



# Business Guide Latvia

Danske Bank

Mazanti-Andersen, Korsø Jensen & Partnere  
in cooperation with Sorainen

PricewaterhouseCoopers

3rd Edition

## Preface

“Business Guide Latvia” is intended as a preliminary exploration of the questions that typically arise when a company wishes to enter the Latvian market.

This guide has been edited in cooperation between Mazanti-Andersen, Korsø Jensen & Partnere/Sorainen, PricewaterhouseCoopers and Danske Bank.

The guide is not intended to cover all issues arising in relation to activities in Latvia. However, we hope that it will provide an overview of typical issues.

Independent professional advisory services of a legal, fiscal, financial or marketing nature are indispensable and usually a good investment.

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The guide will be featured on the following Web sites, which will be updated regularly: [www.danskebank.com](http://www.danskebank.com), [www.mazanti.dk](http://www.mazanti.dk), [www.pwc.com](http://www.pwc.com).

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## Sorainen

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# 1 Facts about Latvia

## 1.1 Latvian economy and politics

Latvia initiated independence from Russia in August 1991 and has since then undergone a period of sustained reform. The country has been successful in implementing structural reforms; the product and labour markets are relatively flexible, economic institutions are liberal and foreign direct investments have surged. Latvia joined the EU in May 2004 and was included in the ERM II in May 2005, the prospect of which further paved the way for a fast transition. Latvia has plans to speed up euro adoption, but this is not very feasible currently with deteriorating domestic demand putting a lot of pressure on fiscal balances and public debt.

### 1.1.1 Prospects for the Latvian economy

Latvia's economic decline over the past year has been dramatic. The drop is now slowing, but it is too early to speak of a significant stabilization of the economy. A recovery in external demand will most likely improve Latvia's growth outlook next year. However, a return to trend growth rates is not expected until 2012.

Currently, the main risk is related to the budget position. At the end of December 2008, international donors agreed to provide financial support in the amount of EUR7.5bn to Latvia. The loan will become available in the next two years in several instalments. However, as a part of the commitment, the Latvian government should continue with significant fiscal tightening until 2012.

### 1.1.2 Facts

#### 1.1.2.1 Politics

**Official name**  
Republic of Latvia/Latvija

**Form of government**  
Parliamentary democracy

**Parliament**  
Unicameral parliament, the Saeima

## Election system

Universal suffrage for Latvian citizens aged 18 or more

## Head of state

The president is elected by the parliament for a four-year term. The current president is Valdis Zatlers.

## Primary political parties

People's Party (19.5% of votes in the parliament),  
The Union of Latvian Greens and Farmers Party (16.7% of vote in the parliament),  
New Era Party (16.4% of votes) in the parliament,  
Harmony Center (14.4% of votes in the parliament),  
First Party of Latvia / Latvia's Way (LLP/LC) (8.6% of votes in the parliament)

## Central bank

The Latvian central bank (Bank of Latvia) is an independent central bank. The Latvian lat (LVL) is linked to the euro (1 EUR = 0.702804 LVL) with fluctuation bands of +/- 1%.

## International relations

Among other organizations, Latvia is a member of the UN, the EU, the BIS and the OSCE.

### 1.1.2.2 Economic indicators and demographics

#### Population

2.25 million (October 2009)

#### Religion

Lutheran, Roman Catholic, Russian Orthodox

#### Languages

Latvian (official) 58%, Russian 37%

#### Currency

1 lat (LVL) = 100 santims

#### Social and economic indicators

GDP (purchasing power parity): USD 38.8bn (2008, IMF)

Overall fertility rate: 1.45 children born per woman (2008)

Life expectancy: total population: 72.7 years; males: 67.2 years; females: 77.9 years (2008)

## 2 Legal aspects of doing business in Latvia

### 2.1 Legal Environment

The reform of the Latvian legal system was commenced after Latvia regained independence from the Soviet Union in 1991. Since then, a large number of legal acts as well as legal principles in public and private spheres were introduced. After Latvia became a member of the European Union in 2004, European Union legislation has been implemented in the national laws.

Currently, the legal system of Latvia is recognised as being founded on the rule of law required for the implementation of a market economy and the EU law requirements. However, additional efforts are required in order to make the court system more efficient and transparent.

#### 2.1.1 State Structure

The system of government in Latvia is that of parliamentary democracy. The state structure is based on the Constitution of the Republic Latvia. The state power is exercised by the parliament, the president, the government (the cabinet) and the courts.

The parliament is the main legislative body of Latvia. It consists of 100 members and is elected for a term of four years. The forthcoming election will be held in October 2010.

The president serves as a representative head of state with limited powers set out in the constitution and is elected by the parliament for a term of four years. Apart from representative functions, the president is also the commander-in-chief of the armed forces of Latvia. Moreover, he holds powers to initiate legislative acts and invite the candidate for the post of the prime minister.

Most state competences and responsibilities are in the hands of the cabinet, which currently consists of fourteen ministers headed by the prime minister.

According to the recent administrative territorial reform, there are two levels of municipal administration below the national level of government. The second highest municipal level is formed of 9 cities of an importance of Republic and 109 counties (lat. Republikas nozīmes pilsētas un novadi), whereas county cities (lat. novada pilsētas) and county municipalities (lat. novada pagasti) form the lowest municipal level.

#### 2.1.2 Courts. Arbitration Courts

Latvian courts are organised in a three-level court system, which consists of regional (town/city) courts (at the first level), district courts (at the second level) and the Supreme Court (at the third level). The regional courts are courts of first instance, while the district courts may be either courts of first instance or first appellate instance. The final court of appeal is the Supreme Court.

Apart from the court system, there is a constitutional court, the main function of which is to review compliance of Latvian laws, international conventions and other legislative acts with the constitution. No other (private or commercial) disputes are settled by this court.

As of 1 February 2004, complaints on the decisions or actions of state institutions (i.e. State Revenue Service) are dealt with in specialised administrative courts. The hearing of the administrative cases in the administrative courts as well as the procedure for challenge and appeal is regulated by the Administrative Procedure Law, effective as of 1 February 2004.

It must be noted that, currently, the courts in Latvia are overloaded with heavy caseloads. Court proceedings therefore require a considerable amount of time to be completed, and a decision of the court is taken no sooner than six months after the claim has been filed.

Court fees are calculated on the basis of the amount of the claim according to a regressive schedule (e.g. for claims of a value of LVL 5,001 – 20,000<sup>1</sup>, the fee amounts to LVL 250<sup>2</sup> + 1.6 of the value of the claim exceeding LVL 5,000<sup>3</sup>). The amount of the attorney's fees may be covered by the losing party. However, the amount may not be more than 5% of the awarded amount.

To circumvent the lengthy proceedings of a legal dispute in the state courts, the parties may agree to resolve their dispute in a court of arbitration. Generally, almost any civil dispute may be referred to resolution by an arbitration court with some exceptions. Those exceptions relate to disputes on employment issues; disputes on insolvency procedures; disputes on amendments to the Civil Records Registry; disputes in which a party is a state or local government institution; disputes on establishment, alteration or termination of property rights with respect to immovable property. Additionally to the above mentioned exceptions, disputes may not be resolved by the arbitration court if, among the parties to the dispute, there is a person whose rights to acquire immovable property in ownership, possession or use are restricted by law; the adjunction of which may infringe the rights or the interests protected by law of such a person who is not a party to the arbitration court agreement; disputes on the eviction of a person from his place of residence; and disputes on the rights of persons under guardianship or trusteeship.

In particular, courts of arbitrations are used as a means for settlement of commercial disputes. Currently, there are more than 140 arbitral tribunals registered with the Register of Enterprises of the Republic of Latvia. Most of those arbitral tribunals, however, are not suitable for international business transactions.

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<sup>1</sup> About EUR 7,115-28,457, <sup>2</sup> About EUR 355, <sup>3</sup> About EUR 7114

Only a few arbitration institutions have sufficiently qualified staff to deal with international business disputes.

In order for a dispute to be resolved by commercial arbitration, the parties have to conclude a written agreement. In practice, this agreement is concluded by including a separate arbitration clause in the agreement between the parties.

The court of arbitration's procedure rules applicable to all courts of arbitration were drafted according to UNICTRAL principles and Model Law. Moreover, Latvia is a party to the 1958 New York Convention On Recognition and Enforcement of Foreign Arbitral Awards. Therefore, arbitral awards rendered by a Latvian arbitration tribunal may be enforced in the jurisdiction of each state that is a party to the convention. The same applies to the Latvian court, which has to hold an open hearing on recognition and enforcement of a foreign arbitral award. According to the Civil Procedure Law, only judgments by foreign courts will be recognised in Latvia, which decide the respective dispute according to its substance or a settlement agreement approved by the foreign court, if any.

## **2.2 Company Law**

In Latvia, the establishment of companies and their commercial activities is governed by various acts, the most important act being the Commercial Law, effective as of 1 January 2002.

### **2.2.1 Forms of Companies**

Currently, the following forms of business entities are recognised in Latvia: individual merchant, general partnership, limited partnership, private limited liability company and public limited liability company.

Individual merchant – a natural person in business who is liable for his obligations with all of his assets. General partnership – a company in which two or more partners operate under a common business name and are jointly liable for the obligations of the general partnership with all of their assets.

Limited partnership – a company in which two or more partners operate under a common business name, and at least one of the partners (limited partner) is liable for the obligations of the limited partnership only to the extent of his contribution, but other partners (general partners) are liable for the obligations of the limited partnership with all of their assets.

Private limited liability company – a company which has share capital divided into shares. The shareholders are not personally liable for the obligations of the limited liability company, whereas a limited liability company is liable for performance of the obligations with all of its assets.

Public limited liability company – a company which has share capital divided into shares. Shareholders of the company are not personally liable for the obligations of the limited liability company, whereas the limited liability company is liable for the performance of its obligations with all of its assets.

Apart from the companies stated above, the law recognises public (not-for-profit) associations. The establishment and activities of such associations are governed by Law on Association and Foundations, effective as of 1 April 2004.

As in the other Baltic states and the Nordic countries, public limited liability companies and private limited liability companies are also the most popular entities in Latvia. Both legal forms of business entities are therefore described in more detail below.

### **2.2.2 Public and Private Limited Liability Companies**

The legal framework for public limited liability companies and private limited liability companies is very similar. For both types of companies, persons become shareholders through establishment or acquisition of shares, and no personal liability for the obligations of the company generally exists.

The main difference between these two forms of companies is that a private limited liability company is more suitable for the formation of smaller enterprises and provides a useful investment vehicle for a limited number of owners whereas a public limited liability company is designed for a large number of shareholders and its shares may be sold to the public.

