Saeima has adopted and the President has proclaimed the following Law:

**Law on Aid for Start-up Companies**

# Chapter General Provisions

## Section Terms Used in this Law

The following terms are used in this Law:

* 1. **Early stage venture capital investment** — an investment into equity capital of the commercial company during the first five years of its economic activity as funding for at least one of the following goals:
		1. founding a commercial company, including design, research, assessment, and approval of a product or economic activity model;
		2. growth of a commercial company, including development of a product or economic activity model;
		3. development of activity of a commercial company.
	2. **Aid programmes** — a set of state aid measures promoting development and research of innovative products and implemented as:
		1. Fixed payment aid programme, personal income tax and enterprise income tax relief applied in accordance with the procedure prescribed by this Law;
		2. Aid programme for attracting highly qualified employees, personal income tax and enterprise income tax relief applied in accordance with the procedure prescribed by this Law;
	3. **Fixed payment** — the final monthly payment of mandatory State social insurance contributions (hereinafter — mandatory contributions) made by the start-up company for the employee into the State social insurance special budget;
1. **Innovative product** — a product of service with high added, including technological, value ensuring development of a certain new product of service or significant improvement of an existing product of service;
2. **Start-up company** — a capital company possessing a high growth potential and its main economic activity is related to design, production of development of scalable business models and innovative products;

6) Commission for start-up company activity assessment — a collegial decision-making authority possessing the duties and rights established under this Law.

## Section Aim of this Law

The aim of this Law is to promote the formation of start-up companies in Latvia thereby stimulating research, as well as use of innovative ideas, products and processes in the economic activity (commercialisation of research products).

## Section Scope of this Law

This Law provides for:

* 1. aid programmes, eligibility criteria, as well as procedure for administration of aid granted to a start-up company;
	2. venture capital investor qualification conditions;
	3. procedure for establishment and competence of the commission for start-up company activity assessment (hereinafter — Commission).

## Section Criteria for granting the aid programmes

The aid programmes may be granted to a start-up company complying with the following criteria on the day of submission of application and during the whole period of aid programme:

* 1. A qualified venture capital investor who is not a related person to the start-up company under Section 139.1 of the Commercial Law invests at least 30,000 EUR into equity capital of the start-up company every aid application submission year. The said investment is provided for implementation of the business idea stated in the application;
	2. The start-up company carries out commercial activity for the first five years since its registration in the commercial register;
	3. Income start-up company derives from its economic activity during the first five years of its registration in the commercial register is below 5,000,000 EUR.
	4. Income start-up company derives from its economic activity during the first two years of its registration in the commercial register is below 200,000 EUR.
	5. Profit of the start-up company since its registration in the commercial register has not been distributed as dividends and is invested in start-up company’s development;
	6. The Start-up company has not been reorganised, it has no shares in another capital company, it is not a dependent company under the Group of Companies Law, there has been no transfer of undertaking under the Section 20 of the Commercial Law, and start-up company's equity capital shares (stock) have not been alienated (alienation does not concern the stock of qualified venture capital investor or personnel shares);
	7. The start-up company's tax arrears do not exceed 150 EUR;
	8. The start-up company complies with at least one of the following signs of innovation:
		1. The start-up company is the intellectual property rights holder on the object which forms the basis of design of the innovative product or service;
		2. At least 70% of employees hold Master’s degree or PHD;
		3. At least 50% of start-up company's expenses sins its registration in the commercial register have been diverted to research and development;
	9. Insolvency proceedings have not been applied to the start-up company.

## Section Venture Capital Investor Qualification Conditions

1. A qualified venture capital investor is a person or aggregation of property (hereinafter — investor) registered in Latvia as alternative investment fund in accordance with the Law on Alternative Investments Funds and their Managers or in another country in accordance with an equivalent regulatory framework on registration of alternative investment funds, and, during the past three years, has made an early stage venture capital investment in at least three commercial companies in the amount of at least 30,000 EUR in each, however, not exceeding 200,000 EUR in each company, and investor share does not exceed 20 per cent of the commercial company’s equity capital.
2. Investors whose investments have been recognized as proceeds of crime under the Law on the Prevention of Money Laundering and Terrorism Financing may not be qualified venture capital investors.

