

DOING BUSINESS IN LATVIA

2016



INTRODUCTION

Latvia's skilled and multilingual labor force, abundant natural resources, and strategic location form a solid foundation for the country's economy and make Latvia the ideal place to develop your business.

The Doing Business in Latvia guide has been prepared to assist those who are interested in doing business in Latvia. It features topics such as setting up business entities in Latvia, import issues, tax and financial systems, financial reporting and audit standards, and labor and employment.

MAZARS IN LATVIA

TaxLink Baltic is the correspondent of Mazars in Latvia.

TaxLink Baltic is an organization of young and ambitious experts providing all tax, audit and accounting related business services in Latvia. While focusing on the matters in local markets we are keen to offer our deep understanding of cross border issues as well. We serve local and international businesses that want to keep their competitive edge by successfully planned and managed tax strategies.

Innovative solutions and continuous improvement of the performance is our main challenge, which help us to offer our clients total support in their business matters. Our persistent investment of time and resources in professional continuing education, devotion to work and extensive business relations is indicative of our commitment to excellence.

Organizations most notable market strength is high level of technical expertise which is used to reduce our clients' financial and tax risks as well as associated expenses. Clients can then concentrate their time and resources to their core business needs.

MAZARS IS AN INTERNATIONAL, INTEGRATED AND INDEPENDENT ORGANIZATION, SPECIALIZING IN AUDIT, ACCOUNTING, TAX, LEGAL AND ADVISORY SERVICES. THE GROUP DRAWS ON THE EXPERTISE OF OVER 17'000 PROFESSIONALS TO ASSIST MAJOR INTERNATIONAL GROUPS, SMES, PRIVATE INVESTORS AND PUBLIC BODIES IN 77 COUNTRIES THAT ARE PART OF ITS INTEGRATED PARTNERSHIP.



TABLE OF CONTENTS

1. GENERAL INFORMATION ON LATVIA
2. ESTABLISHING AN ENTITY
3. FOREIGN BUSINESS RESTRICTIONS
4. INVESTMENT INCENTIVES
5. WORK PERMIT AND VISAS
6. FOREIGN CURRENCY TRANSACTIONS CONTROL
7. TAXATION
8. EMPLOYMENT (TAX & LEGAL)
9. AUDIT AND ACCOUNTING
10. COUNTRY QUIRKS
11. YOUR CONTACTS IN TAXLINK LATVIA



1. GENERAL INFORMATION ON LATVIA

GDP GROWTH	2.4%
INFLATION	0.6%
POPULATION	1.99 M
GDP PER HEAD	USD 15,719
WORLD BANK EASE OF DOING BUSINESS RANK	22

Data collected from data.worldbank.org based on 2014

2. ESTABLISHING AN ENTITY

There are five basic ways of establishing a business in Latvia:

- individual merchants,
- limited liability companies,
- joint-stock companies,
- partnerships,
- branch or representative office.

Individual merchants

If the annual turnover from economic activities of individual merchant (IM) exceeds EUR 284 600, then IM shall register with Commercial Register. In all other cases the registration is done with the tax administration. The whole of individual merchants' property is liable in terms of meeting their obligations.

Limited liability companies

Limited liability companies (LLC) are closed business entities whose equity capital consists of the total amount of the par value of the shares, which cannot be traded publicly. Limited liability companies may be established by one or more natural or legal entities. Shareholders may simultaneously be the only member of the Board and the only employee. Permanent presence of shareholders in Latvia is not required, although the board must be reachable at the address of the registered office.

The capital of a LLC is divided into shares and the liability of shareholders is limited to their investment in share capital. The minimum share capital of a LLC is EUR 2 845, but a LLC may have less share capital if it has no more than five members (all individuals) and certain conditions stipulated by the Commercial Law are met.

Joint-stock companies

Joint-stock Companies (JSC) are business entities whose equity capital consists of the total amount of the par value of shares in the company's stock. Joint-stock companies can be closed or open with shares in public circulation. Minimum statutory capital for JSCs is EUR 35 000. JSCs performing the activities of banks, insurance companies or currency exchange require a higher amount of statutory capital. JSCs can issue ordinary and preference shares which can grant shareholders rights to receive dividends, rights to receive a liquidation quota and voting rights at shareholders' meetings. JSCs are managed by shareholders' meetings, supervisory councils and boards of directors.

Partnerships

A partnership is a business entity in which two or more persons (members) have united, on the basis of a partnership agreement to perform commercial activities utilizing a joint company name. The Commercial Law provides for two forms of partnership: general and limited partnerships. Both can be established by two or more persons. The main difference between the two forms is that all persons establishing a general partnership have unlimited liability for the partnership's debts. On the other hand, limited partnerships are established by limited and unlimited partners, where the liability of limited partners is limited to the amount of capital contributed. Partnerships are established by partnership agreements and there are no requirements for minimum capital. Partnerships' profit or losses are distributed at the end of the year in proportion to the amount of capital contributed by partners.

