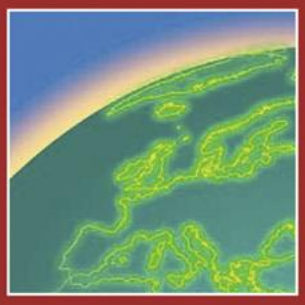
DOING BUSINESS GUIDE IN LATVIA



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Taxation

1. General Principles

The law "On Taxes and Fees", originally adopted in February 1995, sets out the general taxation principles in Latvia.

The general, overriding principle used in the application of tax laws is that, in cases where matters are regulated by a special law, the special law (e.g. VAT, corporate income tax) will apply rather than the general law "On Taxes and Fees".

According to the law, fees are imposed either by the state or municipalities. The state imposes fees on a number of different items. The most common state fees are:

1. Company registration fee 142,29 Euro for limited liability company [SIA] registration within 3 business days; 426,87 Euro - company registration within one business day, plus publication 27,03 Euro in official newspaper. If company has only one shareholder, company is registered within 1 business day with state duty 142,29 Euro. Euro 355,72 for joint stock company [AS] registration within 1 business days plus publication 27,03 Euro. Limited liability company [SIA] with share capital less then 2800 Euro is registered with state duty 21,34 Euro, company is registered within one business day with state duty 64,02 Euro, plus publication 14,23 Euro in official newspaper.
2. Amendments to the Articles of Association cost 14,23 Euro for registration within 3 business days, 42,69 Euro for registration within 1 business day. Registration of changes to the Board and other records costs 14,23 Euro (registration within 3 business days) and 42,69 Euro (registration within 1 business day), plus publication 9,25 Euro.
3. The duty for the registration of a new branch (performing commercial activity and without legal entity status) is 28,46 Euro for registration within 3 business days, 85,38 Euro- within one business day, plus publication 18,50 Euro. The registration of respective amendments duty is 14,23 Euro for registration within 3 business days, 42,69 Euro within one business day, plus publication 9,25 Euro.
4. The duty for the registration of a new representative office (not performing commercial activity and without legal entity status) of a foreign entity or organization is 28,46 Euro for registration within 3 business days, 85,38 Euro- within 1 business days. The registration of respective amendments duty is 14,23 Euro for registration within 3 business days, 42,69 Euro- within 1 business day, plus publication 9,25 Euro.
5. The duty for reorganization registration is: 1) the registration of draft agreement is 14,23 Euro within 3 business days, 42,69 Euro for registration within 1 business day, plus publication 9,25 Euro, if the result of the reorganization of a new company has been established, then each new SIA (limited liability company) will cost 142,29 Euro, but each new AS (joint stock company) 355,72

Euro for registration within 3 business days, plus 28,46 Euro for registration, plus publication 9,25 Euro and for each new company 27,03 Euro.

6. Regarding immigration, the state duty for a residence permit is 99,60 Euro if permit is prepared in 30 days, 241,89 Euro if permit is prepared in 10 working days and 384,18 Euro if permit is prepared in 5 working days. In order to receive work a permit residence a permit is necessary and the foreigner has to register asa tax payer in Latvia. There is no state duty for EU citizens.
7. Registration of the transfer of real estate and property ownership in the Land Register, with a sales agreement for legal persons, is subject to duty at 2% of the value of the property, not more then 42686,15 Euro, but, where the transfer is a gift, the duty is 3% of the value of the property, not more then 71143,59 Euro.
8. Fitting one trademark for one class of goods or services, registration 85,37 Euro.

Taxes levied by the central government are:

1. Corporate income tax, including withholding taxes/ Enterprise Income Tax
2. Gambling and lottery tax
3. Value Added tax
4. State Social insurance Mandatory Contributions
5. Personal income tax
6. Real estate tax
7. Natural resources tax
8. Excise tax
9. Customs duty
10. Tax on Cars and Motorcycles
11. Vehicle operating tax
12. Company Car Tax
13. Electricity tax
14. Microenterprise tax
15. Subsidary Electricity tax

Taxpayers are entitled to defer payment of certain taxes for a period of three months to one year subject to prior approval by the tax authorities. Unpaid taxes are subject to a late-payment fee at the rate of 0.05% per day behind schedule. Late payment amounts cease to increase when the late payment equals the original debt amount.

The amount of tax penalties imposed depends on the type of tax non-compliance and extend of the delay. Late filing of tax declarations result in penalties of no more than 70 Euro if filed less than 15 days after the due date, no more than 280 Euro if filed less than 30 days late, and no more than 700 Euro if filed more than 30 days late.

In the case of evasion of taxes and payments imposed together therewith, as well as the concealment (reduction) of income, profit or other object to which taxes may be applied a fine shall be imposed on natural persons or a board member the in an amount from

140 EUR up to 2100 EUR, with or without forfeiting the right to hold certain positions in commercial companies or not.

A taxpayer is allowed to make voluntary corrections to a tax declaration for a 3-year period after the payable term, if an audit by the tax administration has not been commenced. That results in the cancellation of any penalties pending for tax non-compliance.

Decisions of the tax authorities may be appealed to the Director of the State Revenue Service within a one-month period from the day it comes into effect. The decisions of the Director General of the State Revenue Service shall be appealed to a court.

2. Personal Income Tax

The law "On Personal Income Tax", adopted in 1993, sets out taxation of individuals' personal income.

Expatriates are liable for Latvian taxes depending on their tax residency. Latvian residents are taxable for their worldwide income. Non-Latvian residents are liable for their income derived in Latvia.

Pursuant to the domestic legislation, an individual will be regarded as a resident of Latvia, if:

- the permanent place of residence of that person is Latvia; or
- the person resides in Latvia for 183 days or longer in any given 12-month period commencing or finishing during the taxation year; or
- the person is a citizen of the Republic of Latvia employed abroad by the Latvian government.

As a general rule, persons who do not match to the above-mentioned categories are considered to be non-residents of Latvia for tax purposes.

An individual, who has not been considered to be a resident during the year prior to that when taxation is due, is considered to be a resident from the date they entered Latvia during the taxation year.

An individual, who is not considered to be a resident during a post-taxation year, is not considered to have been a resident for that period of the taxation year after the date that they left Latvia, provided that during that period the person had closer ties with another country than with Latvia.

Closer ties with another country may be demonstrated by ownership of property in that country, contributions to that country's social security system, or the fact that the expatriate's family is residing abroad.

An actual presence test is used to ascertain how many days an individual has been in Latvia. When the test is applied, the following days are included in the calculation as full days: days of partial presence (less than 24 hours), days of entry and departure, Saturdays and Sundays, public holidays, days of annual leave, and periods of illness, except when the illness has prevented the departure of the person.

On the other hand, certain periods are not included when determining residency. These are periods of less than 24 hours spent in transit in the course of a trip between two points outside Latvia.

Taxation of Latvian residents

Minimal wage is 360 Euro. Latvian residents are liable to personal income tax that is withheld at source and remitted to the tax authorities at a flat rate of 23%.

The taxable income of residents is computed as in Table 1, below.

Table 1. **Taxation of Latvian residents**

Gross income	**1'000**
Personal allowance	75
Allowance for dependants	165
Social security tax of 10,5% (on a monthly basis)	105
Deductible expenses incurred in the course of obtaining intellectual property rights (on an annual basis)	
Deductible expenses for health care and education (EUR 213,43) per person and (EUR 213,43) per dependant (on an annual basis)	
Donations to qualifying organizations (annually)	
Contributions to private pension funds and insurance premium	
(10% of gross income)	
Equals: taxable income	529.86
Times: tax rate of 23%	188,60
Gross income less social tax and personal income tax	
Equals: income after taxes	**706,40**

Annual income tax declarations must be submitted by June 1 of the following year.

Exempt income

Certain individual income is exempt from income tax in Latvia. A brief summary of exempt items is specified below:

- income from agricultural production and the provision of rural tourism services, if it does not exceed 2845 Euro a year;
- lottery wins;
- income obtained as a result of inheritance, except author's fees (royalty) which is paid to the inheritors of the copyright;
- allowance (alimony);
- income from sale of personal property excluding income from sale of object created or obtained for selling and income from capital and capital gain;
- income from sale of immovable property that is owned by seller more than 60 months and is declared as his domicile at least 12 months prior concluding the purchase agreement;
- compensation paid by an employer to an individual (final consumer), provided the individual purchases a certain amount of goods from that company;
- insurance monies received – except compensation payments for life, health or accident insurance if premiums were paid by employers – upon expiration or breach of agreements;
- gifts from individuals in an amount of up to 1425 Euro per taxation year or with no limit if it is received from relative;
- income derived from Latvian state or municipality treasury bills;
- certain business travel expenses;
- a number of government benefits;
- dividends paid by Latvian or EU, EEZ member state companies;
- income from deposits in banks registered in Latvia or EU, EEZ member states;
- income from the sale of personal property, which has been held for a period more than 12 months starting from the day the property is registered in the Land Register;
- sale of investment certificates.

Taxation of self employed persons

Until 1st January 2008 there were differences in taxation between an individual who are engaged in a business activity and taxation of companies. It was a discrimination between two different types of taxpayers both undertakinghe same activity but beingtaxed at different levels – an individual at 25% rate but a company at 15% rate. Since 1st January 2008 the law provides that an individual who is engaged in a business activity may choose to pay a fixed income tax if the income does not exceed 14229 Euro per annum. However fixed income tax can not pay, if the economic operator provides professional services. The rate of such tax depends on the amount of income gained by this taxpayer (approximately 5% from income). However, if the income exceeds 14229 Euro an individual shall pay 722,45 Euro plus 7% from sum that exceeds 14229 Euro to tax authorities.

From January 1, 2014 new fixed-income taxpayers are not registered any more. Fixed income tax regime will no longer apply from 1 January 2016. Fixed-income taxpayers that thas been registered until the end of 2013 will be able to continue to apply that tax scheme until 31 December 2015.

When the individual has not chosen to pay the fixed income tax the tax rate for individuals who are engaged in a business activity is set at 23%.

There are few exemptions from this taxation system. For example, if an individual is economically dependent from the person to whom services are provided, received remuneration will be considered as salary and 23% income tax still will be payable, however, the person from whom the individual is economically dependent will pay the tax to tax authorities.

Taxation of non-residents

Personal income tax paid abroad may be credited against tax payable in Latvia, but not more than *23%* of the income taxed abroad. To credit foreign paid tax, statements from foreign tax authorities must be submitted to the Latvian tax authorities. Allowances and deductions are not permitted for non-residents.

Expatriates who have received remuneration abroad and stayed in Latvia for more than 183 days within any 12 month period starting or ending within a year, or who have received Latvian residence permit, must fill a Latvian individual income tax declaration, except where tax treaty exemptions are applicable.

Below are some guidelines on how to become fully taxable in Latvia and obtain personal tax exemptions in home countries.

Norwegian expatriates

Individuals may become non-taxable in Norway if they stay abroad for 1 year and submit proof of foreign tax paid, or if they stay outside Norway for 4 years.

Swedish expatriates

If Swedish residents stay out of Sweden for more than 6 months, and are not in Sweden for more than 36 days, their income may be exempt from tax in Sweden.

Austrian expatriates

Only individuals having their residence or their habitual place of abode within Austria are taxable on their world-wide income. Residence will be assumed to be at the place where the tax subject is staying if circumstances lead to the opinion that they will continue to keep and use this home. The habitual place of abode is assumed to be in Austria, if the person's stay in Austria is not merely temporarily (a stay of less than 6 months).

Taxation of capital gains

Capital gain is the difference between sales price of capital asset and value of acquisition, as well as difference between liquidation quota and value of investment.

The value of acquisition depends on how the capital asset is acquired.

Income from capital gain is taxed at a rate of **15%**.

Regarding income gained by non-resident from sale of capital assets (other than financial instruments) based in Latvia, the income is taxed at a rate of 2% if the payer of income withholds the tax at the place of income payment.

Capital gains are summed in the taxation period if within the taxation period several capital assets are sold. If the calculated capital gain or its total amount is negative, it is ignored for tax purposes. However, if the capital gains of the taxation year from the sale of one capital asset is negative, but from the other – positive, the resulting losses may be covered by the positive capital gain.

Income from capital other than capital gain is taxed at a rate **10%**.

Income from capital other than capital gain under Latvian law includes dividends from company shares and stocks and income from other rights (not deriving from debt obligations) to participate in distribution of profit and income from private partnerships, interest income and similar income, also income related to interest income, income from investment in private pension funds and incomes from life insurance agreements with savings;

In general, the day when income is deemed to be received, is the day when a person receives money or another form of payment.

If the income from capital gain is to be received during several taxation periods, it is deemed that income is gained in that taxation period, when the income is actually received.

If the income from capital gain is to be received in more than 3 taxation periods (as from the year of sale agreement), it is deemed that income is gained in the first 3 taxation periods.

In case of shares swap (without any other consideration), the day of income is the daywhen the swapped shares are sold.

Regarding the income from capital the day of income is the day, when the income is calculated. Day of dividend income and respectively the day of dividend income disbursement is the day when the dividends are calculated. However, if dividends are calculated for publicly listed companies, the day of dividend income is the day when dividends are paid.

Pension funds The private voluntary pension scheme or the 3rd pension pillar stipulates the free choice of any person to create additional savings for their pension by paying contributions into the private pension funds. It means that additionally to the 1st pillar (state compulsory unfunded pension scheme) and the 2nd pension pillar (state funded pension scheme) part of person's income is invested in private pension funds personally or by employer.

At the beginning of 2015 there are five open pension funds in Latvia providing a number of pension plans with differing investment policies: 1) CBL Open Pension Fund; 2) Finasta Open Pension Fund; 3) Nordea Latvia Open Pension Fund; 4) SEB Open Pension Fund; 5) Swedbank Open Pension Fund

Supplementary pension capital, which is formed from payments made directly by the participant of the private pension scheme, shall not be included in the annual taxable income and the personal income tax shall not be imposed upon it when pension benefits are paid out.

In the same way the tax shall not be imposed upon supplementary pension capital if in case of individual participation payments have been made by a spouse or a relative until the third degree according to the Civil Law, i.e., a parent, a child, a grandparent, a grandchild, a great-grandchild or a great-grandparents, makes the contributions in favor of a participant of the pension fund.

However the personal income tax (2015 – 23%; 2014- 24%) should be withhold from supplementary pension capital, which is formed from payments made by the employer into private pension funds in conformity with licensed pension plans and paid out to pension plan participants. The tax should be withhold and paid into the budget by the private pension fund paying out the income.

As from January 1, 2010 income from payment into private pension funds constitutes taxable income. The tax rate is 10% as this income is classified as income from capital other than capital gain. The tax is not collected from the whole amount but only from the gained profit from the private pension funds.

