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STARTING BUSINESS IN THE BALTICS

Companies are incorporated by the moment of registration with the Commercial register in Latvia, the Register of Legal persons in Lithuania and court registration in Estonia with the moment of registration. Therefore, it is necessary to separate obligations undertaken and agreements concluded before and after the registration. Agreements concluded before the incorporating may be concluded with a company "under" incorporation and later confirmed by the company. Establishment documents in foreign language must have a translation in local language and approved by notary. The same is true as regards to notary approval to signatures.



New feature of our website provides for electronic data input for company incorporation in Latvia

A limited liability company

Most wide – spread form of business in Latvia is a limited liability company (LLC) „Sabiedrība ar ierobežotu atbildību” (SIA), „Uždaroji akcine bendrove” (UAB) and „osaihing” (OÜ) in Estonia. Shareholders may be either legal companies or natural persons. There are no restrictions regarding in nationality of shareholders.

Management

In Latvian and Estonian companies shall have a board, but in Lithuania – a manager (president, director or

similar positions). No limitation as to residency exists for management, except in Estonia, where half of the board must have residence in Estonia. If there is a one member of the board, he must be Estonian resident. Shareholders may also appoint a council, but it is not compulsory neither in Latvia nor Lithuania. In Estonia council must be appointed only if the share capital of company exceeds 25 555 EUR and if there is less than three members in the board. In Latvia and Lithuania shareholders always must also appoint an auditor, but in Estonia auditor is appointed only if share capital exceeds 25 555 EUR.

Share capital

Before submitting of registration documents with the registration authorities shareholders must invest share capital and submit in registration authority document testifying the payment of share capital. In all the three states share capital may be contributed both in currency or by investment in kind. In Latvia minimal share capital for LLC is 2800 EUR, in Lithuania 2900 EUR, but in Estonia 2600 EUR. In Latvia capital may be paid up at once or a half before submitting of registration application and second half in the period of half a year from registration of a company.

Investment in kind

Evaluation expert shall make report for investment in kind if contribution in Latvia exceeds 5714 EUR or half of the share capital in Latvia. Similar situation is in Estonia – if property contribution exceeds 25 555 EUR or exceeds half of the share capital, approval of auditor is required. In Lithuania no evaluation is required. Money is contributed in share capital, at least 1/4 of capital must be paid up before registration of company, but if property is contributed – share capital must be contributed in full amount before registration of company.

A joint stock company

A joint stock company in Latvia is called “*akciju sabiedrība*” (AS), in Lithuania – “*akcine bendrove*”, but in Estonia “*aktsiaselts*” (AS). In Latvia and Estonia shareholders of the JSC in addition to the board must elect council consisting of at least 3 members. No limitation as to residence exists to the management. In Lithuania shareholders of the JSC must appoint the manager (president, director or similar position), but the council and board is optional.

Shares

In Latvia minimal amount of share capital for AS is 35 572 EUR, and must be paid fully in currency before filing registration application. Share capital may be paid with a property contribution only after registration of

the company as prescribed by foundation agreement.

In Estonia minimal amount of share capital for AS is 25 555 EUR, which may be contributed both in currency, or with property contribution. The property contribution must have approval from an auditor. In Lithuania minimal amount of share capital for the stock companies is 43 540 EUR. If share capital is paid up in currency, at least 1/4 from it must be paid up until registration. If share capital is contributed by investment in kind, all full capital must be paid before the registration.

Branches

There are two kinds of branch or representative offices in Latvia – with or without rights on commercial activities.

Shareholders of branches must submit in registration authority documents testifying shareholders’ registration in foreign country. It is not necessary to contribute share capital for foundation of branches. Normally, payments from a branch to head office are non deductible costs for corporate income tax.

Branches are not legal persons.

State fees

State fee for incorporating of LLC in Latvia is 105 EUR and 389 EUR for JSC. Accelerated registration fee in triple amount is 213 EUR for registration of LLC and 320 EUR for registration of a JSC. In Estonia state fee for registration of LLC is 0,2%

from companies share capital, but at least 255 EUR and not more than 1278 EUR. State fee for registration of JSC is 0,2% from companies share capital, but at least 255 EUR and not more than 2555 EUR. In Lithuania state fee for registration is 35 EUR, but for inspection of documents at notary approximately 102 EUR, in total approximately 137 EUR.

Timing

Registration in Latvia may be done by 4 working days, by paying triple fee in 2 days.

In Lithuania registration of company in practice may last 2-3 weeks. Similarly in Estonia registration documents of company are evaluated during 15 days and speedy registration by paying higher state fee is not present.

Corporate income tax

Corporate income tax (CIT) in Latvia is 15% for LLC, JSC and branches. If branch activities does not exceeds 12 months, simplified taxable income calculation method may be applied, paying income tax in amount of 20% from income of branch. In Lithuania CIT is 15%, but in Estonia – 31,60%. In Estonia if dividends are not taken out and incomes are invested back in the company, tax must not been paid until dividends are not taken out. For this reason from the point of dividends taxation Lithuania and Latvia are more attractive, but from the point of investments – Estonia.



