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**PERSONAL INCOME TAX**

***Interest income***

Deposit income received from EU banks as of January 1, 2005 is exempt income.

***Pension funds***

Payments to EU based pension funds and insurance companies, not exceeding 10% of annual taxable income (counted jointly with health insurance payments) is exempt income.

**Expatriates  
Tax Planning**

Seminar



March 3, 2005 in Riga  
Reval hotel Ridzene

**Expatriates Tax Planning** seminar will be held in Riga, on Thursday, March 3, at 18:00 – 19:00 followed by buffet in Reval Hotel Ridzene (Reimersa Street 1) Bastejs room.

To book for the seminar or raise questions, please, call Lāsma at +371 7240090 or e-mail us at [lasma.eisaka@gencs.lv](mailto:lasma.eisaka@gencs.lv).

***Foreign tax credits***

Personal income tax paid on investment instruments within EU or territories with which EU has agreements regarding saving income, is creditable without limitation in Latvia.

**Corporate income tax**

***Dividends***

Dividends paid by Latvian resident to EU resident, if the EU resident till the day of payment of dividends two years without interruption have been holding 20% (till January 1, 2005 – 25%) of capital and voting rights in a paying company is exempt from 10% withholding tax. To qualify for the exemption, the EU resident shall correspond to kind of company as mentioned in the Table (next page). In addition, the recipient shall be payer of a home country's taxes as specified in the Table under "Type of tax", which is not optional tax, but mandatory. From January 1, 2007 till December 31, 2008 shareholding of 15% will be required, from January 1, 2009 – 10%.

***Partnerships***

Income from partnerships is taxed with 15% withholding tax upon payment to non-resident.

***Intellectual property***

Royalty payments by Latvian resident to EU resident are exempt from withholding tax from July 1, 2013, if the EU resident is a related party.

