

Social Enterprise Bill (1/37/17)

Parliament debated the Social Enterprise Bill in its second reading on 11 May 2017, and the concept of social enterprise is included in the pieces of legislation relating to the tax reform. Although the tax reform and relevant amendments have kept Parliament from debating the Social Enterprise Bill in its third reading, it's expected to come into force on 1 January 2018 even if it's enacted as late as the end of 2017. This article explores the purpose of the new law, the concept and status of social enterprise, and some other aspects.

The purpose of the law

The new law is designed to support events that will improve the social environment and contribute to the development of businesses operating in the social area.

The concept

A social enterprise is a private limited company that has duly acquired social enterprise status and carries on a business producing favourable social effects. According to the Bill a social enterprise aims to provide social services, create an inclusive civil society, promote education, support science, protect and preserve the environment, protect animals, or encourage cultural diversity. An animal shelter is an example of a social enterprise.

The status

Social enterprise status is granted subject to the following criteria:

- the aims stated in the applicant's articles of association fit the purpose of the new law;
- the applicant doesn't distribute its profits but rather reinvests them to achieve its stated aims;
- the applicant employs paid workers;
- a person representing the target group sits on the applicant's executive body;
- to achieve its stated aims the applicant may engage voluntary workers in doing jobs that aren't associated with its core business, management or accounting.

Social enterprise status will be granted from 1 January 2018 either after a company applies for it or from the date of its incorporation. Each grant or refusal will be approved by a special commission.

Support for a social enterprise

A social enterprise is eligible for corporate income tax (CIT) relief of up to 100%, excluding the part of CIT charged on –

- its non-business expenses and any expenses that aren't used for achieving its stated aims (except for a donation to a public benefit organisation as long as information is provided by the end of the tax year about the use of that donation according to the area of activity assigned to that public benefit organisation);
- fines and contractual penalties;
- payments to non-residents on which CIT should have been withheld; and
- bad debts meeting the conditions for taxation.

Restrictions

A social enterprise isn't permitted to offset a loss calculated under the CIT Act for the current tax period or any losses brought forward. These restrictions, i.e. the prohibition on the distribution of the company's profits in dividends, have to do with the purpose of its incorporation – to use all revenues for its business aims in the social area.

The municipality has the power to give the social enterprise any real estate tax relief available under the Real Estate Tax Act.

The authors of the Bill believe that the restrictions will be insignificant compared to the benefits.