Text consolidated by Valsts valodas centrs (State Language Centre) with amending laws of:

12 October 1995;
5 June 1996;
29 February 1996;
13 March 1997;
13 November 1997;
11 March 1998;
10 September 1998;
4 February 1999;
25 November 1999;
30 March 2000;
23 November 2000;
8 February 2001;
22 November 2001;
19 June 2003;
20 December 2004;
20 October 2005;
8 December 2005;
19 December 2006;
17 May 2007;
1 November 2007;
14 November 2008;
12 June 2009;
16 June 2009;
24 September 2009;
15 October 2009;
1 December 2009;
10 June 2010;
9 August 2010.

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*[1] has adopted and

the President has proclaimed the following Law:

On Enterprise Income Tax

Chapter I

General Provisions

Section 1. Terms Used in this Law

(1) Terms used in this Law correspond to the terms used in the Laws On Taxes and Fees, On Accounting, Annual Accounts Law, the Credit Institution Law, the Savings and Loan Societies Law and the Law On Insurance Companies and their Supervision unless provided otherwise by this Law.

(2) **Domestic undertakings** – commercial companies, co-operative societies or other private law legal persons as are considered residents in accordance with the Law On Taxes and Fees.

(3) **Affiliated undertakings** – two or more commercial companies or co-operative societies if:

1) they are parent and subsidiary undertakings;

2) the participatory share of one commercial company or co-operative society in another commercial company or co-operative society is 20 to 50 per cent and, in addition, such company does not have a majority vote;

3) more than 50 per cent of the value of equity capital, shares or co-operative shares in each of these two or more of these commercial companies or co-operative societies (or commercial company and co-operative society) is owned by or is ensured by a contract or otherwise a decisive influence over these two or more commercial companies or co-operative societies (or commercial company and co-operative society) to:

a) one and the same person or relatives of such person to the third degree or the spouse of such person, or those in affinity with such person to the second degree,

b) more than one, but, not more than 10, one and the same persons, or

c) a commercial company or co-operative society wherein the natural person (or his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) owns directly or indirectly more than 50 per cent of the value of the equity capital, shares of such commercial company or the value of the co-operative society co-operative shares;

4) one and the same person or one and the same persons have a majority vote in the administrative institutions of such commercial companies or co-operative societies (or commercial company and co-operative society); or

5) in addition to a contract regarding a specific transaction, an agreement in any form has been entered into (including an agreement that has not been made public) between these commercial companies or co-operative societies (or commercial company and co-operative society) regarding whatsoever additional remuneration not foreseen in the contract, or also such companies perform other types of concerted activities with intent to reduce taxes.

(4) **A person** – a natural or a legal person, or a group of such persons or representatives of such persons or groups bound through a contract.

(5) **A person affiliated with an undertaking** – a person (in the case of a natural person – his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) who owns more than 50 per cent of the value of the equity capital, shares of a commercial company or the value of a co-operative society co-operative shares, or a person (in the case of a natural person – his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) whose decisive influence over a commercial company or co-operative society is ensured by a contract or otherwise.

(6) **Dividends** – income in cash or in kind from capital shares or stocks of a commercial company or co-operative society co-operative shares, or other rights, not resulting from debt obligations, to participate in the distribution of profits of such commercial company or co-operative society. This term shall not apply to income in cash or in kind received in the event of liquidation of the commercial company or co-operative society, as well as the distribution of the profits a partnership.

(7) **Interest income (yield)** – income from any debt obligations, income from government emitted securities, and income from bonds or promissory notes, including premiums and bonuses pertaining to such securities, bonds or promissory notes.

(8) **Payment for intellectual property** – any payment received as remuneration for any copyright

(including neighbouring rights), or for the right to use copyright (including neighbouring rights) to a literary, scientific or artistic work, including computer programs, films, sound recordings, patents, trademarks, sample design or model, plan, secret formula or process, or for the right to utilise manufacturing, commercial or scientific equipment or for utilisation thereof, or for information in respect of industrial, commercial or scientific activity and experience.

(9) **Economic activity** – activity directed at manufacture of goods, performance of work, trade, provision of services or other form of activity for remuneration.

(10) **Tonnage tax** – an enterprise income tax, which, on the basis of a ship's net tonnage (hereinafter – tonnage) and confirmed by a valid International Tonnage Certificate (1969), is calculated and paid by the tonnage taxpayer.

(11) **International Tonnage Certificate (1969)** – a document, which is issued on the basis of the 1969 International Convention on Tonnage Measurement of Ships, and which certifies a ship's net tonnage.

(12) **The utilisation of a ship for international carriage and activities associated thereto** are:

1) the utilisation of a ship which owned by a tonnage tax payer, in joint ownership or held on the basis of a bareboat charter contract for the carriage of cargo or passengers operating to foreign ports, between foreign ports or in foreign ports if the ship, in the taxation period, is utilised for at least 75% of operating time for such purposes;

2) in the ship utilisation taxation period referred to in Clause 1 of this Paragraph, the carriage of cargo or passengers between Latvian or foreign ports and places outside the territorial waters of Latvia, including places where natural resources are investigated or acquired if the ship, in the taxation period, is utilised for at least 75% of operating time for such purposes;

3) in the ship utilisation taxation period referred to in Clause 1 of this Paragraph, the provision of towing, pushing or rescue services outside of the territorial waters of Latvia, including places where natural resources are investigated or acquired, for ships which perform international carriage; and

4) international carriage by another persons utilised ship strategic and commercial management on the basis of a mutual written agreement in the place of another person if the following conditions are fulfilled:

a) strategic and commercial management is performed simultaneously; and

b) the total amount of the net tonnage of the ships managed in the place of another person (calculated in respect of each calendar day) in the taxation period does not exceed by more than ten times the total amount of net tonnage of the ships owned by the tonnage tax payer, in joint ownership with at least 5 per cent participation (taking into account in the calculations the total tonnage of ships in joint ownership) or ships held on the basis of bareboat charter contracts in the taxation period;

5) international carriage by another persons utilised ship technical management and crew recruitment management on the basis of a mutual written agreement in the place of another person if the following conditions are fulfilled:

a) together with ship technical management or crew recruitment management, or both of the referred to types of management also ship strategic and commercial management is performed; and

b) the conditions referred to in Clause 4, Sub-clause b) of this Paragraph;

6) temporary transfer of the ship referred to in Clause 1 of this Paragraph to another person on the basis of a ship time charter contract or other sea carriage contract (voyage charter contract or carriage of volume of cargo contract);

7) utilisation of ships for international carriage not referred to in Clause 1 of this Paragraph on the basis of a ship time charter contract or other sea carriage contract (voyage charter contract or carriage of volume of cargo contract) if the condition is fulfilled that the net tonnage of the ship (calculated for each calendar day) in the total taxation period does not exceed by ten times the total amount of net tonnage of the ships owned by the tonnage tax payer, in joint ownership with at least 5 per cent participation (taking into account in the calculations the total tonnage of ships in joint ownership) or ships held on the basis of bareboat charter contracts in the taxation period;

8) the loading and unloading of the ships referred to in Clause 1 of this Paragraph, agency, the provision of supplies and other services to these ships;

9) the provision of hotel, casino, restaurant (café, bar), shop activities, domestic services on the ships referred to in Clause 1 of this Paragraph if the condition is fulfilled that these services are performed by the tonnage tax payer; and

10) the utilisation of the ships referred to in Clause 1 of this Paragraph in relation to the alienation of equipment and structures (including buildings and premises in which the tonnage taxpayer performs his or her business).

(13) **Ships operating time** – time included in the taxation period during which a ship is utilised for carriage and the performance of activities associated with this carriage. Ship operating time does not include ship repair and ship lay-up time, as well as the time during which a ship is not operated in relation to being under arrest or due to circumstances caused by *force majeure*.

(14) **Transfer of types of economic activity** – a process whereby a company (transferring company) ceasing to exist without liquidation proceedings, transfers one or more branches of its activity to another company (acquiring company) in exchange for the issued stock of the acquiring company or the transfer thereof. The branches of activity shall include all such assets and liabilities of the company, which from an organisational point of view is a type of independent economic activity.

(15) **Exchange of stock** – a process whereby a company (acquiring company) acquires a holding in the capital of another company (acquired company) in exchange for the stock issued by the acquiring company or the transfer thereof to the shareholders of the acquired company and – depending upon the circumstances – for a recognised cash compensation, receiving the stock of the acquired company on the condition that the acquiring company has a majority of votes in the acquired company.

(16) **Merger** – a process, which is manifested in one of the following ways:

1) one company or several companies (acquired company) in ceasing to exist without liquidation proceedings transfer all their assets and liabilities to another already existing company (acquiring company) in exchange for the stock issued by the acquiring company or the transfer thereof to the shareholders of the acquired company and – depending upon the circumstances – for a recognised cash compensation;

2) two or more companies (acquired companies) in ceasing to exist without liquidation proceedings transfer all their assets and liabilities to a company which they establish (acquiring company) in exchange for the stock issued by the acquiring company or the transfer thereof to the shareholders of the acquired company and – depending upon the circumstances – for a recognised cash compensation; or

3) a company (acquired company) in ceasing to exist without liquidation proceedings transfers all of its assets and liabilities to a company (acquiring company) which owns all the stocks of the acquired company.

(17) **Division** – a process, which is manifested in one of the following ways:

1) a company (divided company) in ceasing to exist without liquidation proceedings

transfers all its assets and liabilities to two or more already existing or newly established companies (acquiring companies) in exchange for a proportional number of the stock issued by the acquiring companies or the transfer thereof to the shareholders of the divided company and – depending upon the circumstances – for a recognised cash compensation; or

2) a company (divided company) transfers one or more branches of its activity to a company which it establishes (acquiring company) in exchange for the issued stock of the acquiring company or the transfer thereof to the shareholders of the divided company and – depending upon the circumstances – for a recognised cash compensation.

(18) **Recognised cash compensation** – cash which, in addition to the value of issued or transferred stock, is paid by the acquiring company, acquired company or divided company and which does not exceed 10 per cent of the nominal value of the issued or transferred stock.

(19) **Company** – a capital company, which is:

1) a resident of the Republic of Latvia;

2) a company – resident of other Member States of the European Union, which at the same time conforms to the following criteria:

a) is referred to in the Annex 1 of this Law;

b) in accordance with the tax regulatory enactments of the Member States of the European Union is recognised for the purposes of imposing taxes as a resident of the relevant Member State of the European Union and, on the basis of an agreement for the prevention of the imposition of double taxation, which has been entered into with a third state, for the purposes of imposing taxes is not considered as a resident of a state which is not a Member State of the European Union; and

c) is a taxpayer, which pays one of the taxes referred to in Annex 2 of this Law if it is not exempt from the relevant tax or it does not have the possibility to choose a tax exemption; and

3) a resident of a European Economic Area state (which is not a Member State of the European Union), which in the state of residence is subject to the imposition of a tax similar in substance to the enterprise income tax of the Republic of Latvia, if it not exempt from the relevant tax or it does not have the possibility to choose a tax exemption and, on the basis of an agreement for the prevention of the imposition of double taxation, which has been entered into with a third state, for the purposes of imposing taxes is not considered as a resident of a state which is not a member state of the European Economic Area.

(19^1) **Companies associated with the Member States of the European Union** – companies which conform to the criteria specified in Paragraph nineteen, Clauses 2 and 3 of this Section and are referred to in Annex 3 of this Law, as well as if they conform to one of the following criteria:

1) one company owns at least 25 per cent of the capital or voting rights in another company; or

2) 25 per cent of the capital or voting rights of both companies belongs to another company, which conforms to the criteria specified in Paragraph nineteen, Clauses 2 and 3 of this Section and are referred to in Annex 3 of this Law.

(20) **Shareholder** – an owner of capital shares or stocks of a commercial company or co-operative society co-operative shares or any other person who has other rights not arising from debt obligations to participate in the division of the profits of the relevant commercial company or co-operative society.

(21) **Stock** – stocks, shares, capital shares or other documents, which create a right to receive dividends within the meaning of Section 1, Paragraph six of this Law.

(22) **Transfer of a legal address** – an operation by which a European commercial company or

European co-operative society, without terminating its activities and establishing a new legal person transfers its legal address from the Republic of Latvia to another Member State of the European Union or to the Republic of Iceland, or the Kingdom of Norway, or the Duchy of Luxemburg.

(23) **Parent undertaking** – such a commercial company in which the participation share in another commercial company exceeds 50 per cent or in which other commercial company it has a majority of votes.

(24) **Subsidiary undertaking** – such a commercial company in which the participation share of the parent company exceeds 50 per cent or in which the parent undertaking has a majority of votes.

(25) **European Union or European Economic Area publicly-traded securities** – securities quoted in the regulated markets of the European Union or European Economic Area, as well as open investment fund investment certificates registered in the Member States of the European Union or the states of the European Economic Area, also when they are not included in the regulated markets of any Member State of the European Union or state of the European Economic Area.

(26) **Representation passenger car** – a passenger car in which the number seats not counting the driver's seat does not exceed eight seats, the value of which without value added tax exceeds 25 424 lats and which is not an operational means of transport or a special passenger car (ambulance, caravan or hearse), or a passenger car, which is specially equipped in order to transport disabled persons in wheelchairs, or a new passenger car, which is utilised as a demonstration car for an authorised car dealer.

[10 September 1998; 30 March 2000; 22 November 2001; 19 June 2003; 20 December 2004; 20 October 2005; 19 December 2006; 17 May 2007; 1 November 2007; 14 November 2008; 12 June 2009]

Section 2. Tax Payers

(1) Enterprise income tax payers are:

1) all of the performers of economic activity referred to in this Clause which carry out economic activity (hereinafter - residents);

a) domestic undertakings,

b) institutions financed from the State budget to which the conditions of Paragraph two of this Section do not apply, and

c) institutions financed from local government budgets, which obtain income from economic activity and to which the requirements of Paragraph two of this Section do not apply;

2) foreign commercial companies, natural persons and other persons (hereinafter - non-residents); and

3) permanent representative offices of non-residents (hereinafter - permanent representative offices).

(2) Enterprise income tax shall not be paid by:

1) natural persons;

2) individual (family) undertakings (including farms and fishing holdings), which have selected not to submit annual accounts in accordance with the Annual Accounts Law;

3) institutions financed from the State budget whose income from economic activity is provided for in the State budget;

4) institutions financed from local government budgets whose income from economic activity is provided for in local government budgets;

5) private pension funds;

6) associations, foundations if the open or hidden aim of the foundation thereof is not the acquisition of profit or the growth of capital for the members thereof;

7) religious organisations, trade unions and political parties; and

8) the Finance and Capital Market Commission.

(3) Partnerships, agricultural services co-operative societies, which conform with the criteria specified in the regulatory enactments regarding receipt of support for rural development, apartment owner's co-operative societies, motor vehicle garage owner's co-operative societies, boat garage owner's co-operative societies and horticultural co-operative societies shall not pay enterprise income tax independently. Each partnership member shall pay the relevant personal income tax or enterprise income tax according to the share of taxable income of the partnership due to him or her, but a member of an agricultural services co-operative society – for the share of the agricultural services co-operative society surplus allocated to him or her, and for their part members of an apartment owner's co-operative society, motor vehicle garage owner's co-operative society, boat garage owner's co-operative society or horticultural co-operative society – for his or her share of the distributed profit.

(4) [19 December 2006]

(5) [19 December 2006]

(6) A limited liability company, an individual undertaking, as well as a farm or fish holding, which has been registered as the micro-enterprise tax payer, shall include enterprise income tax in the total micro-enterprise tax in accordance with the Law On Micro-Enterprise Tax.

[13 March 1997; 25 November 1999; 19 June 2003; 20 December 2004; 20 October 2005; 19 December 2006; 12 June 2009; 10 June 2010; 9 August 2010]

Section 2.[1] Tonnage Tax Payers

(1) Tonnage taxpayers are domestic undertakings (companies) to which the State Revenue Service has granted tonnage taxpayer status and which:

1) utilise ships owned, in joint ownership or held on the basis of a bareboat charter contract by them for international carriage and activities associated with this, and

2) perform in Latvia for themselves or in conformity with the conditions in Section 1, Paragraph twelve, Clauses 4 and 5, the economic activities to be performed by another person, the functions which are necessary for strategic, commercial, technical and crew recruitment management.

(2) The Cabinet shall determine the criteria on the basis of which the activities performed by domestic undertakings are recognised as ship strategic management, commercial, technical management and crew recruitment management, and the procedures by which the State Revenue Service grants tonnage tax payer status, and the documents which a domestic undertaking shall submit to the State Revenue Service for gaining the tonnage tax payer status and for ensuring the administration of the tax.

(3) With the next taxation period after the gaining of tonnage tax payer status, the tonnage tax payer shall, in the calculation and payment of the tax, apply Section 6, Paragraph one, Clauses 9 and 10 and Paragraph four, Clause 10; Section 6.[1], Section 22, Paragraph six and Section 23, Paragraph

eleven of this Law, and the restrictions specified in Section 15, Paragraph three of this Law shall be applicable to the tonnage tax payer.

(4) The domestic undertaking to which the State Revenue Service has granted tonnage tax payer status is entitled to change it not earlier than 10 taxation periods after the gaining of the referred to status.

[22 November 2001; 20 October 2005]

Section 3. Taxable Object, Tax Rates and Taxation Periods

(1) In respect of residents, the object upon which tax shall be imposed is taxable income obtained during a taxation period in Latvia and foreign countries. The tax shall be 15 per cent of such taxable income.

(1^1) The tonnage tax payer with the object upon which tax is imposed make up two parts: the object specified in Paragraph one of this Section and the income upon which tonnage tax is imposed which is specified in accordance with Section 6^1 of this Law. Each part of the object upon which tax is imposed shall have separately applied the tax rate specified in Paragraph one of this Section.

(1^2) In respect of a limited liability company, an individual undertaking, as well as a farm or fish holding, which has been registered as the micro-enterprise tax payer, the taxable object and tax rate is determined in the Law On Micro-Enterprise Tax.

(2) In respect of permanent representative offices, the object upon which tax shall be imposed is taxable income obtained by such office independently during a taxation period in Latvia and foreign countries. The tax shall be 15 per cent of such taxable income.

(3) If a non-resident directly carries on economic activity in Latvia, including trade or providing of services, which is the same economic activity as that carried on by the permanent representative office of such non-resident in Latvia, the directly obtained income of such non-resident as has been obtained in Latvia shall be included in the income of the permanent representative office located in Latvia and enterprise income tax shall be imposed thereon at the rate of 15 per cent.

(4) In respect of non-residents, the object on which tax shall be imposed is income obtained in Latvia from economic activity or related activity. Tax shall be deducted from payments as are paid by residents and permanent representative offices to non-residents if personal income tax has not been deducted from such payments. Enterprise income tax shall be deducted from the following:

1) dividends – 10 per cent of the dividend amount, except for dividends which are paid out to the company referred to in Section 1, Paragraph nineteen of this Law – resident of another Member State of the European Union or of a European Economic Area state. The holder of the securities account who performs settlements with a non-resident has a duty to withhold the tax from the paid out public stock company dividends of the non-resident – holder of stocks or intermediary – and to pay it into the State budget;

1^1) income, which is acquired from participation in a partnership – 15 per cent of the taxable income;

1^2) in conformity with the share of the agricultural services co-operative society, which conform with the criteria specified in the regulatory enactments regarding receipt of support for rural development, surplus allocated to a member of an agricultural services co-operative society and the distributed profit to a member of an apartment owner's co-operative society, motor vehicle garage owner's co-operative society, boat garage owner's co-operative society or horticultural co-operative society – 15 per cent of such payments;

2) remuneration for management and consultancy services – 10 per cent of the remuneration amount;

3) interest payments: if the payer and recipient thereof are affiliated undertakings or persons – 10 per cent of such payments; but regarding interest payments that are paid by commercial banks registered in the Republic of Latvia to undertakings or persons affiliated with them – 5 per cent of such payments, except for the referred to interest payments which a capital company which is a resident of the Republic of Latvia (hereinafter – Latvian resident) pays out to a company associated with a Member State of the European Union or the permanent representative thereof, which is located in another Member State of the European Union;

4) payments for intellectual property, except for payments for intellectual property, which the Latvian company pays out to a company associated with a Member State of the European Union or the permanent representative thereof, which is located in another Member State of the European Union:

a) payments regarding copyright (including neighbouring rights) or the right to exercise copyright (including neighbouring rights) to literary or artistic works, including films and sound recordings – 15 per cent of such payments, and

b) payments regarding other types of intellectual property – 5 per cent of such payments;

5) remuneration for the use of property located in Latvia – 5 per cent of the remuneration amount;

6) [23 November 2000]; and

7) remuneration from the alienation of immovable property in Latvia – 2 per cent of the remuneration amount.

(4^1) [17 May 2007]

(4^2) The exemption specified in Paragraph four, Clause 1 of this Section shall be applied also if the dividends are paid out to the permanent representative offices of the company referred to in Paragraph four, Clause 1 of this Section, which is located in another Member State of the European Union or state of the European Economic Area if the payments received by the permanent representative offices in the relevant Member State of the European Union are subject to imposition of one of the taxes referred to in Annex 2 of this Law or identical taxes, or similar taxes according to substance, which may be imposed replacing the taxes referred to in Annex 2 of this Law, or in the relevant state of the European Economic Area is subject to the imposition of a tax similar in substance to the enterprise income tax of the Republic of Latvia. The exemptions referred to in Paragraph four, Clause 1 of this Section shall be applicable also if the dividends are paid out to the company – resident of other Member States of the European Union or resident of states of the European Economic Area – permanent representation office in the Republic of Latvia.