# Chapter Aid Programmes

## Section Fixed Payment Aid Programmes

1. A start-up company is eligible to apply for aid programme covering fixed payments for an employee in the amount of two minimum monthly wages in accordance with the Cabinet Regulations applying the mandatory contribution rate prescribed by the Section 18 of the Law on State Social Insurance.
2. Start-up company shall make the fixed payment for employee every calendar month, even if employee’s calculated income from employment in the calendar year has reached the maximum amount of object of mandatory contributions.
3. Fixed payment shall not be applied proportionally for the calendar days in the taxation year when employee has been on a parental leave or when employee (father of the child) has been granted a child care leave, as well as for calendar days of temporary disability, prenatal and maternity leave, for which sick-leave certificate B is issued.
4. If start-up company employee’s calculated income from employment in the calendar year exceeds the maximum amount of object of mandatory contributions, the start-up company shall make additional solidarity tax payments in accordance with the Law on Solidarity Tax.
5. If the start-up company makes a fixed payment for the employee, them this employee shall pay additional mandatory contributions for state pension insurance of private voluntary pension scheme via the employer. The aforementioned contributions shall be paid in the amount of 10 per cent of difference between the employee’s calculated gross income from employment (which does not exceed the maximum annual amount of the object of mandatory contributions) and fixed payment object set out in the first part of this section. Employee shall notify the employer of his/her choice to either pay additional mandatory contributions into state pension insurance or private voluntary pension scheme. Employee shall make this choice once during the period of receiving aid.
6. Start-up company shall make the fixed payment and solidarity tax payments, and submit report on the employees in accordance with the procedure and deadlines set out in the Law on State Social Insurance.
7. If the start-up company plans to make the fixed payment for the employee, the applicant shall be notified in writing when entering the employment contract that employer is a start-up company and a fixed payment shall be made for the employee, and that start-up company employee is obligated to make additional mandatory contributions into state pension insurance or the private voluntary pensions scheme. This information shall be included in the employment contract.
8. Start-up company may clarify the employee's income, mandatory contributions and contributions into state pensions insurance of private voluntary pension scheme for the month preceding reporting month in accordance with the procedure prescribed by the Cabinet of Ministers.
9. Cabinet of Ministers sets out:
	1. the procedure by which a start-up company shall submit the report on employees for the calculated income from employment;
	2. the procedure by which a start-up company shall make a fixed payment, pay the enterprise risk duty, pay the mandatory contributions into state pension insurance or the private voluntary pension scheme;
	3. the transition of start-up company to the general tax payment scheme and fulfilment of other duties after losing the right to make a fixed payment.

## Section Aid Programme for Attracting Highly Qualified Employees

1. A start-up company is eligible to apply for the aid programme for attracting highly qualified employees.
2. A start-up company may not include in the application for aid referred to in this Section an employee which during the start-up aid period has already been granted the aid referred to in Section 6 of this Law.
3. The Cabinet of Ministers adopts regulation on aid programme for attracting highly qualified employees setting out the procedure for granting the aid to a start-up company.

## Section Aid Programme Related Tax Relief

1. During the aid period, while the start-up company participates in one or both of the aid programmes laid down in Sections 6 and 7:
	1. a start-up company employee is exempt from the personal income tax provided that a fixed payment for salary tax applicable income derived in this start-up company is paid for him/her;
	2. a start-up company is entitled to enterprise income tax reduction up to 100 per cent.
2. When employee does not pay the personal income tax on salary tax applicable income derived in a start-up company, he/she may not apply the non-taxable income (it may only be applied to pension income) or the relief for dependent person, and he/she may not be a dependent person under the Law on Personal Income Tax in the taxation year in which he/she has been an employee with a start-up company. If the start-up company employee derives also other income which is personal income tax applicable, nevertheless, he/she may not declare the state social insurance payments and solidarity tax payments made from the income derived from employment with the start-up company or eligible expenditure of the taxation year under the Section 10, Paragraph one, Clauses 3, 5, 6 and 8 of the Law on Personal Income Tax as the eligible expenditure.
3. The reduction of 100% set out in the Paragraph one, Clause 2 of this Section shall apply if *de minimis* aid threshold

has not been reached.

