

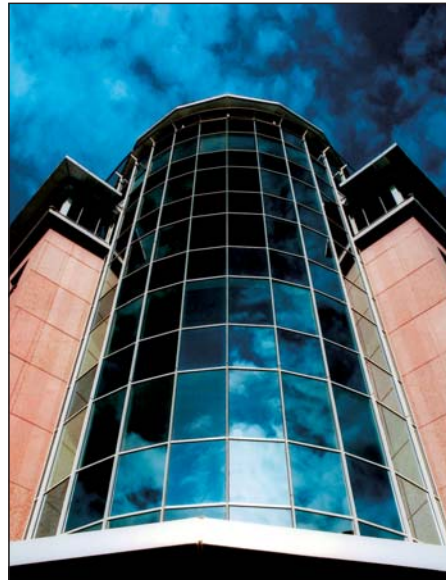
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Taxation of expatriates for 2002

Determination of tax residency

Expatriates are liable to Latvian taxes depending on their tax residency. Latvian residents are taxable on their worldwide income. Latvian non-residents are liable on their income derived in Latvia. An expatriate will be regarded as a tax resident of Latvia if the person stays in Latvia 183 days or longer in any given 12-month period commencing or finishing during the taxation year or who has obtained Latvian residence permit. Please, note that 183 days are counted within 12



For location of Valdemara Center, see enclosed map

months period, not on a calendar year bases.

Dual tax residency

If an individual is a tax resident in two countries, both countries are entitled to tax worldwide income of the expatriate. To avoid double taxation of the same income, double taxation treaties provide a tax relief for the double taxation offering tie-breaker test giving only one country primary rights to tax worldwide income of the expatriate. The first tie-breaker is the place where an individual has a

permanent home, the second tie-breaker is the country in which tie center of the individual's vital interest is located, the third is the place of the individual's habitual dwelling, and the fourth is the country of citizenship. For example, if an expatriate is a tax resident both in Latvia and Sweden according to the domestic laws of those countries, and the expatriate has permanent homes available in both countries, and a center of vital interest are located in the both countries and habitual abode is in the both countries, the individual will be regarded as Swedish tax resident if he has the Swedish passport. In Latvia the individual will be taxable as a non-resident on the income derived in Latvia.

Double tax treaties

For 2002 double tax treaty relief may be utilized by the tax residents of Armenia, United States, Moldova, Czech Republic, Denmark, Estonia, Iceland, Canada, Croatia, Germany, Ireland, Uzbekistan, Lithuania, the Netherlands, Norway, Poland, Finland, France, Sweden, United Kingdom, Belarus, China, Ukraine, Malta, Slovakia and Singapore.

Timing and administration

Tax declarations for year 2002 are due on 1 April of 2003. If expatriate ceases work in Latvia the declaration is due before departure. The tax shall be paid as follows – one third until April 15, one third until May 15 and one third until June 15. The tax declaration shall contain an income statement in free form from the foreign employer on the remuneration paid in 2002 for the expatriate. If the lump amount is mentioned in the statement not addressing separately the dates of received income, the conversion of the income to Latvian Lats will be done on the exchange rate of December 31, 2002.

Tax credits

Non-exempt personal income will be taxed at a rate of 25%. Exempt income may comprise capital gains on sale domestic or foreign shares regardless on the time of holding the shares. Personal tax paid abroad may be credited again a tax payable in Latvia, but not for more than 25 % of the income taxed abroad. To credit foreign paid tax, a statement from foreign tax authorities shall be presented to the Latvian tax authorities.

In making decision to file a personal income tax declaration in Latvia for 2002 tax to be paid in a home country shall be compared to eventual savings by being taxed at 25% rate in Latvia and obtaining exemption from the taxation in a home country.

Below are some guidelines how to become fully taxable in Latvia and to obtain a personal tax exemption in a home country.

Finnish expatriates

The expatriate will be considered as a Finnish tax resident for the year the expatriate has moved abroad and the following three years. Thereafter the expatriate usually become a non-tax resident in Finland according to domestic legislation. Finland does not tax a Finnish resident working in Latvia, if

1. Latvia has the right to tax the Finnish resident for the work performed in Latvia;
2. The working period abroad lasts for at least 6 month;
3. During the time of the Finnish resident's work abroad, he/she is not staying in Finland for more than 6 days per month in average, i.e., if the expatriate works in Latvia for 8 months, he/she can stay in Finland for maximum 48 days during the said period.

