



Independent legal & accounting firms

Doing Business in Latvia

Edition No. 1 / May 2020



Doing business in Latvia



MSI's guide on Doing Business in Latvia provides current information about the financial, regulatory and legal considerations that could affect business dealings within Latvia. For further assistance please contact our MSI member firm in Latvia.

Country overview

Population

The Republic of Latvia has a total population of 1.9 million inhabitants (February 2020).

Government

The Republic of Latvia is a unitary parliamentary constitutional republic.

The current president is Egils Levits. The President holds a primarily ceremonial role as Head of State. The Government is led by the president-nominated and parliament-elected Prime Minister, Krišjānis Kariņš.

The parliament of the Republic of Latvia is unicameral, and consists of total 100 representatives, who are elected by the people once every four years.

The Republic of Latvia is divided into 110 municipalities and nine cities, with Riga as the capital.

Languages

The national language is Latvian. However, many people speak English and also Russian, especially in the big cities like Riga, Rezekne, Daugavpils, Ventspils, Liepāja.

Currency

Latvia is part of the European Union and the national currency is the Euro.

Economic summary

GDP: €31.4 billion
Income per capita: €16,159
Inflation: 2.2%

Main sectors of the economy

Due to the country's geographical location, transit services are highly

developed, along with timber and wood processing as well as agriculture.

EU country/ Non-EU and its impact on businesses and investors

The Republic of Latvia is a member state of the European Union. The Republic of Latvia is an attractive base for doing business and for investment. Its open and international outlook, well-educated work force and strategic location are contributors.

Setting up a business

Under Latvian law, a foreign individual or company may operate in the Republic of Latvia through an incorporated or unincorporated entity or branch. Latvian corporate law provides a flexible and liberal framework for the organization of subsidiaries or branches. There are no special restrictions for a foreign entrepreneur to do business in the Republic of Latvia. The European Anti money-laundering regulations must be observed of course.

The business operation can be set up in the Republic of Latvia with or without a legal personality. If a legal entity has legal personality, the entrepreneur cannot be held liable for more than the sum it contributed to the company's capital.

Legal types of business entities

1. Limited liability company
2. Partnership
3. Joint stock company
4. Individual merchant
5. Branch

In international business, the Limited liability company (LLC) and the branch are most commonly used. The main

reason why LLC is attractive is the limitation of shareholder liability.

The LLC is incorporated by one or more incorporators pursuant to the execution of a notarial deed of incorporation before a public notary. The minimum share capital is €2,800. However, it is also possible to incorporate low-capital LLC. The minimum share capital for a low-capital LLC is €1. However, under Latvian law the low-capital LLC has more restrictions than the LLC.

Many foreign companies make use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is limitation of liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Process of how to set up a business

A limited liability company (LLC) can be incorporated electronically within one day. A branch is incorporated by registration with the Register of Enterprise of the Republic of Latvia

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities may choose for a different financial year if they wish. The LLC is subject to corporation income tax. The branch is taxed with corporation income tax as well, but the parent company is liable to pay.

Accounting and auditing

A statutory audit is required when 2 out of the following 3 criteria are met two years in a row:

1. Annual turnover > €800,000;
2. Total assets > €400,000;
3. Average number of employees > 25

Economic and fiscal incentives

The government of the Republic of Latvia offers a number of incentive schemes in various sectors to support companies in their business operation. Foreign entrepreneurs who set up companies in the Republic of Latvia and who register their companies with the Register of Enterprise of the Republic of Latvia can also apply for a number of incentive schemes.

In total, there are five Special Economic Zones (SEZ) in the Republic of Latvia that were established to promote entrepreneurial activities within the regions. All of them offer very favourable business incentives.

Taxation

The tax system in any given country is invariably an extremely important criterion when it comes to companies finding a country of incorporation. In the past years the tax system of the Republic of Latvia has changed substantially, thus, making the environment friendlier for investors.

VAT

VAT is charged on all transactions made in the course of business. Individuals and entities registered in Latvia with total supplies of goods and services exceeding €40,000 in a 12-month period are liable to register for Latvian VAT. The VAT corresponds to 21%. There is also a reduced rate of 12% or 5%. There are several transactions which are subject to VAT at the rate of 0% or are VAT exempt.