### **2.2.3 Foundation of a Limited Liability Company**

Both public and private limited liability companies can be founded by an unlimited number of persons (whether natural or legal) and also by one person only. In order to establish a company, the founders are required to conclude an establishment agreement and adopt articles of association. The documents have to be signed by all the founders. Then, the documents together with a notarised registration application and other required documents have to be submitted to the Register of Enterprises of the Republic of Latvia for registration in the Commercial Register.

### **2.2.4 Share Capital and Shares**

There are substantial differences in the capital requirements for public and private companies. The minimum share capital required for the establishment of a public limited liability company is LVL 25,000. Not less than 25% of the total share capital specified in the articles of association must be paid in cash upon registration of the company. The remaining amount must be paid either in cash or by non-monetary contributions within a year after the signing of the foundation agreement of the company.

The minimum share capital required for the establishment of a private limited liability company is LVL 2,000. The total share capital may be paid either in cash or by non-monetary contributions. However, not less than 50% of the total share capital specified in the articles of association must be paid upon registration of the company.

The remaining amount must be paid within a year after the registration of the company.

Only investments suitable for the business activities of the company to be established are permitted as investment in kind. Financial estimation of such investment should be made by an expert included in the special list of the Commercial Register. However, estimation of investment in kind may be prepared by the shareholders if the total value of the in-kind investment added to the capital of a private limited liability company does not exceed LVL 4,000 and is less than 50% of the share capital. The estimate of the in-kind investment added to the capital of the public limited liability company must be published in the official gazette "Latvijas Vestnesis".

The share capital of a public limited liability company is divided into shares, the nominal value of which is specified in the articles of association. The shares may be of different classes and of different value. Moreover, a company may issue preferred shares and convertible bonds. In order to raise capital from the public, a company may list its shares on the stock exchange.<sup>4</sup> In this case, the public limited liability company is required to register shares issued for public circulation with the Latvian Central Depository. Registration of other shares is voluntary.

As is the case with public limited liability companies, the share capital of private limited liability companies is divided into shares, the nominal value of which is specified in the articles of association. However, the shares of a private limited liability company must be of the same class and value. The number of shares a shareholder may own is unlimited.

### **2.2.5 Management of the company**

The management bodies of public and private limited liability companies are: the management board, the supervisory board and the general meeting of shareholders. For private limited liability companies, the establishment of a supervisory board is voluntary.

#### **2.2.5.1 Management Board**

The management board is the representative and executive body of the company. It may consist of one or several members. However, a minimum of three members is required for public limited liability companies whose shares are publicly traded.

The members of the management board are elected for a term of three years unless a shorter term is specified in the articles of association. In public limited liability companies, the management board is elected by the supervisory board, and, in private limited liability companies, it is elected by the general meeting.

There are no requirements concerning the residence or citizenship of the management board members. However, the Commercial Law contains few limitations with respect to the management board members, for instance, competition prohibition. Thus, a member of the management board may not: (i) be a general partner

in a partnership or a shareholder with supplemental liability in a capital company which is engaged in the field of commercial activities of the company; (ii) conclude transactions in the field of commercial activities of the company in his or her own name or in the name of a third person; and (iii) be a member of the management board of another company which is engaged in the field of commercial activities of the company except in cases when the company and the other company are of the same group of companies.

Members of the management board represent the company jointly unless the articles of association specify otherwise. All changes in the management board must be registered with the Commercial Register.

#### **2.2.5.2 Supervisory Board**

The supervisory board is the supervisory institution of a company. Its principal tasks are to represent the interests of shareholders during the periods between the meetings of shareholders and supervise the activities of the company within the scope specified in the articles of association, company law and the decisions of the general meeting. The establishment of a supervisory board is mandatory for public limited liability companies whereas, for private limited liability companies, it is voluntary.

The members of the supervisory board are elected by the general meeting for a term of three years. The number of members must not be less than three and no more than twenty. However, if a public limited liability company's shares are publicly traded, the minimum number of members must be five.

The law provides no restrictions regarding the citizenship or residence of the members of the supervisory board. The supervisory board must be convened when necessary, but at least every three months. All changes in the composition of the supervisory board must be registered in the Commercial Register.

#### **2.2.5.3 Meeting of Shareholders. General Meeting.**

The general meeting consists of company shareholders. The general meeting must be convened by the management board once a year. If necessary, an extraordinary meeting of shareholders may be convened.

Only the general meeting has the right to make decisions regarding: (i) approval of the annual accounts of the company, (ii) use of profit from the activities of previous years, (iii) the election and re-election of supervisory board members, the auditor, the company controller or the liquidator, if any, (iv) initiation or withdrawal of actions against management board members, supervisory board members or the auditor, (v) amendment of the company's articles of association,

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<sup>4</sup> The requirements for and order of issuing shares for public trade are regulated by the Financial Instrument Market Law, effective as of 1 January 2004.

(vi) an increase or reduction of the share capital, (vii) termination or continuation of the company's activities or the company's reorganisation, (viii) remuneration of the supervisory board and management board members. Moreover, unlike the general meeting of a private limited liability company, the general meeting of a public limited liability company has the right to decide on issuance and conversion of the company's securities.

The procedure for adoption of resolutions by the general meeting of public limited liability companies is different from the one of private limited liability companies. Unless it is required by the articles of association, a quorum is not required for the adoption of a resolution by the general meeting of a public limited liability company. Resolutions are passed by a simple

majority of votes. However, a qualified majority of at least 3/4 of the share capital is required in cases where the general meeting passes resolutions on amendments to the articles of association, changes in the share capital, issue of convertible bonds, reorganisation of the company or termination of the company's activity.

In order for the general meeting of a private limited liability company to pass a valid resolution, more than 50% of the share capital must be represented at the meeting. Resolutions are passed by a simple majority of votes. Decisions on amendments to the articles of association must be made by not less than 2/3 of the votes represented at the meeting. Besides, decisions of the general meeting of a private limited liability company may be passed by means of a written procedure, i.e. with-out convening a general meeting.

## 2.2.6 Public and Private Limited Liability Companies – A Short Comparison

	Public Limited Liability Company/ Akciju sabiedrība	Private Limited Liability Company/ Sabiedrība ar ierobežotu atbildību
Establishment agreement and the first articles of association	Simple written form	Simple written form
Minimum share capital	LVL 25,000	LVL 2,000
Supervisory board	Compulsory <sup>5</sup>	Voluntary
Management board	Compulsory <sup>6</sup>	Compulsory <sup>7</sup>
Auditor	Compulsory	Compulsory
Registration with the Central Depository of Shares	Compulsory if shares are issued for public trade. Other shares can be registered at the choice of the company	Registration is not available
Share transfer agreement	Simple written form	Simple written form
Minutes of the general meeting	Simple written form	Simple written form

### 2.2.7 Branch Office of Foreign Company

A foreign company that wants to offer its products or services in Latvia under its own name without establishing an affiliated company may register a branch.

A branch is not an undertaking but an independent part of a parent company which is fully liable for the obligations arising from the activities of the branch. A branch office is not a legal person.

For tax purposes, branch offices are treated by the law as separate Latvian taxpayers subject to the same requirements as those applying to local companies. The bookkeeping of branch offices must be organised independently of the parent company and in accordance with Latvian law.

Alternatively, a foreign company may register a representative office for the purpose of advertising and promoting the business of the head office. Unlike a branch office, however, a representative office will not

have any rights to carry out business activities. The parent company is fully liable for the activities of its representative office. As is the case with branch offices, representative offices must be registered in the Commercial Register.

### 2.2.8 The Commercial Register. Notaries Public. Licensed Areas of Business.

The purpose of the Commercial Register maintained by the Register of Enterprises of the Republic of Latvia is to keep a reliable source of certified information about legal entities, branch offices and representative offices of local and foreign legal entities, as well as information about management bodies, representation rights, pledges, matrimonial contracts and other relevant information. As it is a public register, any person may be acquainted with the information and documents in the register. The information may also be obtained via the Internet.<sup>8</sup> Simple inquiries for information about, for instance, company name, official address and nature of business activities, can be made free of charge.

<sup>5</sup> No residence requirement.

<sup>6</sup> From one to several members. At least three members if the shares are publicly traded. No residence requirement.

<sup>7</sup> From one to several members. No residence requirement. <sup>8</sup> www.ur.gov.lv

Generally, information contained in the Commercial Register is considered valid and legally binding from the day it has been published in the official government gazette "Latvijas Vestnesis". However, this does not apply to transactions performed within 15 days after publications if a third party proves that it was not and could not be aware of the changes.

Some transactions require verification by a notary public.<sup>9</sup> For example, notarisation is required for translated public documents, sample signatures of management board members, commercial pledge applications, applications for the establishment of a company and applications to the Land Book.

Certain areas of activity require a license or permit. Typically, a license is required for areas involving a risk to human life, the environment or other public interests. Such areas include guard service, public services, commercial transport of passengers, gambling and banking activities. The government adopts legislation on licensing procedures for the particular licensed areas of business. As no general procedures have been established, the requirements and fees for obtaining a license may differ.

## 2.3 Mergers and Acquisitions

### 2.3.1 Introduction

As in Estonia and Lithuania, mergers and acquisitions (M&As) emerged in Latvia in the beginning of the 1990s when the privatisation of state-owned businesses began. In terms of volume of transactions, most of the largest M&A deals in Latvia were concluded during the peak of privatisation (until 2002). The M&A market was still very active until mid-2008 with several major transactions involving investment companies expanding their portfolio. During this period, new trends in the way M&A deals were carried out could be seen, for instance, more sellers conducting a legal due diligence review, auctioned sales of companies and insurance coverage for representations and warranties. Towards the end of 2008, presumably due to limited access to outside financing, the volume of M&A deals decreased considerably.

### 2.3.2 Types of Acquisitions

The most common types of business acquisition are acquisition of shares, acquisition of the assets of a going concern and merger.

The most regulated and time-consuming type of acquisition is merger (or division). In practice, an acquisition is rarely implemented via a merger. Nevertheless, an acquisition is often followed by a merger of the companies under the same control.

There are other ways to implement a business acquisition, for instance, targeted issue of shares, acquisition of strategic assets, joint venture, franchise, conclusion of shareholders agreement, etc. The choice of the type of acquisition depends on numerous

matters, such as the intentions and structure of the parties, legal restrictions, taxation, payment and financing terms as well as business risks. It is strongly recommended to structure the business acquisition in cooperation with financial, legal, tax and other advisors before the acquisition.

The following subsections deal with the two most frequent types of business acquisition: acquisition of shares and acquisition of assets.

### 2.3.3 Acquisition of Shares

#### 2.3.3.1 General

When acquiring another company's shares, the buyer acquires all the rights and obligations attached to the shares. A transfer of shares does not affect the legal status of the company.

