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Tax

New tax treaty with Estonia

New double tax treaty with Estonia will be applied after the Estonia will ratify it. The treaty will be applied retroactively as of January 1, 2002. The treaty abolishes zero withholding tax on dividends, interest and royalties for payments to Estonian tax residents. Instead, 5% withholding tax will be applied to dividend payments if recipient of dividends holds directly at least 25% of the capital of the company paying dividends. To obtain 5% withholding tax decrease down from ordinary 10% , a residence certificate before the payment shall be arranged. Further, 5% withholding tax



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on leasing royalties and 10% withholding tax on other royalties are imposed by the treaty. In order to apply decreased 10% withholding tax on copyright royalties, a residence certificate shall be arranged. On all other types of royalties of 5% will be applied. Withholding tax on interest payable to related parties is set at 10 % level.

Credit method

The new tax treaty foresees a credit method of eliminating double taxation, namely, Latvian companies will be

allowed to credit tax paid in Estonia against the tax payable in Latvia.

New “consulting fee” definition

“Consulting fee” charged by Latvian tax non-residents definition is expanded also including into the consulting fee payments for preparation of calculations, projects and business plans, supply of information on changes of accounting software, consulting regarding market research and advertisements, equipment and other questions of strategic nature, relating to production of goods and sale as well as economics of a company. Those consulting services from June 29, 2002 are subject to 10 % withholding tax, unless tax duty benefits are applied.

Commercial law

Timing

All companies in Latvia shall register with the Commercial register until July 1, 2003. After July 1, 2003, any amendments, such as change of name, or any other changes to the charters of companies may be registered only if earlier registration with the Commercial register is completed

before.

The below mentioned rules are applicable to those companies which are recorded with the Commercial register.

Requirements to management

Requirement that more than 50% of the management shall consist of persons having Latvian permanent place of residence is clarified in practice. Currently it is applied in a way that upon application to the Commercial register a local address of the individual in question shall be provided.

Transfer of business

In case of transfer of business such as sale all liabilities are transferred to the acquiring party. If performance date of agreement or conditions precedent occurs within 5 years from the date of the transfer, parties will be jointly liable unless agreed otherwise between the parties.

Related party transactions

If a company acquires goods, property or rights two years after its recording with the Commercial register from related party, value of which exceed 1/20 of the share capital approval of transactions of shareholders' meeting and appraiser having the Commercial register license is required.

Conversation of debts

Conversation of debts into a share capital may be recorded with the Commercial register if a valuation of an expert approved by the Commercial

register is presented. If company is not registered with the Commercial register, no valuation is required. After the recording with the Commercial register a conversation may take place even equity is negative. For companies which have not yet been registered with the Commercial register conversation of debts to equity may not be done if equity is negative.

Dividends

If equity is less than the paid share capital, dividend payments are prohibited.

Losses

If losses for a limited liability company exceed more than half of the share capital, the shareholders meeting shall be held and explanations given by the board. In instances when losses of a joint-stock company exceed half of the share capital, the losses shall be covered, security given to creditors, a share capital decreased or a insolvency procedure initiated.

Reorganizations

The new rules allow merging or splitting companies, however, instead four days to complete the procedure as it was under the old rules, now it may take more than five month. The main steps for a limited liability company are as follows:

- 1) to conclude agreement and to pass decision on restructuring;
- 2) to issue notice to creditors giving at least thirty days time to bring claims,
- 3) filing application with the Commercial register after at least

three month from the date of the notice has passed,

- 4) record of the restructuring with the Commercial register,
- 5) exchange of shares to the new owners,
- 6) reimbursement of share values to dissenting shareholders.

Immigration

Visas

All foreign nationals must obtain entrance visas or residence permits to enter Latvia. Latvia has concluded reciprocal agreements to abolish visa requirements with several countries, which citizens may stay without visa in Latvia. Those countries and respective time periods are:

- 1) Austria up to 90 days during 6 month period;
- 2) Belgium up to 3 month during 6 month time;
- 3) Denmark up to 90 days during 1/2 years time;
- 4) Finland up to 90 days during 1 year's time;
- 5) France up to 3 month during 6 month time;
- 6) Germany up to 3 month during 6 month time;
- 7) Ireland up to 90 days during 1/2 years time;
- 8) Israel up to 90 days during 1/2 years time;
- 9) Liechtenstein up to 90 days during 1 year's time;
- 10) Luxembourg up to 3 month during 6 month time;
- 11) Netherlands up to 3 month during 6 month time;
- 12) Norway up to 90 days during 1/2 years time;



- 13) Poland up to 90 days during 1 year's time;
- 14) Sweden up to 90 days during 1 year's time;
- 15) Switzerland up to 90 days during 6 month time;
- 16) UK up to 90 days during 1/2 years time.

