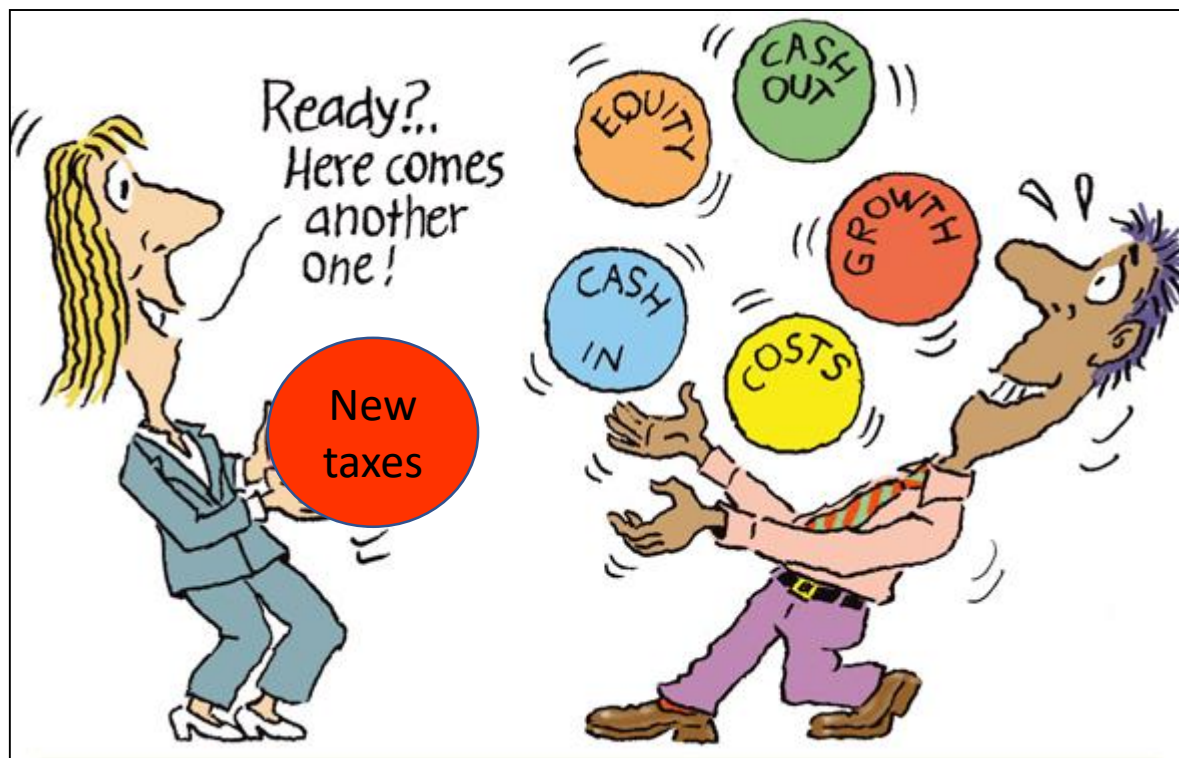


Tax reform in Latvia 2018. Highlights.



Most common entrepreneurship models and taxes related in Latvia.

Limited liability company :

- ✓ Corporate income tax;
- ✓ Salary taxes (Soc.insurance);
- ✓ Salary taxes (personal income tax);
- ✓ VAT.

Microenterprise tax payer company:

- ✓ Microenterprise tax.

Self employed person

- ✓ Personal income tax.
- ✓ Soc.insurance

Limited Liability company (SIA).

Corporate Income Tax 2018 1/5.

- **Change on philosophy : tax payment deffered until profit is distributed.**

Main changes compared to previous methodology:

- Tax depreciation will not exist anymore;
- Accruals for deffered taxes are not needed (opportunity to make reversal transactions and increase profit 2017);
- Discount lost for new production technological mashines and equipment. Was applied as 1.5 value coefficient in tax depreciation calcuation;
- Tax losses accrued before January 2018: will be possible to apply 15% per year during 2018, 2019, 2020, 2021 un 2022 years. Restriction exists on loss absolute amount applicabe: not more than 50% of Corporate Income Tax calculated. (Loss use period - 4 years);
- Almost all loans given and share capital decrease are equal to profit distribution and are tax subject.

Corporate Income Tax 2018 2/5.

