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## START-UP ECOSYSTEM IN THE BALTICS: WHAT YOU SHOULD KNOW ABOUT STATE AID

Nowadays, Start-ups are becoming increasingly popular as a way of implementing innovative business ideas. As borders are almost non-existent in the business environment since the international element plays an important role, it is highly important to choose the most suitable country for starting a business. Not only the economic and legal aspects, but also a favorable start-up ecosystem and wide development opportunities that countries promote through the establishment of various support programs, are considerable in making this choice.

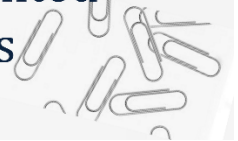
To facilitate the process of choosing a country in which to establish a start-up, LEA DELL law offices have prepared a comparative overview of state aid programs for Start-up companies in Baltic states, which will give an insight on the advantages offered by Estonia, Latvia and Lithuania in terms of obtaining visas, paying taxes, receiving financial and advisory support to businesses, etc.

### START-UP VISA

Start-up Visa, or temporary residence permit, is one of the instruments through which the state facilitates obtaining of residence permits in order to attract Start-up founders from non-European Union countries and thereby develop formation of innovative Start-up companies. In the Baltic States, the Start-up Visa program was launched in the beginning of 2017, when amendments to Immigration law were made, and it has proven its worth – around 3000 Start-up companies have been established by using the Start-up Visa aid program. The main purpose of granting a Start-up

visa is based on idea of modern and innovative business development. In Estonia, for example, a Visa is granted to a person who wants to Start a technology based, innovative and scalable business, and such business model is expected to have a potential for global growth. Similarly, in Latvia, the Start-up company intended by the visa recipient must have a high growth potential and its basic activity must be related to development, production or improvement of scalable business models and innovative products. The criteria for granting a Start-up Visa in Lithuania are more specific. Start-up company, in which the visa applicant is willing to work, must be operating in one of the following areas: biotechnology, electronics, information technology, laser technology, mechatronics or nanotechnology.

### Start-up Visa is granted for family members as well.



In addition to the previous mentioned requirements, in Estonia only applicants who are financially secured can obtain a Start-up visa – a minimum of EUR 160 for each month they wish to spend in Estonia, or a minimum of EUR 1920 for a one-year visa is required. Once the financial security requirement has been met, approval by the Start-up Committee that the person can pursue a Start-up Visa and that its company meets the definition of a Start-up company is also required. However, if a person does not have a company established in Estonia yet, it can apply for a short-term Start-up visa (up to 3 months) or a long-term visa (up to 12 months). When applying for Start-up Visa in Latvia, a proof of subsistence is also required – the applicant must have EUR 430 per month (which is amount of minimum wage in Latvia) or EUR 5160 per year in order to apply.

In both Latvia and Lithuania, the maximum period of residence permit with a Start-up visa is 3 years. The Start-up Visa gives individuals, who are setting up a Start-up company, a temporary permission to live and work in Lithuania for a period of 1 year, but this period can be extended. After receiving a temporary residence permit in Latvia, a person must fulfill the following requirements: it must be registered as a board member of the Start-up company within three months, and within twelve months must attract a venture capital investment in amount of EUR 30 000

	LV	LT	EST
<b>Maximum duration of Start-up Visa</b>	▪ 3 years	▪ 2 years	▪ 1.5 years
<b>Financial requirements</b>	▪ Savings of EUR 5 160 for 1 year	▪ No requirements for savings	▪ Savings of EUR 1 920 for 1 year

from the Alternative Investment fund or EUR 15 000 from an investor which meets the requirements of Article 5 of the Law on Aid for the Activities of Start-up Companies. If the visa recipient has not succeeded in attracting investment within 12 months, it must provide a progress report on the activities of the Start-up company during this period, after which it will be decided whether to extend the visa. In addition, there are also restrictions on obtaining a Start-up visa in Latvia – it shall not be issued to more than five foreigners for the same commercial activity in a Start-up company.

It is also a great benefit of the Start-up Visa aid program that it is family friendly, as it allows family members to join the visa recipient living in one of the Baltic States. Another advantage of this visa is that it also makes it easier for Start-up companies to attract highly qualified specialists from other countries.