(4^3) If the interest payment is performed or payment for intellectual property is paid out the permanent representative offices of company associated with a Member State of the European Union, which is located in another Member State of the European Union, the exemption specified in Paragraph four, Clauses 3 and 4 of this Section shall be applied if the interest or payment received for intellectual property in the Member State of the European Union in which the permanent representative offices is located is subject to imposition of one of the taxes referred to in Annex 2 of this Law or identical taxes, or similar taxes according to substance, which may be imposed replacing the taxes referred to in Annex 2 of this Law.

(4^4) If the interest payment or payment for intellectual property is performed by a non-resident permanent representative offices, the exemption specified in Paragraph four, Clauses 3 and 4 of this Section shall be applied only if both the company the permanent representative offices of which performs the payment and the company which receives it (or the company whose permanent

representative offices in another Member State of the European Union receives it), are companies associated with a Member State of the European Union within the meaning of Section 1, Paragraph 19^1 of this law.

(4^5) Within the meaning of Paragraph four, Clause 7 of this Section, remuneration from the alienation of immovable property in Latvia includes also revenue from the alienation of capital shares, stocks or other types of participation in a commercial company established in Latvia or abroad or another person if in the taxation period in which the alienation occurs, or in the previous taxation period more than 50 per cent of the value of the assets of such person directly or indirectly (through participation in one or more other persons established in Latvia or abroad) forms or has formed an immovable property in Latvia. The proportion of immovable property in the value of a person's assets shall be determined on the basis of the data of the person's balance sheet as at the beginning of the relevant taxation period. If the proportion of immovable property in the value of assets in the previous taxation period has changed because alienation of immovable property has occurred, the result of which has been taken into consideration in the persons taxable income, then only the immovable property proportion in the value of assets in the balance sheet in the taxation period in which the alienation of the immovable property occurs shall be taken into account. This Paragraph shall not be applied to revenue from the alienation of European Union or European Economic Area publicly circulated securities.

(4^6) Paragraph four, Clause 4, Sub-clause "b" and Clause 5 of this Section shall not be applied to payments for the lease of aircraft used in international air traffic.

(5) [23 November 2000]

(6) Within the meaning of this Section, management and consultancy services are the aggregate activities carried out by a non-resident directly or through retained personnel in order to ensure the management of a domestic undertaking (resident) or of a permanent representative office of another non-resident or to provide necessary consultations to the domestic undertaking (resident) or the permanent representative office.

(7) A taxation period is an accounting year of a taxpayer in accordance with the Law On Accounting, the Annual Accounts Law, the Credit Institution Law or the Law On Insurance Companies and their Supervision if this law does not provide for another length of the taxation period.

(8) Irrespective of any provisions of this Law, enterprise income tax shall be deducted at the rate of 15 per cent from all payments paid by residents of Latvia or by permanent representative offices of non-residents to legal, natural or other persons as are located, have been set up or established in low-tax and tax-free countries or territories referred to in Cabinet regulations, including payments made to representatives of such persons or into bank accounts of third parties and payments made by way of mutual accounting entries, except the following payments made to persons as are located, have been set up or established in low-tax or tax-free countries or territories:

1) dividends paid by residents of Latvia;

2) interest from credit institutions registered in the Republic of Latvia on deposits and balances of current accounts, if such interest is paid according to the general rate determined by the credit institution for deposits and balances of current accounts; and

3) payments regarding supply of goods, if such goods are goods of origin of the relevant low-tax or tax-free country or territory.

(9) The State Revenue Service may allow tax not to be deducted from the payments tax is to be deducted from in accordance with Paragraph eight of this Section, if the payer thereof on a well-founded basis establishes that the payments referred to are not being made with intent to decrease the taxable income of such payer and to not pay or to decrease taxes payable in Latvia. The State

Revenue Service shall cancel a permit that has been granted if in the process of administering taxes, it has obtained well-founded information that attests to concealment of the true circumstances of the transaction. In the case of cancelling of a permit, the norms of Paragraph eight of this Section shall be applied to the payer, and the amount of tax to which the cancelled permit relates, shall be deemed to be a late tax payment.

(10) The provisions of Paragraph four of this Section are applicable to the payments referred to in Paragraph eight of this Section from which tax is not to be deducted, at the place of payment, pursuant to the rate of 15 per cent, and to the payments from which, in accordance with the provisions of Paragraph nine of this Section, tax may be allowed not to be deducted.

(11) The exemption from withholding of tax specified in Paragraph four, Clause 1 of this Section shall be applicable if a statement issued by the tax administration of the country of residence of the company – recipient of dividends – is at the disposal of the payer of dividends acknowledging that the company conforms with the requirements of Section 1, Paragraph nineteen, Clause 2 or Clause 3 of this Law. The referred to statement for the application of the exemption from withholding of tax shall be valid for five years from the date of issue thereof if, during the taxation period for which the exemption from withholding of tax is applied, the company conforms with the requirements of Section 1, Paragraph nineteen, Clause 2 or Clause 3 of this Law.

(12) The requirements for withholding of tax from the interest payment or payment for intellectual property referred to in Paragraph four, Clauses 3 and 4 of this Section shall be applied if a statement issued by the tax administration of the country of residence of the recipient of remuneration is at the disposal of the payer of remuneration acknowledging that the recipient conforms with the requirements of Section 1, Paragraph 19.[1] of this Law. The referred to statement for withholding of taxes in accordance with the conditions of Paragraph four, Clauses 3 and 4 of this Section shall be valid for five years from the date of receipt thereof if, during the taxation period for which the conditions referred to in Paragraph four, Clauses 3 and 4 of this Section are applied, the recipient of income conforms with the requirements of Section 1, Paragraph 19.[1] of this Law.

[29 February 1996; 5 June 1996; 13 March 1997; 10 September 1998; 25 November 1999; 30 March 2000; 23 November 2000; 22 November 2001; 19 June 2003; 20 December 2004; 20 October 2005; 19 December 2006; 17 May 2007; 14 November 2008; 12 June 2009; 9 August 2010]

Chapter II

Determining Taxable Income

Section 4. Taxable Income of a Resident and of a Permanent Representative Office

(1) Taxable income of taxpayers (hereinafter also – payers) – residents and permanent representative offices – is the amount of profit or loss, prior to the assessment of enterprise income tax, as set out in the profit or loss account of annual accounts of payers, drawn up in accordance with Sections 11 and 12 of the Annual Accounts Law or with the Credit Institutions Law or the Savings and Loan Society Law or the Law On Insurance Companies and their Supervision or Investment Management Company Law, or Financial Instrument Market Law which is increased or decreased accordingly by such amount of expenses or part of expenses as are not directly related to economic activity of the payer and by that amount of losses as have been caused by the maintenance of social infrastructure facilities belonging to or for the use of the payer. Coefficient 1.5 shall be applied for the increase of taxable income to the amount of expenses or part of expenses that are not directly related to economic activity of the payer and to the amount of losses that have

been caused by the maintenance of social infrastructure facilities belonging to or for the use of the payer. Coefficient 1.5 shall not be applied to the amounts of donations, which have been donated to the institutions referred to in Section 20.[1] of this Law and for which the donor applies the enterprise income tax rebate specified in Section 20.[1] of this Law. Taxable income shall be adjusted (amended) in accordance with this Law.

(1[1]) Other taxpayers to which the Annual Accounts Law, or the Credit Institution Law, or the Law On Insurance Companies and their Supervision, or Investment Management Company Law, or Financial Instrument Market Law are not applicable, which obtain income from economic activity and to which Section 2, Paragraphs two, three and four of this Law do not apply, taxable income is the difference between income from economic activity and expenses relating to the obtaining of the income referred to and which is adjusted in accordance with this Law.

(2) Taxable income of a permanent representative office shall be determined and payment of tax shall be effected in accordance with the procedures prescribed by the Cabinet.

(3) A reference to an increase or a decrease in the profit of a taxpayer shall henceforth be understood also as a reference to a decrease or an increase in the relevant loss.

(4) Adjustment of taxable income, by increasing or decreasing it pursuant to the procedures prescribed in Section 6, may only be carried out if, when profit or loss of the payer is determined, the amounts referred to in Paragraph one of this Section have been taken into account.

(5) Individual undertakings (including farms or fishing holdings) – enterprise income taxpayers – shall submit annual accounts in conformity with the Annual Accounts Law.

(6) [23 November 2000]

(7) [23 November 2000]

(8) In determining the taxable income of payers in accordance with this Law, any income irrespective of the form in which it was acquired (in monetary or in other property, or in the form of services) shall be taken into account.

(9) The norms of this Section shall not be applicable to a limited liability company, an individual undertaking, as well as a farm or fish holding, which has been registered as the micro-enterprise tax payer.

[10 September 1998; 25 November 1999; 23 November 2000; 22 November 2001; 20 October 2005; 19 December 2006; 1 December 2009; 9 August 2010]

Section 5. Expenses not Directly Related to Economic Activity

(1) There shall be included in expenses that are not directly related to economic activity, all expenses incurred by an inland undertaking and a permanent representation for relaxation, pleasure trips and recreational events for owners or employees, and travel not associated with economic activity of owners or employees with the motor vehicles of the taxpayer, and benefits, gifts, credits and loans turned into gifts, as well as other disbursements in cash or other form (in kind) to owners or employees that are not set out as remuneration for work performed or that are not related to the economic activity of the inland undertaking and permanent representation.

(2) The amount of costs relating to the development of social infrastructure facilities belonging to a payer shall not be deducted from taxable income.

(3) Social infrastructure facilities belonging to or for the use of a payer are, within the meaning of this Law, housing and municipal utility facilities, educational, cultural, sports, public catering and medical care institutions, the services of which are provided and rent is determined by prices which

are lower than market prices, or free of charge, if they are not directly related to the economic activity of a payer.

(4) Included in expenses that are not related to economic activity shall be donations or gifts to other persons, amounts of guarantees, which a taxpayer as a guarantor is required to pay in accordance with an agreement of guarantee, deductions from profit, from turnover or other base quantity carried out by the taxpayer on his or her own initiative, by order of the owner thereof or in accordance with laws, and such expenses as are economically not related to economic activity of the taxpayer.

(5) Expenses that are not directly related to economic activity shall not include expenses for the transportation of an employee from the place of residence to work and from work to the place of residence if, due to the specific nature of work, it is not possible for the employee to get to work or to get to the place of residence after work with public transport.

[10 September 1998; 23 November 2000; 20 October 2005; 19 December 2006; 14 November 2008]

Section 6. Adjustment of Taxable Income

(1) Taxable income of a taxpayer shall be increased by:

1) the amount of the depreciated fixed assets and the value of the written off intangible investments set out in the annual accounts of the undertaking and shall be reduced by the amount of the depreciated fixed assets and the value of the written off investments in intangible assets calculated in accordance with the requirements of Section 13 of this Law, except the cases referred to in Clause 10 of this Section;

2) amounts applied to fines, contractual penalties and monetary penalties, as well as the amount of late charges and other penal sanctions assessed in accordance with the Law On Taxes and Fees and specific tax legislation;

3) the unrepaid amounts of shortage or misappropriation in capital companies in the share capital of which the share of State or local governments exceeds 50 per cent, as well as in institutions financed from the budget;

4) the payments provided for in Section 3, Paragraph four, Clauses 2-6 and Section 3, Paragraph eight of this Law, if the taxpayer has not deducted tax in the specified amount from such, as well as regarding payments performed for non-residents, which are made utilising electronic accounting systems and from which in accordance with Section 3, Paragraphs eight and nine of this Law the enterprise income tax must be deducted if at the moment of payment it cannot be deducted;

5) 60 per cent of the amount used for representation expenses. Within the meaning of this Section, representation expenses are expenses of a taxpayer for developing and maintaining its prestige at a level acceptable to society. They include expenses for holding public conferences, receptions and meals, and expenses for producing representational items for the taxpayer;

6) the amount by which during the taxation period, as compared to the previous taxation period, the reserve (except the reserve created in accordance with Section 7 of this Law) for debts of debtors created and shown in the accounting of a payer has been increased and by the amounts of unrecoverable (bad, without any hope to recover such) debts of debtors that have been directly included in losses (costs);

7) the losses in a taxation period from sale of securities (except for losses from the sale of European Union or European Economic Area public circulation securities, as well as losses to which the conditions of Section 14, Paragraph 8^1 of this Law are applied);

8) the expenditures which are related to the acquisition in the taxation period of European

Union or European Economic Area public circulation securities;

9) the expenditures, which have occurred to the tonnage tax payer in the acquisition of income from the utilisation of ships in international carriage and activities associated with this;

10) the amount of the depreciation of fixed assets and value of written-off intangible investments referred to in the annual accounts of the undertaking if these fixed assets and intangible investments were utilised for the acquisition of income from the utilisation of ships in international carriage and activities associated with this;

11) interest payments in accordance with Section 6.[4] of this Law;

12) payments made by the employer for the benefit of employees into private pension funds in conformity with licensed pension plans and paid in amounts of insurance premiums for employee life insurance (with savings funds) in accordance with Section 8, Paragraph five of the Law On Personal Income Tax if on the last day of the taxpayer's taxation period there is a tax debt;

13) the expenditures, which are associated with the operation and maintenance of representation passenger cars;

14) lease or hire-purchase payments, which are associated with the lease of representation passenger cars;

15) interest payments, which are associated with the acquisition or lease of representation passenger cars; and

16) [24 September 2009].

(2) The provision referred to in Paragraph one, Clause 5 of this Section shall also apply to State and local government capital companies and institutions financed from the budget unless greater restrictions are prescribed in Cabinet regulations or decisions of local government city councils (district or parish councils).

(3) When determining taxable income, profits of a taxpayer may not be reduced by the amounts of expenses related to developing long-term investments (except interest payments of such long-term loans that are not included in the long-term investment costs) and of loans to be repaid, by the amount of funds provided for creation of reserves (except in the cases referred to in Sections 7, 8 and 8.[1] of this Law), by the amount of one's (one's capital company or co-operative society) dividends, by the amount of enterprise income tax (or its corresponding tax) paid in foreign states, as well as regarding the illegal acquisition or use of natural resources.

(4) In determining taxable income, the profit of a taxpayer shall be decreased:

1) by the amounts of immovable property tax (land tax and property tax), lottery and gambling taxes and fees, and States fees for the organisation of goods or services lotteries;

2) by the amounts paid in the form of subsidies as State aid to agriculture or European Union aid to agriculture and rural development;

3) by the amount of debts of debtors lost during the taxation period determined in accordance with Section 9 of this Law by which during the taxation period, as compared to the previous taxation period, the reserve (except the reserve created in accordance with Section 7 of this Law) for debts of debtors created and shown in the accounting of the payer has been decreased, except the amounts of decrease resulting from a write-off of bad debts from special reserves provided for debts of debtors;

4) by the income from the difference between the acquisition value of privatisation certificates invested in the privatisation of State and local government property or a part thereof and the selling price determined for the property referred to or a part thereof, which has been privatised for certificates, if the relevant difference in the values is shown as income in the financial accounting of

the payer;

5) if a State or local government capital company is privatised, by the income from the negative goodwill of the capital company (difference between the purchasing price of the capital company and the value of the assets of such capital company) that may not be extinguished by reducing the accounting value of the assets acquired;

6) by the amount by which, as compared to the previous taxation period, provisions and reserves established during the taxation period have been decreased, if the amounts of setting up (increasing) such provision and reserves during the pre-taxation periods have been included in taxable income in accordance with Paragraph three of this Section or if the reserves have been made in accordance with Section 8.[1] of this Law;

6[1]) regarding the recovery of bad debts or embezzled amounts, which are directly included in losses and regarding which in previous taxation periods the taxable income of the taxpayer has been increased;

7) by the amount of reduction in late charges (which are related to principal debts of taxes), which have been created by reducing or cancelling the late charges in accordance with the Law On Taxes and Fees;

8) by the residual value in the financial accounting of a taxpayer, of computing devices and related equipment, including printing devices, transferred to educational institutions gratis, as of the time of their exclusion;

9) by income from the sale of European Union or European Economic Area public circulation securities;

10) by tonnage tax payer income from the utilisation of ships in international carriage and activities associated with this;

11) by expenditures for the production of the mandatory copy, which in accordance with the Mandatory Copy Law is supplied to the National Library of Latvia; and

12) by expenditures carried out during the taxation period in order to ensure a specialised new work place for an employee with limitation of physical and mental capabilities (with disability group), if the new work place is kept for at least two years for the employee with limitation of physical and mental capabilities.

(5) When determining taxable income, results of the reassessment of balance sheet and off-balance sheet asset items shall not be taken into account, except for reassessment of assets relating to changes in foreign exchange rates.

(5[1]) [20 October 2005]

(5[2]) [20 October 2005]

(5[3]) In determining taxable income, the results of the revaluation (also in the case when changes of true value are recognised in the calculation of profit or loss) of such assets as are investment properties, organic assets and long-term invests held for sale shall not be taken into account and are valued at the true value thereof. In the taxation period in the referred to assets are alienated, the taxpayer's taxable income for the alienation of the referred to assets shall be determined as the difference between the income from alienation and the initial accounting value.

(5[4]) In determining taxable income, losses, which are associated with the alienation of representation passenger cars shall not be taken into account if for such cars, which are qualified as fixed assets, for the purposes of calculating tax depreciation has not been calculated.

(6) In determining taxable income, the profit of a taxpayer may be reduced by payments of insurance premiums in accordance with the Law On Insurance Contracts, which are made to

insurance companies registered in Latvia and which are established in accordance with the Law On Insurance Companies and their Supervision, or other insurance companies of Member States of the European Union, which are established in accordance with the relevant Member State of the European Union regulatory enactments, and by the payments made to private pension funds on behalf of one's employees in accordance with the Law On Private Pension Funds, or private pension funds of an analogous nature in other Member States of the European Union. These conditions also apply to payments of insurance premiums made to the insurance companies of other states (which are not Member States of the European Union) for such insurance services as are not ensured by the insurance companies registered in Latvia or insurance companies registered in another Member State of the European Union.

(7) [22 November 2001]

(8) [19 June 2003]

(9) [19 June 2003]

(10) [19 June 2003]

(11) Taxable income of a particular taxpayer, to which, in accordance with the provisions of Section 14.[1] of this Law, the losses of another taxpayer have been transferred, shall be increased by each compensation amount paid by the particular taxpayer as reimbursement for the transferred losses, to the extent such compensation has been deducted in assessing the taxable income of such taxpayer.

(12) The taxable income of a particular taxpayer, from which in accordance with the provisions of Section 14.[1] of this Law losses have been transferred to another taxpayer, shall be decreased by each compensation amount received by the particular taxpayer as reimbursement for the transferred losses, to the extent such compensation has been included in the income of such taxpayer.

(13) [25 November 1999]

(14) In determining the taxable income of a European commercial company or a European co-operative society (in a taxation period in which it has performed transfer of legal address from the Republic of Latvia), stocks and reserves shall not be taken into account, which were formed up to the transfer of the legal address from the Republic of Latvia if they have been transferred to the permanent representation in the Republic of Latvia of the relevant European commercial company or European co-operative society, which has been established by it in performing the transfer of legal address from the Republic of Latvia. However, the provisions of this Paragraph shall not be applied to stocks and reserves, which up to the transfer of the legal address have been formed in relation to the referred to company's permanent representations outside of the Republic of Latvia.

(15) In the taxation period when the transfer of legal address from the Republic of Latvia is performed, in determining the taxable income for the permanent representation (which has been established in performing the transfer of legal address from the Republic of Latvia), stocks and reserves shall not be taken into account, which were formed up to the transfer of the legal address from the Republic of Latvia by the relevant European commercial company or European co-operative society in the Republic of Latvia (except for stocks and reserves, which have been formed in relation to the referred to company's permanent representations outside of the Republic of Latvia), if they have been transferred to the permanent representation in the Republic of Latvia of the relevant European commercial company or European co-operative society. If the amounts for the formation of the taken over stocks and reserves referred to in this Paragraph in the reorganised European commercial company or European co-operative society in the Republic of Latvia in the pre-taxation periods have been included with the taxable income in accordance with Paragraph three of this Section, the permanent representation for the written-off amount of stock may reduce its taxable income.

(16) In determining taxable income a taxpayer whose commercial activity is the provision of passenger car leasing services and for whom the revenue from such commercial activities forms not

less than 90 per cent of turnover, in relation to the objects of the lease, those fixed assets, which in the taxation year are leased, Paragraph one, Clauses 13 and 14 and Paragraph 5^4 of this Section and Section 13, Paragraph one, Clauses 8^1 and 8^2 shall not be applied. Revenue from the provision of passenger car leasing services within the meaning of this Section shall be understood as the amount of revenue, which is formed of revenue from the provision of passenger car leasing services; revenue, which is acquired from the provision of additional services thereof, which are directly associated with the lease of passenger cars, as well as revenue from the alienation of passenger cars as objects of the lease.

(17) When determining taxable income, the taxpayer shall reduce the profit for the multiplication of the annual weighted interest rate of the credit granted in lats to domestic non-financial enterprises and undistributed profit of pre-taxation periods. The undistributed profit of pre-taxation periods specified in this Paragraph shall be calculated by summing up the undistributed profit of taxation periods starting after 31 December 2008. The annual weighted interest rate of the credit granted in lats to domestic non-financial enterprises, which has been calculated by using statistical indicators of monetary financial institutions, shall be published by the Bank of Latvia on its Internet home page within one month after the end of taxation period.

