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- 22 May 2003 [shall come into force from 20 June 2003];
- 31 March 2004 [shall come into force from 1 May 2004];
- 20 January 2005 [shall come into force from 16 February 2005];
- 19 December 2006 [shall come into force from 1 January 2006];
- 5 May 2011 [shall come into force from 8 June 2011];
- 4 April 2013 [shall come into force from 9 May 2013];
- 12 September 2013 [shall come into force from 1 January 2014];
- 3 July 2014 [shall come into force from 11 July 2014].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*<sup>1</sup> has adopted and  
the President has proclaimed the following Law:

## On the Application of Taxes in Free Ports and Special Economic Zones

### Chapter I General Provisions

#### Section 1. Terms Used in this Law

(1) Terms used in the Free Port of Riga Law, the Free Port of Ventspils Law, the Liepāja Special Economic Zone Law and the Rēzekne Special Economic Zone Law, the Law On Control of Aid for Commercial Activities, the Law On Taxes and Fees, the Value Added Tax Law and the Law On Enterprise Income Tax, as well as terms used in laws and regulations governing customs matters, are the terms used in this Law if it is not laid down otherwise in this Law.

(2) The following terms are also used in this Law:

1) **permission to apply direct tax relief:**

a) a certificate issued by the Liepāja Special Economic Zone Authority to a capital company of the special economic zone regarding the right to apply direct tax relief,

b) a permit issued by the Rēzekne Special Economic Zone Authority to a capital company of the special economic zone regarding the right to apply direct tax relief,

c) a certificate issued to a capital company licensed by the Free Port of Ventspils Authority regarding the right to apply direct tax relief,

d) a certificate issued to a capital company licensed by Free Port of Riga Authority regarding the right to apply direct tax relief;

2) **free port authority** – the Free Port of Riga Authority and Free Port of Ventspils Authority;

3) **licensed capital company** – a capital company which has entered into an agreement with the free port authority regarding licensed commercial activities in the territory of the Free Port of Riga or the Free Port of Ventspils;

4) **indirect taxes** – customs duty, natural resources tax, excise duty and value added tax;

5) **direct taxes** – enterprise income tax and immovable property tax;

<sup>1</sup> The Parliament of the Republic of Latvia

6) **accumulated amount of investments** – the amount of all the investments by a zone capital company or licensed capital company which are made commencing with the taxation period in which it entered into an agreement with a zone authority or free port authority regarding making of investments in the territory of the zone or free port, up to the taxation period (inclusive) regarding which the calculation is performed – for a Liepāja Special Economic Zone capital company, a Rēzekne Special Economic Zone capital company, a Free Port of Rīga licensed capital company, or a Free Port of Ventspils licensed capital company;

7) **accumulated amount of direct tax rebate** – the whole amount of direct tax rebate used in accordance with this Law commencing with the taxation period in which the zone capital company or licensed capital company has been issued with permission to apply direct tax relief up to the taxation period (not inclusive) regarding which the calculation is performed;

8) **zone authority** – the Liepāja Special Economic Zone Authority and the Rēzekne Special Economic Zone Authority;

9) **territory of a zone** – the special economic zone territory as laid down in the Liepāja Special Economic Zone Law or the Rēzekne Special Economic Zone Law;

10) **territory of a free port** – the free port territory laid down in the Free Port of Ventspils Law or the Free Port of Rīga Law;

11) **zone capital company** – a Liepāja Special Economic Zone capital company or a Rēzekne Special Economic Zone capital company with which the zone authority has entered into an agreement regarding the performing of commercial activities and making of investments in the territory of the Liepāja Special Economic Zone or the Rēzekne Special Economic Zone;

12) **investments made by a zone capital company or a licensed capital company** – the long-term tangible investments in the fixed assets (buildings, constructions, equipment and machinery) and intangible investments (costs of acquisition of patents and technology) of a zone capital company or licensed capital company, as well as zone authority or free port authority, which conform to the following conditions:

a) are provided for in the contract entered into between the zone authority and the zone capital company or the port authority and the licensed capital company regarding the making of investments,

b) qualify as initial investments, that is investment in the establishment of a new capital company, increase in production or service capacity of an existing capital company, diversification of the production of an existing capital company with products that have not been previously produced in the capital company, or fundamental change in the production processes of an existing capital company,

c) the assets purchased are new, except the case when they are purchased by a capital company that conforms to the status of a small or medium-sized capital company laid down in Annex I to Commission Regulation (EC) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (Text with EEA relevance) (hereinafter – Commission Regulation No 651/2014),

d) intangible assets conform to the requirements laid down in Article 14(8) of Commission Regulation No 651/2014,

e) the investments made, after completion thereof, remain in the zone or free port for at least five years or three years, if investments are made by a capital company that conforms to the status of a small or medium-sized capital company laid down in Annex I to Commission Regulation No 651/2014,

f) the assets related to the modernisation process conform to the requirements laid down in Article 14(7) of Commission Regulation No 651/2014;

13) [3 July 2014].  
[22 May 2003; 31 March 2004; 20 January 2005; 19 December 2006; 5 May 2011; 4 April 2013; 3 July 2014]

## **Section 2. Purpose of the Law**

This Law prescribes the procedures for the application of:

- 1) indirect taxes in the Free Port of Riga, the Free Port of Ventspils, the Liepāja Special Economic Zone and the Rēzekne Special Economic Zone;
- 2) direct tax relief in the Liepāja Special Economic Zone, the Rēzekne Special Economic Zone, the Free Port of Ventspils and the Free Port of Riga.

[3 July 2014]

## **Section 2.<sup>1</sup> Application of the Tax Law**

The necessary actions for applying, calculating, declaring, paying and ensuring other correct paying of taxes for the taxes of a zone capital company, licensed capital company, zone authority and port authority shall be performed in accordance with tax laws and the laws and regulations in the field of customs matters if not otherwise provided for in this Law.

