



**LATVIA**

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### Founding of a company



The following elements are required for the founding of a company:

- › founding decision (single shareholder) or a memorandum of association (several shareholders)
- › Articles of association
- › Share capital for a company with limited liability (SIA) to the amount of 2,800 euros or less when the company to be founded corresponds to the criteria defined in the commercial code, whereby the share capital for a joint stock company (AG) is 35,000 euros
- › Business address and approval of the owner of the real estate
- › Declaration of consent of executive board members to join the executive board
- › Application to the commercial register
- › The fee paid to the state and fee for the public notification of the registration

Signatures from executive board members and founders on the application to the commercial register must be authenticated by a notary.

### Takeover of a company / joint venture

A sale of company shares is allowed. Restrictions can only be laid down in the articles of association or prescribed by the competition act. The other shareholders have the right of first refusal on the acquisition of company shares sold by a shareholder. Two or more persons or companies can found a company which does not have the status of a legal entity. Such companies include, for example, business partnerships and legal firms.

### Legal forms of business

In addition to joint stock companies and companies with limited liability, the commercial code also regulates the activity of individual entrepreneurs (registered business persons) where the person is liable for the company's obligation with all of his assets, regulates limited partnerships which are separate companies with own legal entity where at least one shareholder assumes liability for the company to a limited extent and the liability of the other shareholders, however, is not limited, and also regulates general partnerships which are an association of several persons without the status of a legal entity, whose liability with respect to creditors is unlimited.

### Company management

The executive board can consist of one or more executive board members who are appointed by the shareholders' meeting for an unlimited period unless otherwise defined in the articles of association. Executive board members assume liability for the company's obligations. Shareholders can file suit against the executive board. An executive board member can represent the company on his own account or together with a second executive board member or an authorised officer. The executive board member may resign his office at any time by informing the company about this. The executive board member can be dismissed by a shareholders' meeting. In addition there is the possibility of appointing one or more authorised officers who can act together or on their own. One can grant the authorised officers the right to purchase and sell real estate owned by the company.

### Foreign exchange law (foreign exchange restrictions)

In Latvia there are no restrictions defined with regard to transfers of foreign exchange. It should be noted, however, that certain entities such as banks, notaries, lawyers and auditors are obliged by legal regulations to notify the competent authority of transactions which are considered to be a risk business such as large cash transactions, substantial money transfers, etc.

### Financing possibilities (required track-record)

In Latvia financial means can be acquired from banks, state financing, financing from EU funds and private capital. In order to receive financing, at least a business plan and cash flow statement must be presented. This can be for small projects or for projects whose financing does not require an evaluation of the financial risks. The acquisition of private capital in Latvia is not usual or only practiced to a small extent.

### Real estate und acquisition of land

After joining the European Union a transition period was defined in Latvia of ten years in which the right of foreigners and foreign legal entities to acquire agricultural areas and forestry was restricted. These restrictions will most likely not be extended after June 1, 2014. There are no other restrictions for the acquisition of assets, but there are diverse restrictions in connection with construction in special areas such as dunes or nature reserves. For the purpose of the acquisition of agricultural areas and forestry the foreigners often found legal entities in Latvia. It should furthermore be observed that with the sale of real estate in a municipality the respective administration authority has the right of first refusal.

## Labour law

Employment contracts in Latvia are written in the Latvian language, whereby a translation in different languages can be attached. Fixed-term employment contracts may only be concluded for a maximum of three years. In 2014 the maximum period will most probably be adjusted to 5 years. The income tax on the income achieved with a dependent employment relationship amounted to 24 % in the tax year of 2013. In 2014 the tax rate will most likely remain at 24 % and then decrease in 2015 to 23 %.

In 2013 compulsory deductions for social security contributions amounted to 35.09 % of which 24.09 % were paid by the employer and 11 % paid by the employee. The changed law "Insured through the state insurance fund" foresees a tax rate of 34.09 % for 2014 of which the employee will pay 23.59 % and the employer will pay 10.50 %.

The normal working time amounts to 8 hours per day and 40 hours per week. In 2013 the monthly minimum wage with normal working time amounted to 285 euros and from 2014 will be increased to 320 euros. Every employee has a right to an annual paid holiday. This holiday must last for at least 4 calendar weeks, excluding public holidays.

## Dismissal protection

Special dismissal protection exists for pregnant women, women who have recently given birth and nursing mothers. The disabled and temporarily disabled are also protected. Union members may only be given their notice after approval in advance from the union. When staff is reduced, the following groups of people are subject to special dismissal protection: long standing employees, socially disadvantaged, workers taking early retirement, those persecuted for political reasons and employees with dependent children.

## Trademark law / industrial property rights

Trademarks, patents and industrial designs are registered with the patent office. The patent office also negotiates disputes between applicants or petitioners and other persons. The assessments of the patent office can be contested in court.

Domain names are registered with the agency of the university of Latvia "Latvijas Universitātes Matemātikas un informātikas institūts" Tīkla risinājumu daļa (NIC).

It is not necessary to register author rights, subsidiary rights, expertise or trade secrets. These are protected by legal regulations.

