MERHELS
EXCELLENCE FOCUSED MINDSET

If you are planning on doing business in Latvia knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track

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Foreword

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Merhels Revidenti Konsultanti SIA (Merhels or the Firm) is the leading Latvian national accounting firm with a unique customer and quality centred approach. The Firm was established in 1998, at which time the audit profession in Latvia was very young hence, quite naturally, the gap in audit technical quality between the then big five and the local auditors was substantial and so was the ability of the most of the local auditors to service the foreign investors. These factors were the prime drivers to set up an audit practice dedicated to service the small and medium size foreign investors and subsidiaries of larger companies wishing to have more personal service and requesting the same technical standards as those provided by the big five firms. Over the years we have grown from purely an audit practice to a full service firm capable to assist organisations and individuals with various services and solutions.

We operate through the office located in Riga, the capital of Latvia. We primarily cater for the needs of small and medium size companies controlled by overseas parties - both companies and individuals. Typically, the areas where we help overseas investors or potential investors in Latvia include:

- due diligence of potential targets
- advice on the business and tax environment
- investment planning advice
- tax registrations
- bookkeeping
- audit of financial statements

During the period from 2000 until 2014 our firm has been affiliated with such international networks as Moores Rowland International, Grant Thornton International and RSM International. Starting from 2015 we are an independent national firm focusing our activities foremost at financial advisory and financial outsourcing.

This guide has been prepared for the assistance of those interested in doing business in Latvia. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Latvia and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of 1 October 2015.

Riga, 16 November 2015

Country Profile

Summary

- member of the European Union and NATO
- strategic location in terms of bridging the West and the East
- open economy
- competitive balance between the cost, skills and motivation of the workforce
- foreign investors tend to consider the Baltic countries - Estonia, Latvia, and Lithuania - as one. The countries, though, are very different

Geography and population

The Republic of Latvia is a small nation located in the North-East of Europe within the Baltic Sea Economic Region with the total area of 64 589 km². The State shares borders with Estonia (north), Russia (east), Belarus (south-east) and Lithuania (south). It has a coastline of nearly 500 kilometres.

Latvia's climate is relatively mild but it varies - in summer with temperature normally at +18'C/+22'C, but in winter with temperature normally at -2'C/-8'C. The closeness of the Baltic Sea has a strong influence on local climatic differences, especially in the coastal regions. Rainfall ranges between 600 and 650 millimetres per annum. Snow cover may occur from November to April.

Latvia has a population of about 1.98 million inhabitants with about third of the population concentrated in the city of Riga, the capital of Latvia. Other major cities include Daugavpils, Liepaja, Jelgava and Ventspils.

Political and legal system

Latvia is a parliamentary democracy. The Saeima has 100 seats and is elected for a four-year term by a democratic vote on the basis of proportional representation. The Saeima decides upon all legislation, elects the President and approves the Cabinet of Ministers.

The coalition government subsequent to elections taking place in October 2014 is headed by Mrs. Laimdota Straujuma (*Unity*). The coalition comprises the *Unity*, *Union of Greens and Farmers (ZZS)* and the National Association *All for Latvia! – For Fatherland and Freedom/ LNNK*.

The next elections will be held in fall of 2018.

The President of Latvia is elected for a four-year term. The President represents Latvia on the international scale, promulgates acts passed by Parliament and appoints the Prime Minister who subsequently forms the Cabinet. The current president Mr. Raimonds Vējonis was elected in July 2015.

The Cabinet of Ministers (the Government) is the highest executive body in the Republic of Latvia. There are currently thirteen ministries (Defence, Foreign Affairs, Economics, Finance, Interior, Education and Science, Culture, Welfare, Environment and Regional Development, Transport, Justice, Health, Agriculture) in Latvia.

Language

Although the official language is Latvian, a large part of the population is bi-lingual and speaks both Latvian and Russian. English is primarily used as the main business language in international transactions and activities and is becoming increasingly common among the younger generation (about 70% of the population under 40 years speaks English). However, older people, if at all, are more likely to speak German as their first foreign language. As per Adult Education Survey carried out by the Central Statistical Bureau 95% of Latvian adults aged 25 to 64 know at least one foreign language. The majority of Latvian population - 54% know two foreign languages. The majority of adults - 57% know Russian, 49% know English, but 18% of population know German.

Business hours/time zone

Offices are generally open from 9 am to 6 pm, Monday to Friday. Latvia is two hours ahead of Greenwich Mean Time (GMT) and seven hours ahead of the US Eastern Standard Time (EST). Latvia operates a summer-time system between the ends of March and October, when clocks are advanced by one hour.

Public holidays

The public holidays are:

New Year's Day	January 1
Easter	Varies year from year
Labour Day	May 1
Restoration of Independence of the Republic of Latvia	May 4
Summer solstice celebrations (Līgo & Jāņi)	June 23, 24
Independence Day	November 18
Christmas	December 24, 25, 26
New Year's Eve	December 31

Economy

Latvia has a small and open economy. Since regaining independence in 1991, successive governments have prioritised macroeconomic stability and, with some exceptions, fairly conservative public spending discipline driving the nation to restore its market economy.

During the past twenty-four years major efforts have been made to improve the business environment. This includes the development of secure legislation, a favourable tax regime and efforts to reduce administrative barriers, safe business environment, fostering an increased transparency of both government and business activities. Most of the privatisation took place in the 1990's and as of today it is nearly completed.