[22 May 2003; 31 March 2004; 19 December 2006]

## **Chapter II Application of Indirect Taxes**

### **Section 3. Application of Indirect Taxes to Delivery of Goods and Services**

(1) Goods, which are not intended for further exportation and which are delivered to a licensed capital company, a zone capital company, a zone authority or a free port authority by a registered value added taxable person, shall be subject to a standard rate or reduced rate of value added tax in accordance with the Value Added Tax Law if not otherwise provided for in this Section.

(2) A zero per cent value added tax rate shall be applied to:

1) supply of goods to a licensed capital company, a zone capital company, a zone authority or a free port authority in a free zone of a free port or special economic zone territory (hereinafter – free zone) by a registered value added tax taxable person for further exportation;

2) supply of such goods to a licensed capital company, a zone capital company, a zone authority or a free port authority as conform to the requirements laid down in Section 1, Paragraph two, Clause 12 of this Law;

3) [20 January 2005];

4) [20 January 2005];

5) [20 January 2005].

(3) If the goods referred to in Paragraph two, Clause 1 of this Section are sold in the free zone they shall be subject to a standard rate or reduced rate of value added tax in accordance with the Value Added Tax Law.

(4) If the licensed capital company, a zone capital company, a zone authority or a free port authority supplies the goods referred to in Paragraph two, Clause 2 of this Section to another person earlier than five years from the moment of its purchase, the licensed capital company, a zone capital company, a zone authority or a free port authority shall calculate the value added tax from the initial value, and pay in such tax to the State budget in the taxation period when the supply of the goods took place and this tax may not be deducted as an input tax.

(5) [20 January 2005]

(6) [20 January 2005]

(7) Mineral oils which are delivered to a licensed capital company, a zone capital company, a zone authority or a free port authority shall be exempt from excise duty while the mineral oils are located in the free zone territory of the licensed capital company, zone capital company, zone authority or free port authority.

(8) Mineral oils shall be exempt from excise duty in case when these products are used by a licensed capital company, a zone capital company, a zone authority or a port authority for:

1) ships and other floating objects which are not utilised for leisure and recreational needs;

2) ships for manufacture, testing and maintenance needs;

3) ships and other floating objects which are used for works of excavation and enlargement of waterways and ports;

4) the generation of energy or in combined equipment generating electricity and heat energy.

(8<sup>1</sup>) If in the cases referred to in Paragraph eight of this Section, diesel fuel, kerosene or fuel oil the colorimetric index of which is less than 2.0 and the kinematic viscosity at 50°C is less than 25 cSt, or the substitute products and components of such mineral oils is used, then the relevant mineral oils shall be exempt from excise duty if they are labelled (marked) in accordance with the requirements of the Law On Excise Duties.

(9) The rate specified in Section 14, Paragraph two of the Law On Excise Duties shall be applied to the mineral oils referred to in Section 14, Paragraph one, Clauses 3, 4 and 6 of the Law On Excise Duties, which are labelled (marked) in accordance with the requirements of the Law On Excise Duties and which are used by a licensed capital company, a zone capital company, a zone authority or a port authority in the territory of a free zone for:

1) stationary installations;

2) cranes and other similar objects;

3) equipment which has been utilised in construction work only in the territory of a free zone;

4) machines, which according to the construction are not intended for travelling on public roads.

(10) The Cabinet shall determine such conditions for the circulation and control of mineral oils, which in accordance with Paragraphs seven, eight, 8.<sup>1</sup> and nine of this Section, shall be applied exemptions from excise duty and reliefs, as well as the conditions for the registration of the users of such mineral oils.

*[22 May 2003; 31 March 2004; 20 January 2005; 19 December 2006; 5 May 2011; 4 April 2013]*

#### **Section 4. Restrictions on Retail Trade**

(1) In the free zone territory of licensed capital companies and zone capital companies, the supply of goods and services to natural persons (hereinafter – retail trade) is prohibited, except:

1) the supply of food and medical goods;

2) public catering, medical, communications and financial transactions;

3) trade in tax-free shops, which have been established in accordance with the Customs Law and operate in accordance with the procedures stipulated by the Cabinet.

(2) The retail goods supplied and services supplied in the free zone territory of a licensed capital company and a zone capital company referred to in Paragraph one, Clauses 1 and 2 of this Section shall be subject to a standard rate or reduced rate in accordance with the Value Added Tax Law, except those goods and services which are exempt from value added tax in accordance with the Value Added Tax Law.

(3) Supply of the goods referred to in Paragraph one, Clause 1 of this Section and supply of the services mentioned in Paragraph one, Clause 2 to natural persons shall be permitted only for those licensed capital companies or zone capital companies which have entered into an agreement on retail trade in the territory of a free zone or the territory of a free port with a zone authority or a free port authority. Territory intended for retail trade as well as other territory and premises for storage of relevant goods shall be stated in the agreement.

*[22 May 2003; 31 March 2004; 19 December 2006; 5 May 2011; 4 April 2013]*

### **Chapter III** **Application of Direct Tax Relief** *[3 July 2014]*

#### **Section 5. Permission to Apply Direct Tax Relief**

(1) Permission to apply direct tax relief shall be granted by a zone authority or a free port authority in accordance with the procedures specified by law.

(2) Permission to apply direct tax relief may be granted to a zone capital company or a licensed capital company, which conforms to the following conditions:

1) is located in the territory of a special economic zone or free port;  
2) performs commercial activities only in the territory of a special economic zone or free port. The following shall not be considered to be commercial activity outside of the territory of a special economic zone or free port:

a) the location of the administrative institutions or representation offices of zone capital companies or licensed capital companies outside of the territory of a special economic zone or free port,

b) the conduct of negotiations and the concluding of contracts outside of the territory of a special economic zone or free port,

c) the transit of goods from or to the territory of a special economic zone or free port,

d) other activities, which do not have the nature of the execution of a goods-money (also clearing) transaction.

