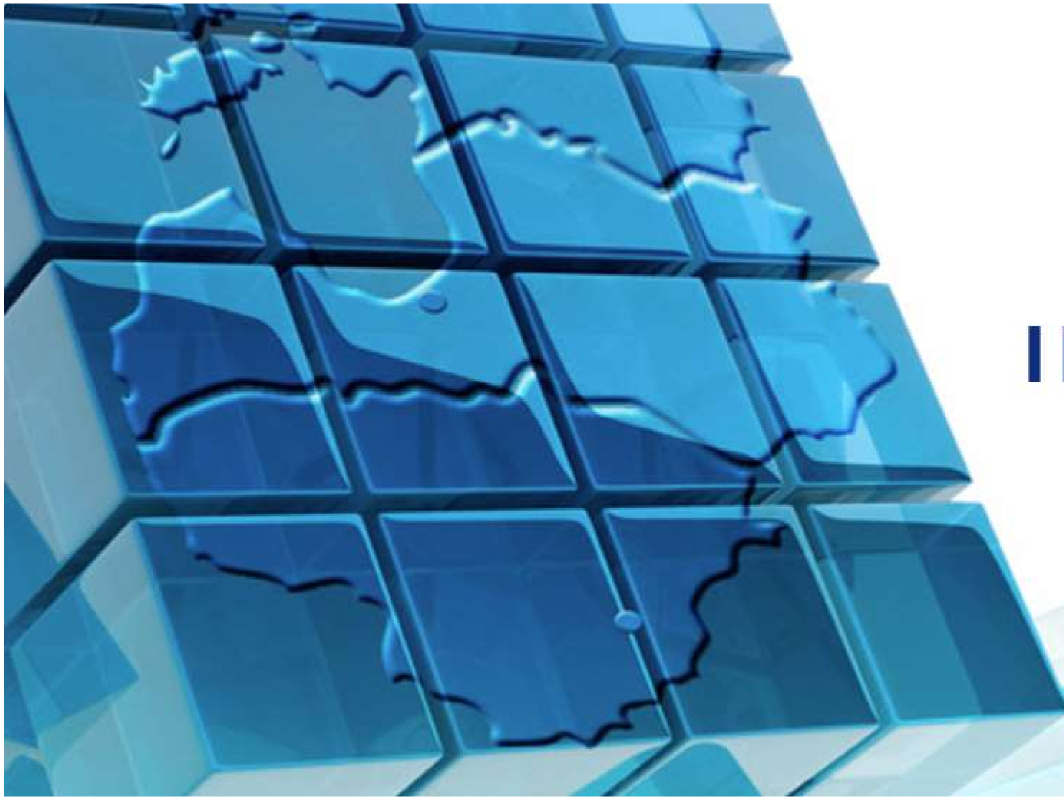

TAXATION OF CROSS-BORDER INVESTMENTS IN AND FROM LATVIA 2017

SORAINEN

Jānis Taukačs

Partner, Tax & Customs

Aija Lasmane

Senior Associate, Tax & Customs

Kaspars Strazds

Associate, Tax & Customs

Mārtiņš Rudzītis

Associate

1. Capital tax

There is no capital contribution tax in Latvia.

Stamp duty

Stamp duty for registration of a company or changes in the share capital is up to approx. EUR 460 and 140 respectively.

2% - 6% stamp duty applies upon registration of the ownership of real estate with the Land book. Stamp duty is normally levied based on the transaction's price. 1% duty applies on contribution of property into share capital. Minor notary fees apply.

Real estate tax

Real estate tax is currently applied at a rate of 1.5% and is levied on an annual basis. Unused agricultural land is subject to a 3% rate. Real estate tax is calculated based on cadastral value of the real estate. Real estate tax is also applied to residential buildings and apartments with the following progressive rates:

- 0.2% – for cadastral value not exceeding EUR 56,915;
- 0.4% – for cadastral value from EUR 56,915 to EUR 106,715;
- 0.6% – for cadastral value exceeding EUR 106,715.
- A 7 EUR minimum is payable.

Municipalities are entitled to impose a different real estate tax rate ranging from 0.2 to 3.0 per cent in accordance with regulations that must be issued by the municipality no later than on 1 November of the pre-taxation year. Otherwise the mentioned default rates of real estate tax apply.

2. CIT

The standard flat CIT rate is 15%. The standard taxation period is a calendar year.

Resident companies are taxed on their worldwide income, according to the CIT law provisions.

It is expected to have major CIT law changes starting from 2018. It is planned to lower CIT rate from 15% to 0% for profit reinvested into company. For profit distribution and particular expenses deemed to be profit distribution are taxed with 20% rate. The planned taxation period is to be one month for CIT purposes.

Reduced rate of 15% from turnover applies to registered micro-enterprises (with turnover below EUR 100,000, maximum 5 employees and shareholders being only individuals).

2.1. Wealth taxes

There are no wealth taxes in Latvia.

2.2. Dividend regime (participation exemption)

Dividends received by a resident company from any non-resident company are exempt from CIT.

The exemption, however, is not applicable to dividends received from black-listed offshore jurisdictions (e.g. Curacao, Liechtenstein etc.).

Impact EU GAAR

As of 1 January 2013 Latvia has introduced GAAR under which the tax administration should analyse the taxpayer's transactions not only based on their legal form, but also economic substance. It is not expected that Latvia will introduce any specific amendments to Latvian law as a result of the Parent-Subsidiary Directive as Latvia does not levy tax on inbound dividends (other than those received from black-listed offshore jurisdictions).

