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13 December 2018 [shall come into force from 1 January 2019];

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If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*1 has adopted and

the President has proclaimed the following law:

**Enterprise Income Tax Law**

**Section 1. Terms Used in this Law**

(1) The terms used in this Law correspond to the terms used in the law On Taxes and Fees, the law On Accounting, the Law on Annual Statements and Consolidated Statements, the Credit Institutions Law, the Law on Savings and Loan Associations, the Insurance and Re-insurance Law, the Law on Investment Management Companies, the Law on Alternative Investment Funds and Management Thereof, and the Cooperative Societies Law, unless otherwise provided for in this Law.

(2) **Stock** – stocks, shares, capital shares, or other rights to receive dividends.

(3) **Exchange of stock** – a process whereby a company (acquiring company) acquires a holding in the capital of another company (acquired company) in exchange for the stock issued by the acquiring company or the transfer thereof to the shareholders of the acquired company and – depending upon the circumstances – for a recognised cash compensation, receiving the stock of the acquired company provided that the acquiring company has a majority of votes in the acquired company.

(4) **Loan** – a transaction whereby a creditor, on the basis of a written agreement, transfers cash to a borrower and which imposes an obligation upon the borrower to repay the cash to the creditor in due time and according to the specified procedures.

(5) **Merger** – a process which is manifested in one of the following ways:

1) one company or several companies (acquired company), upon ceasing to exist without liquidation proceedings, transfer all their assets and liabilities to another already existing company (acquiring company) in exchange for the stock issued by the acquiring company or the transfer thereof to the shareholders of the acquired company and – depending upon the circumstances – for a recognised cash compensation;

2) two or more companies (acquired companies), upon ceasing to exist without liquidation proceedings, transfer all their assets and liabilities to a company which they establish (acquiring company) in exchange for the stock issued by the acquiring company or the transfer thereof to the shareholders of the acquired company and – depending upon the circumstances – for a recognised cash compensation;

3) a company (acquired company), upon ceasing to exist without liquidation proceedings, transfers all of its assets and liabilities to a company (acquiring company) which owns all the stocks of the acquired company.

(6) **Recognised cash compensation** – cash which, in addition to the value of issued or transferred stock, is paid by the acquiring company, acquired company or divided company and which does not exceed 10 per cent of the nominal value of the issued or transferred stock.

(7) **Shareholder** – an owner of stocks or any other person who has other rights not resulting from debt obligations to participate in distribution of the profits of the company.

(8) **Disbursement equivalent to a dividend** is the following:

1) the disbursement of the profits of a cooperative society (surplus in a conforming agricultural services cooperative society and in a conforming forestry services cooperative society) to members of the society according to the extent of services of the cooperative society used by them;

2) the distribution of the retained profits of an individual undertaking (also a farm or a fisherman’s household) for the reporting year and previous years not referred to in Section 4, Paragraph two, Clause 2 of this Law;

3) the disbursement of a part of the profits of a partnership, except for the disbursement of a part of the profits of an alternative investment fund established in a form of a partnership;

4) the payments of a permanent establishment of a non-resident (hereinafter – the permanent establishment) to a non-resident whose permanent establishment it is if they are not considered expenditures of a non-resident which ensure the economic activity of the permanent establishment.

(9) **Dividends** – income in cash or in kind from stocks or other rights not resulting from debt obligations to participate in the distribution of profits of such commercial company or cooperative society. This term shall not apply to income in cash or in kind received in case of liquidation of the commercial company or cooperative society.

(10) **Domestic undertaking** – a commercial company (partnership and capital company), a cooperative society, or any other legal person governed by private law which is considered a resident of Latvia in accordance with the law On Taxes and Fees.

(11) **Transfer of a legal address** – an operation by which a European commercial company or European cooperative society, without terminating its activities and establishing a new legal person transfers its legal address from the Republic of Latvia to another Member State of the European Union or to the Republic of Iceland, or the Kingdom of Norway, or the Duchy of Luxemburg.

(12) **The use of a ship for international carriage and activities related thereto** are as follows:

1) the use of a ship which is owned, co-owned or held by a tonnage taxpayer on the basis of a bareboat charter contract, except for a ship with a net tonnage capacity less than 100 units, for the carriage of cargo or passengers operating to foreign ports, between foreign ports or in foreign ports if the ship, in the taxation period, is used for at least 75 per cent of the operating time for such purposes;

2) in the ship use taxation period referred to in Clause 1 of this Paragraph, the carriage of cargo or passengers between Latvian or foreign ports and places outside the territorial waters of Latvia, including places where natural resources are investigated or acquired if the ship, in the taxation period, is used for at least 75 per cent of the operating time for such purposes;

3) use of the ships referred to in Clause 1 of this Paragraph in the taxation period for the provision of towing, pushing or rescue services outside of the territorial waters of Latvia, including places where natural resources are investigated or acquired, for ships which perform international carriage;

4) strategic and commercial management of the ships used in international carriage by another person on the basis of a mutual written agreement in the place of another person if the following conditions are fulfilled:

a) strategic and commercial management is performed simultaneously,

b) the total amount of the net tonnage of the ships managed in the place of another person (calculated in respect of each calendar day) in the taxation period does not exceed by more than 10 times the total amount of net tonnage of the ships owned or co-owned by the tonnage taxpayer with at least 5 per cent holding (taking into account the total tonnage of co-owned ships in the calculations) or ships held on the basis of bareboat charter contracts in the taxation period;

5) technical and crew recruitment management of the ships used in international carriage by another person on the basis of a mutual written agreement in the place of another person if the following conditions are fulfilled:

a) together with technical or crew recruitment management of the ships, or both of the abovementioned types of management also strategic and commercial management of ships is performed,

b) the conditions referred to in Clause 4, Sub-clause “b” of this Paragraph;

6) temporary transfer of the ships referred to in Clause 1 of this Paragraph to another person on the basis of a ship time charter contract or other sea carriage contract (voyage charter contract or carriage of volume of cargo contract);

7) the use of the ships for international carriage not referred to in Clause 1 of this Paragraph on the basis of a ship time charter contract or other sea carriage contract (voyage charter contract or carriage of volume of cargo contract) if the condition is fulfilled that the net tonnage of the ship (calculated for each calendar day) in the total taxation period does not exceed by more than 10 times the total amount of net tonnage of the ships owned or co-owned by the tonnage taxpayer with at least 5 per cent holding (taking into account the total tonnage of co-owned ships in the calculations) or ships held on the basis of bareboat charter contracts in the taxation period;

8) the loading and unloading of the ships referred to in Clause 1 of this Paragraph, agency, provision of supplies and other services to these ships;

9) the provision of hotel, casino, restaurant (café, bar), shop activities, domestic services on the ships referred to in Clause 1 of this Paragraph if the condition is fulfilled that these services are performed by the tonnage taxpayer;

10) the alienation of the ships referred to in Clause 1 of this Paragraph and of the equipment and structures related to the use thereof (including buildings and premises on which the tonnage taxpayer performs his or her economic activity).

(13) **Ships operating time** – time included in the taxation period during which a ship is utilised for carriage and the performance of activities associated with this carriage. Ship operating time does not include ship repair and ship lay-up time, and also the time during which a ship is not operated due to arrest thereof or circumstances caused by force majeure.

(14) **Conditional dividends** – a part of the profits (a part of the retained profits for the reporting year and previous years, including the part for which the reserve has been created) by which the amount of the invested share or number of shares of the share capital or equivalent capital of a domestic undertaking or shareholder (stockholder) of a permanent establishment is increased.

(15) **Person –** a natural or a legal person, or a group of such persons bound under a contract, or other legal arrangement, or representatives of such persons or groups.

(16) **Interest** (yield) – income from any debt obligations, income from securities emitted by the State, and income from bonds and promissory notes, including premiums pertaining to such securities, bonds, or promissory notes.

(17) **Representation car** – a car the value of which exceeds EUR 50 000 without value added tax and which is the following:

1) a passenger car in which the number of seats, excluding the driver’s seat, does not exceed eight seats, except for an operational vehicle or a special passenger car (an emergency medical vehicle, a caravan or a hearse, a passenger car which is specially equipped in order to transport disabled persons in wheelchairs), or a new passenger car which is used as a demonstration car by an authorised car dealer;

2) a lorry with a weight of up to 3000 kilograms which has been registered as a van and has more than three seats (including the driver’s seat), if it has been classified as a lorry (category N1) but is, in essence, a passenger car (category M1).

(18) **Company** – a capital company which is:

1) a resident of the Republic of Latvia;

2) a resident of another European Union Member State which concurrently conforms to the following criteria:

a) is referred to in Annex 1 to this Law,

b) in accordance with the tax laws and regulations of the European Union Member State has been recognised as a resident of the relevant European Union Member State for the purposes of imposing taxes and, on the basis of an agreement for the avoidance of double taxation which has been entered into with a third country, is not recognised as a resident in the state which is not a European Union Member State for the purposes of imposing taxes,

c) is a taxpayer that pays one of the taxes referred to in Annex 2 to this Law if it is not exempt from the relevant tax or it does not have the possibility to choose a tax exemption;

3) a resident of a state of the European Economic Area with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion and such convention has come into force, and which is not a European Union Member State, which is, in the country of residence, subject to the imposition of a tax similar, in essence, to the enterprise income tax of the Republic of Latvia, is not exempt from the relevant tax or it does not have the possibility to choose a tax exemption and, on the basis of an agreement for the avoidance of double taxation which has been entered into with a third country, is not recognised as a resident in the state which is not a European Union Member State for the purposes of imposing taxes.

(19) **Division –** a process which manifests itself in one of the following types of reorganisation:

1) upon ceasing to exist without liquidation proceedings, a company (divided company) transfers all its assets and liabilities to two or several already existing or newly established companies (acquiring companies) in exchange for a proportional number of stocks issued by the acquiring companies or the transfer thereof to the shareholders of the divided company and – depending upon the circumstances – for a recognised cash consideration;

2) without ceasing to exist, a company (divided company) transfers one or several types of its economic activity to one or several existing companies or companies which it establishes (acquiring companies) in exchange for the stocks issued by the acquiring company or the transfer thereof to the shareholders of the divided company and – depending upon the circumstances – for a recognised cash consideration.

(20) **Economic activity** – activity directed towards production of goods, work performance, trade, provision of services, or other form of activity for consideration.

(21) **Transfer of type of economic activity –** a process whereby a company (transferring company), without ceasing to exist without liquidation proceedings, transfers one or several branches of its activity, within reorganisation proceedings, to another company (acquiring company) in exchange for the stocks issued by the acquiring company or the transfer thereof. Branch of activity includes all assets and liabilities of the company which constitute an independent type of economic activity from an organisational point of view.

(22) **Payment for intellectual property** – any payment received as remuneration for any copyright (including neighbouring rights), or for the right to use copyright (including neighbouring rights) to a literary, scientific or artistic work, including computer programs, films, sound recordings, patents, trademarks, sample design or model, plan, secret formula or process, or for the right to utilise manufacturing, commercial or scientific equipment or for utilisation thereof, or for information in respect of industrial, commercial or scientific activity and experience.

(23) **International Tonnage Certificate** (1969) – a document which is issued on the basis of the 1969 International Convention on Tonnage Measurement of Ships and certifies net tonnage of a ship.

(24) **Tonnage tax** – an enterprise income tax which, on the basis of a ship’s net tonnage (hereinafter – the tonnage) and confirmed by a valid International Tonnage Certificate (1969), is calculated and paid by the tonnage taxpayer.

(25) **Brand** – a name, symbol, sign, or combination of design which identifies a specific product, producer, seller or provider of services.

**Section 2. Taxpayers**

(1) Enterprise income taxpayers shall be as follows:

1) all the performers of economic activity referred to in Sub-clauses of this Clause:

a) domestic undertakings;

b) institutions financed from the State budget to which the conditions of Paragraph two of this Section do not apply;

c) institutions financed from the local government budget which obtain income from economic activity and to which the requirements of Paragraph two of this Section do not apply;

2) permanent establishments;

3) foreign commercial companies and other persons which obtain income in Latvia (hereinafter – the non-residents).

(2) Enterprise income tax shall not be paid by the following:

1) natural persons;

2) individual (family) undertakings (including farms and fishermen’s households) that have chosen not to prepare an annual financial statement in accordance with the Law on Financial Statements and Consolidated Financial Statements;

3) institutions financed from the State budget whose income from economic activity is provided for in the State budget;

4) institutions financed from the local government budget whose income from economic activity is provided for in the local government budget;

5) private pension funds;

6) investment funds and alternative investment funds;

7) 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;

8) religious organisations, trade unions, and political parties;

9) [23 September 2021].

(3) The personal income tax or the enterprise income tax shall be paid respectively by an investor in the investment fund or alternative investment fund and a pension plan participant of the private pension fund on the income acquired by the persons referred to in Paragraph two, Clauses 5 and 6 of this Section.

(31) Irrespective of the provisions of Paragraph two, Clauses 5 and 6 of this Section, the private pension funds, investment funds, and alternative investment funds shall pay the enterprise income tax according to Section 4, Paragraph two, Clause 2, Sub-clause “k” and Paragraph five of this Law if Section 7.1, Paragraph twelve of this Law is applicable to them.

(4) A limited liability company, an individual undertaking, and also a farm or a fisherman’s household which has been registered as the micro-enterprise taxpayer shall include the enterprise income tax in the total micro-enterprise tax in accordance with the Micro-enterprise Tax Law.

(5) A micro-enterprise taxpayer which has submitted a submission to the State Revenue Service regarding termination of the status of a micro-enterprise taxpayer by December 15 of the reporting year shall start paying the enterprise income tax from the following reporting year in accordance with the requirements of this Law.

(6) A tonnage taxpayer shall be a domestic undertaking (a company) to which the State Revenue Service has granted the tonnage taxpayer status and which:

1) uses ships owned, co-owned or held on the basis of a bareboat charter contract for international carriage and activities related thereto and performs in Latvia the functions necessary for strategic, commercial, technical and crew recruitment management of ships for its economic activity or economic activity of another person in accordance with the conditions of Section 1, Paragraph twelve, Clauses 4 and 5 of this Law;

2) is entitled to change the tonnage taxpayer status granted by the State Revenue Service not earlier than 10 taxation periods after acquiring of the abovementioned status.

[*30 January 2020; 23 September 2021*]

**Section 3. Tax Rate and Taxation Period**

(1) The tax rate shall be 20 per cent of the calculated taxable base which has been adjusted prior to the application of the tax rate in accordance with Section 4, Paragraph nine of this Law.

(2) The taxation period shall be a calendar month.

(3) If a taxpayer is entitled to record corroborative documents on a quarterly basis in accordance with the law On Accounting, the taxation period of the taxpayer shall be a quarter.

(4) The tax rate for the income obtained by a non-resident shall be determined in accordance with Section 5 of this Law.

