

Text consolidated by Valsts valodas centrs (State Language Centre) with amending laws of:

13 January 2022 [shall come into force on 10 February 2022].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*¹ has adopted and
the President has proclaimed the following law:

Social Enterprise Law

Section 1. Purpose of the Law

The purpose of the Law is to facilitate improvement in the quality of life of the society and to foster employment of population groups at risk of social exclusion (hereinafter - the target group), creating an economic activity environment favourable to social enterprises.

Section 2. Concept of a Social Enterprise

(1) Social enterprise is a limited liability company which in accordance with the procedures laid down in this Law has been granted the status of a social enterprise and which performs the economic activity that creates a positive and important social impact by employing the target groups or improving life quality of groups in society the life of which is affected by fundamental societal challenges (for example, provision of social, health care, or education services, and also production of specialised goods), or carrying out any other activities of relevance to society that create a lasting positive social impact (for example, formation of an inclusive civil society, support for science, environment protection and conservation, protection of animals, or ensuring of cultural diversity).

(2) [1 April 2021 / See Paragraph 3 of Transitional Provisions]

[13 January 2022]

Section 3. Determination of the Target Groups

The target groups shall be determined by the Cabinet by analysing the socio-economic condition of the State and its impact on certain groups of persons.

Section 4. Competence of the Ministry of Welfare in Governing of Social Enterprises

(1) The Ministry of Welfare shall develop policy planning documents and aid programmes for social enterprises and shall also publish the following on its website:

- 1) information on aid programmes and other aid mechanisms available to social enterprises;
- 2) methodological recommendations for preparing the activity report forms referred to in this Law;
- 3) methodological recommendations for the drawing up of the documents necessary for the acquisition of the status of a social enterprise;
- 4) a compendium of good practices regarding projects of social enterprises, including regarding aid projects of social enterprises and results of implementation thereof;
- 5) the guidelines for the assessment of social impact.

(2) In order to assess the aid programme efficiency the Ministry of Welfare shall, once every two years, prepare an informative report for submission to the Cabinet on the activity and development of social enterprises.

(3) The Ministry of Welfare shall ensure the application and control of the conditions for aid to commercial activity

within the scope of the aid programmes referred to in Paragraph one, Clause 1 of this Section.

[13 January 2022]

Section 5. Granting of the Status of a Social Enterprise

(1) A limited liability company may qualify for the status of a social enterprise if:

1) in accordance with the information available in the database of tax (duty) debtors administered by the State Revenue Service, it has no tax, duty debts, including debts of mandatory State social insurance contributions, that exceed EUR 150 in total;

2) no insolvency proceedings of a legal person have been declared against it or no liquidation has been commenced, and its economic activity has not been suspended or terminated;

3) it is not deemed to have been administratively punished for a violation:

a) in the field of taxes if it is related to the failure to meet the time period for the submission of an informative return on employees;

b) in the field of employment relationships if it is related to the failure to enter into an employment contract in writing or failure to ensure the minimum monthly salary determined by the State, or violation of the prohibition of differential treatment;

c) in the field of labour protection if it is related to the failure to investigate an accident at work resulting in serious health disorders or even death of an employee or if it is related to a violation causing a direct threat to the safety or health of employees;

d) in the field of consumer rights protection, except for the case where the violation has been rectified and activity of the limited liability company is compatible with the status of a social enterprise;

e) in the field of activity of a social enterprise, except for the case where the violation has been rectified and activity of the limited liability company is compatible with the status of a social enterprise;

4) over the last year (except for the case where the law provides for a longer time period for legal consequences of the punishment or establishing the violation) it has not committed a significant violation in the field of unfair commercial practice, advertising, or activity of a social enterprise, or another significant violation which has or might have caused damage to a person of the target group.

(2) The status of a social enterprise shall be granted to a limited liability company if it meets the criteria specified in Paragraph one of this Section and if:

1) the objectives identified in its articles of association conform to the purpose of this Law and it performs the economic activity referred to in Section 2 of this Law;

2) the meeting of its shareholders has taken a decision to acquire the status of a social enterprise. The decision of the meeting of shareholders to acquire the status of a social enterprise shall be taken if not less than two thirds of the votes represented at the meeting were given for such decision and the articles of association do not provide for a larger number of votes necessary for taking such decision;

3) the profit thereof is not retained, but is invested to achieve the objectives defined in the articles of association;

4) it employs paid employees;

5) a representative of the target group or a representative of an association or foundation representing the target group, or an expert in a specific field is involved in the executive body, supervisory body, or advisory body of the enterprise if such has been established.

(3) A social enterprise shall, throughout the entire period of its activity, ensure conformity with the criteria referred to in Paragraphs one and two of this Section.

(4) The Ministry of Welfare shall take a decision to grant the status of a social enterprise, to refuse to grant the status of a social enterprise, to withdraw or revoke the status of a social enterprise.

(5) The status of a social enterprise shall be acquired from the day on which the decision of the Ministry of Welfare to grant the status of a social enterprise has entered into effect.

