

Parliament Acts Fast to Adopt Corporate Tax Amendments

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Seeking to encourage investment and reduce activities involving tax havens, the Latvian Parliament held an urgent vote on June 6, adopting a number of corporate tax amendments in time for the measures to enter into force on July 1.

Currently, the Law on Corporate Income Tax provides that under certain conditions, taxpayers that invest at least LVL 3 million (about \$5.6 million) in a Latvian company may receive a tax allowance equivalent to 25 percent of their total investment. Investors can apply for the allowance through October 31.

The amendments clarify the eligibility conditions for the tax allowance for long-term investments and extend the list of sectors covered by the tax incentive to include manufacturers of:

- textiles;
- clothing;
- leather and leather products;
- paper and paper products;
- refined petroleum products and coking; and

- nonmetallic mineral products.

The tax allowance has also been extended to the reproduction of drawings, writings, and records and the repair and installation of machinery and equipment.

To avoid differing interpretations of the existing laws on dividend taxation, the new rules stipulate that dividends paid to legal, natural, or other persons located or established in a low-tax or tax-free country or territory are subject to enterprise income tax in Latvia, and that the State Revenue Service is not authorized to make exceptions to the withholding requirement for such payees.

The amended corporate income tax law also reduces the tax on income from the sale of EU or European Economic Area publicly traded securities and contains other provisions to encourage foreign entrepreneurs to carry out their business activities using established companies in Latvia and to reduce Latvian entrepreneurs' use of artificial structures in low-tax and tax-free countries and territories. ◆

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