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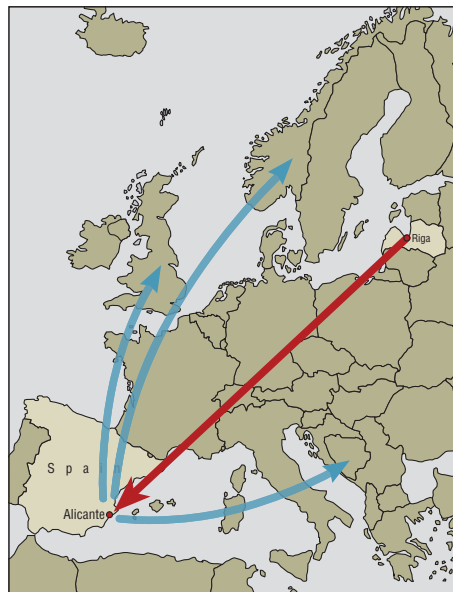
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VAT

Fiscal representatives

Changes to the VAT law, effective May 1, 2004, introduces VAT fiscal representatives. If responsibility of VAT payment lies with a fiscal representative, Latvian VAT registration number, name and legal address of the VAT representative shall be mandatory mentioned in a VAT invoice. In addition, VAT invoice shall comprise the following items:

- Date and number of invoice;
- Supplier's and recipient's name, address and VAT number;
- Date of supply;
- Kind and amount of supply;
- Price and discounts applicable;
- VAT rate, amount and amount without VAT;



We are pleased to announce that our firm is certified to represent clients with OHIM in Alicante (Spain) for Community Trademarks.

- If 0% rate is applied or payment burden is with a recipient of goods or services – referral to an article of VAT law on which zero rate is based, the same is true for fiscal representatives.

VAT deductions

VAT deductions are allowed on accrual bases both for goods and services received from the VAT registered persons, namely, input VAT may be deductible upon receipt of VAT invoice goods or services, or upon payment of advance. Previously, only VAT for local supply of goods was allowed to be deducted on an accrual bases.

Import of fixed assets

In case import of fixed assets is made, except for cars, designated not for leasing companies, effectively VAT shall not be paid, namely, it is shown as VAT payable and deductible. A new limitation is imposed, requiring in instances when asset value exceeds LVL 50 000 to report within next 5 years to tax authorities use of assets for VAT exempt activities, if any exempt supplies are VAT made, proportion of how much VAT may be deducted shall be calculated. The proportion is calculated as all taxable supplies without VAT (including transactions with 0%VAT rate) divided by all transaction exempt from VAT. If proportion (including exempt transactions) changes within a year, adjustment of the VAT deductible shall be made.

0% VAT rate

0 % VAT rate for intra-community supplies is applied if a recipient of goods is EU entity which is registered with a home country's VAT register and transport documents show the actual delivery of goods. 0% rate is applied also to intermediaries which re-sell goods to the final recipients within the EU countries. Reports on such intra – EU supplies shall be reported to tax authorities quarterly.

Intra – community acquisitions

If in Latvia registered VAT person receives goods from EU registered VAT payer, Latvian company shows in VAT declaration VAT as payable and deductible based on the received invoice. If in Latvia VAT non-registered person received goods from EU registered VAT payer and total amount of goods received exceeds LVL 7000, Latvian entity shall register as a VAT payer in Latvia.

Mandatory VAT registrations

The new law stipulates instances when EU companies shall register in Latvia as VAT payers:

- If EU registered VAT payer supplies goods to a Latvian person not registered as a VAT payer and supply within one year exceeds LVL 24000;
- Regardless of amount if recipient is non VAT registered person and supply is for excised goods or goods are to be installed in Latvia;
- If services related to culture, art, education, science and sport as well as services related to real estate are provided regardless of amount;
- If warehousing and transport related services as well as services related to maintenance of movable property (such as evaluation, repair) except lease, are provided.

Penalties

Penalties for non compliance to VAT law are 100% amount on the tax not paid. Penalty applies also to increase of claims for VAT refund and amounts which refer to the next VAT period (month), for example, VAT deduction is made before a term.