**Section 4. Taxable Base**

(1) In respect of the taxpayers referred to in Section 2, Paragraph one, Clauses 1 and 2 of this Law the base taxable with the enterprise income tax shall be formed by summing together the objects calculated in the taxation period in Latvia and abroad referred to in Paragraph two of this Section.

(2) In respect of the taxpayers referred to in Section 2, Paragraph one, Clauses 1 and 2 of this Law the base taxable with the enterprise income tax shall include the following taxable objects:

1) the distributed profits which include the following:

a) the calculated dividends, including extraordinary dividends;

b) the disbursements equivalent to dividends;

c) the conditional dividends calculated in accordance with Section 7 of this Law;

2) the conditionally distributed profits which include the following:

a) the expenditure not related to economic activity calculated in accordance with Section 8 of this Law;

b) the doubtful debts of debtors calculated in accordance with Section 9 of this Law;

c) the increased interest payments calculated in accordance with Section 10 of this Law;

d) the loan to the related person calculated in accordance with Section 11 of this Law;

e) the income which a taxpayer would have received or the expenditure which a taxpayer would have not incurred if commercial and financial relationships were created or established under valid conditions between two independent persons and if the value of the transactions made between the related persons (out of which one is the taxpayer) corresponded to the market price (value) which is calculated according to the methods stipulated by the Cabinet;

f) the benefits which a non-resident grants to his or her employees or members of the executive board (supervisory board), irrespective of whether the beneficiary is a resident or a non-resident if they are applied to activity of the permanent establishment in Latvia;

g) the liquidation quota;

h) the value of assets transferred to another person in reorganisation proceedings in accordance with Section 18 of this Law;

i) the value of such asset which is transferred by a taxpayer of Latvia to its permanent establishment abroad for the performance of economic activity, if, as a result of the transfer of the asset, Latvia loses the right to impose tax on the transferred asset;

j) the value of such asset which is transferred by the permanent establishment of a foreign taxpayer in Latvia to its parent enterprise or another permanent establishment abroad for the performance of economic activity, if, as a result of the transfer of the asset, Latvia loses the right to impose tax on the transferred asset;

k) the result of a hybrid mismatch in accordance with Section 7.1 of this Law.

(3) Paragraph two, Clause 2, Sub-clauses “a” and “f” of this Section shall not be applicable to the expenditure from which the personal income tax is deducted.

(4) The base taxable with the enterprise income tax for transactions shall be determined according to the principles for recognition of income and expenditure laid down in the Law on Annual Statements and Consolidated Statements or international financial reports. Upon calculating the base taxable with the enterprise income tax for the objects referred to in Paragraph two, Clause 2, Sub-clauses “a” and “f” of this Section if at the moment of transaction the value of the alienated asset fails to correspond to the market price (value), a decrease in the value of the taxable object which has resulted in reassessment or assessment thereof in fair value shall not be taken into account.

(5) The objects referred to in Paragraph two, Clause 2, Sub-clauses “b”, “c”, “d”, “e”, “f”, “i”, “j", and “k” of this Section shall be included in the taxable base of the last taxation period of the reporting year.

(6) The base taxable with the enterprise income tax specified in Paragraph five of this Section shall not include the amount of the debts of debtors referred to in Paragraph two, Clause 2, Sub-clause “b” of this Section if it has been recovered in the reporting year.

(7) Upon applying Paragraph two, Clause 1, Sub-clause “c” and Clause 2, Sub-clause “f” of this Section to determine the base taxable with the enterprise income tax, the value of the assets included in the base taxable with the enterprise income tax in the pre-taxation period shall not be taken into account.

(8) Upon applying Paragraph two, Clause 2, Sub-clause “g” of this Section the liquidation quota shall constitute a positive difference between the value of the equity of the taxpayer to be liquidated and the amount invested by the shareholder.

(81) Paragraph two, Clause 2, Sub-clause “g” of this Section is also applied to such taxpayers which cease to pay the enterprise income tax, except for the case when reorganisation has taken place as a result of which, in accordance with Section 18 of this Law, the acquiring company continues the use of the received assets in Latvia for ensuring of economic activity. If the taxpayer ceases to pay the enterprise income tax, without performing liquidation, the part of the profit diverted for savings, and also the part of the profit recorded in the off-balance sheet items in the accounting records are considered equivalent to the liquidation quota thereof, and such amount shall form the taxable base.

(82) Upon applying Paragraph two, Clause 2, Sub-clause “i” of this Section, the market value of the asset shall be included in the taxable base in the case when the accounting value of the transferred asset does not conform to its market value. If a taxpayer transfers an asset which has been recorded as fixed asset in the accounting records and the recording of transactions of the taxpayer and its permanent establishment is performed separately, the value of such asset shall be included in the base taxable with the enterprise income tax gradually to an extent in which, in the time period after transfer of the asset, the reduction of its value is applied to the permanent establishment. The abovementioned asset shall be included in the base taxable with the enterprise income tax in accordance with Paragraph two, Clause 1, Sub-clause “a” or “b” of this Section in the taxation period in which the taxpayer is performing distribution of the profits.

(9) Upon determining the base taxable with the enterprise income tax in the taxation period, the value of the object taxable with the enterprise income tax shall be divided by a coefficient of 0.8.

(10) Upon calculating the conditionally distributed profits of the taxpayers referred to in Section 2, Paragraph one, Clauses 1 and 2 of this Law, a transaction with a person who is located, set up or established in a low-tax or tax-free country or territory shall be considered a transaction with a related person. The list of the abovementioned countries or territories shall be determined by the Cabinet.

(11) In respect of a limited liability company, an individual undertaking, and also a farm or a fisherman’s household which has been registered as a micro-enterprise taxpayer, the taxable object and the tax rate shall be determined in the Micro-enterprise Tax Law.

(111) Paragraph two, Clause 2, Sub-clause “i” and Paragraph thirteen of this Section shall not be applied to assets which are transferred for a period of time not exceeding 12 months, if they are transferred:

1) for the financing of securities;

2) as a guarantee;

3) to meet the requirements for capital adequacy (prudential capital);

4) for the management of liquidity.

(112) Paragraph two, Clause 2 of this Section shall not include the conditionally distributed profits of the foreign permanent establishment of the taxpayer, if the recording of transactions of the taxpayer and its permanent establishment is performed separately and the permanent establishment is paying tax abroad for the acquired income or if tax has been deducted from its income abroad.

(12) For the purposes of calculation of the enterprise income tax, the permanent establishment shall keep accounting records, draw up a balance sheet and a profit and loss statement in accordance with the procedures laid down in laws and regulations. Accounting records shall include the income acquired by this permanent establishment independently in Latvia and abroad.

(13) The base taxable with the enterprise income tax and the object taxable with the enterprise income tax of the permanent establishment shall be determined in accordance with Paragraph two of this Section by summing together the objects calculated in Latvia and abroad in the taxation period from the profits which is applied to the permanent establishment and which is withdrawn from the permanent establishment in the taxation period in form of cash or otherwise by including the distributed profits and conditionally distributed profits.

(131) Upon applying Paragraph two, Clause 2, Sub-clause “j” of this Section in the case when the permanent establishment transfers a type of economic activity to the parent enterprise or to another permanent establishment of the parent enterprise outside Latvia, the market value of the transferred assets at the moment of their transfer from which the amount of the liabilities transferred together with the assets applicable to such assets (except for the accumulated liabilities which are applicable to future expenditure) have been subtracted shall be included in the base taxable with the enterprise income tax.

(14) If a non-resident incurs such expenditure which, in accordance with Paragraph two of this Section, constitutes a taxable object by using its permanent establishment in Latvia or applying to expenditure of the permanent establishment, the expenditure of such resident shall be included in the taxable base of the permanent establishment.

(15) In respect of the taxpayers (non-residents) referred to in Section 2, Paragraph one, Clause 3 of this Section, the taxable base and the rates of the enterprise income tax for the acquired income in Latvia shall be determined in accordance with Section 5 of this Law.

(16) The taxable base of a domestic undertaking which has been granted the tonnage taxpayer status by the State Revenue Service shall consist of the following two parts:

1) the objects referred to in Paragraph two of this Section to which the tax rate referred to in Section 3 of this Law is applied by applying the coefficient specified in Paragraph nine of this Section;

2) the base taxable with the tonnage tax to which the coefficient specified in Paragraph twenty-one of this Section is applied.

(17) If the tonnage taxpayer also performs other transactions in addition to the activity referred to in Section 1, Paragraph twelve of this Law, it shall keep separate accounting of income and expenditure in respect of such transactions and pay the enterprise income tax according to the general procedures.

(18) If the payments referred to in Section 5, Paragraph one, Clauses 1 and 2 of this Law are made to a person related to the taxpayer who uses tax rebates in accordance with the law On the Application of Taxes in Free Ports and Special Economic Zones, the tax shall be deducted as from a non-resident by applying the rates referred to in the abovementioned Clauses.

(19) The base taxable with the tonnage tax shall be calculated by summing together the calculated objects taxable with the tonnage tax for each ship which is used for international carriage and activities related thereto.

(20) The object taxable with the tonnage tax for each ship which is used for international carriage and activities related thereto shall be calculated in euros by multiplying the net tonnage of the ship (tonnage which is expressed in tonnage units) by the coefficient (each individual tonnage share is multiplied by the coefficient specified for the relevant share, the acquired results are summed together, and the sum is multiplied by the number of calendar days within the taxation period in which the abovementioned ship was in operation).

(21) The coefficient (expressed in euros per tonnage unit) shall be applied in the following amounts:

1) 0.0022 – to the tonnage of up to 1000 tonnage units;

2) 0.0019 – to the tonnage from 1001 to 10 000 tonnage units for the tonnage exceeding 1000 tonnage units;

3) 0.0016 – to the tonnage from 10 001 to 25 000 tonnage units for the tonnage exceeding 10 000 tonnage units;

4) 0.0007 – to the tonnage over 25 000 tonnage units for the tonnage exceeding 25 000 tonnage units.

[*30 January 2020*]

**Section 5. Taxable Object of a Non-resident, Tax Rate and Tax Deduction**

(1) In respect of non-residents, the taxable object shall be the income obtained in Latvia from economic activity or activities related thereto. The tax shall be deducted from the payments which residents (except for natural persons) and permanent establishments disburse to non-residents if personal income tax has not been deducted from such payments. The enterprise income tax shall be deducted from the following:

1) the remuneration for management and consultancy services – 20 per cent of the amount of remuneration;

2) the remuneration for alienation of immovable property located in Latvia – three per cent of the amount of remuneration;

3) the payments made to a non-resident in accordance with Paragraphs six and eight of this Section;

4) the remuneration for the leasing or renting of immovable property located in Latvia – five per cent of the amount of remuneration.

(2) Within the meaning of Paragraph one, Clause 2 of this Section, the remuneration for alienation of immovable property located in Latvia shall also include the income from alienation of stocks or other type of holding in a commercial company or another person established in Latvia or abroad if in the reporting year when alienation takes place (except for the alienation of holding within the scope of the reorganisation proceedings referred to in Section 18 of this Law) or in the previous reporting year the immovable property located in Latvia directly or indirectly (through holding in one or several other persons established in Latvia or abroad) accounts or has accounted for more than 50 per cent of the value of assets of such person. The proportion of the immovable property in the value of assets of a person shall be determined on the basis of the balance sheet data of the person as at the beginning of the relevant reporting year. This Paragraph shall not be applied to the income from the alienation of publicly-traded securities of European Union or European Economic Area.

(3) If a non-resident alienates immovable property located in Latvia from another person who does not have an obligation to deduct tax at the moment of payment in accordance with Paragraph one of this Section, the non-resident shall, within 30 days from the day of alienation of the immovable property, submit information to the State Revenue Service on the obtained income and pay the enterprise income tax by applying the rate of three per cent of the transaction value.

(4) A taxpayer who is a resident of a European Union Member State or a resident of a state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion which has come into force, and who has acquired the income referred to in Paragraph one, Clauses 1, 2, and 4 of this Section, is entitled to submit a statement to the State Revenue Service, and also documents that prove the amount of the expenditure related to the acquired income by applying the tax rate of 20 per cent to the calculated income taxable with the enterprise income tax. The procedures for filling in the abovementioned statement shall be determined by the Cabinet.

(5) Within the meaning of this Section, management and consultancy services shall be a set of activities performed by a non-resident directly or through engaged personnel in order to ensure the management of a domestic undertaking (resident) or of a permanent establishment of another non-resident or to provide necessary consultations to the domestic undertaking (resident) or the permanent establishment.

(6) Irrespective of any provisions of this Law, the enterprise income tax shall be deducted by applying the rate of 20 per cent from all payments and dividends (except for the payments referred to in Paragraph eight of this Section) disbursed by residents of Latvia or permanent establishments of non-residents to legal, natural or other persons that are located, set up or established in low-tax or tax-free countries or territories, including payments to representatives of such persons or payments made into bank accounts of third parties, and payments made by way of mutual accounting entries, except for the payments for supply of goods and purchased publicly-traded securities of the European Union or European Economic Area if such goods and securities are purchased at a market price (value).

(7) The obligation to deduct and pay into the State budget the tax on dividends that have been disbursed by joint stock companies with publicly-traded stocks to a non-resident (shareholder or intermediary) who is located, set up or established in a low-tax or tax-free country or territory, shall lie with the holder of a securities account who settles the payments with the non-resident.

(71) The obligation to deduct and pay into the State budget the tax on the disbursements referred to in Paragraph one, Clauses 2 and 4, and also Paragraph six of this Section which are received by a non-resident as a participant of an investment fund or an alternative investment fund shall lie with the investment management company or the manager of the alternative investment fund which settles the payments with the non-resident.

(72) Paragraph one, Clauses 2 and 4 of this Section shall not be applicable to payments which are made by an investment fund or an alternative investment fund to its participant – private pension fund, investment fund, or alternative investment fund – which has been established and is being supervised in accordance with the legal acts of the relevant European Union Member State or a state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion which has come into force.

(8) Irrespective of any provisions of this Law, unless there is an obligation to deduct the enterprise income tax, the enterprise income tax shall be deducted from the following payments to legal, natural and other persons who are located, set up, or established in low-tax or tax-free countries or territories, including payments to representatives of such persons or payments made into bank accounts of third parties, and payments made by way of mutual accounting entries:

1) from the interest payments – 20 per cent;

2) from the payments for intellectual property –20 per cent.

(9) The State Revenue Service has the right to permit not to deduct the tax from the payments from which, in accordance with Paragraph six of this Section, tax is to be deducted, if the payer of such payments justifiably proves that the abovementioned payments are not made to decrease the taxable income of this payer and to refuse to pay or to decrease taxes to be paid in Latvia. The State Revenue Service shall cancel the permission granted if during the tax administration process it has obtained information that supports the concealment of the true circumstances of the transaction. In case of cancellation of the permission granted, the norm of Paragraph one of this Section shall be applied to the payer, and the amount of tax to which the cancelled permission applies shall be considered a late tax payment.