On 10 February 1999 Latvia became a member of World Trade Organization (WTO). On 29 March 2004 Latvia became a member of NATO. As of 1st May 2004 Latvia is a member of the European Union. In 2013 Latvia applied for membership with OECD.

Bilateral economic cooperation of Latvia with the Member-States of the European Union and European Economic Area is implemented in accordance with the principles of EU internal market, which provide for the free movement of goods, persons, services and capital. Economic cooperation with the non-EU states is implemented at both European Union and national level. At national level, it is implemented within the framework of bilateral economic cooperation agreements. Up till now, Latvia has entered into bilateral economic cooperation agreements with 13 countries - Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, China, Moldova, Ukraine, Uzbekistan, Tajikistan and Turkmenistan.

Latvia is located at the centre of the three Baltic States, which is an ideal location for bridging the economies between the East and the West. Latvia continues to develop trade with its historical partners in the Scandinavian countries and Russia. The country's excellent geographical location and role as a transhipment centre of East-West trade have proved major strengths in attracting FDI and services sector growth and three seaports ensure year round export and transit trade. Latvia is also rich in natural resources and biodiversity with forests covering over 50% of Latvia's territory. The overall environment is of a fairly high international standard.

Economic growth

The annual growth of GDP during the period from 2004 to 2007 averaged to exceptionally high 10.5%, which made Latvia the fastest growing economy among the EU countries. Starting from 2008 GDP was falling for 8 consecutive quarters, being a reflection of drastic reduction in internal demand for goods and services and effect of worldwide economic and financial crisis. Tough economic situation forced fierce reduction of public spending. Whilst having a number of negative side-effects, fiscal reforms enacted by the Latvian government turned out to be effective, having been a catalyst in making Latvian economy more competitive. Economic growth during the period from 2011 to 2013 averaged 4.7% annually, making Latvia as one of the fastest growing economies in the EU. According to Central Statistical Bureau of Latvia, GDP increased by 2.4% in 2014. The Ministry of Economy estimates that GDP in 2015 will end up at about 2%. Nevertheless, difficult geopolitical situation in the region makes this forecast somewhat uncertain. Manufacturing and chemical industries contributed most to GDP growth in the first half of 2015.

Up to 2004 the country has had low inflation rate for several years. Subsequent to Latvia becoming a member of EU on 1st May 2004 inflation has been rising by achieving 15.4% in 2008. In 2009 inflation stood at a moderate 3.5% level. Due to week internal demand for goods and services deflation of 1.1% was recorded in 2010. Year 2011 witnessed economic growth which reinstated upward slopping inflation curve recording 4.4% rate of inflation for the year. In 2012 average inflation rate decreased and stopped at 2.3% level. In 2013 it further reduced to stand within inflation parameters of Maastricht criteria. In 2014 annual average inflation rate was recorded at 0.6%.

Business infrastructure

Latvia's transport system ensures an appropriate infrastructure to support the growing trade flows between the EU and Russia/CIS. Ice-free ports in Ventspils, Riga and Liepaja are equipped with the required infrastructure – tanks for bulk liquids, terminals etc. Riga International Airport offers direct flights to nearly 90 destinations and is the largest air traffic hub in the Baltic States. Specialized, high-capacity railway corridor links Latvian ports with Russia and the Far East. There is a broad road network connecting European and CIS road networks, as well as Latvia's ports. The Trans-Baltic highway (Via Baltica) connects Finland and the Baltic states to Poland and Western Europe. Latvia is involved in the project Rail Baltica, which aims to integrate the Baltic States into the European railway network, covering four European Union countries - Poland, Lithuania, Latvia and Estonia, and indirectly also Finland, extending the route with connection Tallinn-Helsinki.

Labour force

According to Eurostat research (September 2010), Latvians have the highest foreign language skills among the EU countries. According to EF EPI (EF English Proficiency Index) research Latvia in 2014 ranked 14th in the world in terms of English language skills. Latvian labour force is not just multi-lingual, but also well educated. Latvia's workforce is rated within top five in the world in terms of university students per capita – 47 students per 1 000 inhabitants (in 2014). Most of Latvia's young people start their careers while still studying. They are self-confident, have good communication skills and are technologically adept.

Employment levels

According to the Central Statistical Bureau of Latvia, the unemployment rate for people aged 14 to 74 in the second quarter of 2015 was 9.8%, being a positive development in comparison with 2014 (10.7%). Nevertheless the unemployment rate still is fairly high. The best situation is in Riga and other larger cities such as Liepaja, Ventspils and Jelgava while unemployment rate in rural regions is well above the average for Latvia. Employed population in above mentioned age group in the second quarter of 2015 amounted to 60.9% (2014 – 59.3%).

Living standards

According to the Central Statistical Bureau of Latvia, the average gross monthly salary in June 2015 was €820 (in June 2014: €765, in June 2013: €715). The actual one should be higher due to effect of grey economy as significant number of people, employed primarily in small and C2C business appear receiving unofficial salaries.

The minimum monthly gross salary in 2015 in the context of normal working hours is €360. The minimum hourly rate is €2.166.

A significant segment of the population, primarily consisting of older people, lives close to, or even below the subsistence level. There are substantial variations in living standards throughout Latvia, especially if the Riga area is benchmarked with the south-east part of the country (Latgale).

Cost of living

The average cost of living in Latvia all in all is modest by Western European standards. Rents and prices in Riga are higher than the rest of the country.