Tax on deposit interest shall be paid on the day when the income is received, respectively at the moment when interest income is disbursed. The responsible body for collecting the tax is the one paying out the income. This means that Latvian private pension fund makes the tax payment instead of person at the time when receiving the capital accordingly to the contract.

Repayment of Personal Income Tax as a Benefit of Latvian Private Pension System

As a significant benefit of Latvian private pension system is that a person can get a **repayment of personal income tax** on payments made within a year (in 2015 - 23%; in 2014 - 24%). Such payments may not exceed 10% of annual gross income. The total of donations and gifts, payments into private pension funds, insurance premium payments and purchase costs of investment certificates of investment funds may not

exceed 20% of the amount of the payer's taxable income. From the amount of annual taxable income, also such payments can be deducted which are made to pension funds registered in another Member State of the European Union or the European Economic Area State.

Other Benefits of Latvian Private Pension System

A person has a possibility to choose the amount of payment into the pension plan and its regularity. Amount and frequency of contributions are not limited. An interruption of payments into the pension plan does not affect the right of a participant for the private pension savings and the income received from their further investment. A person can also participate in several pension plans simultaneously and change the pension plan without restrictions of frequency.

Pension scheme participants may participate in a pension scheme both directly by entering into an individual participating contract with a pension fund or through the intermediation of their employers. Moreover in case of individual participation another person can make the contributions in favor of a participant.

The retirement age specified in the pension scheme in Latvia shall not be less than 55, however there are exceptions when the retirement age can be lower for persons employed in special professions, such as healthcare and education. Upon reaching the retirement age a person has unlimited rights to decide upon the pension benefits. A participant, according to the provisions of the pension scheme, can receive pension benefits all at once or in parts or continue participation in the pension scheme.

Assets accumulated of the private pension scheme are inheritable. In case of the death of a pension scheme participant the person indicated by him/her, or if there is no such a person, his/her heirs have the right to receive pay-outs.

A person can benefit of a repayment of personal income tax from payments made into the pension plan.

Foreign tax credits

Personal income tax paid on investment instruments within the EU or territories with which the EU has agreements regarding saving income, is creditable without limitation in Latvia.

Tax treaties

Currently, Latvia has *Conventions for avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income and capital* in effect with Albania,

Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Kazakhstan, Kyrgyzstan, Korea, Lithuania, Luxemburg, Macedonia, Malta, Mexico, Moldova, the Kingdom of Morocco, the Netherlands, Norway, Poland, Portugal, the State of Kuwait, the State of Qatar, Romania, Serbia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Tadzhikistan, Turkmenistan, Turkey, the United Arab Emirates, United Kingdom, Ukraine, United States of America and Uzbekistan.

Personal income tax paid in the above-mentioned countries by Latvian residents may be offset against individual income tax payable in Latvia and vice versa, or in the case of Lithuania, exemptions may be applicable.

3. Social Insurance Payments (Social Tax)

The law "On State Social Insurance", originally passed in 1998, sets out the application of mandatory statutory social insurance payments to salaries received by employees.

Social insurance payments are made to the social insurance budget, entitling the contributor to general sickness, pension, maternity and other social benefits.

Social insurance payments are levied on resident employers, employees of Latvian companies, resident employees employed by non-residents, resident expatriates assigned to work in Latvia, and self-employed individuals.

Taxable income

Taxable income, which is subject to social tax, is any income derived from work under contract in Latvia and is subject to personal income tax. The social tax is calculated from wage in full amount before deduction of the non-taxable minimum, tax concessions and eligible expenses for which the taxpayer has the right to reduce the taxable income.

Tax rates

An employer has to withhold social tax on a monthly basis at the rate of 23,59% of gross income. The total tax payable is 34.09%, so the employee must contribute 10,5%.

Expatriates employed by non-resident employers are subject to social taxes of 32%. The self-employed rate for social insurance payments is 30.58%.

Starting from 2015 maximum subject to social tax is set at 48 600 Euro.

The minimum amount of the object for mandatory contributions of self-employed persons is twelve minimal monthly wages,. i.e., 4320 EUR (12 x 360 EUR)). This minimum applies proportionally to months the person has been self-employed. For micro company employees the minimal amount of social contribution has not been set, but contribution can be made from freely chosen income in an amount that does not exceed 720 Euro.

Since January 1, 2010 such maximal and minimal subject does not apply to individuals that performs an economic activity and pays a patent fee, i.e. fixed fee set by State that includes personal income tax and social tax payments for individuals' economic activity. Patent fee can apply only to set professions (in such sectors as different crafts, photography, beauty, housework etc.) and the person does not perform any other economic activity. The fee varies from Euro 43 to Euro 100 per month depending on activity performed and area (Riga or other) where the activity is performed.

Social tax and EU-general principle rates

The social tax shall be paid in a Member State (State), where a person is working, even if he/she resides in another EU Member State or the registered office of the employer is situated in another Member State.

Person has been posted to another State up to 12 months

If a person has been posted to another EU Member Statefor a period of up to 12 months, then the social tax may be paid in the Member State from which he/she has been posted.

The provisions for the posted employee:

- when going to another Member State he/she should be registered as socially insured person in his/her Member State (in Latvia, if Latvian person is going to work in another Member State);
- the work abroad should be short-term (12 months with possibility to prolong);
- he/she should be posted by an assignment of the employer from his/her Member State (Latvian, if a Latvian person is going to another Member State);
- during whole posting period the direct link with the employer, who has posted the employee, should be maintained.

E101 certificate shall be arranged.

E101 certificate

The E101 certificate is required in order to pay tax only in one'shome State. E101 provides that the employee is registered as socially insured person in his/her State (e.g., in Latvia). A statement should be presented to the competent authority of the State of employment, if the authority requests it. The E101 will not be granted to a person who is going to change another person, whose assignment period has been expired.

Secondment exceeding 1 year

If the duration of the work to be performed due to an unforeseen reason exceeds the initially expected period and becomes longer than 12 months, then the exemption may be applied and a person may remain insured in his/her State for the following 12 months. Usually the exemption is not applied for the period exceeding 5 years. The competent authorities (Social Agencies) of both states shall agree on the exemption application. In such a case the employer of an employee shall request the E101 certificate in due time.

Person working in 2 States

If a person is working in 2 States, than he/she pays the social tax in the State where he/she resides. If the person's permanent residence is not located in any of the territories of States, where he/she is working, then the person should be insured according to the laws of the state, where the registered office of the company is located. If a person is employed by several employers, whose businesses are located in several States, then the person should be socially insured in the State of permanent residence.

Also, in this case E101 form should be arranged.

If the situation arises where a company is registered in one Sate, but the social tax for the employee should be paid in another State, then the company shall be registered in that State where the social tax for the employee should be paid. The company may be registered by itself or through the employee.

Administration

The administration of social insurance premiums is the responsibility of the tax authority (the State Revenue Service), which determines reporting dates to each company.

Employees must be registered by the 5th day of the following month after an employment contract has been concluded. Resident employers have to submit statements of social insurance contributions by the date set by the tax authority.

4. Real Estate Tax

According to the law "On Real Estate Tax", passed in 1997, taxable entities are individuals, legal entities and non-residents that own or have rights to Latvian real estate, including land.

Starting from January 1, 2014 the real estate tax rate is 0,2-3% from the cadastral value (general value set by state authority) of land, buildings or their parts and engineering structures.

As from January 1, 2014 a progressive tax rate on living space (living house or apartment) applies. If the cadastral value does not exceed 56915 Euro the tax rate is 0,2%; if the cadastral value is from 56915 Euro to 106715, the tax rate is 0,4%; if the cadastral value exceeds 106715 Euro, the tax rate is 0,6% from the cadastral value.

Additional tax at a rate of 1, 5% applies to uncultivated agricultural land, excluding land with space less than 1ha.

The minimal tax payment is 7 Euro even if the tax calculated is lower than 7 Euro. As regards to indigent and low-income persons if the tax calculated is lower than 7 Euro per annum, the tax may be accumulated for several taxable years until the sum exceeds 7 Euro.

5. Corporate Income Tax

Table 2. **Corporate income tax at a glance**

Corporate income tax rate (%)	15
Withholding tax (%) [(a)]	
Dividends	*0*
Interest to related parties	*10*
Management (consultancy) fees	*10*
Royalties	*15 or 5*
Payments to low-tax countries	*15*
Sale of Latvian real estate	*2*
Net operating losses (years)	
Carry back	*0*
Carry forward	*0*

[(a)] These taxes apply to payments to non-residents.

Administration

The tax year is generally the calendar year, but it may differ if so stipulated by a company's charter.

The annual income declaration has to be submitted within 30 days of the annual shareholders' meeting, but not later than four months after the year-end.

Tax report has to be submitted to the tax authority no later than seven months after the end of the year if a company exceeds two of criteria below:

- balance sheet - 1400000 Euro;
- net turnover - 3400000 Euro;
- average number of employees in the reporting year – 250.

Companies have to pay tax advance instalments by the 15th day of each month. In general, for the period from the first month of the taxation period up to and including the month that the annual report is filed, but not later than four months after the taxation year ends, monthly advance installments are equal to 1/12th of the annual tax calculated for the year, two years prior to the current tax year, adjusted for coefficient.

For the remaining months, the monthly advance payments are each equal to 1/8th of the following: the tax calculated for the preceding year, adjusted for inflation and reduced by the advance tax payments made in accordance with the above procedure.

Any outstanding tax has to be paid within 15 days of the due date for the annual income declaration.

The loss carry forward period starting has been gradually extended to indefinitive number of years.

Taxable income

Pursuant to the law "On Corporate Income Tax", first adopted in 1995, companies registered in Latvia are subject to tax on their world-wide income. Non-resident companies without a permanent establishment in Latvia are subject to tax on their revenue in Latvia.

Non-resident companies operating through a permanent establishment in Latvia are subject to taxation for revenue gained by that permanent establishment, as well as revenue independently obtained abroad by the permanent establishment.

If a non-resident company engages directly in business activities that are similar to the business activities performed by its permanent establishment in Latvia, income derived from the non-resident company's activities is included in the taxable income of the permanent establishment. Resident companies are those that are established or registered, or required to be established or registered, in accordance with the law. All other companies are considered to be non-resident companies.

Tax rates

Enterprises are subject to corporate income tax at a rate of 15%.

Interest deductions

Commencing with tax year 2003 new rules have been stipulated for interest deductions. Deductible interest for corporate income tax is the smallest of the following: a) interest calculated by multiplying 1.2 times the average short term credit interest rate set by the Central statistical bureau within the last month of the taxation year; or b) proportionally ratio of difference of debt against 4 times of equity within the first month of the taxation year. Calculations of equity must exclude amounts in long-term investment re-evaluation reserve and other reserves. The above does not apply to loans from Latvian banks or EU, EEZ registered banks and as well as to Latvian residents. Interest accrued before 2003 may be carried forward for up to five years in amounts of 20% of interest accrued. The carrying forward of interest is prohibited.

A comparative table of the applicable rates for the years 2009-2014 is shown below.

Capital gains

Resident companies and non-resident companies operating through a permanent establishment in Latvia have to include capital gains on securities or shares in their taxable income.

For non-resident companies without a permanent establishment in Latvia, a final withholding tax is imposed on proceeds from the sale of Latvian real estate, at a rate of 2%. As sale of real estate will be considered to be a sale of shares of a company where 50% of assets are Latvian real estate. The 50% threshold applies to a current or previous year and is measured by the balance sheet value at the beginning of the tax year.

Pension and insurance fee

Employers' payments for pensions on behalf of employees as well as insurance amounts for life insurance in case there is a tax debts on the last day of the financial year are non-deductible costs.

Bad debts

Bad debts are allowed to be written off for corporate tax purposes also for debtors in the EU countries. Upon commencing bankruptcy procedure it is allowed to utilise half of the debt for writing-off. The surplus may be written of after the completion of the bankruptcy.

List of low tax countries adopted in Latvia

Payments to low tax countries are ordinarily subject to 15% withholding tax. The list of low tax or zero tax countries is as follows:

Andorra, Anguilla, Antigua & Barbuda, Alderney, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, Brunei, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Curacao, Djibouti, Dominica, Ecuador, Gibraltar, Grenada, Guam, Guatemala, Guernsey, Honk Kong, Isle of Man, Jamaica, Jersey, Jordan, Kenya, Labuan, Lebanon, Liberia, Lichtenstein, Macau, Maldives, Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, New Caledonia, Niue, Panama, Saint Lucia, Saint Helena, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Sao Tome and Principe, Samoa, San Marino, Seychelles, Sint Maarten, St Kitts and Nevis, Tahiti, Tanga, Turks and Caicos Islands, Uruguay, Vanuatu, Venezuela, Virgin islands (United States), Qatar.

Foreign tax relief

Corporate income tax may be reduced by the amount of corporate income tax paid in foreign countries. The reduction may not exceed the amount of tax calculated in Latvia on the income gained abroad.