(10) The provisions of Paragraph one of this Section shall apply to the payments referred to in Paragraph six of this Section from which the tax is not to be deducted at the place of payment at the rate of 20 per cent.

(11) A taxpayer who had an obligation to deduct tax from the income of a non-resident in accordance with this Section but failed to deduct and pay it into the budget, shall increase its enterprise income tax to be paid in Latvia by the tax on the income of the non-resident. In order to calculate the payable tax, the tax base specified in this Section shall be divided by the coefficient of 0.8 and multiplied by the relevant tax rate specified in this Section.

[*30 January 2020*]

**Section 6. Dividends and Disbursements Equivalent to Dividends**

(1) A taxpayer is entitled to reduce the amount of dividends included in the taxable base in the taxation period in such amount as the taxpayer has received dividends in the taxation period from the payer of dividends which is an enterprise income taxpayer in the country of residence thereof, or such dividends from which tax has been deducted in the country of disbursement thereof, except for the dividends received from a person who is located, set up or established in low-tax or tax-free countries or territories.

(2) If the amount of the dividends received in the taxation period and referred to in Paragraph one of this Section exceeds the calculated amount of dividends, the difference may be applied to the next taxation periods (in a chronological order) by reducing the amount of the dividends to be included in the taxable base.

(3) Upon applying Paragraph one of this Section, a taxpayer is entitled to reduce the calculated amount of dividends included in the taxable base in the taxation period only by such dividends in respect of which the taxable income has not been reduced in the country of residence of the payer thereof.

(4) Paragraph one of this Section shall not be applicable to the dividends that are received from a capital company which has been registered as a micro-enterprise taxpayer in the period of the generation of profits.

(5) Paragraph one of this Section shall not be applicable if the main purpose of the establishment, existence of a taxpayer or another person related to a taxpayer or the transaction performed has been to use the exemption specified in respect of dividends in this Section or the law On Personal Income Tax from inclusion in the taxable base.

(6) Paragraph one of this Section shall only be applied to the dividends that are received from an investment fund or an alternative investment fund in such amount as the investment fund or the alternative investment fund has received dividends from the payer of dividends which is an enterprise income taxpayer in the country of residence thereof, or has received such dividends from which tax has been deducted in the country of disbursement thereof, except for the dividends received from a person who is located, set up, or established in low-tax or tax-free countries or territories.

(7) Upon applying Paragraph six of this Section an investment management company and a manger of an alternative investment fund shall disburse dividends of a managed investment fund or a managed alternative investment fund registered in Latvia to an investor in the fund (taxpayer) concurrently with providing information on the received dividends in accordance with the procedures stipulated by the Cabinet.

(8) Paragraphs one, two, three, five, six, and seven of this Section shall also be applicable to the disbursements equivalent to dividends if they are received from a payer of the dividends which is an enterprise income taxpayer in the country of residence thereof, or such dividends from which the tax has been deducted in the country of disbursement thereof.

**Section 6.1 Income from Qualifying Holding in a Foreign Company**

(1) Irrespective of the conditions referred to in Section 4, Paragraph two of this Law, a taxpayer shall include in the base taxable with the enterprise income tax the part of the profits (increase in asset value) which has been obtained from artificial transactions in a foreign company where the taxpayer itself or together with affiliated persons owns a qualifying holding.

(2) Paragraph one of this Section shall also be applicable to a permanent establishment of the taxpayer in a foreign country.

(3) Within the meaning of this Section, a taxpayer itself or together with affiliated persons shall own a qualifying holding in a foreign company if at least one of the following criteria is in effect:

1) the taxpayer itself or together with affiliated persons directly or indirectly owns more than 50 per cent of the shares or voting rights of the foreign company;

2) the taxpayer itself or together with affiliated persons is entitled to receive more than 50 per cent of the profits of the foreign company.

(4) Within the meaning of this Section, the following shall be considered a foreign company:

1) all foreign legal arrangements which are independent taxpayers in the respective country;

2) any group of persons created in accordance with the procedures laid down in foreign laws and regulations and associated by a contract;

3) assets that, based on the contract, have been transferred under the management of another person in accordance with the procedures laid down in foreign laws and regulations.

(5) The part of the profits (increase in asset value) of the reporting year of a foreign company or permanent establishment shall be included in the taxpayer’s return of the last taxation period for the year in which the reporting year of the foreign company or permanent establishment ends. If the participation of a taxpayer in a foreign company ceases to exist, the part of the profits (increase in asset value) of the reporting year of the foreign company or permanent establishment shall be included in the taxpayer’s return of the last taxation period for the reporting year in which the participation of the taxpayer in the foreign company ceases to exist or in which the permanent establishment ceases to exist.

(6) When applying Paragraph one of this Sections, the part of the profits (increase in asset value) of the reporting year of a foreign company shall be calculated proportionally to the participation of a taxpayer in the fixed capital, voting rights or other rights of the foreign company, which ensures qualifying holding or right to participate in the distribution of profits (increase in asset value).

(7) Within the meaning of this Section, a transaction (also a set of transactions) the primary reason for the making of which is the gaining of tax advantages, i.e., a transaction (also a set of transactions) in such amount for which the foreign company or permanent establishment would not assume risks or purchase assets, if the foreign company or permanent establishment would not be controlled by the company in which significant administrative management functions are carried out regarding such risks and assets for obtaining the aforementioned income, shall be considered an artificial transaction.

(8) Paragraph one of this Section shall not be applied if for the foreign company or permanent establishment:

1) profits of the reporting year does not exceed EUR 750 000;

2) income of the reporting year which has not been obtained from the sale of goods and services does not exceed EUR 75 000.

(9) The exception referred to in Paragraph eight of this Section shall not be applicable to a foreign company which has been set up or established in the low-tax and tax-free countries or territories referred to in laws and regulations, or to a permanent establishment located therein, or also to a foreign company the artificial transactions of which have been detected by the tax administration during an audit.

(10) In the reporting year, a taxpayer is entitled to reduce the amount of the dividends included in the taxable base by such amount in which it has received dividends in the reporting year from the income of a foreign company, or the income from a foreign permanent establishment which was included in the base taxable with the enterprise income tax in any of the pre-taxation periods in accordance with Paragraph one of this Section.

[*13 December 2018; 30 January 2020*]

**Section 7. Increase in the Taxable Base in Respect of Conditional Dividends**

(1) Conditional dividends shall be included in the taxable base in the taxation period during which a taxpayer:

1) reduces the amount of the share capital;

2) completes liquidation;

3) registers as a micro-enterprise taxpayer.

(2) Irrespective of Paragraph one of this Section, conditional dividends shall be included in the base taxable with the enterprise income tax of a cooperative society or a partnership when a member of the company reduces value of the part of investment or withdraws from the cooperative society or the partnership.

(3) Upon applying Paragraph one, Clause 1 of this Section to the calculation of the enterprise income tax, it shall be assumed that the share capital is first reduced by the part of the share capital which has been increased during distribution of the profits.

(4) In the case referred to in Paragraph one, Clause 2 of this Section conditional dividends shall be taken into account in calculating the liquidation quota which constitutes a positive difference between the value of the equity of the taxpayer to be liquidated (including the value which has arisen as the creditor waives his or her claims) and the amount invested by the shareholder.

(5) Amount of a conditional dividend of a cooperative society or a partnership shall be determined as a difference between the amount of the part of the investment (capital) of the cooperative society or the partnership in the taxation period which is subject to changes and the amount invested by the member.

**Section 7.1Hybrid Mismatches**

(1) Upon applying this Section, a hybrid mismatch shall mean a situation when the result of the activities of a taxpayer with an associated enterprise, the activities between associated enterprises, the activities of an enterprise in relation to the permanent establishment outside Latvia, the activities between two or several permanent establishments of the same enterprise or the result of the participation in a structured arrangement is a deduction without inclusion or a double deduction.

(2) Upon applying Paragraph one of this Section, a deduction without inclusion shall mean the deduction of a payment (also deemed payment between the parent enterprise and the permanent establishment or between two or more permanent establishments) in any jurisdiction which considers the abovementioned payment being made (payer jurisdiction), without performing its inclusion in the taxable income in the payee jurisdiction (jurisdiction in which the abovementioned payment has been received or is considered received).

(3) A deduction without inclusion shall occur in the following situations:

1) a payment arising from a financial instrument in the payer jurisdiction by calculating the taxable income has been deducted, however, has not been included in the taxable income in the payee jurisdiction and is not included within 12 months after the end of the taxation period (in Latvia – the reporting period) of the payer jurisdiction, and the financial instrument is defined differently in these jurisdictions;

2) a payment to a hybrid entity is applied differently in the payee jurisdiction in which the hybrid entity has been established or registered, or in the jurisdiction of any such person which has holding in the abovementioned hybrid entity;

3) a payment to an entity which has one or several permanent establishments is applied differently to the parent enterprise and the permanent establishment or to two or more permanent establishments of such entity in accordance with the legal acts of such jurisdictions in which the entity (permanent establishment) is operating;

4) a payment is made to a disregarded permanent establishment;

5) a payment received from a hybrid entity is not considered a payment made thereby in accordance with the legal acts of the payee jurisdiction, however, the payer jurisdiction allows to deduct it from other income which is not a dual inclusion income;

6) the deemed payment between the parent enterprise and the permanent establishment or between two or more permanent establishments is not recognised as such in accordance with the legal acts of the payee jurisdiction, however, the payer jurisdiction allows to deduct it from other income which is not a dual inclusion income.

(4) Upon applying Paragraph three, Clause 1 of this Section, a payment arising from a financial instrument will not cause a deduction without inclusion, if the payment has been made by a financial trader according to the on-market hybrid transfer, provided that the financial trader must include all income which has been received in relation to the transferred financial instrument in the taxable income in the payer jurisdiction.

(5) Upon applying Paragraph one of this Section, a double deduction causing a hybrid mismatch shall mean deduction of the same payment, expenditure, or losses from their jurisdiction of origin (payer jurisdiction) and another jurisdiction (investor jurisdiction). If the payment has been made by a hybrid entity or a permanent establishment, such jurisdiction shall be considered the payer jurisdiction in which the hybrid entity or the permanent establishment has been established or is located.

(6) For the purpose of application of this Section:

1) deduction is an amount which is considered deductible from the taxable income in accordance with the legal acts of the payer or investor jurisdiction;

2) inclusion is an amount which is taken into account upon determining the taxable income in accordance with the legal acts of the payee jurisdiction. A payment arising from a financial instrument will not be considered included insofar as such payment qualifies for any tax rebate solely depending on the way in which the abovementioned payment has been characterised in accordance with the legal acts of the payee jurisdiction;

3) tax rebate is an exemption from tax, a tax rate reduction, or any tax repayment or set-off (except for set-off for taxes deducted at the moment of disbursement of income);

4) dual inclusion income is any part of income which has been included in the taxable income in accordance with the legal acts of both such jurisdictions in which a hybrid mismatch has occurred;

5) person is a natural person or an entity;

6) hybrid entity is any entity or arrangement which is considered a taxable entity in accordance with the legal acts of one jurisdiction and the income or expenditure of which is considered the income or expenditure of one or several other persons in accordance with the legal acts of another jurisdiction;

7) financial instrument is:

a) any instrument, insofar as it causes a financing or equity return which is taxable in accordance with the provisions regarding imposition of tax on a loan, equity, or derived financial instruments in accordance with the legal acts of the payee or payer jurisdiction;

b) hybrid transfer is any arrangement for the transfer of a financial instrument, if the profit related to the transferred financial instrument for tax purposes is considered to be such profit which is concurrently acquired by more than one of the parties to the abovementioned arrangement;

8) financial trader is a person who is involved in entrepreneurial transactions of regular purchase and sale of financial instruments for its own benefit for the purpose of acquiring profit;

9) on-market hybrid transfer is any hybrid transfer in which a financial trader has become involved, performing its usual entrepreneurship which is not a part of a structured arrangement;

10) disregarded permanent establishment is any arrangement which, in accordance with the legal acts of the jurisdiction of the parent enterprise, is considered to be such which creates the permanent establishment and which is not considered the permanent establishment in accordance with the legal acts of another jurisdiction;

11) structured arrangement is an arrangement which is related to a hybrid mismatch, if the consequences of the hybrid mismatch are provided for in the provisions of the arrangement, or an arrangement intended for the creation of a hybrid mismatch, unless a taxpayer or an enterprise associated thereto justifiably could not have foreseen the occurrence of the hybrid mismatch and has not used the tax advantage arising from the hybrid mismatch;

12) associated enterprises are:

a) an entity in which a taxpayer has direct or indirect holding or owns at least 50 per cent of the capital or voting rights, or has the right to receive at least 50 per cent of the profit of the entity;

b) a person which has direct or indirect holding or owns at least 50 per cent of the capital or voting rights of the taxpayer, or has the right to receive at least 50 per cent of the profit of the taxpayer;

c) an entity which, for the purposes of accounting records, is a part of the same group of companies which includes the taxpayer, an enterprise in the management of which the taxpayer has significant influence, or an enterprise which has significant influence in the management of the taxpayer;

d) a taxpayer and an entity, if the direct or indirect holding of the person in the taxpayer and in the capital or voting rights of one or several entities is at least 50 per cent;

e) upon applying Sub-clauses “a”, “b”, “c”, and “d” of this Clause, it is considered that the person who carries out a joint (coordinated) activity with another person in relation to the voting rights or ownership rights of an entity in its capital owns all the same voting rights or ownership rights in such entity as owned by that other person therein;

13) depending on the circumstances, entity includes a taxpayer and a foreign company in accordance with Section 6.1, Paragraph four of this Law.

(7) If the consequences of a hybrid mismatch are double deduction, then:

1) if the Republic of Latvia is the investor jurisdiction, the taxpayer shall increase the taxable base by the amount of deduction which has been deducted from the taxable income also abroad;

2) if the Republic of Latvia is the disburser jurisdiction, however, the taxable base has not been increased by the amount of deduction in the investor jurisdiction for the purposes of taxation, the taxpayer shall increase the taxable base by the amount of deduction;

3) the taxpayer has the right to reduce the dual inclusion income occurring in a taxation or post-taxation period for any such deduction.

(8) If the consequences of a hybrid mismatch are deduction without inclusion:

1) and if the Republic of Latvia is the disburser jurisdiction, the taxpayer shall increase the taxable base by the amount of deduction which has not been appropriately taken into account for determination of the taxable income abroad for the purposes of taxation;

2) and if the Republic of Latvia is the payee jurisdiction and the taxable base has not been increased by the amount of deduction abroad, the taxpayer shall increase the taxable base by the amount of income which was not taken into account when calculating the taxable income;

3) the taxpayer has the right not to apply Clause 2 of this Paragraph in relation to hybrid mismatches which create a deduction without inclusion in accordance with Paragraph three, Clauses 2, 3, 4, and 6 of this Section.