Regulatory environment

Summary

- Latvia's government promotes investment from overseas
- few restrictions imposed upon foreign investment and ownership

Restrictions on foreign ownership

There are very few restrictions on the foreign ownership of businesses or property.

Government approvals and registration

No government approval is needed for most businesses. An exception, for an example, is the field of financial services, where strict controls exist to protect the investors. Under certain situations an overseas company is required to register a branch. Registration is also required for tax purposes.

Competition rules/consumer protection

Mergers may be examined to prevent unacceptable monopoly situations, which could operate against the public interest. The Competition Council carries out investigations into mergers, monopolies and anti-competitive practices. The parties intending to merge must file a full scope report on the merger with the Competition Council if their combined turnover generated in Latvia exceeds €35 572 000 subject to an exception if turnover of one of the party does not exceed €2 134 000 or if merging parties combined market share in particular market exceeds 40%. The scope of report on the merger can be limited if combined market share of the parties subject to the merger does not exceed 15% or if the parties do not operate in the same market.

The Consumer Protection Centre reviews complaints filed by the consumers - natural persons. It may carry out control of non-food retail outlets and service providers to individuals, it steers co-operation of various consumer protection clubs and it can represent consumers at the court. Further the Consumer Protection Centre oversights the micro-lenders and leasing companies.

Import and export controls

Certain goods, for example, agricultural goods, may be subject to certain restrictions such as import quotas or higher import duties. Otherwise, imports are regulated through custom duties. Licenses, where required, are issued according to WTO principles. Normally, operating licenses for imports or exports are required only if they are related to national security or public morality.

For separate import and export processes special licenses are needed. The operations are based on EU Customs Codex.

Price controls

There is no general control over prices. Some utilities though, for example, postal services, railway transportation to name a few, are subject to pricing controls.

Use of land

The use of land is closely regulated. It is generally necessary to obtain planning permission from local government for real estate development. Furthermore, there are some restrictions to foreigners owning land. Since 1 May 2014 citizens of EU member states and legal entities registered in the EU member states may acquire land under the same terms as Latvian citizens.

Exchange control

There are no exchange controls, though there are reporting requirements for transfer of funds into the country and out of accounts held with overseas banks.

Government incentives

As a small country with limited private capital resources, Latvia's government actively encourages investment from overseas. Foreign owned businesses are eligible for the same benefits as local ones.

The government is committed to further improving the legal and administrative environment for foreign and local business entities wishing to establish themselves in the country. The government has been cooperating fairly successfully with the Foreign Investors Council in Latvia, a non-government organisation, which unites the largest overseas businesses operating in Latvia.

Currently Latvia's credit rating is provided by rating agencies Moody's Investors Service, Fitch Ratings, Standard & Poor's and R&I. In February 2015 the rating for long-term obligations denominated in foreign currencies was as follows:

Moody's	A3
Fitch Ratings	A-
Standard & Poor's	A-
R&I	BBB+

The government of Latvia has developed state support programs, which are co-financed from EU funds.

Farming can enjoy certain grants and tax exemptions not available to other industries.

There are four special economic zones (SEZ) across the country, three of which are situated in the free ports of Ventspils, Riga and Liepaja, and the fourth being an inland zone in the city of Rezekne, eastern Latvia, close to the Russian and Belarus borders. The incentive package for doing business in SEZ includes certain reliefs with reference to corporate income tax, value added tax, real estate tax and national social insurance contributions.

Finance

Summary

- a full range of financial and specialist services are available
- Latvia has no visible "investor society" traditions

Banking system

The Financial and Capital Market Commission supervises the banking system by issuing permits to carry on banking business, carrying out the inspections of banks and issuing accounting and reporting guidelines and regulations.

As of 30 June 2015 top 3 banks in terms of assets were Swedbank, ABLV Bank and Rietumu Bank. Besides them, there are 24 other banks operating in Latvia.

All banks provide current account and lending services. The majority of banks offer internet-banking and asset management services.

Money laundering rules are enforced and banks require evidence of identity to open an account.

According to the World Bank, Latvia in 2014 ranked 23rd in terms of ease of "Getting credit".

Capital markets

Riga Stock Exchange is the only regulated secondary securities market in Latvia. It is part of NASDAQ Group. Only the licensed members – banks and brokerage companies – may trade on Riga Stock Exchange. The Riga, Tallinn and Vilnius stock exchanges operate the Baltic main and secondary List and the Baltic Bond List.

The main list is the primary Stock Exchange market, catering for the needs of large and normally mature companies. Companies applying for a listing must:

- demonstrate a three-year trading history
- prepare their accounts in accordance with International Financial Reporting Standards
- have an anticipated market capitalization of 4 million euro
- maintain 25% of the share capital in public hands or make sure a sufficient number of shares are available to maintain sufficient interest from investors.

Shares of 32 companies were traded on the Baltic main list in September 2015.

The Baltic secondary list caters for the needs of smaller, growing companies that might not meet the full criteria for a listing on the main market or for whom a more flexible regulatory environment is more appropriate. 43 companies were traded on this list in September 2015.

Baltic fixed-income instruments are presented in a joint Baltic Bond List. The fixed-income instruments include Latvian and Lithuanian government bonds, corporate and mortgage bonds of different maturities. A listing of and trading with fixed-income instruments is possible both in national and non-national currencies (USD and EUR). The Riga Stock Exchange has a developed infrastructure for primary placement of new bond issues, which is used by both the Latvian Government and corporate issuers.