(18) A taxpayer, which employs an employee serving in the National Guard, may reduce the taxable income of the taxation period for the part of the amount of work remuneration of the employee, which is calculated for the relevant employee for substituting a national guard engaged in the fulfilment of the tasks of the National Guard service or training and which, during this period, does not exceed the remuneration specified in the employment contract of the national guard substituted according to the period of substitution. The taxable income may be reduced according to the provisions of this Paragraph, if the employee serving in the National Guard has been in employment legal relationship with the taxpayer for more than three months (prior to the date of commencement of fulfilling the duties of the service of the National Guard or training).

[29 February 1996; 5 June 1996; 13 March 1997; 13 November 1997; 10 September 1998; 4 February 1999; 25 November 1999; 30 March 2000; 23 November 2000; 22 November 2001; 19 June 2003; 20 December 2004; 20 October 2005; 19 December 2006; 17 May 2007; 1 November 2007; 14 November 2008; 12 June 2009; 16 June 2009; 24 September 2009; 1 December 2009; 9 August 2010]

Section $6.^1$ Income upon which Tonnage Tax is Imposed

(1) Income upon which tonnage tax is imposed shall be calculated by summing the calculated income upon which tonnage tax is imposed for each ship that is utilised for international carriage and activities associated with this.

(2) Income upon which tonnage tax is imposed for each ship which is utilised for international carriage and activities associated with this shall be calculated in lats by multiplying the net tonnage of the ship (tonnage which is expressed in tonnage units) with an income co-efficient (each individual tonnage share multiplied by the income co-efficient specified for the relevant share, and the acquired results added and the sum multiplied by the number of days within the taxation period in which the referred to ship was in operation).

(3) The income co-efficient (expressed in lats per tonnage unit) shall be applied in the following amounts:

1) 0.0022 – tonnage from 100 to 1000 tonnage units;

2) 0.0019 – tonnage from 1001 to 10 000 tonnage units for tonnage that exceeds 1000 tonnage units;

3) 0.0016 – tonnage from 10 001 to 25 000 tonnage units for tonnage that exceeds 10 000 tonnage units; and

4) 0.0007 – tonnage over 25 000 for tonnage that exceeds 25 000 tonnage units.

[22 November 2001]

Section 6.[2] Special Provisions for Taxpayers Involved in a Reorganisation

(1) Taking into account the provisions of Paragraphs three and four of this Section, the specification of taxable income shall not take into account the results of the overvaluing of assets and liabilities items transferred to transferring, merging or dividing companies in relation to the transfer, merger or division of the type or types of economic activity.

(2) Taking into account the provisions of Paragraphs three and four of this Section, in calculating the depreciation of fixed assets in accordance with Section 13 of this Law, the results of the overvaluing of fixed assets shall not be taken into account (expect the exception cases referred to in Section 13, Paragraph three of this Law) in relation the residual value of fixed assets, which the acquiring company has received in relation to the transfer, merger or division of the type of economic activity.

(3) The provisions of Paragraphs one and two of this Section shall be applied:

1) in Latvia or another Member State of the European Union in the transfer of existing type or types of economic activities if both the transferring, merging or dividing company and the acquiring company is a Latvian resident;

2) in Latvia in the transfer of existing type or types of economic activities if the transferring, merging or dividing company is a resident of a Member State of the European Union and the acquiring company is a Latvian resident and if the assets and liabilities after the transfer thereof are not applicable to the permanent representative offices of the acquiring company outside of Latvia; and

3) if the acquiring company is a resident of a Member State of the European Union and the transferring, merging or dividing company is a resident of Latvia or of a Member State of the European Union and if the asset and liability obligations after the transfer thereof are applicable to the permanent representative offices of the acquiring company in Latvia.

(4) The provisions of Paragraphs one and two of this Section shall not be applied if the stocks of the acquiring company which have been received by the transferring, merging or dividing company are not located in their ownership at least three years after the transfer thereof, if only the transferring, merging or dividing company justifiably does not prove that the alienation of such stock has not been performed for the purpose of reducing its taxable income and not to pay the taxes payable in Latvia or to reduce the amount thereof.

[19 June 2003; 20 October 2005]

Section 6.[3] Special Provisions for Shareholders of a Company Involved in a Reorganisation

(1) Taking into account the provisions of Paragraph three of this Section, the results of the overvaluing of the transferred stock associated with the exchange, merger or division of stock in relation to the acquired company shall not be taken into account. If the shareholder receives recognised cash compensation, the results of the overvaluing of the transferred stock shall be applied to the cash compensation and included in the taxable income of the shareholder.

(2) Stock received as a result of exchange shall be valued by the shareholder on the basis of its acquisition value, which this stock had at the moment of the exchange of stock in accordance with final financial report and the value thereof, shall be increased by the amount of the recognised cash compensation.

(3) The provisions of Paragraphs one and two of this Section shall be applied to shareholders of the acquiring company if they conform to one of the following conditions:

1) they are Latvian residents; or

2) they are not Latvian residents, but their permanent representative offices in Latvia is the holder of both the transferred stock and the stock received as a result of exchange.

[19 June 2003; 20 October 2005]

Section 6.[4] Correction of Taxable Income for Interest Payments

(1) Taxable income shall be increased by interest payments (also in discount form), which exceed the amount of interest payments, which are calculated by applying the previous month's short-term credit rate in credit institutions specified by the Central Statistics Bureau for the taxation period and multiplied 1.2 times. The amount of interest included in the expenditures for economic activities may not exceed the actual calculated amount of interest payments.

(2) Taxable income shall be increased by interest payments in proportion to the degree to which the average amount of debt obligations in the taxation period (in respect of which the interest payments are calculated) exceeds the amount, which is equal to four times the amount of own capital reflected in the taxpayer's annual accounts, which is reduced by the conversion of long-term deposits into reserves and other reserves, which have not been created as a result of the division of profits.

(3) If the taxable income is increased at the same time by interest payments in conformity with Paragraphs one and two of this Section, it shall be increased by the largest of the taxable income amounts, which are specified in accordance with Paragraph one or two of this Section.

(4) Paragraphs one and two of this Section shall not be applied to credit institutions and insurance companies.

(4[1]) Paragraphs one and two of this Section shall not be applied to interest payments for loans, which have been received from a credit institution which is a resident of Latvia or another Member State of the European Union or the state of the European Economic Area, or a resident of such state, with which Latvia has entered into the convention or agreement regarding the avoidance of double taxation and non-payment of taxes, if the relevant convention or agreement has came into force, as well as from the Treasury of the Republic of Latvia, the Nordic Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Council of Europe Development Bank and from the World Bank group.

(4[2]) Paragraph two of this Section shall not be applied for interest payments for loans, which have been received from such financial institution, which complies with the criteria referred to in this Paragraph of Section:

1) it is a resident of Latvia or another Member State of the European Union or the state of the European Economic Area or a resident of such state, with which Latvia has entered into the convention or agreement regarding the avoidance of double taxation and non-payment of taxes, if the relevant convention or agreement has came into force; or

2) it provides crediting services or financial leasing services and the supervision thereof is performed by the supervisory authority of credit institutions or finance of the relevant state.

(5) The correction of taxable income specified in this Section regarding the payment of interest shall be applied to all types of interest payments for debt obligations, as well as any other payments, which on the basis of the economic essence of the transaction is an interest payment irrespective of the legal form of the transaction. The correction of taxable income specified in this Section regarding the payment of interest shall not be applied to publicly-traded debts securities of Latvia and other Member States of the European Unions or the states of the European Economic Area.

[19 June 2004; 20 December 2004; 20 October 2005; 19 December 2006; 15 October 2009]

Section 6.[5] Special Provisions for the Specification of the Value of Representation Passenger Cars

(1) For the specification of the status of representation passenger car, the value of the passenger car shall be considered to be the larger of such values without value added tax: acquisition value of the car or the accounting value in accounts during the whole of the utilization period of the car.

(2) In the case of the specification of the status of representation passenger car, where the passenger car is leased with the right of purchase, the value of the passenger car is the value of the car indicated in the hire-purchase contract.

(3) In the case of the specification of the status of representation passenger car, where the passenger car is leased without the right of purchase, the value of the passenger car if it is not indicated in the leasing contract is the value of the car indicated in the insurance contract of the car.

(4) If the value of the car indicated in the leasing contract has been reduced by more than 10 per cent of the market price or the value thereof in the leasing contract is not indicated for the purpose of reducing the taxable income of the taxpayer, the car irrespective of the other provisions referred to in this Section shall be qualified as a representation passenger car.

[1 November 2007]

Section 7. Inclusion in Taxable Income of Reserves Created by Banks and Savings and Loans Societies and Provided for Debts of Debtors

[12 June 2009]

Taxable income shall not be increased for banks and savings and loans societies by such amount of deductions, by which the expenditures for reserves provided for debts of debtors are recognised in the taxation period, and shall not be reduced by the amount, by which the reserves (reversed expenditures recognised in the previous taxation periods) created for debts of debtors in accordance with the procedures for creation of reserves provided for in regulatory enactments of the Finance and Capital Market Commission are reduced in the taxation period.

[12 October 1995; 20 October 2005; 12 June 2009]

Section 7.[1] Capitalisation of Bank Loans

(1) A tax payer – lender of funds – shall reduce the taxable income by the income from alienation of bank stock or shall increase it by the loss from alienation of the stock, if the stock has been obtained or alienated, taking into account the conditions referred to in Paragraph four of this Section.

(2) A tax payer – lender of funds – shall not increase the taxable income by the amount of the reduction of the value of loan to be capitalised, which is included in expenditures, if the loan (except deposit) is invested in the equity capital of the bank.

(3) A bank – borrower – shall not reduce the taxable income by the amount of the reduction of the value of loan, which is included in income, if the loan invested in the equity capital has been assessed for a lower value.

(4) Paragraphs one and two of this Section may be applied, if the conditions referred to in Paragraph one of this Section are observed:

1) a bank – borrower – has an action plan for ensuring of stability of the financial position of the bank, which has been submitted to the Finance and Capital Market Commission on the basis of a decision taken by the Finance and Capital Market Commission and the request;

2) the stock has been acquired by investing the loan in the equity capital of the bank as a property contribution; or

3) the stock has been alienated within 36 months from the day of acquiring thereof.

(5) The provisions of this Section shall not apply to loans, which are to be considered as guaranteed deposits in accordance with the Deposit Guarantee Law.

[12 June 2009]

Section 8. Funds Provided for Technical Reserves of Insurance and Reinsurance Companies

[12 June 2009]

Taxable income of insurance and reinsurance companies shall not be increased by such amount of deductions, which has been included in technical reserves, and shall not be reduced by the amount withdrawn from such reserves and included in the income in accordance with the Law On Insurance Companies and their Supervision or the Law on Reinsurance.

[10 September 1998; 12 June 2009]

Section 8.[1] Tax Relief on Acquisition of Buses used for Passenger Traffic

(1) Taxpayers, who during a taxation period have received subsidies to cover costs of passenger transport on domestic regular bus service routes may, in distributing profits of the taxation period, establish special reserves.

(2) The total amount of reserves established in a taxation period may not exceed the amount calculated by multiplying five thousand lats by the number of buses included in the balance sheet of the passenger vehicle transport capital company at the beginning of the taxation period in which the capital company uses tax relief for the first time.

(3) The reserve referred to in Paragraph one of this Section may be built up over the time of three taxation periods, including the taxation period during which the relevant reserve has been established. The reserve referred to may not be used for increasing share capital during these three taxation periods.

(4) If within the time of three taxation periods the passenger vehicle transport capital company has not acquired buses usable for passenger transport or the value of such buses as are acquired is less

than the amount of reserves established, taxable income shall be increased by the amount calculated as the difference at the end of the third taxation period between the amount of the reserves established and the actual value of acquired buses usable for passenger transport.

(5) The part of tax as may, in accordance with Paragraph four of this Section, be related to increased taxable income shall be considered a late tax payment in accordance with the Law On Taxes and Fees.

(5^1) The acquiring company to which Section 6.2 of this Law is applied is entitled to utilise the reserve referred to in Paragraph one of this Section, which is related to type or types of economic activity in conformity with all the conditions which would have been applied to a transferring, merging or dividing company if the transfer had not taken place. The acquiring company shall assume the rights and duties of the transferring, merging or dividing company in relation to the tax relief.

(6) Procedures for application of this Section, and procedures for how taxpayers – passenger vehicle transport capital companies – shall provide information to the State Revenue Service concerning use of tax relief, shall be determined by the Cabinet.

[4 February 1999; 19 June 2003; 20 October 2005]

Section 8.[2] Tax Relief for Donors [24 September 2009]

[16 June 2009; 24 September 2009]

Section 9. Bad Debts

(1) In determining taxable income, in accordance with Section 6, Paragraph one, Clause 6 and Paragraph four, Clause 3 of this Law, it may be reduced by the amount of bad debts, if the first three and one of the other conditions referred to in this Paragraph are complied with:

1) the income relating to such debts has previously been included in calculation of taxable income;

2) the amount of such debts has been written off from the amount of special reserves provided for doubtful debts or directly as losses (expenses) in the accounting of the taxpayer during the current taxation period or any previous taxation period;

3) the debtor is a resident of Latvia or another European Union Member State or the state of the European Economic Area, or a resident of a country, with which Latvia has concluded conventions on the prevention of double taxation and tax evasion, if such conventions have come into force;

4) the debtor is a State or local government capital company, which has been liquidated in conformity with the decision of a relevant institution;

5) [20 December 2004];

6) there is a court judgment regarding debt recovery from the debtor and a statement of a bailiff concerning the impossibility of recovery, and the capital company-debtor has been excluded from the Enterprise Register; and

7) there is a court judgment regarding the collection of a debt from the debtor – natural person – and a statement of a bailiff concerning the impossibility of recovery or if the collection of the debt

from the debtor by court proceedings is not possible due reasons of efficiency in relation to the fact that the amount of the debt of the debtor is less than the expenditures for the recovery thereof and if previously there have been performed measures for the recovery of the debt, taking into account the condition that the relevant amount of the debt from the debtor does not exceed 0.2 per cent of the net turnover of the taxpayer in the taxation year.

(1^1) If the conditions specified in Paragraphs one, Clauses 1, 2 and 3 of this Section and all the appropriate debt collection and recovery operations are fulfilled, the taxable income in accordance with Section 6, Paragraph one, Clause 6 and Paragraph four, Clause 3 of this Law may be reduced by one half of the amount of debt losses, when bankruptcy proceeding have commenced for the debtor. The taxable income for the remaining amount of debt losses shall be reduced after the end of the relevant debtor's bankruptcy proceedings.

(2) The taxable income of a taxpayer for a taxation year may be decreased by the amount of money that was in the current account of the taxpayer at the time of bankruptcy of a bank, if the bank referred to has been declared bankrupt by a court adjudication, except with regard to amounts in respect of which the taxpayer has transferred its rights to claim for to other persons, and amounts paid to the undertaking from the investment insurance fund.

(3) The taxable income of a taxpayer for a taxation year shall be increased by the amount of money or the value of property obtained from a debtor or bank in the relevant taxation year as part of the procedure of liquidation of such debtor or bank, if the taxable income of previous taxation periods was decreased by the relevant amount of money in the current account of the taxpayer at the time of bankruptcy of the bank or by the bad debt.

(4) Taxable income may not be decreased by the difference between the lost or without right of subrogation transferred by way of factoring bad debt and the amount of money obtained from transfer of one's rights to claim to other persons, if the taxpayer has transferred its rights to claim in regard to a lost or without right of subrogation transferred by way of factoring bad debt conforming with the conditions set out in this Section, to other persons.

[5 June 1996; 13 March 1997; 23 November 2000; 20 December 2004; 20 October 2005; 19 December 2006]

Section 10. Losses Sustained as a Result of *Force Majeure* and Other Forced Losses

(1) Losses of fixed assets sustained as a result of *force majeure* or other forced losses of fixed assets shall be considered to be the exchange of these fixed assets for the amount of money equivalent to compensation for the relevant fixed assets unless otherwise provided for by this Section.

(2) [5 June 1996]

(3) In determining taxable income, income from compensation for land, buildings, parts thereof and structures lost as a result of force majeure or other forced loss shall not be taken into account if, within a 12-month period from the date of receipt of the compensation, the amount of the compensation received has been reinvested in the same or similar fixed assets. Similarly, income from each part of the compensation reinvested in the same or similar fixed assets within the 12-month period shall not be taken into account, if the compensation referred to is paid in parts.

(4) If the condition set out in Paragraph three of this Section is fulfilled, the accounting value of a fixed asset shall be equivalent to the accounting value of the fixed asset lost to which the amount, by which the value of the newly acquired fixed asset exceeds compensation for the lost fixed asset, is added.

[5 June 1996; 25 November 1999]

Section 10.[1] Income Obtained in Case of Replacement of Fixed Assets

(1) The taxable income may be reduced by income from alienation of fixed assets, if a functionally similarly applicable fixed asset is acquired within 12 months prior to or after the date of the alienation.

(2) Within the meaning of this Section functionally similarly applicable fixed assets shall be fixed assets of one category that ensure usefulness of similar type. If usefulness of the acquired fixed asset is of a similar type but it ensures a result of a better quality than the exchanged fixed asset, within the meaning of this Section fixed assets shall be considered as functionally similarly applicable.

(3) If the condition referred to in Paragraph one of this Section is fulfilled, the purchase price of the newly acquired fixed asset for the calculation of tax shall be determined by deducting the income obtained from the alienation of the replaced fixed asset from the purchase price of the newly acquired fixed asset.

(4) Provisions of this Section shall not be applicable to the following:

1) works of art, antique objects, jewellery;

2) investment properties, long-term investments kept for selling; and

3) motor cycles, transport vehicles of sea and river, air transport vehicles and motor vehicles.

[14 November 2008]

Section 11. Taxation of Dividends

(1) The taxable income of a domestic undertaking shall be reduced by the amount of dividend receivable shown in the profit or loss account of the annual accounts of the undertaking.

(2) The taxable income of a domestic undertaking shall be increased by:

1) the amount of dividends received from non-residents, except the dividends referred to in Paragraph three, four and five of this Section;

2) the part of the amount of dividends receivable from capital companies applying enterprise income tax rebates prescribed in other laws of the Republic of Latvia, corresponding to the share of profit on which, when applying the enterprise income tax relief and rebates provided by the laws referred to, the enterprise income tax has not been imposed, as well as from apartment owner's co-operative societies, motor vehicle garage owner's co-operative societies, boat garage owner's co-operative societies and horticultural co-operative societies.

(3) The taxable income of a domestic undertaking shall not be increased by the amount of dividends receivable from non-residents, if the dividends receivable conform at the same time to the following conditions:

1) the dividends are received from such a non-resident as who at the time of the payment of the domestic undertaking dividends owns at least 25 per cent of the capital and voting rights; and

2) the payer of the dividends is a resident of such a state or territory, which, in accordance with Cabinet regulations, has not been recognised as a low-tax or no-tax state, or territory.

(4) The taxable income of a domestic undertaking shall not be increased by the dividend amount,

which is to be received from the company referred to in Section 1, Paragraph nineteen of this Law – resident of another Member State of the European Union or resident of a state of the European Economic Zone.

(5) The taxable income of a non-resident permanent representative offices shall not be increased by the dividend amount, which has been received from non-residents if both the company whose permanent representative offices is in Latvia receives the dividends and the company which pays out such dividends (or company whose permanent representative offices in another Member State of the European Union or state of the European Economic Zone pays out the dividend) are companies within the meaning of Section 1, Paragraph nineteen of this Law.

[10 September 1998; 25 November 1999; 23 November 2000; 20 December 2004; 20 October 2005; 19 December 2006]

Section 12. Special Provisions regarding Affiliated Undertakings

(1) If affiliated undertakings constitute a group of undertakings, the group of undertakings shall submit annual accounts in regard to enterprise tax payments by all the commercial companies included therein, simultaneously with the accounts in regard to tax payments of the parent undertaking.

(2) When determining taxable income, profit shall be increased by amounts formed by:

1) the difference in the value of fixed assets as arises, if the fixed assets are sold for prices, which are lower than market prices to persons affiliated with an undertaking, affiliated foreign undertakings or commercial companies, which are exempt from enterprise income tax or which are utilising enterprise income tax rebates or relief prescribed in other laws of the Republic of Latvia, or associated undertakings, which with the taxpayer form on the group of undertakings referred to in Section 14.[1] of this Law;

1[1]) the difference in the value of fixed assets as arises, if the fixed assets are purchased for prices, which are higher than market prices from persons affiliated with an undertaking, affiliated foreign undertakings or commercial companies, which are exempt from enterprise income tax or which are utilising enterprise income tax rebates or relief prescribed in other laws of the Republic of Latvia, or from associated undertakings, which with the taxpayer form on the group of undertakings referred to in Section 14.[1] of this Law;

2) the difference (part of the difference) in the value of goods (products, services) as arises, if such goods (products, services) are sold at prices that are lower than market prices to affiliated foreign undertakings, associated undertakings, which with the taxpayer form on the group of undertakings referred to in Section 14.[1] of this Law and commercial companies or co-operative societies, which are exempt from enterprise income tax or which are utilising enterprise income tax rebates prescribed in other laws of the Republic of Latvia, or if such goods (products, services) are sold at prices that are lower than market price to persons affiliated with the undertaking;

3) the difference (part of the difference) in the values of goods (products, services) as arises, if such goods (products, services) are purchased at prices that are higher than market prices from affiliated foreign undertakings associated undertakings, which with the taxpayer form on the group of undertakings referred to in Section 14.[1] of this Law and commercial companies or co-operative societies, which are exempt from enterprise income tax or are utilising enterprise income tax rebates prescribed in other laws of the Republic of Latvia, or if such goods (products, services) are purchased at prices that are higher than market prices from persons affiliated with the undertaking; and

4) the difference between the transaction value and market value, if the commercial companies or persons referred to in Paragraphs two and three of this Section carry out other kinds of mutual transactions.