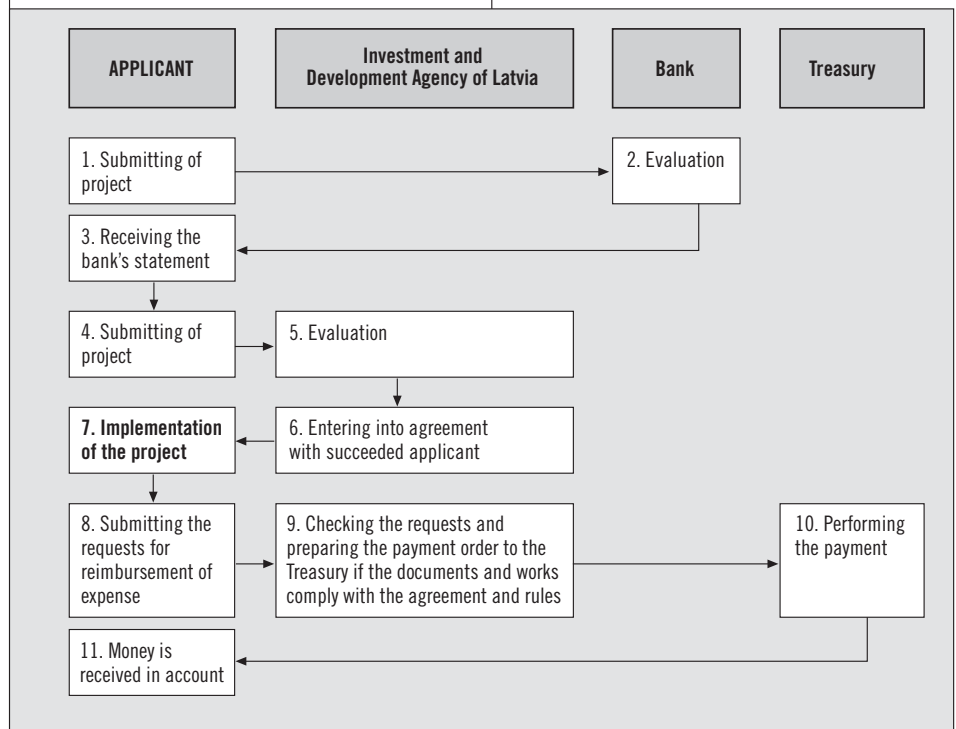
EU FUNDS

Project cycle

Enclosed is the scheme of a project cycle for European Regional Development Fund. EU funding co-finances only part of the project. The rest of financing should be provided by the company. If a company needs a loan from bank, first a company has to consider its project with a bank, if not, the project cycle starts from 4th step.

- profit after taxes+(50% of depreciation) more or equal 0;
- equity/total amount of assets more or equal 0.15;
- liquidity ratio = current assets/current liabilities more or equal 0.9.

During and within 5 years after the implementation of the project shall be positive cash flow. After the accomplishment of the project, within a concluded financial year following final year of the project, the company has to comply with the same criteria as mentioned above, except the liquidity ratio, which has to be equal or more than 1.



Fiscal criteria

The Ministry of Economics has approved selection criteria concerning financial stability of the companies applying for funding from the European Regional Development Fund. A company has to comply with the following indices in last financial year before submitting the project or in time period between last financial year and last concluded month:

Procurement procedure

On March 13, 2004 the Parliament has adopted amendments to the Law on Procurement for State or Local Government Needs concerning procurement procedures for works and supplies within projects financed by structural funds. In cases when the construction project is up to 50% directly co-financed by structural funds or national co-financing and the expected costs of a project exceeds

LVL 2800000, the beneficiary for supplies has to apply the general procurement rules provided by the mentioned law. The procurement procedures for works and supplies within projects other as mentioned above will be set by the regulations by the Cabinet of Ministers to be adopted at latest by August 1.

NON-PROFIT ORGANIZATIONS

Timing

Non- profit organizations until December 31, 2004 shall either register with the Associations and establishment register, to convert to a business entity or to undergo liquidate procedure.

Taxation of reserves

If a non-profit – as limited liability company will re-register with the Associations and establishment register, the share capital of the non-profit organization be discharged and shareholders will not receive a compensation for their shares. If non-profit organization will apply for record with the Commercial register as a business entity, the reserve fund will be included in the share capital or reserves. It is prohibited to pay the reserves to the shareholders. Income tax will be imposed to the shareholder's income gained by alienation of its shares, if the value of the shares was before increased by adding the reserve into the share capital. The same applies in cases of reorganization or liquidation of the recorded business entity– the tax is imposed to payments to the shareholder from the share capital or special reserve, if the reserve of non-profit organization was counted in the share capital or reserve.