1. The reduction referred to in the Paragraph one, Clause 2 of this Section may not be applied to enterprise income tax part that is calculated for the following:
	1. expenses not related to the economic activity;
	2. accumulated reserves;
	3. fines or contractual penalties;
	4. payments to a non-resident from whom an enterprise income tax should have been withheld, however, it was not;
	5. part of expenses incurred as a result of reassessment of the assets;
	6. the amount of bad debts not complying with the conditions of Section 9 of the Law on Enterprise Income Tax;
	7. the difference between value of product or service received or product or service provided and the market value;
2. The start-up company may not cover the loss incurred in accordance with the provisions of the Law on Enterprise Income Tax during the aid period and in the taxation period prior to receiving aid.
3. If the aid programme period does not correspond with the start-up company’s taxation period, for the purposes of enterprise income tax calculation, the start-up company prepares a financial (interim period) statement and the enterprise income tax declaration for period in which the aid programme was applied.

## Section The State Aid Conditions Applicable within the Aid Programme

1. The aid measures under Sections 6, 7 and 8 of this Law are implemented as *de minimis* aid in compliance with the Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid (Text with EEA relevance) (Official Journal of the European Union, 24.12.2013, No. L 352/1) (hereinafter — Commission Regulation No 1407/2013) and the regulative [acts on recording and granting procedures of](http://eur-lex.europa.eu/eli/reg/2013/1407/oj/?locale=LV) *de minimis* aid, as well as samples of *de minimis* aid recording forms.
2. The amount of *de minimis* aid including the *de minimis* aid granted in the relevant fiscal year and the two previous fiscal years shall not exceed the maximum amount of *de minimis* aid granted to a single undertaking provided for in the Article 3, Paragraph 2 of the Commission Regulation No 1407/2013 — 200 000 EUR. A single undertaking is an undertaking complying with the criteria laid down in the Article 2, Paragraph 2 of the Commission Regulation [No 1407/2013.](http://eur-lex.europa.eu/eli/reg/2013/1407/oj/?locale=LV)
3. Pursuant to provisions of Article 5, Paragraphs 1 and to of the Commission Regulation No [1407/2013](http://eur-lex.europa.eu/eli/reg/2013/1407/oj/?locale=LV), aid granted under this law may be cumulated with another *de minimis* aid up to the relevant threshold provided for in the Article 3, Paragraph 2 of the Commission Regulation No 1407/2013, as well as other state aid in relation to the same eligible costs or with State aid for the [same risk](http://eur-lex.europa.eu/eli/reg/2013/1407/oj/?locale=LV) finance measure, provided that the highest relevant aid intensity or aid amount stipulated in state aid programme, individual aid programme, or European Commission decision, is not exceeded.
4. The start-up company is responsible for compliance with the maximum permissible aid requirements in a single undertaking.

## Section Aid Programme Period

1. The aid programme period duration is twelve months starting from the day when Commission decision on granting the aid programme enters into force.
2. In cases referred to in Paragraph three of Section 19 of this Law, the aid programme period shall be calculated from the day when Commission decision on granting the aid programme enters into force until the day when start-up company loses its rights to benefit from the aid programme.

## Section Limitations of Aid Programme Utilisation

1. A start-up company may not:
	1. apply for the aid programmes referred to in Sections 6 and 7 for an employee who, during the aid period, is also:
		1. a member of the board with another merchant;
		2. employed by another merchant on employment contract basis or carries out work on enterprise contract basis;
		3. employee of the direct administration or municipality;
		4. a civil servant;
	2. provide labour force provision services;
	3. include in the application an employee whose duties in the start-up company are not directly related to the implementation of the business idea stated in the aid programme application.
2. During the aid period, a start-up company may apply for additional aid provided for the Sections 6 and 7 of this Law, however, it may not utilise it beyond the end of aid period prior determined by the Commission.
3. The aid referred to in Sections 6, 7 and 8 of this Law shall not be granted to sectors and activities stated in the Article 1, Paragraph 1 of the Commission Regulation No 1407/2013. If a start-up company operates in one or more branches or carries out other activities covered by the scope of Commission Regulation No 1407/2013, receiver of the *de minimis* aid shall ensure a separation or these branches and activities or their expenses in accordance with Article 1, Paragraph 2 of the Commission Regulation No 1407/2013.

