

## Second Vote Scheduled for Micro-Enterprise Law Amendments

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## Second Vote Scheduled for Micro-Enterprise Law Amendments

On November 6 the Saeima (Latvian Parliament) will consider in a second reading draft amendments to the Micro-enterprise Tax Law that would bar members of a partnership from being micro-enterprise taxpayers.

Micro-enterprise taxpayers pay a preferential tax rate of 9 percent on turnover (the standard corporate tax rate is 15 percent). To qualify for micro-enterprise taxpayer status, employee income must not exceed LVL 500 (about \$980) per month, turnover must not exceed LVL 70,000 (about \$137,000) per year, and the number of employees must not exceed five.

The amendments would enter into force on July 1, 2014. This will allow a transitional period for members of partnerships to withdraw from them. In the meantime, micro-enterprise taxpayers that are partnership members will be subject to a higher tax rate of 20 percent on the portion of partnership profit concerning the micro-enterprise.

The amendments would also restrict taxable persons registered as micro-enterprise taxpayers from paying personal income tax or patent fees out of economic

activity income. This restriction would not apply to micro-enterprise taxpayers who have passive economic activity income (for example, from lease of property) and apply to that income article 11(12) of the Law on Personal Income Tax.

The amendments also state that if a micro-enterprise gives its employee a loan, which according to the Law on Personal Income Tax is equivalent to income, that income should not be included as employee income and should be taxed according to the provisions of the Law on Personal Income Tax.

From July 1, 2014, any payment an employee or owner receives from the micro-enterprise for a business trip or other business matter will be considered cash or noncash advance payments if not repaid within 90 days (of the trip in case of a business trip or the payment in other cases).

The amendments would also introduce a provision that would allow a waiver of the higher micro-enterprise tax rate if the taxpayer has shown a steady increase in turnover in the prior three tax years. ◆

♦ *Valters Gencs, tax attorney and founding partner, Gencs Valters Law Firm, Riga*