COMMERCIAL LAW

Government forcing registrations

Effective May 21, 2004 it is allowed for limited liability companies to register changes of officials and other changes with the Commercial register only simultaneously with the re-registration of a company with the Commercial register.

Less formalities

It is not required anymore to notarize signatures of the shareholders upon signing the decision of foundation and Articles of association. It is not required to stipulate areas of business activities with Articles of associations, too.

Residency requirement for management abandoned

According to the previous law at least half of the Board members had to have a place of residence in Latvia. According to the amendments of the Commercial Law this requirement is abolished. The term of re-registration to the Commercial register is not changed – the companies registered in the Enterprise register have to apply to re-registration to the Commercial register till December 31, 2004.

IMMIGRATION NEWS

Residence permits

Work permits are required for EU member state citizens after May 1, 2004. Residence permits are required if individuals from EU country stays in Latvia more than 90 days within half a year starting from first entrance day. Residence permits are required

for EU citizens in case if they stays for more than 90 days within half a year in Latvia, and:

- is employed within Latvia, visiting EU country at least once per week;
- stays in Latvia up to 6 month within 1 year (starting from first entry) for employment / service agreement purpose in Latvia.

If these above conditions is not met, the residence permit is required.

Resident permits for EU nationals

Individuals from EU countries may receive a residence permit based on:

- employment or other agreement concluded for period up to 1 year – residence permit will be issued for one year;
- employment or other agreement concluded for period more than 1 year - residence permit will be valid 5 years;
- self-employed person may obtain a residence permit for 5 years;
- recipient of provider of services will receive residence permit for the term of agreement.

Procedure to obtain a residence permit

To obtain a residence permit the following documents are required:

- passport;
- employment or other agreement;
- 2 photos;
- fulfilled application form (requiring to disclose information regarding individual and his/her family).

All required documents shall be submitted in the Immigration department personally. After submitting documents the Immigration department will issue a certificate confirming that it is allowed for an individual to stay in Latvia till a



decision about issuing a residence permit will be passed.

The Immigration department will adopt a decision within one month time.

No state duties are required for a residence permit for EU residents.

LABOUR LAW

Accident insurance

It is determined that mandatory rate of statutory social insurance payments for social insurance against accident at working place and professional diseases is in amount of 0.09 %.

Total statutory social insurance payment rate is 33,09%.

Requirements of work protection

Requirements for the protection of employees against risk caused by vibration on work environment do not refer to the ships, where the frequency is below 1 Hz. The employer has to estimate a risk caused by vibration if stated by verification here is a risk for security and health of employees at least once a year, as well by essential changes of working environment or by founding of new working places. Vibration must be measured by certificated specialists. The employer has to eliminate and to decrease risk caused by the vibration to the minimum.

The employer has to ensure the employees with a relaxation room and social life rooms without risk caused by vibration. The employer has to inform and instruct the employees risk caused by vibration. The employer has to supply the employees with individual means of protection and organize on its own costs obligate verification of health.

NEWLY EMPLOYED

We are pleased to announce that **Sintija Radionova** has joined the firm as a lawyer. She received LL.M. in Law from University of Latvia and for last 5 years she was senior legal in-house council for Hansabanka, one of the biggest bank in Latvia. She was contracted also by the International Finance Corporation for projects in Latvia. She specializes in banking, finance, real property and labour law. She is fluent in German.

Wir sind froh Ihnen mitzuteilen, dass Frau Sintija Radionova in unserer Firma als Juristin taetig ist.

Sie hat den Grad des Magisters in Jurisprudenz an der Universitaet Lettland bekommen und die letzten 5 Jahre war sie die leitende Juristin in der Hansabanka, der groessten Bank Lettlands. Sie hat auch mit den Projekten der Internationalen Finanzkorporation in Lettland gearbeitet. Ihre Spezialisierung sind Bankenrecht, Finanzrecht, Eigentumsrecht und Arbeitsrecht.

Sie spricht fliessend deutsch. **Dace Driče** specializes in litigation. She has 3 years work experience with the State Prosecutor's Office and 3 years with the Supreme Court of Latvia. Her areas of practice include dispute resolutions, arbitrations, judgment, enforcement procedures, litigation and litigation exposure valuations.

Sandra Lielbārde specializes in company law and she has 3 year experience working as a state notary with the Company register. Her duties involved registering new companies, amendments to the by-laws and reorganizations. She continues her work with Company registration, reorganizations, pledge and prenuptial agreement registrations with the Enterprises and Commercial registers.

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