(3) Permission to apply direct tax relief shall no longer be in force if at least one of the following conditions exists:

1) the term of operation of the special economic zone has expired or the free port has been abolished;

2) the term of validity of such permission has expired;

3) the zone authority or free port authority and the zone or licensed capital company agree to terminate the agreement regarding the performance of commercial activities in the territory of the zone or free port;

4) a court has terminated the agreement between a zone authority or free port authority and a zone or licensed capital company regarding the performance of commercial activities in the territory of the zone or free port and cancelled the permission issued to such capital company to receive direct tax relief;

5) the zone capital company or the licensed capital company is liquidated or reorganised, as well as commercial activity is terminated as laid down in other cases by law;

6) the applicable maximum amount of direct tax rebate determined in contracts entered into regarding making of investments has been reached in relation to the accumulated amount of investments.

(4) A zone authority or free port authority shall not grant a permission to apply direct tax relief to the following capital companies:

1) the capital companies of the transport sector referred to in Article 2(45) of Commission Regulation No 651/2014 and transport infrastructure as defined in Article 13(a) of Commission Regulation No 651/2014;

2) the capital companies which produce the steel industry products referred to in Article 2(43) of Commission Regulation No 651/2014;

3) the capital companies of the synthetic fibre sector referred to in Article 2(44) of Commission Regulation No 651/2014;

4) the capital companies of the agricultural sector referred to in Article 2(9) and (11) of Commission Regulation No 651/2014;

5) the capital companies of the fishery and aquaculture sector referred to in Article 1(3)(a) of Commission Regulation No 651/2014;

6) the capital companies of the coal industry sector referred to in Article 2(13) of Commission Regulation No 651/2014;

7) the capital companies of the ship building sector referred to in Annex 7, Paragraph 1 of this Law;

8) the capital companies of the energy infrastructure referred to in Article 2(130) of Commission Regulation No 651/2014 and of the energy production sector referred to in Article 13(a) of Commission Regulation No 651/2014.

(5) If a capital company is operating in both the sectors referred to in Paragraph four of this Section and in other sectors, the zone authority or free port authority shall grant a permission to apply direct tax relief, if the capital company clearly separates the financial flows for implementation of the sector to be supported from the financial flow of other operational sectors during making of investments and throughout the period of application of tax relief, until the maximum applicable amount of direct tax rebates in relation to the accumulated amount of investments is reached.

(6) Upon applying direct tax relief, the zone authority or free port authority shall not grant a permission if:

1) the conditions of Article 1(2)(c) and (d) and Article 4(a) and (c) of Commission Regulation No 651/2014 set in;

2) the capital company, within two years prior to submitting an application for entering into a contract regarding making of investments, has terminated the same or similar activity as defined in Article 2(50) of Commission Regulation No 651/2014 in the European Economic Area or the capital company has concrete plan to terminate such activity within two years after the investment project laid down in the contract regarding making of investments is completed.

*[22 May 2003; 31 March 2004; 19 December 2006; 3 July 2014]*

## **Section 5.<sup>1</sup> Right to Apply Direct Tax Relief**

(1) A permission issued by the zone authority or free port authority shall certify the right to receive the direct tax relief laid down in this Law, but the contract entered into regarding making of investments shall determine the conditions for application of direct tax relief to the investments provided for in the particular contract regarding making of investments.

(2) A contract regarding making of investments is an agreement entered into between a capital company and the free port authority or zone authority regarding making of investments in the free port or special economic zone. The contract shall include at least the following information:

1) the title of the investment project;

2) investment objects and investment amount;

3) the time period of investments, which does not exceed five years from entering into the contract;

4) the aid percentage applicable to the investment, which is in effect on the day of entering into the contract, in addition taking into account the provisions of Sections 8.<sup>1</sup> and 8.<sup>2</sup> of this Law for determining the aid percentage;

5) certification of the capital company that it will ensure the financial contribution in the amount of at least 25 per cent from the total investment project costs provided for in the contract regarding making of investments, for which State aid has not been received, that is, financing in the amount of at least 25 per cent from own economic resources or external financial resources for which no public aid has been received, including State or local government guarantee or State or local government loan with preferential conditions has not been received;

6) the maximum applicable amount of direct tax rebate for investments provided for in the contract;

7) application of the aid percentage determined in the contract until the moment when the maximum applicable amount of direct tax rebate in relation to the accumulated sum of investments is reached;

8) application of the aid percentage determined in the contract to the enterprise income tax reliefs and immovable property tax rebate laid down in this Law.

(3) For entering into a contract regarding making of investments the capital company shall submit at least the information indicated in Annex 8 to this Law to the zone authority or free port authority.

(4) The right to apply direct tax relief to the investments provided for in a contract regarding making of investments may be exercised if the capital company has made investments only after the contract regarding making of investments has entered into effect. If the capital company wishes to cumulate the aid laid down in this Law in the form of tax relief with other aid for making of initial investments, the contract regarding making of investments, which has been entered into with the zone authority or free port authority, shall enter into effect and the capital company shall commence making of investments only after all the institutions involved have taken a decision to provide aid to the investment project. In the cases referred to in Section 8.<sup>1</sup>, Paragraph five of this Law the contract regarding making of investments shall enter into effect only after receipt of a decision of the European Commission.

*[3 July 2014]*

## **Section 6. Immovable Property Tax Rebate**

(1) A zone or licensed capital company is entitled to apply an immovable property tax rebate in the amount of 80 per cent of the tax amount calculated (not applying other rebates) to the immovable property, located in the territory of the zone or free port, of which they have ownership, legal possession, or which they have been granted the right to use, unless otherwise provided for in Section 10 of this Law.

