

# Corporate income tax

Published: 29.10.2021.

Updated: 20.04.2023.

Corporate income tax (CIT) is one of the direct taxes. The tax application procedure only on certain specific issues is harmonised with the legislation of the European Union and other organizations.

In accordance with the tax model introduced on 1 January 2018, the payment of CIT is deferred until the profit is distributed or otherwise redirected to such expenses that do not ensure further development of the company.

Taxpayers 



Corporate income tax payers are domestic enterprises, institutions financed from state and local government budgets which obtain income from economic activity and their income from economic activity is not provided for in their budgets permanent representative offices of non-residents, foreign commercial companies and other persons who obtain income in Latvia (non-residents).

CIT shall not be paid by:

natural persons;

individual (family) enterprises (including farms and fishermen's farms) which have chosen not to prepare an annual financial statement in accordance with the [Law on Annual Financial Statements and Consolidated Financial Statements](#)

institutions financed from state and local government budgets, the income from economic activity of which has been taken into account in their budgets;

private pension funds;

investment funds and alternative investment funds;

associations, foundations if the open or hidden purpose of the establishment thereof is not to make profit or achieve an increase in capital for their members;

religious organisations, trade unions and political parties.

## Information for non-residents



### Tax rates for payments to non-residents

The CIT shall be withheld from the following payments made to non-residents:

remuneration for management and consultancy services – 20% rate;

remuneration for alienation of immovable property located in Latvia– 3% rate;

for payments\* to legal, natural and other persons who are located or established in low-tax or tax-free countries or territories – 20% rate.

*\* Payments of any kind, incl., dividends, interest payments, payment for intellectual property, except payment for supplies of goods (if they correspond to the market value) and public securities.*

## Taxation period



The taxation period is a calendar month. The declaration of the taxation period shall be submitted to the State Revenue Service by the 20th date of the following month, if:

dividends are calculated;

disbursements equivalent to dividends are made;

conditional dividends are paid;

expenditure not related to economic activity are made;

a liquidation quota is paid.

Other taxable objects of the CIT which arise in the reporting year shall be included in the taxable base in the last taxation period of the reporting year, and the declaration shall be submitted to the State Revenue Service by the 20th date of the post-taxation period (the next month after the taxation period).

If the company has retained profit that has formed until 31 December 2017, the FIFO method shall be used for the calculation of the corporate income tax starting from 1 January 2018.

A taxpayer is entitled not to submit a declaration to the State Revenue Service for such taxation period in which the taxable object does not form, except for the declaration for the last month of the reporting year.

## Tax objects – taxable income



The tax base taxable with the corporate income tax includes distributed profits and conditionally distributed profits.

*The distributed profits include:*

the calculated dividends, including extraordinary dividends;

the disbursements equivalent to dividends, for example, the payment of the profit of the cooperative society to the members of the society, the payment of the share of the profit of the partnership, payments of non – resident's permanent establishment to the non-resident;

the conditional dividends, for example the part of the profit by which the share capital was increased without applying the corporate income tax at the time of the increase and which is withdrawn by reducing the share capital.;

*The conditionally distributed profits include the following:*

the expenditure not related to economic activity (including representation costs and costs of staff sustainability measures exceeding 5% of gross wages);

the doubtful debts of debtors which do not comply with the criteria laid down in the Enterprise Income Tax Law;

the increased interest payments;

loans to the related persons if they do not meet the criteria laid down in the Enterprise Income Tax Law;

transfer price adjustments (for transactions with related parties that do not correspond with the market price);

the benefits which a non-resident grants to his or her employees or members of the board of directors (council);

the liquidation quota;

payment of advances, guarantee money or fines, if the transaction has not been initiated within 12 months from the month in which the payment was made;

the result of hybrid mismatches.

## Tax rates



The profits made by the taxpayer shall not be subject to the corporate income tax until its distribution. Corporate income tax in the amount of 20% is paid from distributed profits (calculated dividends, income equal to dividends and notional dividends) and notional distributed profits (non-operating expenses, etc.).

CIT rate of 20 % is applied to the gross amount, or 20/80 of the net cost, i.e., the taxable base of the CIT should be divided by a coefficient of 0.8. In Latvia the recipient of dividends – a natural person from the abovementioned dividends does not pay personal income tax.

## Tonnage taxpayers

The Enterprise Income Tax Law provides a special tax payment regime – tonnage tax. Tonnage tax may be chosen to be paid by a commercial company which uses ships in international transport or activities related thereto and to which the State Revenue Service has granted the status of a tonnage tax payer. The tonnage tax shall be calculated on the basis of the net tonnage of the ship as evidenced by a valid International Tonnage Certificate.

## Information to be included in the corporate income tax return

Cabinet Regulation No. 93 of 13 February 2018, [Regulations Regarding the Information to be Included in the Corporate Income Tax Return](#), determines the procedures for completing the corporate income tax return and the information to be included in the declaration which is necessary for the calculation and administration of the corporate income tax in accordance with the Enterprise Income Tax Law, including information regarding distribution of profits and other expenses which the taxpayer has had in the taxation period and reporting year, information necessary for the calculation of tax relief, etc. Taxpayers shall complete the corporate income tax return and submit it to the Electronic Declaration System of the State Revenue Service.

