

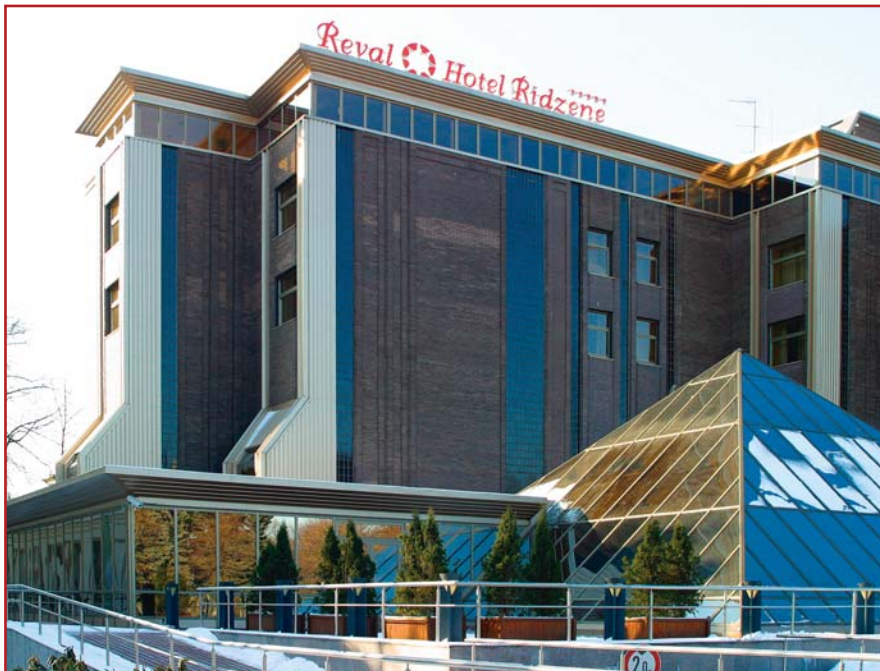
IN THIS ISSUE:

- 1. VAT
- 2. Social tax
- 3. Declaration of cash
- 4. Reorganizations

VAT

Changes in VAT law provides that VAT registered person may deduct input VAT before registration with VAT register. Input tax may be deducted proportionally to taxable and exempt transactions. A person may exercise the above mentioned rights only after the registration with VAT register by submitting first tax declaration. The deducted amount of input tax for stock is determined according to the results of an inventory at the moment when the certificate of taxable person is received for goods acquired not more than 12 months before the certificate of taxable person was received. VAT paid for new passenger car before the registration may not be deducted except if such car is used for training purposes, taxi services or ensuring financial lease transaction.

The deducted amount of input tax for fixed assets is determined according to the balance sheet value of fixed assets at the moment when the certificate of taxable person is received for fixed assets acquired not more than 12 months before the certificate of taxable person was received.



Expatriate and corporate tax planning seminar organized jointly with the Swedish Chamber of Commerce in Latvia will be held in Riga, on March 15, at 18:00 – 18:45 followed by buffet in Reval Hotel Ridzene (Reimersa Street 1) Kronvalda room. To book for the seminar, please, fill the fax back form or call Sabine at +371 7240090 or e-mail us at sabine.sakovica@gencs.lv

The deductible amount of input tax for services is determined according to a list of services, which includes services received not more than 3 months before the certificate of taxable person was received and which is approved by authorized person of taxable person. Input tax may not be deducted for overhead expenses such as maintaining the premises including the rent, telecommunication services, the rent of vehicles, fuel etc., which are incurred before person's registration with the VAT register.

Financial lease

VAT law changes provide provisions for application of VAT to financial lease of immovable property in case of cancellation of the agreement. In such a case VAT is applied as to the agreement and is applicable to all previously made payments of financial lease excluding interest rate. The above mentioned provision however is not applied to the financial lease transactions with the dwelling accommodations not used for business purposes.

Social tax

Below mentioned a summary of new social tax rates effective January 1, 2006.

Status of insured person	Total rate	Employer's rate	Employee's rate
1* All kinds of insurance	33.09	24.09	9
2* Working pensioners	27.38	19.93	7.45
3* Invalids of III. group and individuals receiving service pension	30.41	22.14	8.27
4 Non-residents employed by non-residents	30.98		

1 Self employed	30.2**
2 Pensioner-self employed	27.13
3 Individuals managing real estate and registered as payers of income tax from economic activities	27.82
4 Voluntary insurance for pension	24.79
5 Voluntary insurance	30.98

* if EU citizen should pay social tax or Latvian resident employed by non-resident

Maximal social tax object is 20'700 Lats per year.

**Minimal social tax object for self employed persons is 1'320 Lats.

Procedure of declaration

The Government will shortly elaborate specific forms of declarations. The declaration among other includes information on the origin of cash, the aim of use of the cash and the receiver of cash. The Tax Authority, which is responsible for customs affairs in Latvia, shall control the declarations. In border crossing places without customs control points, the State Border Guard is responsible authority.

Penalties

The respective draft amendments in the Administrative Violations Code and Criminal Code also have been passed. The draft amendments provides that for non declaration or untruthly declaration of cash which has been brought into or moved out of the custom territory of the EU by crossing the border of Latvia a person may be fined up to 200 LVL by the Tax Authority. If the mentioned activities have been performed repeatedly within a year the draft provides the commencement of criminal proceedings.

International exchange of information

The Tax Authority provides the Money Laundering Prevention Service with the received information included in the declarations. The Money Laundering Prevention Service is entitled to submit the respective information to the competent surveillance authorities of another Member States of EU and the mentioned UN Convention. The new law provides new step in prevention and limiting the international money laundering schemes in Latvia.

Declaration of cash

Recently the Parliament of Latvia has passed new law "On the declaration of cash on the state border".

The new law will enter into force in July 1, 2006.

General aim

The general aim of the law is to prevent the money laundering according to the UN Convention against Transnational Organized Crime and EU draft regulation of the on control of cash leaving and entering the Community.

Thresholds for declaration

A natural person shall declare the cash when crossing the border if its amount is equivalent to 10'000 EUR or more. The following financial means are considered as the cash: (i) banknotes and coins, (ii) cheques, promissory notes, money orders and other negotiable instruments either in bearer form or in such form that title on the instrument passes upon delivery; (iii) incomplete instruments (including cheques, promissory notes, money orders) signed but with the payee's name omitted.



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 sets. 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 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 where 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 conformed with 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 split up between the original company and the newly-founded company in the case of divestment (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.

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