Table No. 1

Country	Type of company	Type of tax
1. Austria	<b>“Aktiengesellschaft”</b> , <b>“Gesellschaft mit beschränkter Haftung”</b> , <b>“Versicherungsvereine auf Gegenseitigkeit”</b> , <b>“Erwerbs- und Wirtschafts-genossenschaften”</b> , <b>“Betriebe gewerblicher Art von Körperschaften des öffentlichen Rechts”</b> , <b>“Sparkassen”</b> ;	Körperschaftsteuer
2. Belgium	<b>“société anonyme”/“naamloze vennootschap”</b> , <b>“société en commandite par actions”/“commanditaire vennootschap op aandelen”</b> , <b>“société privée à responsabilité limitée”/“besloten vennootschap met beperkte aansprakelijkheid”</b> , <b>“société coopérative à responsabilité limitée”/“coöperatieve vennootschap met beperkte aansprakelijkheid”</b> , <b>“société coopérative à responsabilité illimitée”/“coöperatieve vennootschap met onbeperkte aansprakelijkheid”</b> , <b>“société en nom collectif”/“vennootschap onder firma”</b> , <b>“société en commandite simple”/“gewone commanditaire vennootschap”</b> ;	Impôt des sociétés/vennootschapsbelasting
3. Czech Republic	<b>“akciová společnost”</b> , <b>“společnost sručením omezeným”</b> , <b>“veřejná obchodní společnost”</b> , <b>“komanditní společnost”</b> , <b>“družstvo”</b> ;	Daň z příjmů právnických osob
4. Denmark	<b>“aktieselskab”</b> un <b>“anpartsselskab”</b> ;	Selskabsskat
5. France	<b>“société anonyme”</b> , <b>“société en commandite par actions”</b> , <b>“société à responsabilité limitée”</b> , <b>“sociétés par actions simplifiées”</b> , <b>“sociétés d’assurances mutuelles”</b> , <b>“caisses d’épargne et de prévoyance”</b> , <b>“sociétés civiles”</b> , <b>“coopératives”</b> , <b>“unions de coopératives”</b> ;	Impôt sur les sociétés
6. Greece	<b>“ενώνυμη εταιρεία”</b> , <b>“εταιρεία περιορισμένης εύθυης (Ε.Π.Ε.)”</b> ;	Φόρος εισοδήματος νομικών προσώπων
7. Estonia	<b>“täisühing”</b> , <b>“usaldusühing”</b> , <b>“osaühing”</b> , <b>“aktiaselts”</b> , <b>“tulundusühistu”</b> ;	Tulumaks
8. Italy	<b>“società per azioni”</b> , <b>“società in accomandita per azioni”</b> , <b>“società a responsabilità limitata”</b> , <b>“società cooperative”</b> , <b>“società di mutua assicurazione”</b> ;	Imposta sul reddito delle persone giuridiche
9. Cyprus	<b>“company in accordance with the Companies Law”</b> , <b>“Public Corporate Body as well as any other Body which is considered as a company in accordance with the Income tax Laws”</b> ;	Corporation tax Φόρος εισοδήματος
10. Luxembourg	<b>“société anonyme”</b> , <b>“société en commandite par actions”</b> , <b>“société à responsabilité limitée”</b> , <b>“société coopérative”</b> , <b>“société coopérative organisée comme une société anonyme”</b> , <b>“association d’assurances mutuelles”</b> , <b>“association d’épargne-pension”</b> , <b>“entreprise de nature commerciale, industrielle ou minière de l’Etat, des communes, des syndicats de communes, des établissements publics et des autres personnes morales de droit public”</b> ;	Impôt sur le revenu des collectivités
11. Malta	<b>“Kumpaniji ta' Responsabilita' Limitata”</b> , <b>“Soċjetajiet in akkomandita li l-kapital tagħhom maqsum f'azzjonijiet”</b> ;	Taxxa fuq l-income
12. Netherlands	<b>“naamloze vennootschap”</b> , <b>“besloten vennootschap met beperkte aansprakelijkheid”</b> , <b>“Open commanditaire vennootschap”</b> , <b>“Coöperatie”</b> , <b>“onderlinge waarborgmaatschappij”</b> , <b>“Fonds voor gemene rekening”</b> , <b>“vereniging op coöperatieve grondslag”</b> , <b>“vereniging welke op onderlinge grondslag als verzekeraar of kredietinstelling optreedt”</b> ;	Vennootschapsbelasting
13. Poland	<b>“spółka akcyjna”</b> , <b>“spółka z ograniczoną odpowiedzialnością”</b> ;	Podatek dochodowy od osób prawnych
16. Finland	<b>“osakeyhtiö/aktiebolag”</b> , <b>“osuuskunta/andelslag”</b> , <b>“säästöpankki/sparbank”</b> and <b>“vakuutusyhtiö/försäkringsbolag”</b> ;	Yhteisöjen tulovero/inkomstskatten för samfund
17. Spain	<b>“sociedad anónima”</b> , <b>“sociedad comanditaria por acciones”</b> , <b>“sociedad de responsabilidad limitada”</b> ;	Impuesto sobre sociedades
18. Hungary	<b>“közkereseti társaság”</b> , <b>“betéti társaság”</b> , <b>“közös vállalat”</b> , <b>“körtölt felelősségű társaság”</b> , <b>“részvénytársaság”</b> , <b>“egyesülés”</b> , <b>“közhasznú társaság”</b> , <b>“szövetkezet”</b> ;	Társasági adó
19. Germany	<b>“Aktiengesellschaft”</b> , <b>“Kommanditgesellschaft auf Aktien”</b> , <b>“Gesellschaft mit beschränkter Haftung”</b> , <b>“Versicherungsverein auf Gegenseitigkeit”</b> , <b>“Erwerbs- und Wirtschafts-genossenschaft”</b> , <b>“Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts”</b> ;	Körperschaftsteuer
20. Sweden	<b>“aktiebolag”</b> , <b>“försäkringsaktiebolag”</b> , <b>“ekonomiska föreningar”</b> , <b>“sparbanker”</b> , <b>“ömsesidiga försäkringsbolag”</b> .	Statlig inkomstskatt

To qualify for related party status, EU company shall be payer of the taxes mentioned in Table No.1 plus at least 25% capital or voting rights are established by one company in the second company or any third company is owning at least 25% in the first and second company.

Until June 30, 2005, royalty and copyright withholding tax rate is 15%, from July 1, 2005 decreased to 10% (till June 30, 2009) and 5% till June 30, 2013.

### **Payments to non-residents**

If withholding tax is not levied at the rates mentioned below:

- Consulting fee – 10%
- Interest to related party – 10%
- Interest by Latvian bank to related party – 5%
- Royalty – 5/15%
- Use of property fee – 5%

the payment becomes corporate income tax non-deductible cost. This is not true if exemption applies.

### **Pension and insurance fee**

Employer's payments for pensions on behalf of employee are as well as insurance amounts for life insurance in case there is tax debts on the last day of the financial year are non-deductible costs for the employer.

