Allocating profits/losses to a permanent establishment

If a non-Latvian resident carries on a business in Latvia or if a Latvian company operates abroad, they may create a permanent establishment (PE) in their country of operation, to which their business profits and losses arising in that country will be allocated for corporate income tax (CIT) purposes.

In determining revenue and expense allocations to your PE that will result in a profit or loss to be allocated to it, you should follow statutory requirements applicable in your country of operation and the allocation principles prescribed by a double tax treaty (DTT).

Allocating a profit or loss to your PE may pose CIT risks in both countries because you have to ensure the profit allocated to your PE is not lower in the PE country or higher in your residence country than the level prescribed by local and international rules.

How we can help you:

- Advising on the activities and statutory requirements in your residence country as well as on DTT provisions
- Analysing PE activities to build its functional profile
- Devising methodology for the allocation of revenues and expenses
- Preparing documents to support compliance of your allocation methodology with statutory requirements

How you benefit:

- The risk of double taxation is assessed and prevented early.
- You are aware of statutory requirements and DTT provisions.
- You have documents supporting compliance of your allocation methodology with statutory requirements.

Contacts

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