(9) The taxable base of the taxpayer shall be increased by any payment, if it directly or indirectly causes revenue for another person from which deductible expenditure are made, causing a hybrid mismatch – upon performing a transaction or a series of transactions between associated enterprises or upon partial involvement thereof in a structured arrangement, except for the case when one of the jurisdictions involved in the transaction or series of transactions has performed an equivalent correction, preventing such hybrid mismatch.

(10) If a hybrid mismatch includes the income of a disregarded foreign permanent establishment which is not included in the taxable base of the taxpayer in general case, the taxpayer shall include such income in the taxable base which would be applied to such permanent establishment in general case. Such norm shall not be applicable, if an agreement for the avoidance of double taxation according to which such income is exempted from taxation in Latvia has entered into effect between Latvia and the foreign country which is not a European Union Member State where the permanent establishment is located.

(11) If a hybrid transfer is intended so that, in relation to income arising from a transferred financial instrument, a rebate of tax deductible at the moment of disbursement would be caused for more than one of the parties involved in the transaction, the taxpayer is entitled to apply a tax rebate in the amount which is proportionate to the net taxable income of the taxpayer in relation to such payment.

(12) If one or several associated non-resident entities which have in total acquired direct or indirect holding in the amount of at least 50 per cent of voting rights, capital shares or the right to a part of profit in a hybrid entity which is established or operates in Latvia, and if such associated non-resident entities are in the foreign country or foreign countries which consider the hybrid entity a taxable person, such hybrid entity shall be considered a Latvian resident and a tax shall be imposed on it for its income, insofar as the tax is not imposed on the abovementioned income in any other way in accordance with the legal acts of Latvia or another jurisdiction. This Paragraph shall not be applicable to a collective investment undertaking which is an investment fund or instrument with a large number of shareholders, diversified investment portfolio and to which investor protection regulation is applicable in the country in which it is established or operates.

(13) If payments, expenditure, or losses of the taxpayer who, for the purposes of taxes, is considered a resident both in Latvia and a foreign country are deductible from the taxable income also in the foreign country, then the taxable base of the taxpayer of Latvia shall be increased by the amount of such payments, expenditure, or losses insofar as the foreign country allows for the compensation of double deduction with income which is not dual inclusion income. If both states are European Union Member States and, according to the agreement for the avoidance of double taxation entered into by and between them which has entered into effect, the taxpayer in Latvia is not considered a resident of Latvia, then the taxable base of the taxpayer shall be increased by the relevant payments, expenditure, or losses.

[*30 January 2020 / Paragraph twelve shall come into force on 1 January 2022. See Paragraph 42 of Transitional Provisions*]

**Section 8. Expenditure not Related to Economic Activity**

(1) Upon identifying the expenditure not related to economic activity it shall be assessed not only according to the legal form but also in conformity with economic essence of a transaction.

(2) All expenditure not directly related to economic activity of a taxpayer shall be included in the expenditure not related to economic activity, including the following:

1) the expenditure of the taxpayer for relaxation, recreational events for shareholders or employees and other benefits for shareholders and employees if such benefits have not been included in the income of a natural person taxable with the personal income tax, except for the case when an exemption has been determined in respect of this type of income in the law On Personal Income Tax;

2) the decrease in the profits, turnover or other base quantity which the taxpayer makes upon his or her own initiative or by order of the shareholder;

3) the expenditure of the taxpayer for gifts, credits and loans turned into gifts (except for the loans equivalent to income in respect of which the personal income tax has been calculated);

4) the donations, except for the cases referred to in Section 12, Paragraph one of this Law;

5) the expenditure for the purchase of assets which are purchased starting from 1 January 2008 and used for the purposes not related to ensuring of economic activity, and maintenance expenditure of such assets;

6) the depreciation value of the assets which were purchased by 31 December 2008 and are used for the purposes not related to ensuring of economic activity, or the decrease in the value of such assets and the maintenance expenditure thereof;

7) the representation expenditure and expenditure for sustainable activities of personnel which in total in the reporting year exceed five per cent of the total gross work remuneration calculated for employees in the previous reporting year for which State social insurance payments have been made;

8) the expenditure related to a representation car (in accordance with Paragraph eight of this Section);

9) the material values, financial benefit, or benefit of other nature which have been used for committing a criminal offence, including given to a State official as a bribe or to an employee of a State or local government institution who is not a State official, or to the same person authorised by a State institution for committing illegal activities, or to a private individual for the purpose of commercial bribery;

10) the amounts used for fines, contractual penalties and monetary fines if they are not proportionate to the transaction value or are paid to a related person or a person who is established or operates in a low-tax or free-tax country or territory;

11) the overdraft amounts of the extraction (use) of natural resources;

12) the unearned income from the rights transferred to assignment, except for the cases referred to in Paragraph eleven of this Section;

13) the expenditure for the maintenance of property pledged at a credit institution, and also immovable property tax payments which have been paid by a credit institution;

14) the expenditure for the consumed fuel which exceeds the limits determined in Paragraph five, Clause 5 of this Section.

(21) Paragraph two, Clause 2 of this Section shall be applied to:

1) advance, guarantee money, or earnest money payments, if the transaction has not been commenced within 12 months from the month in which the payment was made, including them in the taxable base of the last month of the reporting year. If the abovementioned transaction is not commenced within 36 months from the month in which the advance, guarantee money, or earnest money payment was made, the taxpayer does not have the right to reduce the amount of the payment included in the tax base, upon updating the return for the relevant taxation period;

2) revenue detected during a tax audit which was not indicated by the taxpayer in the accounting records, and also to amounts of reduction of unjustified revenue detected during a tax audit.

(22) Upon applying this Section, Paragraph two, Clause 3 of this Section shall not applicable to:

1) an investment made in the public infrastructure belonging to the State or local government, if the following conditions are met concurrently:

a) a contract regarding making of investments has been entered into;

b) the investments made by the taxpayer are recorded in the accounting records of the State institution, State capital company, or local government, and a deed of delivery and acceptance has been signed with the taxpayer;

c) a counterobligation has not been imposed on the recipient of the investment, and it is not carrying out activities which may be considered a remuneration;

d) investments are made in the public infrastructure which is linked to the site of the performance of economic activity of the taxpayer and is necessary for ensuring such economic activity;

2) an investment in the maintenance of a road belonging to the State or local government, if the following conditions are met concurrently:

a) a contract regarding making of investments has been entered into;

b) maintenance of such road is performed which is linked to the site of the performance of economic activity of the taxpayer and is necessary for ensuring such economic activity;

c) a counterobligation has not been imposed on the recipient of the investment, and it is not carrying out activities which may be considered a remuneration.

(3) Upon applying Paragraph two, Clause 7 of this Section it is allowed not to include in the base taxable with the enterprise income tax only such representation expenditure and expenditure for sustainable activities of personnel which do not exceed the amount specified in Paragraph two, Clause 7 of this Section if the abovementioned expenditure is recorded separately from other expenditure.

(4) Within the meaning of this Law the expenditure for sustainable activities of personnel shall be as follows:

1) the expenditure for ensuring motivating or team-building activities intended for employees and other expenditure for motivation of employees, unless such benefits have been included in the base of a natural person taxable with the personal income tax or the law On Personal Income Tax determines an exemption in respect of this type of income;

2) [30 January 2020];

3) the expenditure related to social infrastructure objects that, within the meaning of this Law, are objects which are not directly related to economic activity of the payer and not intended for providing an employee with the place of residence:

a) the expenditure for accommodation of employees if work also takes place in night shifts,

b) the expenditure for the premises intended for sports, catering and childcare;

4) [30 January 2020];

5) the expenditure for the activities provided for in a collective labour agreement which are not subject to personification.

(5) Irrespective of this Section, the expenditure related to economic activity shall be as follows:

1) the payments made by an employer in favour of employees for life, health and accident insurance, the contributions made in private pension funds according to licensed pension plans, and the paid amounts of insurance premiums for life insurance of employees (with accumulation of funds) in accordance with Section 8, Paragraph five of the law On Personal Income Tax;

2) the expenditure for the transportation of an employee from the place of residence to work and from work to the place of residence, if, due to the specific nature of work, the employee is not able to get to work or to get from work to the place of residence by public transport, or the use of public transport is not useful in comparison with the transport service ensured by the employer, upon evaluating from the point of view of time spent on road and the running schedule of public transport;

3) the expenditure for the conformity with the requirements of the Labour Protection Law, and also the expenditure related to preventive health protection measures in sectors where conditions of work require so;

4) the payments made by a credit institution regarding the expenditure for the maintenance of the pledge which has been incurred during the debt recovery proceedings, regarding the expenditure for taking over of the object of the pledge, and the payments of immovable property tax (including late payments) which a debtor has not made in respect of the relevant immovable property taken over if the right to reclaim such payments from the debtor is retained or the debt is not reclaimed, as judicial debt recovery is not possible due to considerations of efficiency in relation to the fact that the debt amount is smaller than the expenditures related to recovery thereof, however, the information on writing-off thereof is sent to the debtor;

5) the expenditure for the fuel of a vehicle (except for a representation car), irrespective of whether the relevant vehicle has only been used for economic activity, on the basis of the number of kilometres actually driven in each month according to the fuel consumption norm specified for the vehicle per 1,000 kilometres which does not exceed the fuel consumption norm of a city cycle indicated by a manufacturing plant by more than 20 per cent, if one of the following criteria has been met:

a) the company car tax is paid in respect of the vehicle;

b) the vehicle is exempted from imposition of the company car tax in accordance with Section 14, Paragraph one, Clauses 5 and 6 of the Law on the Vehicle Operation Tax and Company Car Tax,

c) in accordance with the laws and regulations regarding the assessment of the conformity of agricultural services cooperative societies and forestry services cooperative societies, the taxpayer is a complying agricultural services cooperative society or a complying forestry services cooperative society, or a fisherman’s household;

6) the State mandatory social insurance contributions made by the owner of an individual undertaking (also a farm or a fisherman’s household) for himself or herself as a self-employed person;

7) the funeral benefit granted in case of death of an employee or his or her spouse, or a person in kinship thereof within the third degree within the meaning of the Civil Law;

8) costs for ensuring an additional prize for receipt lottery draws which are covered by the taxpayer in accordance with Section 9 of the Receipt Lottery Law.

(6) Within the meaning of this Law the representation expenditure shall be the expenditure of a taxpayer for the following:

1) the building and maintenance of prestige of the taxpayer at a level acceptable to society;

2) the receipt of business partners and cooperation partners and organisation of meals thereof;

3) the low-level objects which contain merchant brand and are distributed in order to popularise the taxpayer.

(7) Paragraphs two and six of this Section shall not apply to the expenditure for the following:

1) the branding and placement of its own brand;

2) the objects which contain merchant brand and are added to the product in order to promote demand for it and the value of which:

a) does not exceed EUR 70,

b) exceeds EUR 70 but does not exceed five per cent of the value of the product advertised as part of an advertising campaign;

3) the gift card issued by the taxpayer himself or herself which is offered in a public advertising campaign organised by the taxpayer and may only be used at the trading or service provision places of the taxpayer.

(8) Upon applying Paragraph two, Clause 8 of this Section the expenditure which is related to a representation car shall be the expenditure for the purchase of a representation car, lease payment and operational expenditure of a car. If, according to the true value of a car it would be classified as a representation car, but the value of the car indicated in the lease contract does not correspond to the true value thereof for the purpose of evading the enterprise income tax, the lease expenditure shall be classified as related to the representation car.

(9) Upon classifying a car as a representation car within the meaning of this Law, the purchase value of the car and accounting value thereof in the accounting system during the entire period of the use of the car shall be assessed by determining the status of a representation car according to the largest of the values. Upon determining the amount of the purchase value of a representation car for the purposes of tax calculation, the costs of improvements carried out for this car shall also be taken into account within the period of 12 months after acquisition of the car.

(10) Upon applying Paragraph two, Clause 8 of this Section for determination of the status of a representation car if the car is leased as follows:

1) with the right of pre-emption – the value of the car shall be the value indicated in the lease contract with the right of pre-emption;

2) without the right of pre-emption – the value of the car shall be the value indicated in the insurance contract of the car, unless it is indicated in the lease contract.

(11) Paragraph two, Clause 12 of this Section shall not be applied if the first two conditions and one of the other conditions referred to in this Paragraph are met:

1) the assignee is an enterprise income taxpayer or a payer of a tax equivalent to the enterprise income tax;

2) the assignee is a resident of a European Union Member State or a state of the European Economic Area, or a resident of such state, with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if such convention has come into force;

3) the assignment transaction does not involve a related person;

4) the value of the assignment transaction corresponds to the market price (value) thereof which is calculated according to the methods determined by the Cabinet.

(12) The expenditure referred to in Paragraph two, Clauses 1, 2, 3, 4, 5, and 6 of this Section shall not be considered the expenditure that is not related to economic activity if it is incurred by a capital company which has been granted the status of a social company in accordance with the procedures laid down in laws and regulations, and the law or regulation which determines regulation for social entrepreneurship provides for special conditions in respect of such expenditure.

(13) Donations to public benefit organisations shall not be considered the expenditure that is not related to economic activity if it is incurred by a capital company which has been granted the status of a social company in accordance with the procedures laid down in laws and regulations, and the law or regulation which determines regulation for social entrepreneurship provides for special conditions in respect of such donations, and if the recipient of the donation has provided information to the donor by the end of the reporting year regarding the use of donation for charity events, for ensuring of which the capital company has been granted the status of a social company.

(14) Upon applying Paragraph four, Clause 3 of this Section, the reduction in the value of the social infrastructure assets included in the accounting costs in the reporting year, and also the remaining value of such assets, if the asset is being written off, shall be included in expenditure for sustainable activities of personnel.

[*30 January 2020; 24 March 2022*]

**Section 9. Doubtful Debts of Debtors**

(1) The base taxable with the enterprise income tax shall include the amount of the debts of debtors which conforms to one of the following criteria:

1) a provision for doubtful debts has been created in its amount, it is included as a cost in the profit or loss statement, and the debt has not been recovered within 36 months (within 60 months if insolvency proceedings have been commenced for the debtor) from the day of the creation of the provision, or the exemption referred to in Paragraph three of this Section is not applicable thereto in this period;

2) it has been included in losses (expenditure) if, prior to this, a provision has not been created for the relevant debt of debtor, and the exemption referred to in Paragraph three of this Section is not applicable to the amount of the debt;

3) a provision for doubtful debts has been created thereon, it is included as a cost in the profit or loss statement in accordance with Paragraph seven, Clause 3 of this Section and the debt has not been recovered within 60 months, counting from the day of arising of the debt when the recipient of goods and services should have settled accounts with the supplier of goods or provider of services, but the payment was not made, and the exemption referred to in Paragraph three of this Section is not applicable to the debt amount.