Determination of taxable income

Taxable income is the profit or loss reported in a company's profit or loss statement, prepared in accordance with the law "On the Annual Report of Companies" and subject to the adjustments specified below:

I. Profits (losses) shown in profit and loss statement:

- plus: losses from the maintenance of community infrastructure
- plus: expenses not directly related to entrepreneurial activity
- equals: adjustable taxable income (loss)

II. Increases in adjustable taxable income:

- total cost of depreciation of fixed assets and written-off intangible assets shown in the annual report
- total of penalties arising from contracts
- outstanding losses resulting from embezzlement and theft
- payments to non-residents if no withholding tax is paid, including:
- fees for management and consultancy services
- interest
- royalties for intellectual property
- royalties for usage of property located in Latvia
- payments to low tax countries
- 40% of representation expenses
- reserves for bad debts (does not apply to credit institutions)
- losses on sales of securities, except losses from securities which are in public circulation
- capital expenditure costs
- expenses related to securities which are in public circulation
- expenditure which a tonnage tax payer has incurred in obtaining income from the utilization of ships for international carriage and associated activities
- the amount of depreciation of fixed assets and the value of written-off intangible investments specified in the annual report of the company if these fixed assets and intangible investments were utilized to gain income from the utilization of ships in international carriage and associated activities
- borrowings
- cost reserves and accruals
- total of payments for above-limit usage of natural resources and environmental pollution

- decrease in the total of the costs incurred in the re-valuing of balance sheet items, except for amounts related to changes in foreign currency exchange rates
- interest in excess of admissible amounts (thin capitalization)
- compensation for losses transferred within a group
- compensation payments received and not re-invested within 12 months for forced loss of land, buildings, parts thereof and other constructions
- loss arising from the sale of fixed assets to associated companies or individuals related to the company
- differences in the value of goods (production, services)
- differences between transaction values and market values
- certain costs of improvement and reconstruction
- decreases in equity of subsidiaries
- income from participation in non-resident companies or companies with tax rebates, if increases in participation and differences in dividends do not appear in reserves
- insurance premiums paid to non-resident insurance companies for services that can be provided by Latvian insurance companies or EU
- certain dividends received from non-residents
- decrease in value because of revaluation of assets and transferring of liabilities of a company to be transferred, or acquired or divided
- decrease in value because of revaluation of transferred shares
- sums counted in reserve for purchase of passenger buses

III. Decreases in adjustable taxable income:

- total of depreciation of fixed assets and intangible investments according to the tax laws
- real estate tax
- total of duties and taxes on gambling and lotteries
- amount of agricultural subsidies
- total of bad debts, if the debtor has been declared bankrupt by the courts
- increases in the total costs incurred as a result of re-valuing balance sheet items, except for amounts related to changes in foreign currency exchange rates
- decreases in reserves for bad debts compared to the previous tax period
- compensation received for forced loss of land, buildings, parts thereof and other constructions
- dividends received
- compensation received for transfers of losses within groups
- interest deductions carried forward (acquired up to December 31, 2002)
- by tonnage tax payer income from the utilization of ships in international carriage
- income from securities which are in public circulation
- income from bad will in cases of privatization
- income from the difference between the face value of privatization vouchers and the selling price of privatized property acquired with the said vouchers
- late payment fees for taxes which are subsequently decreased

- value of PCs and other electronic equipment donated to educational establishments
- participation increase in the equity of subsidiaries
- increase in value because of revaluation of assets and liabilities of a company to be transferred, or acquired or divided
- increase of value because of revaluation of transferred shares
- equals: TAXABLE INCOME
- losses carried forward, adjusted taxable income, group relief, losses from sales of securities in certain cases
- equals: ADJUSTED TAXABLE INCOME

IV. Tax relief:

- corporate income tax paid in foreign countries, but not more than 15 per cent of the foreign source income
- tax relief for agricultural companies
- 80% of qualifying donations
- amounts transferred to qualifying foundations or programs

Staring from January 1, 2009 it is allowed to reduce taxable income for the amount which is calculated by multiplying undistributed profit in the pre-taxation period with an average interest rate of the taxation period settled by the Bank of Latvia for credits issued to non-financial companies.

Permanent establishments

There are two methods for determining the taxable income of a branch. According to the first method, taxable income is determined based on information specified in a corporate income tax declaration which, along with a balance sheet and a profit or loss statement, have to be submitted to the tax authorities within four months of the end of the taxation period (year).

Non-deductible expenses for corporate income tax purposes applicable to branches comprise payments to a head office for royalties, any services such as consultancy, management, etc. and interest payments (exceptions apply to branches of banks). Deductible costs comprise head office costs supported by documents relating to the branch office.

The taxable income of permanent establishment may be reduced by costs borne by the parent company, if those expenses are actually connected to the permanent establishment.

Expenses related to the acquisition of intellectual property, interest payments and administration costs that are deductible are subject to the appropriate withholding taxes.

Where the branch office has been active for less than 12 months, a simplified method may be used to calculate taxable income. According to this method, costs are 80% of income. A payer may, upon agreement with a branch office, withhold tax on behalf of the branch. If there are not more than three payers and an agreement is concluded among the payers on withholding of the tax, neither a profit or loss statement nor a balance sheet need to be submitted to tax authorities.

The simple method of calculation may not be applied to branches of entities residing in low tax countries, a list of which is shown above.

Depreciation for tax purposes

Tax depreciation for fixed assets is calculated using the double-declining balance depreciation method. To promote investment in fixed assets, the law determines increased depreciation rates. Double depreciation rates range from 15% to 70%: for oil extraction tankers – 15%, technical equipment, machinery – 20%, office equipment – 70%, certain other assets – 40%. The depreciation rate for buildings and constructions is 10%. There is an exemption for representative cars. As a representative car is considered a car, the value of which exceeds 50000 Euro (without VAT). Depreciation and expenses related to representative cars are not deductable.

Before calculating depreciation for new technology equipment in taxable period when equipment is bought, value is increased by the coefficient mentioned below:

Year	Coefficient
2010	1,5
2011	1,5
2012	1,5
2013	1,5
2014	1,5
Till 2020	1,5

The acquisition costs of patents, licenses and trademarks are amortized according to the straight-line method for five years, but concessions are amortized during ten years. Patents, licenses and trademarks issued for a term of less than five years, can be written off within the term of their validity for tax purposes. Research and development costs

can be written off for tax purposes the same year that they are incurred. Amortization is not allowed for trade secrets and goodwill.

Starting from January 1, 2009 new rule about investment into assets were introduced. Taxable income may be reduced by such income which is gained from alienation of the asset if within the 12 months before or after the alienation date a functionally similar asset is acquired. This tax relief will not be applied to art works, antiques, jewellers, cars, water vehicles, aircrafts, motorcycles etc.

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6. Withholding Taxes

The following table shows withholding tax rates applicable to dividend, interest and royalty payments to the designated countries. If the non-treaty country rate of withholding tax for a particular class of payment is lower than the rate applicable to the designated countries, the non-treaty rate is applicable. The non-treaty country rate is determined by domestic legislation.

Table 4. Withholding tax rates

	Dividends %	Interest %	Royalties %
Armenia	5/15 (a)	10	10
Austria	5/10 (a)	10	5/10 (d)
Azerbaijan	5/15 (a)	10	5/10 (d)
Belarus	10	10	10
Belgium	5/15 (b)	10	5/10 (d)
Bulgaria	5/10 (b)	5	5/7 (k)
Canada	5/15 (b)	10	10
China	5/10 (a)	10	10
Czech Republic	5/15 (a)	10	10
Croatia	5/10 (a)	10	10
Denmark	5/15 (a)	10	5/10 (d)
Estonia	5/15 (a)	10	5/10 (d)
Finland	5/15 (a)	10	5/10 (d)
France	5/10 (h)	10	5/10 (d)
Germany	5/10 (a)	10	5/10 (d)
Georgia	5/10 (l)	10	10
Greece	5/10 (a)	10	5/10 (d)
Hungary	5/10 (b)	10	5/10 (d)
Iceland	5/15 (a)	10	5/10 (d)
Ireland	5/15 (b)	10	5/10 (d)
Israel	5/15 (h)	5/10	5

Italy	5/15 (h)	10	5/10 (d)
Kazakhstan	5/15 (a)	10	10
Kyrgyzstan	5/10(a)	5/10	5
Lithuania	0/15 ©	0	0
Luxemburg*	5/10 (a)	10	5/10 (d)
Moldova	10	10	10
Malta	5/10 (a)	10	10
Macedonia	5/10 (g)	5	5/10 (o)
Norway	5/15 (a)	10	5/10 (d)
Poland	5/15 (a)	10	10
Portugal	10	10	10
Romania	10	10	10
Serbia	5/10 (a)	10	5/10
Singapore	5/10 (a)	10	7.5
Slovenia	5/15 (a)	10	10
Slovakia	10	10	10
Spain	5/10 (b)	10	5/10 (d)
Sweden	5/15 (a)	10	5/10 (d)
Switzerland	5/15(j)	10	5/10 (d)
The Netherlands	5/15 (a)	10	5/10 (d)
Turkey	10	10	5/10 (d)
UK	5/15 (b)	10	5/10 (d)
Ukraine	5/15 (a)	10	10
USA	5/15 (g)	10	5/10 (d)
Uzbekistan	10	10	10
Non-treaty country	10	0/5/10 (f)	5/15 (e)

(a) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.

(b) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 25% of the shareholders' votes of the company paying the dividends.

(c) 0% if the recipient of the dividends is a company other than a partnership that holds shares representing at least 25% of the capital and the shareholders' votes of the company paying the dividends.

(d) 5% of the gross amount of royalties paid for the use of industrial, commercial or scientific equipment.

(e) 5% rate applies to royalties for intellectual property, except royalties for copyright or neighboring rights on works of art or literature, including films and audio recordings, to which 15% applies.

(f) 5% rate applies to interest paid by a Latvia-registered bank to related parties. 10% is applicable to interest paid to related party.

(g) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10 per cent of the shareholders' votes of the company paying the dividends.

(h) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends.

(j) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 20% of the capital of the company paying the dividends.

(k) 5% rate applies to royalties for intellectual property, except royalties for copyright or neighboring rights on films and radio and TV broadcasts of films or recordings, for use or rights to use the patents, trade marks, designs or module, plans, secret formula or processes, to which 7% applies

(l) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 25 per cent of the capital of the company paying the dividends and investment is at least 75 000 USD

(m) 5% rate applies if interest is paid for a loan issued by the State Bank

(n) 5% rate applies to any copyright of literary, artistic or scientific work including cinematographic films, sound or image reproduction for audio or TV broadcasting, except patent, trade mark, design or model, plan secret formula and process, right to use industrial, commercial or scientific equipment, to which 10% applies

(o) 10% rate applies to any copyright of cinematographic films and films or tapes for radio or TV broadcasting

Consultancy fees

As consultancy fees (subject to 10% withholding tax) are considered to be all consulting and management services provided to a company, not just services provided to a company's management. To avoid withholding double taxes, treaty benefits may be utilized for payments to tax treaty countries.

Payments for sale of real estate

According to the law “On Corporate Income Tax”, a withholding tax of 2% on non-residents' income from the disposal of real estate shall be applied. As sale of real estate is considered to be a sale of shares of company where 50% of assets are Latvian real estate. The 50% threshold applies to a current or previous year and is measured by the balance sheet value at the beginning of the taxation year. The rules determine that in cases where the tax of 2% is not withheld on payments, the payable amount does not become a non-deductible expense for corporate income tax purposes. The general rule is that, where payments are made to non-residents, there is an option to withhold tax on consultancy (10%), interest to related parties (10%) and royalty fees (5% or 15%). If the withholding tax is not paid by the 15th of the following month, the full amount payable becomes a non-deductible expense for corporate income tax purposes.

Dividends to EU

According to the law "On Corporate Income Tax”, withholding tax on dividend payments to residents of EU, EEZ member states is not applicable, if dividend payer has a residence certificate that dividend receiver is company mentioned in the enclosed table No.4.

Partnerships

Income from partnerships is taxed with 15% withholding tax rate upon payment to non-resident.

Intellectual property

Royalty payments by Latvian resident to EU resident are exempt from withholding tax from July 1, 2013, if the EU resident is a related party.

To qualify for related party status, EU company shall be a payer of the taxes as mentioned in the enclosed table No.5, plus at least 25% capital or voting rights being established by one company in the second company or any third company owning at least 25% in the first and second company. Until June 30, 2005, royalty and copyright withholding tax rate was 15%; now it is 5%.

Payments to non-residents

If withholding tax is not levied at the rates mentioned below:

- Consulting fee – 10%
- Interest to related party – 10%
- Interest by Latvian bank to related party – 15%
- Royalty – 5/15%
- Use of property fee – 5%

the payment becomes corporate income tax non-deductible cost. This is not true if exemption applies.

Table No.5

Country	**Type of company**	**Type of tax**
1. Austria	**"*Aktiengesellschaft*"**, "*Gesellschaft mit beschränkter Haftung*", "*Versicherungsvereine auf Gegenseitigkeit*", "*Erwerbs- und Wirtschaftsgenossenschaften*", "*Betriebe gewerblicher Art von Körperschaften des öffentlichen Rechts*", "*Sparkassen*";	Körperschaftsteuer
2. Belgium	**"*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*";	Impôt des sociétés/ vennootschapsbelasting
3.Czech Republic	**"*akciová společnosť*"**, "*společnost sručením omezeným*", "*veřejná obchodní společnosť*", "*komanditní společnosť*", "*družstvo*";	Daň z příjmů právnických osob
4. Denmark	**"*aktieselskab*"** un "*anpartsselskab*";	Selskabsskat
5. France	**"*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*", "*coopératives*", "*unions de coopératives*";	Impôt sur les sociétés
6. Greece	**"*ενώνυμη εταιρεία*"**, "*εταιρεία περιωρισμενης εύθυνς (Ε.Π.Ε.)*";	Φόρος εισοδήμιτος νομκών προσώπων
7. Estonia	**"*täisühing*"**, "*usaldusühing*", "*osaühing*", "*aktsiaselts*", "*tulundusühistu*";	Tulumaks

8. Italy	"***società per azioni***", "*società in accomandita per azioni*", "*società a responsibilità limitata*", "*società cooperative*", "*società di mutua assicurazione*";	Imposta sul reddito delle persone giuridiche
9. Cyprus	"***company in accordance*** *with the Companýs Law*", "*Public Corporate Body as well as any other Body which is considered as a company in accordance with the Income tax Laws*";	Corporation tax Φόρος εισοδήματος
10.Luxembourg	**"*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*";	Impôt sur le revenu des collectivités
11. Malta	"***Kumpaniji ta' Responsabilita'*** *Limitata*", "*Soċjetajiet in akkomandita li l-kapital tagħhom maqsum f'azzjonijiet*";	Taxxa fuq l-income
12.The Netherlands	"***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*";	Vennootschapsbelasting
13. Poland	"***spółka akcyjna***", "*spółka z ograniczoną odpowiedzialnością*";	Podatek dochodowy od osóbprawnych
14. Finland	**"*osakeyhtiö/aktiebolag***", "*osuuskunta/andelslag*", "*säästöpankki/sparbank*" and "*vakuutusyhtiö/försäkringsbolag*";	Yhteisöjen tulovero/inkomstskatten för samfund
15. Spain	"***sociedad anónima***", "*sociedad comanditaria por acciones*", "*sociedad de responsabilidad limitada*";	Impuesto sobre sociedades
16. Hungary	"***közkereseti társaság***", "*betéti társaság*", "*közös vállalat*", "*korlátolt felelősségű társaság*", "*részvénytársaság*", "*egyesülés*", "*közhasznú társaság*", "*szövetkezet*";	Társasági adó
17. Germany	"***Aktiengesellschaft***", "*Kommanditgesellschaft auf Aktien*", "*Gesellschaft mit beschränkter Haftung*", "*Versicherungsverein auf Gegenseitigkeit*", "*Erwerbs- und Wirtschaftsgenossenschaft*",	Körperschaftsteuer

	"*Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts*";	
18. Sweden	"***aktiebolag***", "*försäkringsaktiebolag*", "*ekonomiska föreningar*", "*sparbanker*", "*ömsesidiga försäkringsbolag*"	Statlig inkomstskatt
20. UK	Company registered in UK	Corporation tax
21. Bulgaria	*"събирателното дружество", "командитното дружество", "дружеството с ограничена отговорност", "акционерното дружество", "командитното дружество с акции", "кооперации", "кооперативни съюзи", "държавни предприятия"*	корпоративен данък
22. Ireland	"*public company limited by shares or by guarantee*", "*private company limited by shares or by guarantee*", "*building society*"	Corporation tax
23. Lithuania	Company registered in Lithuania	Pelno mokestis
24. Portugal	Company registered in Portugal	Imposto sobre o rendimento da pessoas colectivas
25. Rumania	*"societăţi pe acţiuni", "societăţi în comandită pe acţiuni", "societăţi cu răspundere limitată"*	impozit pe profit, impozitul pe veniturile obţinute din România de nerezidenţi
26. Slovakia	"*akciová spoločnos*", "*spoločnosť s ručením obmedzeným*", "*komanditná spoločnos*", "*verejná obchodná spoločnos*", "*družstvo*"	aň z príjmov právnických osôb
27. Slovenia	"*delniška družba*", "*komanditna delniška družba*", "*komanditna družba*", "*družba z omejeno odgovornostjo*", "*družba z neomejeno odgovornostjo*"	Davek od dobička pravnih oseb

7. Value-added Tax

According to the "Law onn Value-Added Tax", adopted in 2012, VAT has to be charged on any supply of goods or services, on the import of goods, as well as on self -consumption. Staring from July 1, 2012 VAT rate are 21%, 12%, 0%.

