

Legal Structures of Private Sponsorship and Participation in Conservation and Maintenance of Monuments in Latvia

There are some allowances in the Latvian tax laws which can be used for protection of our architectural heritage. This report will discuss what allowances are applicable to cultural and architectural monuments, how to apply them and how it works in practice. Finally, some suggestions given by conservators to the Latvian authorities will be explained.

Before starting on the main topic, it would be useful to mention some aspects of the current legal and tax situation in Latvia. Latvia is a Baltic country struggling hard to transform its economy from the controlled socialist state monopoly to a free market. Some first achievements have already been made.

There are three key aspects of this transition period. First, in the early stage of economic development a number of new immensely rich companies appeared. Many of them were conducting illegal or unethical business and went bankrupt, causing financial crisis. Second, the state budget had to establish pension funds to ease social strife in society. That consumes a large proportion of the State budget. Third, socialist rule has distanced people from power. Therefore the 'state' is widely considered as something which is nobody's responsibility. That is why people shy away from declaring their true income and paying taxes, a habit which Latvia will have to overcome.

All these circumstances have made the transition period slower. Tax authorities are desperate to collect money for the state budget. In this situation it is necessary for conservators to seek to secure positive tax policies for the protection of monuments.

Allowances in Latvian tax laws

There are just three tax concessions related to the protection of monuments in Latvian law presently. The listed properties can be fully exempt of two taxes, the Land Tax¹ and the Property Tax². The third allowance concerns donation to, or sponsorship of, a public organization related to architectural monuments.

Tax allowances on sponsorship or donation are allowed by Latvian law on the income tax³ of companies. Companies may choose what to support financially, but allowances are only given for the support of certain organizations. A list of these organizations is approved by the Ministry of Finance, and it is updated regularly as new applications are received and approved. Any cultural, educational, scientific, religious, sports, charitable, health and environmental public organization, as well as organizations financed by the state budget can apply for this special status. The law provides for an allowance on the company's income tax that equals 85% of the sum of donation.

Among public organizations a special status is given to three organizations of national importance, namely the Culture Fund, the National Olympic Committee and the Latvi-

an Children's Fund. The allowance for sponsors of any one of these three organizations is 90% of the donation.

The law has ensured the state budget against diminishing cash flow from taxes in case of unpredictably active donation or sponsoring. The allowance can be gained for any sum that does not exceed 20% of the company's income.

Application of tax allowances

1. Property Tax and Land Tax

Latvia reestablished its independence in 1990 and that is when most of the first laws were issued. Several changes have been made in the tax laws since then.

In 1990 most properties were denationalised, and most of them were in a poor condition. Consequently, the property tax was set relatively low for there was no real income from property. During the next four years the State Inspection of Monuments sent a list of historical buildings to the tax authorities to release the reestablished owners from property tax. Presently the situation has changed since some of the properties have been renovated and become profitable. Now owners are asking the monument authorities for help in getting tax allowances or exemption. Presently the property tax is still rather low and the allowance is not essential, but the tendency for the tax rate is to grow, and this can become an effective tool for protectionists to supervise improvements made by the owners of listed properties.

Quite similar is the matter with the land tax. The tax rate still is small enough to be a relatively small payment. Nevertheless owners are interested in getting tax exemptions. The wording in the Land Tax Act makes this difficult. While the property tax law states clearly that any listed property is exempt from property tax, the land tax law states that the exemption can be granted for land which cannot be commercially used and on which objects of cultural and educational value are located. It is difficult to draw the line as to whether the building can be considered an educational or cultural object or not. This formula has appeared in the law as recently as 1993 to replace the simpler version of exemption being granted on all land properties 'on which a listed building is located'.

As asserted by the State Inspection of Cultural Monuments, consideration of applications for land tax exemption is up to each branch of the Inspection of Finances. They can choose whether to grant the exemption or to refuse it.

2. Donations and sponsorship

There are several aspects that are important concerning donations in general and for cultural monuments in particular in Latvia. First, although the list of organizations allowed to receive donations contains more than three hundred entries, just a small number of them are related to cultural heritage. Among the latter just a few organizations can be expected to

take care of a particular monument. Second, the status of these organizations is clearly public and most of them are aimed at general matters. This means that the money is not directed specifically at monuments. Third, Latvian society still has to overcome social problems and therefore it is unlikely that donations will be made for a particular building, unless it is very famous or otherwise regarded as important.