Citizens of Australia, Belgium, Republic of South Africa, South Korea, Greece, Israel, Japan, New Zealand, Canada, Cyprus, Luxembourg, Monaco, the Netherlands, Portugal, San Marino and Spain may use Lithuanian or Estonian visa to enter Latvia.

Work permits

A work permit is necessary for all foreign nationals who wish to work in Latvia, as well as for persons having signatory rights in legal entity of Latvia.

In case a person having signing rights in a company (procurist) is a foreign citizen the State Labor Service requires a labor permit. The State Labor Service requests a labor agreement to be concluded by the authorized person and the company's management. From management side the labor agreement may be signed only by the person already holding a labor and residence permits and who has single signing rights in the company. Therefore, in deciding who will be joint or single signing persons in the company, also work permit issue shall be taken into account.

Residence permits

Foreign nationals must obtain residence permits to reside in Latvia longer than three months, except for

holders of special visas and diplomatic visas. Before obliging a work permit the State Labor Service must approve employment invitation. The residence permit then is issued for the time period mentioned in employment invitation.

The checking performed by the Citizenship and Migration departments concerning spent time in Latvia now is more accurate. The prohibition for entering Latvia is issued immediately when a person exceeds the staying time allowed according to non-visa regime.

An application for a residence permit should either be submitted to the Latvian Embassy in the foreign national's country or locally to the appropriate office of the Latvian Citizenship and Migration department. It is often more efficient to apply locally rather than through the Embassy.

New labor law

The new Labor law took effect on June 1, 2002.

Timing

The law requires until the 1st of December 2002 to adjust to the new rules present employment agreements. If agreements are not modified accordingly because of an employer's fault, the employer may be hold liable for payment of compensation to an employee in amount of six average monthly salaries.

Term

Employment agreements must be concluded for an indefinite period of

time. Agreements for a definite term may be concluded for occasional work which ordinary is not performed by employees of a company or a temporary work related to expansion of a company or a substitution of an employee being away. Management of limited liability companies or joint stock companies may opt either for a labor agreement or management agreement. If a labor agreement is concluded with a member of a management, it shall be for definite time period.

Test period

During a test period both an employer and an employee is entitled to terminate the employment agreement subject to three days prior notice. The employer does not have an obligation to provide grounds of termination of the employment agreement during the test period.

Trade unions

Trade unions must give consent on termination by an employer of an employment agreement in instances if a member of a trade union is being dismissed. The mandatory consent from the trade unions shall not be obtained in termination of a labor agreement during a test period as well as if a company is being liquidated or termination grounds are usage of alcohol or a return of a substituted employee.

Notice of termination

An employer may dismiss an employee with immediate effect if an employee has acted illegally and has



lost trust of an employer. The employer shall provide in writing circumstances why the agreement is being terminated. Ten days prior notice is required by dismissing an employee who has acted in contradiction to a labor agreement as well as internal or safety rules of a company or has acted dishonorably. In all the other instances a one month prior notice shall be provided. An employer also has exclusive right to ask a court to terminate an employment agreement also based on grounds not mentioned in the labor law.

Reduction of staff

Reduction of staff may be used to terminate a labor agreement giving a sixty day prior notice to the State Labor Service and municipality in addition to a notice to an employee. Priority rights to stay with a company if equal positions are eliminated are to those employees who have higher qualification or better results. If those are not substantially different, a priority goes to those employees who had been working for a longer period of time with a company or those who has children under age of fourteen or who has two or more dependants.

Average salary calculation

Average salary is calculated for the last six months. Upon termination of a labor agreement by reducing staff, or liquidating company, an employer shall pay one month average salary as a termination pay.

Non-disclosure of information

Employees are obliged not to disclose trade secrets and know-how of an

employer to any third party. The employer shall indicate to the employee, which information shall be treated as a trade secret.

It is an obligation of an employer not to disclose information obtained from an employee during a hiring process regarding the employee's health, qualification, political and religious affiliations and other sensitive information.

Agreement not to compete

Agreements not to compete may be valid for a period of time not exceeding two years from the labor agreement termination date. For the whole period the employer is obliged to pay to the employee an appropriate compensation. Agreement regarding non-competition must be executed in writing defining the type, amount, place and time of payment of compensation.

Secondments

An expatriate and an employer may agree which countries law will be applied to a labor agreement. An employer seconding an expatriate to Latvia has to inform prior to secondment in writing the State Labor Service regarding the assignment, including employee's name, timing, as well as employer's representative in Latvia. Currently the State Labor Service has not yet introduced a procedure to instances when notifications are not provided; instead, either a local or a foreign labor agreement is requested to be presented the State Labor Service upon obtaining a work permit in Latvia.

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