As of 1 June 2007 alternative market *First North* was launched in Latvia by Riga Stock Exchange. *First North* is an alternative market, operated by the different exchanges within OMX. It does not have the same legal status as a regulated market in EU. Trading can be organized with a less complicated set of rules within the framework of a Multilateral Trading Facility (MTF). *First North* is operating as MTF and Companies traded there are subject to the rules of *First North* and not the legal requirements of regulated market. Due to lower requirements in *First North*, the risk in such an investment may be higher than on the regulated market.

Other sources of finance

Finance houses

Finance houses, usually subsidiaries of Latvian commercial banks, provide various forms of credit. The most typical ones are hire purchase, leasing, mortgages and factoring. A number of microfinance companies have sprung-up over recent years which focus on issuing microloans to individuals at high margins.

Venture capital

The present offering is best suited to companies who seek to attract capital of at least 1 million euro. Offering to SME businesses is limited however it improves. Research of mergers.lv, investment and mergers portal, about active investments in Latvia from domestic and foreign venture capital funds shows that, considering the small size of Latvian market, the availability of venture capital and amount of investment are relatively high in general. In March 2015 the total funding of venture capital amounted to 220 million euros.

Imports

Summary

- import restrictions may be applied in specific circumstances
- common custom tariff on goods coming into EU from outside
- no custom duties between EU member states
- Value Added Tax (VAT) charged on goods coming in from outside EU

Import restrictions

Most categories of goods can be imported without restrictions. Individual import licences may be required when importing a limited number of goods (agricultural products, textiles and steel).

Quantitative restrictions may be placed on imports of specified goods from particular countries for the purposes of trade protection.

As a significant improvement noted by the World Bank is facility for electronic submission of custom declarations introduced in 2011.

Customs duties

Latvia is a member of the EU, which has a common customs system.

No customs duty or VAT is payable when goods are imported from other EU member states.

In addition to customs duty, VAT is payable on most goods imported from outside the EU. VAT payers of Latvia may reclaim the VAT, which they pay on goods which they import. They cannot reclaim customs duty.

Arrangements can be made for the payment of customs duty and VAT on imported goods to be deferred.

Business entities

Summary

- foreign investors may operate in Latvia through whatever entity they choose
- the most common entities used by foreign investors in practice are subsidiaries or branches
- the subsidiaries are normally set up as private limited liability companies

Private limited company

The usual form of business entity is the private limited liability company. The name of a private limited liability company must end in SIA. A limited company need only have one shareholder and it is therefore a suitable entity for a wholly owned subsidiary.

Formation

Lawyers normally assist foreign investors with the formation of a company. The Register of Enterprises registers a company. The formation process - drafting of statutory incorporation documents and review of these documents by the Register of Enterprises - usually takes one to two weeks. Total costs for the formation of a company normally should not exceed €1 500. The name of a company cannot be identical to the name of an existing company.

According to the World Bank Latvia takes 27th place in "Starting a business" indicator and 22rd place in "Ease of doing business" among 189 countries. In 2012 Latvia reduced threshold of minimum share capital and unified VAT and company registration processes.

Minimal capital/capital maintenance

The minimum share capital of a private limited company is €2 800 however companies falling under the "small company" status may opt for reduced share capital which can stand from €1 to €2 799. 50% of share capital must be paid in before a company is registered. The rest is allowed to be paid in within one year of the date of a company's registration. Shares of any denomination can be used.

A company can issue shares up to its "authorised" share capital. The authorised capital can be easily increased by shareholder resolution.

Capital can be contributed above the nominal value of the shares issued. The additional paid in capital is known as "share premium".

A limited company can only pay dividends if it has sufficient accumulated profits. If a company's accumulated losses exceed ½ of its share capital, the Board must immediately notify the shareholders thereof. A company can only repay share capital if it follows statutory procedures designed to protect the interests of the creditors. As of July 1, 2014 companies can distribute interim dividends.

Management

A company can have a two-tier management structure, consisting of the Council and the Board of Directors. The shareholders elect the members of the Council and the Board.

A private limited company may have a Council, but it is not obligatory. If a Council is appointed, it must have at least three members. The Council oversees the activities of the Board of Directors, deals with strategic matters and approves significant investments/purchases.

The Board of Directors manages a company. The minimum number of directors is one.

Filing requirements

The Register of Enterprises maintains a public file on every company registered in Latvia. This includes copies of the latest set of signed financial statements, information on directors and shareholders. Failure by a company to submit requested public information may result in fines or, in severe situations, prosecution against the directors.

Limited companies must file their statutory financial statements within four months of their period end. Larger companies may do so within the period of seven months.

Dissolution

A solvent company is dissolved by a process known as “liquidation”. This requires the shareholders to appoint a liquidator, generally a suitably qualified accountant, lawyer or one of the directors, who takes control of the company, discharges its liabilities and distributes the surplus to shareholders.

Only the Court can declare a company insolvent. Upon recommendation by the State Insolvency Agency the Court appoints a receiver in bankruptcy, usually referred to as an “administrator”. The administrator takes charge over the company. Based on consultations with the creditors the administrator decides whether to make the company solvent or proceed to the bankruptcy procedure.

Companies may seek legal protection if they encounter temporary problems to pay their debts as they fall due. Legal protection proceedings are aimed at restoring a company’s paying capacity.

