

## REGISTRATION OF A BUSINESS

The institution responsible for registration of a business in Latvia is the Commercial Register. The most popular form in which a company can be registered is a limited liability company (minimal share capital – 2 800 EUR) but other forms including joint stock company (minimal share capital – 35 000 EUR) are also available.

The following documents are needed for registration:

- a) a submission form;
- b) a foundation decision or foundation agreement;
- c) articles of association;
- d) confirmation of payment of the capital;
- e) shareholder's register folio;
- f) if a council has been created – confirmation of each member that they are willing to take on the position;
- g) confirmation of each board member that they are willing to take on the position;
- h) confirmation of the board regarding the legal address of the company;
- i) confirmation of payment of the state fee.

All documents have to be either signed by a secure electronic signature, that contains a time stamp (and is recognized by the European Commission), or by hand. If the documents are signed by hand, three of them (submission form, shareholder's register folio and acceptance to take on the position of a board member) have to be notarized. If people, who sign the documents, come from a country in the European Union, apostille is not needed.

To register the company within one to three working days, the state fee is 75 EUR. To register the company within one day, the state fee is 225 EUR.

The Commercial Register is entitled to request additional documentation, which is almost always the case, when the founders and/or ultimate beneficial owners are not residents or citizens of the Republic of Latvia, or the ownership structure of the company is complicated.

The legal representative of the company is the board. The decisions are taken by all the board members, however, the representation (signature) rights may be joint - all members being able to represent the company jointly or with one other member -, as well as individual. The representation rights are set in the articles of association.



## EMPLOYMENT CONTRACTS

Employment contracts shall be concluded in writing before the start of work. Employment contract usually is agreed for an indefinite period, but there are cases where it is for a fixed period. Seasonal work, replacement of another employee, temporary work are some of the possible cases where a fixed-term contract may be concluded. If the written form of the contract of employment is not respected, the employee has the right to request that the contract of employment be expressed in writing. For this purpose, the employee may use any evidence relevant to the existence and content of the employment relationship. It is important to mention that a contract with, for example, a member of the management board may also be for a fixed period corresponding to the term of office.

When concluding an employment contract, it is important to remember that during the probationary period, the employer and the employee have the right to give three days' notice in writing. The employer is not obliged to state the reason for terminating the employment agreement during the probationary period.

### Working Time

A worker's normal daily working time may not exceed eight hours and his or her normal weekly working time may not exceed 40 hours. The week shall be five days and, in exceptional cases, a six-day week may be established. Night work, shift work and aggregated working hours may be agreed upon, depending on the needs of the company and with the agreement of the employee. The daily rest period may not be less than 12 consecutive hours in a 24-hour period. This provision may be waived where aggregated working hours are established.

There is a possibility to employ employees, that are not residents, by providing a residence permit (EU Blue Card) or a visa.

### Overtime Work

Overtime work is work which is performed exceeding the normal working time. Overtime work shall be agreed on separately in writing. The overtime work cannot exceed 144 hours within a four month period. It is the duty of the employer to make records on the overtime work. An employee has rights to additional pay for overtime work equal to 100% of set hourly or daily rate.

## STATE SUPPORT FOR NEW BUSINESSES AND START – UPS

When applying for state support, start-ups have the possibility to implement the support mechanism that suits them best, choosing between the two scenarios:

- The first scenario provides social tax relief (EUR 340.90/month per employee) and personal income tax relief (0% personal income tax rate);
- The second scenario allows start-ups to receive (i.e., return) 45% of the total cost spent per employee for highly qualified employees.



Support programmes may be granted to a start-up company which:

- a) on the day when the application for participation in the aid programme has been submitted, have received an early-stage venture capital investment, in the amount of at least 30 000EUR or 15 000EUR in either the start-up company or in parent company or subsidiary of the start-up company;
- b) the debt of the start-up company does not exceed 150 EUR,
- c) the start-up company has not been declared insolvent.

To be eligible for the support program, a start-up company must submit [1] an application, [2] proof of receipt of an early venture capital investment, [3] a business plan for the business idea presented in the application.

After assessing the project application according to the established criteria, the Start-up Evaluation Panel will decide whether or not to grant support under the programme. In the case of attracting highly skilled workers, if a positive decision is taken, a contract for support is signed and the client must submit an interim/closing report. After assessing the interim/closing report against the established criteria, the relevant institution determines the actual amount needed by the company and disburses it to the bank account indicated by the beneficiary. In the case of tax incentive support, the client submits a final report after the project implementation period.

## TAX

According to the Law on Taxes and Fees, the tax and state fee system of the Republic of Latvia consists of:

- state taxes - the parliament determines the taxable objects and the rate;
- state fees - imposed in accordance with the Law on Taxes and Fees;
- local government fees - imposed in accordance with the Law on Taxes and Fees;
- taxes specified in directly applicable regulatory enactments of the European Union.

There are several types of taxes in Latvia, i.e., electricity tax, personal income tax, micro-enterprise tax, corporate income tax for enterprises, etc.

### Taxation of salaries

- The mandatory social insurance contribution is 34,09% of which 23,59% is employer's rate and 10,5% employee's rate;
- In addition, the employer must pay corporate risk state fee which is 0,35 EUR for each employee;
- The general flat rate of the personal income tax rate is 25%, payable by the employee.

In practice, when concluding an employment agreement, the employer pays all the taxes, however, the personal income tax and part of the social insurance contribution comes from the gross (*bruto*) salary

of the employee. However, the other part of the social insurance contribution and the corporate risk state fee comes from the employer.

### **Personal income tax/social tax**

Personal income tax is levied on income earned by a natural person and its amount is determined accordingly by the amount of revenue/salary:

- income up to 20,004 EUR per year: 20%;
- income from 20,004 EUR to 78,100 EUR per year: 23%;
- for income over 78,100 EUR per year: 31%

### **Value added tax**

Value added tax (VAT) is a consumption tax that is included in the price of a good or service and is paid by the final consumer of the good or service. The standard VAT rate in Latvia is 21%, but a reduced VAT rate has also been set for certain groups of goods and services.

### **Enterprise income tax**

Corporate (Enterprise) income tax (CIT) payers are the following: (a) all the performers of economic activity (domestic undertakings, institutions financed from the state budget, institutions financed from the local government budget which obtain income from economic activity); (b) permanent establishments; (c) foreign commercial companies and (d) other persons which obtain income in Latvia. CIT rate is 20%.

The taxable base consists of distributed profit and conditionally distributed profit. Distributed profits are considered to be calculated dividends or costs assimilated to dividends and notional dividends. Conditionally distributed profit consists of non-business expenses, increased interest payments, a loan to a related party, income which the taxpayer would have received or expenses which the taxpayer would not have incurred if the commercial and financial relationship had been established in accordance with the rules in force between two independent persons and if the value of these transactions corresponded to the market price (value), benefits granted by a non-resident to its employees or members of the board (council), regardless of whether the recipient is a resident or a non-resident, if they are attributed to the activities of the permanent establishment in Latvia, liquidation quota.