Branch or representative office

According to the Commercial Law, local and foreign companies may establish branch offices in Latvia. A branch is an organizationally independent part of a company that can carry out economic activities, but is not treated as a legal entity. A branch is subject to the same reporting obligations as registered companies, and the head office of the branch is fully liable for activities carried out by the branch.

Representative offices, similar to branches, are not independent legal entities. Representative offices cannot perform economic activities and their functions are limited to market research, promotion of the parent company and other limited marketing activities.

3. FOREIGN BUSINESS RESTRICTIONS

Essentially, there is no restriction on foreign business nor is there any foreign exchange control.

4. INVESTMENT INCENTIVES

Protection of investment

Latvia has signed bilateral agreements for the promotion and mutual protection of investments with 53 countries. The agreements grant safety and protection to investments made in real estate, intellectual property, shares, or any other form of investment, prohibiting the application of unreasonable, discriminatory, or arbitrary measures to investments by the other contracting state and direct or indirect expropriation or nationalization.

State aid

In order to support business development, Latvia has been implementing state aid programs for period 2014–2020 (funded by the EU Structural Funds). The planned amount of state and EU Structural Fund financing for entrepreneurship and energy efficiency for 2014–2020 is EUR 764.15 million. The state aid programs focus on the following three areas:

- research, technology development and innovation;
- raising competitiveness of SMEs (small and medium-sized enterprises) – including initiatives providing financing, development of industrial areas/parks;
- transition to economy with less carbon emission in all industries, energy efficiency and more efficient centralized heating supply system.

Latvian holding regime

Latvian holding regime is a competitor of well-known European holding regimes, as in Latvia corporate income tax is not levied on dividends paid to non-residents, dividends received from non-residents and the capital gain from the sale of shares in subsidiary companies. Furthermore, interest and royalties paid to non-residents are also exempt from withholding tax in Latvia.

Tax rebates

For business support in Latvia, the government has adopted tax incentives allowing taxpayers to claim tax credits for initial long-term investment in supported investment projects, in the following amounts:

- 25% of total initial long-term investment up to EUR 50 million.
- 15% of the part of the total initial long-term investment exceeding EUR 50 million.

Companies can subtract from their corporate income tax three times the amount of expenditures invested in Research and Development (R&D) activities. For the tax payer to apply the tax break, he needs to evaluate the legibility of the planned R&D activities and produce an R&D project that explain its objectives – to produce a new product or technology that neither the company nor anyone else has ever made before.

5. WORK PERMITS AND VISAS

Work permits are issued by the Office of Citizenship and Migration Affairs on the basis of visa or residence permits. If employers intend to employ a foreign national, they must register a job vacancy with the State Employment Agency (SEA) at least one month before applying to the SEA for approval of invitations for visas or sponsorship for residence permits. Foreign nationals must receive separate work permits if they will work for more than one employer or in several positions. If the employment of foreign nationals relates to short-term stays in Latvia that do not exceed 90 days in a six-month period, work permits can be issued in accordance with the validity of visas.

Latvia has been a member of the Schengen Agreement since December 21, 2007, therefore member state citizens traveling to Latvia do not require a visa, and foreigners who have valid a Schengen visa can travel to Latvia with an existing one. Other foreign nationals who are citizens of countries that are entitled to request visas for entering Latvia must submit an application. An invitation is mandatory if a natural or legal person in Latvia is considered to be an employer in accordance with the Law on State Social Insurance, and they intend to employ a foreign national by entering into an employment contract or a

work-performance contract. However, foreign nationals who wish to establish employment relationships or become self-employed must have a work permit.

6. FOREIGN CURRENCY TRANSACTIONS CONTROL

The Latvian government does not have any controls of import, export, use or exchange of foreign currency in Latvia. The local currency is the euro (EUR).

7. TAXATION

Corporate income tax

Resident companies are subject to corporate income tax on their worldwide income. Non-resident companies without a permanent establishment in Latvia are subject to tax on their Latvian sourced income.

Non-resident companies operating through a permanent establishment in Latvia are subject to tax on income derived by the permanent establishment in Latvia, as well as income independently.

Taxable income is the profit or loss before tax reported in a company's profit and loss statement, prepared in accordance with the Law on Annual Accounts and subject to adjustments to annual corporate income tax declarations.

The tax year is either the calendar year or may differ from the calendar year if so stipulated by a company's charter. That is, the tax year corresponds with the financial year of the company. Generally, the tax year for corporate income tax purposes may not exceed 12 months. However, in the year incorporation the tax year may last less or more than 12 months, but not more than 18 months.