### START-UP ECOSYSTEM

Start-up ecosystem is a support program for ambitious individuals and Start-up companies in Estonia, which is aimed to create a Start-up friendly environment. It is a partnership with 110

organizations that provide a wide range of services for Start-ups to help them grow. Start-up ecosystem services include consulting, training, mentoring, event organization, accelerating Start-up growth, attracting investment, and many more. A great help for Start-ups in Estonia is also the Start-up database, where it is possible to find answers to all questions about how to start a business and the support programs available to Start-up companies.

**110 organizations provide a wide range of services for Start-ups in Estonia to help them grow**

The Lithuanian business supervisory authorities, such as Bank of Lithuania, State Tax Inspectorate, State Labor Inspectorate, State Data Protection Inspectorate and others, have involved in ensuring a favorable environment for newly established businesses. In 2011, by signing the Declaration on the First Year of Business, the supervisory authorities committed themselves to actively providing advice and assistance during the compa-

-ny's first year of business, by helping to comply with and understand the law, rather than imposing penalties. The Latvian State Revenue Service has also prepared several methodological materials for Start-ups to help them meet the bureaucratic requirements.

### TAX RELIEF

In all three Baltic States, Start-up companies can apply for a tax-related state aid. As for Lithuania, 0% corporate income tax may be applied to Start-up companies in the first fiscal year for the first taxable period. In Estonia, share options, or employee's rights to acquire personnel shares, are exempt from personal income tax. However, in Latvia, personal income tax relief is not a state aid, which can be applied individual, but is closely linked to other state aid programs. If a Start-up company participates in a fixed payment aid program or aid program for attracting highly qualified employees, its employees have the right not to pay the personal income tax. Nevertheless, such relief is subject to other limitations – employee, which is exempt from the personal income tax, is not eligible for the annual non-taxable minimum and a relief for a dependent person, as well as there are various restrictions

	LV	LT	EST
<b>Tax relief</b>	<ul style="list-style-type: none"> <li>0% personal income tax (to employees)</li> </ul>	<ul style="list-style-type: none"> <li>0% corporate income tax</li> </ul>	<ul style="list-style-type: none"> <li>0% personal income tax (to share options)</li> </ul>

regarding the submission of eligible expenditure to the State Revenue Service for reimbursement. In addition to this tax relief, a fixed payment aid program is also available in Latvia, which allows to make a fixed payment for state social insurance contributions every month - to the employee at a fixed rate of 11% and to the employer 24.09% of EUR 860. Solidarity tax payment must be paid in addition to the fixed payment once the maximum amount of the mandatory contributions in the year has been reached. Likewise, the employee shall make additional mandatory contributions for the State pension insurance or contributions in a private voluntary pension fund.

Of course, in order to qualify for a tax relief, companies must meet certain criteria, which are defined differently in each of countries. To be eligible for a 0% income tax rate in Lithuania, the company must meet six criteria. First, the Start-up company must be newly established – it must carry on commercial activities for the first year after its registration in the Commercial Register, as this income tax relief can only be applied during the first tax period. The second criteria is related to restrictions on the workforce – a Start-up company can only employ up to 10 employees. Third, the taxable income of the company must not exceed EUR

300 000 per year. The total income of the company is calculated, excepting income from the sale of company's assets. Profits from these proceeds are calculated only for the value of which the sales proceeds exceed the value of the asset. Fourth, only a natural person may be a member of a Start-up company. But, if the shareholder(s) of the company owns more than 50% of shares in another company, the criteria shall also apply to this other company, so that the total number of employees and the amount of income counted in both companies together do not exceed the previously mentioned limits. Finally, the last criteria in Lithuania is related to the structure of the company. A Start-up company will only benefit from the tax relief if the company is not suspended, liquidated or reorganized during three consecutive tax periods, including the first tax period. In addition, company's shares may not be transferred to new shareholders. If it turns out that the company was not eligible for the benefit, for example, the company is suspended during second consecutive tax period, then it must file a revised income tax return with 5% or 15% rate and pay default interest.

development; the profit should not be distributed as dividends; the income of the Start-up cannot exceed EUR 200 000 per year, and others.