Public Limited Company

A public limited company, normally referred to as a “joint-stock company”, is a limited liability company which is permitted by its statutes to offer its shares to the public. Its name must end in AS. The main differences from a private limited company are:

- before an AS can start to trade it must have at least €35 000 worth of shares issued and at least 25% of the value must have been paid
- an AS must have a Council. A private limited company may have a Council, but that is not obligatory
- an AS may be listed on the Stock Exchange but does not have to be. A private limited company cannot be listed.

Certain business, such as commercial banks and insurance companies, can be formed only as an AS.

Foreign company branches

A foreign company that carries on business in Latvia through a branch must register at the Register of Enterprises. A foreign company must file details of its place of registration, share capital, person in charge for managing a branch and other matters.

There may be situations when financial statements of the whole company would need to be filed.

Other entities

Other entities are not commonly used by foreign businesses operating in Latvia. They include:

- sole trader: a corporate body whose member, a natural person, has unlimited liability
- general partnership: partners may be companies or individuals and have unlimited liability
- limited partnership: it must have at least one partner with unlimited liability.

Labour

Summary

- the state operated social security system covers matters such as pension, sickness, unemployment, accidents at work, maternity and invalidity
- all persons in employment, including resident foreigners, contribute to and benefit from the social security system
- Latvia enforces minimum wage and working time legislation

Wages

The monthly wage payable under the standard working hours of 40 hours a week cannot be less than the minimum gross wage, which presently is €360. The Labour Act provides that wages should be paid twice a month. Employer and the employee may agree on monthly payments as well.

Social security

Employers pay 23.59% of the wage as a social insurance contribution, with employees contributing another 10.50%. Starting from January 1, 2015 annual income in excess of €48 600 is not subject to social insurance contributions.

Generally, foreign employees contribute to, and are eligible for, social security and health care. Expatriates who intend to work in Latvia for less than 12 months can be exempt from Latvian social security contributions provided that social security contributions are paid in their country of residence. Expatriates employed by non-resident employers pay a 31.46% social insurance contribution.

Pensions

Provision of post-employment benefits to employees is rather rare. If such benefits are offered then these normally would be through defined contribution plans and life annuity contracts.

Pension contributions to licensed pension plans and annuities are tax deductible and, under certain conditions, free of payroll taxes. The pension fund pays no tax on its income. Under the pension plan scheme benefits cannot be paid until at least the age of 55 years. Under an annuity the minimum period of a contract is five years. At maturity of the contract the benefit becomes available. Upon payment the benefit is subject to personal income tax.

Fringe benefits

Holiday pay

Employees are entitled to 4 weeks paid holiday.

Sick pay

The employer provides sick pay to an employee during the first 10 days of the sickness. Sick pay payable by employer is as follows:

- first day of sickness – not applicable
- second and third day of sickness – 75% of an employee's average salary
- fourth to tenth day of sickness – 80% of an employee's average salary

Beyond that the State Social Insurance Agency provides the sick pay, which stands at 80% of an employee's average salary.

Profit sharing

There is no binding legislation on this matter. But some companies offer profit sharing or some derivatives thereof to their staff, particularly the senior ones.

Workers' compensation

An employee is entitled to redundancy compensation unless the termination of employment contract is due to an employee's severe misconduct. Redundancy compensation is linked to the length of an employee's service.

Healthcare

The practice of providing healthcare benefits is most prevalent amongst large and international companies operating in Latvia. In practice this normally would mean employers entering into health insurance contracts on behalf of their employees. Private healthcare insurance normally covers primary healthcare. Health insurance premiums are tax deductible and, under certain conditions, free of payroll taxes.

Employment protection legislation

The main issues covered by the Labour Act include:

- protection of recruits from discrimination based on the grounds of sex, age and alike indications
- the provision of written terms and conditions of employment
- protection against unfair dismissal
- working and holiday time considerations
- the minimum period of notice required for the termination of contracts
- entitlement to lump sum redundancy payments

Under the Health & Safety at Work Act employers are responsible for providing suitable health and safety arrangements.

Unions

Labour Act encourages trade union activity. In practice trade unions have been established only within large enterprises and in public sector.

Companies cannot discriminate between employees on the grounds of union membership.

Work permits

A residence (work) permit is necessary if a foreign national is to reside in Latvia for a period of time exceeding 90 days within half a year, counting from the first day of entrance into Latvia. This applies both to the EU and other foreign nationals. The procedure for EU nationals is not complicated. The Office of Citizenship and Migration Affairs issues residence permits.

There are no limits on the number of foreign employees a company can have on its payroll.

Visa requirements

With the exception of EU, EEA and Swiss Confederation residents and citizens of countries as per Council Regulation No 539/2001 of 15 March 2001, non-Latvian resident individuals planning to carry on a business, to be employed, or simply to enter Latvia, have to take out a visa. Latvia is a member of the Schengen area and a uniform visa is available that entitles foreign nationals to stay in Latvia and other Schengen countries.

Foreign nationals staying in Latvia for a period of more than 90 days in any six-month period have to apply for a long-term visa or residence permit depending on the circumstances of the particular case. This visa is valid for stay in Latvia only. The maximal term of a long-term visa under general conditions is one year.

If a foreign national's employment involves a short-term or irregular stay in Latvia not exceeding 90 days in any six-month period, he/ she must take out a visa or residence permit for a certain term and a work permit. This condition also applies to foreign nationals who need not obtain an entry visa. If a foreign national's employment involves a regular stay in Latvia for more than 90 days in any six-month period, he/ she have to take out a residence permit for a certain term and a work permit.