#### 2.3.3.2 Form

Latvian law does not require a specific form for agreement regarding the transfer of a company's shares; in theory, it may be done even orally. However, it is strongly recommended to execute a written share purchase agreement (SPA) between the parties. There are no notarisation requirements with respect to the SPA.

The procedure to be followed depends on the corporate form and the type of shares of the target company. If the target company is a private limited liability company, the parties to the transaction must inform its management board about the share transfer by filing a joint application or submitting a copy of the SPA. The management board enters the information about the new owner of the shares into the shareholders' register of the company. Alternatively, if the parties to the transaction sign the updated shareholders' register as prepared by the management board of the target company, it is not necessary to submit a joint application or a copy of the SPA. The management board of the target company is obligated to notify the Register of Enterprises of the Republic of Latvia of the share transfer by submitting the updated shareholders' register of the company. In the event the parties to the transaction are foreign entities, in addition to the updated shareholders' register of the company the management board will be obligated to submit official and legalized documents from the party's country of incorporation evidencing the incorporation and signatories of the foreign entity. The information about the shareholders of a private limited liability company is public and can be obtained from the database<sup>10</sup> of the Register of Enterprises of the Republic of Latvia. If the target company is a public limited liability company with registered shares, the buyer must present an application and the acquired shares with endorsement notes to the management board, but in case of shares without share certificates, a joint application from the seller and the buyer or a copy of the SPA must be presented. The management board enters the information about the new owner of the shares into the shareholders' register of the company.

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<sup>9</sup> Notarisation is subject to a fee in accordance with government rules No 747 "On fees of Notary Public and the Procedure of their Determination", effective as of 2 October 2008 <sup>10</sup> [www.lursoft.lv](http://www.lursoft.lv), [www.ur.gov.lv](http://www.ur.gov.lv) .

This information is not public and the updated register of shareholders of the company must not be submitted to the Register of Enterprises of the Republic of Latvia. If the target company is a public limited liability company with bearer's shares, the transfer of shares is implemented through securities accounts of the parties to the transaction by submitting requests to the relevant operators of securities accounts and such transfers have to be registered with Latvian Central depository (LCD). Also this information is not public and can be accessed only by the company itself or other competent bodies.

### **2.3.3.3 Transfer of Title**

The moment of transfer of the title to the shares should be stipulated in the SPA. However, the buyer will be able to exercise the shareholder's rights only (a) with respect to private limited liability companies or public limited liability companies with registered shares when the buyer has been registered in the shareholders' register of the target company or (b) with respect to public limited liability companies with bearer's shares upon receipt of the shares in the securities account of the buyer.

It is important to note that, according to the Law on Concerns, effective as of 27 April 2000, a buyer obtaining more than 10% of the shares of a company must notify the target company of the acquisition in writing within two weeks after the closing of the transaction. The buyer may not use the rights attached to the acquired shares (including voting rights) until such notification has taken place. If the buyer's shareholding in the company exceeds 10%, 25%, 50%, 75% or 90% of the share capital, the management board of the target company must submit the buyer's notice to the Register of Enterprises of the Republic of Latvia.

All shares of Latvian publicly listed companies are registered with the LCD in a book-entry form.<sup>11</sup> Share transfers are implemented by submitting requests to the relevant operators of securities accounts. The title to the shares is transferred upon receipt of the shares in the securities account of the buyer.

### **2.3.3.4 Pre-emptive Rights**

A shareholder of a private limited liability company may freely alienate its shares in a company, determining the price of shares as it sees fit. However, the other shareholders of the company have the pre-emptive rights to acquire the transferred shares unless this right is excluded by the company's articles of association to which all the shareholders have agreed. In case of exchange, donation or another type of share transfer which is not a sale, the approval by the shareholders' meeting is required unless the company's articles of association explicitly provide otherwise. Only fully paid shares of a private limited liability company may be alienated unless this requirement is waived by the company's articles of association.

A shareholder of a public limited liability company may also freely alienate its shares. Moreover, normally, the shareholders of a public limited liability company do not

have the pre-emptive rights in case of a share transfer unless the pre-emptive rights with respect to the registered shares are stipulated in the company's articles of association. According to the Commercial Law, Latvian public limited liability companies may not provide direct or indirect financing to third parties for the purchase of its shares. This restriction does not apply to private limited liability companies.

Consequently, the parties should be aware not only of statutory requirements but also of the relevant stipulations in the articles of association of the target company concerning the share transfers.

## **2.3.4 Acquisition of Assets**

### **2.3.4.1 General**

When purchasing the assets of a going concern, the buyer usually acquires a defined part of the selling company, which can be described as a business.

A transfer of assets does not itself modify the status of the target company, but it normally changes its liabilities.

The sale of the assets of a going concern is usually subject to the regulation of business transfers that serves two primary purposes: (i) to facilitate the transfer of rights and obligations of the business, and (ii) to protect the interests of creditors. The Commercial Law defines a business as an organisational economic unit consisting of tangible and in-tangible assets as well as other values which are used for the commercial activity of the business. In case of a dispute, it is up to the court to determine whether or not the transfer of assets constitutes a transfer of business and whether the rules on transfer of liabilities apply as described below.

### **2.3.4.2 Form**

Generally, asset transfer agreements are not required to be in any specific form. However, there may be exceptions depending on the type of assets to be transferred. For example, if real estate is transferred as part of an acquisition, the transfer agreement must be in writing and an application to the Land Book on the transfer of the real estate must be signed before a notary public.

### **2.3.4.3 Transfer of Title**

Taking into account the mandatory filings required by law, the parties may freely agree on the date of transfer of the title to the assets. However, for the specific property acquired in an asset acquisition, for example, real estate, the full use of ownership rights may depend on the date of registration of the title in the relevant public register.

Public permits and licenses cannot usually be transferred together with the business, and the buyer has to apply for such permits and licenses separately. As some permits and licenses require possession of certain assets or rights or employment of employees with certain qualifications, the parties should carefully find a way to avoid a long "grey period" between the transfer of the business and the buyer's receipt of permits and licenses.

<sup>11</sup> For more information, please visit <http://www.nasdaqomxbaltic.com/market/?lang=lv>

The procedure to be followed for the transfer of assets depends on the form of the target company and on the relevant provisions in its articles of association and other corporate documents. Special rules may be included in shareholders' agreements not disclosed to the public.

Generally, in a private limited liability company, the management board usually makes the decision on the transfer of assets. However, the articles of association may require prior written consent by the supervisory board (if such is established) or even a decision by the general meeting of shareholders. Similarly, in a public limited liability company, a conclusion of an agreement on transfer of assets generally requires a decision by the management board. However, the articles of association may require prior written consent by the supervisory board.

#### 2.3.4.4 Transfer of Liabilities

The Commercial Law provides that an acquisition of a business or an independent part thereof results in the transfer of obligations as well as rights to the buyer. The new and the previous owner of a business or an independent part thereof are jointly and severally liable for obligations that have arisen prior to the acquisition and become due within five years after the acquisition unless the transfer agreement provides otherwise. Agreements between the parties to the acquisition that deviate from this rule are not binding in relation to third parties.

Due to the provisions described above, asset transfers are less popular than share transfers in Latvia.

However, not all asset transfers involve application of business transfer rules, but in case these are relevant, the buyer of the assets should pay sufficient attention to obtaining sufficient securities.

The provisions of the Commercial Law mentioned above also apply to the transfer of employment contracts of employees related to the transferred business.

In addition, the provisions of the Labour Law, effective as of 1 June 2002, should be observed.

The Labour Law specifically provides that the rights and obligations of the transferor in respect of employment relations must be transferred to the new owner of the business or a part thereof. These include the rights and obligations deriving from collective employment agreements. The transfer of a business may not serve as a reason for termination of employment contracts. In case the new employer does not need the transferred employee, it may terminate the employment agreement because of lay-off or other grounds, if any. Generally, such grounds require the employer to pay severance payments and other compensation to the employee. There are also detailed rules for the obligation to inform and consult with employees in case of a business transfer.

#### 2.3.5 Comparison of Share and Asset Acquisition

The following is a simplified table of the main similarities and differences between the acquisition of a business by a share purchase and by an asset purchase.

	Acquisition of Shares	Acquisition of Assets
<b>Seller</b>	Shareholder(s) of the target company	Target company
<b>Purchase object</b>	Shares	Assets and goodwill
<b>Ability to pick and choose assets</b>	Purchase of shares does not generally affect the assets of the target company. In order to avoid purchase of certain assets of the business, the target company needs to transfer those assets to another person before the share transfer.	The parties are free to pick and choose the assets.
<b>Ability to pick and choose liabilities</b>	Purchase of shares does not generally affect the liabilities of the target company.	All liabilities related to the business will be considered transferred to the buyer (unless the creditor has consented otherwise). Not all of the asset acquisitions can be considered as a transfer of business.
<b>Form</b>	Generally simple written form	Generally simple written form
<b>Transfer of title</b>	The date of transfer of title can be stipulated in the share transfer agreement. However, to be able to exercise the shareholder's rights, a securities transaction should be carried out with respect to listed shares, and, with respect to non-listed shares, an entry must be made in the shareholders' register kept by the management board of the company.	The parties may freely agree on the date of transfer of title. For some assets, registration of the title with the relevant registers is required.

## 2.4 Competition Law

### 2.4.1 General Principles of Competition Law

The Competition Law, effective as of 1 January 2002, was drafted largely in accordance with Articles 81 (formerly 85) and 82 (formerly 86) of the EC Treaty. The Latvian competition rules are based on the same principles as those governing the EC competition law.

Monitoring of compliance with the law is carried out by the Competition Council, a rather modern and pro-active state institution under the Ministry of Economics of the Republic of Latvia. The Competition Council is entitled to perform market assessments, provide opinions regarding the conformity of the market participants, adopt decisions on infringements and apply penalties, submit claims and complaints to the court in cases provided in Latvian legal acts and publish its views and recommendations. Decisions made by the Competition Council may be appealed within a period of one month from the date when the interested person learned about or should have learned about the decision.

### 2.4.2 Applicability of EC Competition Rules

As of 1 May 2004 when Latvia became a member of the European Union, all the community competition rules are directly applicable in Latvia by virtue of Regulation 1/2003. Moreover, the EC competition rules are applicable on a mandatory basis whenever an agreement, decision or practice at stake may affect trade between the member states. Therefore, not only the commission (as it used to be in the EU before 1 May 2004), but also the national competition authorities are responsible for enforcing the community competition rules.

### 2.4.3 Prohibited Agreements

The Competition Law provides that agreements and concerted practices which hinder, distort or restrict competition or seek to do so are prohibited and considered void from the moment they are entered into. The Competition Law provides for a fine of up to 10% of the annual turnover of a company to be imposed if the statutory rules are violated.