## Section Aid Programme Application Sequence

Under the aid programme, the aid is granted in the following sequence:

* + 1. aid programme for attracting highly qualified employees;
		2. fixed payment aid programme;
		3. personal income tax reduction;
		4. enterprise income tax reduction.

## Section Aid Programme Administrating Body

1. The aid programme administrating body is the Investment and Development Agency of Latvia.
2. The Cabinet of Ministers sets out the procedure in which the administrating body shall administrate the aid programmes including action taken for enforcement of Commission decisions, granting and amount of *de minimis* aid, and monitoring thereof.

# Chapter

**Commission and its Competence**

## Section Commission

1. The composition and statute of the Commission shall be approved by the Cabinet of Ministers. The staff of the Commission shall be approved by the Minister of Economics.
2. The secretariat functions of the Commission are provided by the Investment and Development Agency of Latvia.

## Section Commission Competence

1. The duty of the Commission is to adopt the following:
	1. decision on granting or refusal to grant the aid programme to a start-up company, as well as to revoke a decision on granting the aid programme;
	2. Decision on investor’s compliance or non-compliance with the venture capital investor qualification conditions laid down in this Law and subsequently on inclusion or non-inclusion in the list of qualified venture capital investors, as well as on exclusion of an investor from the list of qualified venture capital investors.
2. Commission is entitled to:
	1. invite experts and other specialists to participate in its sessions and provide an opinion or a conclusion;
	2. request information from public person body required to fulfil the Commission’s tasks, including but not limited to, in matters of security, origins of the investor’s fund's;
	3. request information from start-up company, investor or qualified venture capital investor related to its commercial activity and required to fulfil the Commission’s tasks;
	4. request foreign public administration bodies and professional unions to provide opinions on investor's professional practice that would allow it to make a decision on investor's compliance with the venture capital qualification conditions laid down in this Law.

## Section Making, Notifying of and Contesting the Commission’s Decision

1. The Commission shall make a decision on granting the aid programme within a month from the day when documents referred to in Section 17, Paragraph one and Section 21, Paragraph one of this Law have been received. If due to objective reasons it is not possible to comply with the said deadline, Commission shall make the decision in accordance with Section 64, Paragraph two of the Administrative Procedure Law.
2. Commission secretariat shall notify of the decision by sending it to the addressee.
3. Commission secretariat shall notify the State Revenue Service on granting the aid programme or revocation thereof.
4. Commission decision may be contested in the Ministry of Economics.

# Chapter

**Start-up Company’s Application for Participation in the Aid Programme and the Legal Effect of Granting the Aid Programme**

## Section Submission of Start-up Company’s Application

1. A start-up company wishing to benefit from the aid programme shall submit the following documents to the Commission:
	1. an application for participation in the aid programme;
	2. a proof of investment made by a qualified venture capital investor in this start-up company's equity capital;
	3. a business plan of the business idea stated in the application.
2. The form an content of the documents referred to in Paragraph one of this Section shall be determined by the Cabinet of Ministers.

## Section Register of the Start-up Companies Receiving Aid

1. Information on granting the aid programme or losing the rights to benefit from the aid programme shall be published in the register of the start-up companies receiving aid.
2. The register of the start-up companies receiving aid is kept by the Commission secretariat.
3. The following information shall be entered into the register:
	1. the name, registration number and legal address of the start-up company;
	2. the date of adoption and number of the relevant Commission decision;
	3. the aid programme indicated in the Commission decision;
4. the register of the start-up companies receiving aid is available on the Commission secretariat website.

## Section Duties of the Start-up Company

1. A start-up company that benefits or wishes to benefit from the aid programmes is obligated to provide the Commission with truthful and clear information and documents that:
	1. prove its compliance with the criteria set out in Section 4 of this Law;
	2. are related to changes in the criteria set out in Section 4 of this Law, no later than ten working days after occurrence of such changes;
	3. are related to course of implementation of the business plan of the business idea stated in the application;
	4. are related to company’s commercial activity and utilisation of the granted aid programme;
	5. concern the cumulation of aid stipulated in this law with an aid not provided by this law;
	6. prove separate accounting of the expenses referred to in Section 4, Clause 8, Sub-clause c) of this Law and any other expenses;
	7. prove that company is not subject to limitations of use of aid laid down in this Law.
2. If a start-up company loses its right to benefit from the aid programme, it shall no later than within one month from the said rights perform a calculation and pay all the taxes in accordance with the general procedure for the whole aid programme period, including the late payment charges in accordance with the provisions of the Law on Taxes and Fees. When making the tax payment in accordance with the general procedure, the fixed payment and additional mandatory contributions made to state pensions insurance are taken into account.
3. The start-up company shall not perform re-calculation referred to in Paragraph two of this Section, if it has lost the rights to benefit from aid programme due to one of the following reasons:
	1. company has alienated title to an innovative product that served as basis for granting the aid programme;
	2. company has submitted an application to revoke its participation in the aid programme due to exceeding the permissible amount of the *de minimis* aid during the aid programme period.

