European Tax Newsalert

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Latvia

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Latvia amends corporate tax laws

The Latvian Parliament recently passed significant amendments to the Corporate Income Tax Act. The new provisions are designed to encourage companies to consider Latvia as a holding company jurisdiction.

US multinationals that have operations in Latvia or are looking to invest in the region may benefit from these provisions.

Amendments to the Corporate Income Tax Act

The most important changes are:

- The introduction, beginning in 2013, of a participation exemption regime under which capital gains on share transfers, as well as dividend income received, are exempt from tax. There are no conditions regarding the holding period or the holding capital.

  Under current law, capital gains are taxable, and the dividend tax exemption is limited to dividend income received from European Economic Area (EEA) subsidiaries and, subject to certain conditions, subsidiaries in third countries, such as the United States.

Note: The participation exemption will not apply to dividends received from tax havens or to capital gains on the transfer of shares in companies located in tax havens.

- Starting in 2014, withholding tax will not be levied on dividends paid from Latvia, except for dividends paid to tax havens. This amendment is relevant mainly for shareholders of Latvian companies located outside the EEA. Dividends paid to tax havens will be subject to a higher withholding tax (15 percent instead of the current 10 percent).

- Also starting in 2014, withholding tax will not be levied on interest and royalties paid to foreign companies.

These changes are designed to help Latvia retain local businesses and attract foreign investment.

Proposed VAT reduction

The Latvian Government recently proposed to decrease the VAT rate by one percentage point, from 22 to 21 percent. This proposal would move Latvia's VAT closer to the rates in the other Baltic countries: Lithuania's rate is 21 percent and Estonia's rate is 20 percent.

Other important developments

The Latvian business community has responded favorably to the recently introduced "taxpayers' white list," which provides companies that meet certain criteria with various tax-related benefits, such as repayment of VAT within three days instead of the average 30 days and potentially fewer tax audits.

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