SAVINGS INCOME

As of July 1, 2005 EU directive on the taxation on savings came into force. Due to the directive rules recently Latvia has concluded agreements on the taxation of savings income with the Netherlands Antilles, Arubu, Isle of Man, Anguilla, the Turks and Caicos Islands, the United Kingdom Overseas Territory of Montserrat, the British Virgin Islands, the Cayman Islands, Jersey, and Guernsey. These agreements come into force from July 1, 2005. According to the concluded agreements countries will exchange about interest which is paid to depositor or withhold tax from savings income.

COMMERCIAL LAW

Below are summary on recent changes in the Commercial Law, applicable from July 20, 2005.

Relates parties transactions

Related party transactions in between a company and a sole shareholder now on mandatory bases shall be in writing.

Shareholders Meetings

Shareholders meeting in LLC once a year shall approve annual report, decide over the distribution of profit and to elect auditor. Law provides that if the board within month time

fail to call a shareholders meeting, it may be invoked by the council upon request of any shareholder. If council does not call a meeting during in due time, the meeting is called by the Commercial Register. Until now the Commercial Register called a meeting free of charge. From July 20, 2005 the Commercial Register will ask a state fee EUR 168 – 598 depending on a number of shareholders for calling a meeting of LLC (not counting management costs). Similar arrangement is prescribed also for the JSC, charge for calling a meeting of stockholders is EUR 420 (excluding management costs).

Casting vote

Articles of Associations may provide that if votes in council or board meeting divide equal, casting vote belongs to the chairman of the council or the board.

IMMIGRATION

New requirements for sufficient financial means

New requirements for sufficient financial means entered into force on August 1, 2005 clarify and establishes new requirements for necessary subsistence during the period of residence in the Republic of Latvia (this does not applies to EU and EEZ citizens and their family members). If individual is from country where visa is not requested (for example

from USA, Canada, Australia, Switzerland, Japan) or entering in Latvia with visa, then he should have EUR 14 or 42 (depends if he need to pay for living place) for every day of staying on his bank account (or on check, by cash). Individuals from other countries who will work in Latvia should have EUR 300 per months and EUR 600 per months for board members, individual merchant, and sole founder of a company, self-employed person or person with signing rights. Also inviting person (company, citizen of Latvia or person who has a residence permit in Latvia) may confirm to the Immigration department that will cover all incurred costs for expatriates.

Sole entrepreneur

Individuals from Andorra, Rumania, Honduras, Australia, Singapore, Monaco USA, Israel, Vatican, Bulgaria, Japan, South, Korea, Hong Kong, SAR, New Zealand, Argentina, Croatia, Canada, Nicaragua, Uruguay, Bolivia, Costa Rica, Brazil, Brunei, Chile, El Salvador, Guatemala, Macao, Malaysia, Mexico, Panama, Paraguay, San Marino, Venezuela may obtain residence permit if provides to the Immigration authorities such documents as: 2 photos, statement about tuberculosis, document confirming a residence place, education documents, business plan approved by sworn auditor, documents confirming, sufficient money for starting activities mentioned in the business plan, license, if it is necessary, statement from the tax authorities.



Individuals from other countries in addition needs statement from country regarding where individual lives about conviction (legalized) and document confirming sufficient money for living in Latvia.

Board or council member

From the abovementioned residents also may needed employment or service agreement, but there is no need for business plan, documents confirming sufficient money, license of statement from the tax authorities. Persons from other countries, except EU in addition need statement from country where individual lives about conviction legalized and document confirming that individual will have sufficient money for living in Latvia.

Employee

Employee needs the same documents as sole founder (except business plan, sufficient money for starting activities mentioned in the business plan, license) plus employment agreement, information about company, payment document EUR 4-7 and an invitation. To obtain an invitation from the State Employment Service, applicant needs to present education document, statement from the tax authority, employment agreement or company agreement, information about company; payment document EUR 4-7.

Employees from other countries in addition require to present statement from residence country regarding

conviction (legalized) and document confirming sufficient money for living in Latvia.

Financial conglomerates

A new Financial Conglomerate Law and respective amendments to the Credit Institution Law set specific rules for operation and supervision of the financial conglomerates and their subsidiaries. The financial conglomerate means a group coincidentally meeting the following conditions: it is headed by a regulated entity which at least one subsidiary operates in the financial sector or has a close links with another entity in the financial sector; at least one of the entity within the group operates in insurance and at least one-in banking or investment services sector; and all those group's entities operating with insurance, banking or investment services exceeds certain threshold set by the law. The law provides stricter supervisory rules for conglomerates in comparison to ordinary credit institutions – for instance in the calculation of equity adequacy of the conglomerate's entity the investments in the insurance entities owned for more than 20% by a conglomerate's entity are counted in the decrease of the equity.

Besides, a conglomerate's entity must inform the supervisory authority if the risk transactions of one entity or related persons exceed 10% from its equity.

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