## Donor incentive – 3 parallel options

A taxpayer who has made a donation to a public benefit organisation, budget institution or State capital company which performs state cultural functions delegated by the Ministry of Culture may choose one of the following options for donations in the taxation year:

not to include the donated amount in the CIT taxable base of the taxation period, but not more than 5% of the profit of the previous reporting year; or

not to include the donated amount in the CIT taxable base of the taxation period, but not more than 2 % of the total gross wages and salaries calculated for employees in the previous reporting year for which the mandatory social security contributions have been paid; or

reduce the CIT calculated in the taxation period for the dividends calculated in the reporting year by 85% of the donated amount, but not exceeding 30% of CIT amount for the calculated dividends.

In order to promote the attraction of donations for the support of the Ukraine and its civilians, special provisions are provided (Article 11.4 of the Law on Assistance to Ukrainian civilians). Namely, the possibility not to apply corporate income tax to the donated amount, if the donation is made via public benefit organisation or budget institution of Latvia for the mitigation of the effects of the emergency situation and for the support of the civilians in the Ukraine due to the Russia's war on Ukraine.

The law provides for the following tax relief:

relief for taxpayers performing agricultural activity, i.e., the right to reduce the taxable base of the reporting year in the amount corresponding to 50% of the amount received as a State aid for agriculture or European Union support for agriculture and rural development, but not more than by the total sum of taxable objects included in the taxable base in the taxation period;


relief for the tax paid abroad, if the payment of tax abroad is certified by documents approved by the foreign tax collection authority, in which the taxable income and the tax amount paid abroad are indicated, as well as for the income of the foreign permanent establishment of the taxpayer, if such permanent establishment in a foreign state pays tax for the income obtained or tax has been deducted from the received income in a foreign state;

relief for income from alienation of shares, if the conditions laid down in the Enterprise Income Tax Law are fulfilled, i.e., income has been obtained from the alienation of such direct participating stock the holding period of which at the time of alienation is at least 36 months (does not apply to the shares of such person who is located, established or founded in a low-tax or tax-free country or territory, as well as to the shares of such person (except for shares in public circulation), the value of the assets of which in the reporting year in which the alienation takes place or in the previous reporting year in the amount of more than 50% is formed by immovable property existing in Latvia and if the part of the income does not form an object taxable with the personal income tax. The relief is also applicable to the income earned by an investor through the closed alternative investment fund, if the investor's period of holding the shares in the fund is not less than 36 months.

Fixed-term tax relief shall be applicable to tax calculated at the time of distribution of dividends:

relief for investments made within the framework of the project of investments to be supported - the taxpayer has the right to apply the CIT rebate in accordance with Section 17.<sup>2</sup> of the Enterprise Income Tax Law (in force until 31 December 2017) for initial long-term investments made within the scope of the project of investments to be supported - in the amount of 25% of the total initial amount of long-term investments up to EUR 50 million, in the amount of 15% of the initial long-term investment amount for the part, between EUR 50 million and EUR 100 million;

relief for special economic zone and freeport capital companies - in accordance with the [Law On The Application of Taxes in Free Ports and Special Economic Zones](#), the right to apply relief up to 80% of the calculated tax amount.


Rules on low-tax or tax-free countries and territories 



Cabinet Regulation No. 819 of 17 December 2020, [Regulation Regarding Low-Tax or Tax-Free Countries and Territories](#) (hereinafter - the Regulation), has been developed on the basis of the conclusion of the EU Council of 5 December 2017 "[List of the European Union with jurisdictions that do not cooperate for tax purposes](#)".

The development of the Regulation by including the EU list jurisdictions was necessary in order as of 1 January 2021 to ensure the fulfilment of the agreement reached and the guidance endorsed at the EU Council on 5 December 2019 on the coordination of the national level defensive measures of the EU member states in the field of taxation in relation to the jurisdictions included in the EU list. Thus in order to ensure the fulfilment of the agreement reached and the guidance endorsed at the EU Council, Latvia has to ensure that the national level defensive measures are applied in relation to the jurisdictions included in the EU list.

Now and in the future, the list referred to in the Regulation will only be used to apply the protective measures laid down in national tax legislation, which are also compatible with those laid down at EU level, thus continuing to ensure that abuse of the tax system is prevented and could be used in other matters if necessary. The list above-mentioned is updated according to the initiatives at the EU level.

Current list of low-tax or tax-free countries and territories 



Anguilla

The Bahamas

The territory of Guam, USA;

The territory of Samoa, USA;

The territory of the Virgin Islands, USA;

The Republic of Fiji;

The Republic of Palau;

The Republic of Panama;

The Independent State of Samoa;

The Republic of Trinidad and Tobago;

Turks and Caicos Islands

Republic of Vanuatu.

[Enterprise Income Tax Law](#)

## Cabinet regulations:

Cabinet Regulation No. 677 of 14 November 2017, [Regulations Regarding Application of the Norms of the Enterprise Income Tax Law](#);

Cabinet Regulation No. 93 of 13 February 2018, [Regulations Regarding the Information to be Included in the Enterprise Income Tax Return](#);

Cabinet Regulation No. 40 of 16 January 2018, [Regulations Regarding Granting of the Status of a Tonnage Taxpayer and Tonnage Tax Return](#);

Cabinet Regulation No. 819 of 17 December 2020, [On Low-Tax or Tax-Free Countries and Territories](#)

Special procedures for the application of EIT in free ports and special economic zones are also laid down in the [Law On The Application of Taxes in Free Ports and Special Economic Zones](#).

More information on the [State Revenue Service website](#)