Capital gains from the alienation of shares are tax exempt, except if they are derived from shares in a company registered in black-listed offshore jurisdictions.

2.3. Gains on shares (participation exemption)

Capital gains from the alienation of shares are tax exempt, except if they are derived from shares in a company registered in black-listed offshore jurisdictions.

2.4. Losses on shares

Losses incurred from alienation of shares are non-deductible for CIT purposes.

2.5. Costs relating to the participation

Latvian legislation does not provide for any specific regulation.

2.6. Currency exchange results

Currency exchange differences (both realized and unrealized) usually have taxable or respectively tax deductible consequences.

2.7. Tax rulings

It is possible to request an advance binding ruling from tax authorities. However, such a request should be based on specific facts and relate to specific transaction. The ruling must be provided free of charge within 30 days, but the deadline can be extended in more complex cases.

Taxpayers may apply for an advance pricing agreement (APA) with tax authorities if

the amount of the respective related-party transaction or certain type of transactions exceeds EUR 1.43 m per year. The fee for an APA is EUR 7,114.

2.8. Loss carry over rules

Carry back

There is no carry back possibility in Latvia.

Carry forward

Losses incurred in 2008 or after may be covered in chronological order from the taxable income of following tax periods for no more than 75% of taxable income subject to CIT.

In case of changes in the control of company, the loss carry forward is non-deductible, unless the company carries on the same type of business as during the last two years prior the changes in control for the next five years.

2.9. Group taxation for CIT purposes

Latvian tax law does not allow tax loss transfers within a group of companies.

3. Withholding taxes payable by the holding company

3.1. Withholding tax on dividends paid by the holding company

No withholding tax is levied on dividend payments to non-resident companies, save for companies established in black-listed offshore jurisdictions (15% WHT).

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outbound dividends (other than those paid to companies established in black-listed offshore jurisdictions).

3.2. Withholding tax on interest paid by the holding company

No withholding tax is levied on any outgoing interest payments with the exception of interest paid to entities established in black- listed offshore jurisdictions.

3.3. Withholding tax on royalties paid by the holding company

No withholding tax is imposed on any outgoing royalty payments except for royalties paid to entities established in black-listed offshore jurisdictions.

4. Non-resident capital gains taxation - domestic legislation and tax treaties

Capital gains derived by corporate non- residents are not taxable except for capital gains which are derived from the alienation of real estate or the shares in a qualifying real estate company. If real

estate or shares in a real estate company are sold by a Latvian resident or permanent establishment of a non-resident to a non- resident, a 2% withholding tax applies to the gross consideration. The vendor –resident company of EU/EEA Member State or a

tax treaty partner country – is allowed to recalculate the tax payable as 15% from profit realised from the sale of real estate or shares in a real estate company and request a refund if the tax withheld exceeds the calculated 15% from profit.

However, if both the vendor and purchaser of shares in a Latvian real estate company are non-residents and the sale is not effected through the vendor’s permanent establishment in Latvia, the mentioned 2% withholding tax does not apply.

Gains from alienation of shares derived by non-resident individuals are not subject to Latvian taxation if these are financial instruments governed by the Latvian Financial instrument Market Law.

5. Anti-abuse provisions / CFC rules

General

The general anti-avoidance rule has been introduced as from 1 January 2013, specifying that economic substance of transaction should be considered, not only its legal form.

CFC rules

There are no CFC rules for corporate taxpayers. However, in order to avoid the erosion of the taxable base any payments to companies or other persons established in black-listed offshore jurisdictions are subject to 15% CIT or 23% personal income tax, respectively. Limited exceptions apply to payments for goods and payments for acquisition of EU/EEA publicly traded shares made to offshore jurisdictions if the price is arm's length.

Thin capitalization rules

Two thin capitalization tests apply. Firstly, allowable interest is calculated on a maximum debt/ equity ratio of 4:1. Secondly, allowable interest is calculated by multiplying coefficient 1.57 with the average annual interest rate on loans granted to non-financial institutions published by the Latvian Bank.

The higher amount of the excess interest calculated under either method is not deductible for CIT purposes.

Financial and insurance institutions are not subject to the thin capitalization rules.

6. Tax and investment incentives

Gains derived from sale of fixed assets are deductible if the asset is replaced by a new functionally comparable asset.

There are free ports and special economic zones in Latvia established to promote export and providing tax reliefs up to 100% for real estate tax, 80% for CIT, as well as extended loss carry forward period and 0% VAT.

A specific tonnage tax applies for vessels registered in Latvia, and PIT reliefs to sailors' salaries apply.

An increased depreciation coefficient applies for investments into new production technology equipment.

Under the Large Project Investments Incentive, investments in specified industries amounting for between EUR 10 million and EUR 50 million receive a 25% CIT rebate calculated from the amount of investment.

Qualifying investments over EUR 50 million receive a 15% CIT rebate from the amount invested. The incentive must be approved by 31 December 2020, and the investment must be made within 5 years after the approval of the project and tax relief must be claimed within a 16 year period.

As from 1 January 2014 a new tax allowance to facilitate research and development (R&D) is introduced. Under the new provision, taxable income can be reduced by expenses directly attributable to personnel and costs of research services purchased from specialised scientific institutions, multiplied by 3. The result of the R&D process may not be disposed of for the following three years.