Latvia has adopted rules providing opportunities for foreign nationals to obtain a temporary residence permit for a 5-year period without the need to reside in Latvia for a specific period of time. According to these rules, a foreign national may obtain a temporary residence permit if he or she, inter alia:

- invests at least €35 000 in a Latvian company (subject to further conditions);
- deposits at least €280 000 into the subordinated capital of a Latvian credit institution (bank); or
- acquires real estate in Latvia worth at least €250 000 (subject to further conditions).

Financial reporting and audit

Summary

- company financial statements are prepared in accordance with Latvian GAAP
- company accounts must be filed with the tax authorities
- a group must prepare consolidated accounts unless exemption thresholds can be applied
- audit thresholds are relatively low

Domestic corporations

Filing/publication requirements

All companies incorporated in Latvia, except for branches and very small sole traders, must file annual financial statements with the tax authorities. At the Register of Enterprises they are open to inspection by the public for a nominal fee.

The companies must issue their statutory accounts within four months of their financial year-end. Larger companies may do so within the period of seven months.

Accounting standards

The Latvian GAAP is formed by the Act On Annual Reports of Enterprises, the Act On Consolidated Financial Statements and the regulations issued by the Cabinet of Ministers. Latvian accounting standards are not mandatory, though they represent an authoritative source of information.

Financial institutions such as banks, insurance companies, investment funds and pension funds are subject to specific acts and regulations. Companies quoted on the main list must prepare their consolidated accounts in line with IFRS. If such companies do not prepare consolidated accounts, they must prepare their individual accounts in accordance with IFRS.

Very small companies may enjoy reduced disclosure requirements under Latvian GAAP.

Starting from January 1, 2016 the Act on Annual Reports and Consolidated Financial Statements will replace existing piece of legislation. The new legislation will provide lighter mandatory financial reporting requirements to small and medium size entities.

Audit requirements

The statutory audit of a company's individual financial statements is required if two of the following three criteria are met:

- sales exceed €800 000
- assets exceed €400 000

- there are 25 or more employees

If a group prepares consolidated financial statements, these must be audited.

Only certified auditors or firms holding an audit license can undertake statutory audits.

Starting from January 1, 2016 new regulations will take effect with regard to audit of financial statements whose financial year starts on January 1, 2016 or later. The new legislation twice-fold increases the mandatory audit thresholds. Further it introduces mandatory review of financial statements, whereas the review thresholds correspond with existing audit thresholds.

Branches of foreign companies

Branches of foreign companies are not under obligation to produce statutory financial statements. Financial statements compiled by branches of foreign companies are not subject to mandatory audit.

Tax

Summary

- Latvia has a relatively simple and beneficial corporate tax regime
- breaches of tax laws, if noted by the State Revenue Service, may be severely punished
- corporate income tax (CIT), value added tax (VAT), personal income tax (PIT) and national social insurance (NSI) are the most topical taxes
- there are a number of local government fees to be paid on certain activities

Companies

Liability to tax

Resident companies of Latvia are subject to corporate income tax on their worldwide profits. A company is resident in Latvia if it is incorporated in Latvia or if it should have been incorporated in Latvia.

Partnerships are not taxed. Partners are taxed on their share of the partnership profits.

Non-resident companies are subject to corporate income tax through withholding tax on income and capital gains of their Latvian source income.

Permanent establishments are subject to corporate income tax on their Latvian source profits.

Tax rates

Corporate income tax rate is charged at a flat rate of 15%.

Tax base (differences between book and taxable profits)

Corporate income tax is assessed on the pre-tax profit that arises in the accounting period, subject to permitted deductions and non-deductible items.

With some exceptions, all categories of income are taxable. Except for the gain on revaluation of monetary assets/ liabilities denominated in foreign currencies, unrealised gains become taxable only when realised.

Starting from 2013:

- dividends paid to a non-resident legal entity do not attract withholding of tax unless dividends are paid to a party located in tax havens
- dividends received from non-resident legal entity is not subject to corporate income tax
- gains on disposal of shares have no effect on the company's taxable income unless these are shares of a company registered in tax havens.

All documented business expenses are deductible. Entertainment, private use and other non-business expenses are not deductible. Except for qualifying donations other non-business expenses are multiplied by 1.5 to derive the amount which is used in computation of the current tax liability.

Book depreciation is not deductible. Instead, tax depreciation is deductible at 30% to 70% a year (declining balance) on most typical types of tangible fixed assets. Tax depreciation at 10% a year (declining balance) is deductible on buildings.

The tax deductibility of interest on debt can be restricted should a company be overly geared or should it pay interest well above the average prices charged by the banks. Special exemptions apply to loans received from EU and EEA registered banks and finance institutions which provide lending or leasing services.

Special provisions apply to deductibility of bad and doubtful debt provisions.

There are revenue protection rules in relation to transfer-pricing and offshore companies. Under these rules a Latvian registered company and a permanent establishment upon the tax authority's request will be under obligation to present transfer pricing documentation if its net sales during the reporting year exceed €1.43 million and it has executed transactions with related parties during the same period of time in excess of €14 300. If taxpayer fails to submit transfer pricing documentation, tax authority will be entitled freely to amend transfer prices by using information at its disposal. If the taxpayer enters into Advance Pricing Arrangement (APA) with the tax authority, the latter will not be allowed to re-adjust the prices within their tax audits, if the particular taxpayer has followed the provisions of APA. It can be noted that transfer pricing is a topical issue during tax audits performed by the State Revenue Service.