Income tax

Latvian residents are liable to income tax on their worldwide income. Non-residents are liable to income tax on their Latvian-sourced income. Income tax is charged at 20%, 23% and 31.4% differential tax rate on employment and

other income, with the exception of capital gains.

Corporate income tax

The legislation of the Republic of Latvia stipulates that 0% CIT is applied to reinvested profit. CIT in the amount of 20% will be paid only when a company distributes its profits with the purpose of other than business development.

Registration procedures

Private persons and companies are registered with the tax authorities and are given fiscal registration numbers. Communication with the tax authorities by way of tax returns and tax assessments is largely done in an electronic way.

Wage tax

Insured persons and their employers shall pay state social insurance mandatory contributions. If an employee has been insured for all types of social insurance than rate is 35.09% (11% tax rate for employee and 24.09% tax rate for employer). Tax rates differ for those taxpayers who are insured for fewer types of social insurance contributions (self-employed persons, pensioner etc. persons). From 1 January 2018 the maximum amount of mandatory state social insurance contributions is €55,000 per year.

As from 1 January 2019 the personal income tax rate is progressive and applies to annual incomes of up to €20,004 : 20%; the part of the annual income which exceeds €20,004, but does not exceed €62,800: 23%; the part of the annual income, which exceeds €62,800: 31.4%; income from capital gains: 20%.

Double taxation treaties

In addition to the domestic legislation of the Republic of Latvia that provides relief from international double taxation, the Republic of Latvia has entered into double taxation treaties with more than 60 countries to prevent double taxation, and allows cooperation between Latvian and overseas tax authorities in enforcing their respective tax laws.

Withholding taxes

The most common withholding tax is dividend tax with a rate of 20%. In other cases (e.g. royalties and interest) a rate of 20% is applied only to companies in tax havens.

HR/ Labour Law

Employment law

An employment agreement may be agreed for an indefinite or fixed period of time. The contract can be concluded for two years at most. After this period, the contract will be considered as a contract for an indefinite period of time.

Before terminating an employment relation, a notice must be provided. While the employee must give notice one month before the termination of the employment contract, the employer's notice for dismissal can be effective immediately 10 days after or one month after it was given, depending on the circumstances.

Social security

The legislation of the Republic of Latvia stipulates that participation in a social security program is obligatory.

The standard rate of social security contribution is 35.09%, from which 11% is the employee's part and 24.09% is the employer's part.

The social security program provides employees with illness and unemployment insurance, as well as maternity benefits and a pension fund.

Pension

The pension system in the Republic of Latvia is divided in three pillars. The first pillar is a state guaranteed pension and involves all social security contributors, and it works on the basis of the principle of generation solidarity.

The second pension pillar consists of social tax payments, but the contributions are accumulated directly for you and are not shared between the current pensioners.

The participation in the third pension pillar is completely voluntary. It is a

private pension, where individuals can make contributions personally or through the employer.

As of 2014, the retirement age is 62 and it is being increased by three months every year. The retirement age in 2020 is 63 and 9 months.

Payroll

When starting a business and employing staff, the company must register with the tax authorities. Wage tax and social security is paid monthly to the tax authorities. The process of registration takes several weeks.

Visa and work permits

All EU inhabitants can work freely anywhere in the EU without a special working permit or visa. If an EU national from outside the Republic of Latvia is employed in the Republic of Latvia, he/she must register with the tax office and a personal tax identification number is allocated.

People from outside the EU must apply for a work permit before taking employment in the Republic of Latvia.

Residence permits for a period of 5 years (extendable) are also granted for investors investing in the business of Latvia according to certain criteria or in real estate of Latvia.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Latvia should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Latvia to discuss your requirements:

Legal member

Law Office O. Cers & J. Jurkans

Janis Jurkans

jurkans@advokati-cj.lv
+371 (67) 365 865

Strelnieku 9-4
Riga
Latvia

MSI Global Alliance
147-149 Temple Chambers
3-7 Temple Avenue
London EC4Y 0DA
United Kingdom

www.msiglobal.org