#### 2.4.3.1 Exemptions

Agreements that hinder, distort or restrict competition can be permitted or permitted on certain conditions, which by and large are identical to those provided in Article 81 of the EC Treaty. However, there are no exemptions for agreements that result in the elimination of competition.

Latvia has a special leniency regime for cartel participants, which is aimed at more effective action against cartel-type collusion. The leniency regime for cartel whistleblowers grants leniency from fines to whistleblowers that fully cooperate with the Competition Council and provide information prior to the Competition Council being able to take any action. Voluntary significant cooperation subsequent to the Competition Council commencing an investigation can lead to reductions of fines; however, the extent of such reduction is unspecified.

#### 2.4.3.2 De Minimis Rule

Restriction of competition and the effect on trade must be appreciable, and agreements, practices or decisions are therefore not prohibited if they are of minor importance. According to the practice of the European Commission, an agreement that affects no more than 10% of the relevant market is considered de minimis, i.e. not having appreciable effect on trade.

Such agreements may be relieved from the scrutiny of the competition authorities if they do not contain any hardcore anticompetitive restrictions like price fixing or market sharing. It is likely that the Competition Council will follow the approach of the Commission for the purposes of uniformity of national and European competition law. The threshold of 10% has been set as a general de minimis benchmark in the regulations exempting certain vertical agreements from the scope of prohibited agreements.

#### 2.4.3.3 Hardcore Restrictions

Even though the overall criterion for determining whether or not a certain agreement is in conflict with competition rules is its ability to hinder, distort or restrict competition, there is a "black list" of agreements which are considered to be ipso facto contravening the competition rules. By and large, the list is identical to that of Part 1 of Article 81 of the EC Treaty.

## 2.4.4 Concentration Control

### 2.4.4.1 Threshold

Pursuant to Clause 15 of the Competition Law of Latvia, the obligation to submit a notice of a merger of market participants must be met if either the combined turnover of the merger participants during the previous financial year was at least LVL 25 million within the territory of Latvia or the combined market share of the merger participants on the relevant market exceeds 40%.

If the merger has only two participants, and the turnover of one of them did not exceed LVL 1.5 million during the previous financial year within the territory of Latvia, the notice is not needed.

For the concentration to be subject to control by the Latvian Competition Council, the concentration participants have to be engaged in economic activities in the territory of Latvia (either directly or through a subsidiary).

### 2.4.4.2 Notification

The notice of the merger should be submitted before the transfer of control is completed. Usually, the notice is submitted after the signing of the agreement regarding the transfer of control, but before its completion in case receipt of the Competition Council's approval is a condition for the closing.

The result of failing to notify the Competition Council of the merger is that the transaction in question will be considered as illegal per se. Moreover, if the merger notice is not submitted on time (i.e. before the merger is completed), the Competition Council may impose a fine of up to LVL 1,000 per day.

In the following cases, the concentration notice does not have to be submitted:

1. In the case of credit institutions, other financial entities and insurance companies whose activities include certain transactions in securities that are in compliance with the limitation conditions prescribed by the Competition Law;
2. When the decisive influence over the market participant is being acquired by a liquidator or administrator in the course of an insolvency or liquidation procedure of the said market participant.

The decision on the case should be made within one month from the submission of a complete merger notice. However, in certain cases, the Competition Council is entitled to extend the said period by three months. Accordingly, if the merger in question is subject to control by the Competition Council, it has a maximum period of four months to adopt the final decision whereby it will either allow the merger or allow it on certain conditions. The merger can also be prohibited or allowed with certain conditions.

#### **2.4.4.3 Joint Ventures**

A joint venture of several undertakings, i.e. market participants, can be seen as either an agreement entered into by those undertakings or as a merger. Pursuant to the longstanding EC law and practice, the latter option will prevail if the joint venture performs economic activity independently on a lasting basis and creates permanent structural changes in its "parent undertakings".

This approach was, on a number of occasions, also adopted by the Latvian Competition Council and, therefore, a "full function joint venture" as described above will be subject to merger control and notification if the thresholds mentioned earlier are met or exceeded.

## **2.5 Real Estate**

### **2.5.1 Introduction**

After years of rapid growth in the real estate market, Latvia has been experiencing slower demand and activity. Problems are being experienced in all sectors of the real estate market: residential property, commercial property such as office or warehouse facilities, and shopping centres.

### **2.5.2 Title to Real Estate, Land Register**

In general, buildings and the land on which they are located are considered to be uniform property. Buildings and the land on which they are located may belong to different persons only in exceptional cases, e.g. as a result of land reform or lease relations. Title to real estate is registered in the Land Book.

The Land Book is a public database, which stores information about the legal status of real estate. Information registered in the Land Book is available to and binding in relation to third persons. The Land Book contains information about ownership, encumbrances,

mortgages, servitudes, pre-emptive rights and other rights and obligations pertaining to real estate. Searches in the electronic database of the Land Book can also be made in English via the internet ([www.zemesgramata.lv](http://www.zemesgramata.lv)).

The operation of the Land Book is regulated by the Land Book Law and regulations issued by the Cabinet of Ministers of the Republic of Latvia. Each piece of real estate must be entered in the Land Book according to its location.

The Land Book consists of divisions (folios). Each division (folio) consists of four parts in which information about the following is entered: Real estate; Ownership of real estate; Encumbrances of real estate; and Debts of real estate.

Both land and buildings are registered in the Land Book in the same folio except if the buildings constitute an independent property. In practice, there are a number of properties which are not registered in the Land Book. Usually, these are properties in the form of land plots returned to their previous owners or apartments in the process of privatisation.

### **2.5.3 Acquisition of Real Estate**

#### **2.5.3.1 General**

Real estate may be acquired as a land plot or building jointly with the land on which the building is located (entire or ideal parts) or as a separate building (only if the building is registered in the Land Book as an independent property object) or apartment ownership.

Generally, it is not possible to transfer a building separately from the land on which it is located unless the land plot and the building are registered in the Land Book separately as independent property objects.

#### **2.5.3.2 Change of ownership**

Real estate transactions and the registration of ownership rights in the Land Book involve a number of formalities. For instance, a statement on payment of real estate tax for the particular property must be obtained from the municipality. Otherwise, the registration of ownership rights in the Land Book is not possible. The period of time required for registration of the title to a real estate in the Land Book is 10 days after submission of all the necessary documents to the Land Book.

#### **2.5.3.3 Form of Agreements**

Real estate transactions require a written agreement as well as registration in the Land Book. Notarisation of the agreement is not required.

The registration of ownership rights in the Land Book is carried out on the basis of a registration application signed by the seller and the buyer in the presence of a notary public.

In addition to the purchase agreement and the registration application to the Land Book, a number of other documents have to be prepared and submitted to the Land Book (municipality waiver of the pre-emptive rights, statement on the paid real estate tax, etc.).

#### **2.5.3.4 Language Requirements**

There is no specific requirement to use only the official state language (Latvian) in connection with conclusion of agreements relating to real estate. The parties may choose the language of the agreement themselves. However, a notarised translation of the purchase agreement and a copy of the original agreement have to be submitted to the Land Book. The registration application to the Land Book must be prepared and signed in the Latvian language.

#### **2.5.3.5 Due Diligence**

Before carrying out a real estate transaction, it is recommended to look into the status of the real estate as well as encumbrances, zoning, allowed use of the land plot stated by the municipality, lease agreements relating the real estate, etc. The results of the research may serve as the basis for defining the final purchase price reflecting the value of the real estate.

#### **2.5.3.6 Pre-emption Rights**

The municipalities have pre-emption rights in respect of acquisition of real estate (land and buildings) located in their territory. Only if the municipality decides not to exercise its pre-emption rights, the purchase agreement may be registered in the Land Book and the ownership may be transferred to the buyer.

Should the building and the land plot have different owners, the owner of the building situated on the land plot has pre-emption rights with respect to the land plot and vice versa. Also co-owners of real estate have pre-emption rights with respect to the ideal part of the immovable property being sold.

According to law, the pre-emption rights must be exercised within two months from the submission of the purchase agreement to the persons entitled to such rights while the municipality has a 20-day period to exercise the rights.

If the land plot is owned by the state or the municipality, it may only be alienated to the owner of the building (located on the land plot) registered in the Land Book. The owner of the building has the right to refrain from using the pre-emption rights. In this case, the law prohibits the alienation of the land plot, and the owner of the building remains subject to a lease relationship

#### **2.5.3.7 Typical Purchase Price Arrangements**

Usually, an escrow account with a bank is used to provide security for both parties. During the procedure for registration of the real estate title, neither the seller nor the buyer has access to the funds transferred to the escrow account. The parties agree on the release of such funds once the transfer of the real estate title to the buyer has been registered in the Land Book.

The sharing of costs incurred during the course of purchase is subject to agreement between the parties. Usually, the buyer pays state and stamp duties while notary fees are shared equally between the parties.

#### **2.5.3.8 Related Costs**

The real estate transfer duty for legal entities amounts to 2% of the value of the real estate, but may not exceed LVL 30,000. The stamp duty varies from LVL 3 to 15 depending on the type of transaction.

The preparation and testifying of signatures for the application to the Land Book cost approximately EUR 35. The signing of an agreement in presence of a notary public and the certification of the signatures of the parties cost approximately EUR 28 for each copy of the agreement and EUR 1.50 for each page. Fee for preparation and certification of an agreement by a notary public is set as a percentage of the purchase price of the real estate.

In addition to these fees, there may also be fees or other incidental costs in connection with the registration, including translation fees, bank commissions, legal fees and other fees.

#### **2.5.4 Restrictions**

##### **2.5.4.1 Restrictions on Acquiring Real Estate**

After Latvia joined the EU, land plot acquisition in Latvia has become more liberalised for EU citizens and legal entities. Foreigners from non EU states should note that there are several restrictions applicable to the acquisition of land plots in Latvia. Latvian law does not stipulate any particular restrictions for foreigners who want to buy commercial property.

There are no restrictions on the acquisition of land plots by companies registered in the Register of Enterprises of the Republic of Latvia or in other states of the EU in the following cases:

1. If more than 1/2 of the company's share capital is owned by Latvian citizens, EU member state citizens, the state or a municipality; or
2. If more than 1/2 of the capital is owned by foreign natural persons or undertakings, and Latvia and the relevant foreign country have concluded an agreement on mutual promotion and protection of investments (Latvia has signed such agreements with most European countries (including the Nordic countries, Canada and the USA); or
3. If the company is a public limited liability company whose shares are listed on the Riga Stock Exchange.

If, after a land acquisition, the shareholder structure of an undertaking is changed so that it no longer meets the statutory requirements, permission from the municipality must be obtained to retain ownership of the particular land plot. If the local municipality does not issue the permission, the land must be transferred to another person within two years.

