This report provides helpful information on the current business environment in Latvia. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Republic of Latvia

Contents

RBC Royal Bank®

Important to Know

Official language

- Latvian

Currency

- Latvian lat (LVL)

Bank holidays

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2012	
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Source: www.goodbusinessday.com.

Types of Business Structure

Under Latvian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company

A/S (*akciju sabiedriba*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum paid up share capital of LVL 25,000.

Private limited liability company

SIA (*sabiedriba ar ierobežotu atbildibu*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of LVL 2,000, of which at least 50% must be paid up. There are no restrictions on the number of shareholders. (Single shareholder companies are permitted under Latvian law.)

General partnership

PS (*pilnsabiedriba*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

KS (*komanditsabiedriba*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Individual merchant

IK (*individuálais komersants*). An individual merchant is an individual who is registered as a merchant with the Commercial Register. An individual who performs economic activities has a duty to register themself with the Commercial Register as an individual merchant if their yearly turnover from economic activities exceeds LVL 200,000 or if the yearly turnover from these activities exceeds LVL 20,000 and the activities provide employment simultaneously to more than five employees.

Cooperatives

KOU (*Kooperatīvā sabiedrība* – cooperative society) / (*kooperatīvā biedrība* – cooperative association). A cooperative requires a minimum share capital of LVL 2,000. The name of an agricultural services cooperative must also contain the words "*lauksaimniecības pakalpojumu*" (agricultural services) or the name of the sector. An agriculture services cooperative requires a minimum share capital of LVL 200.

Other organizational types

Latvian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Latvian companies are entitled to establish a branch or a representative office in Latvia. A branch's activities are subject to Latvian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Latvia.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be registered in Latvia.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (LVL) accounts outside Latvia and foreign currency accounts both within and outside Latvia.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder. Legal entities must provide formation documentation as well as details of their authorized representatives and the authority on which their representative status is based.
- Financial institutions are required to obtain a declaration from clients acting for beneficiaries or on behalf of third parties and must identify the clients, the beneficiaries and the third parties.
- All credit and financial institutions have to identify clients for all transactions exceeding EUR 15,000 in a single or in multiple related transactions.
- In 2005, the Association of Commercial Latvian Banks (ACLB) adopted a voluntary measure, observed by all Latvian banks, to limit cash withdrawals from automated teller machines to LVL 1,000 per day.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Latvia, VAT is not usually applied on banking services.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet banking and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Direct debits are used primarily by utility and insurance companies to collect domestic payments, although use remains relatively low. Cheque usage is not common in Latvia.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)*		% change 2009/2008	Traffic (value) (EUR billion)		% change 2009/2008
	2008	2009		2008	2009	
Cheques	0.03	0.02	– 29.5	0.04	0.02	– 56.6
Credit transfers	121.91	114.29	– 6.3	518.68	345.27	– 33.4
Direct debits	4.36	4.36	–	0.33	0.29	– 29.5
Debit cards	69.41	74.16	6.8	1.61	1.34	– 12.1
Credit cards	25.72	23.6	– 8.3	0.83	0.61	– 26.5
Total	**221.43**	**216.42**	**– 2.2**	**521.5**	**347.5**	**– 33.4**

*Exchange rate: LVL 0.702804 = EUR 1.

Source: Bank of Latvia, March 2010.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (LVL-denominated)	Value dating rules	Cut-off time(s) in local Eastern European Time (EET)
High-value and urgent domestic credit transfers	Real-time settlement, immediate finality	16:00 EET
High-value and urgent intra-EEA credit transfers denominated in EUR	Real-time settlement, immediate finality	18:00 EET
Non-urgent, low-value domestic consumer payments	Settlement same-day	15:00 EET
Non-urgent intra-EEA credit transfers denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 23:00 EET for next-day settlement Individual credit transfers = 15:30 EET for same-day settlement SEPA credit transfers = 14:00 EET for same-day settlement or 02:00 EET for overnight/next-day settlement SEPA consumer direct debits = 12:00 EET for same-day settlement SEPA B2B direct debits = 13:00 EET for same-day settlement

Central Bank Reporting

The Bank of Latvia (LB) requires that all transactions between residents and non-residents with a value above LVL 5,000 be reported. Non-bank resident legal entities must also report transactions with non-residents across accounts held abroad.