Losses can be carried forward indefinitely.

Corporate Income Tax rate is 15%.

There is only 3% Corporate Income Tax in Special Economic Zones. Latvia has four Special Economic Zones (SEZ) – Liepaja Special Economic Zone, Rezekne Special Economic Zone, Ventspils Free Port, and Riga Free Port. These allow companies to benefit using tax rebates:

- Up to 100% rebate on real estate tax;
- 80% rebate on corporate income tax not exceeding 35% of the amount invested (45%-55% for SMEs);
- 80% rebate on withholding tax for dividends; management fees and payments for usage of intellectual

property.

Personal income tax

Private individuals employed by Latvian-registered enterprises and by enterprises non-resident in Latvia are subject to the standard income tax rate of 23%. Monthly salaries may not be less than the minimum stipulated by the state - EUR 370 gross.

Salary includes all income related to labor relations, including fringe benefits, minus a monthly non-taxable amount EUR 75 for employees and EUR 175 for each of their dependents. Employers must withhold income tax from employees' salaries.

Income (revenue) from letting of real estate is subject to 10% income tax rate;

Income from gambling (including professional gambling) is tax exempt.

Income from capital gains (e.g. sale of shares, sale of real estate) is subject to 15% income tax rate, but income from capital (e.g. dividends, interest) – 10% income tax rate.

Value added tax

Generally, the provision of services and sale of goods constitute a VAT taxable transaction. The VAT rates applicable are 21% (the general VAT rate), 12% (a reduced rate applicable to certain types of transactions) and 0% (intra-Community supply and export). Persons registered in Latvia whose supplied goods and services during a 12-month period exceed EUR 50 000 are liable to register as VAT payers. Foreign companies and individuals who conduct taxable transactions in Latvia are obligated to register in VAT register starting from first EUR.

As regards import VAT, there is possibility to receive special permission from tax administration, which provides exemption from VAT on importation.

8. EMPLOYMENT (TAX & LEGAL)

Employment relationships in Latvia are regulated by the Labor Law, which transposes many aspects of EU employment law and social policy directives, such as those relating to equal treatment, collective redundancy, working hours, and rest breaks. Monitoring of Labor Law compliance is executed by the State Labor Inspectorate and representatives of employers and trade unions.

Employment relationship

Employment contracts shall be concluded before the start of employment relationships; information about new employees shall be submitted to the relevant State institution one working day before employment starts; employment contracts shall be concluded for an indefinite term, excluding certain cases such as projects or temporary jobs, or short-term employee replacement. The duration of fixed-term contracts may not exceed three years.

Working hours and compensation

The Law provides for five working days per week, regular working hours per day should not exceed eight hours, regular working hours per week – 40 hours. Hours worked per day in the framework of this Law mean hours worked within a 24-hour period.

Employers can set cumulative working time when the nature of the work does not allow the setting of regular working hours or regular weekly hours for certain employee categories, for example, service companies working around the clock.

Employees working overtime or during public holidays are entitled to additional pay of at least 100% of their daily or hourly salary.

Salary payments shall be made at least twice per month, but employers and employees can agree on different payment schedules. Each employee is entitled to paid annual leave of at least four calendar weeks, including both working days and days off, but not public holidays.

Wages and benefits

Monthly salaries may not be less than the minimum stipulated by the State, which is EUR 370 gross.

9. AUDIT AND ACCOUNTING

Accounting and bookkeeping in Latvia are regulated by the Law on Accounting, which states that accounts must reflect all of a company's economic transactions and all changes in the state of the company's property, so that a third person qualified in the area of accounting may obtain a true and clear representation of the financial position of the company.

Accounting registers must be maintained in the Latvian language and kept together with source documents in the territory of Latvia. If a foreign legal or natural person participates in the economic transactions, another language may be used. Companies must maintain accounting registers using a double entry accounting system. All source documents, accounting registers, and other documents related to the company's accounts must be kept in the company's archive for a period between 5 and 75 years, depending on the type of the respective documents.

Companies and in certain cases cooperatives, individual merchants and farms registered in Latvia are obligated to prepare annual report in accordance with the Annual Accounts Law. The annual financial reports must be audited by a sworn auditor in accordance with the Law on Sworn Auditors if the company exceeds at least two of the following criteria:

- Total value of balance sheet – EUR 400 000;
- Net turnover – EUR 800 000;
- Average number of employees in the accounting year – 25.

10. COUNTRY QUIRKS

- Euro is the official currency in Latvia;
- No VAT on importation;
- No profit tax on income from sale of shares;
- No withholding tax on royalties, dividends and interests;
- Official language is Latvian, but Russian also is very common.

11. YOUR CONTACT IN TAXLINK BALTIC IN LATVIA



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