



Tax&Legal Highlights

Latvia

Latvia adopted amendments to interest limitation provisions in accordance with the Anti-Tax Avoidance Directive (ATAD) rules

Starting from January 1, 2018 Latvia will apply interest deduction limitation rule based on 30% of taxpayer's earnings before interest, tax, depreciation and amortization (EBITDA) limitation as provided in the ATAD. The rule includes a *de minimis* threshold of EUR 3 million and permit interest expenses of up to EUR 3 million to be deducted, regardless of a taxpayer's EBITDA. The new rule will apply together with existing debt-to-equity ratio.

On Friday, 28 July 2017 amendments to Cabinet of Ministers Regulations on preparations of VAT returns (further - Regulations) were adopted

According to the adopted amendments the threshold for reporting each tax invoice separately in appendixes of VAT return PVN1-I (input VAT on local acquisition) and PVN1-III (output VAT on supplies) has been reduced to EUR 150 excluding VAT (previously EUR 1'430). The reduced threshold is applicable starting from January, 2018 VAT return.

Insight in Amendments of Latvian Commercial Law

Amendments of June 15, 2017 of the Latvian Commercial Law (hereinafter – the Amendments) concern many important aspects of commercial activity, including – company’s transactions with its related person; regulation on employee stocks and employee options; increase of joint stock company’s share capital, and other aspects. Part of the Amendments have come into force on July 13, 2017; however, part of the Amendments will come into force on January 1, 2018.

Firstly, the Amendments introduce a new definition of “company’s related person”, which is broader than the previous one, as well as specifies the procedure, how a company can conclude transactions with such related person.

The new definition of “company’s related person” includes the following persons – (1) company’s shareholder with direct decisive influence; (2) company’s members of board and members of council; (3) members of board and members of council of company’s shareholder with direct decisive influence; (4) relatives of the persons mentioned in point 1 and point 2 up to the second degree of kinship, the spouse or brother-in-law or sister-in-law up to the first degree of affinity, or a person with whom he/she has a shared household; (4) legal persons, in which the persons mentioned in point 1, 2, 4 have direct decisive influence.

Previously the Commercial Law foresaw different procedure for concluding transactions with different types of company’s related persons. However, the Amendments now introduces a common procedure. Namely, transactions, which are concluded with company’s related persons outside company’s ordinary commercial practise, as well as transitions that do not comply with market rules, have to be approved beforehand.

Such transactions are approved by the company’s council or company’s shareholders’ meeting (if a company does not have a council). Company’s board has to provide specific information (such as necessity of the transaction, terms of the transaction and other information specified in law) to the council (or shareholders’ meeting) for evaluation of the transition. If a company violates the above-mentioned procedure for concluding transactions with related persons, then such transactions shall be deemed invalid. *(The mentioned Amendments have come into force on July 13, 2017.)*

Secondly, the Amendments introduces a new institute in the Commercial Law - employee options. Henceforward, companies will be able to issue employee options, which will grant rights to company’s employees, members of board and members of council to obtain company’s stocks. The law does not specify the definition of employee options. However, essentially, such options are rights to purchase company’s stocks in the future for a price that has been set in the time of granting the options. Emission of employee options are regulated by provisions of emission of convertible debentures, which is specified in the Commercial law. *(The mentioned Amendments have come into force on July 13, 2017.)*

Thirdly, important provisions regulating employee stocks have been amended. Most importantly, henceforward, employee stocks will be inalienable. Thus, upon termination of the status of an employee, member of

a board or status of member of a council, respective employee stocks will be transferred to the company. Furthermore, under the new regulation a company will be able to decide that employee stocks grant also voting rights and other rights, if such provision will be set out in company's articles of association. *(The mentioned Amendments will come into force on January 1, 2018.)*

Lastly, provisions on increase of joint stock company's share capital has been amended. Henceforward, in case of increase of share capital, shareholders' priority rights may be revoked or restricted with a decision of shareholders' meeting. *(The mentioned Amendments have come into force on July 13, 2017.)*

Please, note that the Amendments concern also other aspects that are not mentioned above. For example, the term for submitting application in court to declare shareholders' decision as void; time period for creditors to submit their claims in case of company's liquidation have been amended, as well as other important aspects of commercial activity have been amended.

Significant Amendments in Latvian Labour Law

On July 27, 2017 broad and significant amendments have been adopted in the Latvian Labour Law (hereinafter – the Amendments), which have come into force on August 18, 2017. The most important aspects of the Amendments will be shortly discussed below.

Firstly, regulation on restrictions on competition after termination of employment relationships has been clarified. The Amendments specify that to conclude that there exists sufficient purpose for concluding agreement on the restriction on competition after termination of employment relationships, the amount of confidential information possessed by the employee shall be considered. Amendments specify that compensation for the restriction on competition shall be paid only on monthly bases and shall be paid only after the termination of employment relationships. Additionally, the Amendments introduce non-exhaustive list of existing types of restrictions on competition, including – competing independent economic activity of an employee; working for competing employer or a client.

Secondly, provisions relating to collective agreements have been amended. Amendments concern criteria for a collective agreement to be declared as general agreement – if members of an organisation of employers or an association of organisations of employers employ more than 50 per cent of the employees in a sector or the turnover of their goods or the amount of services is more than 50 per cent (previously 60 per cent) of the turnover of goods or amount of services of a sector, then the respective concluded general agreement shall be binding on all employers of the relevant sector and shall apply to all employees employed by such employers. The above mentioned quantitative criteria will be determined according to Latvian Central Statistical Bureau's data.

Additionally, employer will not be entitled to unilaterally discontinue fulfilling obligations of a concluded collective agreement. Namely, if employer decides to leave a an organisation of employers or if an organization of employers decides to leave an association of organizations of employers, than

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irrespective of the leave, employer/employer organization will be obliged to fulfil already existing commitment to a collective agreement.

Thirdly, the Amendments clarifies aspects of employee's right to supplementary work. Under the Labour Law employer may restrict employee's right to supplementary work if such restriction can be justified with reasonable and lawful interests of the employer. Previously such restriction applied to employee's right to conclude employment contracts with other employers. However, henceforward, such restriction will also apply to employee's right to be engaged in other types of employment (self-employment, work in civil service etc.). However, the Amendments specify that in case of a dispute, the employer will bear the burden of proof for demonstrating that such restriction is justified with reasonable and lawful interests of the employer.

Fourthly, Amendments introduce an alternative mechanism for compensation of overtime work – paid free time. Employer and employee may agree that overtime work will be compensated by providing paid free time or by paying a premium. Parties shall agree on compensation mechanism at the same time when agreeing on the overtime work.

Lastly, Amendments also clarify regulation of daily time-outs. In general, daily time-outs are not included in working time. However, the Amendments foresee a possibility to agree in employment contract or collective agreement that daily time-outs will be included in working time. Additionally, henceforward, if employment contract prohibits employee to leave the workplace during the daily time-out, then such daily time-out shall be considered as part of working time.

Please, note that the Amendments concern also other aspects that are not mentioned above. For example, the Labour Law has been supplemented with provision that regulates calculation of a rate of hour's remuneration; as well as provisions on supplementary leave, suspension from work and on other aspects.

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