3. To whom donations can be given

Among more than three hundred names on the list of the Ministry of Finance, one can find just about two dozen related to cultural matters. Most of the organizations are dedicated to sports and charities in support of retired people of some specific profession. The organizations dedicated to preserving an object are, for the most part, congregations of some specific parish. We can but wish that the funds will be used on renovation of their church. Part of the money will surely be used for support of their elderly members.

So it is clear that only a small proportion of funds donated by local companies in general can be targeted for some specific monument. Nonetheless practice shows that publicity helps to attract the necessary donations.

One such example is the Latvian National Opera House which was recently reopened after a reconstruction project that lasted for six years. The Opera House is a listed monument. Many companies have donated funds for reconstruction. There were sponsors also for the staging of Latvian classical opera as a premiere for opening after reconstruction. This event was so anticipated that the public was actively interested. Interest in the Opera House is still high. The Latvian Beer Brewery sponsored five to seven thousand Lats (multiply by three to get the sum in German Marks) to outstanding Latvian opera artists and theater, and that in itself ensured publicity.

4. Recipients of donations are limited to public organizations

There is another aspect of law which needs to be mentioned. The Opera House is a state property and of national importance and in fact it is not a part of the regular list of organizations allowed to receive donations.

All the public organizations and funds listed in the law are organized to support some wider or smaller public group of people, or aimed at education in some specific field, as for instance the Environmental Club. According to Latvian law, public organizations cannot engage in any commercial activities. The listed buildings in contrast mostly belong to either a natural person or an organization, and it would seem obvious that property is for profit. From this probably comes the principle that Latvian law does not provide for any allowances if a donation is made directly to some listed building since they all belong to somebody who can use them for his own profit. Unique exceptions to this rule can only be churches and some public buildings.

5. The Culture Fund

The Culture Fund of Latvia is an organization of national importance. It was established during the first period of our independence in 1920s. In 1986 it was renewed as a national organization to support various programs aimed at the development of Latvian culture and art. The work of the Culture Fund is organized in programs and people are encour-

aged to actively participate.

Presently the Culture Fund is one of the organizations able to attract donations and sponsors to their current programs. These consist of various projects for environmental protection and may also include restoration of some specific monument. Sometimes it is possible to use the Culture Fund as a shield to gain donations, although a problem arises here too. This organization also needs funding for other current programs and funds received can be split for several projects within the Fund. This means that the project that attracted the donation in the first place will only retain a small part of it. Besides this, the monument involved should be of some special importance to receive preferential treatment via the Culture Fund.

Is there money for sponsorship in Latvia?

It was shown earlier that Latvian law allows donations, although it is questionable whether there are any available funds for donations. Sometimes one can hear the opinion that there are no free funds in Latvia at present; however this is not correct.

Sponsorship is for revenue – sport competes with culture

In fact sponsorship is carried out considering some kind of revenue. Usually it is intangible, in the form of wide publicity, although there can be a place for financial revenue as well. There are about half a dozen basketball teams in Latvia which are supported by large companies. No doubt large amounts of funds are spent on these teams, for training, travel, etc. There has to be some revenue if huge sums of money are spent.

In fact many auditors have estimated that part of donated funds return to the donors. Although this is being hushed up because it is illegal, it is also well known that sport leaves some financial margin for the donor to retain. Besides the financial benefits which a donor may earn, large intangible benefits exist in sport. The name of a company is being advertised, and it appears everywhere. Have you ever seen this related to monuments?

Donations for monuments

It is difficult for monument protection to compete with the attractions of sport. Sport has dynamics, while monuments are quiet aesthetics. Only a few cases of considerable donations for monuments can be named in Latvia presently. Most of the donors are Baltic Germans who help to retain the heritage of their predecessors. Local companies usually give money just for very exceptional matters. Two cases are given to illustrate this.

Rundale Palace

Rundale Palace is one of the most outstanding architectural monuments in Latvia from the mid-eighteenth century. It is owned by the state and annually has been visited by some two hundred thousand tourists. The state budget covers the most necessary needs of this huge property, which unfortunately is hardly enough for the maintenance of the monument, not to speak of the development of park land and the

upkeep of the regular garden. Rundale is a well-known center of restoration, research and collection of historic artifacts. During socialist rule, many fixtures and belongings of Latvia's historic country houses were saved from complete vanishment by the Rundale museum.