(2) Upon the decision of a local government, a zone or licensed capital company is entitled to apply an immovable property tax rebate up to the amount of 20 per cent of the tax amount calculated (not applying other rebates) to the immovable property, located in the territory of the zone or free port, of which they have ownership, legal possession, or which they have been granted the right to use, unless otherwise provided for in Section 10 of this Law.

(3) In the immovable property tax notification, a local government shall state the amount of immovable property tax to be paid for the taxation period, taking into account the immovable property tax rebate prescribed in Paragraphs one and two of this Section.

(4) The immovable property tax rebate referred to in Paragraph one of this Section shall be taken into account in making an immovable property tax forecast for local governments, which shall be used in the calculation of local government financial equalisation account for the next financial year.

(5) A zone authority or the Free Port of Rīga Authority shall not pay immovable property tax or any other tax which may be introduced in place of the referred to tax, for immovable property which is located outside the territory of the zone or free port and belongs to the State or local government, and which in accordance with law has been granted for use to a zone authority or free port authority and has not been transferred further to another user.

*[19 December 2006]*

### **Section 7. Enterprise Income Tax Relief**

(1) A zone capital company or a licensed capital company is entitled to apply enterprise income tax rebate in the amount of 80 per cent of the tax amount calculated.

(2) In commencing advance payments of enterprise income tax, a zone capital company or licensed capital company shall take into the account the tax rebate provided for in Paragraph one of this Section and shall calculate the advance payments in accordance with the procedures prescribed in the Law On Enterprise Income Tax.

(3) [3 July 2014]

(4) [3 July 2014]

*[19 December 2006; 3 July 2014]*

### **Section 8. Restrictions on the Application of Direct Tax Rebates**

(1) A zone capital company or a licensed capital company shall apply the tax rebates, prescribed in Section 6, Paragraphs one and two and Section 7, Paragraph one of this Law, for a taxation period if the accumulated amount of direct tax rebates and the rebates calculated for the taxation period in accordance with Section 6, Paragraphs one and two and Section 7, Paragraph one of this Law together do not exceed the percentage of the accumulated amount of investments to be applied to the relevant capital company:

1) to a zone capital company or a licensed capital company which does not conform to the criteria laid down in Annex I to Commission Regulation (EC) No 651/2014 – 35 per cent of the accumulated amount of investments;

2) to a zone capital company or a licensed capital company that conforms to the status of a medium-sized capital company specified in Annex I to Commission Regulation (EC) No 651/2014 – 45 per cent of the accumulated amount of investments;

3) to a zone capital company or a licensed capital company that conforms to the status of a small capital company specified in Annex I to Commission Regulation (EC) No 651/2014 – 55 per cent of the accumulated amount of investments.

(2) If the accumulated amount of direct tax rebates and the rebates calculated accordance with Section 6, Paragraphs one and two and Section 7, Paragraph one of this Law for a taxation period together exceed the percentages specified in Paragraph one, Clause 1, 2 or 3 of this Section respectively of the accumulated amount of investments of the zone capital company or the licensed capital company, tax rebates for the taxation period shall be applied taking into account the restrictions laid down in Sections 10 and 11 of this Law.

(3) [19 December 2006]

(4) [3 July 2014]

(5) If a zone capital company or a licensed capital company, which has made investments in conformity with Section 1, Paragraph two, Clause 12 of this Law is liquidated or the assets purchased are alienated prior to the end of the time period referred to in Article 14(5) of Commission Regulation No 651/2014 or if it terminates the same or similar activity within two years after the investment project specified in the contract regarding making of investments is completed, as defined in Article 2(5) of Commission Regulation No 651/2014, in the European Economic Area, it shall perform a recalculation of direct taxes for the taxation periods in which direct tax reliefs were applied, and shall pay into the budget an

amount in respect of which as a result of the application of such rebate the taxes to be paid were reduced.

(6) If prior to the end of the time period referred to in Article 14(5) of Commission Regulation No 651/2014 a zone capital company or a licensed capital company is reorganised in conformity with Section 1, Paragraph fifteen, sixteen or seventeen of the Law On Enterprise Income Tax and its investments, which have been performed in accordance with Section 1, Paragraph two, Clause 12 of this Law transfers to the ownership of another capital company:

1) the reorganised (acquiring, acquired, to be acquired or to be divided) capital company has the right to apply the direct tax reliefs specified in this Law in relation to the unused accrued rebate amount proportionate to the held or taken over amount of investment (the initial value of the investment shall be taken as the basis for the calculation thereof), if the reorganised capital company has acquired the status of a zone capital company or a licensed capital company under the following conditions:

a) the value of the held or taken over amount of investment of the reorganised capital company forms more than 75 per cent of the total investment value, which has been performed in accordance with Section 1, Paragraph two, Clause 12 of this Law,

b) the basic type of commercial activity of the reorganised capital company, which comprises at least 75 per cent of the net turnover of the capital company, conforms to the basic type of commercial activity of the capital company to be reorganised and is preserved during the activities on all permits to apply direct tax reliefs,

c) the commercial activity of the reorganised capital company takes place in same territory of the special economic zone or free port in which the zone capital company or licensed capital company to be reorganised performed commercial activities prior to reorganisation;

2) which has not acquired the status of a zone capital company or a licensed capital company, the capital company to be reorganised shall perform a recalculation of direct taxes for the taxation periods in which direct tax reliefs were applied, and shall pay into the budget an amount in respect of which as a result of the application of such rebate the taxes to be paid were reduced.

(7) In the cases referred to in Paragraph five and Paragraph six, Clause 2 of this Section, the reduced amount of direct taxes, which has been established as a result of the application of direct tax reliefs, shall be deemed to be a late tax payment, and an increase in the basic debt and late fees shall be calculated for it according to the procedures laid down in the Law On Taxes and Fees.