The supply of goods is the transfer of their ownership to another entity so entitling the latter to dispose of the transferred possession. The first sale after completion of the construction of a building is also regarded as the supply of goods.

The supply of services is a transaction based on activities carried out by an entity for a consideration. They include the activities of self-employed individuals, the transfer (sale) of any obligations, rights or intangible assets, obligations to refrain from activities or to accept any activity, as well as the lease of goods. Personal (self)-consumption is the supply of one's own goods and services to an entrepreneur, his family members, employees or other persons free of charge.

VAT rate

General VAT rate is 21%. The reduced VAT rate 12% applies to supplies of medicaments and medical devices, to supplies of specialized products intended for infants, to inland public transport services (carriage of passengers and luggage in trams, trolley buses, city, district and long-distance busses, and inland and international trains, as well as inland flights), to supply of heating to inhabitants, to supply of electricity to inhabitants, to supply of natural gas to inhabitants, except for natural gas for motor vehicles.

Input and output VAT

The VAT system is based on the principle that the tax burden should be borne by the final consumer and is neutral to businesses. VAT taxpayers are entitled to deduct the tax paid on their supplies (input VAT) from the tax which they charge their customers (output VAT), if those incoming supplies ensure the entrepreneurial activity of the taxpayer.

The tax sums for the received goods or services set in the invoices may be deducted after the reception of the goods or services and the invoice or after the advance payment of the tax set in the invoice. Input VAT may be deducted on accrual bases without a payment of invoices for both goods and services.

Entities whose sales, excluding exempted sales, exceed 50000 Euro within a 12-month period are obliged, within the following 30 days, to register as VAT payers with the tax authority.

The VAT payer has the right to deduct VAT which was paid before VAT registration certificate was received. There are a few exceptions for deducting VAT for a company recently registered as the VAT payer. It is not allowed to deduct administration expenses (office rent, telecommunication expenses, fuel, transport rental), if goodshave been bought more then 12 months prior to registration as a VAT payer or services are received 3 month before registration as a VAT payer.

Mandatory VAT registration

The law stipulates occasions when EU companies have to register as VAT payers in Latvia:

- If an EU-registered VAT payer supplies goods to a Latvian entity not registered as a VAT payer and that supply exceeds 35000 Euro within a 12 month period

- Regardless of amount, if a recipient is non VAT registered person and the excised goods are to be supplied or goods are to be installed in Latvia
    - If the services provided are related to culture, art, education, science, sport or real estate – regardless of the amount
    - If the provided services relate to warehousing, transportation of goods or relate to movable property (such as repair, assessment, maintenance), except leasing services.

Real estate

If a real estate (or any part thereof) is sold or put into operation within 10 years of the date of purchase, part of the VAT deducted at the time of purchase must be repaid to the government. The amount is calculated as 1/10 of the deducted input tax multiplied by the number of years remaining until the end of said 10 year period (from the date of purchase or placement in to operation). This repayable input tax amount is included in the value of the real estate, and a buyer shall not be entitled to deduct it as input tax.

VAT paid on goods and services purchased for the construction and repair of buildings is deductible. VAT deductions do not apply to VAT paid on the construction of facilities used for VAT-exempt businesses or community infrastructure, such as apartment buildings, sports, medical and educational facilities, if the community facilities do not relate directly to the commercial activities of the company.

Any VAT deducted shall be repaid to the state if the real estate is sold within 10 years of its purchase or if it has been used for VAT-exempt transactions.

VAT refunds

VAT paid on goods purchased and services received in Latvia by a company which is registered as a VAT payer in any EU country, and is not actively engaged in business activities in Latvia, may be refunded.

VAT paid on goods purchased and services received in Latvia by a company from any third country which is not registered as a company in Latvia may be refunded according to the reciprocity principle.

VAT refunds may be requested in the following cases:

1. the term for which VAT repayment is requested is between 3 and 12 months, and VAT paid for goods and services totals more than 400 Euro
2. the term for which VAT repayment is requested is

-
    - calendar year, or
    - period of less than 3 months and these are the last months of calendar year and VAT paid for goods and services are more than 50 Euro.

Documents required for VAT repayment are the application form, invoices (originals), payment documents and a statement from the appropriate tax authority that the company is registered as VAT payer in another country.

VAT paid by an individual from any third country on goods of value greater than 35.57 Euro purchased in Latvia and brought out of the EU may only be refunded by licensed companies.

Investment in equity

There are rules effective from January 1, 2002 determining that it is possible to invest property in thr equity of another company without restriction to deduct paid VAT.

The State Enterprise register has granted us a license to provide evaluation opinions on the value of shares and stock for purposes of investment in kind in the equity of a company.

Importing fixed assets

In case of import of fixed assets (except cars), not intended for leasing companies, VAT factually shall not be paid, namely, it is shown as VAT payable and deductible. A new limitation is imposed, requiring in instances when asset value exceeds 71143,59 Euro to report within next 5 years to tax authorities on use of assets for VAT exempt activities, and if any exempt supplies are VAT made, the proportion of how much VAT may be deducted shall be calculated. The proportion is calculated as all taxable supplies without VAT (including transactions with 0% VAT rate) divided by all transactions exempt from VAT. If proportion (including exempt transactions) is changed within a year, adjustment of the VAT deductible shall be made.

Pricing

If systematically and continually price is charged to buyer below commercially substantiated level, at the end of a taxation year additional VAT shall be charged on the omitted difference, except discounts.

Intra – community acquisitions

If a Latvian-registered VAT payer receives goods from an EU-registered VAT payer, they have to show VAT as payable and deductible in their VAT declaration, based on the invoice received. If a Latvian non-VAT-registered entity receives goods from an EU-registered VAT payer, and the total value of the goods received exceeds 10000 Euro, the Latvian entity has to register as a VAT payer in Latvia.

Fiscal representatives

Changes to the VAT law, effective May 1, 2004, introduce the concept of VAT fiscal representatives. If the responsibility for VAT payment lies with a fiscal representative, it is mandatory that the Latvian VAT registration number, name and registered address of the VAT representative are mentioned in VAT invoices. In addition, VAT invoices must include the following items:

- Date and number of invoice
    - Supplier's and recipient's names, addresses and VAT numbers
    - Date of supply
    - Type of goods or services and quantity supplied
    - Prices and applicable discounts
    - VAT rate and amount plus cost of goods without VAT
    - If 0% rate is applied or responsibility of tax payment is on the recipient of the goods or services – reference to a respective article of VAT law on which zero rate is based, the same is true for fiscal representatives.

Non-EU persons (for example, US companies) may register via fiscal representation in any EU country based on local rules as a VAT payer. Use of the registration number in Latvia will be accepted for VAT zero export on triangle transactions as described below.

Triangle supplies

There is a seller, a broker and a buyer in triangle transaction. All the persons mentioned before shall be VAT registered in different EU countries. Goods ought to be supplied upon instructions of the broker to the buyer. Invoices issued by the brokers will be subject to VAT 0%, if recipient of goods is a VAT registered person.

Zero-rated supplies and exemptions

Pursuant to the law, the following groups of supplies and services are subject to the 0% VAT rate:

- export of goods if documents show that the goods have been transported outside the EU
- services which are related to export of goods outside the EU
- services which are defined as "not supplied within Latvia"
- goods and services related to the maintenance and service of international transportation
- certain tourism services
- on the basis of reciprocity, services and goods related to diplomatic and consular officers enjoying immunity
- certain services, if the recipient is a non-resident, such as assignment, transfer or grant of intellectual property rights; services related to advertising and public relations; legal, accounting, audit, consulting, interpretation, expert, engineering, market research, and management services, services of patent offices; data processing; exchange of know-how, supply of information; supply

of staff, except education and training services; leasing except real estate and vehicles; telecommunication services; broker agency services

A number of goods and services are exempt from VAT, e.g. certain services with an educational value or cultural function, the sale of shares and not-newly constructed real estate, lotteries as well as land.

The 0% VAT rate for intra-community supplies is applied if the recipient of goods is an EU entity which is registered with its home country's VAT register and transport documents demonstrate that the goods were actually delivered. The 0% rate is also applied to intermediaries who re-sell goods to end consumers within EU countries. Reports on such intra-EU supplies must be submitted to tax authorities quarterly.

Administration

VAT owed to the government must be paid on a monthly basis by the 15th day of the following month or, with the agreement of tax authorities, by the 25th day of the following month for companies with multiple branches. Monthly VAT returns are also required to be filed. The annual VAT declaration is due no later than by May 1 of the following year.

Penalties

Penalties for breach of the VAT law are 100% in amount of 100% the tax not paid. Penalty applies also to increase of claims for VAT refund and amounts which refer to the next VAT period (month), for example, VAT deduction is made before a term.

8. Excise Tax

According to the Amendments to the law "On Excise Tax of August 1 2015, excise tax rates are as follows:

- soft drinks (EUR 7.40 per 100 litres)
- coffee (EUR 142.29 per 100 kilograms)
- beer (EUR 3.8 for every percent of alcohol per 100 liters; minimum EUR 5.69 per 100 liters)
- wines (EUR 74 per 100 liters)
- fermented products not exceeding 6 per cent by volume (inclusive) (EUR 64 per 100 litre)
- fermented products from 6 per cent by volume (EUR 70 per 100 litre)
- alcoholic beverages up to 15 proof (EUR 70 per 100 liters)
- alcoholic beverages between 15-22 proof (EUR 110 per 100 liters)
- other spirits and alcoholic beverages (EUR 1360 per 100 liters)
- cigarettes (minimal sum EUR 89.80 per 1000 cigarettes)
- cigars (EUR 39.84 per 1000 cigars)
- tobacco (EUR 55.49 per 1000 grams)
- petrol, diesel (EUR 322.95-455.32 per 1000 liters)

- oil-gas (EUR 161 per 1000 kilograms)
- natural gas
- for using as firing (EUR 17.07 per 1000 cubic meters)

for using as fuel (EUR 99.60 per 1000 cubic meters)

Generally, excise tax for alcohol and tobacco products is paid by purchasing excise tax stamps.

Excise tax does not apply to natural gas that is used for purposes other than firing or fuel, natural gas used both as firing and for another purpose that is not use as fuel or firing and gas that is used for mineralogical processes

9. Natural Resources Tax

According to the law "On Natural Resources Tax" adopted on December 15, 2005 the following conditions are applicable for calculating natural resources tax. Taxable activities are the following:

- extracting of natural resources, including harvesting of Roman Snails *Helix pomatia L.*
- polluting of environment;
- selling of goods harmful to environment (including monitors, cell phones, fridges, TV);
- importing of packaged goods;
- selling in retail and by catering companies the non-recyclable tableware and packing;
- using of radioactive substances producing waste;
- registering of first time end-of life vehicles;
- emitting of gasses resulting in greenhouse effect;
- pumping of the natural gas in geological structures.

Packaging tax

Tax on the packaging of products is calculated on every unit of packaging. The number of packaging units should be specified by accounting documentation and an act on usage of packaging standards, or by supplier's statement confirming packaging kind and weight, or by agreement on obtaining goods, or by a cargo waybill approved by customs authority if goods are imported from non-EU countries, or by consumption of packaging standards per unit.

Tax is imposed on the following packaging types: glass (tax rate- EUR 0.44 per kg), pulp and other natural-fiber raw materials, (EUR 0.24 /kg) polymers (EUR 1.22 /kg), metal (EUR 1.10 /kg), paper, monitors (EUR 2.33/kg), cell phones (EUR 3.33 /kg), fridges (EUR 2.33/kg).

10. Gambling Tax

According to the law “On Gambling and Lottery Taxes”, adopted on in 1994, gambling and lottery tax is levied on business entities that have obtained gambling licenses. The cost of an annual renewal of license is 35580 Euro or 42690 Euro for engagement into totalizator gambling services.

Gambling tax is payable for each gambling facility or gambling machine annually. For example, each roulette table is subject to 17279.36 Euro gambling tax; each totalizator to 15% of revenues; each slot machine to 3141.70 Euro, each bingo to 10% of revenues. Success telephone games – 15% of revenues.

Lottery tax of rate 10% is imposed on revenues from the sale of lottery tickets. Revenue from sale of instant lottery tickets is subject to 10 per cent tax.

11. Special Taxation Regimes

Pursuant to the law "On the Application of Taxes in Free Ports and Special Economic Zones" adopted in 2001, a special tax regime may apply to companies operating in the Liepaja or Rezekne Special Economic Zones, or the Riga or Ventspils Free Ports.

The applicable tax holidays or favorable conditions are as follows:

- 80 or 100% rebate on real estate tax
- 80% rebate on corporate income tax on income derived within the zone
- 80% rebate on withholding tax for dividends, management fees and payments for use of intellectual property
- VAT at 0% rate for most goods and services supplied in within free zones, including storage
- VAT, excise tax and customs duty exemption on import in free zones from foreign countries and on export to free zones abroad
- expatriates who pay social insurance in their home countries may pay social insurance on a fixed amount, currently 15 minimum monthly salaries per annum

As from January 1, 2003 rebates may not exceed 50% of the amount invested.

Tax holidays could be applicable only if permission is received. Permissions are issued by Authority of Special Economic Zone or Free Port. Permission may be issued for companies located in the territory of special economic zone or free port and performing entrepreneurial activities only in the territory of a special economic zone or free port.

The following are not considered as an entrepreneurial activity outside of the territory of a special economic zone or free port- the location of the administrative institutions outside of the territory of a special economic zone or free port, the conduct of negotiations and the concluding of contracts outside of the territory of a special economic zone or free port, the transit of goods from or to the territory of a special

economic zone or free port, and other activities not having the nature of the execution of a goods-money transaction.

