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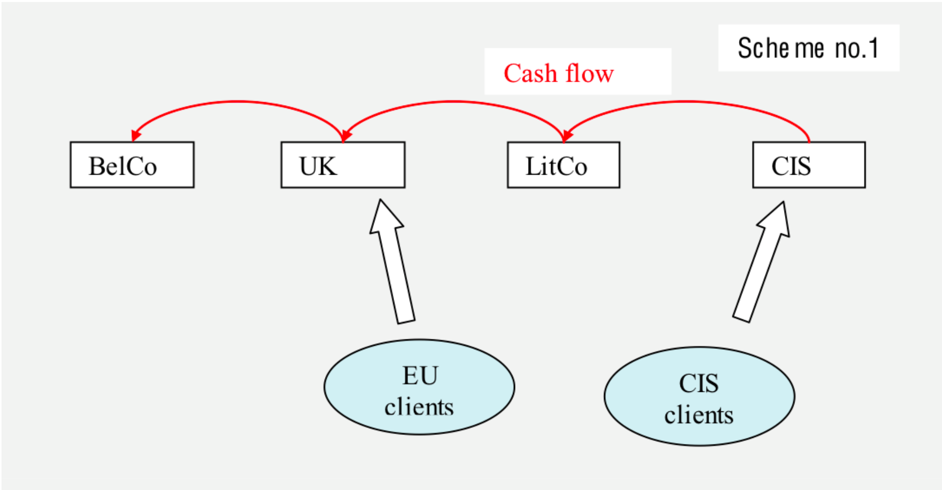
A summary of article "Using UK entities for tax planning in Latvia's context" published by Forbes

Edgars Koskins' article explains the use of UK entities for tax planning purposes in the context of Latvia. The article starts with explaining that the tax planning instruments sometimes are perceived as branded clothes. There are clients who openly admit that they are tired from, e.g., Cypriot structures, and that they desire other solutions. For that reason the UK registered entities can serve as better branded solutions with a reasonable price tag.

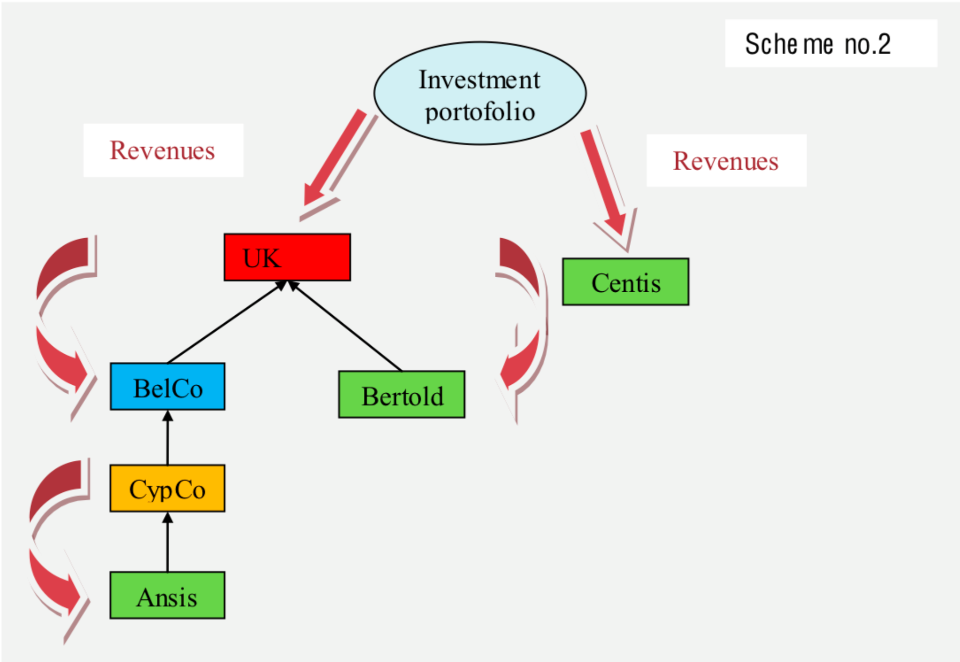
The article makes an assumption that the UK probably is the most known for its limited liability partnership (**LLP**), which in the Latvian context can be perceived as a hybrid of a limited liability company and a limited partnership. Then the article gives an example of one tax planning scheme the author encountered in an unnamed CIS country. A CIS registered entity (**CIS Co**) provides transport services to its clients and for these purposes it has established his own controlled entities (sub-contractors) in Lithuania (**LitCo**) and the UK (**UK LLP**) which are aimed at serving clients but in fact are collecting service fees from clients. The whole idea of the chain is to accumulate cash on the account of UK LLP as it does not pay income tax in the UK. Finally UK LLP will transfer cash to a tax haven, e.g., a company registered in Belize (**BelCo**). BelCo, of course, does not pay income tax.



The author makes an ironic conclusion that the aforesaid is a great tax planning example, which though has certain flaws.

In the next section of the article, the author goes straight to discussing UK LLPs. An UK LLP is not subject to UK taxation. In that sense, it is similar to a Latvian partnership – members of a partnership are subject to taxation. However, a key difference between the UK and the Latvian taxation is that if the members of a UK LLP are not residents in the UK and there is no UK sourced income, effectively no UK taxation arises. Thus, UK partnerships may transfer their profits to its members - non-UK residents withholding free. On the contrary, Latvian partnerships are required to withhold either corporate income tax (**CIT**) or personal income tax (**PIT**) on the payments made to its foreign members.