*[22 May 2003; 31 March 2004; 19 December 2006; 12 September 2013; 3 July 2014]*

## **Section 8.<sup>1</sup> Application of Tax Rebates to Large Investment Projects**

(1) For the application of this Law the planned investment project of a zone capital company or licensed capital company, the amount of which exceeds 50 million euros, is considered a large investment project. The maximum permissible percentage laid down in Section 8, Paragraph one of this Law shall not be applied to a large investment project.

(2) Upon determining the amount of the planned investment project and the permissible percentage for application of tax reliefs, all initial investments made by the capital company (at group level) within three years, which were made in the same Level III region of the Nomenclature of Territorial Units for Statistics (NUTS) (single investment project), for making of which the capital company has received or is planning to receive aid, shall be taken into account.

(3) For large investment projects regardless of whether investments are made by a small, medium-sized or large capital company, the zone authority or free port authority shall determine the permissible percentage in the contract regarding making of investments, which

may be reached by the amount of the direct tax rebates accumulated by a zone capital company or licensed capital company during a taxation period in relation to the accumulated amount of investment of the zone capital company or licensed capital company, in conformity with the following conditions:

1) 35 per cent of the accumulated amount of investments are applied to an investment project up to 50 million euros;

2) 17.5 per cent of the accumulated amount of investments are applied to a project part from 50 to 100 million euros;

3) 0 per cent of the accumulated amount of investments are applied to a project part, which exceed 100 million euros.

(4) The maximum amount of direct tax rebates applicable to large investment projects shall not exceed 26.25 million euros.

(5) For a large investment project, the planned costs of which exceed 100 million euros and the amount of direct tax rebates exceeds 26.25 million euros, the zone or free port authority may determine, in the contract regarding making of investments, the maximum applicable amount of direct tax rebates exceeding 26.25 million euros, if:

1) the Cabinet has taken a decision to support a large investment project and on the maximum applicable amount of direct tax rebates exceeding 26.25 million euros;

2) a decision of the European Commission has been received on compatibility of aid with the Common Market.

(6) In case of exceeding the amount of direct tax rebates specified in Paragraph five of this Section the Ministry of Transport shall submit the necessary information to the Cabinet. After a Cabinet decision is received, the Ministry of Transport shall submit a notification on State aid to the European Commission in accordance with the procedures laid down in the laws and regulations regarding control of aid to commercial activities.

*[3 July 2014]*

## **Section 8.<sup>2</sup> Cumulation of Tax Reliefs with Other Aid to Initial Investments**

(1) If a zone capital company or licensed capital company, in addition to the aid laid down in this Law, receives or is planning to receive another aid for making initial investments for the same costs, then the maximum permissible percentage specified in Section 8, Paragraph one of this Law shall not be applied, but in the contract regarding making of investments the zone authority or free port authority shall determine the maximum permissible percentage for the investments provided for in the contract regarding making of investments.

(2) Upon determining the maximum permissible percentage, it must be ensured that as a result of cumulating aids the percentage applicable to the respective capital company does not exceed the permissible percentage laid down in Section 8, Paragraph one and Section 8.<sup>1</sup>, Paragraph three of this Law for application of tax reliefs.

(3) The restriction laid down in Paragraph one of this Section shall be taken into account in applying Section 10 and Section 11, Paragraph two of this Law.

*[3 July 2014]*

## **Section 9. Conditions for the Application of Direct Tax Relief**

(1) A zone capital company or a licensed capital company shall acquire the right to apply direct tax relief as of the taxation period in which permission to receive direct tax relief has been issued and the contract regarding making of investments is entered into.

(2) The right to apply direct tax relief shall terminate as of the taxation period in which the permission to apply direct tax relief is no longer in effect.

(3) The taxation period for enterprise income tax and immovable property tax for zone capital companies or licensed capital companies and a zone authority or free port authority is the

calendar year. The first taxation period may be shorter than a calendar year but may not be longer than 12 months.

*[19 December 2006; 3 July 2014]*

## **Section 10. Procedures for the Application of Immovable Property Tax Rebate**

If the accumulated amount of direct tax rebates together with the immovable property tax rebate for a taxation period as prescribed in Section 6, Paragraphs one and two of this Law exceeds the percentages specified in Section 8, Paragraph one, Clauses 1, 2 and 3, Section 8.<sup>1</sup>, Paragraph three or Section 8.<sup>2</sup>, Paragraphs one and two of this Law respectively of the accumulated amount of investments, the immovable property tax rebate for a taxation period shall be reduced by the amount exceeded, and the zone capital company or licensed capital company shall pay immovable property tax in the amount equal to the immovable property tax rebate reduction.

*[22 May 2003; 19 December 2006; 3 June 2014]*

## **Section 11. Application of Enterprise Income Tax Rebates**

(1) If a zone capital company or licensed capital company, in calculating the immovable property tax rebates prescribed in Section 6, Paragraphs one and two of this Law, has applied Section 10 of this Law, it is not entitled to apply the enterprise income tax rebate as prescribed in Section 7 of this Law

(2) If the accumulated amount of direct tax rebates and the tax rebates applied within the taxation period in accordance with Section 6, Paragraphs one and two of this Law, and the rebates calculated in accordance with Paragraph one of Section 7 together exceeds the percentages specified in Section 8, Paragraph one, Clauses 1, 2 and 3, Section 8.<sup>1</sup>, Paragraph three or Section 8.<sup>2</sup>, Paragraphs one and two of this Law respectively of the accumulated amount of investments of a zone capital company or a licensed capital company, the enterprise income tax rebate calculated for the taxation period shall be reduced by the amount exceeded.

(3) In the case mentioned in Paragraph two of this Section, the reduction of advance payments made by the zone capital company or the licensed capital company in the taxation period, which is calculated as the difference between the advance payments, which should be calculated by applying the tax rebate in accordance with the restrictions prescribed in Paragraph two of this Section, and the advance payments calculated in accordance with Section 7, Paragraph two of this Law, shall be considered as a delayed tax payment for which the increase in the basic tax debt and delayed payment amount shall be calculated in accordance with the procedures prescribed in the Law On Taxes and Fees.