Domestic banks must report this information four times a month, within three days of the end of the reporting period (the reporting periods are 1st–7th, 8th–15th, 16th–23rd and 24th to the end of the month). Non-bank resident legal entities must report this information monthly, within five days of the end of the reporting period.

Exchange Arrangements and Controls

Latvia applies no currency exchange controls.

Cash and Liquidity Management

Managing cash on both a domestic and regional (Scandinavian and Baltic*) basis is relatively straightforward, although there are a few restrictions.

*Scandinavian countries comprise Denmark, Finland, Norway and Sweden; Baltic countries are Estonia, Latvia and Lithuania.

Physical Cash Concentration

Physical cash concentration is available from all large local and international banks. Different legal entities are permitted to participate in the same structure. Resident and non-resident companies can participate in the same domestic cash concentration structure.

Pools can be denominated in local currency (LVL) and some foreign currencies. Some banks offer cross-border, cross-currency physical cash concentration, particularly on a regional level.

Notional Cash Pooling

Notional cash pooling is available from local and international banks. Where domestic notional cash pools are available, resident and non-resident companies can participate in the same structure. There are restrictions on inter-company lending.

As an alternative, some banks have developed interest rate optimization or enhancement products, particularly for Scandinavian and Baltic companies, which can include resident and non-resident accounts, for cross-border, cross-currency use.

Short-term Investment

Bank instruments

Interest-bearing current accounts are available from some banks. Banks offer demand deposit accounts, typically denominated in LVL, EUR and USD. Banks offer time deposits in a range of currencies for terms from overnight to over a year. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one month to a year.

Non-bank instruments

Some Latvian companies issue commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods.

The Latvian government issues Treasury bills for periods of one, three, six and 12 months.

Latvian companies have access to European-based money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Latvia to both resident and non-resident companies. Banks will usually charge a margin over either Euribor (the Euro Interbank Offered Rate) or LIBOR (London Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Local companies can issue CP.

Trade bills are discounted and factoring (disclosed and undisclosed) is available.

Taxation

Corporate Taxation

- The flat rate of corporate income tax is 15%.
- Resident companies are generally subject to taxation on all income. Non-residents are subject to corporate income tax on income and capital gains derived from a permanent establishment in Latvia. Non-residents without a permanent establishment in Latvia are subject to corporate income tax on certain types of their Latvian-sourced income as described below in the Withholding Tax section.

Financial instruments

- Profit derived from publicly traded EU/EEA securities is exempt from taxation and any loss from such transactions is not deductible. Otherwise, transactions with non-public or non-EU/EEA securities are taxable under general rules if profitable, while a loss can be carried forward for eight years and be deducted against profit of the same type.

Interest and financing costs

- Apart from the thin capitalization and transfer pricing rules set out below, there are no other limitations on the deductibility of interest and financing costs.

Foreign exchange

- Profit or loss as a result of foreign exchange is subject to general taxation rules; no special provisions apply. All accounting records and tax calculations are to be made in LVL, applying the official Bank of Latvia exchange rate to foreign deals at the day of the transaction.

Advance Tax Ruling Availability

- An advance tax ruling, which is binding on the State Revenue Service, can be obtained before or after a relevant transaction. The entity must be prepared to reveal all details and documents of this transaction. Generally the authorities are reluctant to provide such binding rulings and in practice it is often easier to apply to the State Revenue Service for an opinion on the application of tax laws. Although an opinion would not be legally binding, it provides significant assurance and only in rare circumstances would the authorities go against an earlier opinion at a later stage if the circumstances and legislation have not changed meanwhile.

Withholding Tax (subject to tax treaties and other exemptions)