Should the potential foreign buyers fail to fulfil the criteria listed above, they must apply for permission from the local municipality, which has the discretion to accept or reject such application. Such permission is necessary regardless of the size of the land plot to be purchased.

However, permission is required only for acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations unless the land on which such apartments or buildings are located is included in the deal. In most cases, apartment ownership also comprises a certain ideal part of the land plot, the land plot being co-owned by all apartment owners in the house. Certain restrictions apply to foreigners if the land is located in the state border territories and preservation zones.

As of 1 May 2011 (expiry of the transitional period), EU citizens and legal entities domiciled in the EU member states will be permitted to acquire land on the same conditions as citizens of Latvia. During the transitional period, EU citizens may acquire agricultural land or forestry only if they have lived permanently in Latvia and have been engaged in farming for three consecutive years.

For citizens and legal entities of the EU, there are no restrictions applicable to the acquisition of land plots in the cities of Latvia.

#### **2.5.4.2 Public Restrictions on the Use of Real Estate**

By nature, ownership rights are unlimited rights. They include full control over property, i.e. the right to possess and use it, obtain all possible benefits from it, dispose of it and, in accordance with prescribed procedures, claim its return from any third person by way of an ownership action.

This does not exclude the application of certain restrictions in favour of a person or the public. The state and municipal property meeting the general needs of the population, such as public waters, roads, streets etc., are withdrawn from the general circulation. Such withdrawal of property from the general circulation is stipulated by law, and all such restrictions are to be construed in their narrowest meaning and, in case of uncertainty, it must always be presumed that ownership is not restricted.

#### **2.5.5 Encumbrances**

Real estate might be encumbered with servitudes, pre-emption rights, lease rights registered in the Land Book, mortgages, protection zones and other encumbrances that should be considered when using of the real estate and constructing buildings.

##### **2.5.5.1 Mortgage**

Latvian Civil Law and Land Book Law allow establishing a mortgage on a real estate as the security for the claim. Under the Latvian Civil Law, a mortgage is a pledge of real estate without the transfer of possession. For that reason the prerequisite for any pledge is establishment of the obligation (usually - the loan agreement), which is secured.

To make the mortgage binding in relation to third persons, it has to be registered in the Land Book. The amount up to which the mortgage secures the obligation should be indicated in the mortgage agreement and registered in the Land Book.

In order to register a mortgage on real estate, a mortgage agreement should be concluded. An application for the registration of the mortgage in the Land Book must be signed in the presence of a notary public.

In connection with mortgage registration, legal entities have to pay a state duty of 0.1% of the loan amount; however, the duty may not exceed LVL 1,000.

The mortgage is registered in the Land Book within 10 days of submission of the necessary documentation.

All the documents submitted must be in the Latvian language.

If the documents are in another language, a notarised translation must be enclosed. Moreover, legalisation/apostille may be necessary for certain foreign documents submitted to the Land Book.

The owner cannot sell the pledged property until the secured claim has been satisfied if, in addition to the mortgage, a prohibition against alienation of the property has been registered in the Land Book. The agreement and the prohibition registered in the Land Book may also provide that the owner must not mortgage the property to anybody else without the consent of the creditor. It is common practice that a lender includes such prohibition in the mortgage agreement.

A mortgage ceases upon fulfilment of the claim for which the mortgage was established. A unilateral application by the mortgagor for deletion of the mortgage registration should be submitted to the Land Book.

#### **2.5.6 Property Management**

The general management (including maintenance and upkeep) of a property is the obligation of the owner of the property. The owner of the property is entitled to assign the management of the property to a third party by concluding an agreement.

A management agreement does not influence the ownership of a property. The agreement is binding on the parties that have concluded it (the owner of the property and the management company) but does not create any obligations for third parties.

Apartment owners may establish an apartment owners' association.

#### **2.5.7 Lease Agreements**

##### **2.5.7.1 General**

The general terms for the conclusion of lease and tenancy agreements are stipulated in the Latvian Civil Law and the Law on Apartment Lease.

According to these laws, a contract which grants the use of a property for the purpose of gaining income is a lease, but any other contract which grants use is a rental contract.

The content of the lease and rent agreements is subject to agreement between the parties. However, the Law on Apartment Lease protects the rights of the apartment lessee.

In case of a real estate title transfer lease, agreements remain valid if they are registered in the Land Book. Otherwise, the new owner of the particular real estate may terminate the unregistered agreement; however, the lessee is entitled to receive compensation from the lessor (previous owner) for the termination of the lease agreement before its expiry.

In case of a title transfer, rent agreements relating to apartments are binding on the new apartment owners under the Law on Apartment Lease without registration in the Land Book.

#### **2.5.7.2 Duration and Expiry of Lease Agreement**

The duration and expiry of lease or rent agreements are usually specified in the agreement. Latvian law stipulates some general rules, for example, that the agreements can be concluded for a specified or an unspecified term. As to termination, the law stipulates general rules only, and it is therefore recommended to agree on termination clauses in the lease agreement. More specified provisions for termination are provided in the Law on Apartment Lease, which was adopted in order to protect the interests of the lessees.

#### **2.5.7.3 Lease Payment and Accessory Expenses**

Prepayment of lease payments (deposit or guarantee) is usually required by the lessor, but Latvian law stipulates no specific provisions for payment of deposits.

Accessory expenses are payments for maintenance and utilities (water, gas, electricity, administration, etc.) and are usually paid by the lessee in addition to the lease payments.

### **2.5.8 Planning Requirements and Construction of Buildings**

#### **2.5.8.1 Planning**

The municipalities have the authority to define the purpose of use of a particular piece of real estate in their territories, to set limits for construction activities and to issue building permissions. The territorial plan for each municipality contains general requirements for zoning and construction. A detailed plan may be required by the territorial plan, and it may take about six months to more than a year before a detailed plan is completed and approved by the municipality.

#### **2.5.8.2 Construction**

A construction design must be approved by the local construction board. Permission is given if the project complies with the territorial plan of the administrative territory.

In cooperation with other institutions, the construction board determines the technical requirements for the particular construction project and issues an architectural planning assignment, which serves as the basis for a construction design.

Public hearing is required only in territories that do not have a valid detailed plan and

1. if the construction significantly deteriorates the living conditions of the inhabitants;
2. if the construction significantly reduces the value of the real estate;
3. if the construction significantly affects the environment, but evaluation of the effect on the environment is not required pursuant to law;
4. in other cases provided by the construction regulations approved by the respective municipality.

The initiator of the construction has to prepare information for a public hearing, including a sketch of the design project. The real estate owners, the population of the particular administrative territory and experts invited have the right to present their objections to the construction concept and submit their own proposals for the construction concept.

Changes to the project require additional approval from the construction board. The project is valid for two years from the date of the construction board's approval of the project. Construction works require building permission from the construction board.

Newly erected buildings have to be put into operation by a special commission formed by the municipality.

## **2.6. Employment Law**

### **2.6.1 General**

In Latvia, individual and collective employment and industrial relations are mainly regulated by the Labour Law, adopted in 2002, with last amendments made on 12 June 2009. Right now, extensive amendments of the existing Labour Law are awaited. It is expected that they will be passed by the end of the year 2009.

### **2.6.2. Employment Contract**

#### **2.6.3. Hiring**

The Labour Law generally requires an employment contract to be concluded for an indefinite period of time.

However, the law also provides for a possibility to conclude fixed-term contracts for maximum period of three years in cases where a specific short-term job, such as a seasonal job, a replacement, incidental work outside the daily routine of the employer, specified temporary work related to the transitory increase of a workload etc., is to be performed. An employment contract entered into for a specified period shall include the expiry date of the employment contract, or conditions that determine when the relevant work is completed, otherwise the employment relationship is deemed to be established or extended for an indefinite period of time.

#### **2.6.4. Terms of the Employment Contract**

An employer and an employee are free to agree on most terms of the employment contract if they do not reduce the rights that the employee has under the Labour law. The law provides for certain mandatory requirements in respect to the content of the employment contract. The employment contract must include the employer's name, address, and registration number; the employee's name, address, and personal ID code; the occupation, trade, profession, and general description of the tasks of the employee; starting date; place of work; amount of salary and manner of payment; length of daily and weekly working time; length of annual leave; term for giving a notice of termination; references to the provisions of the collective agreement, if any; and the internal work regulations.

#### **2.6.5 Salary**

##### **2.6.5.1. Minimum Salary**

Statutory level of the minimum salary is set by the government of Latvia and is mandatory. As of 1st of January 2009, the minimum salary is set at 180 LVL (app. EUR 256) per month for full-time work which constitutes 40 hours a week.

##### **2.6.5.2. Salary Payments**

It is mandatory to agree on the salary amount in the employment contract. A time salary is calculated in conformity with the actual time worked irrespective of the amount of work done. A piecework salary is calculated in conformity with the amount of work done irrespective of the time within which it was done.

Salary payments should be made on a set date which shall be stipulated in the employment contract. Payment has to occur not less frequently than two times a month unless employee and employer have agreed on payment of work remuneration once a month. Employee is also entitled to receive work remuneration in full amount in case of idle time.

When paying work remuneration, an employer has to issue a written calculation of the work remuneration and explain it to the employee upon his/her request.

##### **2.6.5.3. Overtime Pay**

An employee and an employer have to expressly agree if the employee is asked to work overtime. The pay for overtime work is double the usual salary and may not be replaced by additional holidays.

However, in cases where it is required by the most urgent public need or is aimed at prevention of consequences caused by force majeure, an unexpected event, or in other exceptional circumstances that may adversely affect the normal course of work activities in the undertaking, employees can be required to work overtime without an express agreement upon it. In any case, overtime work may not exceed 144 hours within a four-month period.

Moreover, the Labour Law grants an employee a right to receive a supplement for the performance of additional work (amount has to be agreed between the parties) and night work (compensation exceeding the agreed salary by 1.5 times). In case an employee is asked to work on holidays, an agreement has to be reached determining whether the employee will get double compensation or will a day off instead.

#### **2.6.6. Working Time and Vacation**

##### **2.6.6.1. Working time**

Regular statutory working time is set at 40 hours a week, 8 hours a day, and 5 days a week. In case the work has to be pursued under harmful conditions or constitutes physically hard work, employees are entitled to have reduced working time - 7 hours a day and 35 hours a week. Where a six-day week is required, the working day is limited to 7 hours in a 40-hour week and 6 hours in a 35-hour week.

##### **2.6.6.2. Regular vacation**

All workers - part-time or full-time - who have been employed for longer than six months are entitled to four calendar weeks of paid vacation each year. The number of vacation days available to the employee is allocated on a pro-rata basis depending on the time the employee has spent working. Longer regular vacation is granted to minors, to employees with three or more children up to the age of 16 or a disabled child, and to employees exposed to a special risk at the working place. If an employee is ill, the annual paid vacation is extended accordingly or postponed.