(3) Tax according to the rate of 10 per cent shall be imposed on interest payments for loans from affiliated undertakings, which are exempt from enterprise income tax or which are utilising relief provisions or other enterprise income tax rebates in accordance with other laws of the Republic of Latvia, or from persons affiliated with the undertaking. If payments similar to those referred to in Section 3, Paragraph four, Clauses 2-7, are made to such affiliated undertakings or persons affiliated with the undertaking, tax shall be deducted (if from the referred to payments personal income tax is not deducted) by applying the rates prescribed in the Clauses referred to and in accordance with the provisions of Section 3 and 24.

(4) A transaction of a resident or a permanent representative office with another commercial company or person, if they are located, have been established or founded in low-tax and tax-free countries or territories, shall be considered to be a transaction with an affiliated undertaking or a person affiliated with the undertaking. The list of the referred to countries or territories shall be prescribed by the Cabinet.

[29 February 1996; 10 September 1998; 4 February 1999; 20 October 2005; 19 December 2006]

Section 13. Write-off of Value of Depreciated Fixed Assets and Intangible Investments

(1) When assessing taxable income, depreciation of fixed assets to be used in economic activity shall be determined according to the following procedure:

1) the fixed assets shall be divided into five categories and the rate of depreciation of the taxation period shall be determined as a percentage:

Category	Rate of Depreciation	Type of Fixed Assets
1	5 per cent	Buildings, structures, perennial plants
2	10 per cent	Railway rolling stock and technological equipment, sea and river fleet vessels, fleet and port technological equipment, power equipment
3	35 per cent	Computing devices and related equipment, including printing devices, information systems, software products and data storage equipment, means of communication, copiers and related equipment
4	20 per cent	Other fixed assets, except the fixed assets referred to in the 5th category
5	7.5 per cent	Oil exploration and extraction platforms together

with the equipment necessary for their functioning located on such platforms, oil exploration and extraction ships

2) the accounting of the fixed assets for calculation of depreciation in accordance with this Section shall be conducted:

a) in respect of buildings and parts thereof, constructions, perennial plants, oil exploration and extraction platforms, oil exploration and extraction ships, new – acquired after 31 December 2005 – production technology equipment, passenger cars, motorcycles, sea and river means of transport and air means of transport and in respect of fixed assets that are not used or are only partly used in economic activity – for each fixed asset separately;

b) in respect of the fixed assets referred to in Clause 9 of this Paragraph acquired or set up during a period while the relevant territory has been granted the status of a territory requiring special assistance – separately from the other fixed assets of the relevant category; and

c) in respect of other fixed assets – regarding the entire category in aggregate;

3) the amount of depreciation regarding fixed assets of the taxpayer in the taxation period shall be calculated from the residual value of each category of fixed assets prior to deduction of depreciation in the taxation period, applying double the rate of depreciation prescribed for the relevant category of fixed assets;

3^1) for passenger cars, motorcycles, sea and river means of transport and air means of transport (except operational means of transport or a special passenger car (ambulance, caravan or hearse), or a passenger car, which is specially equipped in order to transport disabled persons in wheelchairs, or a new passenger car, which is utilised as a demonstration car for an authorised car dealer) Clause 3 of this Section shall not be applied, but depreciation for the taxation period shall be calculated from the residual value of each fixed asset prior to deduction of depreciation in the taxation period applying the specified depreciation rate for fixed assets multiplied by a coefficient of 1.5.

4) the residual value of a relevant category of fixed assets, from which the taxation period depreciation is calculated, shall be determined by increasing the residual value of the category of fixed assets of the pre-taxation period by the value of fixed assets acquired or set up during the taxation period and by the capital expenditure on the relevant category of fixed assets, and by reducing it by the residual value, as set out in the financial accounting of the payer at the time of its exclusion, of the fixed assets excluded or lost in the taxation period as a result of *force majeure* or other forced losses;

5) if the calculations referred to in the previous Clause result in a negative balance, the relevant amount shall be added to taxable income of the taxpayer and the balance of the category shall be reduced to zero;

6) if the residual value of fixed assets of the relevant category after deduction of depreciation at the end of the taxation period does not exceed 50 lats or the relevant category does not include any fixed asset, the residual value of the category shall be written off as expenses of economic activity in the taxation year;

7) the total amount of depreciated fixed assets of the taxpayer in the taxation period, including the value referred to in the previous Clause, shall be determined by summing up the depreciation calculated according to categories of fixed assets. If the taxation period of the taxpayer is shorter or longer than 12 months, the total amount of depreciated fixed assets of the taxpayer in the taxation period calculated in accordance with this Section shall be multiplied by a coefficient which, in turn, shall be calculated by dividing the number of months of the taxation period by twelve. In

determining the residual value of the fixed assets for purposes of calculation of tax, the total adjusted amount of depreciation of the taxation period shall be applied;

8) Section 13, Paragraph one of this Law does not apply to land, works of art and antiques, jewellery and other fixed assets that are not subject to physical or economic depreciation, as well as investment properties, organic assets and long-term investments held for sale, which the taxpayer has chosen to value in the true value thereof;

8^1) Section 13, Paragraph one of this Law does not apply to representation passenger cars;

8^2) if the residual value of a passenger car fixed asset as a result of improvement, restoration or reconstruction activities has increased and exceeds 25 424 lats (without value added tax), then the referred to fixed asset in the taxation period in which its accounting value exceeds 25 424 lats (without value added tax), and in future taxation periods Section 13, Paragraph one of this Law shall not be applied, but the norms of this Law regarding representation passenger cars shall be applied; and

9) a taxpayer, which is registered and operating in a territory requiring special assistance specified in accordance with the Regional Development Law, may increase the acquisition value or establishment value of the fixed assets, which were acquired in the time period commencing with such taxation period while the relevant territory had the status of a territory requiring special assistance and which are used in economic activity in such territory, prior to calculation of the total amount of depreciation of the relevant category of fixed assets in the taxation period, by multiplying such by the following coefficients:

a) for the fixed assets of the first category – 1.5,

b) for the fixed assets of the second category, except the rolling stock of railway and vessels of maritime and river fleet – 1.3,

c) for the fixed assets of the third category – 1.8,

d) for the fixed assets of the fourth category, except for automobiles, motorcycles, vessels of maritime and river fleet and aircraft – 2;

10) if the status of a territory requiring special assistance has expired for a territory requiring special assistance specified in accordance with the Regional Development Law, a taxpayer, which has applied the coefficient referred to in Paragraph one, Clause 9 of this Section to the calculation of depreciation of fixed assets, shall continue the calculation of depreciation, without reducing the remaining value of the fixed assets for the amount that has emerged by applying the coefficient increasing the value of fixed assets, if these fixed assets are continued to be used for the provision of economic activity in the relevant territory.

(1^1) New production technology equipment, which the taxpayer has acquired or established in the taxation period, which commences in 2006, and following taxation periods and which are utilised for economic activities, the depreciation in a taxation period shall be calculated taking into account the conditions of Paragraph 12 of this Section.

(1^2) Prior to the calculation of the amount of depreciation in a taxation period, the acquired value or establishment value of each new production technology equipment in such taxation period, which the relevant equipment was acquired or established, shall be multiplied by the following coefficients:

1) fixed assets, which are acquired or established in the taxation period, which commences in 2006 – 1.5;

2) fixed assets, which are acquired or established in the taxation period, which commences in 2007 – 1.4;

3) fixed assets, which are acquired or established in the taxation period, which commences

in 2008 – 1.3;

4) fixed assets, which are acquired or established in the taxation period, which commences in 2009 – 1.5;

5) fixed assets, which are acquired or established in the taxation period, which commences in 2010 – 1.5;

6) fixed assets, which are acquired or established in the taxation period, which commences in 2011 – 1.5;

7) fixed assets, which are acquired or established in the taxation period, which commences in 2012 – 1.5; and

8) fixed assets, which are acquired or established in the taxation period, which commences in 2013 – 1.5.

(1^3) New production technology equipment, within the meaning of this Section, are unused (new) machine tools for the performance of specified sequential technological operations as a whole, the result of which the work item (substance, material, article) characteristics are modified, thus creating an increase in the value of the work item, and the essential accessories and auxiliary devices of the referred to machine tools with which the performance of the machine tool technological operations as a whole are supplemented. Machine tools are installations (mechanisms or the complex thereof) the essential components of which are full drive executing systems and control systems. Trade technology equipment within the meaning of this Law is not production technology equipment.

(1^4) If the fixed asset referred to in Paragraph 1^1 of this Section (for which is performed the writing-off of fixed asset depreciation for tax purposes) is alienated with a period of five taxation periods from the acquisition or establishment of such fixed assets, the taxable income shall be increased by the amount of the fixed asset depreciation value calculated in accordance with the requirements of this Section, regarding which in the previous five taxation periods taxable income was reduced, and reduced by the amount of such fixed asset depreciation value referred to in the annual accounts of the undertaking. This norm shall not be applied if the referred fixed asset is lost as a result of a natural disaster or by other forced execution and is replaced in conformity with that specified in Section 10 of this Law.

(1^5) If the taxpayer in case of the acquisition or establishment of fixed assets may apply both the coefficient increasing the value of fixed assets specified in Paragraph one, Clause 9 of this Section and the coefficient specified in Paragraph $1.^2$ of this Section, then the taxpayer has the right to choose which of the norms to apply. It is prohibited for the taxpayer to apply concurrently to one fixed asset the coefficient increasing the value of fixed assets specified in Paragraph one, Clause 9 of this Section and the coefficient specified in Paragraph $1.^2$ of this Section.

(2) The residual value of fixed assets shall be increased by the costs of the improvement, renewal and reconstruction of fixed assets, which have occurred by the addition or replacement of parts or details and which significantly increase the production potential or extend the time of operation of the fixed assets. The residual value of fixed assets shall be decreased by excluded fixed asset parts or the residual value of details. If the residual value of replaced parts or details has not been calculated separately, the value of fixed assets shall be decreased by the amortised replacement costs.

(3) If a taxpayer carries out revaluation of fixed assets, the results thereof, except the results of revaluation made in connection with privatisation of the taxpayer and in conformity with Cabinet regulations, shall not be taken into account when determining the residual value of fixed assets.

(3^1) A permanent representation, which is established in the Republic of Latvia, in transferring the legal address of a European commercial company or European co-operative society from Latvia, the

initial value of the fixed assets indicated in the balance sheet and utilised in economic activities taken over from the referred to European commercial company or European co-operative society for the specification of the depreciation of such fixed assets for the purpose of calculating tax shall be the residual value of the fixed assets taken over for the purpose of calculating tax.

(4) Intangible investment set up costs regarding concessions, patents, licences and trademarks shall systematically be written off, according to the linear (equable) method. Depreciation of other intangible investments shall not be written off for tax calculation purposes.

(4^1) Prior to the writing-off of the costs of the establishment or acquisition of those intangible investments in the result of which trademark or patent has been registered after 1 January 2009, the value of the establishment or acquisition of those investments shall be increased by multiplying with coefficient 1.5. If the acquired trademark or patent is used in commercial activity and the increasing coefficient has been used for the writing-off of the value thereof, then the coefficient increasing the value of acquisition shall not be applied repeatedly in relation to this patent or trademark.

(5) The value of intangible investments shall be written off as follows: for concessions – over 10 years; for patents, licences and trademarks – over five years. Costs of research and development (also, those pertaining to technical documentation of unrealised projects, if the value of such projects is not included in fixed assets) as relate to economic activity of a taxpayer, except costs of determining the location, quantity and quality of minerals, shall be written off in the year when such costs are incurred.

(5^1) The depreciation of computer programme products and programmes acquired for payment or self-created calculated for tax purposes shall be accounted for in the 3rd fixed asset category and Paragraphs four and five of this Section shall not be applied thereto.

(6) Costs of determining the location, quantity and quality of minerals shall be written off systematically over ten years after the costs are incurred.

(7) If fixed assets are leased with pre-emptive rights, the costs of their depreciation and reconstruction, improvement and renewal shall be written off as if the fixed assets were the property of the lessee.

(8) If fixed assets are leased without pre-emptive rights and they are to be returned to the owner after the lease term has expired, or if an agreement of lease provides for reconstruction, improvement or renewal of fixed assets, a lessee shall write off the amount of such costs in equal parts over the remaining period of the lease. If the lessor, in accordance with the agreement, compensates the lessee for such expenses of reconstruction, improvement or renewal, the amount of such expenses shall be included in taxable income of the lessee. If the lessee leases an immovable property without pre-emptive rights and has performed reconstruction, improvement or renewal works in this property, however, the contract is terminated before the term of lease has expired due to reduction in the turnover or the amount of profit of commercial activity of the lessee (in leased premises) by more than 30 per cent (upon comparing indicators from the beginning of the taxation period until the expiry date of the contract with the relevant time period of pre-taxation period) or due to circumstances, which do not depend on the lessee, except the case when the contract is terminated upon the initiative of the lessor, the taxable income of the lessee shall be reduced by the remaining amount of reconstruction, improvement or renewal costs of fixed assets in the taxation period when the contract is terminated.

(8^1) If a taxpayer performs long-term investments during the term of public or private partnership agreement in the assets of the public partner transferred to him by such agreement, the taxpayer shall write off the amount of such costs in equal parts over the period provided for in the public and private partnership agreement.

(8^2) The provisions of Paragraph $8.^1$ of this Section shall also be applicable for:

1) the processes of public and private partnership which in accordance with the provisions of the Public Procurement Law have been commenced prior to the day of coming into force of the Public and Private Partnership Law and are continued pursuant to the provisions of the Public Procurement Law; and

2) for concession agreements, if the Cabinet or the relevant local government in accordance with the procedures specified in the Concessions Law has taken a decision regarding the transfer of concession resources for concession and approved the conditions for granting of concession, and further actions are performed pursuant to the provisions of the Concessions Law.

(9) If a lessee performs work in regard to reconstruction, improvement or renewal of leased fixed assets not provided for by an agreement of lease, or if an agreement of lease has not been concluded, taxable income of the lessee shall be increased by the amount of the cost of such work of reconstruction, improvement or renewal.

(10) If the taxpayer has chosen to value at true value investment property, organic assets and long-term investments held for sale, which were classified as fixed assets, they shall be excluded from the relevant fixed asset categories.

(11) If the taxpayer has reclassified investment property, organic assets and long-term investments held for sale as fixed assets, they shall be included in the relevant fixed asset categories at a value in conformity with their initial value, taking into account the revaluation of the referred to assets to true value.

(12) If the taxpayer continues to value investment properties or permanent plantations classified as biological assets, which are utilised for economic activities and are subject to depreciation, on the basis of their initial accounting costs, utilising the acquisition costs method, then the investment properties or the referred to biological assets for the purposes of the calculation of the depreciation shall be comparable to fixed assets and such investment properties or biological assets as fixed assets in conformity with the provision of this Section shall have depreciation calculated for tax purposes.

(13) A limited liability company, an individual undertaking, as well as a farm or fish holding, which paid the micro-enterprise tax in one or several pre-taxation periods, upon commencing to pay the enterprise income tax in accordance with the norms of this Law, shall determine the remaining value of the fixed assets at the beginning of the taxation period from the purchase value or establishment value of the fixed assets, to which the improvement, restoration and renewal costs of the fixed assets have been added, deducting the depreciation value, which has been calculated for the pre-taxation periods in accordance with the norms of this Section. If the limited liability company, the individual undertaking, as well as the farm or fish holding, prior to the acquisition of the status of the micro-enterprise tax payer, paid the enterprise income tax in accordance with general procedures, then, upon resuming payment of the enterprise income tax in accordance with the norms of this Law, the remaining value of the category of fixed assets at the beginning of the taxation period shall be determined by correcting the remaining value of the category of fixed assets on the last date of the taxation period, during which a decision was taken to pay the micro-enterprise tax in post-taxation year, in accordance with the norms of this Section regarding the periods, in which the taxpayer paid the micro-enterprise tax.

[5 June 1996; 13 March 1997; 25 November 1999; 23 November 2000; 19 June 2003; 20 October 2005; 19 December 2006; 17 May 2007; 14 November 2008; 15 October 2009; 1 December 2009; 9 August 2010]

Section 14. Covering Losses of Previous Years

(1) If the result of adjustment of profit or losses of a taxation period of a taxpayer, made in

accordance with this Law, is losses, they may be covered in chronological sequence from taxable income of the next eight taxation periods.

(1^1) An individual (family) undertaking (including farms or fishing holdings) whose owner has paid personal income tax on its income in the pre-taxation period is entitled to cover losses resulting from economic activity in the previous taxation period, calculated in accordance with the Law On Personal Income Tax, in chronological sequence, from the taxable income of the undertaking assessed in accordance with the procedures set out in this Law, during the period of transfer of losses prescribed by the Law On Personal Income Tax, i.e. from the taxable income of three consecutive taxation periods, beginning with that taxation period when in accordance with the Law On Personal Income Tax, the right to cover losses arises for the payer.

(1^2) If a permanent representation of a European commercial company or European co-operative society has been established in the Republic of Latvia after the transfer of the legal address of the referred to companies from Latvia and in the Republic of Latvia for such company in accordance with this Law the results of corrections made to the undertaking's taxation period profit or loss for previous taxation periods has been losses, then the losses of the referred to permanent representation, which have been caused to the relevant European commercial company or European co-operative society in the Republic of Latvia may be covered in chronological sequence from the taxable income for the next taxation period of the permanent representation counting from the taxation period when the losses to the relevant European commercial company or European co-operative society were calculated in accordance with this Law.

(1^3) A capital company, which is established as a result of the transformation of an individual undertaking (also farms or fishery farms) may take over the losses not covered during the last eight years of operation of the individual undertaking if the following conditions have been fulfilled:

1) the individual undertaking (also farm or fishery farm) in the taxation period prior to the transformation thereof into a capital company was registered with the State Revenue Service as an enterprise income tax payer;

2) the capital company, which takes over the losses of the individual undertaking during the last five years of operation preserves the previous type of basic operations; and

3) the owner of the individual undertaking becomes the only owner of the capital company capital shares.

(1^4) In calculating the taxable income, the taxpayer shall not take into account the taxation period or pre-taxation period losses, which are covered by carrying them over to a taxpayer of another state – non-resident. Taxable income shall not be reduced by the covered losses. The amount of covered losses and the person taking over the losses shall be indicated in the enterprise income tax annual declaration.

(2) If in a taxation period control of a commercial company or co-operative society is acquired by a person or a group of persons that previously did not control such commercial company or co-operative society, losses of pre-taxation periods of such commercial company or co-operative society shall not be covered in the taxation period or in subsequent taxation periods, if it is not specified otherwise in this Section.

(3) The provisions of Paragraph two of this Section are not applicable in cases where the commercial company or co-operative society in which a change of control has taken place maintains its previous type of ordinary activity, as conform to the ordinary activity of the commercial company or co-operative society for two taxation periods before the change in control, for five taxation periods after the change in control.

(4) When applying the provisions of Paragraph two of this Section in cases where the control of the commercial company or co-operative society has been acquired as a result of privatisation, it shall

be considered that the control has not been acquired during the time period up to such taxation period as during which the commercial company or co-operative society has not complied with any of the provisions on the basis of which its privatisation has been carried out.

(5) Within the meaning of this Section it shall be considered that a person controls another person, if the first referred to person directly or by way of participation in one company or in several companies owns more than 50 per cent of all the shares or capital shares issued by the other person and they have more than 50 per cent of all the votes of shareholders (owners of shares), as may be counted in any voting.

(6) A taxpayer registered and operating in a territory requiring special assistance specified in accordance with the Regional Development Law may cover the losses of taxation period referred to in Paragraph one of this Section in chronological sequence from the taxable income of 10 subsequent taxation periods. Losses of the taxation period referred to in Paragraph $1.^1$ of this Section may be covered in chronological order from the taxable income of the six subsequent taxation periods.

(7) The provisions of Paragraph six of this Section shall be applicable only to losses of such taxation periods as during which the relevant territory has the status of a territory requiring special assistance.

(8) Losses of a taxation period from sale of other such securities, which are not European Union or European Economic Area public circulation securities may be covered in chronological sequence from taxable income of the eight subsequent taxation periods from the sale of the other securities, but not more than for the amount of the referred to losses.

(8^1) Losses which have occurred as a result of the sale of securities referred to in Paragraph eight of this Section may be covered in chronological sequence from taxable income of the eight subsequent taxation periods if the taxpayer does not regularly perform such sales of securities (not more often than once in a taxation period) and the sold securities have been in his or her ownership for longer than 12 months.