## Financial accounting obligations

Registration in the commercial register makes the company subject to tax. Companies have an obligation to maintain financial accounting, whereby the company management is responsible for this.

The financial accounts are managed by a person qualified in accounting methods such as a bookkeeper or outsourced bookkeeper. A contract is concluded with this person in writing which defines the duties, rights and liability in connection with the financial accounting. A company manager may only maintain the financial accounting of the company if he is the sole owner of the company, executive board member or individual entrepreneur (registered business person). The accounts must be maintained in the Latvian language and all the supporting documents retained in Latvia. If the financial accounting is carried out by an externally outsourced bookkeeper, the executive board bears the administrative and criminal liability for the financial accounting, whereby disputes with external service providers must be resolved under civil law.

Documents, accounting registers, inventory lists, annual financial statements and documentation of the accounting firm have to be systematically retained by companies for the time period defined in the law on financial accounting. The companies are obliged to correctly submit tax returns and notifications within the respectively valid time period.

## Tax returns / tax consulting

The corporation tax return for the tax period must be submitted at the same time as the annual financial statement of the company (see chapter on audit of the annual financial statement).

The tax is to be paid within 15 days after the submission of the tax return and the annual financial statement.

The sales tax return must be submitted after the end of the tax period in paper format within 15 days, but in the electronic reporting system within 20 days, whereby the tax must be paid within 20 days after the end of the tax period. The sales tax return for the taxable year must be submitted by May 1 of the following year. The tax is also payable by May 1 of the following year.

Reports on compulsory contributions for social security must be submitted by the date defined in the assessment of the tax office in the month following the reference month. The social contributions must also be paid within this time limit.

Taxpayers can submit corrections or supplements to the tax returns in the course of three years after expiry of the payment deadline defined in the respective tax laws for the respective tax unless within this time limit a company tax audit for the respective taxes and tax periods is introduced or carried out.

### Special points regarding the company tax audit

The analysis of the data contained in the tax return submitted by taxpayers is carried out using the information available from the information systems of the tax office. If risk factors are determined, a decision to carry out control measures such as a company tax audit is made. Internal tax audits are included in the inspection plan. Since October 2013 the tax office informs companies to be audited about the planned company tax audit prior to the start of the inspection to enable the companies to remove inconsistencies. As a result there is a possibility that the companies included in the inspection plan are removed from the plan.

The tax office can carry out a company tax audit for the previous 3 years, whereby for transfer prices up to the previous 5 years can be inspected.

### Audit of the annual financial statement and appointment of the auditor of the annual financial statement

An annual financial statement consists of a financial report and the management report about the development of the company in the financial year which has ended. The financial report consists of the balance sheet, income statement, cash flow statement, listing of the changes in equity and the notes. Companies which do not exceed two of the variables listed below are not required to write the management report, cash flow statement and list the changes in equity:

- › Net turnover: 500,000 Lats
- › Balance sheet total: 250,000 Lats
- › Average annual number of employees: 25

Annual financial statements must be submitted by companies not later than 1 month after the annual financial statement is determined and not later than 4 months after the end of the financial year. Companies which exceed 2 of the above-listed variables and companies which are parent companies of a group and which write consolidated annual financial statements, must submit their annual financial statements not later than 7 months after the end of the financial year. The legal regulations prescribe an audit of the financial statement if at least 2 of the above-listed variables are exceeded.

The fee for the auditor of the financial statement is set by mutual agreement. The amount of the fee for the auditor of the financial statement depends on the key financial figures of the respective company and can range from 700 euros to 60,000 euros.

According to a shareholders' resolution, dividends can be calculated and distributed a number of times per year. After the adoption of amendments to the commercial code in 2014 it will also be possible to distribute profit in the current year with a maximum frequency of every 3 months provided the defined conditions are met. This possibility, however, is not applicable to companies whose share capital is below 2,800 euros.

### Liquidation / ending of the company

The activity of a company can be ended due to a shareholders' resolution, a court ruling, a decision of the commercial registry office or an assessment of the tax office. A liquidator is appointed for the purpose of liquidation who informs creditors of the respective company, draws up a closing balance sheet, distributes the remaining assets and makes an application to remove the entry from the commercial register.

If the assets of the company are not sufficient to satisfy creditors, insolvency proceedings for the company are initiated. The liquidation of the company lasts at least 3 months.

### Other administrative or special bureaucratic points

Declarations and notifications are submitted to the tax office via the electronic reporting system.

A basic or limited power of attorney is sufficient to represent the company, whereby a power of attorney authenticated by a notary is required in certain cases and power of attorney must be given for the signing of the application to the commercial register and documents which accompany the application, for the registration of real estate in the land register, etc.

In Latvia electronic signatures are valid and are accepted by all the state administration authorities, bodies of self-government and increasingly by companies. Thanks to the electronic signature fewer documents have to be authenticated by a notary.

Since November 24, 2010 Latvia has removed the requirement to legalise documents drawn up by the states of the European Union, European economic area and Swiss confederation. This means that documents created in these countries do not require further confirmation (legalisation or apostille).