The amount payable for the period of annual vacation is calculated by multiplying the daily average earnings of the employee by working days during the vacation. In case of a termination of an employment contract, employee has to be compensated for the unused vacation days.

##### **2.6.6.3. Maternity Leave/ Paternal Leave/ Parental Leave**

Female employees are entitled to maternity leave of 56 calendar days before childbirth and 56 calendar days after childbirth, 112 days in total. Also young fathers are entitled to paid vacation of maximum 10 calendar days. In some circumstances (such as death of the mother, diagnosed depression of the mother resulting in rejecting the child) the father or another person who is in fact taking care of the baby may also request a part of the maternity leave. Paternal leave can be taken at any time within the 2 months of the birth of the child. Maternity and paternal leaves are paid by the State.

Latvian law also provides employees with a right to go on parental leave for up to eighteen months. This leave can be taken at any time, up to the day when the child reaches the age of eight. Parental leave may be granted as a single period or in parts, depending on the preference of the employee.

## 2.6.7. Termination of Employment Contract

### 2.6.7.1. Advance notice

The employer must give a termination notice to the employee at least one month prior to the termination date and it can be done only for reasons related to the conduct or abilities of the employee, or as a result of economic, organizational, technological measures taken by the employer. However, the legal relationship under a contract of employment can also be terminated sooner, if the employee and employer reach a mutual agreement on this matter.

As an exception, termination notice can be given at least 10 days prior to the end of the legal relationship under a contract of employment, if grounds for termination are connected with the unjustified breach of the working procedures, violation of the norms of the employment contract or labour protection regulations, or immoral behaviour of the employee. The same time frame applies in situations where the employee is unable to perform the contracted work due to his or her state of health and such state is documented by a doctor's certificate.

An employer may give a termination notice with immediate effect only in cases where an employee has violated the law and therefore has lost the trust of the employer or if an employee has been under the influence of alcohol, drugs or other toxic substances while working.

### 2.6.7.2. Severance pay

An employer shall provide an employee with a severance payment if the legal relationship under the contract of employment is terminated. Unless collective agreements or the employment contract provides for higher severance pay, the employer must pay a severance pay depending on the length of the legal relationship under the contract of employment as follows:

Years of Service	Amount of Severance Pay
Less than 5	1 month's average compensation
5-9	2 month's average compensation
10-20	3 month's average compensation
More than 20	4 month's average compensation

The monthly average compensation is calculated by dividing the total amount of work remuneration during the previous six month of the employment (this includes monthly salary, supplementary payments specified in regulatory enactments, collective agreements or employment contract, and bonuses) by six.

## 2.7 Visa and Work Permit

### 2.7.1 Visas

According to the Immigration Law, effective as of 1 May 2003, foreigners and stateless persons may generally enter Latvia only upon having obtained a valid visa or residence permit.

### 2.7.2. General Requirements regarding visa

Citizens of the European Union (EU), member states of the European Economic Area and the Swiss Confederation may enter 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. The same principle applies to the citizens of states with which the Republic of Latvia has concluded bilateral agreements on visa-free entry and states with which the Republic of Latvia has unilaterally established visa-free entry. For a detailed list of states, please visit the Web site of the Office of Citizenship and Migration Affairs (<http://www.ocma.gov.lv/>).

Recognised refugees, stateless persons and other persons without a citizenship who permanently reside in one of the EU member states and hold a travel document issued by this member state (except Great Britain and Ireland) are exempt from the visa requirement.

Prior to entry into Latvia, a visa must be obtained at the Latvian consular missions in foreign countries.

Before submitting documents to the Latvian consular mission abroad, an invitation should be organised. Once an invitation has been organised, the person will have the invitation number which is necessary to submit the documents to the Latvian consular mission abroad.

### 2.7.3. Types of visas

Visas may be issued for single, double or multiple entries in the Republic of Latvia. A transit visa entitles a foreigner to stay in the Republic of Latvia for a period not exceeding three days.

A short-term visa entitles a person to stay in the Republic of Latvia for up to 90 days within a six-month period, counting from the day of entry. A short-term visa is valid for one year; however, on certain conditions, the validity of the visa may be extended to two years.

If a foreigner needs to stay in the Republic of Latvia for more than 90 days within a six-month period, counting from the day of entry, and certain requirements are met, a long-term visa can be issued, which entitles the foreigner to stay in the Republic of Latvia for more than 90 days within a six-month period, counting from the day of entry. A long term visa is valid for one year.

### 2.7.4. Employment

Foreigners who enter the Republic of Latvia with or without a visa are not allowed to exercise economic activities in an employed capacity. Foreigners can be employed only in the cases that are specified in normative acts and if they have received an employment visa and a work permit.

## 2.7.5 Residence and work permits

### 2.7.6. General requirements regarding residence permits

Foreigners may stay in Latvia without a residence permit for no more than 90 days within any six-month period. The Office of Citizenship and Migration Affairs may issue permits for longer periods for scientific or study purposes, to persons employed in Latvia, in connection with entrepreneurial activities, in connection with assistance to state or municipal institutions, or, if required, for the implementation of international agreements or projects.

According to the government regulations On the Procedures for the Employment of Aliens and Stateless Persons in Latvia, to obtain a residence permit with a permission to work (in cases where an EU citizen is employed by a Latvian company), the EU citizen has to come in person to the Foreigners Service Centre and hand in/present the following documents: passport, photo, application form and employment contract. Depending on the reason for the person's stay in Latvia and for non-EU citizens, additional documents may be required.

The Foreigners Service Centre will prepare a residence permit with a permission to work within 30 days. The service is free of charge.

Citizens of the countries of the visa-free regime may submit the documents to the local district immigration office department. Citizens from all other countries can apply for a residence permit only at Latvian diplomatic and consular missions abroad.

### 2.7.7. Types of residence permits

A residence permit may be issued to a foreigner entitling him/her to reside in the Republic of Latvia either for a definite period of time (a temporary residence permit) or permanently (a permanent residence permit).

A temporary residence permit may be issued for a period of one to five years depending on the reason for its issuance (a sole shareholder of a company, an authorised representative of a representative office of a foreign company, scientific work, studies, etc.).

The state fee for receiving a temporary residence permit ranges from LVL 70 to LVL 17022 depending on how fast the documents are reviewed (thirty, ten or five days). The fee may be subject to changes.

### 2.7.8. Work permits

Foreign citizens (except EU citizens) and stateless persons must obtain a work permit in order to work in Latvia. All foreign managers of Latvian companies performing operating activities, including persons with signatory rights, must apply for a work permit.

First of all a vacancy of the position should be registered with the State Employment Agency (except for persons with signatory rights and EU citizens). Only one month after the vacancy registration date a person may hand in the necessary documents to obtain a work permit.

According to the government regulations on the Procedures for the Employment of Aliens and Stateless Persons in Latvia, an official invitation to a foreign citizen to work in Latvia from his/her employer must be approved by the State Employment Service in order for the foreign citizen to obtain a work permit (this does not apply to EU citizens). It should be noted that persons with signatory rights registered in the Company Register of the Republic of Latvia are not required to obtain a work permit from the State Employment Service, but can apply for a residence permit directly upon presentation of a reference from the Commercial Register.

For managers of local companies with signatory rights, a work permit can be obtained free of charge. For other persons, the state fee for a work permit depends on the level of unemployment in the city/region of registration. Currently, the state fee for a work permit is about LVL 3523 a month (LVL 42024 a year). The fee may be subject to changes.

The Office of Citizenship and Migration Affairs issues the work permit on the basis of an affirmative decision along with the visa or residence permit.

## 3 Taxation in Latvia

### 3.1 Corporate taxes

#### Significant developments

Double tax treaties with Albania, Kirgizstan and Italy came into force in 2009.

New amendments to the VAT Act have been drafted to implement some of the Sixth Directive's optional provisions into domestic VAT law (including VAT grouping, VAT recovery on bad debts, reverse charge on imports and option to tax in real estate transactions). These amendments came into force as from 1 January 2010.

#### 3.1.1 Taxes on corporate income

The rate of corporate income tax is 15%. There are no local taxes on corporate income.

#### 3.1.2 Corporate residence

A company is resident in Latvia if it is incorporated there.

#### 3.1.3 Foreign income

Resident companies are taxed on their worldwide income. Tax paid abroad on income included in the taxable base is allowed as a credit against the corporate income tax charged for the year. However, the credit may not exceed the Latvian tax attributable to the income taxed abroad. Any unused tax credits may not be carried forward.

#### 3.1.4 Capital gains

Capital gains on the disposal of capital assets are calculated as the difference between the sale proceeds and the costs, etc. Such gains are subject to corporate income tax at a rate of 15% as the gains are considered ordinary income. Losses on the sale of securities can be carried forward and offset against future profits from the sale of other securities. However, profits from trading in securities publicly quoted in the EU or the EEA are not taxable, but losses on such securities are not recognised and must not be used to reduce a taxpayer's taxable profits.

#### 3.1.5 Branch income

As a general rule, branches and companies are taxed in the same way, with certain adjustments to payments to the head office. Branch income is subject to corporate income tax at a rate of 15%.

#### 3.1.6 Group taxation

Companies that form a 90% group and meet certain statutory criteria may surrender their current-year tax losses to each other.

#### 3.1.7 Tax returns

The fiscal year is normally based on the calendar year although companies may opt for different dates for commencing and ending their fiscal year, which may not exceed 12 months, except for the first year of trading, which may last up to 18 months. Tax returns are filed annually together with the annual accounts.

CIT is usually paid in monthly instalments by the 15th day of each month, and a final adjustment is made when the annual tax return has been filed. The monthly CIT instalments are based on the tax liability for the previous fiscal year and adjusted according to the consumer price index. A company may opt for quarterly instalments if its monthly advances in the previous period were less than LVL 500. For a new company, the advance payments are voluntary during the first 12 months of operation.

