



Grant Thornton

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Government Support for **Businesses** Affected by COVID-19

Update

March 2020



Employment relationships during emergency situation

The emergency situation is declared in Latvia and it may impact the employment relationships. Therefore, the employer and the employee shall meet the best solution in this situation. Considering that no changes are adopted in Labour Law, by evaluating the ability to continue the employment relationships, the employer and employee may agree on the following:

- **to agree on changes in the employment contract** upon mutual agreement, by decreasing working time (if possible) and defining part time job/ defining hourly rate job;
- **to agree that the employee uses all unused annual leave days during** this emergency situation (it is unlegal demand of the employer to the employee to take unpaid vacation during emergency situation, however, the parties may agree on using the unpaid vacation);
- **to agree on termination of employment relationships** under mutual agreement (if not possible, termination by the employer (redundancy)).

In case none of the above-mentioned options can be reasonable and agreed, the employer must observe the rules of Labour law defining the idle time.

Labour Law regulates situations in which the employer must pay the remuneration even if the employee does not perform the work for justified reasons. While the law does not provide a list of justified reasons, some COVID-19 related measures may be considered as such reasons, and the employer is obligated to pay the remuneration to employee for non-fulfilment of its obligations.

Idle time is a situation where an employee is not employed by the employer or the employer doesn't accept the employee's work. The Labour Law provides that remuneration is payable even in the case of idle time. Although the law does not specify the reasons for determining idle time, all situations where the employer, due to objective circumstances, **is unable to employ the employee or does not accept the employee's work** are considered to be idle time. However, if the idle time is due to the employee's fault, the employer does not have to pay the remuneration.

- In case of idle time, an employer has the right to assign an employee the performance of work not provided for by an employment contract for a period not exceeding two months within one year.
- An employer has the obligation to disburse to an employee appropriate remuneration for the performance of work not provided for by an employment contract, the amount of which may not be less than the previous average earnings of the employee.

Employment relationships during emergency situation

According to the Law on prevention of state threats and consequences related to the spread of Covid-19, if the employer of the industries, that are affected by the crisis, does not employ the employee or does not accept the employee's work (idle time), the employee shall be **compensated up to 75% of the average monthly remuneration in the previous six months**, but not exceeding **EUR 700 per month** (idle time allowance) in accordance with procedure and in amount defined by the Cabinet of Ministers. In this case, the employer may not observe section 74 of the Labor Law (obligation to pay the idle time). Idle time allowance is not subject to personal income tax and statutory social security contributions. **The payment of the idle time allowance is terminated if the employer hires new employees** while the idle time allowance is granted.

Despite, on 24 March 2020 the Cabinet of Ministers has approved the list of industries to which the financial situation is decreased due to spread of Covid-19, with new regulation, adopted on 26 March 2020, the list of industries is expanded and therefore its is planned that the following companies, that are affected by crisis, could apply for the idle time compensation:

- if income from economic activity in **March and April 2020**, compared to the **respective month in 2019**, is decreased for **at least 30%** due to spread of Covid-19;
- if income from economic activity in **March and April 2020**, compared to the **respective month in 2019**, is decreased for **at least 20%** due to spread of Covid-19, and meets at least one of the following criteria:
 - the company's export volume meets 10% of the total turnover in 2019, or is not less than EUR 500 000;
 - The average monthly gross salary paid by the company is not less than EUR 800 in 2019;
 - Long-term investments in fixed assets are at least EUR 500,000 as at 31 December 2019.

Employment relationships during emergency situation

According to the rules of Regulations that are in force and adopted by the Cabinet of Ministers:

- Based on employer's application, the idle time allowance is paid to the employee for the period from **2020, March 14 to May 14, 2020**, but not longer than the decision on emergency situation is in force;
- The employer submits to the State Revenue Service an application for the idle time allowance (with justification) by April 25, 2020 for the period from March 14 to March 31, 2020 and thereafter by **the 25th day of the following month**.
- The type of main economic activity (according to NACE 2 codes) of the company in the crisis industry shall comply with the notified main activity at the State Revenue Service as at 1 March 2020.
- Employment relations with employees started **before March 1, 2020**.

