



## Globally active

***Application of Latvian and Estonian Corporate income tax system. Similarities and differences?***

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# Corporate income tax Payers

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- ✓ resident companies (including partnerships)
- ✓ individual (family) undertakings (including farms and fishing companies) which submit annual accounts;
- ✓ permanent establishments;
- ✓ foreign companies who receive income in Latvia (withholding tax shall be applied)

# Income tax payers in Estonia

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- ✓ natural persons;
- ✓ resident legal persons;
- ✓ sole proprietorship;
- ✓ common investment funds;
- ✓ public limited funds and non-resident legal persons who derive taxable income;
- ✓ a common investment fund is a common fund established in Estonia or foreign state;
- ✓ a public limited fund a fund founded as a public limited company;
- ✓ non-residents having a permanent establishment in Estonia;
- ✓ non-residents operating as employers in Estonia;.

## Tax rate on dividends and other profit distributions

Latvia	Estonia
20/80 on net amount	20/80 or 14/86 (2018) on net amount
20 % from gross amount	20 % or 14% (2018) from gross amount
<p>Withholding tax on income paid to non – resident:</p> <ul style="list-style-type: none"> <li>• 20 % on income from management and consultancy services;</li> <li>• 3% on income from alienation of immovable property</li> <li>• 20 % on any payment to «offshore» countries</li> </ul>	<p>Income tax on income paid to non – resident:</p> <ul style="list-style-type: none"> <li>• 20% on income from alienation of immovable property (difference between the acquisition cost and the selling price of the sold property)</li> <li>• 20 % on any payment to «offshore» countries</li> </ul>

# Tax base - Latvia

## Distributed profit:

- ✓ calculated dividends (including exceptional dividends);
- ✓ profit distributions (for other legal forms)
- ✓ conditional dividends (increase of share capital by transfer of undistributed profit)

## Deemed distributed profit:

- ✓ expenses not related to economic activity (including expenses for acquisition and maintenance of the representative vehicle, donations, costs related to the assets not used for business purpose, penalties, fines, other costs);
- ✓ liquidation quota



Subject to **monthly tax payment**,  
i.e. at the moment of payment or  
calculation

# Tax base - Latvia

## Deemed distributed profit:

- ✓ Difference calculated due to transfer pricing adjustments
- ✓ Written off doubtful debts if no activities provided to recover debts (artificial cancelation of debt)
- ✓ Increased interest payments (Thin cap rules, proportion 1:4)
- ✓ Loans to related parties (special regulation, short term loans exempted)
- ✓ Any benefit in kind provided to employee attributable to PE in Latvia



Subject to **yearly tax payment**, i.e. shall be included in the last tax report for taxation year (December)

# Tax base - Estonia

## Distributed profit:

- ✓ calculated dividends (including exceptional dividends);
- ✓ profit distributions (for other legal forms)
- ✓ conditional dividends

Subject to **monthly tax payment**, based on actual cash flow

## Deemed distributed profit (two types):

- ✓ The explicit way stands for dividends and other profit distributions (except for bonus issue, which is taxable for resident natural persons upon the alienation of assets received through the bonus issue).
- ✓ Payments upon proceeds from liquidations, payments upon capital reductions and redemption or return of participation in a company are generally subject to corporate income tax in the hands of the payer: an Estonian company at the moment of distribution.
- ✓ The implicit way to distribute profits is to do that through fringe benefits, gifts and donations, as well as expenses and payments unrelated to business activity (special treatment, non personalized, applies to shareholders).

# Withholding Tax from Payments to Non-residents

## Latvia

- From remuneration for management and consulting services - 20 % of the amount of remuneration (in case DTA is applicable, exemption – residence certificate shall be provided);
- From remuneration for alienation of real property in Latvia – 3% of the amount of remuneration;
- Payments to natural or other persons located, have been set up or established in low-tax and tax-free countries or territories - 20 % of the amount of the payment

 **The tax should be withheld at the moment of payment**

# Income tax from Payments to Non-residents I

## Estonia

- Non-residents (natural and legal persons) have a limited tax liability in Estonia; only the Estonian-source income is taxed in Estonia.
- Employers, who grant taxable fringe benefits, included employers who are natural persons and non-residents having a permanent establishment or operate as employers in Estonia pay income tax on fringe benefits.
- Income tax is charged on business income derived by a non-resident in Estonia if the service is provided in Estonia. If the non-resident is a legal person located in a low tax rate territory, income tax is charged on all income derived by the non-resident from the provision of services to Estonian residents, irrespective of where the services were provided or used.

 The income tax should be withheld and fringe benefit paid at the moment of payment

# Income tax from Payments to Non-residents II

## Estonia

Income tax is charged on gains derived by a non-resident from transfer of property if:

- the sold or exchanged **immovable** is located in Estonia;
- the **movable** was subject to entry in an Estonian register prior to the transfer;
- the transferred **real right or the right of claim** is related to an immovable or a structure as a movable, which is located in Estonia;
- the transferred **holding** is a holding of a person who at the time of transfer owned at least 10 per cent in a company, investment fund or pool of assets of whose property, at the time of transfer or during certain period within two years immediately preceding the transfer, more than **50** per cent was directly or indirectly made up of immovable or structures as movables, which are located in Estonia
- the transferred **timber** from the immovable property situated in Estonia.



The tax should be withheld at the moment of payment

# Income tax from Payments to Non-residents III

## Estonia

Income tax is withheld at a rate of **10%** from:

- royalties paid to a non-resident;
- payments made to a non-resident artist, sportsman or sportswoman for activities conducted in Estonia, and payments made to a third person who is a non-resident or a natural person for activities conducted in Estonia by an artist, a sportsman or a sportswoman;
- payments to a non-resident for services provided in Estonia;
- supplementary funded pension specified in § 21 of the Estonian Income Tax Act.



**The tax should be withheld at the moment of payment to both – natural and legal persons**

# Personal income tax

- ✓ Capital gain tax and tax on income from capital – 20 % (both - Estonia and Latvia)
- ✓ Progressive tax rate in Latvia for:
  - employment income
  - self employment income (small business, certain professions)
  - Royalty income

Income from 0 – 20 004 (1667 EUR monthly) tax rate 20 %

Income from 20 005 - 55 000 tax rate 23 % (current rate)

Income above 55 000 tax rate 31,40 %

# Your contact



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