#### 3.1.8 Withholding taxes

The following types of payments to non-residents are subject to withholding tax (WHT):

- (1) Dividends are generally subject to a 10% WHT. Double tax treaties generally reduce the rate to 5%. However, dividends paid to a company that is a resident of, and considered a corporate income taxpayer, in any EU or EEA member state are exempt.
- (2) Interest payments to related non-resident parties are generally subject to a 10% WHT. Interest payments to non-related creditors are not subject to WHT. From 1 July 2013, WHT will no longer apply to interest paid by a Latvian company to a related EU member state company which holds at least 25% of the share capital or voting power in that Latvian company and meets certain other statutory criteria. If a bank registered in Latvia pays interest to related companies at the bank's normal interest rate level, then a 5% WHT applies. Up to 1 July 2013, Latvian companies will have to comply with transitional rules of the Corporate Income Tax Act, which provide for a gradual reduction in the rate of WHT on interest payments as follows: 10% up to 30 June 2009 and 5% from 1 July 2009 to 30 June 2013.
- (3) Payments for intellectual property (copyright in literary or artistic works, including movies, videos and sound recordings) are subject to a 15% WHT, but if the recipient is an EU related company or its permanent establishment, the applicable rate is 10% (5% from 1 July 2009 to 30 June 2013 and exempt from 1 July 2013 onwards). A 5% WHT is applied to other intellectual rights, such as patents, royalties and trademarks (exemption from 1 July 2013 onwards if the recipient is an EU related company). Double tax treaties may reduce the rate.
- (4) Rental payments for property in Latvia are subject to a 5% WHT.
- (5) Management and consulting fees are subject to a 10% WHT. The term 'management and consulting services' means activities carried out by a non-resident directly or by outsourced personnel to ensure the management of a Latvian company or to provide necessary advice. Double tax treaties reduce the rate to 0%.

[6] A 2% WHT applies to proceeds from real estate disposals. That also includes income from disposed shares or other participation in a Latvian or foreign registered company or other entity, if real estate in Latvia constituted in the period of disposal or the previous period, whether directly or indirectly (through shareholdings in one or more other entities established in Latvia or abroad) more than 50% of the asset value of the company being disposed of. A Latvian company can rely on a double tax treaty to reduce the rate of WHT on any payments described above. To this end, the Latvian company has to obtain a valid residence certificate for each type of payment to each recipient prior to making the actual payment. A valid residence certificate is one approved by the foreign tax authority and the Latvian tax authority.

## **3.2 Individual taxes**

### **3.2.1 Territoriality and residence:**

Latvian residents are liable to pay Latvian income tax on their worldwide income.

Non-residents are liable to pay income tax on their Latvian-source income.

Persons satisfying one of the following conditions are considered residents of Latvia:

1. Individuals having their permanent place of residence in Latvia;
2. Individuals present in Latvia for 183 days or more during any 12-month period; or
3. Latvian citizens employed abroad by the Republic of Latvia.

### **3.2.2 Gross income**

#### **3.2.2.1 Employee gross income**

Gross income includes salary, bonuses, gifts from employers, benefits-in-kind, etc. Benefits include accommodation allowances, private use of company car, relocation allowance, etc. Reimbursed relocation costs associated with secondments to Latvia and contributions to approved pension schemes are not taxable.

#### **3.2.2.2 Investment income**

For Latvian residents, dividends received from Latvian companies (out of taxed income) and from companies resident in another EU or EEA member state are tax exempt, except when income tax relief is applied in the year that the dividends are declared or in the preceding year. This also applies to interest received from banks and credit institutions registered in an EU or EEA member state. Other dividend and interest income received is fully taxable, and foreign tax paid may be credited against the Latvian tax liability.

#### **3.2.2.3 Capital gains**

Generally, there is no tax on income from the sale of personal property, with the exception of real estate. Latvian resident individuals who sell real estate that has been owned for less than 12 months, will be subject to tax on the income (profit) gained. However, if the asset has been held for more than 12 months before the sale, no personal income tax will be levied.

### **3.2.3 Tax returns**

Income tax returns are filed individually on a calendar-year basis by 1 April in the year following the year of assessment. Husbands and wives may not file joint returns.

NSI contributions should be reported quarterly in the case of self-employed persons whereas monthly contributions are required to be withheld by Latvian employers.

### **3.2.4 Payment of tax**

Latvian employers are obliged to withhold income tax on salaries paid to employees and remit the taxes to tax authorities.

Residents employed by foreign employers are required to calculate and pay advance income tax on a monthly basis. NSI contributions are to be calculated and paid on a quarterly basis except when the person is employed by another EU Member State's employer. In that case the foreign company is required to notify the State Revenue Service of the national social security contributor status: 'local employee with foreign employer' or 'employee'. If an employee agrees to register as 'local employee with foreign employer', he will be personally responsible for filing quarterly reports and paying NSI contributions at 33.09% of his pay.

### **3.2.5 Tax rates**

Personal income tax is levied at a flat rate of 23%. As of 1 January 2008 the profits from self-employed activities are subject to personal income tax at a rate of 15%.

## **3.3 Value Added Tax**

### **3.3.1 VAT**

Since Latvia became a fully-fledged member of the EU on 1 May 2004, its VAT law has been developed in line with the Sixth directive. There are a number of exempt services, such as educational, financial, medical and insurance services as well as nursery fees and sale of used real estate, including land (except for the first sale of unused real estate, which is taxable).

## **3.4 Duties**

### **3.4.1 Customs duty**

Customs duty is levied on all goods imported into Latvia from third countries. The rate of customs duty is generally 0% to 25% of the value of the imported goods. The rate depends on the type and origin of the goods. Exports are generally exempt.

### **3.4.2 Stamp duty**

Stamp duties are levied on certain legal and other kinds of services, such as court trials, company formation and registration, licences for certain types of business activity, provision of information, notary services, operation of bills of exchange, and registration of real estate at the Land Registry (2% of the higher of deal value or cadastral value capped at LVL 30,000 (EUR 42,686) per property).

For more information: [www.pwc.com/lv](http://www.pwc.com/lv)

Reference:

World Fact Book

([www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook))

PwC Worldwide Tax Summaries

(<http://www.taxsummaries.pwc.com>)

## 4 Banking Environment

### 4.1 Overview

#### Introduction

Nearly all banks operating in Latvia are commercial banks and provide a wide variety of products and banking services. Some banks provide supplementary services like devices exchange, commercial promotions, and privatisations.

#### Sector Wide Agreements

In 2005, the EU reached political agreement on the proposed directive for new capital-adequacy rules, known as Basel II. These rules have been implemented in Latvia.

#### 4.1.1 Central Bank

##### Background

The Central Bank is the Bank of Latvia, which is one of the key public institutions and carries out economic functions as prescribed in the Republic of Latvia Law "On the Bank of Latvia". The principal objective of the Bank of Latvia is to regulate currency in circulation by implementing monetary policy to maintain price stability in Latvia. The Central Bank legislation was revised in late 1998 to meet EU requirements. The Bank of Latvia represents the Republic of Latvia in foreign central banks and international currency institutions. The Bank of Latvia also consults the Parliament and the Cabinet of Ministers on monetary policy issues. It is not, however, subject to decisions and instructions by the Government or other institutions. The Bank of Latvia is independent in setting and implementing policy under its legal mandate. Supervision of the Bank of Latvia is vested with the Parliament.

##### Responsibilities

Among the most important objectives of the national central bank are the following:

- To establish and implement monetary policy in order to ensure price stability in the country
- To issue the national currency
- To organize and ensure the functioning of the payment and settlement systems in Latvia
- To collect, record and aggregate the financial information and the data of the national payment balance, as well as to publish the processed statistical information
- To manage foreign assets
- To act as financial agent for the Government
- To issue permits (licences) to legal persons listed in the Republic of Latvia Register of Enterprises, except credit institutions, for the purchase and sale of foreign currency as a business activity

### 4.2 Danske Banka

In November 2006, the Danske Bank Group acquired Danske Banka's parent, the Sampo Bank Group. This led to a name and corporate visual identity change from Sampo Banka to Danske Banka, at the same time Danske Banka became a full branch of Danske Bank Group.

Danske Banka provides banking services for retail, corporate and institutional customers. Danske Banka's branches and other service channels also play a central role in offering the investment and savings services of other companies in the Danske Bank Group. Danske Banka has a network of approx 5 branches in Riga.

The bank offers all relevant products for corporate customers such as cash management, FX and derivatives, trade finance as well as overdraft facilities and term loans, credit cards, eBanking, etc.

It is very easy to start business with Danske Banka in Latvia. Just contact your Danske Bank account manager in your country and he/she will manage to open the bank account in Danske Banka Latvia for your business start. You will also be given the dedicated English speaking account manager in Latvia who will work closely with the account manager in your country and provide the best financial solution for your cross-border and local businesses.

See [www.danskebanka.lv](http://www.danskebanka.lv) for further information.

### 4.3 Legal & Regulatory Issues

#### 4.3.1 Introduction

The market for financial transactions as such is deregulated. However, due to Central Bank reporting requirements still existing for transactions between residents and non-residents, Latvia is not the ideal place for maintaining cash concentration pooling solutions involving non-resident companies.

Under the European Single Market's objective of free movement of capital Latvian Law has undergone strong harmonisation toward the rest of the EU, e.g. within Money Laundering, where the law fully conforms to the EU directives.

#### 4.3.2 Resident and Non-Resident Status

##### Residents

All institutions, including foreign ones, registered and operating in the territory of the Republic of Latvia, as well as private persons whose households are located in Latvia and who do not leave Latvia for a period exceeding one year

##### Non-residents

All institutions registered abroad and private persons whose households are located outside Latvia or who are staying in Latvia for a period of time less than one year

#### 4.3.3 Account Ownership

Any type of account can be owned by a resident as well as a non-resident company.

#### 4.3.4 Cash Pooling Regulations

- Cash concentration and notional pooling are allowed as well domestically as cross-border
- Banks are not allowed to offset own balances in a notional cash pooling solution
- Cash pooling across legal entities within the same group is allowed
- Resident and non-resident companies can participate in the same cash pool in Latvia, but Central Bank reporting requirements must be adhered to and withholding tax regulations must also be observed
- Latvian legislation allows for multicurrency cash pooling. It is not widely offered by the banks, though

#### 4.3.5 Central Bank Reporting Requirements

Central Bank reporting is still mandatory in Latvia as follows:

- Transactions above LVL 1,000 between residents and non-residents
- All payments made from accounts abroad
- Reporting periods are 1st, 7th, 8th, 15th, 16th, 23rd, 24th and the last day of the month
- Reports must be submitted no later than 3 business days after the end of the reporting period in which the transaction has occurred

#### 4.3.6 Money Laundering

On 18 May 2006 Regulation No.93 on Establishment of Inside Control System for Prevention of Money Laundering and Terrorism Financing (the "Regulations") issued by the Finance and Capital Market Commission ("FCMC") entered into force. The EC Money Laundering Directive (Council Directive 91/308/EEC of 10 June 1991 as amended by directive 2001/97/EC of 4 December 2001) has been implemented in Latvia.

Following the vote by the European Parliament on 26 May 2005, the Council reached an agreement on a text for a third directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (the "Third Directive"). It builds on existing EU legislation and incorporates into EU law the June 2003 revision of the Forty Recommendations of the Financial Action Task Force (FATF), the international standard setter in the fight against money laundering and terrorist financing.