(2) Paragraph one of this Section shall not apply to the following:

1) the provisions for debtors created by credit institutions and savings and loan associations or the write-off thereof directly in losses;

2) the provisions for debts of debtors created by the development finance institution, including the guarantees issued in respect of the provisions (also export credit guarantees), investments in risk capital funds and credits issued in respect of the provisions by implementing support and development programmes.

(3) Paragraph one of this Section shall not apply to the amounts of debts if a taxpayer has carried out all the corresponding debt collection and recovery activities and the condition of Clause 1 of this Paragraph and one of the other conditions of this Paragraph have been met:

1) the debtor is a resident of Latvia or another European Union Member State or the state of the European Economic Area, or a resident of such state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if such convention has come into force;

2) the debtor is a State or local government capital company which has been liquidated according to the decision of the relevant institution;

3) there are a court judgement regarding the recovery of debt from the debtor and a statement of a bailiff regarding the impossibility of recovery, and the commercial company – the debtor – has been removed from the Register of Enterprises or a corresponding register in another European Union Member State or a state of the European Economic Area, or a state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if such convention has come into force;

4) there are a court judgement regarding the recovery of debt from the debtor – a natural person – and a statement of a bailiff regarding the impossibility of recovery;

5) the amount of the debt of debtor is smaller than the expenditure related to the recovery thereof but does not exceed EUR 20;

6) judicial recovery of the debt of debtor is impossible due to considerations of efficiency in relation to the fact that the amount of the debt of debtor is smaller than the expenditure related to recovery thereof on condition that the relevant amount of the debt of debtor does not exceed 0.2 % of the net turnover of the taxpayer in the reporting year but is not higher than EUR 500;

7) the debt amount has not been recovered from the debtor – a natural person who is not a person related to the company by extinguishing the loan granted to him or her and on condition that the relevant extinguished amount is not subject to the personal income tax in accordance with Section 9 of the law On Personal Income Tax;

8) the debt amount has been recognised in accordance with the Register of Creditors’ Claims when a court has confirmed the following:

a) the completion of the insolvency proceedings of the debtor – a legal person, a partnership, or an individual merchant;

b) the completion of the bankruptcy proceedings of the debtor – a natural person;

9) according to a decision of the court the debt amount corresponds to the proportionate amount of extinguishing or reduction of a principal debt, fine or interest specified in the plan for measures of legal protection process within the framework of legal protection proceedings or extrajudicial legal protection proceedings of the debtor;

10) the debt amount has not been recovered from the debtor whose activity has been suspended under the decision of the tax administration, and it has been removed from the Commercial Register;

11) the debtor – a natural person has died;

12) the debtor is released from the payment of debt in accordance with the procedures specified in the Law on Release of a Natural Person from Debt Obligations.

(4) Paragraph one of this Section shall not be applicable to the unrecovered amount of the value added tax on a bad debt by which the amount of the value added tax payable into the State budget has not been reduced in accordance with the laws and regulations governing the application of the value added tax.

(5) A taxpayer is entitled to reduce the base taxable with the enterprise income tax in the taxation period (or the base taxable with the enterprise income tax in the last taxation period of the reporting year) by the following:

1) such amount of the recovered debt which has been included in the loss (expenditure) or in respect of which a special provision has been created for doubtful debts if this amount has been included in the base taxable with the enterprise income tax in any of the taxation periods of the previous reporting years;

2) such debt amount or such reduced amount of special provisions to which the exemption referred to in Paragraph three of this Section is applied if this amount has been included in the base taxable with the enterprise income tax in any of the taxation periods of the previous reporting years.

(6) Provisions of this Section shall not be applicable to the loans which have been included in the taxable base in accordance with Section 11 of this Law.

(7) Paragraph one, Clause 1 of this Section shall not be applied to the amount of the debt of debtors for which the provision for doubtful debts has been created in accordance with the International Financial Reporting Standard No. 9 “Financial Instruments” which has been taken by Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (hereinafter – the International Financial Reporting Standard No 9 “Financial Instruments”) if at the same time the following requirements have been complied with:

1) a sworn auditor or a commercial company of sworn auditors has provided an auditor’s report on:

a) the conformity of the financial statements as a unified aggregate with that laid down in the International Financial Reporting Standards; or

b) the conformity of the financial statements with that laid down in the Law on Annual Statements and Consolidated Statements, and the indication that, by derogation from that laid down in the Law on Annual Statements and Consolidated Statements, the debts of debtors are to be recognised, assessed, and indicated in conformity with that laid down in the International Financial Reporting Standard No. 9 “Financial Instruments” is included in the financial statements of a taxpayer;

2) a taxpayer ensures traceability of each debt of a debtor included in the provisions (credit losses);

3) the accounting record procedures for the recognition, recovery of the debts of debtors (financial assets) and discontinuation of the asset recognition (write-off) has been established for a taxpayer.

(8) The permanent establishment registered in Latvia is also entitled to apply Paragraph seven of this Section if the following conditions are complied with:

1) the main undertaking of a permanent establishment conducts the accounting record in accordance with the International Financial Reporting Standard No. 9 “Financial Instruments” and it shall be confirmed by the annual statement, approved by a sworn auditor, of the main undertaking at the disposal of the permanent establishment;

2) the accounting record of the permanent establishment ensures the fulfilment of the requirements referred to in Paragraph seven, Clauses 2 and 3 of this Section for the calculation of the enterprise income tax.

[*30 September 2021; 24 March 2022; 23 September 2021*]

**Section 10. Increased Interest Payments to be Included in the Tax Base**

(1) The taxable base shall include interest payments in proportion to the degree to which the average amount of debt obligations in the reporting year (in respect of which the interest payments are calculated) exceeds the amount equal to four times the amount of equity reflected in the annual financial statement of the taxpayer’s company (as at the beginning of the reporting year) which is reduced by the revaluation reserve of long-term investments and other reserves not resulting from the distribution of profits.

(2) Paragraph one of this Section shall not be applicable to the interest payments for loans received from a financial institution which complies with both criteria referred to in this Paragraph:

1) it is a resident of a European Union Member State or a state of the European Economic Area, or a resident of such state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if such convention has come into force;

2) it provides credit or financial leasing services, and the supervision thereof is performed by an authority for supervision of credit institutions or financial institutions of the relevant state.

(3) If the difference between interest payments and interest income exceeds three million euros in the reporting year, the taxable base shall include the amount of interest payments exceeding 30 per cent of the profits indicated in the profit and loss statement of the reporting year prior to the calculated enterprise income tax which have been increased by interest payments and the calculated depreciation.

(4) If the tax base should concurrently be increased by interest payments in accordance with Paragraphs one and three of this Section, it shall be increased by the largest of the amounts which has been specified in accordance with Paragraph one or three of this Section.

(5) Paragraphs one, three, and four of this Section shall not be applicable to the interest payments for the following:

1) the loans received from a credit institution which is a resident of a European Union Member State or a state of the European Economic Area, or a resident of such state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if such convention has come into force;

2) the loans received from the Treasury of the Republic of Latvia;

3) the loans received from the development finance institution;

4) the loans received from the Nordic Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Council of Europe Development Bank and the World Bank Group;

5) publicly traded debt securities of Latvia and other European Union Member States or states of the European Economic Area;

6) the loans directly or indirectly received from a State funding, external trade credit or guarantee organisation which is a resident of such state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if the relevant convention has come into force, or which has been especially indicated in the specific convention for the avoidance of double taxation and the prevention of fiscal evasion;

7) the loans received for the long-term financing of a public infrastructure project of national significance in Latvia.

(6) That laid down in Paragraph five, Clause 1 of this Section may be applied also in relation to the interest payments which have been made to a covered bond company which is owned by a credit institution and established and operating in accordance with the Covered Bonds Law.

(61) Paragraphs one and three of this Section shall not be applied to the estimated interest for operative lease which is entered into the accounting in accordance with the requirements of the International Financial Reporting Standards if, in accordance with the laws and regulations governing the accounting of Latvia, the relevant lease transaction complies with the operative lease.

(7) Paragraphs one, three, and four of this Section shall not be applicable to a Latvian credit institution or a permanent establishment of a credit institution of another European Union Member State or a state of the European Economic Area registered in Latvia.

(8) Paragraph seven of this Section shall be also applicable to a covered bond company which is owned by a credit institution and established and operating in accordance with the Covered Bonds Law.

[*30 January 2020; 30 September 2021; 24 March 2022* / *Amendment to Paragraph three shall be applicable starting from the reporting year which starts in 2021. Paragraph 6.1 shall be applicable in respect of the interest which is estimated starting form the reporting year which starts in 2021. See Paragraphs 49 and 50 of Transitional Provisions*]

**Section 11. Loans to Related Persons**

(1) A loan issued to a related person shall be considered a conditional distribution of the profits and taxable in accordance with norms of this Law.

(2) A credit institution shall, in accordance with the procedures laid down in Cabinet regulations, not include the loans in the base taxable with the enterprise income tax which it issues on general credit conditions or which result from the laws and regulations governing the operation of credit institutions.

(3) Paragraph one of this Section shall not be applicable to the loans issued by the following:

1) a shareholder to a taxpayer;

2) a taxpayer to the permanent establishment abroad;

3) an agricultural services cooperative society or a forestry services cooperative society to members thereof if the loan has been issued for the purpose of ensuring of economic activity of a member of the society.

(4) Paragraph one of this Section shall not be applicable to the following:

1) the loans issued in such amount as the taxpayer has received a loan from a person who is not a person related to the taxpayer;

2) the loans issued in the reporting year if the retained profits from previous reporting years do not accrue on the balance sheet at the beginning of the reporting year;

3) the loans issued in the reporting year in such amount as not to exceed the share capital registered at the beginning of the reporting year, minus the total amount of loans issued and unrecovered in previous reporting years, excluding the expenditure referred to in Clauses 1, 4, and 5 of this Paragraph;

4) the loans issued for a period not exceeding 12 months;

5) the loans issued by a capital company which has obtained the status of a social company in accordance with the procedures laid down in laws and regulations, to the target groups specified in its articles of association for the support of which the status of a social company has been granted.

(5) The base taxable with the enterprise income tax in the taxation period shall be reduced by the amount of the repaid loan if amount of the loan has been included in the base taxable with the enterprise income tax in any of the pre-taxation periods, or the loan has been taxable with the personal income tax in accordance with Section 8.1 of the law On Personal Income Tax.

**Section 12. Tax Relief for Donors**

(1) A taxpayer who has donated to a public benefit organisation (which has been granted such status in accordance with the Public Benefit Organisation Law), a budget institution, State museum – a derived public entity –, or a State capital company which performs the State culture functions delegated by the Ministry of Culture, is entitled to choose one of the following relief possibilities in the reporting year:

1) not to include the donated amount in the base taxable with the enterprise income tax in the taxation period but not more than five per cent of the profits from the previous reporting year after the calculated taxes;

2) not to include the donated amount in the base taxable with the enterprise income tax in the taxation period but not more than two per cent of the total gross work remuneration calculated for employees in the previous reporting year from which State social insurance contributions have been made;

3) to reduce the enterprise income tax calculated on the dividends calculated for the reporting year in the taxation period by 85 per cent of the donated amount but not exceeding 30 per cent of the calculated amount of enterprise income tax on the calculated dividends.

(2) The restriction referred to in Paragraph one, Clause 1, 2, or 3 of this Section shall be applicable to the total amount of donations made in the reporting year.

(3) Paragraph one of this Section may also be applicable to the donations to a non-governmental organisation registered in another European Union Member State or a state of the European Economic Area with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, if such convention has come into force, and this non-governmental organisation operates in the status equivalent to the conditions of a public benefit organisation in Latvia in accordance with laws and regulations of the relevant European Union Member State or a state of the European Economic Area.

(4) The State capital companies that perform the State culture functions delegated by the Ministry of Culture, associations, foundations and religious organisations or institutions thereof which have been granted the status of a public benefit organisation in accordance with the Public Benefit Organisation Law and have been referred to in Paragraph one of this Section shall provide a public report to the donors by 31 March of the following reporting year on the donated amounts and use of the received donations in the reporting year.

(5) Property or financial funds which a taxpayer, on the basis of a contract, without consideration transfers to the organisation referred to in Paragraph one of this Section for the achievement of the objectives specified in the articles of association, constitution, or by-laws thereof shall be considered a donation within the meaning of this Section, if a reciprocal duty has not been imposed on the part of the recipient to perform activities which are considered consideration.

(6) Tax relief shall not be applied in accordance with Paragraph one of this Section if at least one of the following conditions is present:

1) the purpose of the donation which is specified for the recipient of the donation, includes a direct or indirect indication to a specific recipient of the donated means which is a person related to the donor, an employee of the donor or a family member of such employee;

2) the recipient of the donation performs activities of a compensatory nature that are directed towards the gaining of benefit for the donor, a person related to the donor, or a relative of the donor up to the third degree or a spouse, or ensures the interests of the donor which are not related to philanthropy;

3) the total amount of tax debt of the donor on the first day of the taxation period when the donation is made exceeds EUR 150, except for tax payments the due dates of which have been extended in accordance with the law On Taxes and Fees;

4) the recipient of the donation has placed public indications with the donor’s brand or the name of the recipient of the donation has an obvious indication to the donor’s brand or elements or name thereof. The inclusion of the name of the donor (also the brand of the company) in the list of donors shall not preclude the application of tax relief to the donor, if the placement of the name of each individual donor (also the brand of the company) does not exceed one twentieth of the text area;

5) a taxpayer who donates to a non-governmental organisation registered in a European Union Member State or a state of the European Economic Area has failed to accompany the annual financial statement submitted to the State Revenue Service with documents which confirm the following:

a) the recipient of the donation is a resident of any European Union Member State or a state of the European Economic Area,

b) the recipient of the donation has a status equivalent to the public benefit organisation in the country of residence,

c) the recipient of the donation operates in the field of public benefit which provides a significant benefit to the society or any part thereof, particularly if it is directed towards charity, protection of human rights and individual rights, development of civil society, promotion of education, science, culture and health, and prevention of diseases, support to sport, environmental protection, provision of aid in cases of catastrophes and emergency situations, improvement of social welfare of the society, particularly groups of the poor and socially vulnerable persons,

d) at least 75 per cent of the amount donated by the payer are used for the purposes of public benefit.

(7) Within the meaning of Paragraph six, Clause 4 of this Section, elements of the brand shall constitute unique signs of the brand which allow the brand to be identified by the majority of consumers.

(8) The rebate specified in Paragraph one, Clause 3 of this Section may be applied following the reduction of the enterprise income tax performed in accordance with Section 15 of this Law.

[*25 March 2021; 24 March 2022*]

**Section 13. Exclusion of the Income from the Alienation of Stocks in the Taxable Base**

(1) A taxpayer is entitled to reduce the amount of the dividends included in the taxable base in the taxation period in such amount as the taxpayer has obtained income in the taxation period from the alienation of stocks of direct holding the holding period of which is at least 36 months at the moment of alienation.