A number of other less topical situations, which trigger adjusting pre-tax profit to arrive at a taxable profit, are prescribed by the law.

Groups

Starting from 1 January 2014 transfer of losses within a group has been abolished.

Filing of tax returns

Throughout a year corporate income tax is paid on a monthly or quarterly basis with a final settlement when the assessment is issued. The monthly/quarterly instalments are based on the estimated ultimate liability, generally based on the final taxes of the previous year.

The filing date for a company tax return is generally four months from the end of an accounting period. Large companies may file a tax return within seven months from the end of an accounting period.

Use of losses

Tax losses incurred by 2008 can be carried forward for 8 years. Losses accumulated from 2008 onwards can be carried forward for an unlimited period of time.

Tax losses survive during qualified reorganisations.

Dividends

Dividends received are exempt unless received from a payer registered in tax havens.

Withholding taxes

Dividends	-
Interest expense	-
Consultancy fees	10% (reduced by most treaties to 0%)
Income from partnership	15%
Royalties	-
Rent	5%
Proceeds on disposal of real estate (including gains on disposal of shares of companies whose assets are dominated by real estate)	2%
Payments to companies registered in tax havens	Generally 15%

Effect of treaties

As of 31 August 2015 Latvia has effective double taxation treaties with the following countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Kazakhstan, Kirghizia, Korea, Lithuania, Luxemburg, Malta, Macedonia, Mexico, Moldova, Montenegro, Morocco, the Netherlands, Norway, Poland, Portugal, Rumania, Russia, Serbia, Singapore, Slovakia, Slovenia, Spain, State of Kuwait, State of Qatar, Sweden, Switzerland, Turkey, Tajikistan, Turkmenistan, United Kingdom, Ukraine, United Arab Emirates, USA, Uzbekistan.

The treaties follow the OECD model. They normally provide lower withholding tax rates than the local legislation.

Foreign income

Foreign income of a Latvian resident company is taxable at standard CIT rate, with a credit for foreign tax payable on the same income. Tax credit is restricted to the amount which does not exceed the tax calculated using the standard Latvian CIT rate at 15%.

Micro-enterprise scheme

A qualifying company may opt for micro-enterprise scheme. Under this scheme the tax is computed as 9% of the company's net turnover for the first three years after acquisition of micro-enterprise taxpayer status. For the fourth year of business activity under micro-enterprise scheme tax rate is set at 12%. The tax is deemed to cover corporate income tax, personal income tax, social security contributions and business risk duty.

Individuals

Tax rates

Resident individuals are taxed on their worldwide income. Except for capital gains and income on capital, a flat rate of 23% applies to all types of taxable income unless taxpayer qualifies for and elects to use the lump-sum basis for assessment of tax charge. Capital gains attract income tax of 15%. Dividends, interest income (except for interest income on treasury bills of EU and EEA countries) and annuity attract income tax of 10%.

The tax year for individuals is the year ending on 31 December.

A personal allowance of €75 a month is available to all Latvian residents. An additional personal allowance of €165 a month is available in respect of dependent family members.

Where foreign income taxes have been paid on income taxable in Latvia, a credit will be given. The credit is limited to the amount of Latvian tax that would otherwise have been payable on the amount. Proof is required to claim the tax credit.

Residence criteria

An individual who is domiciled in Latvia, or who is in Latvia for 183 days or more in any 12 month period ending or beginning in the tax year, or a Latvian citizen working for the government abroad is considered to be resident in that tax year.

There are no specific procedures for terminating residence in Latvia.

Taxation of non-residents

Non-Latvian residents are taxed on specific Latvian-source income at a standard income tax rate of 23%. Though, there are some exceptions:

- capital gains and royalties attract income tax at a rate of 15%
- dividends, interest income (except for interest income on treasury bills of EU and EEA countries and on publicly traded financial instruments) and annuity attract income tax at rate of 10%
- proceeds collected under disposal of real estate may attract income tax at a rate of 2%. However, by submitting an annual income tax return a non-Latvian resident can opt to tax the gain on disposal at 15%.

Special rules for expatriates

Foreigners working in Latvia for an overseas employer must register with the tax authorities. An employee would normally pay tax, though an employer may opt to pay the tax on behalf of an employee.

Payment dates

Wages and salaries, inclusive of benefit in-kind, are taxed at the source. The employer is responsible for collecting tax on behalf of its employees.

Most interest is also subject to withholding tax and the effect of the system for taxing dividends is similar to a withholding tax.

Tax not collected by withholding is due within 15 days after the tax return is submitted, but the actual tax payment may be divided into three instalments. Tax on capital gains is paid on a monthly and quarterly basis.

Tax returns

Most employees whose income is mainly wages (tax withheld at source by an employer) do not have a balance due at the end of the tax year and are not required to file a tax return. This is unlikely to apply to foreign personnel working in Latvia. Individuals, including employees, with more complicated affairs are generally required to file a tax return.

The annual income tax return is due by 1 June following the end of the tax year.

Effect of treaties

These will normally reduce the withholding tax rate as prescribed by the local legislation.

Solidarity tax

Starting from January 1, 2016 the government seeks introducing the ‘solidarity tax’ which would apply to those individuals whose annual salary exceeds €48 600. This yet needs to be ratified by *Saeima* (the Parliament).

