

Aid mechanisms for social enterprises 1/15/22

Every two years the Ministry of Welfare prepares an informational report on the operation and development of social enterprises (SEs) for submission to the Cabinet of Ministers. [The latest report on SE development](#), with information relevant to companies seeking SE status, was submitted on 30 March 2022. This article explores what SE status is and what aid measures it offers, as well as providing an overview of the information included in the report and of proposals for amending the SE Act.

The Social Enterprise Act

Governing SE operations in Latvia since 2018, [the SE Act](#) was amended with effect from 10 February 2022 to redefine the hallmarks of an SE and to require an SE to carry on a business that creates a significant beneficial effect on society in one of three ways:

1. The company employs persons representing specified target groups (at least 30% or 50%*).
2. The company provides services to social groups it has identified whose lives are affected by problems important for society (at least 30% of its total services).
3. The company carries out some other activities of general public interest with a lasting positive social effect.

** If the company employs a staff of >10 the required target group employment rate is >30%. With a staff of <10 the required rate is >50% of all workers.*

Companies mostly qualify for SE status by doing business in the first two ways. The bulk of SEs (27%) are currently operating directly in the area of labour integration by employing specified target groups. Activities are also being carried out in areas such as education (20%), sports, health and medicine (17%).

Yet SE status can be obtained also by doing business that creates a lasting positive effect on the community at large, including the environment (e.g. waste-free operations and circular economy according to the European Green Deal). Although only 4% of SEs are currently operating in this area, an increase in number is to be expected.

SE target groups

The target groups are identified by the Cabinet of Ministers after analysing Latvia's socio-economic conditions and how they affect certain groups of persons. The Cabinet of Ministers' Rule No. 173, [Citizen Groups at Risk of Social Exclusion and Procedures for Granting, Registering and Monitoring Social Enterprise Status](#), currently lists 13 target groups:

1. Persons with a disability
2. Persons with a mental disorder
3. Persons with needy family (person) status
4. Unemployed persons with dependants, unemployed persons over the age of 54, and persons in long-term unemployment
5. The Roma ethnic minority
6. Prisoners or persons released from prison
7. Persons addicted to alcohol, drugs, psychotropic or toxic substances, gambling, or

- computer gaming
- 8. Persons having declared their residence at a night shelter
- 9. Victims of human trafficking
- 10. Persons with refugee, alternative or stateless status in Latvia
- 11. Orphans and children without parental care from the age of 15 and persons of age that fall into this group until reaching the age of 24
- 12. Parents or a guardian caring for a child with a disability
- 13. Persons caring for a child who has reached the age of majority, a grandchild, sibling, half-sibling, parent, grandparent, or spouse, if the person in care has a Class I disability or a mental disorder with a Class II disability

Given today's volatile situation globally and in Latvia, more companies are expected to be able to meet the target-group employment condition, allowing them to obtain SE status and claim the aid measures.

SE aid measures

1. Corporate income tax relief, with the following expenses being excluded from the taxable base:
 - a. Ensuring events for the recreation and social inclusion of SE workers within a target group
 - b. Integrating persons within a target group on the labour market and improving their life quality
 - c. Purchasing assets that help achieve goals set in SE articles of association
 - d. Ensuring events for the social integration of persons within a target group
 - e. Donating to a public-benefit organisation for purposes consistent with goals set in SE articles of association if the donee provides information on the use of the donation by the end of the financial year
2. A municipality may grant SE real estate tax relief.
3. A public person may transfer its movable property into SE ownership for no consideration.
4. A public person, a company owned by a public person, and a company in which a public person's share, whether individually or in aggregate, exceeds 50% (including a company in which the share of one or more public persons' companies, whether individually or in aggregate, exceeds 50%) may give the use of its property to SE free of charge.

As part of the European Social Fund's "Aid for Social Enterprise" project, the Altum development finance institution is evaluating SE grant applications (business plans) and awarding grants of up to EUR 200,000 to implement business projects that meet the requirements. As part of a business plan, it is possible to finance non-current assets and intangibles, current assets, and training and consulting costs and fees. A total of 149 grants worth EUR 9.3 million, including 145 contracts for EUR 9.2 million, had been awarded by the end of 2021.

In 2022 a further EUR 3 million is available in grant funding for SE aid, pushing the total grant funding to EUR 12.8 million. The extra funding makes it possible for project application assessments and aid awards to continue throughout 2022 (and up to the first quarter of 2023 if necessary).

SE status eligibility criteria

Section 5 of the SE Act lays down eligibility criteria. It is important to note that the company's form of business must be a private limited company (SIA) with goals set in its articles of association fitting the purpose of the SE Act and its business being conducted according to the SE Act's criteria.

The company must have no arrears of taxes or duties in total exceeding EUR 150, no administratively penalised offences in any of the areas covered by the SE Act, no unfair trade practices or breaches in advertising or SE lines of business, nor any other significant offences that could be out of line with SE operations or target groups.

While the current rules prevent a private limited company with SE status from distributing its profits in dividends, the Ministry of Welfare has been mandated to evaluate by 31 December 2022 ways of permitting a partial profit distribution in SEs and, if necessary, to draw up proposals for amending the SE Act and duly submit those to the Cabinet of Ministers for review. The Ministry of Finance has been mandated to draw up proposals for amending the Corporate Income Tax Act and duly submit those to the Cabinet of Ministers for review by 31 December 2022 in order to provide for relief available to entities and individuals donating to SEs. Such amendments to the SE Act are expected to encourage more companies to obtain SE status.