Idle time allowance shall not be paid:

- To the management board and council board members;
- For those calendar days when sickness allowance has been granted;
- To employees who are simultaneously employed in a state or local government institution or capital company, receive a retirement or disability pension or perform economic activities;
- To employees employed in institutions financed by the State and local government budget and merchants controlled by them;
- To employers in crisis industries, whose staff is leased to another taxpayer.

The list of crisis industries may have been expanded by extending the number of companies entitled for State support measure – idle time allowance.

Employment relationships during emergency situation

Criteria for idle time allowance payment for employers in crisis industries:

- **All tax returns and annual reports** for the last 12 months prior to the emergency situation (March 14, 2020) must be submitted;
- The **tax debt shall not exceed EUR 150** as at 7 March 2020 or the payment deadline has been extended or agreement on voluntary tax payment has been concluded;
- **Has not been excluded or has not been excluded from the Value-Added Taxpayers Register** of the State Revenue Service during the last two years, or economic activity is not or has not been suspended;
- **No current insolvency process;**
- During the six months before the declaration of an emergency situation, **the taxes that are administered** by the State Revenue Service, shall be calculated on average per month at least in the **amount of EUR 200**;
- **The employer or a member of the management board has not been punished** for the employer's tax liabilities, violations in the field of labor relations, customs (except if a warning or a fine not exceeding EUR 151 is applied and the total amount of fines does not exceed EUR 500 per year).



Tax aspects

The Government of Latvia has established measures for the prevention of state threats and consequences related to the spread of Covid-19, as well as the procedures for financing these measures. On **March 22**, the law "**On Measures for Prevention and Management of National Threats and its Consequences due to the Proliferation of Covid-19**" came into force. A number of laws have been amended to eliminate the effects of Covid-19. Below those concerned with the tax aspect.

Possibility to **apply for tax extension** if the delay is due to the spread of Covid-19. To use this support, the taxpayer must submit a reasoned application to the SRS within two months of the due date for payment or the entry into force of this law. The SRS has the right to defer payment of delayed tax payments or to suspend it for up to three years from the date of submission of the application.

Regardless of the sector, the following tax measures are introduced:

Refund of VAT overpayments

- The SRS approved overpayment of VAT, which is stated in the declaration submitted after March 31, this year, **will be refunded within 30 days** after the submission deadline (or the submission date if it has been submitted after the deadline or its clarifications have been submitted).
- Until April 14 this year, **taxpayers will be reimbursed for VAT overcharges** approved by March 31 this year but carried forward to the next tax period up to the end of the tax year (including those incurred by a person removed from the VAT register).
- Overpaid VAT amounts, which have been submitted in declarations submitted by 31 March this year and which have not been approved before, **will be verified, approved and refunded by the SRS within 30 days** after the submission of the declaration to the SRS.
- If the deadline for approving the overpaid VAT amount was extended until March 31, this year, the **SRS will refund** the approved overpaid VAT amount **not later than on the next business day** after confirming the validity of the overpaid VAT amount.

As at present, taxes, duties, other state fees and related payments administered by the SRS shall be covered before the approved overpaid VAT amount is refunded in accordance with the procedure specified in the Law On Taxes and Fees. Also, the existing procedure according to which the SRS is entitled to specify the amount of overpaid VAT as a result of tax audit (audit) is not changed.