(2) If, upon applying Paragraph one of this Section, the income obtained in the taxation period from the alienation of stocks exceeds the amount of the dividends included in the base taxable with the enterprise income tax in the taxation period, the difference may be applied to the next taxation periods (in a chronological order) by reducing the amount of the dividends to be included in the taxable base.

(3) Paragraph one of this Section shall not apply to stocks of such person which has been located, set up, or established in a low-tax or tax-free country or territory, and also to stocks (except for publicly traded stocks) of such person the asset value of which is formed by immovable property in Latvia in the amount of more than 50 per cent in the reporting year in which alienation takes place or in the previous reporting year, if the part of the income does not form an object taxable with personal income tax.

(4) Paragraph one of this Section shall not apply to stocks of investment funds and alternative investment funds.

(5) Paragraph one of this Section shall not be applicable if the main purpose of the establishment, existence of a taxpayer or another person related to a taxpayer or the performed transaction has been to use the exemption determined in respect of stocks in this Section or the law On Personal Income Tax from inclusion in the taxable base.

(6) Paragraph one of this Section shall also be applicable to the income obtained by the investor from the closed-ended alternative investment fund when the fund alienates the stocks of direct holding owned by it the holding period of which is at least 36 months at the moment of alienation, provided that the taxpayer is an investor of the closed-ended alternative investment fund for at least 36 months during the holding period of the abovementioned stocks. This Paragraph shall be applied on the basis of a certification issued by an alternative investment fund manager (also a foreign company or manager) which indicates the holding period of stocks alienated by the fund, the period of holding of the investor in the relevant fund and the amount of income obtained from the alienation of the relevant stocks (to which Paragraph one of this Section is applicable).

[*30 January 2020; 25 March 2021* / See Paragraph 45 of Transitional Provisions]

**Section 14. Tax Relief for Taxpayers Carrying out Agricultural Activity**

A taxpayer is entitled to reduce the taxable base in the reporting year in the amount which corresponds to 50 per cent of the amount received as the State aid for agriculture or European Union aid for agriculture and rural development but not more than the total amount of the taxable objects included in the taxable base in the taxation period.

**Section 15. Prevention of Double Taxation**

(1) In accordance with the provisions of this Law a tax calculated on the dividends in the taxation period may be reduced by the amount equal to the tax paid abroad if the payment of the tax abroad is confirmed by documents approved by a foreign tax collection authority that indicate the taxable income and amount of the tax paid abroad.

(2) Amount of the reduction specified in Paragraph one of this Section may not exceed an amount which would be equal to the tax calculated in Latvia on the dividends from the income obtained abroad.

(3) If during the taxation period a resident or the permanent establishment obtains income in several foreign countries, the provisions of Paragraphs one and two of this Section shall be applicable on an individual basis to the income obtained in each foreign country.

(4) A taxpayer is entitled to reduce the amount of dividends included in the taxable base in the taxation period in such amount as the taxpayer has received income from a foreign permanent establishment in the taxation period if the permanent establishment abroad pays the tax on the acquired income or if the tax has been deducted abroad from the income received.

(41) Paragraph four of this Section shall be applied, if the assets and liabilities of the foreign permanent establishment of the taxpayer and the revenue and expenditure related to its activity are recorded separately for the purposes of the enterprise income tax.

(5) Paragraph four of this Section shall not be applicable to the income from a foreign permanent establishment which is located, set up, or established in a low-tax or tax-free country or territory.

(6) If the income received from a foreign permanent establishment in the taxation period exceeds amount of the dividends included in the taxable base, or if the amount of the tax paid abroad, in accordance with Paragraph two of this Section, exceeds amount of the enterprise income tax calculated on the dividends, the difference may be covered in the next taxation periods in a chronological order from the amount of the dividends included in the taxable base and the amount of the enterprise income tax calculated on the dividends respectively.

(7) If the income referred to in Paragraph one of this Section has been gained through one or several financial intermediaries, the payment of tax abroad may be certified by documents which confirm the payment of taxes abroad on the income from publicly traded securities and have been issued to the relevant financial intermediary by a tax collection authority of a European Union Member State or a state with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, or an agreement on the exchange of information on taxes on condition that the abovementioned documents include identification of the relevant securities the beneficial owner of which is a Latvian taxpayer. In such case the Latvian taxpayer shall, together with the documents issued to the financial intermediary by the foreign tax collection authority, submit a written submission to the State Revenue Service certifying the payment of the tax abroad and confirm that he or she is willing to pay the fines and late payment charges provided for in laws if it is established by exchange of information that the tax has not been paid abroad.

(8) Paragraph one of this Section may also be applied to the income obtained through one or several financial intermediaries on the basis of documents issued by a foreign financial intermediary – a resident of a European Union Member State or a state, with which Latvia has entered into a convention for the avoidance of double taxation and the prevention of fiscal evasion, or an agreement on the exchange of information on taxes, if such convention or agreement has come into force, and which confirm the payment of the tax abroad on the income from publicly traded securities on condition that the abovementioned documents include identification of the relevant securities the beneficial owner of which is a Latvian taxpayer. In such case the Latvian taxpayer shall, together with the documents issued by the financial intermediary, submit a written submission to the State Revenue Service certifying the payment of the tax abroad and confirm that he or she is willing to pay the fines and late payment charges provided for in laws if it is established by exchange of information that the tax has not been paid abroad.

[*30 January 2020*]

**Section 16. Deduction of Tax and Provision of Information**

(1) The person referred to in Section 2, Paragraph one or two of this Law who disburses the amounts of payments referred to in Section 5, Paragraphs one, six, and eight of this Law shall deduct tax at the moment of disbursement and pay it into the single tax account by the 23rd date of the following month. The tax to be deducted shall be calculated by multiplying the tax rate by the amount to be disbursed.

(2) The person referred to in Section 2, Paragraph one or two of this Law shall have an obligation to, in accordance with the procedures and within the time periods stipulated by the Cabinet, provide information to the State Revenue Service on amounts disbursed to non-residents, and also the deducted tax.

(3) Investment management companies and managers of alternative investment funds have an obligation to, by the 20th date of the first month of the following reporting year and in accordance with the procedures stipulated by the Cabinet, provide information to the State Revenue Service on all kinds of payments made to investors in the investment funds or alternative investment funds managed thereby.

(4) The taxpayer shall include information on the amount of assets referred to in Section 4, Paragraph 8.2 of this Law in the enterprise income tax return of the last month of the reporting year.

[*23 May 2019; 30 January 2022* / *Amendment to Paragraph one shall come into force on 1 January 2021. See Paragraph 41 of Transitional Provisions*]

**Section 17. Drawing up of Return and Tax Payment**

(1) A taxpayer shall independently draw up the enterprise income tax return (hereinafter – the return). Information to be included in the return shall be determined by the Cabinet. The taxpayer shall submit the return to the State Revenue Service by the 20th date of the post-taxation period (the next month after the taxation period).

(2) A tonnage taxpayer shall independently draw up the return referred to in Paragraph one of this Section and the tonnage tax return the form of which shall be approved by the Cabinet. The taxpayer shall, within the time period specified in Paragraph one of this Section, submit both of the abovementioned returns to the State Revenue Service, and pay into the State budget the enterprise income tax, including the tonnage tax, within the time period specified in Paragraph seven of this Section.

(3) A taxpayer is entitled not to submit the return to the State Revenue Service for the taxation period in which there is no object taxable with the enterprise income tax, except for the return for the taxation period which refers to the last month of the reporting year.

(4) If a taxpayer has failed to submit the return for the taxation period to the State Revenue Service by the 20th date, the State Revenue Service shall assume that there is no base taxable with the enterprise income tax for the taxpayer in the taxation period and the return is submitted, but the return which is submitted after the 20th date shall be considered a correction in the return for the taxation period, except for the taxation period which refers to the last month of the reporting year.

(5) Upon applying Section 12, Paragraph one, Clause 3 and Section 14 of this Law a taxpayer is entitled to submit an adjusted return for the relevant taxation period to the State Revenue Service which refers to the reporting year in which a donation is made or the State aid for agriculture or European Union aid for agriculture and rural development is received. The late payment charges specified in the law On Taxes and Fees shall not be applied to a premium that has arisen as a result of the abovementioned adjustment.

(6) A taxpayer whom insolvency proceedings have been declared but in respect of whom an administrator has not taken a decision to continue economic activity of the debtor to the full or limited extent, shall submit the return for the last taxation period of the reporting year together with a balance sheet and a profit and loss statement.

(7) A taxpayer shall independently pay the calculated tax into the single tax account by the 23rd date of the post-taxation period.

(8) The late payment charges specified in the law On Taxes and Fees shall not be applied to a tax premium that results from corrections in the return for the taxation period which refers to the last month of the reporting year, if the corrections have been made on the basis of the changes resulting from drawing up of the annual financial statement submitted to the State Revenue Service within the specified time period.

(81) Upon applying Paragraph eight of this Section, the late payment charges specified in the law On Taxes and Fees shall not be applied to a tax premium that results for a permanent establishment from corrections in the return for the taxation period which refers to the last month of the reporting year, if the corrections have been made by adjusting the profit and loss statement and the balance sheet and the corrected return has been submitted to the State Revenue Service within four months after the last month of the reporting period. The abovementioned shall not be applicable to cases when the permanent establishment terminates economic activity in Latvia.

(9) Reporting year for the permanent establishment shall be a calendar year. The balance sheet and the profit and loss statement of the permanent establishment shall be submitted not later than four months after the end of the reporting year.

(10) If the permanent establishment terminates its activity, it shall submit the return, balance sheet, and a profit and loss statement within 20 days from termination of the activity.

(11) If the amount of the enterprise income tax calculated for the reporting year is less than EUR 50, a taxpayer shall indicate the difference of the tax to be paid into the budget in the return for the last taxation period of the reporting year which, together with the tax calculated in the reporting year, accounts for EUR 50 that shall be transferred to the budget within the time period specified in Paragraph seven of this Section. In accordance with this Paragraph, the amount of tax to be additionally paid into the budget shall not be considered overpayment of tax.

(12) Paragraph eleven of this Section shall not be applicable if one of the following conditions has been met:

1) the company has been registered in the Register of Enterprises in the reporting year;

2) liquidation proceedings of the company have been completed in the reporting year;

3) the taxpayer has made personal income tax or State mandatory social insurance contributions in respect of an employee in the reporting year in the amount of not less than EUR 100;

4) insolvency proceedings have been commenced for the company.

(13) [23 May 2019 / See Paragraph 41 of Transitional Provisions]

(14) [23 May 2019 / See Paragraph 41 of Transitional Provisions]

(15) [23 May 2019 / See Paragraph 41 of Transitional Provisions]

(16) [23 May 2019 / See Paragraph 41 of Transitional Provisions]

(17) A taxpayer – a non-resident – may submit a tax calculation statement to the State Revenue Service in accordance with Section 5, Paragraph four of this Law within 12 months from the moment of transaction.

(18) The Cabinet shall determine the procedures by which the State Revenue Service receives and reviews a tax calculation statement and repays the tax, and also determine the documents to be submitted together with the statement.

(19) The norms of this Section shall not be applicable to a limited liability company, an individual undertaking, and also a farm or a fisherman’s household which has been registered as a micro-enterprise taxpayer.

(20) Regardless of whether the taxpayer ceases to pay the tax within the scope of liquidation proceedings (except for reorganisation) or without performing liquidation, the requirements of this Law in relation to assets which are not subject to the tax are applied in a way as if the taxpayer ceases to exist by performing liquidation.

[*23 May 2019; 30 January 2022* / *Amendment to Paragraph seven and amendment regarding the deletion of Paragraphs thirteen, fourteen, fifteen, and sixteen shall come into force on 1 January 2021. See Paragraph 41 of Transitional Provisions*]

**Section 18. Special Conditions in Cases of Reorganisation**

(1) The market value of transferred assets at the moment of their alienation from which the value of the liabilities applicable to such assets has been subtracted shall be included in the taxable base in the taxation period in which reorganisation was completed, except for the accumulated liabilities which are applicable to future expenditure and have been transferred to the acquiring enterprise in reorganisation proceedings together with the assets.

(11) Paragraph one of this Section shall not be applicable to the assets transferred in reorganisation proceedings – in transfer proceedings of a type or types of economic activity, in merging or division proceedings – if another payer of the enterprise income tax continues to use such assets for the performance of economic activity in Latvia.

(2) If economic activity is continued by a company non-resident through permanent establishment in Latvia, the tax shall be imposed in accordance with Section 4, Paragraphs twelve, thirteen, and fourteen of this Law.

(3) The provisions of Paragraphs one, 1.1, and two of this Section shall also be applicable in the case of transfer of legal address if assets and liabilities are applicable to the permanent establishment in Latvia after transfer of legal address.

[*30 January 2020*]

**Section 19. Liability**

(1) The liability specified in the law On Taxes and Fees for tax violations, and also the liability provided for in other laws and regulations which determine administrative and criminal liability shall be applicable to violations of this Law, and also to violations of accounting records specified in the law On Accounting and the laws and regulations of the Republic of Latvia which lay down the procedures for drawing up annual financial statements for the relevant subject, if they have resulted in reduction of the taxable base.

(2) If a payer of an amount has failed to deduct and pay tax into the budget within the time period specified in Section 16, Paragraph one of this Law or has failed to provide information in accordance with Section 16, Paragraph two or three of this Law, the payer shall be liable in accordance with the law On Taxes and Fees, and also other laws and regulations which determine administrative and criminal liability.

(3) Liability for the violations of the application of Section 5, Paragraphs one, six, and eight, Section 6, Paragraph seven, Section 16, Paragraphs two and three of this Law in respect of a managed investment fund or an alternative investment fund shall lie with an investment management company or a manager of an alternative investment fund respectively.

[*30 January 2020*]

**Section 20. Procedures for the Application of Individual Provisions of this Law**

For the application of individual norms of this Law the Cabinet shall determine the following:

1) the application of the terms used in this Law to the calculation of the enterprise income tax;

2) the procedures for specifying the taxable base by taking into account various circumstances, the restrictions referred to in this Law, and other conditions which affect the amount of the tax base in the specific situation;

3) the procedures for providing information on payments made to non-residents, and also the tax deducted from the amounts disbursed to non-residents;

4) the special conditions for determining the taxable object for domestic undertakings, permanent establishments of non-residents if they perform transactions with persons who are located, set up or established in low-tax or tax-free countries or territories;

5) the procedures for exempting payments from deduction of tax which a Latvian domestic undertaking or the permanent establishment of a non-resident makes to a person who is located, set up, or established in a low-tax or tax-free country or territory;

6) the methods to be used for the specification of market price (value) of a transaction, and the relevant procedures if the transaction has been made between related persons;

7) the examples necessary for illustration of the practical application of the norms of this Law;

8) the procedures for applying tax in case of the reorganisation of a taxpayer;

9) the form of the statement to be submitted in respect of the income obtained by a non-resident in Latvia, and the procedures for the submission thereof;

10) the procedures and time periods for a taxpayer to provide information to the State Revenue Service on amounts disbursed to non-residents, and also the deducted tax;

11) the procedures for providing information on the dividends or the income equivalent to dividends received from investment funds and alternative investment funds by which it is possible to reduce the base taxable with the enterprise income tax of an investor;

12) the criteria on the basis of which the activities carried out by a domestic undertaking are recognised as strategic, commercial and technical management of ships and crew recruitment management, and also the procedures by which the State Revenue Service grants the domestic undertaking the tonnage taxpayer status, and the documents which the domestic undertaking submits to the State Revenue Service to acquire the tonnage taxpayer status and ensure the tax administration;

13) the procedures by which a credit institution does not include the loans in the base taxable with the enterprise income tax which it issues on general credit conditions or which result from the laws and regulations governing the operation of credit institutions.