*[22 May 2003; 19 December 2006; 3 June 2014]*

## **Section 12. Provision of Information Regarding the Application of Direct Tax Rebates**

(1) The following information shall be submitted to the State Revenue Service:

1) by a zone capital company or licensed capital company, which applies direct tax rebates, concurrently with the annual account of companies within the time period laid down in the Law On Annual Accounts:

a) a report on the application of the enterprise income tax rebate in the taxation period,

b) information regarding other aid received for making of initial investments, including *de minimis* aid, granted for making of initial investments for the same eligible costs, and a report on the accumulated amount of direct tax rebates and accumulated amount of investments;

2) by a local government by 1 May of the post-taxation year – a report on the application of immovable property tax rebates in the taxation period.

(2) Submission of the reports and information referred to in Paragraph one of this Section, sample forms and the procedures for filling out thereof shall be determined by the Cabinet.

(3) The State Revenue Service shall submit the information as laid down in Article 9(1)(c) and 9(2) of Commission Regulation No 651/2014 to the zone authority and free port authority by 1 October of the post-taxation year.

(4) A zone authority or a free port authority shall submit, by 1 March of the post-taxation year, to the State Revenue Service, the local government, the Ministry of Transport and the Ministry of Finance information regarding zone capital companies or licensed capital companies:

1) which have been issued permission to apply direct tax relief within the taxation period;

2) with which a new contract regarding making of investments has been entered into in the taxation period, indicating the total amount of investments, the time periods of investments, the maximum applicable amount of direct tax rebates, the aid percentage applicable to investments determined in conformity with the conditions of Section 8, Paragraph one, Section 8.<sup>1</sup> or Section 8.<sup>2</sup>, Paragraphs one and two of this Law;

3) whose issued permission to apply direct tax relief within the taxation period is no longer in effect;

4) which discontinue commercial activity or whose activity has terminated in accordance with the Commercial Law.

(5) A zone authority or free port authority shall, on the basis of a request from the State Revenue Service, local government, the Ministry of Transport or the Ministry of Finance, submit a copy of the contract regarding making of investments entered into between it and a zone capital company or a licensed capital company and the annex to the contract – the planned investment schedule.

(6) A zone capital company or licensed capital company, after 1 March of the post-taxation year, shall inform the zone authority or free port authority regarding the year when it last applied direct tax rebates in accordance with the conditions of this Law.

*[3 July 2014]*

## **Section 12.<sup>1</sup> Keeping of Information Regarding the Application of Direct Tax Rebates**

(1) A zone capital company or a licensed capital company, which receives direct tax rebates within the scope of this Law, shall keep data regarding the investments made and the direct tax rebates received for 10 years from the year when direct tax rebates were applied by the zone capital company or licensed capital company for the last time in accordance with the conditions of this Law.

(2) The State Revenue Service and the local government shall keep reports on the application of direct tax rebates in the taxation period, which were received in accordance with Section 12, Paragraph one of this Law, for 10 years from the year when direct tax rebates were applied by the zone capital company or licensed capital company for the last time in accordance with the conditions of this Law.

(3) A zone authority or a free port authority shall keep contracts entered into with a commercial company regarding making of investments for 10 years from the year when direct tax rebates were applied by the zone capital company or licensed capital company for the last time in accordance with the conditions of this Law.

*[3 July 2014]*

## **Section 12.<sup>2</sup> Publishing of Information Regarding the Application of Direct Tax Rebates**

A zone authority or free port authority shall publish information on its website in accordance with Article 9(1), (2) and (4) of Commission Regulation No 651/2014. Information shall be published in conformity with the requirements laid down in Annexes II and III to Commission Regulation No 651/2014.

*[3 July 2014]*

## **Section 12.<sup>3</sup> Control of the Amount of Tax Reliefs Applied**

(1) In order to ensure the fulfilment of the restriction laid down in Article 1(2)(a) of Commission Regulation No 651/2014, the State Revenue Service shall, by 1 October of the post-taxation year, inform the Ministry of Transport whether the total amount of direct tax rebates applied in the taxation period in accordance with this Law exceeds the restrictions for annual expenses of State aid laid down in Article 1(2)(a) of Commission Regulation No 651/2014.

(2) In case of exceeding the restriction for annual expenses of State aid laid down in Article 1(2)(a) of Commission Regulation No 651/2014 the Ministry of Transport shall, within 20 working days after information from the State Revenue Service has been received, submit an evaluation plan to the European Commission.

*[3 July 2014]*

## **Section 13. Performance of State Social Insurance Payments**

*[3 July 2014]*

## **Section 14. Legal Basis for Providing Aid**

Within the framework of this Law aid shall be provided in accordance with Chapter III, Section 1 “Regional Aid” of Commission Regulation (EC) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (Text with EEA relevance) (published in the European Union Official Journal L187/1, 26.6.2014.).

*[3 July 2014]*

## **Transitional Provisions**

1. For construction services provided to a zone capital company or a licensed capital company, a free port authority or a zone authority by a person who is registered as a value added tax taxable person in the free zone, the value added tax shall be applied at a rate of 0 per cent until 30 April 2004. A 0 per cent value added tax rate shall be applied until 30 April 2004 also for those construction services, which a taxable person provides to a free port authority or a zone authority outside the territory of the free zones.

*[22 May 2003; 19 December 2006]*

2. Permissions to apply direct tax relief that are issued to zone capital companies up to 31 December 2001 shall be considered to be in effect.