Tax aspects

Excise tax

- In the event of an increased need for disinfectants and a shortage of denatured alcohol, it is envisaged to **allow the use of non-denatured alcohol** for the production of disinfectants, exempt from excise duty.
- The disinfectant manufacturer **must obtain a permit from the SRS** to purchase alcoholic beverages.
- In order to increase the production of disinfectants without significantly increasing the excise tax guarantee, distillers having a special permit (license) for the operation of an approved warehouse keeper may grant to the SRS a reduction of the general excise tax guarantee up to **90%**.
- The distillers will have to notify the SRS about the start of the alcohol production process one working day in advance. If the producer of the disinfectant - a temporarily registered consignee - imports or receives alcohol from another Member State based on a permit issued by the SRS for the purchase of alcoholic beverages, he **will be able to submit a 100% reduction** of the excise duty.
- In order to minimize interpersonal contact during the spread of the Covid-19 virus, **excise goods will be allowed to be marketed by distance contract**, which prohibits the sale of tobacco products and liquids for use in electronic cigarettes, and alcoholic beverages to persons under 18 from 10pm to 8am.

Property tax

- The law provides local governments with the right to set different payment terms for real estate tax this year than the law on real estate tax, postponing them later this year. This right can be exercised by the municipality both by deciding on all the payers of the tax and by determining certain categories of the payers of the tax. This decision shall be made public to the payer of the RIC.

Personal income tax

- Income taxpayers who pay advance tax on their operating income will be able to assess their ability to make an advance payment. This rule shall apply to advances as from 1 January of this year.

Tax aspects

The Cabinet shall determine the **sectors** in which the financial situation (hereinafter referred to as "**the crisis-affected sectors**") has significantly deteriorated due to the spread of Covid-19 and the procedures for the application of the specified measures and special support mechanisms.

The following sectors are primarily supported (according to NACE codes) (Cabinet Regulation in force from 26.03.2020):

- H49.1.0** - Passenger rail transport, interurban
- H49.3.9** - Other passenger land transport n.e.c.
- H51.1.0** - Passenger air transport
- I55.1.0** - Hotels and similar accommodation
- I55.2.0** - Holiday and other short-stay accommodation
- I55.3.0** - Camping grounds, recreational vehicle parks and trailer parks
- I55.9.0** - Other accommodation
- I56.1.0** - Restaurants and mobile food service activities
- I56.2.9** - Other food service activities
- I56.3.0** - Beverage serving activities
- J59.1.1** - Motion picture, video and television programme production activities
- J59.1.2** - Motion picture, video and television programme post-production activities
- J59.1.3** - Motion picture, video and television programme distribution activities
- J59.1.4** - Motion picture projection activities
- J59.2.0** - Sound recording and music publishing activities
- M74.9.0** - Other professional, scientific and technical activities n.e.c.
- N77.1.1** - Renting and leasing of cars and light motor vehicles
- N77.2.1** - Renting and leasing of recreational and sports goods
- N77.3.9** - Renting and leasing of other machinery, equipment and tangible goods n.e.c.
- N79.1.1** - Travel agency activities
- N79.1.2** - Tour operator activities
- N79.9.0** - Other reservation service and related activities
- N82.3.0** - Organization of conventions and trade shows
- P85.1.0** - Pre-primary education
- P85.5.1** - Sports and recreation education
- P85.5.2** - Cultural education
- P85.6.0** - Educational support activities
- Q88.9.1** - Child day-care activities
- R90.0.1** - Performing arts
- R90.0.2** - Support activities to performing arts
- R90.0.3** - Artistic creation
- R90.0.4** - Operation of arts facilities
- R91.0.2** - Museums activities
- R91.0.3** - Operation of historical sites and buildings and similar visitor attractions
- R93.1.1** - Operation of sports facilities
- R93.1.2** - Activities of sport clubs
- R93.1.3** - Fitness facilities
- R93.1.9** - Other sports activities
- R93.2.1** - Activities of amusement parks and theme parks
- R93.2.9** - Other amusement and recreation activities

Assurance aspects

The Latvian Association of Certified Auditors informed that more entities will be affected by the crisis of COVID-19 for future non-adjusting after-balance events and fair value of assets. Accordingly, in the financial statement need to be added information of going concern issue that affects entity and provide information of impairment test carried out of assets already for year end 31st of December 2019.

The Ministry of Finance on their emergency discussion has accepted to extend the period of reporting and publishing of Financial statement of 2019 for a 3-month period for all types of commercial entities, religious organizations, associations and foundations.