(9) If, when adjusting taxable income in accordance with Section 6, Paragraph four, Clause 2 of this Law, the result of adjustment is losses or an increase in losses, the losses or the increase in losses resulting from such adjustment may not be covered from taxable income of subsequent taxation periods in accordance with the provisions of Paragraph one of this Section.

(10) If a taxpayer carries out oil exploration and extraction activities and the amount of the oil exploration and extraction activities in its total turnover (volume of activities) exceeds 80 per cent, the losses of the taxation period referred to in Paragraph one of this Section may be covered in chronological sequence from taxable income of the 10 subsequent taxation periods.

(11) If a commercial company is reorganised by merging with another commercial company, and the first and second commercial company prior to reorganisation, but the second commercial company after reorganisation is controlled by one and the same person or group of persons, the second commercial company after reorganisation is entitled to assume the pre-taxation period losses of the first commercial company or co-operative society and to cover them in the taxation period and in following taxation periods according to the procedures specified in Paragraph one of this Section.

(11^1) The acquiring company is entitled in accordance with the provisions of Section $6.^2$ of this Law to take over the losses in the previous taxation period of the transferring company, which are related to the type or types of economic activity transferred thereof, and to cover such losses in accordance with the provisions of Paragraph one of this Section in the taxation period in which the transfer took place and in the subsequent taxation periods.

(12) If in the course of reorganisation a commercial company is divided or divested and the

commercial company to be divided at the time of reorganisation has losses which it is entitled to cover in accordance with this Section, the right to cover the losses of this commercial company to be divided in the case of division, observing Paragraph thirteen of this Section, shall be assumed by the newly-founded commercial companies, but in the case of divestment – the commercial company to be divided after reorganisation and the newly-founded divested commercial company.

(13) The division of the losses of the commercial company to be divided between the commercial company to be divided and the newly-founded divested commercial company in the case of divestment and between the newly-founded commercial companies in the case of division after reorganisation, shall be proportional in relation to – the value of the assets part of the divested (dividing) commercial company after reorganisation against the value of the assets of the commercial company to be divided prior to reorganisation.

(14) [19 June 2003]

(15) In covering losses, in commercial companies in which reorganisation has been carried by way of commercial company merger, division or divestment, Paragraphs six and ten of this Section are not applicable.

(16) The losses, which a limited liability company, an individual undertaking, as well as farm or fish holding, which has been registered as the micro-enterprise tax payer, has suffered before the acquisition of the status of the micro-enterprise tax payer, shall not be covered in subsequent taxation periods.

[13 March 1997; 10 September 1998; 25 November 1999; 23 November 2000; 22 November 2001; 19 June 2003; 20 December 2004; 20 October 2005; 19 December 2006; 14 November 2008; 1 December 2009; 9 August 2010]

Section 14.[1] Transfer of Losses to a Group of Undertakings

(1) A group of undertakings consists of a principal undertaking and all subordinate undertakings of the principal undertaking.

(2) A principal undertaking – a participant in a group of undertakings – within the meaning of this Section is a legal person or a natural person that is a resident of the Republic of Latvia or of such state as the Republic of Latvia has entered into a convention or an agreement on double taxation and prevention of tax evasion with, or a resident of another European Economic Area state, which on the basis of a convention on double taxation and prevention of tax evasion which is in effect, is not recognised also as a resident of another state (which is not a European Economic Area state).

(3) A subordinate undertaking of a principal undertaking – a participant in a group of undertakings – within the meaning of this Section is a domestic undertaking or an undertaking, which is such resident of a state with which the Republic of Latvia has entered into a convention or an agreement on double taxation and prevention of tax evasion with, or a resident of another European Economic Area state, which on the basis of a convention on double taxation and prevention of tax evasion which is in effect, is not recognised also as a resident of another state (which is not a European Economic Area state) of which at least 90 per cent is owned by:

1) the principal undertaking;

2) one subordinate undertaking of the principal undertaking or several such subordinate undertakings; or

3) the principal undertaking and one of its subordinate undertakings or by several such subordinate undertakings together in any combination.

(4) In the application of Paragraph three of this Section, it shall be considered that 90 per cent of an

undertaking is owned by one participant of a group of undertakings or several such participants, if the provisions of Clause 1 or 2 of this Paragraph have been complied with:

1) in cases where all the shares or capital shares of the undertaking give their owners equal rights and advantages, if one participant of the group of undertakings or several such participants own at least 90 per cent of the shares or capital shares of such undertaking; and

2) in cases where all shares or capital shares of the undertaking do not give their owners equal rights and advantages, if both of the following provisions are simultaneously complied with:

a) one participant in the group of undertakings or several such participants own at least 90 per cent of the market value of all the shares or capital shares issued by such undertaking; and

b) one participant in the group of undertakings or several such participants own at least 90 per cent of all the votes of shareholders (owners of shares) of such undertaking, which may be counted in any voting.

(5) Irrespective of the provisions of Paragraph four of this Section a specific undertaking shall not be considered to be a subordinate undertaking, if:

1) a person, who is not a participant of such group of undertakings, has an opportunity to influence the rights of the principal undertaking or the subordinate undertaking regarding shares or capital shares of such specific undertaking, or if such person has the right to acquire any shares or capital shares of the specific undertaking, and

2) if one of the main objectives of such agreement has been to ensure that the specific undertaking remains a participant in the group of undertakings.

(6) If a taxpayer is a participant in a group of undertakings – Latvian resident (or participant in a group of undertakings permanent representation in the Republic of Latvia), for which in accordance with this Law and other Latvian regulatory enactments the result of adjustment of profits or losses in the taxation period is losses, then in conformity with the provisions of this Section the taxable income of the same taxation period of one participant in such group of undertakings – Latvian resident (or participant in a group of undertakings permanent representation in the Republic of Latvia) or of several such participants, which is calculated according to this Law and other Latvian regulatory enactments may be reduced by an amount which, taken altogether, does not exceed the amount of losses of the first referred to undertaking (or participant in a group of undertakings permanent representation in the Republic of Latvia).

(6^1) If for a participant in a group of undertakings – such resident of a state with which the Republic of Latvia has entered into a convention or an agreement on double taxation and prevention of tax evasion, or a resident of another European Economic Area state – the taxation period income taxable with enterprise income tax, which is calculated in conformity with Latvian regulatory enactments, is negative (there are losses) and such participant in a group of undertakings doe not have the possibility to take the referred to losses created in the taxation period into account in future years in determining the taxable income, as well as it is not possible for the referred to losses to be taken over by another taxpayer in the state of residence thereof, then the taxable income of the same taxation period in conformity with the provisions of this Section of one participant in such group of undertakings (or participant in a group of undertakings permanent representation in the Republic of Latvia) or of several such participants, which is calculated according to this Law may be reduced by the amount, which in total does not exceed the amount of the losses of the first referred to enterprise taxation period.

(7) For a participant in a group of undertakings – Latvian resident (or participant in a group of undertakings permanent representation in the Republic of Latvia) – the losses of a taxation period may be transferred to another undertaking that is a participant in the same group of undertakings – Latvian resident (or participant in a group of undertakings permanent representation in the Republic of Latvia) – only if the first five of the following referred to provisions and the sixth or seventh, or

eighth of the following provisions are complied with:

1) both undertakings are participant in the group of undertakings for the whole of the taxation period in which the losses, which are transferred have occurred;

2) the taxation period of both undertakings (or participant in a group of undertakings permanent representation in the Republic of Latvia) end on one and the same date;

3) neither of the undertakings in accordance with any law of the Republic of Latvia is exempt from enterprise income tax or is having applied to it a reduced tax rate in conformity with the regulatory enactments of the Republic of Latvia regarding the application of taxes for free ports and special economic zones;

4) neither of the undertakings (or participant in a group of undertakings permanent representation in the Republic of Latvia) is a tax debtor in respect of any taxes payable in the Republic of Latvia, except in cases where the time periods for payment of taxes have been extended in accordance with the Law On Taxes and Fees;

5) both undertakings (also the participant in a group of undertakings referred to in Paragraph 6^1 of this Section) or participant in a group of undertakings permanent representation in the Republic of Latvia, together with an income tax declaration of such undertakings (or participant in a group of undertakings permanent representation in the Republic of Latvia), submit annual accounts prepared and audited in accordance with the requirements of the regulatory enactments of their state of residence;

6) both undertakings are capital companies, which are residents of the Republic of Latvia and are not simultaneously residents of another state;

7) one of the undertakings is a capital companies, which is a resident of the Republic of Latvia and is not simultaneously a resident of another state, the other is a participant in a group of undertakings permanent representation in the Republic of Latvia; or

8) both undertakings are participants in a group of undertakings and the losses thereof are transferred to and taken over by the participant in a group of undertakings permanent representation in the Republic of Latvia.

(7^1) A participant in a group of undertakings referred to in Paragraph $6.^1$ of this Section is entitle to transfer the taxation period losses to another undertaking that is a participant in the same group of undertakings – capital company – in the Republic of Latvia, or to another participant in such group of undertakings permanent representation in the Republic of Latvia only if Paragraph 7, Clauses 1, 2 and 5 of this Section and both of the following referred to provisions are complied with:

1) neither of the undertakings in accordance with any law of the Republic of Latvia or by the regulatory enactments of such state with which the Republic of Latvia has entered into a convention or an agreement on double taxation and prevention of tax evasion, or with the regulatory enactments of a state of the European Economic Area is exempt from enterprise income tax or the payment thereof of similar taxes according to substance, the reduced rate of such tax is not applied to them or the tax exemptions in conformity with the regulatory enactments of the Republic of Latvia regarding the application of taxes for free ports and special economic zones is not applied to them; and

2) neither of the undertakings (or participant in a group of undertakings permanent representation in the Republic of Latvia) is a tax debtor in respect of any taxes payable in the Republic of Latvia or the taxes payable by the undertaking – non-resident – in the state of residence, except in cases where the time periods for payment of taxes have been extended in accordance with the Law On Taxes and Fees or the regulatory enactments of the relevant state of residence.

(7^2) A limited liability company, which has become the payer of micro-enterprise tax in the post-taxation year, is not entitled to transfer the losses of the taxation periods to another participant of the

group.

(8) The losses of a taxation period of an undertaking (or its permanent representation in the Republic of Latvia) that have been transferred to another undertaking (or its permanent representation in the Republic of Latvia) may not be covered by the first referred to undertaking (or its permanent representation in the Republic of Latvia) from the taxable income of such or of another taxation period.

(9) The amount of losses of a taxation period of an undertaking (or its permanent representation in the Republic of Latvia) that is being transferred to another undertaking (or its permanent representation in the Republic of Latvia) may not exceed the amount of taxable income of the same taxation period of such other undertaking (or its permanent representation in the Republic of Latvia).

(10) If the amount of losses transferred by an undertaking (or its permanent representation in the Republic of Latvia) to another undertaking (or its permanent representation in the Republic of Latvia) exceeds the amount the undertaking (or its permanent representation in the Republic of Latvia) was allowed to transfer in accordance with this Law, both undertakings shall be jointly and severally liable for the payment of any such tax and for the payment of any late charges and fines associated with such as have not been paid, regarding the reduction of taxable income by the amount exceeding the amount of losses transferable.

(11) If taxable income of a taxpayer participant in a group of undertakings – Latvian resident (or participant in a group of undertakings permanent representation in the Republic of Latvia) – is reduced by the amount of losses transferred to it from another taxpayer participant in a group of undertakings – Latvian resident (or participant in a group of undertakings permanent representation in the Republic of Latvia), both taxpayers, together with enterprise income tax declarations shall submit an annex to the taxation year tax declaration in which both undertakings attest that in the relevant taxation period they are participants in one and the same group of undertakings, as well as state the grounds why they are to be considered participants in one and the same group of undertakings.

(12) If in the group of undertakings the transfer of losses in conformity with Paragraph 6.[1] of this Section is performed, the taxpayer – the person taking over the losses – together with the enterprise income tax declaration for the taxation period shall submit:

1) non-resident annual accounts, which are prepared in conformity with the requirements of the regulatory enactments of the Republic of Latvia and corrected in accordance with this Law;

2) the annex to the taxation year tax declaration in which it is attested that the losses are taken over from the undertaking, which in the relevant taxation period is a participant in the same group of undertakings, as well as justify why they are to be considered participants in one and the same group of undertakings, as well as certify that the losses have not been taken over by other taxpayers; and

3) a statement from the state of residence tax administration of the undertaking – non-resident in which it is certified that:

a) the undertaking is a participant in the concrete group of undertakings;

b) the undertaking losses occurred in the concrete taxation period; and

c) in conformity with regulatory enactments of the state of residence this participant of the group of undertakings does not have the possibility to take into account the losses in future taxation periods or to relate them to previous taxation periods, as well as other taxpayers in the state of residence thereof do not have the right to take them over.

[13 March 1997; 20 December 2004; 20 October 2005; 19 December 2006; 1 November 2007; 9 August 2010]

Chapter III

Tax Rebates

Section 15. Application of Rebates

(1) Any tax rebates provided by this Law shall be applied to taxes assessed in accordance with the requirements of Chapters I and II of this Law.

(2) If a taxpayer utilises enterprise income tax rebates in accordance with the Law On Foreign Investments in the Republic of Latvia or other laws of the Republic of Latvia, the tax rebates set out in this Chapter shall not be applied, except the rebate regarding taxes paid in foreign countries in accordance with Section 16 of this Law and the rebate for donors in accordance with Section 20 of this Law. Tax rebates in accordance with the Law On Foreign Investments in the Republic of Latvia and other Republic of Latvia laws shall be applied to the tax amount after the application of the rebates specified in Sections 16 and 20 of this Law.

(3) The enterprise income tax rebates in this Chapter, as well as those provided for in other laws shall not be applied to tonnage taxpayers.

(4) For a taxpayer who is entitled to apply one of the enterprise income tax rebates specified in this Law or other laws and has commenced to apply them, they shall be applicable in all taxation periods in sequence up to the taxation period when the taxpayer loses the right to apply rebates

[25 November 1999; 23 November 2000; 22 November 2001; 19 June 2003; 20 October 2005]

Section 16. Tax Rebate regarding Tax Paid in Foreign Countries

(1) In accordance with the provisions of this Law an assessed tax may be reduced by an amount equivalent to the tax paid in foreign countries, if the payment of such tax in foreign countries has been certified by documents setting out the taxable income and amount of tax paid in foreign countries, confirmed by a foreign tax collection institution.

(2) The reduction referred to in Paragraph one of this Section may not exceed such amount as would be equivalent to the tax assessed in Latvia on income obtained in foreign countries.

(3) If, during a taxation period, a resident or a permanent representative office obtains income in several foreign countries, the provisions of Paragraphs one and two of this Section shall be applied on an individual basis to the income obtained in each foreign country.

Section 17. Tax Rebate for Small Undertakings

(1) Within the meaning of this Law, a small undertaking is an undertaking in which, during the taxation year regarding which a tax is assessed, at least two of the following conditions are not exceeded:

1) balance sheet value of fixed assets – 70 000 lats;

2) net turnover – 200 000 lats; or

3) average number of employees – 25 people.

(2) The tax rebate for small undertakings shall be 20 per cent of the enterprise income tax assessed.

(3) The tax rebate for two or more small undertakings, where more than 50 per cent of the value of share capital or of shares of the undertakings in each of such two or more undertakings are owned by, or through a contract or otherwise a decisive influence over such two or more undertakings is ensured (there is a majority vote) for, one and the same person or the first degree relatives or spouse of such person, shall apply only in cases where the aggregate indices of such undertakings do not exceed two of the conditions referred to in Paragraph one of this Section.

(4) If a small undertaking terminates economic activity, the tax rebate is not applicable regarding the year of liquidation.

(5) In determining balance sheet value of fixed assets for the purposes of this Section, the conditions of Paragraph three of Section 13 shall be taken into account.

[5 June 1996; 20 October 2005]

Section 17.[1] Tax Rebate for Investments Made Within the Scope of Supported Investment Projects [20 October 2005]

[23 November 2000; 20 October 2005]

Section 18. Tax Rebate for Undertakings Carrying out Agricultural Activities

(1) The tax rebate for a taxpayer carrying out agricultural activities shall be determined in a taxation year in the amount of 10 lats for each hectare of usable agricultural land.

(2) To receive the tax rebate prescribed by this Section, a taxpayer shall, simultaneously with a tax declaration, submit a statement issued by the local government regarding the area of land, which is actually utilised for the production of agricultural produce, to the State Revenue Service.

(3) The tax rebate provided for by this Section does not apply to taxpayers submit false information concerning land utilisation to the State Revenue Service.

(4) Within the meaning of this Section agricultural activities are cultivation of plants, stock farming, inland water fish raising and horticulture.

[20 October 2005; 1 November 2007]

Section 18.[1] Tax Rebate for Undertakings Producing High Technology Products and Software Products

The tax rebate for undertakings producing high technology products and software products shall be 30 per cent of the enterprise income tax assessed, if the undertaking complies with the following criteria:

1) products to be supported, as determined by the Cabinet, make up more than 75 per cent of the net turnover of the undertaking in the relevant taxation period; and

2) the undertaking has been certified according to ISO 9001 or according to ISO 14001 standards, or also a drug manufacturing undertaking that has been certified in conformity with the requirements of Good Manufacturing Practice in accordance with regulatory enactments. The Cabinet shall determine the procedures for the issuance of Good Manufacturing Practice certificates for drug manufacturing undertakings.

[25 November 1999; 8 February 2001]

Section 19. Tax Rebate for Undertakings Employing Convicted Persons [20 October 2005]

[5 June 1996; 19 June 2003; 20 October 2005]

Section 20. Tax Rebate for Donors *[16 June 2009]*

[13 March 1997; 11 March 1998; 10 September 1998; 25 November 1999; 23 November 2000; 22 November 2001; 20 December 2004; 20 October 2005; 8 December 2005; 19 December 2006; 16 June 2009]

Section 20.[1] Tax Rebate for Donors

[24 September 2009]

(1) Tax shall be reduced for residents and permanent representative offices by 85 per cent of amounts donated to budget institutions, the State capital companies, which perform the State culture functions delegated by the Ministry of Culture, as well as societies and foundations registered in the Republic of Latvia, and religious organisations or the institutions thereof, to which the public benefit organisation status has been granted in accordance with the Public Benefit Organisations Law, or societies and foundations registered in another Member State of the European Union or the European Economic Area, and religious organisations or the institutions thereof to which the status comparable to public benefit organisation status has been granted in accordance with the relevant laws of the Member State of the European Union or the European Economic Area.

(2) The total tax rebate in accordance with the provisions of this Section may not exceed 20 per cent of the total amount of tax.

(3) The budget institutions, the State capital companies, which perform the State culture functions delegated by the Ministry of Culture, societies and foundations registered in the Republic of Latvia, and religious organisations or the institutions thereof referred to in Paragraph one of this Section, to which the public benefit organisation status has been granted in accordance with the Public Benefit Organisations Law, shall, by not later than 31 March of the post-taxation period, submit a public report regarding donors, the amounts donated by them and the use of donations received in the taxation year.

(4) The tax rebate shall not be applicable to payers indebted for taxes for previous years as of the first date of the second month of a taxation period.

(5) If a taxpayer has violated the provisions of this Section or has concealed taxable income, the amount of tax shall be increased by the amount of such tax rebate.

(6) The property or financial means, which the payer, on the basis of a contract, transfers free of charge to a budget institution, the State capital company, which performs the State culture functions delegated by the Ministry of Culture, or a public benefit organisation (to which such status has been granted in accordance with the Public Benefit Organisations Law) to achieve the purposes specified in the articles of association, constitution or by-law thereof, shall be deemed to be a donation within the meaning of this Section if the recipient is not specified with a reciprocal duty to perform activities, which are deemed a consideration.

(7) A tax rebate in conformity with Paragraph one of this Section shall not be applied if at least one

of the following conditions exists:

1) the purpose of the donation, which is specified by the recipient of the donation includes a direct or indirect indication to a concrete recipient of the donated means, which is an undertaking or a related party associated with the donor, or an employee of the donor or a family member of such employee, or

2) the recipient of the donation performs activities of a compensatory nature, which are directed directly or indirectly for the gaining of benefits for the donor, an undertaking associated with the donor, a related party or a relative of the donor up to the third degree or a spouse, or ensures the interests of the donor, which are not associated with philanthropy.

[24 September 2009]

Section 21. Special Tax Rebates

Commercial companies comprising societies for the disabled or as are medical in nature, as well as other charitable fund capital companies shall, pursuant to a list submitted by the Cabinet and approved by the *Saeima*, be exempt from payment of tax if they transfer to the referred to funds (programmes, organisations) amounts exceeding the amounts of such tax assessed.

[20 October 2005]

Chapter IV
Tax Estimate and Payment Procedures

Section 22. Drawing up a Tax Declaration and Tax Payment

(1) Taxpayers shall independently draw up a tax declaration for a taxation year, the form of which and completion procedures, in accordance with this Law, shall be approved by the Cabinet. The taxpayer shall submit such to the State Revenue Service. The tax declaration for the taxation year shall be submitted simultaneously with annual accounts of the undertaking within the time periods set out in the Annual Accounts Law, the Credit Institution Law and the Law On Insurance Companies and their Supervision, but for a taxpayer – savings and loans society – not later than three months after the end of the taxation period.

(2) A taxpayer shall independently transfer to the State budget taxes assessed in accordance with a tax declaration, reduced in conformity with the tax rebates set out in Chapter III of this Law and as specified in other Republic of Latvia laws, and by advance payments made during the taxation year, within 15 days following the day annual accounts and the tax declaration are submitted.

