Tax conventions

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Main goals of tax treaties

Avoidance of double taxation

Prevention of fiscal evasion

Distribution of the taxing rights between the Contracting States

Prevention of discrimination in tax matters

Main tasks of tax treaties

To provide a stable taxation regime to the investors of each Contracting State in the other Contracting State, namely by including the following provisions thereof: the provisions governing the taxation of revenue gained from the business activity in the other Contracting State and from the capital existent in that State; the precise provisions concerning passive income - dividends, interest, commission fee, royalties, capital taxation. Moreover, the maximum tax rate is set to be levied on those items of income and capital in other Contracting State.

To create legal basis for direct co-operation of states` Tax Administrations in order to eliminate the possibility to avoid the tax payments. In order to achieve this result an article is included in the tax treaties, which imposes an obligation on each state's Tax Administration to provide information to the other Contracting State's Tax Administration on the following: the business partners of the residents of the other Contracting State and the income of the residents of the other Contracting State derived in the first State.

Necessity of tax treaties

If any tax treaty is not signed between the states, then the investors of one state are taxed in the other state on the basis of the other state's national legislative acts. The other state may change not only the tax rates, but also the order of calculation of the taxable income. In this situation the invariability of the taxation rules is not guaranteed in the long time period, thereby it is impossible to plan precisely the investments, their recoupment and profit. Thus, the stability of taxation of one state's investors income gained in the other state or the capital situated therein is not guaranteed. In the situation when the taxation matters in both states are solved only according to the national legislative acts, the issue on double taxation avoidance is not solved. The above-mentioned situation may negatively affect one state's residents' investments in the other state.

If any tax treaty is not signed between the states, then one state's Tax Administration is not obliged to reply to the other state's Tax Administration's request for the information about the business partners of the taxpayers of the other state in the first state and about the items of income gained by the taxpayers of the other state in the first state. In the situation when the other state does not have the above-mentioned information at its disposal it is difficult for it to tax its residents for their income gained abroad and also it is problematic to apply some special national tax provisions, for example, terms concerning the adjustment of taxable income on the basis of prices applicable in transactions between unrelated persons.

Status of bilateral conventions

The approval of the tax convention in the *Saeima* does not mean that its application may be initiated. Approval by the *Saeima* means that the Latvian party has fulfilled the necessary requirements for the entry into force of the tax treaty. The Ministry of Foreign Affairs shall notify the other Contracting State of the fulfilment of the abovementioned requirements by diplomatic means (by submitting an official note). Similarly, the other Contracting State shall notify on the fulfilment of the required requirements. Such date of the last statement (or date of receipt thereof) shall normally be considered as the date of entry into force of the tax treaty in accordance with the provisions of a specific tax treaty. The application of the provisions of the treaty shall be initiated by the calendar year following the year in which the tax convention enters into force. The dates of entry into force and application of the treaties are set out in the table on the status of conventions in columns 4 and 5.

Latvia began its work for the conclusion of tax treaties in 1992 and till now the negotiations on the conclusion of the tax treaties have been held with 75 states. Until now 69 conventions have been initialled (and with 4 states the protocols on amending the effective tax treaties have become effective), of which 62 conventions are currently effective. Moreover, it is planned to review the tax treaties with 2 states.

[Status of conventions (10.02.2020.)]

* *On 3 June 2006, the Parliament of Montenegro adopted a decision on declaring the independence of the Republic of Montenegro, while deciding that the Republic of Montenegro applies international treaties concluded by the State Union of Serbia and Montenegro, which concern the Republic of Montenegro, and consequently the treaty between the Government of the Republic of Latvia and the Council of Ministers of Serbia and Montenegro on the elimination of double taxation on income and capital taxes, signed on 22 November 2005 applies to both Montenegro and Serbia.*

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

On 1 February 2020 the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting became effective (BEPS Multilateral Instrument; hereinafter - MLI) (signed on 6 June 2017). Thus, as of the moment MLI has become effective, Latvia and certain jurisdictions, where MLI has become effective before this date, have become the Contracting Parties of MLI and the application of MLI may be commenced. At the moment MLI became effective in Latvia, the jurisdictions above-mentioned are as follows: Austria, Belgium, Canada, Denmark, Finland, France, Georgia, Iceland, India, Ireland, Israel, Luxembourg, the Netherlands, Norway, Poland, Qatar, Russia, Serbia, Singapore, Slovakia, Slovenia, Sweden, Ukraine, United Arab Emirates and the United Kingdom. One must note that the number of those jurisdictions will increase as MLI will become effective in other jurisdictions, with which Latvia has concluded bilateral tax treaties. The additional information is available at the OECD homepage.

MLI has been elaborated by the OECD with the aim to ensure as much as possible swift and common implementation and application of the minimum standard and recommendations related to the concluded tax treaties provided by the OECD BEPS Action Plan – Action No 2 (Neutralising the effects of hybrid mismatch arrangements), No 6 (Prevention of tax treaty abuse), No 7 (Permanent establishment status) and No 14 (Mutual Agreement Procedure).

Latvia has chosen to apply only those MLI provisions ensuring the implementation of minimum standard provided by BEPS Action Plan (included in Actions No 6 and 14) in relation to the tax treaties – Article 6 of MLI – Preamble (which in addition to the prevention of the double taxation provides for the prevention of the of the tax treaty abuse, BEPS – Action No 6); Article 7 of MLI (Principal Purpose Test - PPT, BEPS – Action No 6); Article 16 of MLI (Mutual Agreement Procedure, BEPS – Action No 14); and Article 17 of MLI (Corresponding Adjustments, BEPS – Action No 14). In order to ensure the prevention of BEPS risks as widely as possible, Latvia is willing to apply MLI to all the tax treaties concluded by Latvia, where BEPS minimum standard is not included (currently MLI will be applied to 44 tax treaties of 57 tax treaties notified by Latvia, as all the countries, with which Latvia has concluded tax treaties, have not submitted the related notification (application of MLI is based on the principle of reciprocity).

Tax Information Exchange Agreements

States or associated/dependent territories with which bilateral TIEAs have entered into force

No	States or associated/dependent territories	Date of Initialing	Date of Signature	Date of Entering into Force	Date from which the TIEA is Effective
1	Guernsey	23.09.11	05.09.12	04.10.13	04.10.2013
2	Jersey	10.08.12	28.01.13	01.03.14	01.03.2014

Procedures for Application of Tax Relief

Cabinet Regulation No. 178 "Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion" (30 April 2001).