Also For companies with a deadline of 7 months (until 31 July) under Article 97 (1) of the Latvian Law on Annual Reports and Consolidated Annual Reports, the deadline for submission of the 2019 annual report is extended to 31 October 2020.

***Example:** For Companies with reporting year ending 31 December 2019 and where Latvian Law on Annual Reports and Consolidated Annual Reports required submission of annual report to State Revenue Service by 30 April 2020, reporting deadline is prolonged to 31 July 2020 for subjects of this law.*

Information for public interest organizations

The Ministry of Finance has sent information to certified auditors that on March 11, 2020, the European Securities and Markets Authority (ESMA) published a recommendation to financial market participants to assess the impact of COVID-19. The relevant publication focuses on the need for public interest organizations to provide transparency on the actual and potential impact of COVID-19 on their business, which should be reflected in their 2019 financial statements. Considering that this may be included in the opinions prepared by the certified auditors, the Ministry of Finance requests the Latvian Association of Certified Auditors to inform its members about the publication and they inform their clients.

The published information can be found here: <https://www.esma.europa.eu/press-news/esma-news/esma-recommends-action-financial-market-participants-covid-19-impact>

GTB and GTI

We are working to share more guidance from our IFRS and GTI methodology teams through GT Connect and also external resources such as regulator updates.

Business Support

EU institutions and Latvian state have decided on various supporting activities to strengthen business enterprises and **support its operations during** and **after** the COVID-19 crisis. The most important business support measures (except for previously mentioned tax related measures and labor relations) are:

- In order to support financial sector's ability to issue credits during the COVID-19 crisis and immediately after that, the Single Supervisory Mechanism (the system of banking supervision in Europe) had decided on 12 March to soften requirements to financial institutions on liquidity and formation and maintenance of reserves. This measure should intensify banks' crediting and facilitate solution of short-term financial difficulties with banks.
- Support for companies suffered from COVID-19 crisis, regardless of represented industry, using **ALTUM provided financial support tools**: credit guarantees and loans.
- General **credit guarantee** conditions (**Rules of the Cabinet of Ministers No.150 "Rules on guarantees to business entities which are influenced by spread of Covid-19"**):
 - supported businesses – micro, small, medium and large enterprises;
 - worsening of financial situation of support receiver due to Covid-19 is proved by financial data;
 - amount of guarantee up to 50% from residual (unpaid) principal;
 - amount up to EUR 5 mil. for each company considering calculation algorithm defined in the Rules;
 - term up to 2 years;
 - guarantee will be issued for existing liabilities (investment loans, current assets loans, financial leasing), to postpone repayment of loan principal for up to 2 years or to prolong term of the loan agreement;
 - guarantee can be issued also for new current assets loans, if credit institution prolong term of the loan agreement);
 - ALTUM will provide guarantees till 30.09.2020;
 - the Rules define also not-supported industries as well as characteristics of the companies which are not allowed to qualify for the support;
 - state budget funding available to ALTUM for the guarantee program is EUR 50 mil.

Business Support

General loan conditions (**Rules of the Cabinet of Ministers No.149 “Rules on current assets loans to business entities which are influenced by spread of Covid-19”**):

- supported businesses – micro, small, medium and large enterprises;
 - worsening of financial situation of support receiver due to Covid-19 is proved by financial data;
 - amount up to EUR 1 mil. for each company considering calculation algorithm defined in the Rules;
 - term up to 3 years; restructuring and prolongation up to 5 years is possible;
 - grace period up to 12 months;
 - decreased/subsidized interest rate is possible;
 - the Rules define also not-supported industries as well as characteristics of the companies which are not allowed to qualify for the support;
 - ALTUM provides loans according to these Rules till the term defined in the Rules;
 - state budget funding available to ALTUM for the loans program is EUR 50 mil.; ALTUM is entitled to attract also a state loan up to EUR 150 mil. or a loan from international financial institutions.
- **Sickness benefit** which is defined due to spread of COVID-19 from the 2nd day of illness will be paid by state (this regulation will be in force till 30 June 2020).
 - During the emergency situation due to spread of Covid-19 it is **forbidden to organize gambling and lotteries**, except for online gambling, number lotteries and moment lotteries.
 - State and municipal bodies and companies, as well as derived public persons for the time of emergency situation **release companies** from the industries affected by the crisis **from the property rent**, or **decrease amount of the rent**, as well as do not count penalty in case of delayed payments, except for payments for services – electricity, eating, water supply etc.
 - **Till 01.09.2020 creditors are not allowed to submit applications for insolvency of legal persons** according to points 1, 2, 3 and 4 of the part 1 of the Article 57 of the Insolvency Law.