*[19 December 2006]*

3. As of 1 January 2003, the restrictions on the application of direct tax rebates as prescribed in this Law shall be applied to zone capital companies which have acquired the status of a zone capital company by 31 December 2001 and which have been issued permission by 31 December 2001 to apply direct tax rebates, and to Rīga Free Port licensed capital companies.  
*[19 December 2006]*

4. Section 6 of this Law shall not apply to licensed capital companies, which have been issued a licence by the Free Port of Ventspils Authority up to the day of the coming into force of this Law.  
*[19 December 2006]*

5. Capital companies in the Liepāja Special Economic Zone and the Rēzekne Special Economic Zone which until the day of the coming into force of this Law have calculated the depreciation of fixed assets utilised for economic activities for the purposes of calculating enterprise income tax on the basis of rates which are different from those prescribed in the Law On Enterprise Income Tax, in relation to fixed assets which have been acquired up to the day of the coming into force of this Law, until the final writing off of the relevant fixed asset or fixed asset category depreciation shall continue to apply the previously applied fixed asset depreciation rates. Fixed assets utilised in economic activity, which are acquired after the day of the coming into force of this Law, the writing off of depreciation shall be performed in accordance with the general procedures specified in the Law On Enterprise Income Tax.  
*[19 December 2006]*

6. The direct tax relief provided for in Sections 6-13 of this Law for a licensed capital company and port authority is entitled to be applied to such investments as are performed up to 31 December 2035 (inclusive) not exceeding the permissible State aid intensity specified in this Law and contract regarding making of investments for the accumulated direct tax rebate in relation to the amount of accumulated investments.  
*[22 May 2003; 19 December 2006; 4 April 2013; 3 June 2014]*

7. *[3 July 2014]*

8. *[4 April 2013]*

9. Up to 31 December 2003, a zone capital company or a licensed capital company which pays the immovable property tax for buildings and constructions shall calculate the amount of tax to be paid into the budget for the taxation year, taking into account the rebates specified in Section 6, Paragraphs one and two of this Law, as well as the procedures for the application of immovable property tax rebates specified in Section 10 of this Law.  
*[22 May 2003]*

10. *[31 March 2004]*

11. Amendments to Section 1, Paragraph two of this Law (the terms used in this Law in relation to the Rēzekne Special Economic Zone) shall come into force simultaneously with the relevant amendments to the Rēzekne Special Economic Zone Law.  
*[20 January 2005]*

12. Section 3 of this Law shall come into force on 1 July 2005.

*[20 January 2005]*

13. A zone capital company or a licensed capital company, which operates in the fishery sector referred to in Annex 5 to this Law, after 1 January 2007 shall continue to apply the direct tax reliefs for investments, which were made up to 31 December 2006, in accordance with the norms of the Law, which were in force up to 31 December 2006.

*[19 December 2006]*

14. A zone capital company or a licensed capital company, which operates in the fishery sector referred to in Annex 5 to this Law, after 1 January 2007 shall continue to apply the direct tax reliefs for investments, which were made after 1 January 2007 in accordance with a contract regarding the making of investments, which was entered into between the zone authority and the zone capital company or the free port authority and the licensed capital company up to 31 December 2006. In order that the capital company operating in the fishery sector may receive tax reliefs for the investments made after 1 January 2007, the entered into contract must precisely indicate the investment plan, the amounts of investment and the time periods in which the investments shall be made. Direct tax reliefs for investments, which are made after 1 January 2007 shall be applied in accordance the norms of the Law, which were in force up to 31 December 2006.

*[19 December 2006]*

15. A zone capital company or a licensed capital company which has not entered into an agreement with a zone authority or free port authority in accordance with Section 1, Paragraph two, Clause 13 of this Law, shall apply to the investments actually made until 31 December 2013 the interest rate referred to in Section 8 of this Law until the taxation period when the maximum amount of the interest rate of the accumulated investment amount applicable to the capital company determined in the agreement is reached.

*[4 April 2013]*

16. Amendments shall be made to contracts regarding making of investments entered into until 30 June 2014, determining the amount of the maximum direct tax rebates applicable to investments provided for in the contract in relation to the accumulated amount of investments.

*[3 July 2014]*

17. Amendments to Section 1, Paragraph two, Clause of this Law in relation to deletion of the words “and the special procedure for making State social insurance payments”, amendments to Section 2, Paragraph two, the title of Chapter III and in relation to deletion of Section 13 shall come into force on 1 September 2014.

*[3 July 2014]*

### **Informative Reference to Commission Regulations**

Aid within the scope of this Law shall be provided in accordance with Commission Regulation (EC) No 1628/2006 of 24 October 2006 on the application of Articles 87 and 88 of the Treaty to national regional investment aid (published in the Official Journal of the European Communities, L302, 1.11.2006, p. 29).

*[31 March 2004; 19 December 2006]*

This Law shall come into force on 1 January 2002.

This Law has been adopted by the *Saeima* on 27 July 2001.

President

V. Vīķe-Freiberga

Rīga, 10 August 2001

**Transport Sector Capital Companies**  
[3 July 2014]

**Steel Industry Sector Capital Companies**  
[3 July 2014]

**Synthetic Fibre Manufacturing Sector Capital Companies**  
[3 July 2014]

**Agricultural Sector Capital Companies**  
[3 July 2014]

**Fishery Sector Capital Companies**  
[3 July 2014]

**Coal Industry Sector Capital Companies**  
[3 July 2014]

## **Ship Building Sector Capital Companies**

Within the meaning of this Law, ship building sector capital companies are capital companies, which perform:

1. Ship building, repair or reconstruction, where:

- 1) the ship building is the building of self-propelled seaborne trade ships;
- 2) the ship repair is the repair or renewal of self-propelled seaborne trade ships;
- 3) the ship reconstruction is the reconstruction of such self-propelled seaborne trade ships the gross tonnage of which is not less than 1000 tons, on the condition, that the reconstruction includes significant changes to the cargo plan, hull, engine system or passenger accommodation;
- 4) self-propelled seaborne trade ships are:
  - a) ships the gross tonnage of which is not less than 100 tons and which are used for the carriage of passengers and/or goods,
  - b) ships, which provide special services (for example, dredgers and ice-breakers) the gross tonnage of which is not less than 100 tons,
  - c) tugs the capacity of which is not less than 365 kW,
  - d) fishing vessels the gross tonnage of which is not less than 100 tons,
  - e) the unfinished hulls of the ships referred to in Clauses “a”, “b”, “c” and “d” of this Paragraph, which are floating and movable;
- 5) a self-propelled seaborne ship is a ship, which in utilising its propulsion and control, has all the characteristics in order that it may be suitable for independent navigation at sea.