(6) The Cabinet shall determine the documents to be submitted for the acquisition of the status of a social enterprise and lay down the procedures for their submission, the procedures for granting the status of a social enterprise, and also the requirements for employing paid employees in a social enterprise.

[13 January 2022]

Section 6. Commission for Social Enterprises

(1) In order to assess the conformity of the applicant with the status of a social enterprise or the activity of a registered social enterprise, the Ministry of Welfare shall establish the Commission for Social Enterprises (hereinafter - the Commission) and shall ensure its activity.

(2) The Commission is a collegiate advisory body which consists of an equal number of authorised officials and also representatives of associations and foundations. The by-laws of the Commission shall be approved by the Cabinet, whereas the staff - by the Ministry of Welfare.

(3) The Commission shall provide a motivated opinion to the Ministry of Welfare on the following:

1) conformity of the applicant with the requirements laid down in Section 5, Paragraph two, Clause 1 of this Law;

2) conformity of the activity of a registered social enterprise with the requirements laid down in Section 5, Paragraph two, Clause 1 of this Law and the performance indicators specified by the Cabinet.

(4) Such members of the Commission who do not qualify as authorised officials shall receive remuneration for work in the Commission the amount whereof and procedures for the payment whereof shall be determined by the Cabinet.

(5) The procedures by which representatives of associations and foundations are nominated and included in the composition of the Commission shall be determined by the Cabinet.

[13 January 2022]

Section 7. Register of Social Enterprises

(1) Information on a social enterprise shall be recorded electronically in the Register of Social Enterprises (hereinafter - the Register). The latest (current) data shall be included in the Register, concurrently saving the previously registered (historical) data.

(2) The Register shall be maintained and published on its website by the Ministry of Welfare.

(3) The Register shall be accessible to the public, except for restricted access data in accordance with the laws and regulations regarding commercial secret and data protection.

(4) The procedures for the maintenance, updating and use of the Register and also the content of data in the Register shall be stipulated by the Cabinet.

Section 8. Aid to a Social Enterprise

(1) A social enterprise shall not include the following expenses in the base taxable with the enterprise income tax:

1) ensuring of recreational and social inclusion measures to the employees of the social enterprise belonging to the target group;

2) integration of persons belonging to the target group in the labour market and improvement of the quality of life;

3) purchase of such assets that serve for the purpose of attaining the objectives defined in the articles of association of the social enterprise;

4) ensuring of social integration measures to persons belonging to the target group;

5) donations to a public benefit organisation for such purposes that conform to the objectives defined in the articles of association of the social enterprise, if by the end of the reporting year the recipient of the donation has submitted information to the donor on the utilisation of the donation.

(2) A local government is entitled to grant an immovable property tax exemption to a social enterprise in accordance with the procedures laid down in the law On the Immovable Property Tax.

(3) The movable property of a public person may be transferred into ownership of a social enterprise without remuneration in accordance with the procedures laid down in the Law on Alienation of the Property of a Public Person.

(4) A public person, a capital company of a public person, a capital company where the capital share of a public person in the equity capital separately or in the aggregate exceeds 50 per cent, and also a capital company where the capital share of one public person or several public persons in the equity capital separately or in the aggregate exceeds 50 per cent is entitled to transfer the property in the ownership thereof to a social enterprise for use without compensation in accordance with the procedures laid down in the law On Prevention of Squandering of the Financial Resources and Property of a Public Person.

(4¹) *[The Paragraph shall come into force and will be included as of the day of coming into force of the relevant amendments to the Public Benefit Organisation Law regarding the restrictions of economic activity imposed on public benefit organisations. See Paragraph 4 of Transitional Provisions]*

(5) In order to attain the objectives defined in the articles of association a social enterprise is entitled to involve volunteers for activities not relating to the enterprise management and accounting and also the core functions of the enterprise.

(6) The procedures and conditions for granting commercial aid shall be determined by the Cabinet.

Section 9. Conditions and Limitations of the Activity of a Social Enterprise

(1) The reporting year of a social enterprise shall coincide with the calendar year.

(2) A social enterprise shall not distribute profit (earned in any reporting year) as dividends.

(3) A social enterprise is not entitled to disburse dividends or to make disbursements in the event of reduction of the equity capital and also to make other disbursements within the meaning of Section 182 of the Commercial Law.

(4) The property and financial means of a social enterprise may be used only for the objectives defined in the articles of association.

(5) [13 January 2022]

(6) A social enterprise is not entitled:

1) to carry out transactions in securities or immovable property, except for the lease or rent of premises;

2) to operate in such areas as the manufacture and trade of explosives, weapons and ammunition, production of alcoholic beverages (except for small alcoholic beverage producers), production and trade of tobacco products, gambling and betting activities, financial and insurance activities, or in areas posing a threat to public health and safety;

3) to issue loans, except for loans to the target groups if the latter is provided for in the articles of association of a social enterprise.

[13 January 2022]

Section 10. Supervision of the Activity of a Social Enterprise

(1) By 1 May of each year a social enterprise shall submit to the Ministry of Welfare an activity report for the previous year (hereinafter - the activity report).

(2) The Ministry of Welfare shall arrange the assessment of the activity of a social enterprise.

