

Startup Law

For EARLY STAGE startups unicorning in Latvia
Purpose of Law: decrease the biggest early-stage cost -
COST of bad*ss talent

Law offers TWO BENEFIT SCENARIOS

Benefit scenario A



Flat Social Tax

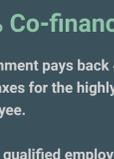
computed as 2 minimal gross salary (EUR 430 each) x social tax rate (35.09%) = EUR 301.77

regular social tax: gross salary x social tax rate (35.09%)

0% Individual Income Tax

regular individual income tax: 20%, 23%, 31.4% depending on your gross salary

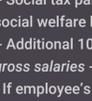
Benefit scenario B



45% Co-financing of Talent

Government pays back 45% of the wage + paid taxes for the highly qualified startup employee.

Highly qualified employee: has MSc degree or higher (in natural sciences, mathematics, information technology, engineering and technology, manufacturing & processing, design), OR minimum 3 years of experience in the field.



Startup applies for the benefit A or B for its employee(s).
If benefit is granted, the employee(s) in question must comply with the following terms and conditions:

Benefit scenario A

- Social tax paid (EUR 301.77) is basis for ALL your social welfare benefits
- Additional 10% from gross salary minus 2 minimal gross salaries -> contributions for pension fund
- If employee's income > EUR 62,800/year -> subject to solidarity tax (35.09% from excessive amount)
- The information about fixed social tax and contributions for the pension insurance shall be included in the employment contract
- Cannot be a board member of any other company
- Cannot be employed in other company
- Cannot be a state or municipal official
- Must be directly involved in the R&D activities
- No right to claim non-taxable minimum and relief for dependent persons
- Cannot be dependent person

Benefit scenario B

- Cannot be a board member of any other company
- Cannot be employed by other company
- Cannot be a state or municipal official
- Must be directly involved in R&D activities
- EU programme, special regulation #692 applies -> more thorough compliance and reporting process
- Highly qualified employee receives higher-than-average-in-country salary (calculated by Central Statistical Bureau)

9 Criteria to Qualify for Startup Law Benefits

1. Your startup need to have an investment from a qualified investor
Qualifying investment: equity, share premium, convertible loan, max 24 months old
Qualifying investor: with track record, not related to startup
a) VC fund invests EUR 30,000
b) Accelerator invests EUR 15,000
c) Business Angel invests EUR 15,000
2. Startup founded less than 5 years ago
3. Cumulative income from economic activity since registration is under EUR 5 million
4. Annual income from economic activity during year 1 and year 2 is under EUR 200,000
Bonus -> if you are more than 2 years old, we don't look at #4
5. No dividend distribution since registration
6. No reorganization (A+B=B, A+B=C, A=B+C etc.)
No equity ownership in other companies
No transfer of company (Commercial Law, Section 20. Assets/employees, liabilities «change hands», etc.)
No related companies (Commercial Law, Section 184.1)
Once registered, no equity attributed to 1 shareholder who would have voting majority
At all times, at least 1 shareholder with at least 10% equity develops the business idea
7. Tax debt of your startup does not exceed EUR 150
8. At least one innovation feature is true:
a) Startup owns IP related to the underlying business idea
b) Min 70% employees have MSc or PhD degree
c) Min 50% of all costs since registration directed to R&D activities
9. No ongoing bankruptcy

How the benefits are granted?

- Step 1**
Check whether all criteria are in check!
Avail of individual consultation with us to make sure all is good to go.

Step 3
Is your investor already qualified, as criterion #1 requires?
(list is available [here](#))

Step 5
Decision will be made in 1 month. Understand the terms and conditions well. Discuss with us!



Step 2
Do your homework and learn about the A & B benefit scenarios. Choose what benefits suit you best.

Step 4
If YES -> Prepare YOUR application package and submit.
If NO -> Prepare BOTH application packages and submit.

After benefits are granted

The support is given for 1 year (or 2*). The 9 criteria have to stay valid throughout the whole support period. You can extend support until your startup hits 5-year-old mark and if all 9 criteria are still valid. The application process is the same. You don't have to inform anyone (Register of Companies, SRS, etc.) about support you are receiving. Include EU support programme logo into your web page and tell that you receive the support.