**Transitional Provisions**

1. With the coming into force of this Law, the following laws are repealed:

1) the law On Enterprise Income Tax (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1995, No. 7, 24; 1996, No. 9, 15; 1997, No. 8, 24; 1998, No. 8, 21; 1999, No. 6, 24; 2000, No. 9; 2001, No. 1, 5, 24; 2003, No. 15; 2005, No. 2, 24; 2006, No. 1; 2007, No. 3, 12, 24; 2009, No. 1, 15, 21; *Latvijas Vēstnesis*, 2009, No. 175, 200; 2010, No. 102, 131, 170, 206; 2011, No. 204; 2013, No. 53, 119, 194, 232; 2014, No. 247, 257; 2015, No. 42; 2016, No. 31, 41);

2) the law On the Enterprise Income Tax Rebate for Capital Companies of Disabled Societies, Funds of Medical Character, and Capital Companies of Other Charity Funds (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2006, No. 22; *Latvijas Vēstnesis*, 2013, No. 119).

2. The return of the enterprise income tax for the taxation period which begins in 2017 for the months until 31 December shall be completed and submitted in accordance with Cabinet Regulation No. 548 of 29 September 2015, Regulations Regarding Taxation Period Declaration of Enterprise Income Tax and Calculation of Advance Payments.

3. If the reporting year of a taxpayer does not coincide with the calendar year, the taxpayer shall, for the purpose of calculation of the enterprise income tax, draw up a financial (interim period) statement and the return of the enterprise income tax:

1) in accordance with norms of the law On Enterprise Income Tax, and in accordance with Cabinet Regulation No. 548 of 29 September 2015, Regulations Regarding Taxation Period Declaration of Enterprise Income Tax and Calculation of Advance Payments, for the period from the beginning of the reporting year to 31 December 2017, and submit it to the State Revenue Service by 30 April 2018;

2) in accordance with this Law for the period from 1 January 2018 to the end of the reporting year and, together with a balance sheet and a profit and loss statement, submit it to the State Revenue Service, but not later than four months after the end of the reporting year.

4. If the reporting year of a partnership, an agricultural services cooperative society and a forestry services cooperative society which conformed to the specified conformity criteria until 31 December 2017, a cooperative society of apartment owners, a cooperative society of motor vehicle garage owners, a cooperative society of boat garage owners, or a horticultural cooperative society does not coincide with the calendar year, the company shall, for the purpose of calculation of the relevant income, draw up a financial (interim period) statement, and:

1) the return in accordance with norms of the law On Enterprise Income Tax for the period from the beginning of the reporting year to 31 December 2017;

2) the return in accordance with this Law for the period from 1 January 2018 to the end of the reporting year.

5. A taxpayer shall, on the basis of the amount of advance payments specified by the State Revenue Service for the period from 1 January to 30 June 2018, each month by the 20th date pay into the State budget an advance payment of the enterprise income tax that corresponds to one twelfth of the calculated enterprise income tax which, without applying the rebate specified in Section 20.1 of the law On Enterprise Income Tax, has been calculated for the taxation period which started in 2016. The abovementioned advance payments shall be taken into account in making a tax payment which has been calculated according to the return for the taxation period from 1 January to 30 June 2018.

6. The information which is to be provided to the State Revenue Service in accordance with Section 24 of the law On Enterprise Income Tax shall be submitted in accordance with Cabinet Regulation No. 556 of 4 July 2006, Regulations Regarding Application of Norms of the Law On Enterprise Income Tax.

7. The State capital companies that perform the State culture functions delegated by the Ministry of Culture shall, for the taxation period which started in 2017, record received donations, provide a public report regarding donors, amounts donated by them and the use of the received donations by 31 December 2017 in accordance with Cabinet Regulation No. 1648 of 22 December 2009, Regulations for Measures to be Taken by State Capital Companies which Perform the State Culture Functions Delegated by the Ministry of Culture, and Receive Donations.

8. A taxpayer is entitled not to include the dividends in the base taxable with the enterprise income tax which are calculated by distributing the profits indicated on the balance sheet as on 31 December 2017.

9. Upon applying Paragraph 8 of these Transitional Provisions, prior to the distribution of the profits the remaining retained profits from subsequent reporting years shall be reduced by the calculated dividends, and the “First in –first out” (FIFO) method shall be applied to the loss of the subsequent reporting years.

10. Upon applying Paragraphs 8, 31, and 34 of these Transitional Provisions regarding the retained profits indicated on the balance sheet as on 31 December 2017, for the purpose of calculation of the enterprise income tax, it shall be reduced according to the following procedures:

1) by the loss incurred in subsequent reporting years;

2) by the calculated dividends to which Paragraph 8 of these Transitional Provisions is applied;

3) by the debts of debtors which have reduced the taxable income by applying Paragraph 31, Sub-paragraph 1 of these Transitional Provisions;

4) by the loans to which Paragraph 34 of these Transitional Provisions is applied.

11. Upon applying Paragraph 8 of these Transitional Provisions, a credit institution shall not adjust the profits and retained profits from the reporting year indicated on the taxpayer’s balance sheet as on 31 December 2017 in respect of the provisions created for debts of debtors on 1 January 2018 for the period from 1 January 2018 which stem from the transition from the International Accounting Standard 39: Financial Instruments: Recognition and Measurement to the International Financial Reporting Standard 9: Financial Instruments adopted by Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

12. Paragraph 8 of the Transitional Provisions shall not be applicable to the dividends or disbursements equivalent to dividends which are calculated for the following:

1) the agricultural services cooperative societies and forestry services cooperative societies which conformed to the specified conformity criteria until 31 December 2017;

2) the cooperative societies of apartment owners;

3) the cooperative societies of motor vehicle garage owners;

4) the cooperative societies of boat garage owners;

5) the horticultural cooperative societies;

6) the part of the retained profits of a capital company which has been obtained in the period when the capital company was registered as a micro-enterprise taxpayer.

13. A taxpayer whose return of the enterprise income tax indicates loss as on 31 December 2017 may reduce the enterprise income tax calculated on the dividends in the reporting year (which starts in 2018) by the amount which has been calculated in amount of 15 per cent of the total amount of uncovered loss. If this amount is not used in the reporting year (which starts in 2018) or is used only partly, the remaining amount (the amount of tax in respect of uncovered loss) may be referred to the enterprise income tax which is calculated on the dividends for subsequent four reporting years by correspondingly reducing the remaining amount (amount of tax in respect of uncovered loss) each year by the amount of the rebate used previously.

14. Amount of the reduction of the tax in the reporting year referred to in Paragraph 13 of these Transitional Provisions may not exceed 50 per cent of the amount of the enterprise income tax which is calculated on the dividends in the relevant reporting year.

15. A State capital company the shares or stocks of which may not be alienated, which performs the functions not related to economic activity and delegated by the State, and the return of the enterprise income tax of which indicates loss as on 31 December 2017 which has been incurred by applying Section 9, Paragraph two, Clause 1 of the law On Enterprise Income Tax and which is not extinguished by recovering funds from a creditor, is entitled to reduce the enterprise income tax by 15 per cent of the total amount of uncovered loss that has been incurred by applying the abovementioned norm of the law On Enterprise Income Tax.

16. If the capital company referred to in Paragraph 15 of these Transitional Provisions also carries out economic activity which does not constitute functions delegated by the State, the reduction of tax may be applied, if the State capital company ensures separate conducting of accounting for the functions delegated by the State and for the functions of economic activity, and consequently separates calculation of the enterprise income tax. The reduction of tax referred to in Paragraph 15 of these Transitional Provisions may only be applicable to the part of the enterprise income tax on the transactions which refer to the functions delegated by the State. If the reduction of tax referred to in Paragraph 15 of these Transitional Provisions is not used in the reporting year (which starts in 2018) or is used only partly, the remaining amount (the amount of tax in respect of uncovered loss) may be referred (by reducing the tax) to the part of the enterprise income tax for subsequent reporting years that is calculated on the transactions which refer to the functions delegated by the State by correspondingly reducing the remaining amount each year by the amount of the rebate used previously.

17. A taxpayer is entitled to reduce the base taxable with the enterprise income tax in the taxation period by the provisions which are created until 31 December 2017 and are reduced starting from 1 January 2018, if such provisions were included in the income taxable with the enterprise income tax in the period of creation thereof and are recorded separately from other provisions started from 1 January 2018.

18. If the amount of provisions created in the reporting year 2017 exceeds the amount of provisions created in the reporting year 2016, then starting from 1 January 2018 such provisions shall be recorded separately from other provisions, and Paragraph 17 of these Transitional Provisions shall not be applicable to the excess amount. Amount of the dividends or disbursements equivalent to dividends included in the base taxable with the enterprise income tax in the taxation period or subsequent taxation periods may be reduced by the abovementioned excess amount of provisions in such amount as the abovementioned provisions are reduced in the taxation period.

19. Upon applying Paragraphs 17 and 18 of these Transitional Provisions the taxable base shall be reduced by the amount of provisions which is multiplied by the coefficient of 0.75.

20. A taxpayer whose supported investment project has been approved by the Cabinet by 31 December 2017 on the basis of Section 17.2 of the law On Enterprise Income Tax, is entitled to continue applying the rebate of the enterprise income tax not used by reducing the enterprise income tax in the taxation period by the dividends calculated in this period.

21. The supported investment projects which have been approved by the Cabinet by 31 December 2017 in accordance with Section 17.2 of the law On Enterprise Income Tax shall be assessed and implemented in accordance with the regulatory framework which was in force on the day when the Cabinet took a decision to approve the investment project.

22. The provisions of Section 17.2 of the law On Enterprise Income Tax and Cabinet Regulation No. 20 of 3 January 2017, Procedures for the Acceptance and Implementation of Supported Investment Project, shall be applied to the assessment of an investment project which has been submitted by a taxpayer to the Ministry of Economics by 31 December 2017 and for the support of which the Cabinet takes a decision after 1 January 2018, the granting of aid for commercial activity, the implementation and monitoring thereof by taking into account all of the following conditions:

1) the taxpayer has submitted an investment project application for obtaining the status of a supported investment project to the Ministry of Economics by 31 December 2017 in accordance with Cabinet Regulation No. 20 of 3 January 2017, Procedures for the Acceptance and Implementation of Supported Investment Project;

2) the investment project application is examined, assessed and approved in accordance with the procedures laid down in Section 17.2 of the law On Enterprise Income Tax and Cabinet Regulation No. 20 of 3 January 2017, Procedures for the Acceptance and Implementation of Supported Investment Project;

3) the investment project application shall be approved by the Cabinet without any changes within 12 months from the submission thereof to the Ministry of Economics.

23. Capital companies are entitled to reduce the enterprise income tax calculated in the reporting year on the dividends calculated in the reporting year by the amount of rebate of the enterprise income tax which has been calculated in accordance with the law On the Application of Taxes in Free Ports and Special Economic Zones, if the following conditions are met concurrently:

1) the investments have been made by 31 December 2035;

2) the permission to apply direct tax relief in respect of the investments referred to in Sub-paragraph 1 of this Paragraph has been granted, and a contract for making of investments has been entered into during validity of the aid scheme determined in the abovementioned Law.

23.1 Upon applying Paragraph 23 of these Transitional Provisions, the rebate of the enterprise income tax may only be applied to such part of the enterprise income tax which has been calculated in the taxation period for the part of the profit which, in conformity with the conditions referred to in contracts entered into regarding performance of investments, has been acquired from economic activity in relation to which the authority of the free port or special economic area has issued a permit for the application of direct tax rebates.

[*30 January 2020*]

24. The rebate referred to in Paragraph 23 of these Transitional Provisions may not exceed 80 per cent of the amount of the enterprise income tax calculated in the reporting year on the calculated dividends and the permissible State aid intensity specified in the law On the Application of Taxes in Free Ports and Special Economic Zones and the contract for making of investments for the accumulated direct tax rebate in relation to the amount of accumulated investments.

25. The tax rebate referred to in Paragraph 23 of these Transitional Provisions may not be applied in the reporting year on the first day of which the total amount of tax debt exceeds EUR 150, except for tax payments the due dates of which have been extended in accordance with the law On Taxes and Fees.

26. Section 1, Paragraph seventeen, Section 8, Paragraphs eight, nine, and ten of this Law shall also be applicable to representation cars which have been purchased by 31 December 2017.

27. The conditional dividends referred to in Section 4, Paragraph two, Clause 1, Sub-clause “c” of this Law shall not be applicable to the part of the profits which has been obtained starting from 1 January 2018.

28. Section 4, Paragraph two, Clause 2, Sub-clause “b” and Section 9 of this Law shall not be applicable to the debts of debtors which have been recorded in accounting records starting from 1 January 2018.

29. Upon applying Section 4, Paragraph two, Clause 2, Sub-clause “g” of this Law in order to determine the base taxable with the enterprise income tax in case of liquidation of a company, the taxable base shall include amounts of loans which have been lent by 31 December 2017 and have not been recovered.

30. Non-residents who have alienated immovable property by 13 December 2017 shall apply the enterprise income tax rate of 15 per cent when making re-calculation of the income taxable with the enterprise income tax which has been calculated in accordance with Section 5, Paragraph four of this Law.

31. A taxpayer who has been an enterprise income taxpayer until 31 December 2017 in accordance with the law On Enterprise Income Tax, is entitled to reduce the base taxable with the enterprise income tax in the taxation period by the debts of debtors which have been incurred until 31 December 2017, and starting from 1 January 2018 are:

1) included in the loss (expenditure) if the debt of debtor conforms to conditions of Section 9, Paragraph three of this Law by taking into account Paragraph 10 of these Transitional Provisions;

2) are written off from the provision for doubtful debts which has been created by 31 December 2017 and which, starting from 1 January 2018, is recorded separately from other provisions if the debt of debtor is not included in the expenditure in the profit and loss statement and conforms to the conditions of Section 9, Paragraph three of this Law.