The author then provides a hypothetical example with three Latvian entrepreneurs (Ansis, Bertolds and Centis) who desire to invest in internationally traded securities and the shares of Latvian companies. Ansis and Bertolds form a UK LLP in the proportion 50/50 while the third partner is conservative in his nature and desires to do trading as an individual. Bertolds does not desire to do extra planning and becomes a direct member to the UK LLP. Ansis, however, has gained quite an expertise in international tax planning and nominates as the member of the LLP a company established in Belize, which is owned by Ansis' company established in Cyprus (**CypCo**) – scheme no.2.



The author then makes a hypothetical example that the trio of entrepreneurs earns three million for selling their investment portfolio and that prior to that it has not been analyzed what tax consequences are going to be.

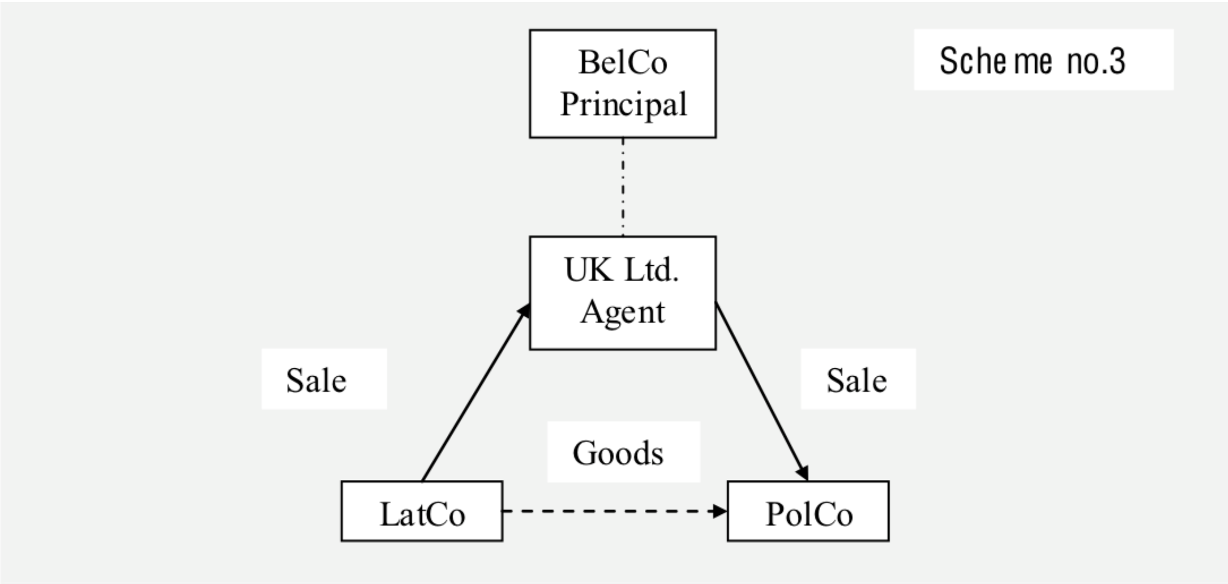
Ansis. First of all, the UK LLP itself most likely will not pay any income taxes. The LLP then will pay-out a million to BelCo and no withholding will be made in the UK. The rest depends on Ansis' plans. If there is no need to receive the money for private use then it can be invested via BelCo or CypCo in other businesses. If Ansis wants to receive his money on a private account then BelCo will distribute dividends to CypCo and CypCo will pay-out dividends to Ansis. Cyprus does not tax inbound and outbound dividends. In Latvia, however, Ansis is subject to 10% PIT, namely, 100 000 are paid in taxes.

Bertolds. Bertolds receives his million directly from the UK LLP. In this case most likely 25% PIT applies instead of 10%, as it should qualify as an income from a partnership: 250 000 are paid in taxes.

Centis. From the first sight Centis should be subject to PIT at a rate of 15% as his revenues should qualify as a capital gain: 150 000. However, there is always a risk that the tax inspection may re-qualify such trading as a commercial activity and claim that 25% PIT applies.

Apart from an LLP UK also offers other interesting tax planning options. Thus, UK has established a quite convenient holding regime, which can hold the shares of a Latvian company and not to pay any capital gain tax upon their disposal, if certain reasonable conditions are met. The UK also will not withhold taxes if it pays out dividends to non-resident shareholders.

Finally, the author also mentions a traditional UK – agency scheme (scheme no.3). A hypothetical example is used with the aforesaid entrepreneur Ansis. Ansis directly or indirectly maintains BelCo and a company registered in UK (UK Ltd.). UK Ltd. is registered as a VAT payer (which, however, is not that easy in the UK). Further, it is the task of UK Ltd. to enter into contracts as an agent on account of and behalf of BelCo. For example, UK Ltd. is purchasing goods from a Latvian company (**LatCo**) and sells them to Poland (**PolCo**). The idea of the scheme is that UK Ltd. earns a commission of, e.g., 5%, but the rest is earned by BelCo.



Finally, the author explains that formation and maintenance of a UK entity easily reaches 4000 – 5000 British pounds per year while local Latvian service providers offer more competitive pricing. The author also notes that the above schemes should not be treated as 100% safe solutions. In particular, he notes one of UK experts who openly stated that the UK agency scheme in the Western Europe is clearly considered to be a tax evasion, but for the Baltics it may be still suitable.