Norwegian expatriates

Expatriate may become not taxable in Norway if an individual stays abroad for 1 year plus foreign proof of foreign tax paid is presented; or he/she stays outside of Norway for 4 years.

Swedish expatriates

If a Swedish resident person stays out of Sweden more than 6 month and are not in Sweden for more than 36 days, income may be exempt from tax in Sweden.

Austrian expatriates

Individuals who have their residence or their habitual place of abode within Austria are taxable on their worldwide

income. A residence will be assumed at the place where the expatriate is holding housing with a view that he/she will continue keeping and using this home. The habitual place of abode is assumed to be in Austria, if the individual does not stay in Austria just temporarily (stay of less than 6 months).

Year-end corporate tax planning

Calculation of allowable interest deductions

To deduct interest for corporate income tax purposes, equity on the first date of the financial year which would be on January 1, 2003 for those companies which has a calendar financial year shall be multiplied by the rate set by the government as average rates for short term loans in Lats in the last month (December) of the financial year. In the first quarter of 2002 the average rate was 10 %, but in the second quarter - 8.7 %. Full comparable table of the applicable rates for the years 1999-2002 is below.

	1999	2000	2001	2002
Total	13.9	12.1	10.8	
I-III	16.8	10.0	12.9	10.0
IV-VI	15.7	11.0	11.5	8.7
VII-IX	12.1	13.3	11.1	
X-XII	12.0	13.1	9.1	
I	17.3	9.7	13.0	10.4
II	17.0	10.6	12.5	10.2
III	16.3	9.9	13.1	9.4
IV	15.8	10.6	11.8	9.5
V	15.5	11.0	11.5	9.2
VI	15.8	11.2	11.1	7.8
VII	12.3	12.1	11.8	
VIII	12.6	14.2	10.8	
IX	11.5	13.7	10.6	
X	12.4	14.1	8.5	
XI	11.5	13.6	9.3	
XII	12.5	11.8	9.9	

Timing of deductions

By the above-mentioned formula the amount of deductible interest is calculated, but the rest may be carried forward indefinitely. Only in case if more than 50% of the shares in the company calculating allowable interest deductions are transferred, an accrued non-deducted interest is lost.

Before year-end tax planning

Increase of the share capital may be done before the year end to increase equity in order to achieve higher allowable interest deductions. The increase of the share capital shall be registered with the Commercial register or the Company register, because “shareholders contributions” without registration accepted in several of the Nordic countries as ways of increasing equity is not workable in Latvia due to practice of tax authorities to attribute the shareholders contribution to profits.

In case the share capital is increased either by converting debt to equity, money investment or investment in kind, the increase will not be taxable by a corporate income tax.

The increase is not tied to any kind of percentage-related state dues for the increase of the share capital.

Other benefits of increasing equity

Increase of the share capital may increase equity of a company in this way avoiding potential creditor raising insolvency claims against debtor. Negative equity is an insolvency criteria and may serve as a bases on declaring the company insolvent. In case debt in foreign currency is

exchanged to equity, the company’ loss and profit statement is less influenced by the currency fluctuations and the currency rate on December 31 as all the debts shall be converted on this date to Latvian Lats which would create either “paper” loss or profit. However, in deciding to increase equity negative aspects on repatriation of the profits also shall be considered. In case loans are converted into the share capital, the profits may not be repatriated through loan repayments, instead dividend payments shall be considered.

Representative offices

New rules concerning the registration of representative offices in Latvia are effective from October 1, 2002.

Difference between a permanent establishment and a representative office

Representative offices differs from permanent establishments as the representative offices cannot be engaged into business activity, cannot issue invoices or derive any kind of regular income. In case business is started by the representative office or a local representative starts to sign agreements in the name of the head office, a permanent establishment is incurred and the representative office is obliged to be converted into a permanent establishment. Representative offices does not pay corporate income tax which is mandatory for the permanent establishments. Minus of the representative office is that it cannot deduct VAT on the vendors invoices received for advertisement, leasing

and other costs as the representative office is not VAT payer. That may change starting from January 1, 2003 when the foreign companies which are not Latvian VAT registered persons will be able to refund Latvian VAT on reciprocity bases.