## Section Losing the Rights to Benefit from the Aid Programme

1. The Commission shall revoke the granted aid programme, if the start-up company:
	1. has submitted an application requesting revocation of participation in the aid programme;
	2. has failed to comply with the requirements laid down in Sections 9 and 11 of this Law;
	3. fails to comply with the criteria set out in Section 4 of this Law;
	4. has failed to provide the Commission with information related to the criteria set out in Section 4 of this Law within the required deadline;
	5. after repeated requests by the Commission, has failed to provide the Commission with truthful and clear information and documents proving company’s compliance with the criteria set out in this Law, or information related to its commercial activity or utilisation of the granted aid programme;
	6. has failed to meet the utilisation conditions of the aid programme;
	7. has alienated title to an innovative product that served as basis for granting the aid programme.
2. A start-up company may not apply for the aid repeatedly, if it has previously lost the rights to benefit from it due to failure to provide the Commission with the information requested by this Law or submission of untrue information.

# Chapter

**Investor’s Application and Legal Effect of Granting the Investor status of the Qualified Venture Capital Investor**

## Section Submitting the Application

1. If an investor wishes to be included in the list of qualified venture capital investors, he/she shall submit the relevant application to the Commission accompanied by proof of compliance with the requirements laid down in Section 5 of this Law.
2. If an investor is not included in the list of qualified venture capital investors, application referred to in Paragraph one of this Section may be submitted by attaching it to the start-up company's application for participation in the aid programme (Section 17, Paragraph one).
3. The form an content of the application and proof referred to in Paragraph one of this Section shall be determined by the Cabinet of Ministers.

## Section List of the Qualified Venture Capital Investors

1. Information on investor’s compliance with the venture capital investor qualification conditions or exclusion from the list of qualified venture capital investors shall be made available in the list of qualified venture capital investors.
2. The list of qualified venture capital investors shall be kept by the Commission secretariat.
3. The list shall contain the following information:
	1. the name, registration number and legal address of the qualified venture capital investor;
	2. the date of adoption and number of the relevant Commission decision;
4. The list of qualified venture capital investors shall be made available on the website of the Commission secretariat.

## Section Duties of the Qualified Venture Capital Investors

The duty of a qualified venture capital investor is to provide the Commission with truthful and clear information and documents that prove its compliance with the criteria set out in Section 5 of this Law.

## Section Exclusion from the List of Qualified Venture Capital Investors

1. Commission shall make the decision on exclusion of investor from the list of qualified venture capital investors, if it:
	1. fails to comply with the requirements laid down in Section 5 of this Law;
	2. after repeated requests by the Commission, has failed to provide the Commission with truthful and clear information and documents proving its compliance with the criteria set out in this Law;
	3. has requested to be excluded from the list of qualified venture capital Investors;
2. An investor may not repeatedly apply to be included in the list of qualified venture capital investors, if it has previously been excluded from the list due to failure to provide the Commission with the information requested by this Law or submission of untrue information.
3. If the investor has been excluded from the list of qualified venture capital investors, the start-up company is entitled to receive the aid provided for in this Law until the end of aid programme period unless the requirements stated in Section 5, Paragraph of this Law have been violated.

## Transitional Provisions

A start-up company shall until 15 April 2017 submit to State Revenue Service the information on payment of taxes, contributions to the state pension insurance or private voluntary pension schemes provided for by this Law, start-up company reports on employee calculated income from employment for the period until 1 April 2017.

This Law shall come into force on 1 January 2017.

This Law has been adopted by the Saeima on 23 November 2016.

President R.Vējonis

Riga, 10 December 2016