2. The ship building, repair and reconstruction of warships (ships, which in accordance with their construction characteristics and abilities are specially intended for utilisation only for military purposes, for example, warships and other ships for attack or defence) and other ships intended for utilisation for military purposes, on the condition, that the activities performed on such ships are not hidden activities, which are performed for the benefit of trade ship building.

## **Information to be Provided to the Zone Authority or Free Port Authority for Entering into an Contract Regarding Making of Investments**

1. Name, registration number of the capital company, registration number, contact information of the taxpayer.
2. The zone authority or free port authority to which the application was submitted.
3. Level III region of the Nomenclature of Territorial Units for Statistics (NUTS), in which investments will be made.
4. Title of the investment project.
5. Description of the planned initial investments, indicating whether investments are planned in relation to:
  - a) the establishment of a new capital company;
  - b) the increase in the production or service capacity of an existing capital company;
  - c) the diversification of the production of an existing capital company with products, which have not been previously produced in the capital company;
  - d) fundamental change in production processes of a capital company.
6. Amount of the planned initial investments (euro).
7. Start date of the planned initial investments.
8. End date of the planned initial investments.
9. In relation to other initial investment projects commenced by the capital company, for implementation of which aid is received, including *de minimis* aid, the following information shall be indicated:
  - a) title of the project;
  - b) Level III region of the Nomenclature of Territorial Units for Statistics (NUTS), in which investments will be made;
  - c) investment objects and their relation to the planned investments for receipt of tax reliefs;
  - d) the maximum aid interest rate applied;
  - e) amount of investments (euro);
  - f) start and end date of making investments;
  - g) legal basis for providing aid (law, Cabinet regulation, etc.);
  - h) date of the decision of the aid granting authority to assign aid.
10. In relation to other planned initial investment projects of the capital company, for implementation of which it is planned to receive aid, including *de minimis* aid, the following information shall be provided:
  - a) title of the project;

- b) Level III region of the Nomenclature of Territorial Units for Statistics (NUTS), in which investments will be made;
- c) investment objects and their relation to the planned investments for receipt of tax reliefs;
- d) the maximum aid interest rate applied;
- e) amount of investments (euro);
- f) start and end date of making investments;
- g) legal basis for providing aid (law, Cabinet regulation, etc.);
- h) date of the decision of the aid granting authority to assign aid.

11. In relation to other performed and completed initial investment projects of the capital company, for implementation of which aid was received, including *de minimis* aid, the following information shall be provided:

- a) title of the project;
- b) Level III region of the Nomenclature of Territorial Units for Statistics (NUTS), in which investments were made;
- c) investment objects and their relation to the planned investments for receipt of tax reliefs;
- d) the maximum aid interest rate applied;
- e) amount of investments (euro);
- f) start and end date of making investments;
- g) legal basis for providing aid (law, Cabinet regulation, etc.).

12. If the capital company provides the information referred to in Paragraphs 9, 10 and 11 of this Annex, it shall be indicated whether the initial investment projects implemented and planned by the capital company do not qualify as a single investment project as defined in Section 8.<sup>1</sup>, Paragraph two of this Law.

13. The planned aid percentage for application of tax reliefs (determined in accordance with Section 8, Paragraph one, Section 8.<sup>1</sup>, Paragraph three or Section 8.<sup>2</sup>, Paragraphs one and two of this Law).

14. Status of the capital company at the time of submitting the project application as defined in Annex I to Commission Regulation No 651/2014 large, medium-sized or small capital company).

15. Confirmation of the capital company that it will ensure financial investment in the amount of at least 25 per cent from the total investment project costs provided for in the contract regarding making of investments, for which State aid has not been received, that is, financing in the amount of at least 25 per cent from own economic resources or external financial resources, for which no public aid has been received, including State or local government guarantee or State or local government loan with preferential conditions has not been received.

16. Taking into account the sectoral restrictions laid down in Section 5, Paragraph four of this Law, the goods manufactured or services provided within the scope of the investment project shall be determined according to PRODCOM/NACE/CPA (CPA – in case of service projects) classifications where:

- PRODCOM – production statistics for mining and manufacturing products;
- NACE – general classification of economic activities;
- CPA – Statistical Classification of Products by Activity of the European Union.

17. Confirmation that investments will remain in the area concerned for at least five years (or in case of small or medium-sized capital companies – three years) since their making.
18. Confirmation of the capital company that an order regarding recovery of unlawfully assigned aid according to a previous decision of the capital company does not apply to the capital company.
19. Information that the capital company does not conform to the status of a capital company in difficulty in accordance with Article 2(18) of Commission Regulation No 651/2014.
20. Confirmation that the capital company has not commenced and will not commence making of investments prior to entering into effect of the contract regarding making of an investment.
21. If within the scope of this Law tax reliefs are planned to be joined with other aid to investments, confirmation of the capital company that making of investments has not been commenced.
22. Confirmation that the capital company, within two years prior to submitting the application for entering into a contract regarding making of investments, has not completed the same or similar activity as defined in Article 2(50) of Commission Regulation No 651/2014, in the European Economic Area and the capital company does not have specific plans to terminate such activity within two years after the investment project determined in the contract regarding making of investments is completed.