The new regulations allow conversion of the representative office into a branch office. Before the new rules came into force, conversion was not possible resulting into separate procedure of closing the representative office and establishment of the branch office.

State dues

Until now a representative was able to opt either to open a representative office or to be sole representative without opening of the representative office both for a duration of 5 years. A number of representatives opted not to open representative offices due to USD 800 state due payable for the registration of the representative office. The new rules decreased the state dues for the registration of the representative office down to USD 35.

Re-registration requirements

Upon expiration of the term of permit granted to a representative office, the representative offices shall re-register with Company register by submitting the issued representatives’ card, previously issued permit, excerpt from the foreign country’s company register, authorization, decision of the head office to open the representative office as well as the by-laws or a charter of the head office.

The new rules abolishes 5 year term on permit to keep a representative



office with a following option to prolong a validity of the term. According to the new rules in the decision to establish a representative office indefinite term of the representative office may be set.

Special Visas

Special visas may be obtained by foreign citizens who are either shareholders or founders of the Latvian registered legal entity. Also, special visas are issued to the representatives of the foreign companies in Latvia being heads of the representative offices as described above. In order to receive visa the labor invitation shall be obtained from the Latvian Labor Service as well as an applicant shall submit a copy of a share certificate, representing person's shareholders rights. Labor invitation

for the head of the representative offices may be issued on the bases of the representatives' card, therefore, there is no need to submit to the immigration authorities a local labor agreement or a statement that a person is employed in a foreign company and seconded to work in Latvia.

For registered representatives of the representative office of foreign company special visa is issued on a basis of a power of attorney granted to the representative.

Benefits of obtaining the special visa is that individual shall not in person appear before the immigration authorities to receive the special visa, instead, authorized person may do it that is not true for the residence permit. Besides, for the special visa purposes doctor's certificate is not required. Special visa is issued for a time period of one year.

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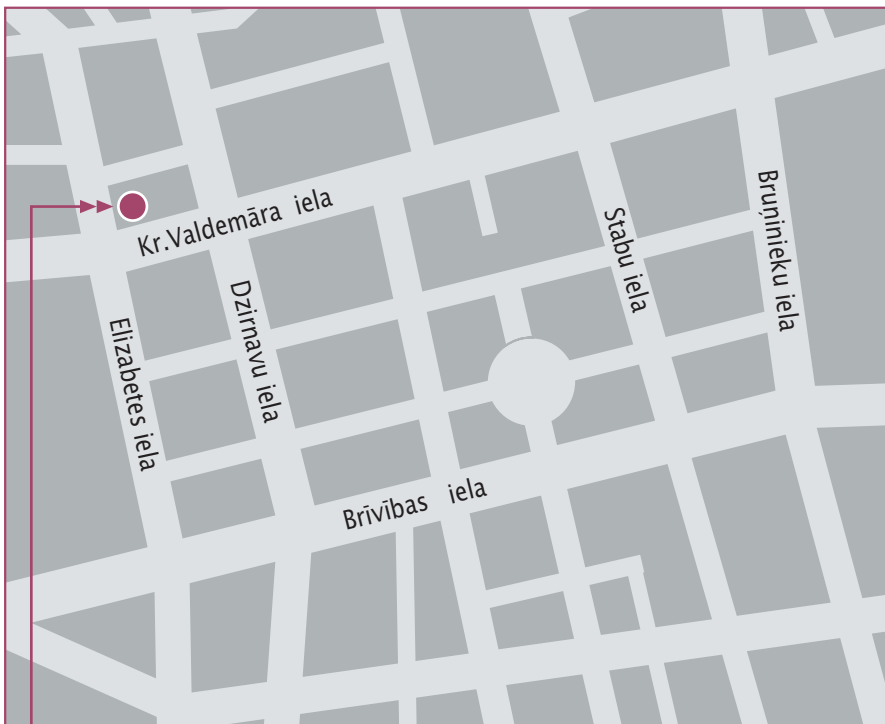
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