

Aid to encourage digital transformation of businesses 1/39/22



ESG Tax Practice, PwC Latvia
Alina Ruskova



Senior Consultant, Transfer Pricing, PwC Latvia
Liva Leimane



Partner and Head of Tax Practice, PwC Latvia
Ilze Rauza

The rules for implementing the aid programme “Financial instruments for encouraging digital transformation of businesses” under the EU Recovery and Resilience Facility came into force on 5 July 2022. The programme is designed to encourage the digital transformation, development and revenue growth in businesses by supporting investment in digital information tools aimed at productivity gains. The aid is targeted at Latvian-registered businesses regardless of size. This article takes a closer look at the aid programme.

What is the programme's status?

Although the rules for this programme are already in force, national development finance institution Altum has yet to begin taking applications for it. Given the goals set by the rules for qualifying activity levels in 2023, we expect that Altum will be actively working with this aid programme next year and might begin taking applications this year. So now is the time for CEOs to identify and consider the scope for receiving this aid.

What kind of aid is available?

The aid will be available as a loan from Altum, with an option to cancel some of the principal through a capital discount if the conditions of a digital transformation roadmap are met. Altum will be able to award a capital discount up to 35%. The expected minimum loan is EUR 100,000 and the maximum is EUR 7 million. The loan is repayable in up to ten years. The aid is provided for implementing projects in Latvia and must be related to the purpose of investment.

To apply for the aid, businesses will have to take a preliminary maturity test and obtain a digital transformation roadmap from a European digital innovation hub.

Qualifying activities and exclusions

The aid will be available for one or more of the following qualifying activities:

- Digitalisation of traditional processes
- Purchase and implementation of Industry 4.0 solutions (automated machines, robotic solutions, sensor networks and communication technology, AI solution technology and other solutions fit for the purpose of investment using information and communication technology) (allowing for the required equipment and a software component) according to the company's

core business activity

- Purchase of systems and devices functioning in the 5G network
- Data storage solutions
- Upgrade to the existing production equipment and other equipment necessary for the digitalisation of processes, and the purchase of new equipment
- Purchase of new equipment in information and communication technology associated with the use of information and communication technology products in production
- Setting up and securing the operation of solutions or systems operating on a single platform (platform economy)

While the rules offer no examples for the digitalisation of traditional processes, we expect the following to qualify:

- Digitalisation of incoming invoices and transfer to the accounting system
- Digitalisation of business records

If your company would like to automate its financial/accounting processes instead of digitalisation, then we expect the following automations might qualify:

- Preparation of financial and management accounting reports
- Automatic data comparison between systems
- Data transformation solutions

At the same time, the rules state that the following costs will not qualify:

- Purchase of standard office equipment or computer hardware
- Support for existing software and information systems
- Adding new user functionality to existing programs
- Adaptation of existing software
- Preparation of user documentation
- Payment of VAT
- Purchase of real estate (including land)
- Construction work

Please note that the aid will not be available to certain industries, such as financial and insurance activities, landfills (there will be exceptions when the aid will be provided to this industry) and real estate operations.

What else is there to think about?

Other member states, including Lithuania, are offering or about to offer aid instruments for the digitalisation/automation of business processes. So, if your company is part of a multinational group and digitalisation issues are relevant to other group companies, we recommend evaluating the aid programmes available in Latvia and abroad together. This will help you figure out whether you can use the aid in multiple countries at once, whether any digitalisation projects developed in one country can be used abroad, and which country offers the best aid conditions for your business.

PwC's Latvian team of ESG experts are working closely with the PwC network of companies abroad to explore such issues. If you have any questions about the aid programmes in Latvia or abroad, please reach out to Alina Ruskova. Our team has experts engaged in implementing digitalisation/automation tools, and

we are happy to help you with this.