

# Public benefit organisations and social enterprises: types of support (2) 3/19/23



ESG Tax Practice, PwC Latvia  
Alina Ruskova



Associate, PwC Legal  
Karina Daugaviete

This article picks up where we left off about public benefit organisations and social enterprises.

## Donations

Public benefit organisations (PBOs) do not pay corporate income tax (CIT) under general procedure, so it makes sense that the CIT reliefs described above are neither intended nor relevant for PBOs. However, the tax rules prescribe reliefs directly for donors. So these rules encourage businesses and individuals to donate to PBOs.

The CIT Act states that donations a company has made are treated as non-business expenses, which makes it liable to pay CIT. If a donation is made to a PBO having such status under the Public Benefit Organisations Act and if the other conditions laid down by section 12 of the CIT Act are met (e.g. there is an agreement for the donation, and tax debts do not exceed EUR 150), the company is eligible for one of the three reliefs prescribed by the CIT Act, which it chooses freely (within its means) and may change once a year.

The Personal Income Tax Act implies that donations made to PBOs are allowable expenses that can be deducted from annual taxable income. This means that individuals may report donations they have made to PBOs on their annual income tax return and claim a refund of a potential tax overpayment (as with medical expenses).

So it's more profitable for CIT-paying entities and individuals to donate to organisations with PBO status, rather than to organisations without such status. At the same time, PBO status gives the potential donor a clear signal that the organisation is acting in the public interest, its operations are monitored and the donor is eligible for tax relief if Latvian tax laws are observed.

There have been discussions about the need to legislate on relief for entities and individuals donating to businesses with social enterprise (SE) status, but the law has yet to be amended to provide for such relief.

## Grants

When it comes to financial support, having SE status is a precondition for companies applying for certain grants as part of national and EU financing. For example, so far the most direct financial support was provided under the European Social Fund's project "Support for Social Business". This was implemented by the Ministry of Welfare in cooperation with Altum Development Financial Institution. Grants ranging from EUR 5,000 to EUR 200,000 were considered and awarded under the programme.

The grants were intended for carrying out sound and viable SE business plans or for starting and expanding SE business. This business must be socially significant and have a reasonable potential. If a grant has been awarded, this could be used to finance long-term tangible investment (e.g. in plant and

equipment), intangible investment (e.g. licences, patents, software), current assets (e.g. raw materials), training and consulting costs, as well as employee reward costs. The programme also includes certain costs that cannot be met by the programme financing, such as real estate acquisition, construction, or repairs to the existing equipment.

It's important to note that according to the publicly available information on the Altum website, a total of 202 grants worth EUR 12.5 million had been awarded by the end of 2022. However, the limit set for financing available under the programme has been reached. So, even though Altum continues to assess applications received by 3 October 2022, the acceptance of reserve applications has been stopped. The Altum website states, though, that there are plans to launch a new SE support programme, whose rules are currently being worked out. The new support programme is expected to come on stream in 2024.

This means that businesses wishing and planning to obtain SE status should monitor the latest information and continue developing their business or idea to be able to apply for financial support in the future.

While the receipt of applications for "Support for Social Business", a programme designed specifically for SEs, has been stopped, EU funds are offering financial support under a variety of projects. These projects are supported from EU funds' co-financing and national public financing and in certain cases from national private financing. If an SE fits one of those programmes, it can apply for financing. So having SE status may not be a precondition to apply for financing, but having a particular goal for it being awarded and used does play a significant role.

## Other types of support

SEs may also qualify for other support measures. The Ministry of Welfare's website describes the following measures mainly associated with financial support:

- A municipality has the power to award real estate tax reliefs to an SE under the Real Estate Tax Act.
- A public person's movables may be transferred to an SE free of charge under the Disposal of Public Persons' Property Act.
- A public person, a public person's company, a company in which a public person's shares individually or collectively exceeds 50%, and a company in which shares held by one or more public persons' companies individually or collectively exceed 50%, is permitted to transfer its assets to SE for free use under the Anti-Squandering of Public Persons' Financial Resources and Property Act.
- To achieve the goals set out in its articles of association, the SE is permitted to recruit voluntary workers for operations that are not associated with the company's management, accounting or core functions.

During preparations for this article, we were searching for and examining information about grants and other types of support for PBOs, but compared to SEs, this type of information is not so readily available. So we find that SEs currently have more opportunities to receive grants.