Although the number of visitors is outstanding for Latvia, the income derived is small. The price of one or two US dollars for a ticket is hardly enough. The administration of the museum considers that higher entrance fees can diminish the number of local visitors and this would not facilitate development of local tourism. Obviously there is not hope of getting donations from local visitors.

During the last year there have been three cases of donations, twice one thousand German Marks by German tourists and once three thousand German Marks by a German company.

Black Head Society building (Schwarzenkopf Haus)

Another case to show real conditions is related to one of the most legendary structures of Old Riga, which presently is under reconstruction. The Black Head Society building was erected in the early fourteenth century and renovated subsequently many times. During later renovations earlier art pieces were never removed. Finally this structure acquired highly elaborated decoration on the main facade and interior and was considered one of the most outstanding pieces of architecture in the whole Baltic region. At the very beginning of the Second World War the Black Head House was hit by a bomb and burned. After the war everything that could represent German existence in Latvia was removed in accordance with Soviet ideology and the wreck of the building still containing nearly all the facade decoration was demolished.

During the 1980s the rebuilding of this lost monument was already being actively discussed, and in 1995 reconstruction started. Members of the Black Head Society from Germany donated some initial funds. The bulk of funds for construction were given by the municipal enterprise 'The Houses of Riga'. Presently the structure is already roofed over.

There were donation campaigns sponsored by the coffee company 'Meinle'. Anyone who donated could build a brick in the wall of this building. Altogether some 5000 Lats were collected. The biggest sponsor of the reconstruction currently is the Parex bank, one of the largest banks in Latvia. It has donated some 600,000 Lats (approx. 1.6 million DM) for recreation of the lost decoration on the main façade.

Need for more directed policies in tax concessions

Obviously, there is money to donate in Latvia. The most important task is to build a policy which can attract more funds for cultural needs, particularly for the cultural heritage.

Monuments cannot advertise to attract sponsors like sport teams, travelling around the world. Therefore, the only way is to modify the existing tax allowances for companies so that larger tax breaks can be granted for donating funds for conservation works on Latvia's architectural heritage. There are several arguments to back up this suggestion.

First, tourism is considered one of the most important directions for Latvia's economy, with the hope of attracting

people because of the relatively unspoiled natural environment. Architectural monuments are an integral part of the infrastructure. We have the environment but we need investments, as well. Proposed tax allowances can become an important factor to facilitate investments in this sector of the state economy.

Second, the number of monuments of state importance which have real development schemes is small. Consequently this tax break cannot create real losses of income in the state budget. The average condition of monuments in Latvia is poor and investments are urgently needed. If this situation continues there will be nothing left to repair or preserve and part of the attractiveness of Latvia will be irreversibly lost.

Special conservation investments

As I stated before, there are no tax allowances for donations to a listed property. There are also no tax allowances for investments by the owner of a listed property in Latvia at present. It appears that conservation authorities are losing a potentially valuable tool to cooperate with the owner. There is no difference in taxes for an owner or a craftsman whether work is done on an old or new building. Such allowances would be valuable right at this moment since many architectural monuments are being renovated and we are losing their true identity right now as we speak.

Protectionists' recommendations are refused

The State Inspection of Cultural Monument Protection has been involved in a process of developing normative acts where different clauses related to monument protection have been incorporated. The most difficult have been tax laws. Tax reductions or a full exemption from VAT for works on monuments have been proposed as have larger concessions from company income tax concerning sponsorship. A tax exemption or allowance from income that was earned from listed property was also proposed in Latvia. Unfortunately all these ideas were rejected.

The *Saeima* (Parliament) commissions and officials from the Ministry of Finances state that these suggestions are premature. First, it is necessary to overcome the ugly habit of not paying taxes in Latvia. Second, at the period when the first non deficit budget has been accepted the financial discipline has to be strict.

To conclude this report, let us remember England, where the first monument law was waiting for more than thirty decades from the moment it was proposed, and the first financial aid was accepted fifteen years after the protection law came into force. It seems that matters in Latvia happen much faster and hopefully financing for monuments by sponsorship will be developed in Latvia faster than in England a hundred years ago.

Footnotes

- 1 Republic of Latvia Law on Property Tax. 18.12.1990, ad. 03.09.1991. Article 4, p 9.
- 2 Republic of Latvia Law on Land Tax. 20.12.1990., ad.17.03.92. Article 4, pp 2, 3.
- 3 Republic of Latvia Law on Income Tax of Companies. Part IV, Article 20.

