

Limited liability companies

Limited liability companies (*sabiedriba ar ierobežotu atbildību* or *SIA*) are governed by the provisions of the Law on Limited Liability Companies of 23 January 1991. Under this legal form, the financial liability of the company's founders is limited to the extent of their capital contribution. A limited liability company can be founded by between one and 50 shareholders and a foreign individual or legal entity can be the sole founder. The minimum foundation capital is 100 lats (USD\$166), of which at least 50% must be paid at the time of registration of the company and the remainder within a year of registration. The company must establish a reserve fund into which not less than 5% of annual profit must be paid until the fund reaches one third of the company's foundation capital. To register a limited liability company its founders must provide the *Latvian Enterprise Registry* with various documents.

Advantages

- Control image, reputation and sales of the company's products.
- Continued benefit from market growth.
- Limited financial liability.
- Tax incentives.
- Fully knowledgeable about the industry.

Disadvantages

- Business and financial risk.
- Drain on financial, technical and personnel resources of the investor.

Joint stock companies

Joint-stock companies (*akciju sabiedriba* or *A/S*) are governed by the provisions of the Law on Joint-stock companies of June 1993 that closely follows European Community directives. Joint-stock companies are a less common form of business representation for foreign investors than are limited liability companies because the structure and requirements are more complicated. Indeed, following the introduction of the Foreign Investment Law, most joint ventures formed under earlier legislation were transformed into limited liability companies.

Joint-stock companies can be created as a closed company (where shares are divided among its members) or as an open company (where shares are sold to the public). The minimum number of founders is two and there is no maximum. The minimum foundation capital for most businesses is 500 lats (USD\$830), rising to 15,000 lats (USD\$25,000) for insurance companies and 250,000 lats (USD\$414,000) for banks. The company must establish a reserve fund into which not less than 5% of annual profit must be paid until the fund reaches one third of the company's foundation capital.