### **Thin capitalization**

Thin capitalization is not applicable for interest payments to EU incorporated banks and the World bank. For other interest payments, taxable income shall be increased by the highest of 1.2 of average short term interest rate set by statistical authorities multiplied by the debt or

proportionally how much debt exceeds and times equity of the interest payer.

### **Bad debts**

Bad debts is allowed to be written off for corporate tax purposes also for debtors in the EU countries. Upon a start of bankruptcy procedure it is allowed to use half of the debt for writing-off. The surplus may be written off after the completion of the bankruptcy.

### **Holding companies**

A dividend received by the Latvian companies from EU companies which is owned for less than 20% (voting and capital) is taxable in the recipient – the Latvian company (before 25% was present).

### **Group relief**

Companies within corporate income tax group are allowed to transfer loss to profitable group companies in this way leveling tax burden. With new changes, head company or the sub-company for group purposes may be located in EU countries, if this company is not recognized as non – EU tax resident based on double tax treaty.

### **Commercial Law**

The Law on Commercial Law Entrance into Force Procedure provides that companies, branches and permanent establishments which failed till December 31, 2004 to apply for re-registration in the Commercial Register, will be considered as ceased their activities.

### **Creditor's claims**

The Enterprise Register will publish in the official newspaper the list of all which failed to re-register. The creditors are entitled to submit claims to the Enterprise Register within 3 months from the publication. If claims from creditors will be received, a company on its own expenses shall perform liquidation. The residue after the covering of liquidation costs will be divided between shareholders proportionally to their investment. If the claims of creditors may not be satisfied, the application on company's insolvency shall be submitted to the court. A company, a branch or a permanent establishment is not entitled to perform entrepreneurial activities commencing with next day after expiration of 3 months after the publication. The continuing of activities are considered as operation without registration.

If there will be no claims from creditors, a company will be excluded from the Enterprise Register and the residual property will be considered as the heirless property granted to a state.

### **European Company**

An European Company (Societas Europaea, SE) may be formed in Latvia or in other EU Member State. The main privilege of such company is that the SE may transfer its legal address from one Member State to another Member State of EU or EEA where the more beneficial tax policy exists without liquidation of company and incorporation of new company in another Member State. The SE is a public limited liability company and it is governed by laws on the public limited liability company of the country of its legal address. In Latvia the laws applicable to a joint stock



company shall be observed. The SE may not be registered until the agreement on employees' involvement arrangements has been concluded. The subscribed capital of SE shall not be less than EUR 120'000.

### **Establishment of the SE**

The SE may be formed by already existing companies in the following ways:

1. The joint stock companies merge and form a SE, if at least two of companies are governed by the law of different Member States.
2. The joint stock companies and limited liability companies form a holding SE, if at least 2 of companies are governed by the law of different Member States, or if at least 2 of companies had for at least 2 years a subsidiary governed by the law of another Member State or a branch situated in another Member State.
3. The joint stock companies and limited liability companies form the subsidiary SE if at least 2 of companies are governed by the law of different Member States, or if at least 2 of companies had for at least 2 years a subsidiary governed by the law of another Member State or a branch situated in another Member State
4. A joint stock company itself transforms into SE, if the company at least 2 of companies had for at least 2 years had a subsidiary in another Member State.
5. A SE itself forms a subsidiary as a SE.

## **Banking**

Recently the amendments to the Credit Institution Law introduces a new type of credit institutions - an electronic money institution (EMI). It is a company, solely emitting and serving the electronic money. The EMI may be either in form of a limited liability company or a joint stock company, unlike the bank which may be formed only as a joint stock company. The electronic money means the value stored on an electronic device, formed up on receipt of customer funds in an amount not less in value than the monetary value registered in the device; and is accepted as means of payment by companies. The EMI expecting to emit the electronic money in amount of less than 5 million EUR shall not be licensed in the Supervisory Authority.

## **Merger notification**

Recently the new rule on submission of merger notification of the market members was adopted. If the companies with joint turnover of the previous financial year not less than 25 Millions LVL or with joint market share in amount of more than 40% in a relevant market intends to merge, they shall submit a notification to the Competition Council. It is specified now, that the turnover of the market participants shall be calculated by summing the proceeds from the activity, from the purchase of goods and services only in Latvia in the prior financial year. If the companies do not submit such report, a penalty starting from 1000 LVL per day can be fined.

For further information, please, contact:

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