributions set at 35.09% (*34.09%*), of which 11% (*10.5%*) is born by employee and 24.09% (*23.59%*) by employer

<sup>i</sup> Information in brackets in italics throughout the text refers to regulations in effect until December 31, 2017

<sup>ii</sup> Test of the absolute size of interest rate is valid until December 31, 2017