* If investment from qualified investor is at least EUR 150,000

Benefit scenario A (you don't expect money from government)

- We inform [SRS](#) about your status and low taxes
- You start paying EUR 301.77 social tax and EUR 0 individual income tax for your employee(s) straight away
- You submit monthly Appendix 3 of Regulation #827 (all companies do!) which reflects the actual paid taxes
- Quarterly submit [status/progress report](#) to LIAA:
- Filled in Excel Sheet + additional documents

Benefit scenario B (you expect money from government)

- You pay salary and taxes as a regular company
- Quarterly you submit [status/progress report](#) to LIAA and request to reimburse the 45%:
- Filled in Excel Sheet + additional documents + provide EU support programme logo visibility
- LIAA takes 20 working days to evaluate your report and pay you the money

Startup Application Package

Benefit scenario A

1. Startup application [form](#).
2. Interim financial statement
3. Free form confirmation about support limitation (no other sources of income, etc., as per [Law Section 11](#))
4. De minimis accounting form submitted via [Electronic Declaration System \(EDS\)](#)
5. Document which proves one of three innovation features:
 - a) IP rights for startup product or service
 - b) Copies of diplomas, proving that >70% of employees have MSc or PhD degree
 - c) Interim overview showing that >50% of expenses since registration have been allocated to R&D
6. An acknowledgment signed by startup and qualifying investor that:
 - the investment of required minimal amount has happened
 - this investment was made within the last 24 months
 - the investment purpose was related to the underlying startup core process or product/service
7. Bank Statement which shows qualifying investment amount
8. If your investor hasn't qualified yet, additionally **INVESTOR APPLICATION PACKAGE**

Benefit scenario B

1. Startup application [form](#).
2. Interim financial statement
3. Free form confirmation about support limitation (no other sources of income, etc., as per [Law Section 11](#))
4. De minimis accounting form submitted via [Electronic Declaration System \(EDS\)](#)
5. Document which proves one of three innovation features:
 - a) IP rights for startup product or service
 - b) Copies of diplomas, proving that >70% of employees have MSc or PhD degree
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7. Bank Statement which shows qualifying investment amount
8. If your investor hasn't qualified yet, additionally **INVESTOR APPLICATION PACKAGE**
9. Free form confirmation that restrictions of the EU Structural Funds and the Cohesion Fund do not apply (as per [Law On Management of European Union Structural Funds and the Cohesion Fund for the 2014-2020 Programming Period, Section 23](#))
10. At least one of these documents regarding the employee applied for the aid programme:
 - a) copy of the relevant higher education document
 - b) CV
11. [Declaration](#) on the conformity of a small (micro) or medium-sized commercial company

Criteria for Investor Qualification

- Venture Capital Fund or Fund Manager**
 - ✓ Must be registered as an alternative investment fund or fund manager with the state authority equivalent to Latvian [FKTK \(Financial and Capital Market Commission\)](#)
 - ✓ Within the past 3 years has made at least 3 investments in early-stage startups of at least EUR 30,000 each and not taking more than a 30% share of the company
- Accelerator**
 - ✓ Within the past 3 years has implemented 3 short-term acceleration programmes, investing in at least 10 startups, each investment being at least EUR 15,000, and not taking more than a 15% share of the company
- Business Angel (legal entity or natural person)**
 - ✓ Has entrepreneurship experience (for natural person)
 - ✓ Is part of a business angels network
 - ✓ Within 5 years has made at least 2 investments in early-stage startups, each investment being at least EUR 15,000, but not less than EUR 60,000 in total, and not taking more than a 30% share of the company

Investor Qualification Application Package

1. Investor qualification application [form](#).
2. One of these document sets:

Venture Capital Fund or Fund Manager

- ✓ A copy of the document attesting that the investor has been registered as alternative investment fund or fund manager.

Accelerator

- ✓ Confirmation about the 3 programmes which happened over the last 3 years.

Business Angel (natural person)

- ✓ Description of work experience as a company manager or a member of the board of directors (CV).
- ✓ Bank statement confirming that the investments have been made from the investor's own funds. Loans received are not interpreted as own funds.
- ✓ Declaration of membership in an international network of venture capital investors.

Business Angel (legal entity)

- ✓ Declaration of membership in an international network of venture capital investors.