

# Rödl & Partner

NEWSLETTER LATVIA

SETTING ACCENTS

Issue:

March 18 2020

Tax support solutions available for companies for the purpose of mitigating the consequences of Covid-19

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→ Extension of the tax payment term due to Covid-19

- Division of tax payments in instalments
- Delays in tax payments as a result of force majeure
- Decision of the SRS
- Planned business support measures

## → Extension of the tax payment term due to the effect of Covid-19

The current situation after the Government of the Republic of Latvia declared a country-wide state of emergency until 14 April 2020 due to the spread of the disease Covid-19 caused by coronavirus, has started to affect an increasing number of companies. In light of the current situation, which, in the long-term, may threaten the earnings and solvency of many companies, companies should use the regulatory enactments in force in the Republic of Latvia which provide the right for companies to turn to the State Revenue Service (hereinafter – SRS) and to ask for an extension of any tax payment.

### DIVISION OF TAX PAYMENTS IN INSTALMENTS

Article 24 of the Law “On Taxes and Duties” of the Republic of Latvia (hereinafter – Law) stipulates that in response to a taxpayer's written motivated application, the SRS has the right to decide on dividing the term for the payment of taxes due in several instalments for total a period of up to one year as of the date of the submission of the application. The term for submitting such motivated application is no later than within 15 days after the due date of tax payment. In order to apply for the division of tax payments in instalments the following information shall be submitted:

- motivated application in a free form or in a form recommended by the SRS submitted through the SRS Electronic Declaration System (hereinafter – EDS);
- for legal entities - the balance sheet and profit and loss statement as of the first date of the month of submission;
- schedule desirable for gradual payment of the taxes, which has been prepared considering the financial possibilities of the taxpayer as well as the time limits specified in the law.

During the fulfillment of the gradual tax payment schedule, the company is charged a default interest in the amount of 4,56 per cent per annum or 0,01 per cent per day.

With respect of the tax payments payable to the budget of the state or local municipality, in case payment term has already been extended once and if at least 80 per cent of the taxes

payable have been paid during the previous extension period, the taxpayer may request the

SRS to repeatedly divide the term for the payment of taxes in instalments for an additional time period up to six months. The SRS is entitled to grant the extension of the term for the payment of a particular type of tax to the same taxpayer no more than four times during one calendar year.

### TAX PAYMENT DEFAULT AS A RESULT OF FORCE MAJEURE

In accordance with the previously mentioned Law, in case of receiving a motivated application from a taxpayer, the SRS also has the right to divide tax payment in several instalments or to postpone the payment of taxes due for a time period of up to one year on the condition that such non-payment has been caused due to force majeure circumstances. In case of such force majeure circumstances, motivated application to the SRS shall be submitted right after the occurrence of such force majeure circumstances which have caused the delay in payment of the tax. In order for the taxpayer to obtain the necessary extension of the tax payment term, the following information shall be submitted:

- motivated application in a free form or in a form recommended by the SRS submitted through the SRS EDS;
- schedule desirable for gradual payment of the taxes, which has been prepared considering the financial possibilities of the taxpayer as well as the time limits specified in the law;
- documentary evidence that prove the occurrence of force majeure circumstances.

Such extension period is not subject to default interest and no maximum limits applicable to the number of extensions that can be granted during one calendar year have been set.

As a documentary proof evidencing the occurrence force majeure circumstances, the order of the Cabinet of Ministers No. 103 of 12 March 2020 “On the Declaration of Emergency Situation” and all subsequent amendments thereto may be provided.

## DECISION OF THE SRS

In any case, before making a decision, the SRS will assess the company's tax payments so far, and the tax administration will consider each of the applications individually, not automatically.

The SRS shall review such applications as a matter of urgency and shall decide on granting an extension or refusing to grant an extension of the payment term within one month from the day of receipt of such application. The decision usually is sent to the SRS EDS if the taxpayer uses EDS. If the requesting taxpayer is not an EDS user, then the decision is sent to the legal address or to the e-mail address as specified by the taxpayer.

## PLANNED BUSINESS SUPPORT MEASURES

As previously mentioned, the Law already provides for the possibility to request the SRS to grant an extension of the tax payment term or to postpone tax payment for a period up to one year, albeit with certain limitations. In order to mitigate the negative effects that Covid-19 has on both companies and employees, it is planned to provide companies with tax holidays for a period of up to three years without calculating the default interest the same way as in case of force majeure circumstances. The Ministry of Finance is currently working in close cooperation with the social partners of the government on the following support instruments:

- loan guarantees for companies facing short-term cash flow problems allowing to postpone the payment of the principal amount until the situation is resolved. The support program will be provided by the Development Finance Institution "Altum";
- postponed tax payments for a time period of up to three years without default;
- In order for the banks to be able to continue their lending activities, Single

Supervisory Mechanism carrying out banking supervision in the Eurozone, on 12 March 2020 adopted the decision to alleviate the set requirement of formation and maintenance of the liquidity reserves and capital buffer for the banks in response to the consequences caused by Covid-19. Companies facing short-term difficulties should contact their bank;

- other additional solutions, for example, extended deadline for the submission of annual reports and refund of VAT overpayments within a 30 day period.

In addition, the Ministry of Welfare is also working on proposals on how to provide fixed-term State aid to employers in ensuring the payment of sick-leave certificates in a solidary manner during the Covid-19 pandemic, which would also require additional funding from the central government budget.

In order to ensure the implementation of the above-mentioned support measures, the Ministry of Finance must prepare and submit to the Cabinet of Ministers amendments to the Law "On Taxes and Duties" and also to related regulatory enactments no later than by March 24, 2020.

## CONTACT FOR FURTHER INFORMATION



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