Accounting and auditing

1. General information

The law "On Accounting" and the law "On Annual Reports of Enterprises" are the basic laws, which regulate bookkeeping and financial reporting in Latvia. Both laws are based on the 4th and 7th EU directives. Latvian accounting standards are applicable too.

In addition, the law "On Sworn Auditors" was adopted by the Saeima on May 22, 2001, and came into effect on January 1, 2002.

Law on Accounting

The law "On Accounting" outlines the basic principles and rules which must be followed in accounting records, stocktaking and annual reporting. The accounting records shall be confirmed by supporting documents which shall contain definite information, etc.

The law applies to all enterprises, regardless of the type of entrepreneurial transactions, which they undertake or of the property they possess. It also applies to the permanent establishments (subsidiaries, departments) of foreign-owned, as well as to all institutions and organizations which are financed from the state and municipal budgets, to all public organizations, their associations, foundations with limited number of participants, religious organizations, trade unions, individual merchants and all individuals.

Law on Annual Reports of Enterprises

The law "On Annual Reports of Enterprises" applies to all enterprises that are registered in Latvia, irrespective of the type of commercial transactions they undertake or of the property they possess. The law neither applies to farms and fishery farms nor to individual businesses where the annual income from business transactions does not exceed 300000 Euro at the start of the reporting year. In addition, the law does not apply to banks or to credit institutions and insurance companies which are regulated by special acts of parliament.

2. Accounting and annual financial reporting

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Accounting records

According to laws, accounting records shall clearly display the transactions and financial results of a company, and it shall give a true and fair view of its financial position. The records shall be kept in such a manner as to enable any person who is qualified in accounting to clearly identify the financial position of a company as well as the business transactions made in a given period of time, and to enable the person to ascertain both the beginning and the sequence of each transaction. The accounting principles addressed in the law "On Accounting" are those of going concern, consistency, continuity, clarity, truthfulness, comprehensiveness, the accrual method of accounting, and the historic cost principle.

The measure of value must be a monetary unit of the Republic of Latvia (Latvian lat), and Latvian must be used as the language of accounting. If a partner in the economic entity is a foreign individual or a legal entity (registered company), a second language, which has been agreed upon by the parties and is acceptable to the auditors, may be used. All the codes, abbreviations, separate letters and symbols used in accounting records shall be explained. Usually a double entry system should be used for companies.

The accounting records and all the confirming documentation shall be stored in Latvia. Each entry in the accounting ledger must be confirmed by a document justifying that entry. A justifying document shall contain: the name of the company; the number under which the company is registered with the registration authorities; the name, number and date of the document; the description and justification of the business transaction; the measures of the operation (quantity, sums) and signatures of persons responsible for the execution of the transaction and the correctness of the information presented. The additional requirements for specific documentation, such as the presence of the seal, etc. are provided by the Cabinet of Ministers.

The information and data which shall be included in an annual report are not classified as a commercial secret of the company. All the other information included in the accounting records is considered to be a commercial secret. Company's secret information shall be disclosed to the auditors, to the tax administration reviewing the declared taxes, as well as to the other state institutions in accordance with the procedures provided for by the legislation.

The accounting period shall cover 12 months. Usually, the beginning and the end of an accounting period concurs with the calendar year, however this period could be different if the company's charter so provides. The companies, which form part of a group, shall have the same accounting period.

The accounting period may be altered. The change shall be justified and explained in the notes to the annual report. A newly formed company may have a longer or a shorter accounting period for the first year, but it may not exceed 18 months. The accounting period shall not exceed 12 months if it is changed for an already existing company. The accounting period may also be shorter than 12 months where either a company terminates its activities or the beginning of the accounting period is changed.

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Reporting requirements

An annual report, as a whole, consists of a balance sheet, a profit or loss statement, a cash flow statement, and statement on changes in equity, explanatory notes, and other relevant information, the management report and auditor's report and should be in accordance to the law "On Accounting" and the law "On Annual Reports of Enterprises". The annual report shall give a true and fair view of the company's assets, and of its liabilities and financial results, and must be written in Latvian and the monetary unit of the Republic of Latvia shall be used as a measure of value.

All the items in the annual report shall be valued according to the following accounting principles:

- it shall be assumed that a company will continue to operate (going concern);
- the same valuation method as in the previous reporting year shall be used (consistency);
- the valuation shall be done carefully, considering the following conditions (prudence);
- the annual report shall include only the profit as of the date of drawing up the balance sheet;
- all provisions for the risk and losses incurred during the current or previous reporting years shall be taken into account, even if they have become known in the time period between the drawing up of the balance sheet and the annual report;
- all reductions in value and the amounts depreciated shall be taken into account regardless of whether the reporting year has ended in profit or loss.
- all income and charges related to the reporting year shall be considered regardless of the actual date of payment. Charges shall be co-coordinated with the income in the respective periods of the reporting year;
- the items of assets and liabilities shall be valued separately;
- the opening balance of each reporting year shall correspond to the closing balance of the previous year;
- all the items that significantly influence the valuation or the decision making of those who use annual accounts shall be shown. Items, which do not significantly influence the annual report but which make it too detailed may be shown as one item on the balance sheet and on the profit and loss statement. In this case, the disclosure of the consolidated items and the details shall be disclosed in explanatory notes;
- the business transactions of a company shall be recorded and presented in the annual report, having regard not only to their legal form, but also to their "economic content and essence".

These reporting conditions may be disregarded in exceptional cases. Any such deviation shall be explained in the notes, indicating its effect on the assets, liabilities and financial results of a company.

Consolidated reporting

Consolidated reporting is regulated by the law "*On Consolidated Accounts*". The parent company has to prepare the annual accounts of a group in the event if the group in two years exceeds any two of the criteria below:

- total assets: 1 400 000 Euro;
- net turnover: 3 400 000 Euro;
- average number of employees in the reporting year: 250.

The preparation of the annual report of a group of companies requires the application of the same accounting principles in all companies of the group in order to reflect their business transactions in the same manner. If the accounting principles, which are applied in a subsidiary, differ from those applied by a parent company, corrections must be made to the subsidiary's records when making the consolidated annual account. This will allow all the transactions to be reflected in the same conditions. If it is not possible to adjust the records, this shall be pointed out and explained in the consolidated annual report. Furthermore, the proportion of the subsidiaries applying different accounting principles in the consolidated annual account shall be indicated.

Statutory audit of financial statements

In the event that the company exceeds two of the criteria listed below, the annual reports shall be audited by a certified auditor:

- total assets: 400000 EUR;
- net turnover: 800000 EUR
- average number of employees in the reporting year: 25.
- A certified auditor shall submit a report on the audit results in writing. The auditor's report shall specify in particular, the following:
- whether the annual report and the management report of the company or a group of companies have been prepared according to the law;
- whether the annual report gives a true and fair view of the assets, liabilities and financial results of the respective company at the end of the reporting year, as well as of the profits and losses during the reporting year;
- whether the legal representatives of the company have given all the required information and explanations to the auditor.

A company shall submit a copy of the audited annual report, the management report, the auditor's report and the copy of minutes of the meeting on which the annual report was approved by the shareholders, to the tax authority not later than a month after approval of the annual report, and not later than four months after the end of the reporting year. The time period between the submission of the above-mentioned documents, and the end of the reporting period shall not exceed seven months and applies both to the parent company of the group and to other companies in the group which exceeds two of the following criteria:

- total assets: 1 400 000 EUR
- net turnover: 3 400 000 EUR;
- average number of employees in the reporting year: 250.

Additionally, if either the distribution of the annual profit or the coverage of losses is not included in the annual account, a copy of the minutes of the shareholders' meeting showing the distribution of these profits or losses must be given to the tax authority.

Publication of annual reports

The law "On Annual Reports of Enterprises" regulates the publication and storage of annual reports. All submitted annual reports have to be made publicly available to any person who has paid the due fee.

If it is intended to publish a complete annual account of the company or to publish an annual account of a group of companies, the documents shall be in the same form and wording as at the time of their auditing. Furthermore, the documents shall include the auditor's report and notes, if there are any. If the auditor has had any complaints, or he has refused to prepare the auditor's report, this shall be declared and an explanation given. The recommendations and decisions concerning the distribution of profit or the covering of losses shall be shown either under corresponding items in the balance sheet or they shall be published separately.

If the annual report and other auditing documents are not published in full, it shall be clearly stated that the publication is not complete and that the complete file of the annual report is available at the Enterprise Register of the Republic of Latvia. The auditor's report shall be published in full, regardless of whether the annual report published is complete.

Companies and groups of companies shall publish their balance sheet and profit or loss statement in the publication indicated by the Enterprise Register of the Republic of Latvia if two of the following criteria are exceeded:

- total assets: 1 400 000 EUR;
- net turnover: 3 400 000 EUR;
- average number of employees in the reporting year: 250.

Competition

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1. The Competition Act

Competition is regulated by Competition Act of October 4, 2001. It introduces far stricter control to ensure fair competition. The rules of Prohibited Agreements, Dominant Position, Merger Control and the Unfair Competition are provided there.

2. Prohibited agreements

The Competition Law prohibits and proclaims null and void all agreements that have been entered into with the purpose or consequence of restricting competition. Actions which restrict competition are folowing:

- the fixing of the price or the exchange of relevant price information;
- the fixing of the production volume, restriction of investments or technical development;
- any division of market;
- conditional conclusion of agreement on acceptance of obligations that are not connected with the subject of the agreement;
- participation or refusal to participate in tenders or bidding, or in the agreement on the rules of the tender or bidding except for cases where the competitors jointly declare the offer for rules;
- application of different conditions to the equal substance agreements if it creates competitive disadvantage;
- activities restricting any other member of the market from entering the market or forcing its departure from the market.

If the activities of this type are detected by the Competition Council, the authority is entitled, in some instances, to order the termination of the activities in question and to impose on the market member a penalty up to 5 per cent (but not less than 350 euros each) and on competitors - up to 10 per cent (but not less than 700 euros each) of the net turnover of the last financial year. Non-compliance with the decision regarding restrictive practices entitles the Competition Council to increase the penalties up to the maximum amounts (5 and 10 per cent). The decision of the Competition Council may be appealed to the administrative court.

3. Release of prohibited agreements

The Regulations on the release of vertical agreements from prohibition of agreements according the Competition Act determines the procedure for how separate vertical agreements between members of the market are liberated from the prohibitions.

The main requirements which shall be met are the following: the market share of agreement's participant in the relevant market is not more than 10 % ; the market share of supplier in the relevant market is not more than 30 %; the market share of the buyer is not more then 30 % regarding exclusive supply (distribution) (the seller is obligated to sell goods only to one buyer in specified territory for special use and resale).

Agreements between competitors (horizontal agreements) also may be liberated from the prohibition and the main requirements which shall be met are the following: combined market share of market participants, who has agreed on joint purchase, sale, distribution and advertising of goods in the relevant market, is not more than 15 %; combined market share of market participants, who have entered in unilateral specialization agreement (one market participant undertakes to cease or refrain from proceeding of some certain goods and obtain them from competitive participant of market, but the competitive participant in the market undertakes to produce and deliver these goods) or in mutual specialization agreement (two or more market participants mutually agree to cease the produce of some certain (different) goods and obtain these goods from other market participants, who agree to deliver these goods), or in agreement on joint production of goods, in relevant market is not more than 20%.

4. Dominant position

A market participant is in a dominant position if he has the capacity to significantly hinder, restrict or distort competition in any relevant market for a sufficient length of time by acting with full or partial independence from competitors, clients, suppliers or consumers. The market member is prohibited from taking advantage of the dominant position in a malicious manner.

Among other malicious acts, the law particularly defines the following prohibited activities:

- the refusal to conclude an agreement with any other market member without a substantiated reason;
- the decrease in volume of manufacturing goods, or technical development without a valid reason;
- the imposition of rules according to which the conclusion of the agreement with any other market member is dependent on the acceptance of conditions that are not related to the subject of the agreement;
- unfair price fixing or the imposition of unfair conditions of trade;
- the application of different conditions to equivalent agreements if it creates competitive disadvantage.

If a market participant is in dominant position in retail trade, the law defines to such market participants special following prohibited activities:

Application or imposition of unfair and unjustified:

- provisions in relation to the return of goods;
- payments for the presence at a retail selling point of the goods supplied;
- payments for the entry into a contract;
- payments for the supply of goods to a soon-to-be-opened retail selling point;
- lengthy settlement periods for the goods delivered;
- fines for violating the provisions of a transaction.

If the Competition Council detects malicious activities, it is entitled to order the termination of the activities and to impose a penalty on the market participant in question in an amount of 5 per cent of the net turnover of the last financial year. If malicious activities are detected in an action of a market participant who is in dominant position in retail trade, penalty will be imposed in amount up to 0,2 per cent of the net turnover of the last financial year. Non-compliance with the decision entitles the Competition Council to increase the penalty up to 10 per cent, but in case market participant is in dominant position in retail trade, penalty will be increased up to 2 per cent, calculated from the net turnover of the last financial year.

5. Merger Control

What is merger?

Basic types of mergers are consolidation (the merging of two or more companies in order to become one legal entity) and acquisition (the joining of one legal entity to another). Moreover a merger under specific circumstances can be considered transactions that result in acquiring influence over another undertaking, as well the assets or the right of their use.

When a permission of merger is required?

Companies who have decided to merge shall, prior to merger, acquire the permission of the Latvian Competition Council if one of the following conditions exists:

- the combined turnover of the participants in the merger for the previous financial year in the territory of Latvia has exceeded EUR 35 572 000; or
- the total market share of the participants in the merger in the particular market exceeds 40 percent.

The notification to the Competition Council shall not be submitted if the turnover for the last financial year of one from two merger participants does not exceed EUR 2134000. If a merger involves more than two participants, the above exception does not apply.

How to notify of a proposed merger?

Companies with joint turnover of the previous financial year not less than EUR 35572000, who intends to merge, shall submit a full-form notification to the Competition Council.

The short-form notification report shall be submitted if: none of the participants in the merger operate in a single concrete market or in a market that is vertically related thereto; or the combined market share of the merger participants in a concrete market does not exceed 15 per cent. However if the Competition Council decides that such merger requires additional investigation, it may require the market participants to submit a full-form merger notification.

Procedures for examination of notifications

The Competition Council shall examine the notification within one month and take one of the following decisions:

- **Approval.** If the prospective merger does not significantly affect competition, the Competition Council takes a decision permitting the merger;
- **Conditional approval.** The Competition Council may permit mergers by laying down binding provisions for the relevant market participants, which prevents the negative consequences of the merger in relation to competition;
- **Prohibition.** The Competition Council prohibits mergers as a result of which a dominant position is created or strengthened, or which may significantly reduce competition in any relevant market. The Competition Council is entitled to prohibit also such mergers of which notification should have been given, but was not given;
- Commencement of additional investigation.