(3) [5 June 1996]

(4) The State Revenue Service shall apply overpayments of tax of the relevant taxation period to subsequent tax payments in discharge of tax debts of the taxpayer or repay to the taxpayer pursuant to its request within 30 days if Paragraphs $4.^1$ and $4.^2$ of this Section do not specify otherwise.

(4^1) The State Revenue Service has the right to delay the repayment of amounts of overpaid tax, informing the taxpayer in writing regarding this if in the period specified in Paragraph four of this Section a decision has been taken regarding the commencement of control (inspection audit) of the taxes to be paid by the taxpayer – up to the day when the tax administration has taken a decision regarding the validity of the overpayment.

(4^2) If the taxpayer has a State Revenue Service administered tax or other State specified payment debt, the State Revenue Service shall direct the amount of overpaid tax to cover the relevant tax or other State specified payment.

(4^3) Paragraph 42 of this Section shall not be applied if the payment time period of the tax debt has been extended by the Ministry of Finance or the State Revenue Service according to the procedures specified in the Law On Taxes and Fees and the obligations are fulfilled.

(5) [5 June 1996]

(6) A tonnage taxpayer shall independently compile the enterprise income tax declaration referred to in Paragraph one of this Section and a tonnage tax declaration the form of which shall be approved by the Cabinet. The taxpayer shall, within the time period specified in Paragraph one of this Section submit both of the referred to declarations to the State Revenue Service and within the time period referred to in Paragraph two of this Section pay into the State budget the enterprise income tax including tonnage tax.

(7) The difference between the tonnage tax calculated for the taxation period and the tonnage tax amount paid in as advance payments on the basis of estimates, which exceeds 20 per cent of the calculated tonnage tax amount shall be increased by the late fees which are calculated in accordance with the Law On Taxes and Fees. The part, which exceeds the difference between the calculated tonnage tax and the advance payment made, shall be divided respectively between the time periods for performance of the advance payments.

(8) Agricultural services co-operative societies, apartment owner's co-operative societies, motor vehicle garage owner's co-operative societies, boat garage owner's co-operative societies and horticultural co-operative societies shall submit a declaration regarding the division of the surplus to members and the amount of the divided surplus for each member.

(9) A partnership shall prepare and submit to the State Revenue Service an enterprise income tax declaration in respect of the relevant taxation period indicating in it also information regarding the members of the partnership.

(10) The members of a partnership – residents and permanent representative offices, on the basis of the partnership enterprise income tax declaration, shall include for the partnerships applicable to them the parts of the income taxable with the enterprise income tax or the losses in their own enterprise income tax declaration correcting the applicable taxable income, but, in submitting to the State Revenue Service their enterprise income tax declaration appending in the annex the enterprise income tax declaration of the partnership, annual financial reports and a certification by the partnership regarding the size of the partnership contribution share belonging to each member thereof.

(11) The norms of this Section shall not be applicable to a limited liability company, an individual undertaking, as well as a farm or fish holding, which has been registered as the micro-enterprise tax payer.

[5 June 1996; 10 September 1998; 22 November 2001; 19 June 2003; 20 December 2004; 20 October 2005; 19 December 2006; 1 December 2009; 9 August 2010]

Section 23. Advance Payments of Tax

(1) During a taxation year taxpayers shall, by (including) the 15th date of each month, make the following advance payments of tax into the State budget:

1) for each month from the first month of the taxation period until (including) the month when annual accounts of the undertaking are submitted – however, no later than by the month when

annual accounts of the undertaking are to be submitted in accordance with the Annual Accounts Law: an amount corresponding to one-twelfth of the calculated tax which, without applying the rebate specified in Section 20.[1] of this Law, is calculated for the taxation period before the pre-taxation period and is adjusted by the general consumer price index of the pre-taxation year determined by the Central Statistics Bureau or the general consumer price index in the pre-taxation period that has been calculated by multiplying monthly consumer price indices of the pre-taxation period determined by the Central Statistics Bureau, if the taxation period does not coincide with the calendar year; or

2) for each month in the remainder of the taxation period: an amount, which has been determined by dividing the difference between the tax amount of the pre-taxation period (which has been adjusted by the general consumer price index of the pre-taxation year determined by the Central Statistics Bureau or the general consumer price index in the pre-taxation period that has been calculated by multiplying monthly consumer price indices of the pre-taxation period determined by the Central Statistics Bureau, if the taxation period does not coincide with the calendar year) and the tax amount paid in accordance with Clause one of this Paragraph by the remaining number of months from the month annual accounts are submitted until the end of the taxation period. In determining the tax amount of the pre-taxation period, the rebate specified in Section 20.[1] of this Law shall not be taken into account.

(1[1]) The State Revenue Service, pursuant to an application submitted by the taxpayer and wherein grounds are set out, may, beginning with the month when the State Revenue Service has received the application of the payer, determine another amount for advance payments of tax in the following cases:

1) if the net turnover of the payer has substantially decreased in comparison with the relevant time period of the pre-taxation period, as well as when its further decrease is foreseen – advance payments of tax for the remaining months of the taxation period shall be determined by multiplying the net turnover of the previous month by the product obtained by dividing the calculated tax (which has been calculated without applying the tax rebates provided for by Sections 18[1], 19 and 20.[1] of this Law) by the net turnover of the pre-taxation period;

2) if the type of activity or the structure of income or expenses of the payer have substantially changed or the amount of profit has decreased – advance payments of tax for the remaining months of the taxation period shall be determined in equal amounts, taking into account the justified calculation submitted by the payer. The difference between the tax calculated in the taxation period and the amount of the advance payment of tax made by the taxpayer on the basis of estimates, which exceeds 20 per cent of the calculated tax amount, shall be increased by the late fees which are calculated in accordance with the Law On Taxes and Fees. The part, which exceeds the difference between the calculated tax and the advance payment made, shall be divided respectively between the time periods for performance of the advance payments; or

3) if for the payer in the pre-taxation period has been specified smaller advance payments in conformity with Clause 1 or 2 of this Paragraph and in the taxation period also no increase in future turnover is forecast, then up to the month in which the annual accounts of the undertaking is submitted, reduced advance payments may be specified in accordance with method specified in the pre-taxation period or in conformity with another method specified in this Section.

(2) Taxpayers that have operated only for an incomplete pre-taxation period shall adjust the tax amount calculated in accordance with the first sentence of Paragraph one, Clause 2 of this Section by dividing it by the number of months of operation and multiplying by 12. Taxpayers that have operated for an incomplete period before the pre-taxation period shall carry out such adjustment in respect of the tax amount calculated in accordance with Paragraph one, Clause 1 of this Section.

(3) The advance payments set out in Paragraph one of this Section shall be determined, in regard to

taxpayers to which in the pre-taxation period or in the taxation period before the pre-taxation period tax rebates have been applied in accordance with the Law On Foreign Investments in the Republic of Latvia, by taking into account the conditions for relief provided for the taxation period by the referred to law.

(3^1) In determining enterprise income tax payments, the tax rebates provided for the taxation period in accordance with the Law On the Application of Taxes in Free Ports and Special Economic Zones shall be taken into account. If the payer, during the taxation period, loses the right to tax rebates in accordance with the referred to law, the amount of reductions in advance payments that has been calculated as the difference between the amount of advance payments pursuant to the provisions of Paragraph one or Paragraph $1.^1$ of this Section and the amount of advance payments that has been determined by taking into account the tax rebates pursuant to the referred to laws shall be considered to be a late tax payment pursuant to the Law On Taxes and Fees.

(4) [20 October 2005]

(5) Taxpayers whose monthly advance payments in accordance with Paragraph one of this Section have not exceeded 500 lats in the pre-taxation periods may make advance payments once every quarter – by the 15^{th} date of the successive month of the current quarter.

(6) Taxpayers that carry out agricultural activities and derive 90 per cent of the income of the period from sales of farming production and agricultural services, shall make advance payments of tax voluntarily.

(7) Late charges for failure to, in good time, transfer the payments referred to in Sections 22 and 23 of this Law to the State budget, taxpayers shall be calculated in accordance with the Law On Taxes and Fees.

(8) A newly formed taxpayer and a taxpayer, which was registered as the micro-enterprise tax payer in the pre-taxation period, may make advance payments for the first taxation period and the time period until the submission of the annual account voluntarily.

(9) In regard to taxpayers that are expressly seasonal regarding operations, the State Revenue Service shall determine, if there is an application and grounds provided therefore by the payer, other procedures for advance payments of taxes in accordance with the division of income of such taxpayer by advance payment periods.

(10) Advance payments of enterprise tax shall be determined without taking into account any losses that have been or may be transferred to it from another taxpayer in accordance with the provisions of Section $14.^1$ of this Law.

(11) A tonnage tax payer shall, by the 15^{th} date of every month, make tonnage tax advance payments to the amount of one twelfth of the amount of tonnage tax provided for in the taxation period in conformity with the tonnage tax estimates of the taxpayer.

(12) A limited liability company, an individual undertaking, as well as a farm or fish holding, which has been registered as the micro-enterprise tax payer, shall not make advance payments.

[5 June 1996; 13 March 1997; 25 November 1999; 22 November 2001; 19 June 2003; 20 October 2005; 19 December 2006; 1 November 2007; 16 June 2009; 24 September 2009; 1 December 2009; 9 August 2010]

Section 24. Tax Deduction

(1) A taxpayer paying the amounts referred to in Section 3, Paragraph four or eight and Section 12, Paragraph three of this Law, shall deduct tax at the time of payment and pay such into the State

budget no later than by the 15th date of the next month. The tax to be deducted shall be calculated by multiplying the tax rate by the amount to be paid if it is not specified otherwise in Paragraphs 1.1 and 1.2 of this Section.

(1[1]) A partnership shall deduct income tax from the partnership income share, to which members – non-residents of the partnership are entitled and taxable with the tax, applying to the enterprise income tax payer the rate specified in this Law or to a personal income tax payer the rate specified in the Law On Personal Income Tax, and paying such tax into the budget within 15 days after the submission of the partnership enterprise income tax declaration.

(1[2]) A taxpayer shall pay into the budget the enterprise income tax deducted in accordance with Section 3, Paragraph four, Clause 3 of this Law from the interest payments, which are included in the principal amount of the bank loan (the renewal of obligation rights has been performed) prior to capitalisation, which takes place in accordance with Section 7.1 of this Law, within 30 days after the alienation of the stock, but not later than within 37 months after the contribution of the loan into the equity capital.

(2) A payer of an amount shall carry out accounting of payments and taxes deducted and submit accounts to the State Revenue Service and payees.

[29 February 1996; 25 November 1999; 20 December 2004; 12 June 2009]

Section 25. Commencement and Termination of Tax Payments

(1) If during a taxation year a taxpayer – irrespective of whether the payer is a resident or not – must commence payment of tax for the first time in accordance with the requirements of this Law, such is applicable only to the period from the time the relevant payer is to commence payment of tax until the end of the year.

(2) If during a taxation year a taxpayer – irrespective of whether the payer is a resident or not – terminates payment of tax in accordance with the requirements of this Law, such is applicable only to the period from the beginning of the year until the time the relevant payer terminates payment of such tax, and the liability of the payer remains in effect in respect of all the provisions of this Law in regard to such period.

(3) In the case of transfer of legal address, a European commercial company or European co-operative society shall commence to pay taxes from the day when it is registered in Latvia, and shall terminate on the day when it has finished the transfer of legal address, and registers this fact in a new, appropriate to its legal address, register in another Member State of the European Union.

[20 October 2005]

Section 26. Liability

(1) Liability as provided for by the Law On Taxes and Fees and other regulatory enactments, which determine administrative and criminal liability is applicable to violations of this Law and to violations in regard to the conducting of accounting as prescribed in the Law On Accounting and the Annual Accounts Law, Credit Institution Law, Savings and Loans Society Law, Law On Insurance Companies and their Supervision, Investment Management law and Financial Instrument Market Law, if such result in reductions of taxable income.

(2) If a payer of an amount has not deducted and paid tax into the budget within the time period

prescribed by Section 24, Paragraph one and 1^1 of this Law, the payer is liable therefor in accordance with the Law On Taxes and Fees and other regulatory enactments, which determine administrative and criminal liability.

[25 November 1999; 20 December 2004; 20 October 2005; 19 December 2006]

Section $26.^1$ Prevention of Tax Avoidance

(1) Section 6, Paragraphs fourteen and fifteen; Section 13, Paragraph $3.^1$ and Section 14, Paragraph $1.^2$ of this Law shall not be applicable if it is determined that the main aim of the transfer of legal address or one of the main aims is to not pay taxes or to avoid the payment of taxes.

(2) If the transfer of legal address is not performed due to a justifiable commercial reason, this may lead to an assumption that the main aim of the relevant activity or one of the main aims is to not pay taxes or to avoid the payment of taxes.

[20 October 2005]

Section 27. Procedures for Application of Specific Norms of this Law

For the application of specific norms of this Law the Cabinet shall determine:

1) the application of the terms used in this Law for the calculation of enterprise income tax;

2) the procedures for the specification of taxable income, taking into account various situations and the restrictions referred to in the Law and other conditions, which in a concrete situation impact upon the amount of taxable income;

3) conditions for the withholding of taxes from the amounts to be paid to non-residents;

4) special conditions for the correcting of taxable income for inland undertakings, non-resident permanent representations if they perform transactions with persons who are located, are established or founded in low tax or no-tax states or territories;

5) procedures for the exemption from the withholding taxes for payments, which a Latvian inland undertaking or non-resident permanent representation pays out to a person who is located, are established or founded in low tax or no-tax states or territories;

6) the methods to be used for the specification of the true value of transactions and procedures if the transaction has occurred between affiliated undertakings;

7) the methodology for the specification of tax advance payments;

8) the illustration of the practical application of the norms of the Law in required situations and examples of calculations; and

9) the procedures by which the State capital companies, which perform the State culture functions delegated by the Ministry of Culture, shall register the received donations, provide public report regarding donors, the amounts donated by them and utilisation of the received donations and the information to be included in such report, as well as the measures to be taken if the donation has not been used for the public, especially for satisfying the need for culture of needy and socially vulnerable groups of persons, or for creation of a concert or opera performance.

[25 November 1999; 20 October 2005; 15 October 2009]

Transitional Provisions

1. This Law is applicable to calculation of enterprise income tax commencing as of 1 January 1995.

2. Tax that is to be deducted in accordance with Section 3, Paragraph four and Section 12, Paragraph three of this Law from payments to non-residents and affiliated undertakings, shall be deducted, from payments made, commencing as of 1 April 1995. In determining taxable income of the taxation year in respect of payments to non-residents and affiliated undertakings made within the period from 1 January to 31 March 1995, the provisions of Section 6, Paragraph one, Clause 4 shall not be taken into account.

3. Tax shall not be imposed on dividends paid to non-residents and affiliated undertakings in regard to income obtained in the period up to 31 December 1994.

4. Depreciation of fixed assets acquired or set up by 31 December of 1994 shall be calculated, for the purpose of determining taxable income, according to their remaining balance sheet value as of 1 January 1995, taking into account the requirements of Section 13, Paragraph three of this Law.

5. Intangible investments that have been set up by 31 December 1994 shall be written off within a five-year period from the date when they were set up, except investments as, in accordance with the provisions of Section 13, Paragraph four of this Law, are not to be written off. Taxable income of 1995 and subsequent years shall be increased by the value of such investments as has not been written off – in each year by the amount corresponding to the value of such investments to be written off.

6. In 1995 – 1996, taxable income may be reduced by losses caused to an undertaking up to 31 December 1994 and calculated in accordance with Section 22 of the Law On Profit Tax, if such losses have been recorded in a calculation (account) of profits tax for 1994. Losses for 1993 may be covered not later than in 1995.

7. Profit tax debts or, if there are no such debts, enterprise income tax shall be reduced by the amount of the losses that have resulted from the fulfilment of State procurement and introduction of the Latvian rouble in 1992, as have been proven by documentary evidence and have not been compensated from the State budget of 1994 or prior years. These losses shall be calculated in accordance with the procedures prescribed by the Cabinet. The provisions of this Clause do not apply to amounts calculated as an increase in principal debt and late charges as may be reduced only in accordance with the procedures prescribed in the Law On Taxes and Fees.

8. Payers shall, in regard 1995 and January to April of 1996, make advance payments in the amount of 0.75 per cent of the net turnover (credit institutions and insurance companies – of the income from ordinary activity) and other income in the preceding calendar month unless otherwise provided by these Transitional Provisions. Undertakings (companies), which have paid lottery and gambling taxes and fees in 1995, shall not make advance payments from January to July (inclusive).

9. Undertakings, which have submitted accounts regarding payments of profit tax within the first

nine months of 1994 and have shown losses in such accounts, shall not make advance payments regarding January – April of 1995. If losses are set out in the accounts of an undertaking for 1994, advance payments for 1995 are not required to be made, except in the cases referred to in Clause 10 of these Transitional Provisions.

10. State and local government undertakings and companies in which the share of the State (local government) in participatory capital exceeds 50 per cent and other payers whose balance sheet assets total, as of 31 December 1994, comprises 1 million lats or more or the net turnover in 1994 comprises 2.5 million lats or more, shall submit accounts and a tax declaration regarding the first half of 1995 no later than by 31 July 1995 and shall make advance payments from August to December of 1995 for the remaining months, as well as from January to April of 1996 in the following way:

1) if the undertaking has obtained taxable income in the first half of 1995, the advance payments for each remaining month and for January to April of 1996 shall be equivalent to one fifth of two times the declared tax amount for the first half of 1995, from which the actual advance payments made within the seven months of 1995 shall be deducted, including advance payments of profit tax for 1995;

2) if the undertaking has not obtained taxable income in the first half of 1995, advance payments are not required to be made in August, September, October, November, December of 1995 and in January of 1996. Annual accounts for 1995 and an enterprise income tax declaration shall be drawn up by such taxpayers and submitted to the State Revenue Service by February 1996 and the advance payments for February to April 1996 shall be made in the amount of one twelfth of the tax amount for 1995. Such taxpayers shall retain the right within the terms provided for in Section 22 of this Law to submit adjusted annual accounts and an adjusted tax declaration, however, if the advance payments from February to April of 1996 have been reduced in conformity with the adjusted tax declaration, the taxpayer shall pay the late charges prescribed by the Law On Taxes and Fees for the part of the amount reduced; and

3) the advance payments of tax may also be made in accordance with such procedures by other taxpayers not referred to in this Clause, if they submit half-yearly accounts and a half-yearly tax declaration.

11. Advance payments of profits tax made in 1995 shall be taken into account in calculating enterprise income tax for 1995, but for the taxpayers referred to in Clause 12 of these Transitional Provisions – with regard to personal income tax for 1995.

12. With respect to payers of profits tax, who in conformity with the provisions of Section 2, Paragraph four of this Law from the date of coming into force of this Law become personal income tax payers:

a) they shall register by 1 May 1995 with local governments according to their location (legal address) as personal income tax payers;

b) they shall make advance payments of personal income tax in accordance with the Law On Personal Income Tax commencing as of the second quarter of 1995; and

c) advance payments of profits tax made for 1995 shall be taken into account in calculating total personal income tax for 1995.

13. Norms of this Law, the execution of which is regulated by Cabinet regulations, may not be

applied until the relevant Cabinet regulations have come into force.

14. Paragraphs eight, nine and ten of Section 6 of this Law are not applicable to loans made before the coming into force of this Law unless they are extended after the coming into force of this Law.

15. The following are repealed as of this Law coming into force:

1) the Law On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 3/4, 37/38; 1992, No. 18/19, 27/28; 29/31; 1993, No. 16/17; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1994, No. 2, 12), however, the liability of payers of this tax pursuant to all norms of such Law shall remain in effect for the period up to the day the Law On Enterprise Income Tax comes into force;

2) the 20 December 1990 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 3/4);

3) the 23 January 1991 decision of the Supreme Council of the Republic of Latvia On the Exemption of Some Undertakings of the Production Association LITTA from Profits Tax Payments (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 9/10);

4) the 4 September 1991 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Additions and Amendments to the Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991; No. 37/38);

5) the 12 November 1991 decision of the Supreme Council of the Republic of Latvia On Profits Tax Relief for Undertakings (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 47/48);

6) the 15 April 1992 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 18/19);

7) the 16 June 1992 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Amendments and Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 27/28);

8) the 11 July 1992 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Amendments to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 29/31);

9) the 2 December 1992 decision of the Supreme Council of the Republic of Latvia On Additions to the 15 April 1992 Decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 51/52);

10) the 31 October 1991 decision of the Presidium of the Supreme Council of the Republic of Latvia On the Application of Section 8 of the 4 September 1991 Law of the Republic of Latvia On Amendments and Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax and Clause 2 of the 4 September 1991 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Profits Tax.

16. The norms of Section 8.[1] shall apply to special reserves established in the years from 1999 to 2007.

17. Section 6, Paragraph 5.[1], the amendments to Section 11, Section 13, Paragraph one, Clause 1, Section 14, Paragraph three and Section 23, Paragraph 3.[1] shall apply commencing as of the taxation period of 1999.

18. The taxation period in which securities which are in public circulation in accordance with the Law On Securities are sold and which the tax payer – a domestic undertaking or permanent representative office – has acquired up to 1 January 2001, its taxable income shall be increased by the expenditures in all the previous taxation periods which are related to the acquisition of the referred to securities.