	2018
Profit before tax	1000
Corporate Income tax base calculated using coefficient 0.8	$1000/0.8= 1250$
Total amount of Corporate income tax 20% to receive dividends	$1250*20%=250$
Total rate on all Taxes	$250/1000=25\%$
NODOKĻA faktiskā likme	25.0%
Dividends "on hand"	750

	2017
Profit before tax	1000
Corporate income tax 15%	$1000*15%=150$
Dividends to withhold	$1000-150=850$
Personal Income tax for dividends 10%	$850*10%=85$
Total amount of taxes to receive dividends	$150+85=235$
Total rate on all Taxes	$235/1000=23.5\%$
NODOKĻU faktiskā likme	23.50%
Dividends "on hand"	765

Corporate Income Tax 2018 3/5.

Transition period:

- Profits earned until January 2018 possible to distribute during 2018 and 2019 and pay 10% Personal Income Tax (15% Corporate income tax was already paid);
- Accrued Tax losses possible to apply in limited amounts;
- Duty to pay Corporate Income Tax advance remains during 6 months 2018.
Calculation base: Tax amount paid in 2016/12.
- Special rules for cost accruals and loans given made before January 2018.

Corporate Income Tax 2018 4/5.

Taxable base:

- Distributed profit (dividends and equals);
- The conditionally distributed profits => non business related costs (non deductible costs previously);

Tax period :

1 month.

Tax declarations :

Monthly, 12 times per year+ 1 time after Annual report = 13.

Deadline: 20th date of every month.

Corporate Income Tax 2018 5/5.

Tax rate 20%

- In absolute amount is 25% , because the coefficient 0,8 to be applied.

Tax is payable:

- Every month for non business related costs.

Complicated Tax calculation for every cost group: every cost group tax calculation consists a lot of special formulas;

AND

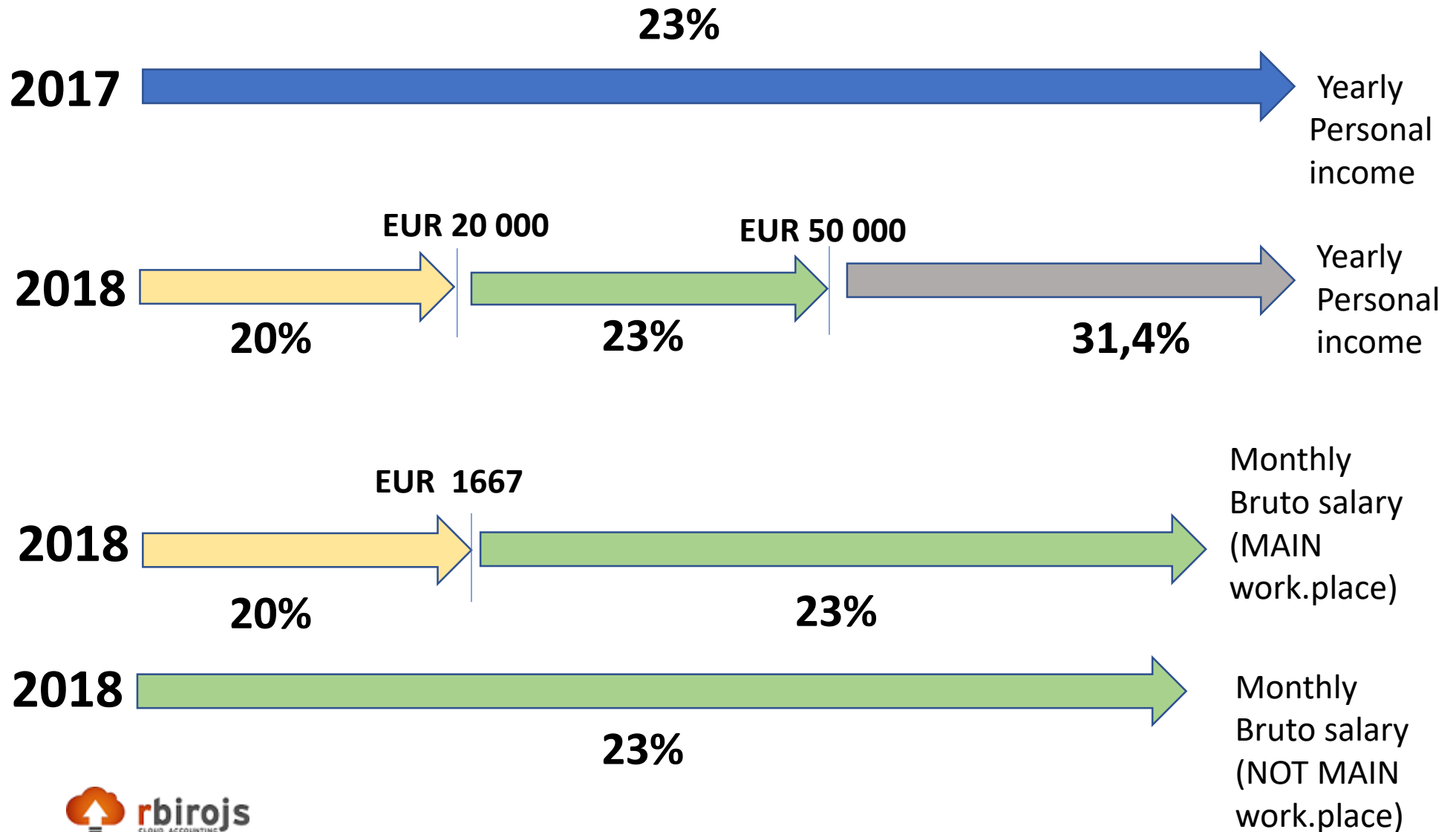
- On the month the decision about profit distribution (dividends) is made. The amount announced in shareholder decision is tax base.