The Directive is applicable to the financial sector as well as lawyers, notaries, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of 15.000 EUR.

The Third Directive was implemented in Latvia through a new law on the prevention of money laundering and terrorist financing. This law has been submitted to the Parliament and was adopted in the first reading. The law passed by the end of March 2008. For the sake of clarity, the existing 1991 Directive, as amended in 2001, repealed and replaced by this Directive, upon its effective entry into force.

#### 4.3.7 Regulations Applicable for Electronic Transactions

Latvia has implemented Directive 1999/93/EC of the European Parliament and of the Council on a Community framework for electronic signatures (enacted on January 2003). Role out of digital signatures began in March 2006. The Latvian government facilitated the introduction of various e-services, while VAS (Latvijas Pasts) served as the leading partner and Certified Service Provider.

### 4.4 Payments & Collections Methods & Instruments

#### 4.4.1 Introduction

While cash remains widely used (mainly by individuals in face-to-face transactions for goods and services) electronic transfers are widespread. Furthermore, to encourage customers to use electronic payment instruments, banks have raised fees for payment instructions handed over in paper form. Strong growth in all types of cashless payment forms shows that this strategy is working.

Credit transfers account for the vast majority of the payments although this payment method has matured; cheque volumes are rapidly declining while card payments are increasing rapidly and direct debits also have seen strong growth.

#### 4.4.2 Card Payments

The use of cards in general is rapidly increasing and has nearly tripled from 1999 to 2006 in terms of cards issued. The total number of payment cards issued by mid year 2007 is approximately 2.22 million, of which 150,000 are credit cards and the remaining group is closely split between normal debit cards and debit cards with an overdraft facility. There are an additional 153,540 retailer cards in circulation.

As a result of comprehensive advertising campaigns launched by banks and First Data Latvia (FDL), payments made by payment card have quintupled in volume and quadrupled in value over the last five years and accounted for 34.9% of the total volume and 0.3% of the total value of payments made with cashless payment instruments.

FirstData (established in 1992 by the Latvian banks) and the Baltic Card Centre (BCC) process card transactions and manages Latvia's ATM (1,143 as of June 2007) and POS networks (4 networks as with nearly 20,367 terminals). All terminals accept the various international payment cards.

The IBIS Internet commerce is a solution designed for servicing card transactions on the Internet.

A service called "Cashback" is available at 106 POS terminals in Latvia outside of Riga. Cashback is the opportunity for card users to receive a small amount of cash from merchants if they pay for their purchases with a card. Cashback is relevant in places where there is no possibility to withdraw cash at ATMs or bank branches.

All measures necessary for meeting the EMV standard requirements are implemented in Latvia.

#### **4.4.3 Credit Transfers**

In terms of value, credit transfers account for more than 99% of all payments in Latvia. The majority of banks in Latvia offer electronic banking systems with access to payment initiation for clearing.

#### **4.4.4 Direct Debits**

In 1994, Direct debits were introduced in Latvia, and its usage is still increasing rapidly. They are primarily used for settling of recurring payments like telephone, electricity and other utilities. Itella (previously the National Payment Centre of Latvia) introduced a direct debit processing solution, which provides access to any commercial bank, utility companies etc. Itella has also introduced features for direct debits for mobile phones and Internet, developed in co-operation with a number of Latvian commercial banks.

#### **4.4.5 Cheques**

The role of cheques has traditionally been very limited, and cheques are rarely used as a payment instrument in Latvia. Almost all cheques are drawn in foreign currencies.

### **4.5 Electronic Banking**

#### **4.5.1 Introduction**

In recent years almost all sorts of banking services suited for electronic processing have been migrated to the Internet. There are 11 electronic money institutions registered with the Central Bank as of January 2008. There are no countrywide standards or any multi-banks offerings on the Latvian market.

#### **4.5.2 General Functionality of EBS Offerings**

Many banks have shifted their focus from PC based electronic banking systems to web-based platforms. The services offered through the World Wide Web include payment transactions, account information, inter-company netting solutions, FX dealings and information etc. (in quasi real-time). Even though the web-based solutions are becoming more and more advanced, still, a number of banks offer more sophisticated services via PC-based tools only.

#### **4.5.3 EDIFACT / Host-to-Host Solutions**

The corporations growing effort of streamlining payment processing is primarily supported by the banks with foreign ownership, as the demand for the most part comes from corporates with headquarters outside Latvia. Host-to-host solutions are provided for domestic as well as international payments.

#### **4.5.4 E-payments and E-invoice / EBPP**

Neither e-payments nor e-invoices are commonly used in Latvia, however, service providers exist. For example, Nordea Bank Finland's branch provides e-payments. Also, Itella (a Finnish company) and TietoEnator (a Finnish-Swedish company) in cooperation with local banks each provide e-invoice services.

### **4.6 Cash Pooling Solutions**

#### **4.6.1 Introduction**

Cash pooling solutions offered are influenced by the fact that banks cannot set off their credit and debit balances for capital adequacy ratio purposes. Foreign banks, primarily Nordic, which have entered the Latvian market, have however pushed the use of cash pooling in recent years. The Central Bank's reporting requirements however, make Latvia a less attractive environment for pooling of resident and non-resident cash balances.

#### **4.6.2 Notional Pooling**

Notional pooling is allowed but not that commonly used due to the above mentioned restraint. However, the banks offer interest compensation/enhancement services.

#### **4.6.3 Cash Concentration**

Cash concentration is allowed and available as both single legal account pooling - balance netting - and zero and target balancing solutions. It is primarily the banks with Nordic ownership that offer these solutions.

#### **4.6.4 Multicurrency and Cross Border Pooling**

On a cross-border basis notional as well as cash concentrating pooling schemes are offered. However, the primary tool for pooling continues to be the sweeping and funding of cash across borders.

Cash pooling solutions across currencies are usually not part of the services offered by the major cash management banks. However, some of the more sophisticated banks and the majority of foreign owned banks do offer such solutions, domestically as well as cross-border, as interest compensation/enhancement solutions.

Other means of optimising liquidity is inter-company netting or leading and lagging of supplier payments.

## 5 Useful Links - Latvia

### Embassies

#### Foreign embassies in Latvia:

**Embassy of Denmark**  
[www.ambriga.um.dk](http://www.ambriga.um.dk)

**Embassy of Finland**  
[www.finland.lv](http://www.finland.lv)

**Embassy of Germany**  
[www.deutschebotschaft-riga.lv](http://www.deutschebotschaft-riga.lv)

**Embassy of Ireland**  
[Irijas.vestnieciba@gmail.com](mailto:Irijas.vestnieciba@gmail.com)

**Embassy of Norway**  
[www.norvegija.lv](http://www.norvegija.lv)

**Embassy of Poland**  
[www.ambpolriga.lv](http://www.ambpolriga.lv)

**Embassy of Sweden**  
[www.swedenabroad.com](http://www.swedenabroad.com)

#### Embassies of Latvia abroad:

**Embassy of Latvia in Denmark**  
[www.am.gov.lv/copenhagen](http://www.am.gov.lv/copenhagen)

**Embassy of Latvia in Finland**  
[www.am.gov.lv/helsinki](http://www.am.gov.lv/helsinki)

**Embassy of Latvia in Germany**  
[www.mfa.gov.lv/berlin](http://www.mfa.gov.lv/berlin)

**Embassy of Latvia in Ireland**  
[www.am.gov.lv/ireland](http://www.am.gov.lv/ireland)

**Embassy of Latvia in Norway**  
[embassy.norway@mfa.gov.lv](mailto:embassy.norway@mfa.gov.lv)

**Embassy of Latvia in Poland**  
[www.am.gov.lv/poland](http://www.am.gov.lv/poland)

**Embassy of Latvia in Sweden**  
[www.am.gov.lv/stockholm](http://www.am.gov.lv/stockholm)

### Lawyer - Accountant - Consultant

**Mazanti-Andersen,  
Korsø Jensen & Partnere/**  
[www.mazanti.dk](http://www.mazanti.dk)  
**PricewaterhouseCoopers**  
[www.pwc.com](http://www.pwc.com)

**Sorainen Lawfirm**  
[www.sorainen.com](http://www.sorainen.com)

## Danske Bank

<b>Denmark</b> Danske Bank <a href="http://www.danskebank.com">www.danskebank.com</a>	<b>Lithuania</b> Danske Bankas <a href="http://www.danskebankas.lt">www.danskebankas.lt</a>
<b>Estonia</b> Sampo Pank <a href="http://www.sampopank.ee">www.sampopank.ee</a>	<b>Northern Ireland</b> Northern Bank <a href="http://www.northernbank.co.uk">www.northernbank.co.uk</a>
<b>Finland</b> Sampo Pankki <a href="http://www.sampopankki.fi">www.sampopankki.fi</a>	<b>Norway</b> Fokus Bank <a href="http://www.fokus.no">www.fokus.no</a>
<b>Germany</b> Danske Bank <a href="http://www.danskebank.com/de">www.danskebank.com/de</a>	<b>Poland</b> Danske Bank <a href="http://www.danskebank.com/pl">www.danskebank.com/pl</a>
<b>Ireland</b> National Irish Bank <a href="http://www.nationalirishbank.ie">www.nationalirishbank.ie</a>	<b>Russia</b> ZAO Danske Bank <a href="http://www.danskebank.com/ru">www.danskebank.com/ru</a>
<b>Latvia</b> Danske Banka <a href="http://www.danskebanka.lv">www.danskebanka.lv</a>	<b>Sweden</b> Danske Bank <a href="http://www.danskebank.se">www.danskebank.se</a>

## General Information

<b>Bank of Latvia</b> <a href="http://www.bank.lv">www.bank.lv</a>	<b>Financial and Capital Markets Commission</b> <a href="http://www.fktk.lv">www.fktk.lv</a>
<b>Association of Latvian Commercial Banks</b> <a href="http://www.bankasoc.lv">www.bankasoc.lv</a>	<b>Latvian Chamber of Commerce and Industry</b> <a href="http://www.chamber.lv">www.chamber.lv</a>
<b>Latvian Parliament</b> <a href="http://www.saeima.lv">www.saeima.lv</a>	<b>Riga Stock Exchange</b> <a href="http://www.rfb.lv">www.rfb.lv</a>
<b>Ministry of Finance</b> <a href="http://www.fm.gov.lv">www.fm.gov.lv</a>	<b>Latvian Investment and Development Agency</b> <a href="http://www.liaa.gov.lv">www.liaa.gov.lv</a>
<b>Ministry of Economics</b> <a href="http://www.em.gov.lv">www.em.gov.lv</a>	<b>Itella</b> <a href="http://www.itella.lv">www.itella.lv</a>
	<b>FirstData</b> <a href="http://www.firstdata.lv">www.firstdata.lv</a>

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