The relevant merger shall be deemed to be permitted, if within 45 days from the date of submission of a merger notification report, a market participant does not receive from the Competition Council one of the first three above mentioned decisions.

In the case the Competition Council has taken a decision regarding the commencement of additional investigation, the relevant merger shall be deemed to be permitted if the Competition Council has not taken a decision within four months from the date of receipt of the full-form merger notification report, or within three months from the date of receipt of the short-form merger notification report.

Liability for illegal merger

A merger of market participants, regarding which a notification had to be given, but was not given, is illegal.

If a notification report of a merger has not been submitted, the Competition Council is entitled to take a decision regarding the imposition of a fine of **up to EUR 1400 for each day**, counting from the day when the notification

should have been submitted, on the new market participant or the acquirer of a decisive influence.

The payment of a fine does not release the market participants concerned from the obligation to submit a merger notification and to fulfill the decisions of the Competition Council.

6. Unfair Competition

Unfair competition is defined as an activity, which violates law or fair business practices and which may result in the restriction, deformation or suppression of competition. The law regulates:

- usage or reproduction of the name, marks or other characteristics of any other market member when the usage or suppression may be misleading as to the identity of the market member;
- the usage of a trademark or the reproduction of trade external appearance, labels, packaging or name of goods manufactured or realized by any other member of the market if the foregoing activities may be misleading as to origin of the goods;
- the dissemination of false, incomplete or distorted information regarding any other member of the market; its participants or goods manufactured or realized by the member, if the dissemination may cause damages;
- the appropriation, usage or dissemination of trade secrets without the consent of the owner;
- the influencing of any other member of the market by threat or bribery in order to create a competitive advantage, if the foregoing activities may cause loss.

Violation of unfair competition prohibition rules are being settled at the court.

Immigration and Residency

1. General information

Citizens from the following countries (EU, EEZ and Switzerland) may enter in the Republic of Latvia without a visa and stay in Latvia for up to 90 days within a six-month period, counting from the day of entry:

Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom, Iceland, Liechtenstein, Lihtenšteina Norway and Switzerland.

Citizens from the following countries may enter in the Republic of Latvia without visa and may stay without visa in Latvia for up to 90 days within six month period:

Andorra; Antigua and Barbuda; Argentina; Australia; Bahamas; Barbados; Brazil; Brunei; Canada; Chile; Costa Rica; Croatia; Dominica; East Timor; El Salvador; Grenada; Guatemala; Honduras; Hong Kong (Special Administrative Region of the People's Republic of China); Israel; Japan; Korea; Macau (Special Administrative Region of the People's Republic of China); Malaysia; Mauritius; Mexico; Monaco; New Zealand; Nicaragua; Northern Mariana Islands; Panama; Paraguay; Saint Kitts and Nevis; Saint Vincent and the Grenadines; Samoa; San Marino; Seychelles; Singapore; Trinidad and Tobago; The Vatican; United Arab Emirates; United States of America; Uruguay; Vanuatu; Venezuela. Also citizens from Albania, Herzegovina, Macedonia, Montenegro, Serbia if they are holders of biometric pasport, and from Taiwan, if they are holders of passports which include an identity card number, may enter in Latvia without visa and may stay without visa in Latvia for up to 90 days within six month period.

2. Work permits

A work permit is necessary for all foreign nationals who wish to work in Latvia, as well as for persons having signatory rights in legal entity of Latvia.

Work permits are not required for EU, EEZ member state and Switzerland citizens since May 1, 2004.

3. Residence permits

An application for a residence permit should either be submitted to the Latvian Embassy in the foreign national’s country or locally to the appropriate office of the Latvian Office of Citizenship and Migration Affairs.

Foreign nationals must obtain residence permits to reside in Latvia longer than three months, except for holders of special visas and diplomatic visas. Residence in Latvia may be granted only in the cases when the purpose of entry is one of the following:

- studies;
- scientific work;
- commercial work;
- living with a spouse who is a citizen of Latvia;
- living with a spouse (a foreign national) who has a temporary residence permit or permanent residence permit in Latvia.

The Latvian Labor Department must approve an employment invitation. The approval procedure takes approx. 5-10 days. The residence permit then is issued for the time

period mentioned in employment invitation. The employment invitation is not necessary for board and council members.

4. Residence permits (registration certificates) for the EU, EEZ and Switzerland citizens

If individuals from EU, EEZ and Switzerland stay in Latvia more than 90 days starting from first entrance day, he/she has to register in the Latvian Office of Citizenship and Immigration Affairs. Registration is not required for EU citizens in the case if they stay less than 90 days within half a year in Latvia, and stay in Latvia up to 6 months within 1 year (starting from first entry) for employment purpose in Latvia. If these above conditions are not met, the registration is required.

Individuals from EU, EEZ and Switzerland may receive a registration certificate based on:

- employment or other agreement;
- status of self-employed person;
- status of service provider;
- if individual has sufficient maintenance
- studies.

To obtain a registration certificate because of employment for EU, EEZ and Swiss citizens the following documents will be required:

- passport;
- employment or other agreement;
- 1 photos;
- fulfilled application form (requiring disclosing information regardless individual and his/her family).

All required documents shall be submitted in the Immigration department personally. Individual should receive a registration certificate personally.

No state duties are required for a registration certificate for EU, EEZ and Switzerland citizens.

5. Registered place of residence

Foreign individuals who wish to stay in Latvia more than 1 month and who have received a residence permit or registration certificate are responsible to register their residence place according to the Latvian legislation. The registration basis is property rights; rent (lease) agreement; family relationship etc. If the person does not comply with this requirement the administrative penalty is enforcble by the Immigration police.

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Intellectual property

1. Membership in international agreements concerning intellectual property

Latvia is a member of the following international agreements:

Latvia has ratified following international agreements regarding intellectual property:

“The Paris Convention”;

“Patent cooperation Treaty”;

“WIPO”;

“The Madrid Agreement Concerning the International Registration of Marks”;

“The Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure”;

“The Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks”;

“The Bern Convention for the Protection of Literary and Artistic Works”;

“The Trademark Law Treaty”;

“The Agreement for the Protection of Intellectual Property between the Republic of Latvia and the United States of America”;

WIPO Copyright Treaty;

WIPO Performances and Phonograms Treaty;

Extension Agreement on European Patents with EPO;

European Patent convention;

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Furthermore, since 1 May, 2004 the protection of intellectual property in Latvia is based on laws, harmonized with the legislation of EU. All European Union normative acts related to the intellectual property enter into force with respect to Latvia.

2. Patents

General principles

A Latvian "*Patent Law"* was adopted on 15 February, 2007.

The law contains provisions relating to the patentable subject matter, the subjects of patent rights, the procedure for granting patents, international applications under the Patent Co-operation Treaty, the European patent extension to Latvia, the functions of the Latvian Patent office, and the rights derived from patent. It also deals with the infringement of patent rights, the exploitation and licensing of a patent and the enforcement of patent rights.

Patentable subject matter

A patent is granted in accordance with the patent application, which is filed to the Latvian Patent office. A patent may be granted for an invention which is new, industrially applicable and which has inventive step. Non-patentable subject matters are discoveries, scientific theories, mathematical methods, designs, methods for performing mental acts, software and methods of presenting information, if the above-mentioned subject matter as such is claimed. Also, inventions, which are contrary to public order and morality, as well as varieties of plants or animals or essential processes of the biological production of plants or animals (except microbiological processes), are considered as non-patentable subject matter.

Generally, the patentability criteria in Latvia correspond to those set by the European patent convention. The Latvian Patent office does not perform a substantive examination of a patent application; *i.e.* it does not check the conformity of the invention to the provisions of patentability. After a preliminary examination is performed, the invention is published, and third parties are invited to submit their oppositions to registration, within nine months of the date of publishing.

Exclusive rights

The exclusive rights to patents are effective from the date they are granted and expire no later than twenty years from the filing date. The exclusive rights may be ceased prior to the expiration of twenty years from the filing date by a court decision, or as a consequence of the failure to pay the patent maintenance fee.

The ownership of a patent grants the owner the exclusive right to produce and to use the patented product, as well as to offer it for sale, to put it into circulation and to import or stock the patented product for the above-mentioned purposes. It also bestows upon the owner the right to use the patented process and to offer it for sale, to put it into

economic circulation and to import or stock the patented product for the above-mentioned purposes, a product that is obtained with a patented process.

Fair use

The extent of exclusive rights is determined by the claims of the patent taking into account substance of the invention. The fair-use doctrine is applicable to exclusive patent rights. Exclusive rights are not extended to the use of the patented subject for non-profit purposes, scientific experiments or research as well as the testing of a patented invention and preparation of medicine and in pharmacy in exceptional cases as prescribed by a doctor, the exploitation of patented product after the first sale and to the construction of any foreign means of transport which temporarily enters Latvia.

European patent extensions

A European patent, which has been extended to Latvia, has the same effect as a domestic patent, except that the exclusive rights are terminated no later than twenty years from the date on which the Latvian Patent office has received the application of registration of the European patent.

3. Trademarks

General principles

The legal status of trademarks in Latvia is determined by the law *"On Trademarks and Indication of Geographical Origin"* of 16 June 1999. The law has provisions relating to the procedure for trademark registration, use of a trademark, expiration of the trademark and applicability of international agreements.

A trademark or a service is used in order to distinguish the goods and services of one enterprise from those of another enterprise. Trademarks may consist of words, letters, numbers, first names and surnames, graphics, three-dimensional shapes, light signals or of any combination of the above-mentioned items.

Exclusive rights

A registered trademark gives the owner the exclusive right to use the trademark and to transfer the associated rights, as well as to prohibit others from using the mark and similar marks in relation to goods in respect of which the mark is registered and in relation to similar goods, if the use of this mark is likely to confuse consumers or create association. A registered trademark is valid for ten years. After expiration of the term, registration may be renewed continuously. Well-known trademarks are protected in Latvia without registration.

Criteria for registration

Certain signs may not be registered as marks, namely those which reproduce the names of firms and products which are well-known in Latvia, as well as marks which reproduce trademarks belonging to any other person and are well-known in Latvia or similar trademarks if there is a likelihood of confusion or association, even if the trademarks are not registered in Latvia.

The registration of a trademark is done by filing a trademark application to the Latvian Patent Office. After preliminary and substantive examination, the mark is published, and third parties are invited to submit oppositions against the registration of the mark within 3 months of the date of publication.

Enforcement

The law sets forth the legal procedure for enforcing the trademark rights. The owner of the trademark is entitled to initiate litigation against any infringing use of the trademark by a third party and to make a claim to terminate the infringing use. The owner may also seek an indemnity for incurred losses, by demanding that the infringing packaging be changed or he may seek the destruction of the infringing goods.

Community trademarks

As ofthe date of Latvia's accession to the European Union in May 1, 2004, the Community trademarks are extended to Latvia. The Council Regulation on the Community trade mark, as well as other EU normative acts related to the trademarks enters into force with respect to Latvia.

4. Designs

Pursuant to the "*Law on Designs"*, the design is the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture or materials of the product or its decoration (ornamentation). Product is any industrial or handicraft item, including inter alia parts intended to be assembled into a complex product, packaging, get-up, graphic symbols and typographic typefaces.

The owner of a design has exclusive rights to the design. The owner is entitled to use the design, to offer it for sale, to put it into circulation and import, to export or stock the design for the above-mentioned purposes. The designer has moral rights of non-transferable paternity as an author of the design. The design is valid for five years. Upon the expiration of this period of time, registration may be renewed each time for a new five-year period until the maximum time period for the protection of a design — 25 years from the filing date — is reached.

A design is granted according to an application, which has been filed with the Latvian Patent Office. A design may be granted if it is new and has individual character. Legal protection shall not be granted to the appearance of a product, which is in conflict with the public policy or socially accepted principles of morality, to the features of the appearance of a product that are solely dictated by the technical functions of the

product, to such features of the appearance of a product which must be reproduced in an exact form and dimensions in order to permit the product in which the design is incorporated or to which it is applied to be mechanically connected to another product, placed into another product, placed around or against such product, so that in addition both products should be able to perform their functions.

The Patent Office does not perform substantive examinations of design applications. After a preliminary examination is performed, the design is published and the third parties are invited to submit their oppositions to the registration of the design within three months of the publication date.

Since May 1, 2004, when Latvia entered in the European Union, the Council Regulation (EC) No *6/2002* of 12 December 2001 on Community designs is into force in Latvia and the Community designs are extended to Latvia.

5. Copyrights

The *"Copyright Law"* of 6 April 2000 applies to works of science, literature and music, software, as well as to works of visual art, irrespective of the purpose or merit of the work or the mode of its expression. Also, copyrights may be obtained on derivative works, such as translations and adaptations, works that have been redone, annotations, synopses, summaries, reviews, musical arrangements. Copyrights can also be granted to the collections of works, for instance encyclopedias, anthologies and atlases, as well as databases and other compilations, which, by the selection and arrangement of the material, have resulted in the creation of a work. In order to be subject to copyright, the works, ideas and concepts must be made known to the public in any form.

Rights of author

The author of a work, independently of his economic rights, has inalienable moral rights. Copyrights bestow exclusive rights to the author and enable him to use the work and to derive profit from it.

Duration

A copyright is in force throughout the author's life and for 70 years after the author's decease. The copyright for a work made available after decease of its author remains in force for 70 years after the date it was lawfully made available.

Fair use

Copyrights are restricted by fair use provisions. Fair use is allowed when a work is reproduced for the use of work for informational and educational purposes, in the reproduction of works by libraries and archives, the use for judicial purposes, and the use of works permanently exhibited in public places and in other instances.

Neighboring rights

The Copyright law specifies that the owners of neighboring rights are the performers, the producers of sound recordings, broadcasting organizations, and producers of films or their successors in interest or heirs.

Neighboring rights are effective for 50 years after they have been first performed or produced. The rights with respect to producers of sound recordings are effective for 50 years after the first sound recording is released. The rights of broadcasting organizations are effective for 50 years after the first broadcast by that organization.

COMPANY REGISTRATION

1. General information

The most common form of a business presence in Latvia is a limited liability company [SIA]. The minimum share capital required to establish a limited liability company is EUR 2800 or, if a micro company, less than EUR 2800, namely, from EUR 1 – 2800 which shall be paid before a company registration with the Commercial register. As an alternative, a share capital may be invested in-kind by different assets.

Besides, a branch engaging in business may be registered in Latvia. Ordinarily the permanent branch will be regarded as a part of a head office and will not have a separate legal entity status.