Tax calculated is additional and reduces Equity.

Salary taxes : Social insurance 2018.

	2017	2018	Delta
Paid by Employer	23.59%	24.09%	+0.5%
Paid by employee	10.50%	11.00%	+0.5%
Minimum monthly salary	EUR 380	EUR 430	+EUR 50

Salary taxes: Personal Income Tax paid by employee (accountants must calculate).



Salary calculation example.

Monthly Bruto salary less than 1667 EUR.

Main working place	2017	2018	Delta
Social insurance paid by employer	235.90	240.90	5.00
BRUTO salary	1 000.00	1 000.00	
Social insurance paid by employee	105.00	110.00	5.00
Personal income tax from salary, paid by employee	192.05	166.00	-26.05
NETO monthly salary	702.95	724.00	21.05
Employer Total salary costs	1 235.90	1 240.90	5.00

* Minimum non taxable income will be provided by VID 2 times per year

** For salaries more than 1000 Bruto minimum non taxable income will NOT be applied

VAT: changes 2018 1/3.

	2017	2018
Vat registration threshold for registration as VAT payer	50 000	40 000
Total turnover for previous 12 months		

VAT: changes 2018 2/3.

**Special Tax regime REVERSE TAX LIABILITY
extended to more products and services:**

- **Building materials and construction products;**
 - **Metal products and related services;**
 - **Wide range of household electronic and electrical equipment (washing mashines, refrigerators etc.);**
 - **Game consoles.**
-
- ✓ **Applicable for NON CASH deals**
 - ✓ **Applicable only when both partners are VAT registred payers**
 - ✓ **VAT on invoice 0%, less cash involved**
 - ✓ **Reduces VAT fraud schemes**
 - ✓ **Reporting all VAT reversal deals on every single invoice level.**

VAT: changes 2018 3/3.

Total control on VAT deals is significantly increased:

- **Companies must report in VAT monthly declaration every single invoice for the deals with amount over 150 EUR without VAT (previously 1430 EUR) ;**
- **Companies must report in VAT monthly declaration every single Partner if total amount of monthly deals with certain partner is more 150 EUR without VAT (previously 1430 EUR);**
- **Companies practically will load full accounting data bases to VID servers. Technically it is not problem.**
- **The time consuming increase will appear to prove to Tax authorities every single mismatch by finding, scanning and sending invoices and contracts via e-mail and giving verbal explanations via phone.**

Microenterprise tax payer company: Microenterprise tax.

Microenterprise tax 2018.

	2017	2018
Yearly turnover allowed	100 000	40 000
Applicable for current year turnover		

*** Threshold 40 000 EUR turnover for 12 previous months to register as VAT payer.**

- Tax rate 15% of turnover**
- Maximum number of employees 5**
- employee can be employed only in one microenterprise company**

- Self employed person**
- ✓ **Personal income tax.**
 - ✓ **Social insurance.**

Self employed person : Social insurance (monthly).

	2017	2018
Social insurance rate for profits > min salary	31.3%	31.3%
Minimum monthly salary	EUR 380	EUR 430
Minimal soc. Insurance payments	118.94	134.59
Additional soc.insurance for profits exceeding 430 EUR		5.0%

Self employed person : Personal income tax 2018.

- deductible costs are 80% of turnover
- *exceptions are salaries, depreciation,
Property tax
- *not applicable for first 2 years
- 2 methods for depreciation calculation;
- Loss cover period 3 years

Self employed person : Personal income tax 2018.