(3) The Cabinet shall determine the following:

1) the supervisory arrangements of a social enterprise, performance indicators, and the criteria for the assessment thereof;

2) the content of the form of the activity report of a social enterprise and the procedures for filling in and submission thereof.

Section 11. Loss of the Status of a Social Enterprise

(1) The status of a social enterprise shall be revoked if at least one of the following conditions has set in:

1) an application for revocation of the status has been received from the social enterprise;

2) the activity of a limited liability company which has acquired the status of a social enterprise has been terminated in accordance with procedures laid down in the laws and regulations governing the field of commercial activity;

3) a limited liability company has taken a decision to reorganise, except for the case referred to in Paragraph two of this Section.

(2) The status of a social enterprise shall be preserved in the event of a merger of such limited liability companies that have been granted the status of a social enterprise.

(3) The Ministry of Welfare may decide to withdraw the status of a social enterprise if non-conformity with the criteria referred to in Section 5, Paragraph one or two of this Law or with the performance indicators specified by the

Cabinet has been established.

(4) If any of the causes referred to in Paragraph three of this Section is established but further activity of a social enterprise is compatible with the status of a social enterprise, the Ministry of Welfare shall set a time period for the rectification of violations or non-conformities or improvement of the activity of a social enterprise to prevent further violations or non-conformities. A social enterprise shall be obliged to submit information to the Ministry of Welfare which confirms the rectification of the established violations or non-conformities and improvement of the activity of the social enterprise.

(5) The Ministry of Welfare shall withdraw the status of a social enterprise if:

1) the violation or non-conformity has not been rectified within the laid down time period;

2) further activity of a social enterprise is not compatible with the status of a social enterprise due to the committed violations or non-conformities.

(6) Appeal of a decision to withdraw the status of a social enterprise shall not suspend operation of such decision.

[13 January 2022]

Section 12. Consequences of Losing the Status of a Social Enterprise

(1) If the status of a social enterprise is withdrawn, the social enterprise shall, within 30 days after withdrawal of the status, perform recalculation of the enterprise income tax and personal income tax and shall settle tax payments in accordance with general procedures for those reporting years in which the respective social enterprise has committed the non-conformity with the criteria specified in Section 11, Paragraph three of this Law or violations in its activity, including late payment charge in accordance with the provisions laid down in the law On Taxes and Duties.

(2) The immovable property tax shall be calculated in accordance with general procedures for the taxation period in which the limited liability company lost the status of a social enterprise, without applying a tax relief.

Section 13. Repeated Acquisition of the Status of a Social Enterprise

(1) In the event of withdrawal of the status of a social enterprise from a limited liability company, the application for re-acquisition of the status of a social enterprise on the merits shall be examined not earlier than after 12 months, counting from the day the decision to withdraw the status of a social enterprise has entered into effect.

(2) The decision to refuse to examine on the merits the application referred to in Paragraph one of this Section shall not deny the possibility of re-submitting such application after the end of the time period referred to in Paragraph one of this Section.

Transitional Provisions

1. Information on limited liability companies which prior to 1 April 2018 have acquired the status of a participant within the scope of the Activity 9.1.1.3 "Support to Social Entrepreneurship" of the Specific Objective 9.1.1 "Enhance integration of the disadvantaged unemployed persons in the labour market" of the operational programme "Growth and Employment" shall be included in the Register. Information on associations and foundations which prior to 1 April 2018 have acquired the abovementioned status shall be included in the Register by 31 December 2022 or by the moment financial aid is requested repeatedly within the scope of this Activity.

2. The Ministry of Welfare shall assess the conformity of applicants and the activity of social enterprises, grant the status of a social enterprise, and ensure functioning of the Register as specified in this Law within the scope of the European Union policy instruments until 31 December 2029.

[13 January 2022]

3. Section 2, Paragraph two of this Law shall be repealed from 1 April 2021.

4. Section 8, Paragraph 4.¹ of this Law shall come into force concurrently with the relevant amendments to the Public Benefit Organisation Law regarding the restrictions of economic activity imposed on public benefit organisations.

[13 January 2022 / The Paragraph will be included in the wording of the Law as of the day of coming into force of the relevant amendments to the Public Benefit Organisation Law.]

5. The Cabinet shall, by 30 June 2022, make amendments to Cabinet Regulation No. 173 of 27 March 2018, Regulations Regarding the Population Groups at Risk of Social Exclusion Risk and Procedures for Granting, Registration and Supervision of the Status of a Social Enterprise, in conformity with the amendments to Section 5, Paragraph six of this Law. Until the day of coming into force of the relevant amendments but not longer than until 30

June 2022, Cabinet Regulation No. 173 of 27 March 2018, Regulations Regarding the Population Groups at Risk of Social Exclusion Risk and Procedures for Granting, Registration and Supervision of the Status of a Social Enterprise, shall be applied, in so far as it is not in conflict with this Law.

[13 January 2022]

This Law shall come into force on 1 April 2018.

This Law has been adopted by the *Saeima* on 12 October 2017.

President R. Vējonis

Rīga, 25 October 2017

¹ The Parliament of the Republic of Latvia

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