32. Upon applying Paragraph 31 of these Transitional Provisions the taxable base shall be reduced by the amount of debt of debtor which is multiplied by the coefficient of 0.75.

33. Section 11 of this Law shall not be applicable to the loans which have been issued starting from 1 January 2018 or issued in 2017 if the purpose thereof has been to artificially reduce the tax base.

34. Upon applying Section 11, Paragraphs one and four of this Law the taxable income shall not be increased by the part of the loan which does not exceed the retained profits indicated on the balance sheet as on 31 December 2017.

35. If the reporting year of a taxpayer does not coincide with the calendar year when determining the base taxable with the enterprise income tax for the period from 1 January 2018 to the end of the reporting year, financial indicators of the reporting year (which starts in 2016) shall be taken into account in application of Section 12, Paragraph one, Clause 1 of this Law.

36. Upon applying Section 17, Paragraph one of this Law, a taxpayer is entitled to submit a joint return to the State Revenue Service for the taxation period from January to June 2018, and make a payment of the enterprise income tax by 20 July 2018.

37. A capital company which is included in the list specified in the law On the Enterprise Income Tax Rebate for Capital Companies of Disabled Societies, Funds of Medical Character, and Capital Companies of Other Charity Funds as on 31 December 2017, is entitled not to pay the calculated enterprise income tax in the reporting year which starts in 2018 if the capital company has transferred the gained profits to shareholders thereof in the abovementioned reporting year in amount of not less than 15 per cent.

38. The Cabinet shall assess the impact of norms of this Law on the donations received by public benefit organisations, and in the case of negative impact draw up proposals for necessary amendments together with associations of public benefit organisations by 30 November 2021.

[*23 May 2019*]

39. Amendments to Annexes 1 and 2 to this Law regarding the deletion of Paragraph 1 from these Annexes shall be applicable from the day when the United Kingdom of Great Britain and Northern Ireland will have withdrawn from the European Union in accordance with Article 50 of the Treaty on European Union.

[*21 March 2019*]

40. [24 March 2022]

41. Amendment to Section 16, Paragraph one and Section 17, Paragraph seven of this Law regarding the introduction of the single tax account, and amendment regarding the deletion of Section 17, Paragraphs thirteen, fourteen, fifteen, and sixteen of this Law shall come into force on 1 January 2021.

[*23 May 2019*]

42. Section 2, Paragraph 3.1 and Section 7.1, Paragraph twelve of this Law shall come into force on 1 January 2022.

[*30 January 2020*]

43. Section 8, Paragraph five, Clause 8 of this Law shall be applicable starting from the reporting year which starts on 1 January 2019.

[*30 January 2020*]

44. Section 8, Paragraph fourteen of this Law shall be applicable to assets which have been acquired starting from 1 January 2020.

[*30 January 2020*]

45. Section 13, Paragraph six of this Law shall be applicable to the income obtained, starting from 1 January 2022, from the alienation of stocks of direct holding the holding period of which is at least 36 months at the moment of alienation.

[*25 May 2021*]

46. Section 9, Paragraph three, Clause 12 of this Law shall come into force concurrently with the Law on Release of a Natural Person from Debt Obligations.

[*30 September 2021*]

47. When applying Section 9, Paragraph one, Clause 1 of this Law, to debts for which a provision is created until 31 December 2021 the time period for the increase of the tax base shall be 60 months from the day of creation of the provision.

[*24 March 2022*]

48. Section 9, Paragraph one, Clause 3 and Paragraphs seven and eight of this Law shall be applicable to the debts of debtors for which provisions (credit losses) have been created starting from 1 January 2018.

[*24 March 2022*]

49. Amendment to Section 10, Paragraph three of this Law shall be applicable starting from the reporting year which started in 2021.

[*24 March 2022*]

50. Section 10, Paragraph 6.1 of this Law shall be applicable in respect of the interest which is estimated starting from the reporting year which started in 2021.

[*24 March 2022*]

**Informative Reference to European Union Directives**

This Law contains norms arising from:

1) Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States;

2) Council Directive 2004/66/EC of 26 April 2004 adapting Directives 1999/45/EC, 2002/83/EC, 2003/37/EC and 2003/59/EC of the European Parliament and of the Council and Council Directives 77/388/EEC, 91/414/EEC, 96/26/EC, 2003/48/EC and 2003/49/EC, in the fields of free movement of goods, freedom to provide services, agriculture, transport policy and taxation, by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia;

3) Council Directive 2004/76/EC of 29 April 2004 amending directive 2003/49/EC as regards the possibility for certain member states to apply transitional periods for the application of a common system of taxation applicable to interest and royalty payments made between associated companies of different member states;

4) Council Directive 2006/98/EC of 20 November 2006 adapting certain Directives in the field of taxation, by reason of the accession of Bulgaria and Romania;

5) Council Directive 2009/133/EC of 19 October 2009 on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different Member States and to the transfer of the registered office of an SE or SCE between Member States (codified version);

6) Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (recast);

7) Council Directive 2013/13/EU of 13 May 2013 adapting certain Directives in the field of taxation, by reason of the accession of the Republic of Croatia;

8) Council Directive 2014/86/EU of 8 July 2014 amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States;

9) Council Directive (EU) 2015/121 of 27 January 2015 amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States;

10) Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

This Law shall come into force on 1 January 2018.

This Law has been adopted by the *Saeima* on 28 July 2017.

Acting for the President, Chairperson of the *Saeima* I. Mūrniece

Rīga, 8 August 2017

Enterprise Income Tax Law

**Annex 1**

**Companies of the European Union Member States to which Section 1, Paragraph Eighteen of this Law Applies, and the Original Form of the Term which Corresponds to the Type of Such Companies in Laws and Regulations of the Member States**

[*21 March 2019 / See Paragraph 39 of Transitional Provisions*]

1. [21 March 2019 / See Paragraph 39 of Transitional Provisions]

2. A company known in accordance with the laws and regulations of Austria as Aktiengesellschaft, Kommanditgesellschaft auf Aktien, Gesellschaft mit beschränkter Haftung, Versicherungsverein auf Gegenseitigkeit, Erwerbs- und Wirtschaftsgenossenschaft, Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts, or any other company established in accordance with the laws and regulations of Austria and to which the tax referred to in Paragraph 2 of Annex 2 to this Law applies.

3. A company known in accordance with the laws and regulations of Belgium as société anonyme/naamloze vennootschap, société en commandite par actions/commanditaire vennootschap op aandelen, société privée à responsabilité limitée/besloten vennootschap met beperkte aansprakelijkheid, société coopérative à responsabilité limitée/coöperatieve vennootschap met beperkte aansprakelijkheid, société coopérative à responsabilité illimitée/coöperatieve vennootschap met onbeperkte aansprakelijkheid, société en nom collectif/vennootschap onder firma, société en commandite simple/gewone commanditaire vennootschap, a public undertaking which has taken one of the abovementioned legal forms, or any other company established in accordance with the laws and regulations of Belgium and to which the tax referred to in Paragraph 3 of Annex 2 to this Law applies.

4. A company known in accordance with the laws and regulations of Bulgaria as събирателното дружество, командитното дружество, дружеството с ограничена отговорност, акционерното дружество, командитното дружество с акции, неперсонифицирано дружество, кооперации, кооперативни съюзи, държавни предприятия and established in accordance with the laws and regulations of Bulgaria, and carrying out commercial activity.

5. Companies under Czech law known as: “akciová společnost”, “společnost s ručením omezeným”.

6. Companies under Danish law known as ‘aktieselskab’ and ‘anpartsselskab’ or other companies subject to tax under the Corporation Tax Act, insofar as their taxable income is calculated and taxed in accordance with the general tax legislation rules applicable to ‘aktieselskaber’.

7. A company known in accordance with the laws and regulations of France as société anonyme, société en commandite par actions, société à responsabilité limitée, sociétés par actions simplifiées, sociétés d'assurances mutuelles, caisses d'épargne et de prévoyance, sociétés civiles, to which the corporation tax applies automatically, coopératives, unions de coopératives, industrial and commercial public establishment or undertaking, or any other company established in accordance with the laws and regulations of France and to which the tax referred to in Paragraph 7 of Annex 2 to this Law applies.

8. A company known in accordance with the laws and regulations of Greece as *αvώvυµη εταιρεία, εταιρεία περιωρισµέvης ευθύvης (Ε.Π.Ε.)*, or any other company established in accordance with the laws and regulations of Greece and to which the tax referred to in Paragraph 8 of Annex 2 to this Law applies.

9. A company known in accordance with the laws and regulations of Croatia as dioničko društvo, društvo s ograničenom odgovornošću, or any other company established in accordance with the laws and regulations of Croatia and to which the Croatian corporate profits tax applies.

10. A company known in accordance with the laws and regulations of Estonia as täisühing, usaldusühing, osaühing, aktsiaselts, tulundusühistu.

11. Companies under Italian law known as “società per azioni”, “società in accomandita per azioni”, “società a responsibilità limitata”, “società cooperative”, “società di mutua assicurazione”, and private and public entities whose activity is wholly or principally commercial.

12. A company incorporated or existing in accordance with the laws and regulations of Ireland, a body registered in accordance with the Industrial and Provident Societies Act, a building society incorporated in accordance with the Building Societies Acts, and a trustee savings bank within the meaning of the Trustee Savings Banks Act, 1989.

13. Under Cypriot law: “εταιρείες” as defined in the Income Tax laws.

14. A company incorporated in accordance with the laws and regulations of Lithuania.

15. A company known in accordance with the laws and regulations of Luxembourg as société anonyme, société en commandite par actions, société à responsabilité limitée, société coopérative, société coopérative organisée comme une société anonyme, association d'assurances mutuelles, association d'épargne-pension, entreprise de nature commerciale, industrielle ou minière de l'Etat, des communes, des syndicats de communes, des établissements publics et des autres personnes morales de droit public, or any other company established in accordance with the laws and regulations of Luxembourg and to which the tax referred to in Paragraph 16 of Annex 2 to this Law applies.

16. Companies under Maltese law known as: “Kumpaniji ta' Responsabilita' Limitata”, “Soċjetajiet in akkomandita li l-kapital tagħhom maqsum f'azzjonijiet”.

17. A company known in accordance with the laws and regulations of the Netherlands as naamloze vennnootschap, besloten vennootschap met beperkte aansprakelijkheid, Open commanditaire vennootschap, Coöperatie, onderlinge waarborgmaatschappij, Fonds voor gemene rekening, vereniging op coöperatieve grondslag, vereniging welke op onderlinge grondslag als verzekeraar of kredietinstelling optreedt, or any other company established in accordance with the laws and regulations of the Netherlands and to which the tax referred to in Paragraph 18 of Annex 2 to this Law applies.

18. A company known in accordance with the laws and regulations of Poland as spółka akcyjna, spółka z ograniczoną odpowiedzialnością, spółka komandytowo-akcyjna.

19. A commercial company or a commercial company established under civil law, a cooperative or a public undertaking incorporated in accordance with the laws and regulations of Portugal.

20. A company known in accordance with the laws and regulations of Romania as societãþi pe acþiuni, societãþi în comanditã pe acþiuni, societãþi cu rãspundere limitatã, societăți în nume colectiv, societăți în comandită simplă.

21. Companies under Slovenian law known as: “akciová společnost”, “společnost s ručením omezeným”, “komanditná spoločnosť”.

22. Companies under Slovenian law known as: “delniška družba”, “komanditna družba”, “družba z omejeno odgovornostjo”.

23. A company known in accordance with the laws and regulations of Finland as osakeyhtiö/aktiebolag, osuuskunta/andelslag, säästöpankki/sparbank, vakuutusyhtiö/försäkringsbolag.

24. A company known in accordance with the laws and regulations of Spain as sociedad anónima, sociedad comanditaria por acciones, sociedad de responsabilidad limitada, a public law body which operates under private law, or any other company established in accordance with the laws and regulations of Spain and to which the tax referred to in Paragraph 25 of Annex 2 to this Law applies.

25. A company known in accordance with the laws and regulations of Hungary as közkereseti társaság, betéti társaság, közös vállalat, korlátolt felelősségű társaság, részvénytársaság, egyesülés, szövetkezet.

26. A company known in accordance with the laws and regulations of Germany as Aktiengesellschaft, Kommanditgesellschaft auf Aktien, Gesellschaft mit beschränkter Haftung, Versicherungsverein auf Gegenseitigkeit, Erwerbs- und Wirtschaftsgenossenschaft, Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts, or any other company established in accordance with the laws and regulations of Germany and to which the tax referred to in Paragraph 27 of Annex 2 to this Law applies.

27. A company known in accordance with the laws and regulations of Sweden as aktiebolag, försäkringsaktiebolag, ekonomiska föreningar, sparbanker, ömsesidiga försäkringsbolag.

28. A company incorporated in accordance with Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE) and Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees and cooperative societies incorporated under Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society and Council Directive 2003/72/EC of 22 July 2003 supplementing the Statute for a European Cooperative Society with regard to the involvement of employees.

Enterprise Income Tax Law

**Annex 2**

**Company Income Taxes of the European Union Member States to the Payers of which Section 1, Paragraph Eighteen of this Law Applies, and the Original Form of the Term which Corresponds to the Types of Such Taxes in Laws and Regulations of the Member States**

[*21 March 2019 / See Paragraph 39 of Transitional Provisions*]

1. [21 March 2019 / See Paragraph 39 of Transitional Provisions]

2. Körperschaftsteuer in Austria.

3. Impōt des sociétés/vennootschapsbelasting in Belgium.

4. Kорпоративен данък in Bulgaria.

5. Daň z příjmů právnických osob in the Czech Republic.

6. Selskabsskat in Denmark.

7. Impōt sur les sociétés in France.

8. Φόρος εισοδήμιτος νομκών προσώπων in Greece.

9. Porez na dobit in Croatia.

10. Tulumaks in Estonia.

11. Imposta sul reddito della societa in Italy.

12. Corporation tax in Ireland.

13. Φόρος εισοδήματος in Cyprus.

14. Uzņēmumu ienākuma nodoklis in Latvia.

15. Pelno mokestis in Lithuania.

16. Impōt sur le revenu des collectivités in Luxembourg.

17. Taxxa fuq l-income in Malta.

18. Vennootschapsbelasting in the Netherlands.

19. Podatek dochodowy od osób prawnych in Poland.

20. Imposto sobre o rendimento da pessoas colectivas in Portugal.

21. Impozit pe profit, impozitul pe veniturile obţinute din România de nerezidenţi in Romania.

22. Daň z príjmov právnických osôb in Slovakia.

23. Davek od dobička pravnih oseb in Slovenia.

24. Yhteisöjen tulovero/inkomstskatten för samfund in Finland.

25. Impuesto sobre sociedades in Spain.

26. Társasági adó in Hungary.

27. Körperschaftsteuer in Germany.

28. Statlig inkomstskatt in Sweden.