

# Corporate income tax

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## Aim:

To motivate entrepreneurs invest money into development of the company, improving capitalization and facilitating attraction of funds for further development of enterprises.

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## Benefits:

Along with the new CIT payment procedure, the investment environment in Latvia has become more attractive to companies. When investing and establishing a company in Latvia, a taxpayer obtains many advantages:

CIT shall not be paid for reinvested profit, because the 0% CIT rate is applied to the reinvested profit.

CIT at the rate of 20% shall only be paid from the profit share which will be distributed or disbursed as dividends, or used for purposes not directly related to business development. If a company does not pay dividends, but decides to invest the earned profit into business, the profit tax shall not be paid. Thus, the Latvian tax policy enables international companies to invest profit into business development without losses.

Distributed profit (dividends) is subject to tax once, tax on income shall be collected on the company level by applying 20% CIT rate.

Since 1 July 2018 the CIT advance payments are cancelled; therefore more current assets remain at the disposal of the company that can be used for business development.

CIT payment may be reduced by donating to the public benefit organization, budget institution or state capital company, being engaged in the provision of culture services on behalf of the state, as well as for donation to such non-governmental organization that is registered in another Member State of the European Union or country of the European Economic Area, with which Latvia has concluded a convention regarding prevention of double taxation and tax evasion, if the convention has come into force and the non-governmental organization operates in the status that is equal to the provisions of public benefit organization of Latvia in accordance with regulatory enactments of the relevant Member State of the European Union or country of the European Economic Area.

Corporate income tax is determined in accordance with the Corporate Income Tax Law, ([www.likumi.lv](http://www.likumi.lv)) and Cabinet of Ministers Regulation "Rules for the Application of the Norms of the Corporate Income Tax Law", ([www.likumi.lv](http://www.likumi.lv)).

The Law provides for deferring tax payment until profit is distributed or otherwise used for expenses, which do not ensure the further development of a taxpayer, i.e., the application of tax is transferred from the moment of gaining of profit to the moment of distribution of profit. Thus, tax will have to be paid regardless of the amount of income gained during the year only if the taxpayer distributes profits in dividends or pay-outs equivalent thereto, makes expenses non-related to economic activities, makes higher interest payments, disburses loans to related persons, etc.

The taxpayer has the right to apply tax rebates, if a tax base, to which the relevant rebate is applied, appears:

The taxpayer has the right to choose to apply tonnage tax arrangements.

The tax base is composed of distributed profit and deemed distributed profit.



The following is considered to be distributed profit:

- calculated dividends, including extraordinary dividends;
- pay-outs equivalent to dividends;
- conditional dividends.

Deemed conditional profit included in the tax base (i.e., subject to tax consists of the following:

- expenses not related to economic activities;
- unsafe debts of debtors;
- increased interest payments;
- loan to related person;
- income, which the taxpayer would have received, or expenses, which the taxpayer would not have incurred, if commercial and financial relations were formed or established in accordance with regulations, which would be in force between two independent persons, and if the value of transactions concluded between these related persons (one of which is a taxpayer) corresponded to the market price (value), the calculation methods of which are determined by the Cabinet of Ministers;
- benefits granted by a non-resident to its employees or members of the board (council) regardless of whether the recipient is a resident or non-resident, if they refer to the operation of a permanent establishment on Latvia;
- liquidation quota.

When assessing the tax base, the value of taxable objects is divided by the coefficient 0.8.

Corporate income tax payers



Tax is paid by inland companies (including partnerships), institutions funded from the State or local government budget, the income of which from economic activities is not planned in the budget, permanent establishments and foreign businesses, as well as other foreign persons that gain income in Latvia.

Tax is also paid by individual (family) companies (including farming and fishing enterprises), which prepare annual reports in accordance with the Law On Annual Reports and Consolidated Annual Reports. Submission of a declaration

Submission of a declaration [↗](#)



The taxpayer, using the SRS Electronic Declaration System, fills out the corporate income tax declaration on the results of the relevant taxation period and submits it to the SRS.

If the taxpayer has no taxable objects in the given month, he or she is entitled not to submit the declaration (except for the declaration for the last month of the reporting year).

Terms for the submission of declarations and payment of taxes



The declaration is submitted and tax is paid every month by the 20th date of the following month. Those taxpayers for whom the taxation period is one quarter submit the declaration and pay tax every quarter by the 20th date of the month following the relevant quarter.

If the taxpayer has no taxable objects in the given month, he or she is entitled not to submit the declaration (except for the declaration for the last month of the reporting year).

If the taxpayer has not submitted the declaration for the taxation period by the 20th date of the month, it is deemed that no taxable base subject to corporate income tax forms for the taxpayer during the taxation period and the declaration has been submitted, while the declaration submitted after the 20th date is deemed as an adjustment to the declaration of the taxation period, except the declaration for the last month of the reporting period.

Tax rates [↗](#)



Rate	Tax base	Taxation period
20% of the tax base  For non-residents — 3 % and 20 %  Payments to persons in low-tax and zero-tax countries or territories —20 %	Tax is applied to the tax base, which includes taxable objects:  distributed profit;  conditionally distributed profit.  When assessing the corporate income tax base, the value of taxable objects shall be divided by the coefficient 0.8.	Calendar month  Quarter (if the taxpayer, in accordance with law, is entitled to register source documents once a quarter)

The taxpayer has the right to apply tax rebates, if a tax base, to which the relevant rebate is applied, appears:

- rebate to donors;
- rebate to taxpayers who carry out agricultural activities;
- rebate for tax paid abroad;
- rebate for income from alienation of shares;
- transfer of losses of the previous years, etc.

The taxpayer has the right to choose to apply tonnage tax arrangements.

*This is a general description, provided for an informative purpose, and does not have any legal force. In case of application you shall act in accordance with the regulatory enactment. In case of any questions, please, contact with the State Revenue Service of Latvia.*

<https://www.vid.gov.lv/en/corporate-income-tax>