All state support measures are defined in the law **“On measures for prevention and overcoming of the state danger and its consequences related to the spread of Covid-19”**. The list of industries particularly suffered due to COVID-19 crisis and eligible for support is given earlier in this material but can be changed.

Services we offer

Grant Thornton Baltic serves a diverse range of clients across all industries and ownership structures. The breadth of our client base allows us to gain valuable insight from the complexities of listed companies, as well as from much smaller clients with very different needs and issues. Apart from audit services, we can also provide you with the following services:



Tax advisory

- Corporate taxation
- Transfer pricing advisory & documentation
- International taxation
- Transaction tax advisory
- Expat taxations
- Value added tax & fiscal representation
- Representation in the Tax Board
- Tax due diligence
- Tax trainings



Legal advisory

- Commercial law
- M&A
- Transaction advisory
- Legal due diligence
- Restructuring
- Reorganization
- Corporate secretarial services
- Contact person service
- Contract law
- Labour law



Business and financial advisory

- Valuation (enterprises and trademarks)
- Financial due diligence
- Financial modelling and budgeting
- M&A
- People and culture
- Employer branding
- Leader development support
- Executive or team coaching
- People and culture development strategy
- Upgrading of business models and business strategies
- Development and upgrading of marketing and brand strategies
- Development of sales organizations and customer management systems
- Data security
- Compliance with the General Data Protection Regulation
- Data Protection officer services
- Digital diligence audit

Services we offer



Business risk services

- Risk assessment & management
- Legality of transactions
- Fraud investigation
- Assessment of quality assurance systems
- Assessment of the organisation's internal control systems and supervisory environment
- Process mapping & evaluation
- Implementation of measures for preventing corruption and fraud
- Internal audit



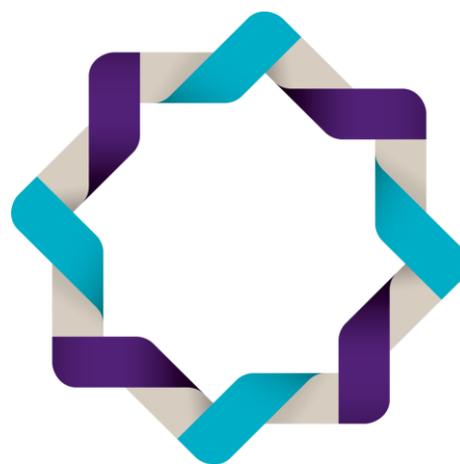
Audit

- Audit
- Review
- Packaging report audit
- Special audit
- Non-monetary contribution evaluation



Outsourcing

- Bookkeeping and financial accounting
- Reporting
- Payroll and labour law
- Tax accounting



Dynamic services for dynamic clients

With the in-house expertise from our legal, tax, financial, audit and accounting departments, offices in all three Baltic States and Grant Thornton family members in over 130 countries, we render professional and comprehensive services to local, regional as well as international companies.

Grant Thornton Baltic serves a diverse range of clients across all industries and ownership structures. Our extensive client base (over 2,000) allows us to gain valuable insight from the complexities of large international groups, as well as from much smaller clients with very different needs and issues.

Your benefit:

We understand the needs of your business and as a one-stop-shop can deliver financial, legal and tax advice that makes a difference.



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