2. A limited liability company registration checklist

Please, see below documents required to setting up a limited liability company in Latvia.

1. Application form which must be signed by all founders. Signatures and capacity of signatories must be certified by a notary. The power of attorney issued by a founder to another person, authorizing such a person to sign the application, must be notarized. The signature of the authorized person on the application form must be notarized as well.
2. Shareholders' agreement shall be signed by all founders. In case of a sole founder the Memorandum shall be replaced by Resolution on Incorporation.
3. Copies of the founders' passports.
4. Articles of association signed by all founders. Special provisions, which may be included in the articles:
    1. payment of a share capital (if the price of the subscribed share is not paid)

1. the share shall be transferred to the Company;
2. only the number of paid up shares shall remain;
3. a penalty on non-compliance with the deadlines may be imposed;

2. each share entitles to one vote (articles of association may provide otherwise);
3. encumbrance of shares may be prohibited;
4. it can be stipulated that in the event of death of a member, his/her share shall be transferred to the company. In such a case the company shall be obliged to pay compensation to the deceased member's heirs in accordance with the liquidation quota, which would be receivable by such an heir;
5. claim on expulsion of a member may be filed by members representing at least ½ of the share capital (higher number of votes may be determined);
6. the Meeting of share holders is competent, if more than one half of the members participate in such meeting (articles of association may provide for higher quorum);
7. resolution of members shall be passed by more than one half of votes represented (articles of association may provide for higher quorum);
8. resolution on amendments to the articles of association shall be passed by at least 2/3 majority of votes present at the meeting (articles of association may provide for higher quorum);
9. resolution on changes in the share capital shall be passed by at least 2/3 majority of votes present at the meeting (articles of association may provide for higher quorum);
10. the Board shall be obliged to convene meetings in the events stipulated in the articles of association;
11. certain issues may determined as being exclusive competence of the Meeting of share holders;
12. the articles of association may prescribe the procedure for convening the meeting (as in provisions of law – notice of meeting must be delivered at least two weeks prior to the meeting);
13. it may be stipulated the Chairman of the Board is appointed by the Council (if the Council is established);
14. representation of Board members:
    1. jointly;
    2. each individually;
    3. mixed- e.g. chairman individually, other two members jointly.
15. term of representation rights (1, 2, 3 years);
16. articles may stipulate that the Board member may be disqualified on the basis of:
    1. gross misuse of authority material misconduct;
    2. non-fulfillment of incomplete fulfillment of obligations;
    3. inability to manage the company;
    4. activity detrimental to the company;
    5. loss of reliability.

5. Confirmation letter from the bank (in case of monetary contributions).

6. Statement on the investments in kind.
    - A statement must be made and submitted on each material contribution. The statement must contain the following information:
        - description of each item of the contribution in kind;
        - ownership;
        - method of valuation of each item;
        - conclusion on compliance of contributed items to the types of business operations conducted by the company.
    - The statement shall be signed by expert (who must be included in the list approved by the Commercial register) or founders (provided that the total value of material contribution does not exceed EUR 5700 and forms less than one half of the share capital).
7. Each Council member's consent to act as a Council member (if the company has established a Council).
8. Passport copies of the members of the Council.
9. Each Board member's consent to act as a Board member.
10. Passport copies of the Board members.
11. Notarized signature samples of the Board members having representation rights. (Not required if Board member's signature samples are attested on the application).
12. Board's announcement on the legal address.
13. Auditor's consent to act as an auditor (if auditor is elected).
14. Auditor's passport copy (if auditor is elected).

After a limited liability company registration the entity is assigned a joint tax and company registration number, however, the tax authorities request also is that all of the company incorporation documents are filed with tax authorities after the incorporation of the company.

3. Liability of management

Commercial law determines that members of a board shall perform their duties as honest and diligent managers. The members of the board are jointly liable for losses caused to the company. If creditors cannot gain satisfaction of their claims from the company, they are entitled to bring a pretension for the benefit of the company against the members of the board, who have created losses to the company, but have not reimbursed them. Such claim may be brought within 5 years from the day the claiming rights have been established.

The enclosed table shows the minimal number of persons who shall be in a management of a company:

	Board	Council

	Minimum	Maximum	Minimum	Maximum
A limited liability company	1	several	3 (optional)	20 (optional)
A joint stock company	1	several	3	20
A public joint stock company	3	several	5	20

4. Signing rights

In accordance with articles of association of the relevant entity all members of the board have joint, individual or mixed representation rights. For example, if the board consists of three members, one member may represent a company individually, but another two jointly. The Register of companies will not accept for registration signature rights if the board has two members and the articles of associations will specify that the first member represents the board individually, but the second - jointly.

5. Procuration

According to the Commercial law a company or its authorized representative is entitled to issue the power of attorney (procuracy) - the commercial authorization, assigning to the procurator the rights on behalf of the company to enter into transactions and perform other legal activities related to the business. Procuracy has to be registered with the Commercial register.

Representation rights

An authorized person (procurator) may alienate, pledge or encumber with property rights a real property only if rights have been specially assigned to him to be checked at the procuracy registration application. The information will be recorded in the database of the Commercial register and is accessible by any third party.

Rights to perform all procedural activities in court proceedings

A procurator may perform all procedural activities in court proceedings (bringing a claim, agreeing on settlement, appealing judgments etc.).

Representation jointly with one or more board members

The Commercial Law foresees that the company’s Articles of Association may provide the representation rights of the procurator jointly with 1 or more board members. Now such restriction is recorded also in the database of the Commercial register. However,

the forms of procuracy registration are not amended similarly and the marking in forms that a procurator represents a company jointly with 1 or more board members is not accepted. If a company wishes that for this information will to be recorded in the Commercial register and publicly accessible than the application must enclose Articles of Association setting the representation rights of the procurator jointly with 1 or more board members or other documents, e.g. a procuracy itself marking this restriction.

Representation jointly with another procurator (joint-procuration)

A procuracy may be issued jointly for several individuals. On the basis of such joint-procuracy the procurators may represent the company only jointly. The grant of the joint-procuration shall be marked in the application for procuration.

Other restrictions

A company is entitled to foresee in procuration also other restrictions, e.g. set the ceiling to which a procurator may enter into transactions. Such restrictions will not be recorded within the Commercial Register. The law provides that the restrictions to procuration amount are not in force against third parties. Though, to avoid misunderstandings a company entering into transactions with another company represented by procurator, shall ask the procurator to present the procuracy. As well a procurator shall present the procuracy in order to certify his rights to act in a certain amount on behalf of the company.

The amendments to the information on the procurator and termination of the procuration shall be notified to the Commercial Register. If a joint-procuracy is issued to two procurators and the company wishes to recall one procurator, then both procurators should be recalled and a new procuracy should be issued for one procurator. Similarly if the recording of changes to the procurator's representation rights is decided, the existing procures should be terminated and new one shall be granted.

6. Auditors

Founder shall appoint a certified auditor if company's parameters exceed two of the criteria listed below:

- total assets: 400000 EUR;
- net turnover: 800000 EUR;
- average number of employees in the reporting year: 25.

Where the criteria are not exceeded, appointment of a sworn auditor is optional.

7. Decrease of share capital

Shareholders in limited liability companies and joint stock companies may decide to decrease a share capital to regain previously invested amounts. For commencing the decrease of the share capital the shareholder has to take a decision on the decrease of the share capital and shall prepare the regulations for how the decrease will be executed. After notification on a decrease is submitted to the Register of companies, the board shall notify all known creditors and shall publish the notice in the official newspaper "Latvijas Vēstnesis". The application term for creditors may be not shorter than one month. After the notification term expires, a board shall submit to the Register of companies the amendments to the articles of association, new wording of the articles of association and a shareholders list. After the decrease is registered, the amounts actually may be wire transferred to the shareholder.

8. European company

An European Company (Societas Europaea, SE) may be formed in Latvia or in another EU Member State. The main privilege of such a company is that the SE may transfer its legal address from one Member State to another Member State of the EU or EEA where the more beneficial tax policy exists without liquidation of company and incorporation of a new company in another Member State. The SE is a public limited liability company and it is governed by laws on the public limited liability company of the country of its legal address. In Latvia the laws applicable to a joint stock company shall be observed. The SE may not be registered until the agreement on employees' involvement arrangements has been concluded. The subscribed capital of SE shall not be less than EUR 120'000.

Establishment of the SE

The SE may be formed by already existing companies in the following ways:

1. The joint stock companies merge and form an SE, if at least two of companies are governed by the law of different Member States.
2. The joint stock companies and limited liability companies form a holding SE, if at least 2 of companies are governed by the law of different Member States, or if at least 2 of companies had for at least 2 years a subsidiary governed by the law of another Member State or a branch situated in another Member State.
3. The joint stock companies and limited liability companies form the subsidiary SE if at least 2 of companies are governed by the law of different Member States, or if at least 2 of companies had for at least 2 years a subsidiary governed by the law of another Member State or a branch situated in another Member State
4. A joint stock company itself transforms into an SE, if the company at least 2 of companies had for at least 2 years had a subsidiary in another Member State.
5. A SE itself forms a subsidiary as an SE.

9. Insolvency

The new Insolvency Law entered into force on 1st January 2008. The new law establishes some substantial changes in this area.

The insolvency criteria for legal entities are following:

Firstly, it is foreseen that the company will be deemed to be insolvent if, when applying a compulsory measure of execution, it was not possible to execute the judgement of the court regarding the debt recovery from a debtor.

Secondly, the debtor need not to comply with any or several debt commitments which each or all together exceed 4268 Euro and for which the date of payment has come, and if a creditor or creditors have handed out or delivered to the debtor's legal address a notification about their intent to submit an application for starting a process of insolvency and the debtor within three weeks after the date of handing out or delivering of such notification has not paid the debt or has not raised any objections against this claim.

Thirdly, the debtor has not fully paid to employees salaries, compensation of damages due to an accident in a work place or a professional disease, or has not made social security contributions within two months from the fixed payment day. If there is no payment day fixed in the employment contract, the payment day is the first working day of the next month.

Fourthly, the debtor is not able to settle his debt commitments for which the payment day has come and his debt commitments exceed his assets.

Fifthly, the company will be deemed to be insolvent when at the beginning of liquidation the financial statement will show that the debtor's assets are not sufficient in order to satisfy all reasoned creditor's claims or when such state of affairs arisein the course of liquidation.

Finally, the debtor is not able to settle his commitments which were established in the action plan of judicial protection process.

The law regulates insolvencyproceedong of a natural person.

Insolvency proceedings of a natural person may be applied to a debtor if any of the following features of insolvency proceedings of a natural person exist: 1) this person does not have the possibility of settling debt obligations whose term of execution has taken effect and the debt obligations exceed 5000 *euro* in total; or 2) in connection with provable circumstances, it will not be possible for this person to settle debt obligations whose term of execution will take effect within a year and the debt obligations exceed 10 000 *euro* in total.

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Legal protection proceeding

In accordance with the new Insolvency Law a new legal measures have been created for the protection of the interests of the commercial company in the case of limited paying capacity, in order to renew its paying capacity in full – the legal protection proceeding.

The company shall be entitled to submit an application to the court on initiating legal protection proceeding, if the company has limited paying capacity and the following preconditions exist:

1. its assets exceeds the creditors' liabilities, for which the due data has set in;
2. it has been registered in the Register of Enterprises for not less than 3 years and annual reports have been submitted on the last 3 accounting years.

It is not possible to initiate legal protection proceedings if:

1. an application for insolvency proceeding is submitted against the company
2. liquidation of the company is commenced;
3. the legal protection proceeding has been implemented and terminated for the company within the last 5 years;
4. a participant in a company who has deciding influence, a member or their relatives have a creditor's claim against the company and the due data of such a claim or its part sets in within the legal protection proceeding;
5. an insolvency proceeding relating to an enterprise, in which the company has deciding influence, is declared and it is not terminated.

The following methods shall be applied within the legal protection proceeding:

1. delay of the fulfilment of payment obligations;
2. an offset;
3. repayment or decrease of the principal debt, contractual penalty or repayment or decrease of interest;
4. alienation of movable property or immovable property or encumbrance with the rights in things;
5. increase of the share capital of the company.

Consent shall be received for the implementation of the legal protection proceeding from those unsecured creditors, whose claims in general form 2/3 from the amount of claims.

Company shareholders shall not be entitled to exercise creditors' rights regarding coordination of the plan of measures of the legal protection proceedings.

The implementation term of the legal proceedings shall be set not longer than a year from the day when the court judgment regarding implementation of the legal protection proceedings has come into force.

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REORGANIZATIONS IN LATVIA

Mergers, divisions and changes in the form of Latvian companies fall under the reorganization rules. This summary covers the main legal and tax points to be taken into account in reorganizations in Latvia.

Mergers

Merging can take the form of an acquisition or a consolidation. An acquisition is the process in which the acquired company transfers all of its property to the acquiring company. A consolidation is when two or more companies transfer all of their property to a newly founded acquiring company. In the case of a merger, the acquired company ceases to exist without liquidation procedures. All the rights and obligations of the acquired companies are transferred to the acquiring company. The shareholders of the acquired companies shall become shareholders of the acquiring company.

Division of companies

Division is a process by which the dividing company transfers all of its property to one or more acquiring companies through splitting up or divesting its assets. In the case of splitting up, the dividing company transfers all of its property to two or more acquiring companies and ceases to exist without liquidation procedures. But in the case of divestiture, the dividing company transfers part of its property to one or more acquiring companies and the dividing company shall continue to exist. The acquiring company can be an already existing company or a newly founded company.

All the shareholders of the dividing company or part of them become shareholders of the acquiring company. Alternatively, the dividing company can become the sole shareholder of the acquiring company in accordance with a decision regarding the divestiture of the company.

Restructuring

Restructuring is a process in which a company is restructured into a different type of company via acquisition. All the rights and obligations of the restructured company are transferred to the acquiring company and the restructured company ceases to exist without liquidation procedures. The shareholders of the restructured company become shareholders of the acquiring company.

Corporate income tax

On reorganization, the acquisition of one company by another where the previous owners retain control allows transfer of losses of the acquired company to the acquirer.

For determining taxable income, the re-evaluation of assets and liabilities brought about by the reorganization are not taken into account. For example, the acquirer should take as a base the surplus value of the capital assets, as it was for the transferor at the moment of the reorganization.

This does not apply if the shares acquired by the transferor were owned for less than three years, unless the transferor justly proves that the reorganization does not aim to decrease its taxable income, evade taxes payable in Latvia or decrease the amount of taxes. To prove this, the transferor submits to the tax authorities the copies of the documents certifying the transactions and substantiates the necessity to sell the shares.

VAT

If the companies are merged and the acquirer overtakes all obligations of the acquired company, the VAT for the transfer of the property is not calculated.

