

Proposals to amend rules on state aid for startups

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October 27 was the last day of a public consultation on proposals the Ministry of Economy (MOE) has drawn up for amending the State Aid for Startup Operations Act. The proposals delete references to the *de minimis* aid rule and authorise the MOE to enter into participation agreements with organisations representing startups to simplify the process of awarding EUR 400,000 in state aid. This article explores what we see as key changes.

Current rules

Effective from 2016, the State Aid for Startup Operations Act prescribes aid programmes for startups, criteria for granting aid and procedures for monitoring it. One of the criteria for startup aid is that a venture capitalist must be brought in. If a startup is to qualify for state aid, a venture capitalist has to invest at least EUR 30,000 or 15,000 in the startup, its subsidiary or parent company (depending on statutory conditions) within the last 24 months of the application being filed.

The law defines startup aid programmes which, for instance, allow the employer to make a fixed monthly payment of mandatory national social insurance (NSI) contributions for each employee. The payment is calculated on two minimum monthly salaries at the combined NSI rate. The employee covered by the fixed payment may opt out of paying personal income tax, which results in a higher net pay. However, the employer is liable to deduct additional NSI for pension insurance or a voluntary pension scheme equal to at least 10% of gross income that does not exceed the difference between the NSI cap (EUR 78,100 in 2024) and the fixed payment.

Startups can also apply for state aid programmes to attract highly qualified staff. For example, the Cabinet of Ministers' Rule No. 644 of 7 November 2023 prescribes aid for attracting professionals who perform technical and economic feasibility studies, industrial research, certification of new products or technologies, and testing services. The amount of finance per application or voucher can range from EUR 5,000 to 25,000 depending on the employee's qualification.

Having assessed the current rules, the MOE found that the existing state aid programmes adequately provide startups with the necessary aid. The MOE does not believe that a new aid programme would make any additional contribution towards achieving Latvia's economic targets or improving the business environment.

However, according to the draft national budget for the next three years, Latvia plans to award EUR 400,000 in state aid for the development of startups. To make the process simpler, the lawmaker plans to lay down procedures for awarding and monitoring this aid.

The proposed amendments

The amendments delete the Act's references to the *de minimis* rule and provide that the type of aid and

the award procedures will in future be determined by the Cabinet of Ministers' Rule No. 74 of 7 February 2017.

The proposals describe how the state funding will be used to develop startups. An annotation to the proposals explains that under the current rules (Cabinet Rule No. 580) the MOE's tasks include planning and performing activities to improve the business environment, stimulate the economic development of startups, and help attract foreign investors. So the proposals will authorise the MOE to enter into participation agreements with organisations representing startups to take steps for improving the business environment with the assistance of state co-funding.

The MOE is to organise a competition for selecting eligible organisations representing startups to enter into participation agreements. These agreements will allow the organisations, in addition to their current activities, to use state aid for holding various events, such as investment sessions, training, master classes for startups and investors, international events to attract investors, and training courses for startups.

The annotation explains that authorising the MOE to enter into participation agreements with organisations representing startups will make it possible to purposefully carry out various aid activities, attract new talent and investment, and foster the development of a single robust ecosystem of startups.

The annotation also says the operations of startups create higher-paid jobs, promote an influx of innovative business ideas, and help Latvia become an innovative economy. The lawmaker expects that the organisations will annually run 14 activities, including four regional activities outside Riga, attract EUR 70 million in investment, and create 100 new jobs. These plans are aligned with the target set by the MOE – ensuring Latvia's annual GDP reaches EUR 83 billion by 2035, meaning the economy will be double its volume in 2023.

As we mentioned, the period of public consultation on the proposals has ended, and they have been sent to the Cabinet of Ministers for review before being passed to Parliament.