### FINANCIAL SUPPORT

The Baltic States also provide various types of financial support to Start-up companies. With the support program for attracting highly qualified employees Start-up companies in Latvia can receive



state aid for personal costs up to 45% - for remuneration, leave compensations and mandatory contributions. In order to apply for highly qualified employee attraction program and other state aid programs in Latvia, Start-up company must not have a tax debt or it must not exceed EUR 150, and insolvency proceeding must not be proclaimed to the company. Along with these criteria, the Start-up company must have attracted a qualified venture capital investor, who has made an early stage venture capital investment of at least EUR 15 000 or 30 000 over a period of 24 months depending on its compliance with the requirements of Article 5 of the Law on Aid for the Activities of Start-up Companies. Until the amendments were made, the Law provided for such an investment only in the Start-up company itself, but from September 2020 it can also be made in the parent or subsidiary of the Start-up company, which meets certain criteria. However, if a Start-up company that develops, produces or improves innovative products has not been able to attract a risk capital investment during its first five years of operation, it may apply for State aid without receiving such investment. If these requirements are

### Since September 2020, the legislator has eased the criteria for obtaining state aid in Latvia

In order to qualify for the personal income tax exemption for share options in Estonia, first, there must be at least 3-year period between the granting and exercising of the option, and second, the underlying asset of the share options is a shareholding in the employer or in a company belonging to the employer's group of companies.

Until September 2020, strict criteria were set for

Aid programme period for tax relief and financial support	LV	LT	EST
	<ul style="list-style-type: none"> <li>1 or 2 years* can apply repeatedly</li> </ul>	<ul style="list-style-type: none"> <li>1 year</li> </ul>	<ul style="list-style-type: none"> <li>not limited</li> </ul>

Start-up companies in Latvia, which significantly complicated the receipt of state aid. To facilitate it, the legislator amended the Law on Aid for the Activities of Start-up Companies by excluding such restrictive requirements as aid could only be applied for during the first 5 years of the company's commercial activities; at least 70% of Start-up's employees must have a Master's or Doctor's degree; at least 50% of the Start-up expenses must be allocated to research and

met, the Start-up company may apply for state aid programs at any time, and even more, it can apply for state aid repeatedly.

The financial support for Start-ups in Estonia is provided through the aforementioned Start-up ecosystem program and the involvement of its partner organizations. Meanwhile, two programs helping small and medium-sized Start-up companies to apply for a soft loan in the first year of


\* 2 years if an early stage venture capital investment of EUR 150 000 has been made

operation have been set up in Lithuania. Small Start-ups with up to 50 employees and annual revenues of up to EUR 10 000 000 can qualify for a maximum loan of EUR 25 000 from the Entrepreneurship Promotion Fund 2014 – 2020. Although medium sized Start-up companies with up to 250 employees and annual revenues of up to EUR 50 000 000 can apply for a loan from the Open Credit Fund 2 which provides loans to Start-ups for up to EUR 450 000 for loan term of 10 years. The maximum amount of this loan can be increased depending on the proportional share of bank funding. Small Start-up companies can also apply for this loan.

### **E-RESIDENCY**

Another beneficial state aid for Start-up companies is the e-Residency, which has been available in Estonia for a long time, and will be soon introduced in Lithuania as well. In Estonia, e-Residency has been offered since 2014 as a government-issued digital ID, which gives the freedom to easily Start and run a location-independent business online, using the convenient digital business services. As an international digital identity, e-Residency is accessible to everyone not only in Estonia, but also elsewhere in the world.

e-Residency is a modern solution that allows to run a Start-up company online



The e-Residency program will operate in Lithuania from 2021. E-Residents will receive a digital identity - identification that will give them online access to a range of administrative, public and commercial services. E-Residents will also be able to set up companies, open bank accounts and declare taxes online. In order to take advantage of e-Residency, foreign nationals, who are not EU citizens or their family members, or other persons who are entitled to free movement under the European Union legislation, will need to obtain a residence permit in the Republic of Lithuania.

### **TO SUM UP:**

- Start-up Visa, a temporary residence permit, which can be obtained under a facilitated procedure in all three Baltic States, allows Start-up founders and employees to live together with their families in the chosen country.
- Lithuanian business supervisory authorities, including State Tax Inspectorate and State Labor Inspectorate, have committed helping companies during their first year of business to comply with the law, rather than imposing fines.
- In all three Baltic States, Start-ups are eligible for tax reliefs - in Latvia and Estonia Start-up employees may be exempt from personal income tax, while in Lithuania Start-up companies may be exempt from paying corporate income tax.
- Start-up companies in Latvia can receive financial support for attracting highly qualified employees from the state, which finances up to 45% of personnel costs for a period of 1 to 3 years.
- E-residency, which allows to manage business online and remotely access various administrative and public services, has been available in Estonia since 2014 and will be introduced in Lithuania in 2021.