- A withholding tax of 10% is levied on dividend payments to non-resident companies (unless a reduced rate under a tax treaty applies); an exception is dividend payments to EU/EEA companies, to which the EU Parent-Subsidiary Exemption applies.
- A withholding tax of 10% is levied on interest paid to associated non-resident companies. Five percent withholding tax is levied on interest paid to associated EU companies and if paid by a bank to an associated non-resident company. All other interest payments are exempt from withholding tax (an exemption from withholding tax will apply to interest payments to associated companies resident in other EU member states from July 1, 2013).
- A withholding tax of 15% is levied on royalties paid to non-residents for the right to use a copyright on a work of literature or art, including films, videos and other recordings, with the exception that only 5% is applicable if the recipient is an associated EU company. For all other royalties the rate is 5%. An exemption from withholding tax for royalties paid between EU-resident associated companies will apply from July 1, 2013.
- A withholding tax of 10% is levied on all management and consultancy fees paid to non-residents. If the recipient can prove it is registered in a tax treaty country, an exemption from withholding tax could be given.
- Payments to persons resident in listed low-tax or nil-tax jurisdictions are subject to a 15% withholding tax, with certain exemptions. Taxpayers may apply to the State Revenue Service for exemption from withholding tax, provided they prove that the payments made to the listed low-tax or nil-tax jurisdiction are not made with the sole purpose of reducing their taxable income in Latvia.
- Withholding tax at a rate of 15% applies to income derived by non-resident companies from their participation in partnerships in Latvia.
- Withholding tax at a rate of 2% applies to income received in respect of the transfer of Latvian immovable property or shares in a real estate company and 5% on the income derived from the use of assets situated in Latvia.
- Special relief from withholding tax may be granted to payments made by resident companies established in the special economic zones (Liepaja and Rezekne) and free ports (Riga and Ventspils), subject to legal restrictions.

Capital Gains Tax

- Capital gains are, in general, taxable as ordinary income (at the rate of 15%) and losses are deductible against ordinary income. Gains and losses related to securities are taxable as described above.
- Income from the use of any movable or immovable property located in Latvia is taxed at the rate of 5% for non-residents. The rate of withholding tax on proceeds received from the sale of Latvian real estate is 2%. Withholding tax is also applicable if shares are transferred in a company (including a trust or investment fund), where more than 50% of the assets are represented by real estate situated in Latvia.
- Capital gains on the sale of other securities in Latvia are not taxable for non-residents.

Stamp Duty

- No stamp duty is levied on loan agreements.

Thin Capitalization

- There is an annual restriction on deducting interest, which is calculated by multiplying 1.2 by the average short-term interest rate for loan institutions for the last month of the tax year, as determined by the State Statistics Committee. Other provisions as provided by the law impose restrictions if the debts of the company exceed the company’s equity by more than four times. Thus, even if the interest is at market rates, the interest deduction is limited if the debt-to-equity ratio exceeds 4:1. The larger of the two sums calculated on the basis of both provisions is taken into account in determining the total interest payments non-deductible in the respective tax year.

- The restriction does not apply to interest payments to finance institutions established in Latvia or any other EU member state, nor does it apply to interest payments to the State Treasury or to a group member of the Nordic Investment Bank or the World Bank.

Transfer Pricing

- Transactions between associated companies may be adjusted if the transactions are made at prices which do not represent fair market values.
- Latvia follows the principles of the Organisation for Economic Co-Operation and Development's (OECD) guidelines in the application of transfer pricing methods; methods used for transfer pricing adjustments include the comparable uncontrolled price method, the resale price minus method, the cost-plus method, the net profit method and the profit allocation method.

Sales Taxes / VAT

- As an EU member state, Latvia has introduced the EU Directives into its domestic VAT legislation. Therefore, generally, VAT treatment of goods and services is in line with the provisions of the Sixth Directive.
- Supplies, acquisitions and the import of goods or services are subject to VAT. The standard VAT rate in Latvia is 21%. There is a reduced rate of 10% (e.g. on the supply of medication and medical goods) and a reduced rate of 0% (e.g. for supplies of goods and services related to export).
- A VAT exemption is applied to the supply of certain goods and services of public interest (e.g. transactions related to education and culture), financial transactions and other specific transactions.
- VAT taxpayers are generally entitled to deduct input VAT. Input VAT related to exempt financial transactions is non-deductible, unless the financial transactions are regarded as provided outside the EU (e.g. the customer of the financial service is registered outside the EU).

Payroll and Social Security Taxes

- There are five separate funds in the National Social Insurance Fund: retirement pensions, maternity and sickness, industrial injuries and occupational diseases, unemployment benefits and disability. Contributors pay a single aggregate contribution. The Cabinet of Ministers determines each year the allocation of contributions among the five funds. The funds are administered by the State Social Insurance Agency.
- Social security contributions are withheld on a monthly basis at the rate of 9% and additionally an employer's portion is calculated at the rate of 24.09%.
- Latvian residents are liable to payroll taxes that are usually withheld at source by the employer at a flat rate of 26%. Non-residents are also subject to personal income tax for income from employment that is exercised in Latvia on behalf of a foreign employer.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 1, 2010.

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