19. The amendments to Section 14 of this Law are applicable to losses that have occurred after 1 January 2001.

20. Cabinet Regulation No. 367 of 24 September 1996, Procedures for the Granting or Cancelling of Permits to Receive Donations, Donors Receiving Enterprise Income Tax Relief to Public Organisations (Funds), Religious Organisations and Budget Institutions, issued pursuant to Section 20 of this Law shall be in force up to the date of the coming into force of the relevant Cabinet regulations, but not longer than until 1 July 2001, insofar as they are not in contradiction with this Law.

21. The amendments to Section 18.[1], Clause 2 of this Law shall be applied to the calculation of enterprise income tax commencing with 1 January 2001.

22. The Cabinet shall by 1 May 2001 determine the procedures as to how Good Manufacturing Practices certificates shall be issued to drug manufacturing undertakings.

23. The amendments to Section 3, Paragraphs one, two, three, eight and ten of this Law shall come into force on 1 January 2004. In the time period from 1 January 2002 up to 31 December 2003, the taxpayers to whom the tax relief specified in Section 17.[1] or 18.[1] of this Law or in other laws is not applied, the rate of tax shall be determined in the following order:

1) from 1 January 2002 the rate of tax is 22 per cent and this rate shall be applied by calculating the tax for the taxation period which begins in the year 2002; and

2) from 1 January 2003 the rate of tax is 19 per cent and this rate shall be applied by calculating the tax for the taxation period, which begins in the year 2003.

24. In calculating the advance payments according to the procedures specified by this Law, the advance payments referred to in Paragraph 23 of these Transitional Provisions, which are calculated in respect of the taxation period that commences:

1) in 2002, shall have a co-efficient of 0.9 applied;

2) in 2003, shall have a co-efficient of 0.9 applied; and

3) in 2004, shall have a co-efficient of 0.8 applied.

25. Sections 17 and 18.[1] of this Law are in force until 31 December 2003.

26. Undertakings that utilise the tax relief specified in Section 17.[1] or 18.[1] of this Law or in other laws shall, during the time of utilisation of this relief, calculate and pay tax applying a 25 per cent rate.

27. The Cabinet shall by 1 July 2002 issue regulations for the application of Section 2.[1], Paragraph two and Section 22, Paragraph six of this Law

28. The amendments to Section 6, Paragraph one, Clause 7 and Section 14, Paragraph eight of this Law shall be applied to losses from such sale of securities as are in public circulation in accordance with the Law On Securities or the Financial Instrument Market Law and which were caused after 1 January 2001.

29. The coefficients specified in Section 6.[1], Paragraph three of this Law shall be applied with the taxation period that commences in 2004. Up to 2004, the coefficients referred to shall be applied in the following specified amounts:

1) in the taxation period that commences in 2002, the following income coefficients shall be applied:

a) 0.0016 – tonnage from 100 to 1000 tonnage units;

b) 0.0013 – tonnage from 1001 to 10 000 tonnage units for tonnage that exceeds 1000 tonnage units;

c) 0.0010 – tonnage from 10 001 to 25 000 tonnage units for tonnage that exceeds 10 000 tonnage units; and

d) 0,0007 – tonnage over 25 000 for tonnage that exceeds 25 000 tonnage units; and

2) in the taxation period that commences in 2003, the following income coefficients shall be applied:

a) 0.0018 – tonnage from 100 to 1000 tonnage units;

b) 0.0015 – tonnage from 1001 to 10 000 tonnage units for tonnage that exceeds 1000 tonnage units;

c) 0.0012 – tonnage from 10 001 to 25 000 tonnage units for tonnage that exceeds 10 000 tonnage units; and

d) 0,0007 – tonnage over 25 000 for tonnage that exceeds 25 000 tonnage units.

30. A domestic undertaking (company), which in 2002 has submitted to the State Revenue Service an application for the granting of tonnage taxpayer status for the taxation period that commences in 2002, is entitled from the day of submission of the application not to make any enterprise income tax advance payments in respect of the taxation period for which an application has been submitted, as well as advance payments in the post-taxation period from the first month up to the month in

which the undertaking's annual accounts are submitted.

31. A domestic undertaking (company) for which, on the basis of an application submitted in 2002 for the granting of tonnage taxpayer status, the State Revenue Service has granted in 2002 tonnage taxpayer status, shall, in the next month which follows the day of the taking of the relevant decision, commence the payment of tonnage tax advance payments, dividing the amount of tonnage tax anticipated for the taxation period by the payment time periods that are left to the end of the taxation period.

32. If the domestic undertaking (company) has submitted in 2002 an application for the granting of tonnage taxpayer status, but this status is not granted, then the enterprise income tax advance payments not made by this undertaking (company) shall, from the day of the submission of the application up to the day the decision was taken shall be deemed to be late tax payments in accordance with the Law On Taxes and Fees.

33. Paragraph 30 of these Transitional Provisions shall not be applied to taxpayers that have late tax payments for the previous taxation period.

34. A special law shall specify the coming into force of Section 1, Paragraph nineteen, Clauses 1 and 3 of this Law.

35. A special law shall specify the coming into force of Sections $6.^2$ and $6.^3$ of this Law in relation to shareholders and companies, which are residents of other Member States of the European Union.

36. A special law shall specify the coming into force of Section 1, Paragraph nineteen, Clauses 1 and 3 of this Law.

37. In respect of interest payments which have occurred up to 31 December 2002 and which the undertaking is entitled to carry over in conformity with the text of Section 6, Paragraph eight of this Law, which was in force up to the moment when the amendments to this Paragraph of this Section in relation to the deletion of this Paragraph (hereinafter – accumulated interest payment amount), an undertaking is entitled to reduce taxable income during the next five taxation periods, in each taxation period reducing the taxable income by 20 per cent of the accumulated interest payment amount.

38. A taxpayer shall, together with the declaration for the 2003 taxation period, submit information regarding the accumulated interest payment amount.

39. [1 December 2009]

40. Amendments to Section 2, Paragraph three; Section 6, Paragraph one, Clause 11, amendments to Section 6, Paragraphs eight, nine and ten (in relation to the deletion of this paragraph); Section $6.^4$, and amendments to Section 15, Paragraph two; Section 22 and Section 23, Paragraph $3.^1$ of this

Law shall be applied with the taxation period which commences 2003.

41. Section1, Paragraphs fourteen, fifteen, sixteen, seventeen, eighteen, nineteen (except for the case stipulated in Paragraph 34 of these Transitional Provisions), twenty and twenty-one; Sections $6.^{2}$ and $6.^{3}$ (except for the case stipulated in Paragraph 36 of these Transitional Provisions); Section $8.^{1}$, Paragraph $5.^{1}$; Section 14, Paragraphs $8.^{1}$ and $11.^{1}$, and amendments to Section 14, Paragraph fourteen (in relation to the deletion of this Paragraph) and Paragraph fifteen of this Law shall be applied from the taxation period, which begins in 2004.

42. The Cabinet shall, by 31 December 2003, issue the regulations provided for in Section 13, Paragraph one, Clause 9 and Section 14, Paragraph six of this law.

43. Amendments to Section 6, Paragraph four, Clause 1, which are associated with a State fee for the organisation of lotteries, shall come into force at the same time as the coming into force of the Goods and Services Lotteries Law.

44. The norms of this Law, which regulate the specification of partnership taxable income and payment of tax applies also to business partnerships, but the norms, which regulate the application of tax to capital companies – also to incorporated companies.

45. [17 May 2007]

46. Amendments to Section 3, Paragraph four, Clause 3 of this Law shall come into force on 1 July 2013. Up to 30 June 2009, interest payments for companies associated with a Member State of the European Union or the permanent representative offices thereof shall apply the tax rates specified in Section 3, Paragraph four, Clause 3 of this Law, but from 1 July 2009 to 30 June 2013 – 5 per cent interest rate for all the interest payments specified in Section 3, Paragraph four, Clause 3 of this Law for companies associated with a Member State of the European Union or the permanent representative offices thereof.

47. Amendments to Section 3, Paragraph four, Clause 4 of this Law shall come into force on 1 July 2013. Up to 30 June 2013 the tax rate to be paid by companies associated with a Member State of the European Union or the permanent representative offices thereof shall be:

1) for the intellectual property referred to in Section 3, Paragraph four, Clause 4, Sub-clause "a" of this Law:

a) up to 30 June 2005 – 15 per cent,

b) from 1 July 2005 to 30 June 2009 – 10 per cent, and

c) from 1 July 2009 to 30 June 2013 – 5 per cent; and

2) for the intellectual property referred to in Section 3, Paragraph four, Clause 4, Sub-clause "b" of this Law – 5 per cent.

$47.^{1}$ Until 1 July 2013, the provision of Section 3, Paragraph twelve of this Law for the withholding of tax from interest payments and payments for intellectual property shall be applied in conformity

with the conditions prescribed in accordance with Paragraphs 46 and 47 of these Transitional Provisions.

48. Section 3, Paragraphs 4.^{3} and 4.^{4} of this Law shall come into force on 1 July 2005.

49. Section 6, Paragraph one, Clause 12 of this Law shall be applied in the taxation period, which commences in 2005.

50. Amendments to Section 6, Paragraph six of this Law shall be applied in the taxation period, which commences in 2004.

51. Amendments to Section 9, Paragraph one and Section 9, Paragraph 11 of this Law shall be applied in relation to debt losses the obligations of which were created after 1 January 2004.

52. [19 December 2006]

53. [19 December 2006]

54. If a capital company registered in the commercial register, in re-registering a not-for-profit undertaking or a not-for-profit company as a capital company, the taxation period for such capital company (for the calculation of enterprise income tax) shall begin on the day when it is registered in the commercial register. The first taxation period after the re-registration of such capital company may include a shorter or a longer period than 12 months, but not longer than 18 months.

54.^{1} If a co-operative society, which is recorded in the Enterprise Register makes amendments to its articles of association regarding the revocation of its not-for-profit organisation status, the taxation period of such co-operative (for the calculation of enterprise income tax) shall begin on the day when its amendments to its articles of association regarding the revocation of its not-for-profit organisation status have been registered in the Enterprise register.

55. If the value of shareholder capital shares or stock (hereinafter – capital shares) of a capital company are increased, in re-registering or reorganising a not-for-profit organisation (a not-for-profit undertaking or a not-for-profit company) as a capital company in accordance with Section 25 and 25.^{4} of the Law on Procedures for the Coming into Force of the Commercial Law, the taxable income of the shareholders of the capital company shall be increased by the increased value of the capital shares increased as a result of the referred to re-registration or reorganisation in the taxation period in which the value of the capital shares of the capital company were reduced or the capital shares of the capital company were alienated.

56. The taxable income of a shareholder in a capital company shall be reduced by the value of the increase in capital shares in respect of which increase the existing value of the capital shares in re-registering or reorganising a not-for-profit organisation (a not-for-profit undertaking or a not-for-profit company) as a capital company in accordance with Section 25 and 25.^{4} of the Law on

Procedures for the Coming into Force of the Commercial Law is increased. Corrections shall be performed in the taxation period in which the referred to increase in the value of the capital shares of the capital company was performed.

57. A shareholder in a capital company – non-resident, whose capital share value has increased in re-registering or reorganising a not-for-profit organisation (a not-for-profit undertaking or a not-for-profit company) as a capital company in accordance with Section 25 and 25.[4] of the Law on Procedures for the Coming into Force of the Commercial Law, the increased value of the capital shares increased as a result of the referred to re-registration or reorganisation shall be taxed with the enterprise income tax at the rate of 15 per cent in the taxation period in which the value of the capital shares of the capital company were reduced or the capital shares of the capital company were alienated. The payer of the income shall deduct the enterprise income tax at the moment of payment and pay it into the budget according to the procedures specified in Section 24 of this Law.

58. In paying a capital company shareholder – non-resident from the special reserves amounts which are paid into therein, in re-registering or reorganising a not-for-profit organisation (a not-for-profit undertaking or a not-for-profit company) as a capital company in accordance with Section 25 and 25.[4] of the Law on Procedures for the Coming into Force of the Commercial Law, from the not-for-profit undertaking (company) accumulated reserve fund (income exceeding expenditure) and which are not considered as capital company economic activity expenditures, the referred to amounts shall be taxed with the enterprise income tax at the rate of 15 per cent. The payer of the income shall deduct the enterprise income tax at the moment of payment and pay it into the budget according to the procedures specified in Section 24 of this Law.

58.[1] In paying a member of a co-operative society – non-resident – or a capital company shareholder or stockholder – non-resident – amounts from the special reserves formed in the accumulated reserve fund of a not-for-profit co-operative society (the excess of income over expenditure), which are paid into therein, in re-registering a not-for-profit co-operative society as a co-operative society or reorganising as a capital company, and which are not considered as co-operative society or capital company economic activity expenditures, the referred to amounts shall be taxed with the enterprise income tax at the rate of 15 per cent. The payer of the income shall withhold the enterprise income tax at the moment of payment and pay it into the budget according to the procedures specified in Section 24 of this Law.

59. Paragraph 55 of the Transitional Provisions shall be applied if the increase in the value of capital shares has been excluded from the taxable income, but Paragraph 56 shall be applied if the increase in the value of capital shares has been included from the taxable income.

60. The increase in the value of the capital shares of a capital company is the difference between the nominal value of the capital shares of the capital company after the increase in the value of capital shares in accordance with Section 25.[4] of the Law on Procedures for the Coming into Force of the Commercial Law and the nominal value of the capital shares before the referred to increase in the value of capital shares.

61. A not-for-profit organisation up to the reorganisation day thereof or the day of termination of activities is not an enterprise income taxpayer. The not-for-profit organisation in the taxation period

in which it is re-registered in the commercial register in the status of commercial company, for the time period from the beginning of the taxation period up to the day of re-registration is not an enterprise income taxpayer. The referred to not-for-profit organisation shall compile a balance sheet and a profit or loss account on the basis of the situation on the day of re-registration.

61.[1] A not-for-profit co-operative society up to the day when the Enterprise Register when its amendments to its articles of association regarding the revocation of not-for-profit co-operative society status are registered in the Enterprise Register, or the day of termination of activities is not an enterprise income taxpayer. The not-for-profit co-operative society in the taxation period in which it makes amendments to its articles of association regarding the revocation of not-for-profit co-operative society status, for the time period from the commencement of the taxation period to the day when its amendments to its articles of association regarding the revocation of not-for-profit co-operative society status are registered in the Enterprise Register, shall not pay enterprise income tax. The referred to not-for-profit co-operative society shall compile a balance sheet and a profit or loss account on the basis of the situation on the day when the amendments to the articles of association regarding the revocation of not-for-profit co-operative society status are registered in the Enterprise Register.

62. In determining the taxable income of the State stock company "Privatizācijas aģentūra", the income thereof shall be reduced by the amount of such deductions as are paid into reserves, which are established as a reserve fund in accordance with Section 5, Paragraph two of the Law On State and Local Government Privatisation Funds and regarding which payments into State and local government privatisation funds are reduced, if such deductions are utilised in accordance with regulatory enactments which regulate the establishment of reserve funds and the utilisation of funds thereof; on the other hand, the taxable income shall be increased by the amount which is taken from such reserves in the taxation period.

63. Enterprise income tax payers who in 2005 up to 31 March donate to the Latvian Cultural Fund, the Latvian Olympic Committee, the Latvian Children Fund, societies or foundations, or religious organisations are entitled to reduce their calculated taxes in the taxation period which commences in 2005 by the following amount (the total tax rebate in the taxation period for donated amounts in accordance with Section 20 of this Law and this Paragraph may not exceed 20 per cent of the total amount of tax):

1) if donated to the Latvian Cultural Fund, the Latvian Olympic Committee or the Latvian Children Fund – in the amount of 90 per cent of the donated amount; and

2) if donated to societies and foundations, which are registered in the Republic of Latvia as public, cultural, educational, scientific, sport, charitable, health and environmental protection organisations and funds, and religious organisations which have been granted or extended permits in 2004 to receive donations, the donors shall receive a rebate - in the amount of 85 per cent of the donated amount.

64. Public, cultural, educational, scientific, sport, charitable, health and environmental protection organisations and funds which are registered in the Republic of Latvia, and religious organisations which have been granted or extended permits in 2004 to receive donations, the donors to which being able to receive a rebate, and the Latvian Cultural Fund, the Latvian Olympic Committee and the Latvian Children Fund shall, not later than 1 March 2005, submit a public report regarding donors, the amounts donated by them and the use of sums regarding donations received in 2004.

65. The organisation referred to in Paragraph 63 of the Transitional Provisions in applying for the status of public benefit organisations shall submit to the Public Benefit Commission a report regarding donors, the amounts donated by them and the use of sums regarding donations received in 2005 up to 31 March.

66. Amendments to Section 2, Paragraph three and Section 3, Paragraph four, Clause 1.[1]; Section 6, Paragraph 5.[2]; Section 22, Paragraphs nine and ten, as well as Section 24, Paragraph 11 of this Law shall be applied with the taxation period, which commences in 2005. Amendments to Section 22, Paragraph eight of this Law shall be applied in submitting a declaration for the taxation period, which commences in 2005.

66.[1] Amendments to Section 20 of this Law in relation to the expression of Paragraph 2.[1] in a new text shall replace those amendments to Section 20 of this Law, which were made in accordance with the Law On Amendments to the Law On Enterprise Income Tax adopted by the *Saeima* on 20 October 2005 and which provide for the addition of Paragraph 2.[1] to Section 20.

67. If a not-for-profit co-operative society is recorded in the commercial register as a capital accompany or in the Enterprise Register are registered the amendments to the articles of association regarding the revocation of not-for-profit co-operative society status thereof, then from the reserve fund of the not-for-profit co-operative society accumulated during its period of activities shall be formed into special reserves. It is prohibited to pay out to capital company shareholders (stockholders) or members of the co-operative society during the period of activities of the capital company or co-operative society, the reserve fund of the not-for-profit co-operative society accumulated during its period of activities (the excess of income over expenditure), which is paid into the special reserve. The amounts paid out from the special reserves, which are paid into therein as the accumulated reserve fund of a not-for-profit co-operative society (the excess of income over expenditure) to members of the co-operative society or capital company shareholders in the case of liquidation or reorganisation, shall be taxed with the enterprise income tax according to procedures specified by law.

68. In applying Section 2, Paragraph two of this Law as enterprise income tax taxpayers up to the excluding thereof from the Enterprise Register in accordance with the Law on Procedures for the Coming into Force of The Commercial Law shall not be considered:

1) State undertakings the income from economic activities of which are intended for the State budget; and

2) not-for-profit organisations.

69. Taxpayers regarding whom up to 31 December 2005 a Cabinet decision has been taken regarding support for investment projects according to the procedures specified in Section 17.[1] of this Law (in the text, which was in force until 31 December 2005), have the right to commence the investment project, applying the rebate specified in Section 17.[1] at the moment when the decision of the European Commission has been received regarding support for the investment project also then if the decision of the European Commission has been taken after 31 December 2005.

70. The tax rebate specified in Section 19 of this Law shall be in force until 31 December 2005. A taxpayer is entitled to apply the referred to tax rebate for the whole of the taxation period, which commences in 2005.

71. Amendments to Section 2, Paragraph three; amendments to Section 6 in relation to the deletion of Paragraphs $5.^{1}$ and $5.^{2}$; Section 6, Paragraph $5.^{3}$; amendments to Section 13, Paragraph one, Clause 8; Section 13, Paragraphs ten and eleven; amendments to Section 22, Paragraph eight and Paragraph 61 of the Transitional Provisions, as well as Paragraphs $54.^{1}$, $58.^{1}$, $61.^{1}$ and 68 of the Transitional Provisions of this Law shall be applied in the taxation period, which commences in 2005.

72. Up to the day of the coming into force the relevant Cabinet regulations, but not later than by 1 July 2006, Cabinet Regulation No. 319 of 19 September 2000, Regulations on the Application of the Norms of the Law On Enterprise Income Tax, issued in accordance with Section 27 of this Law, insofar as they are not in contradiction to this Law.

73. Payers of enterprise income tax are individual undertakings (also farms and fishery farms), which up to 31 December 2006 were registered with the State Revenue Service as payers of enterprise income tax and in accordance with the norms of the Transitional Provisions of the Annual Accounts Law chose until the transformation thereof to prepare annual accounts in conformity with the norms of the referred to law. Individual undertakings (also farms and fishery farms), which were registered with the State Revenue Service as payers of enterprise income tax and in accordance with the norms of the Transitional Provisions of the Annual Accounts Law did not chose until the transformation thereof to prepare annual accounts in conformity with the norms of the referred to law are not payers of enterprise income tax, and they become payers of personal income tax.

74. Section 2, Paragraph two, Clause 8 of this Law shall be applied commencing with the taxation period, which commences in 2006.

75. Amendments to Section 11, Paragraphs four and five of this Law shall be applied regarding dividends, which are calculated commencing with the taxation period, which commences in 2006.

76. Amendments to Section $14.^{1}$, Paragraphs two, three, six, Paragraph $6.^{1}$, amendments to Paragraph seven, Paragraph $7.^{1}$, amendments to Paragraphs eight, nine, ten, eleven, twelve and Paragraph twenty shall be applied commencing with the taxation period, which commences in 2006.

77. Section 1, Paragraph twenty-six; Section 6, Paragraph one, Clauses 13 and 14 and Section 13, Paragraph one, Clauses 31, 81 and 82 shall be applied to passenger cars, motorcycles, sea and river means of transport and air means of transport, which were acquired after the coming into force of such norms of the law, which determine the status of representation passenger cars.