Therefore, the transferor should submit to the acquirer the list of real property, indicating the detailed information on the calculated VAT for each property. The list must be confirmed by the tax authorities. The acquirer within 30 days should re-register the real property with its territorial tax authorities. Otherwise, the transferor must repay to the state the deducted input tax for the real property, transferred after the reorganization to the acquirer.

If the real property or part of it is sold within 10 years after its acquisition or its putting into operation, then the sum of tax, calculated by multiplying 10% of the deducted input tax by a number of years up to 10, should be repaid to the state.

Loss carry back

If the company is reorganized through a merger with another company, but the new company after reorganization is controlled by one and the same person or group of persons, the second company after reorganization must assume the pre-taxation period losses of the first company. It can also cover them in the taxation period and in following taxation periods in chronological sequence from taxable income of the next five taxation periods.

The acquiring company must take over the losses in the previous taxation period of the transferring company, which are related to the types of economic activity transferred, and to cover such losses in the taxation period in which the transfer took place and in subsequent taxation periods. Losses can be covered in chronological sequence from taxable income of the next five taxation periods.

If, in the course of reorganization, the company is divided or divested and the company at the time of reorganization has losses that it must cover in accordance with the law, company’s losses must be assumed by the newly founded company.

But in the case of divestment (the company to be divided after reorganization and the newly-founded divested company) the division of the losses of the company, which are split between the original company and the newly-founded company (and between the newly-founded company in the case of division after reorganization), should be proportional in relation to the value of the assets of the divested company after reorganization against the value of the assets of the company to be divided prior to reorganization.

LABOR LAW

General Rules about Daily and Weekly Working Time

According to the Labour Law the working time means a period from the beginning till the end of work during which an employee performs work or is at the disposal of the employer, with the exception of breaks in work.

Regular daily working time of an employee may not exceed eight hours, and regular weekly working time – 40 hours. Daily working time means working time within a 24-hour period.

Generally there is 5 days working week; however, due to the nature of the work it is possible to settle a working day of six days. Before that the consultation with representatives of employees should be done.

If there is a working week of six days, then the length of daily working time shall not exceed seven hours. Work on Saturdays shall be ended earlier than on other days.

The daily working time and weekly working time should be established in the employment contract or there should be a reference in the employment contract that such rules are established in the collective employment agreement or in the regulations of the working procedure. The rules about the working time should also contain rules about the beginning and the end of the working time and breaks during the work.

General Rules about Overtime

Overtime work is permitted if the employee and the employer have so agreed in writing. However, the employer has the right to employ the employer on overtime without his or her written consent in the following exceptional cases:

1) if this is required by the most urgent public need;

2) to prevent the consequences of *force majeure*, an unexpected event or other exceptional circumstances which adversely affect or may affect the normal course of work activities in the company; or

3) for the finishing of urgent, unexpected work within a specified period of time.

The overtime work must not exceed 144 hours within a period of four months.

The employer has an obligation to maintain the records about the each employee's hours worked and overtime hours, including hours worked at night, on the weekly rest days and holidays.

General Rules about Resting Periods

The length of a day rest within a period of 24 hours shall not be less than 12 consecutive hours.

If the daily working time of the employee exceeds six hours the employee has the right to a break in work.

The period of break shall be granted not later than four hours after the beginning of the work. The employer shall determine the length of a break after consultation with employee representatives, though it may not be less than 30 minutes. Taking into account occupational safety and health protection principles, the collective agreement may specify other procedures for the granting of breaks. A break shall not be included as working time.

During period of the break an employee has the right to leave his or her workplace unless otherwise provided for by the employment contract, the collective agreement or working procedure regulations. Prohibition against leaving a workplace during daily resting periods shall be adequately reasoned.

Feasibility of Flexible Working Hours

It should be noted that there is no prohibition in the Labour Law to agree about different working time than it is settled in the law. It means that the employer and the employee may also agree to introduce flexible working time where one part of the working time may be settled as a core working time but the other part of the working time may be defined by the employees themselves.

Exclusive Rules regarding Working Time Organization

According to the law where taking into account the characteristics of the respective work or occupation the length of working time is not measured or determined in advance or it may be determined by the employees themselves, in such case, complying with the principles of safety at work and health protection, as well as providing sufficient rest, it is permissible to depart from several previously described rules regarding daily and weekly working time, overtime and resting periods.

In such case the departure is allowed from following rules:

1. daily working time – 8 hours, weekly working time – 40 hours;
2. that the overtime work must not exceed 144 hours within period of four months;
3. the length of a day rest within a period of 24 hours shall not be less than 12 consecutive hours;
4. regarding the breaks in the work.

All other rules will continue to apply, for example, the below-described rules regarding salary and payment for overtime and rules regarding breaks during the work. Please also note that those above-mentioned rules will still apply to the working time which will be determined by the employer.

Salary

The employer has an obligation to maintain records about the each employee's hours worked and overtime hours, including hours worked at night, on the weekly rest days and holidays.

According to the law there are two methods of salary systems:

1. a time salary system or
2. a piecework salary system.

The time salary shall be calculated in conformity with the actual time worked irrespective of the amount of work done.

The piecework salary shall be calculated in conformity with the amount of work done irrespective of the time within which it was done.

At the end of each year the government establishes the minimum monthly salary and minimum hourly rate.

In 2015 the minimum monthly salary for regular working time is EUR 360, but minimum hourly rate is EUR 2.166.

Payment for overtime and work on holiday

If an employee performs overtime work or works on a holiday he shall receive an additional payment of not less than 100 per cent of the hourly or daily salary rate specified for him or her, but if piecework salary has been agreed upon, an additional payment of not less than 100 per cent of the piecework rate for the amount of work done. However, a collective agreement or an employment contract may specify a higher additional payment for overtime work or on a holiday.

Night work

Night work shall mean any work performed at night for more than two hours. Nighttime shall mean the period of time from 10pm to 6 am.

A night-employee shall mean an employee who normally performs night work in accordance with a shift schedule, or for at least 50 days in a calendar year.

Regular daily working time for a night employee shall be reduced by one hour. This provision shall not apply to employees who have been prescribed regular shortened working time. Regular daily working time for a night employee shall not be reduced if such is required by the particular characteristics of the undertaking.

An employee who performs night work shall receive a supplement of not less than 50 per cent of the specified hourly or daily wage rate specified for him or her, but if a lump-sum payment has been agreed upon, a supplement of not less than 50 per cent of the piece-work rate for the amount of work done.

Shift Work and Aggregated Working Time

If it is necessary to ensure continuity of a work process, an employer, after consultation with employee representatives, shall determine shift work. In such case the length of a shift may not exceed the regular daily working time prescribed for the relevant category of employees.

If due to the nature of the work it is not possible to comply with the length of the regular daily or weekly working time prescribed for the relevant category of employees, the employer, after consultation with employee representatives, shall prescribe aggregated working time.

Aggregated working time may not exceed 56 hours a week and 160 hours within a four-week period unless otherwise provided for by a collective agreement or an employment contract.

Dismissal and termination of employment contract

An employment contract shall be terminated:

1. if the employee and the employer have agreed on termination of the employment contract;
2. in the event of the death of the employee;
3. in other cases specified in the Labour Law of Latvia (for example notice of termination from employee, notice of termination of the employer etc.).

According to Labour Law of Latvia, the employer has the right to give a written notice of termination of an employment contract only on the basis of circumstances related to the conduct of the employee, his or her abilities, or of economic, organizational,

technological measures or measures of a similar nature in the undertaking in the following cases:

1. the employee has without justified cause significantly violated the employment contract or the specified working procedures;
2. the employee, when performing work, has acted illegally and therefore has lost the trust of the employer;
3. the employee, when performing work, has acted contrary to moral principles and such action is incompatible with the continuation of employment relationships;
4. the employee, when performing work, is under the influence of alcohol, narcotic or toxic substances;
5. the employee has grossly violated labor protection regulations and has jeopardized the safety and health of other persons;
6. the employee lacks adequate occupational competence for performance of the contracted work;
7. the employee is unable to perform the contracted work due to his or her state of health and such state is certified with a doctor's opinion.

If termination of the employment agreement is brought aboutby the employer, there should be well grounded and provable reasons, there should be enough written evidences testifying the dismissal.

FINANCE AND BANKING

Minority shareholders

Recently the amendments to the Financial Instrument Market Law in Latvia of 1995 have been passed developing the regulations for regulated market participants on the share buy-out. The buyout bid is considered as a public bid to certain part of shareholders of a company being in public circulation (the target company) to buy their shares expressed by another set of shareholders or other company or individuals. The law provides 3 types of share buyout bids – mandatory, voluntary and final.

Mandatory buyout

A buyout bid regarding minority shareholder shares shall be mandatory expressed by another shareholder (i) acquiring directly or indirectly majority – the half or more shares with voting rights; and (ii) voted in a shareholders meeting for the exclusion of the shares from a regulated market. Such a decision cannot be made in a closed vote. Therefore a decision regarding exit from the regulated market shall be made in an opened vote.

Voluntary buyout

A person or company is entitled to make a voluntary share buyout bid for the purpose of acquiring at least 10 % of the shares with the voting rights. Where control (half or

more of all shares) has been acquired following a voluntary bid to all the shareholders, the abovementioned obligation to make mandatory bid no longer applies.

Final buyout

A person directly or by a voluntary buyout offer acquiring 95 % or more of all the shares (major shareholder) is entitled demand that other minority shareholders sell their shares to the major shareholder. The law prescribes establishing the price of one share in mandatory and final share buyout bid by dividing equity to a number of shares. Upon making a decision on granting permission to make a bid, the FCMC shall simultaneously notify the bidding party and the respective organizer of a regulated market institution on which the shares are admitted to trading and send the prospectus of the share buyout bid in an electronic form to that market organizer. A market organizer shall post a prospectus of a share buyout bid on its Internet homepage without delay.

Prospectus and Timing

In any share buyout case the offerer shall submit a prospectus regarding the share buyout bid to the Financial and Capital Market Commission. The prospectus shall include the offered purchase regulations (term, price etc.) and, in case of voluntary offer – the minimal and maximal number of shares offered to be purchased. The purchase regulations shall be similar for all shareholders having the same category shares. The Commission shall review the prospectus within 10 days. A share buyout bid shall be valid for a period of 30 to 70 days, starting on the day of making the bid. There are significant differences in all of the above mentioned buyout cases depending whether a shareholder accepts or rejects a buyout bid. If mandatory or voluntary buyout bid has been made, a person can choose to accept the bid and sell his or her shares or to reject it. However, if final share buyout bid has been made, a person on mandatory basis shall sell the shares. If a shareholder does not accept a final share buyout bid by the expiration date, the shares shall be blocked on his or her accounts on the next day after the expiration date and the shareholder shall lose its usage rights. The new amendments more specifically clarify the regulatory framework for share buyout in Latvia.

DATA PROTECTION

According to the “Law On Personal Data Protection” any individual, entity or institution carrying out personal data processing (personal data processing comprise any operation carried out regarding personal data which is information related to an identifiable individual- including data collection, registration, recording, storing, arrangement, transformation, utilization, transfer, transmission and dissemination, blockage or erasure), and establishing systems for personal data processing, shall register such a system in the State Data Inspection. This regulation applies also to cases when the personal data (for example name, ID number) are collected for the bookkeeping and personal accounting, except, if the data are not collected electronically, but on paper. If the system is not registered, a penalty up to Euro 700 for persons, up to Euro 700 for officials, for juridical persons up to Euro 14 000.

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EUROPEAN UNION FUNDS

There are two main types of EU funding: funds whose management is shared between the EU and the Member States and funds which are managed centrally by the European Commission. The Structural and Cohesion Funds, the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF) fall under the first category, whereas the research, environment and external action funds fall under the second. The bulk of EU spending (76% of the EU budget) involves funds which come under shared management by the EU Member States.

New trends 2014-2020

At the end of 2013, the European Parliament and the Council of the European Union came to an agreement on the budget for the EU for the next 7 years (2014-2020). A huge part of this new budgetary plan, with a total amount of 960 billion €, is used for EU funding instruments, programmes and initiatives. Funding instruments for the period 2014-2020 have been redesigned, covering cohesion policy, maritime affairs and fisheries, research and innovation, environment and climate, competitiveness. The new legal and policy framework was adopted laying down the common rules applicable to all European Structural and Investment funds - the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the EAFRD and the EMFF.

Cohesion policy funding provides the most significant investments in Latvia. The total allocation Cohesion Policy funding for the 2007-2013 period was € 4.6 billion. In 2014-2020, Latvia will manage one operational programme for the ERDF, the Cohesion Fund and the European Social Fund (ESF) under EU Cohesion Policy. For 2014-2020, Latvia has been allocated around € 4.51 billion in total Cohesion Policy funding:

- € 3.04 billion for less developed regions (the entire country is classified as a less developed region)
- € 1.35 billion through the Cohesion Fund
- € 93.6 million for European Territorial Cooperation
- € 29 million for the Youth Employment Initiative

Of this, the ESF will represent a minimum of € 629 million. The actual share will be set in light of the specific challenges the country needs to address in the areas covered by the ESF.

The new regulation of the Cabinet of Ministers on the procedure for examination projects in the EU structural funds and Cohesion Fund programming period 2014–2020 came into force on 17 March 2015.

The regulation prescribes a procedure for selective pre-examination of the procurement documentation and the process of the procurement procedure, as well as project on-the-spot verifications and examination of payment requests. Also a procedure is prescribed

for the provision of information about the inclusion of planned value added tax in the eligible project costs and examination of the provided information.

In contradiction to the EU funds programming period 2007–2013, this regulation stipulates that all examinations performed within the framework of a project are covered by one legislative act. Thus, it is ensured that it will be easier for beneficiaries of EU funding and institutions involved in the management of EU funds to realize the whole scope of examinations.

The legal framework stipulates that the number of institutions involved in project examinations is decreased, as well as the scope of project on-the-spot examinations is optimized. In the programming period 2014–2020 project on-the-spot examinations will be performed only by the cooperation institution (the Central Finance and Contracting Agency) and Managing Authority (Ministry of Finance). The Managing Authority and cooperation institution in planning their examinations will apply a joint audit principle regarding no-overlap of examinations. In addition, the right to perform examinations has been awarded to the Certifying Authority (Treasury), but it is not the basic function of the Certifying Authority and this right could be left unused.

Also the scope of the documentation to be submitted by the beneficiary is optimized. To reduce administrative burden on beneficiaries, the payment request is joint with the progress report to ensure more efficient project supervision and coverage of expenditure. Beneficiaries and the cooperation institution will be able to fulfil the data fields of the payment request in the Cohesion Policy Funds Management Information System for 2014–2020 without creating new IT systems/registers.