Value Added Tax

VAT is a tax on consumer expenditure charged on the supply of goods and services in Latvia. The tax is charged on an input and output system. When a business buys goods or services it pays VAT to the supplier (input tax). When the business sells goods or services it charges VAT on the supply (output VAT). The business must, on a monthly basis, total and aggregate the input and output tax and either pay VAT or get entitlement to reclaim VAT. A taxable person is not allowed to deduct input VAT if the goods or services were purchased for non-business purposes. 80% of input VAT paid in relation to running and maintenance of motor vehicles are deductible; only 40% of input VAT paid in relation to entertainment and representation are deductible.

Companies operating in Latvia can voluntarily register with the tax authorities for VAT purposes. Companies making taxable supplies in excess of €50 000 during a period of 12 months are required to register with the tax authorities and file VAT returns. There are as well other less topical situations which require VAT registration.

Latvia has harmonized its VAT legislation with applicable EU council directives.

Rates

Three rates are applied to goods and services:

Standard	21%
Reduced rate	12%
Zero rate	0%

VAT at a reduced rate of 12% applies to supplies of certain medicine and medical devices, infant food, various newspapers and magazines, public transport, supplies of domestic heating, and some other items.

Specific goods and services fall outside the scope of VAT and are exempt. Exemption applies to sale of real estate excluding the first sale of "new" buildings and building land, medical care, education, rental of domestic apartments, financial and insurance services, gambling, transactions with shares and other securities. Companies that only make exempt supplies cannot reclaim VAT on purchases, whereas a company making zero-rated supplies can. If a company makes a combination of chargeable and exempt supplies, then the company should ensure separate VAT accounting for chargeable and exempt supplies.

Exports from Latvia are zero rated, provided the exporter retains the necessary proof of export. Imports to Latvia from outside the EU suffer VAT at the same rate as domestic sales.

Sales to taxable persons in other EU countries are treated as zero-rated. Sales to non-taxable persons in the EU are subject to VAT.

Generally the place of supply of services to a taxable person is the place where that person has established his business or where fixed establishment is located if services are provided to this establishment. The place of supply of services to a non-taxable person in general is the place where the supplier has established his business. Particular provisions such as supply of services connected with immovable property, supply of transport, cultural, sporting, educational, entertainment and similar services and other certain exceptions to the general rule in all material aspects correspond to applicable EU Council directives.

The VAT treatment of services supplied across borders depends on the nature of the service.

Returns

VAT returns are normally made up on a monthly basis. These must be submitted electronically by the 20th of the month following the end of the relevant month.

Payments of VAT are normally due by the 20th of the month following the end of the reporting period as well.

VAT refunds to foreign taxable persons

Foreign taxable person may claim a refund of Latvian VAT under the 9th VAT Directive if:

- it is not engaged in any economic activities that are subject to registration in Latvia
- it has made no taxable transactions in Latvia that would require VAT registration in Latvia
- the amount of VAT has been actually paid.

The minimum amount for which a claim may be made is:

- €400 if a refund is claimed for a period of three months or more but less than one calendar year; or
- €50 if a refund is claimed for one calendar year or for the remainder (last two months) of a calendar year.

The time limits for filing a refund claim are:

- nine months after the end of a tax year if a refund covers one calendar year or the last months of the year; or
- three months after the end of the period covered by a claim for a period between three months and one calendar year.

Other taxes and duties

Real estate tax

Tax on immovable property (real estate), subject to a number of exceptions, is paid by individuals and corporations owning or having a legal control over the property. Municipalities have the right to set the rate of property tax within 0.2% to 3% of the cadastre value of property. The tax rate of more than 1.5% of the cadastral value of property may be set only in cases when the property is not managed properly.

Stamp duty on the real estate transfer

Legal entities

Transfer of title of real estate situated in Latvia attracts stamp duty of 2%. It is computed with reference to the higher of the property's (1) sales price, (2) cadastral value appraised by the state or (3) appraised value for the purpose of mortgage with a commercial bank. The stamp duty though is capped at €42 686.15. It is up to the seller and buyer to agree on who will be liable for the payment of the duty. It is a common practice that the duty is paid by a buyer.

Individuals

Transfer of real estate by an individual person normally would attract stamp duty of 2% subject to cap of €42 686.15.

Natural resources tax

The natural resources tax is imposed on natural resources extracted over a licensed amount, environmental pollution that exceeds a set limit, goods injurious to the environment and packaging of imported and domestically produced goods.

Excise duties

Excise is payable by producers or importers of spirits and alcohol, certain tobacco products, hydrocarbon fuels and oils, cars and motorcycles, soft drinks and coffee.

Taxation of motor vehicles

Tax is levied on first registration of motor vehicles in Latvia. For unregistered cars and those registered abroad after 1 January 2010, the tax is calculated depending on their carbon dioxide emissions.

An annual tax for usage of vehicles is computed with reference to its power, motor capacity and full weight.

Companies which own or possess motor vehicles and allow private use of such vehicles are subject to a company car tax which is assessed as follows:

- For cars registered after 1 January 2005:
  - engine < 2.000 cm^3 - €27.03 a month
  - engine between 2.001 cm^3 and 2.500 cm^3 - €42.69 a month
  - engine > 2.500 cm^3 - €56.91 a month
- All other cars – €42.69 a month.

Other taxes

Other less topical taxes are lottery and gambling tax and electrical power tax.

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