78. Section 3, Paragraph $4.^{6}$, Section 6, Paragraph four, Clause 12 and Paragraph seventeen, Section $10.^{1}$ and Section 13, Paragraph $4.^{1}$ of this Law shall be applied from the taxation period starting in

2009.

79. The amendment to Section 14, Paragraphs one, 1.[2], 1.[3], eight and 8.[1] of this Law in relation to the replacement of word "five" (in the relevant declension) with the word "eight" (in the relevant declension) shall be applied from the taxation period starting in 2010. Until the day the amendments to Section 14 of this Law referred to in this Paragraph are applied, the taxpayer has the right to cover the losses in the previous taxation periods according to the following procedure:

1) in the taxation period starting in 2008, the taxpayer has the right to cover those losses of the previous taxation periods which he or she had the right to cover in the taxation period of 2007 but which he or she was not able to cover due to the amount of taxable income; and

2) in the taxation period starting in 2009, the taxpayer has the right to cover those losses of the previous taxation periods which he or she had the right to cover in the taxation periods of 2007 or 2008 but which he or she was not able to cover due to the amount of taxable income.

80. A State-founded institution of higher education, State scientific institute and State higher education institution's scientific institute, which until 2013 receives the financing of the European Union Structural Funds, in applying Section 2, Paragraph two of this Law shall not pay enterprise income tax on the income of economic activity until the end of the taxation period in which the relevant project financed from the European Union Structural Funds is ceased to be implemented, but not later than until 31 December 2015.

81. Section 7.[1] of this Law shall be applied to income or loss from the alienation of the stock, if the stock has been acquired pursuant to the Paragraph one of the referred to Section starting from 1 June 2009 until 31 December 2011. Section 2.[1], Paragraphs one and three of this Law shall be applied from 1 June 2009 until 31 December 2011.

82. [24 September 2009]

83. [24 September 2009]

84. [24 September 2009]

85. Payers of the enterprise income tax shall apply tax rebate in accordance with the provisions of Section 20.[1] of these Regulation for donations performed during the validity of Section 8.[2] of this Law. The total tax rebate in accordance with the provisions of Sections 20 and 20.[1] of these Regulations may not exceed 20 per cent of the total amount of tax in a taxation period, which commences in 2009.

86. In calculating the advance payment in accordance with Section 23, Paragraph one, Clause 1 or 2 or Paragraph 1.[1], Clause 1 of this Law, a taxpayer, who has applied the tax rebate specified in Section 20 of this Law which was in force until 30 June 2009 in the taxation period which commences in 2009, shall, in addition to the provisions specified in Section 23 of this Law, not take into account the tax rebate calculated in accordance with Section 20 of this Law in the calculation

of the advance payments for the taxation period which commences in 2010.

87. Taxpayers are entitled to apply the tax rebate specified in Section 20.[1] of this Law starting from the taxation year of 2011 for the amounts donated to the societies and foundations registered in another Member State of the European Union or the European Economic Area, and religious organisations or the institutions thereof, to which the status comparable to the public benefit organisation status in accordance with the relevant laws of the Member State of the European Union or the European Economic Area has been granted.

88. Amendments to Section 6.[4], Paragraph four, Section 6.[4], Paragraphs 4.[1] and 4.[2], as well as the amendments to Section 6.[4], Paragraph five of this Law shall be applied starting from the taxation period, which commences in 2010.

[4 February 1999; 25 November 1999; 23 November 2000; 8 February 2001; 22 November 2001; 19 June 2003; 20 December 2004; 20 October 2005; 8 December 2005; 19 December 2006; 17 May 2007; 1 November 2007; 14 November 2008; 12 June 2009;16 June2009; 24 September 2009; 15 October 2009]

89. Amendments to Section 2, Paragraph two, Clause two of this Law shall be applied starting from the taxation period, which commences in 2010, if the taxpayer has ensured the accounting in accordance with the Annual Accounts Law from 1 January 2010.
[1 June 2010]

90. An individual undertaking or a farm or fishing holding, which has performed the re-registration from the status of the payer of personal income tax to the status of the payer of enterprise income tax in 2010, may make advance payments for the time period from the month of re-registration until the date of submitting the annual account for 2010 voluntarily.
[1 June 2010]

91. If an individual undertaking or a farm or fish holding performs the re-registration from the status of the payer of personal income tax to the status of the payer of enterprise income tax in 2010, then the advance payments of personal income tax made by the relevant individual undertaking or the farm or fish holding in 2010 shall be directed to advance payments of enterprise income tax for 2010.

[1 June 2010]

92. Section 6, Paragraph eighteen of this Law shall be applied from the taxation period commencing in 2011.

[9 August 2010]

93. Amendments to Section 13, Paragraph eight of this Law in relation to the supplementation thereof with the third sentence shall be applied from the taxation period commencing in 2009.

[9 August 2010]

Informative References to the Directives of the European Union

This Law includes legal norms, which arise from:

1) Council Directive 90/434/EEC of 23 July 1990 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States;

2) Council directive of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States;

3) Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States;

4) Council Directive 2003/123/EC of 22 December 2003 amending Directive 90/435/EEC on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States;

5) Council Directive 2004/66/EC of 26 April 2004 adapting Directives 1999/45/EC, 2002/83/EC, 2003/37/EC and 2003/59/EC of the European Parliament and of the Council and Council Directives 77/388/EEC, 91/414/EEC, 96/26/EC, 2003/48/EC and 2003/49/EC, in the fields of free movement of goods, freedom to provide services, agriculture, transport policy and taxation, by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia;

6) Council Directive 2004/76/EC of 29.4.2004 amending directive 2003/49/EC as regards the possibility for certain member states to apply transitional periods for the application of a common system of taxation applicable to interest and royalty payments made between associated companies of different member states;

7) Council Directive 2005/19/EC of 17 February 2005 amending Directive 90/434/EEC 1990 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States; and

8) Council Directive 2006/98/EC of 20 November 2006 adapting certain Directives in the field of taxation, by reason of the accession of Bulgaria and Romania.

[19 June 2003; 20 December 2004; 20 October 2005; 17 May 2007]

This Law shall come into force on 1 April 1995.

This Law has been adopted by the *Saeima* on 9 February 1995.

President G. Ulmanis

Rīga, 1 March 1995

Law On Enterprise Income tax

Companies of the Member States of the European Union to which Section 1, Paragraph nineteen of this Law applies, and the types of such companies in conformity with original form of the terms in the legislation of the Member States

1. Companies incorporated under the law of the United Kingdom.

2. Companies under Austrian law known as "*Aktiengesellschaft", "Kommanditgesellschaft auf Aktien", "Gesellschaft mit beschränkter Haftung", "Versicherungsverein auf Gegenseitigkeit", "Erwerbsund Wirtschaftsgenossenschaft", "Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts"*, and other companies constituted under Austrian law and to which the tax referred to in Paragraph 2 of Annex 2 of this Law applies.

3. Companies under Belgian law known as "*société anonyme"/"naamloze vennootschap", "société en commandite par actions"/"commanditaire vennootschap op aandelen", "société privée à responsabilité limitée"/"besloten vennootschap met beperkte aansprakelijkheid", "société coopérative à responsabilité limitée"/"coöperatieve vennootschap met beperkte aansprakelijkheid", "société coopérative à responsabilité illimitée"/"coöperatieve vennootschap met onbeperkte aansprakelijkheid", "société en nom collectif"/"vennootschap onder firma", "société en commandite simple"/"gewone commanditaire vennootschap"*, public undertakings which have adopted one of the abovementioned legal forms, and other companies constituted under Belgian law and to which the tax referred to in Paragraph 3 of Annex 2 of this Law applies.

4. Companies under Bulgarian law known as: "*събирателното дружество", "командитното дружество", "дружеството с ограничена отговорност", "акционерното дружество", "командитното дружество с акции", "неперсонифицирано дружество", "кооперации", "кооперативни съюзи" "държавни предприятия"* constituted under Bulgarian law and

carrying on commercial activities.

5. Companies under Czech law known as: "*akciová společnost", "společnost s ručením omezeným"*.

6. Companies under Danish law known as '*aktieselskab'* and '*anpartsselskab'* or other companies subject to tax under the Corporation Tax Act, insofar as their taxable income is calculated and taxed in accordance with the general tax legislation rules applicable to '*aktieselskaber'*.

7. Companies under French law known as "*société anonyme", "société en commandite par actions", "société à responsabilité limitée", "sociétés par actions simplifiées", "sociétés d'assurances mutuelles", "caisses d'épargne et de prévoyance", "sociétés civiles",* which are automatically subject to corporation tax, 'coopératives', 'unions de coopératives', industrial and commercial public establishments and undertakings, and other companies constituted under French law and to which the tax referred to in Paragraph 6 of Annex 2 of this Law applies.

8. Companies under Greek law known as '*ανώνυμη εταιρεία*', '*εταιρεία περιωρισμένης ευθύνης (Ε.Π.Ε.)*' and other companies constituted under Greek law and to which the tax referred to in Paragraph 7 of Annex 2 of this Law applies.

9. Companies under Estonian law known as: "*täisühing", "usaldusühing", "osaühing", "aktsiaselts", "tulundusühistu"*.

10. Companies under Italian law known as "*società per azioni", "società in accomandita per azioni", "società a responsibilità limitata", "società cooperative", "società di mutua assicurazione"*, and private and public entities whose activity is wholly or principally commercial.

11. Companies incorporated or existing under Irish law, bodies registered under the *Industrial and Provident Societies Act,* building societies incorporated under the *Building Societies Acts* and trustee savings banks within the meaning of the *Trustee Savings Banks Act*, 1989.

12. Under Cypriot law: "εταιρείες" as defined in the Income Tax laws.

13. Companies incorporated under the law of Lithuania.

14. Companies under Luxembourg law known as "*société anonyme", "société en commandite par actions", "société à responsabilité limitée", "société coopérative", "société coopérative organisée comme une société anonyme", "association d'assurances mutuelles", "association d'épargne-pension", "entreprise de nature commerciale, industrielle ou minière de l'Etat, des communes, des syndicats de communes, des établissements publics et des autres personnes morales de droit public"*, and other companies constituted under Luxembourg law and to which the tax referred to in Paragraph 14 of Annex 2 of this Law applies.

15. Companies under Maltese law known as: "Kumpaniji ta' Responsabilita' Limitata", "Soċjetajiet in akkomandita li l-kapital tagħhom maqsum f'azzjonijiet".

16. Companies under Dutch law known as "*naamloze vennnootschap", "besloten vennootschap met beperkte aansprakelijkheid", "Open commanditaire vennootschap", "Coöperatie", "onderlinge waarborgmaatschappij", "Fonds voor gemene rekening", "vereniging op coöperatieve grondslag", "vereniging welke op onderlinge grondslag als verzekeraar of kredietinstelling optreedt"*, and other companies constituted under Dutch law and to which the tax referred to in Paragraph 16 of Annex 2 of this Law applies.

17. Companies under Polish law known as: "*spółka akcyjna", "spółka z ograniczoną odpowiedzialnością"*.

18. Commercial companies or civil law companies having a commercial form and co-operatives and public undertakings incorporated in accordance with Portuguese law.

19. Companies under Romanian law known as: "*societăţi pe acţiuni", "societăţi .n comandită pe acţiuni", "societăţi cu răspundere limitată"*.

20. Companies under Slovak law known as: "*spółka akcyjna", "spółka z ograniczoną odpowiedzialnością"*.

21. Companies under Slovenian law known as: "*delniška družba", "komanditna družba", "družba z omejeno odgovornostjo"*.

22. Companies under Finnish law known as '*osakeyhtiö/aktiebolag', 'osuuskunta/ andelslag','säästöpankki/sparbank'and 'vakuutusyhtiö/ försäkringsbolag'*.

23. Companies under Spanish law known as: '*sociedad anónima', 'sociedad comanditaria por acciones', 'sociedad de responsabilidad limitada'*, public law bodies which operate under private law. Other entities constituted under Spanish law and to which the tax referred to in Paragraph 22 of Annex 2 of this Law applies.

24. Companies under Hungarian law known as: "*közkereseti társaság", "betéti társaság", "közös vállalat", "korlátolt felelősségű társaság", "részvénytársaság", "egyesülés", "szövetkezet"*.

25. Companies under German law known as "*Aktiengesellschaft*", "*Kommanditgesellschaft auf Aktien", "Gesellschaft mit beschränkter Haftung", "Versicherungsverein auf Gegenseitigkeit", "Erwerbs- und Wirtschaftsgenossenschaft", "Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts"*, and other companies constituted under German law and to which the tax referred to in Paragraph 24 of Annex 2 of this Law applies.

26. Companies under Swedish law known as "*aktiebolag", "försäkringsaktiebolag", "ekonomiska föreningar", "sparbanker", "ömsesidiga försäkringsbolag"*.

27. Companies incorporated under Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE) and Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees and co-operative societies incorporated under Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Co-operative Society and Council Directive 2003/72/EC of 22 July 2003 supplementing the Statute for a European Cooperative Society with regard to the involvement of employees.

[17 May 2007]

Annex 2

Law On Enterprise Income tax

Company income tax of the Member States of the European Union to the payers of which Section 1, Paragraphs nineteen and 19[1] of this Law applies, and the types of such taxes in conformity with original form of the terms in the legislation of the Member States

1. Corporation tax in the United Kingdom.

2. *Körperschaftsteuer* in Austria.

3. *Impōt des sociétés/vennootschapsbelasting* in Belgium.

3.[1] *Корпоративен данък* in Bulgaria.

4. *Daň z příjmů prįvnickżch osob* in the Czech Republic.

5. *Selskabsskat* in Denmark.

6. *Impōt sur les sociétés* in France.

7. *φόρος εισοδήματος νομικών προσώπων κερδοσκοπικού χαρακτήρα* in Greece.

8. *Tulumaks* in Estonia.

9. *Imposta sul reddito della societa* in Italy.

10. Corporation tax in Ireland.

11. *Φόρος Εισοδήματος* in Cyprus.

12. *Uzņēmumu ienākuma nodoklis* in Latvia.

13. *Pelno mokestis* in Lithuania.

14. *Impōt sur le revenu des collectivités* in Luxembourg.

15. *Taxxa fuq l-income* in Malta.

16. *Vennootschapsbelasting* in the Netherlands.

17. *Podatek dochodowy od osób prawnych* in Poland.

18. *Imposto sobre o rendimento das pessoas colectivas* in Portugal.

18.[1] *Impozit pe profit, impozitul pe veniturile obţinute din România de nerezidenţi* in Rumania.

19. *Daň z prķjmov prįvnickżch osōb* in Slovakia.

20. *Davek od dobička pravnih oseb* in Slovenia.

21. *Yhteisöjen tulovero/inkomstskatten för samfund* in Finland.

22. *Impuesto sobre sociedades* in Spain.

23. *Tįrsasįgi adó, osztalékadó* in Hungary.

24. *Körperschaftsteuer* in the Federal Republic of Germany.

25. *Statlig inkomstskatt* in Sweden.
[17 May 2007]

Annex 3

Law On Enterprise Income tax

Companies of the Member States of the European Union to which Section 1, Paragraph 19[1] of this Law applies, and the types of such companies in conformity with original form of the terms in the legislation of the Member States

1. Companies which are registered under the law of the United Kingdom.

2. Companies under Austrian law known as ‘Aktiengesellschaft’ and ‘Gesellschaft mit beschränkter Haftung’.

3. Companies under Belgian law known as ‘société anonyme’/‘naamloze vennootschap’,‘société en commandite par actions’/‘commanditaire vennootschap op aandelen’, ‘société privée ą responsabilité limitée’/ ‘besloten vennootschap met beperkte aansprakelijkheid’.

3.[1] Companies under Bulgarian law known as: “събирателното дружество”, “командитното дружество”, “дружеството с ограничена отговорност”, “акционерното дружество”, “командитното дружество с акции”, “кооперации”, “кооперативни съюзи”, “държавни предприятия” constituted under Bulgarian law and carrying on commercial activities.

4. Companies under Czech law known as: “akciová společnost”, “společnost s ručením omezeným”, “veřejná obchodní společnost”, “komanditní společnost”, “družstvo”.

5. Companies under Danish law known as ‘aktieselskab’ and ‘anpartsselskab’.

6. Companies under French law known as ‘société anonyme’, ‘société en commandite par actions’, ‘société ą responsabilité limitée’ and industrial and commercial public establishments and undertakings.

7. Companies under Greek law known as ‘*ανώνυμη εταιρεία*’.

8. Companies under Estonian law known as: “täisühing”, “usaldusühing”, “osaühing”, “aktsiaselts”, “tulundusühistu”.

9. Companies under Italian law known as: ‘società per azioni, società in accomandita per azioni, società a responsabilitą limitata’ and public and private entities carrying on industrial and commercial activities.

10. Companies in Irish law known as public companies limited by shares or by guarantee, private companies limited by shares or by guarantee, bodies registered under the Industrial and Provident Societies Acts or building societies registered under the Building Societies Acts.

11. Companies under Cypriot law known as: companies in accordance with the Company's Law, Public Corporate Bodies as well as any other Body which is considered as a company in accordance with the Income tax Laws.

12. Companies under Latvian law known as: “akciju sabiedrība”, “sabiedrība ar ierobežotu atbildību”.

13. Companies which are registered under the law of Lithuania.

14. Companies under Luxembourg law known as ‘société anonyme’, ‘société en commandite par actions’, ‘société ą responsabilité limitée’.

15. Companies under Maltese law known as: “Kumpaniji ta' Responsabilita' Limitata”, “Soċjetajiet in akkomandita li l-kapital tagħhom maqsum f'azzjonijiet”.

16. Companies under Dutch law known as ‘naamloze vennnootschap’, ‘besloten vennootschap met beperkte aansprakelijkheid’.

17. Companies under Polish law known as: “spółka akcyjna”, “spółka z ograniczoną odpowiedzialnością”.

18. Commercial companies or civil law companies having a commercial form and co-operatives and public undertakings incorporated in accordance with Portuguese law.

18.[1] Companies under Romanian law known as: “societăţi pe acţiuni”, “societăţi .n comandită pe acţiuni”, “societăţi cu răspundere limitată”.

19. Companies under Slovak law known as: “akciová spoločnos”, “spoločnosť s ručením obmedzeným”, “komanditná spoločnos”, “verejná obchodná spoločnos”, “družstvo”.

20. Companies under Slovenian law known as: “delniška družba”, “komanditna delniška družba”, “komanditna družba”, “družba z omejeno odgovornostjo”, “družba z neomejeno odgovornostjo”.

21. Companies under Finnish law known as ‘osakeyhtiö/aktiebolag’, ‘osuuskunta/ andelslag’,‘säästöpankki/sparbank’and ‘vakuutusyhtiö/ försäkringsbolag’.

22. Companies under Spanish law known as: ‘sociedad anónima’, ‘sociedad comanditaria por acciones’, ‘sociedad de responsabilidad limitada’, and public law bodies which operate under private law.

23. Companies under Hungarian law known as: “közkereseti társaság”, “betéti társaság”, “közös vállalat”, “korlátolt felelősségű társaság”, “részvénytársaság”, “egyesülés”, “közhasznú társaság”, “szövetkezet”.

24. Companies under German law known as: ‘Aktiengesellschaft, Kommanditgesellschaft auf Aktien, Gesellschaft mit beschränkter Haftung’ and ‘bergrechtliche Gewerkschaft’.

25. Companies under Swedish law known as ‘aktiebolag’, ‘försäkringsaktiebolag’.

[17 May 2007]

Transitional Provisions Regarding Amendments

to the Law On Enterprise Income Tax

Transitional Provision

(regarding amending law of 29 February 1996)

The tax from payments to non-residents, which is withheld in accordance with Section 3, Paragraph eight of the Law On Enterprise Income Tax, shall be withheld from the payments which are conducted from and after 1 April 1996.

Transitional Provisions

(regarding amending law of 5 June 1996)

1. This Law applies to calculations of taxable income as of the 1996 taxation year.

2. In applying Section 9 of the Law on Enterprise Income Tax, the taxable income may be reduced by the amount of bad debts which have occurred before 1 January 1996 if such amounts have been written off in the financial accounting of the undertaking; notwithstanding, all other conditions of the section referred to shall be complied with.

3. The norms of Section 6 of this Law (Section 17 of the Law on Enterprise Income Tax) are also applicable to the 1995 taxation year.

Transitional Provisions

(regarding amending law of 13 March 1997)

1. The provisions of this Law apply to the determination of taxable income of an undertaking commencing with 1997, if it is not provided otherwise in these Transitional Provisions.

2. The amendments to Paragraph one, Clause 6 and Paragraph four, Clause 3 of Section 6, and Paragraph one, Clause 2 of Section 9, shall be applied in calculating taxable income for the period commencing as of 1 January 1996.

3. Undertakings providing energy, in calculating tax for 1996, may reduce taxable income, in accordance with procedures prescribed by Cabinet, by the amount that is equal to reserves in their accounting for unrecoverable debts.

4. Amendments to Paragraph two of Section 2 and Paragraphs six and thirteen of Section 6 shall come into force simultaneously with the Law on Private Pension Funds coming into force.

Transitional Provision

(regarding amending law of 10 September 1998)

The provisions of this Law shall be applicable in determining taxable income as of 1 January 1998.