

INTELLECTUAL PROPERTY RIGHTS IN LATVIA: ISSUES OF VALUATION AND ACCOUNTING

*Inga Būmane , Aina Joppe 

University of Latvia, Latvia

*Corresponding author's e-mail: inga.bumane@lu.lv

Abstract

Nowadays, when the economic development of countries is more and more influenced by knowledge-based, innovative entrepreneurship, particular attention is paid to the application and protection of intellectual property. Enterprises can acquire intellectual property rights in various ways externally and such rights can also be generated by enterprises internally: they launch and subsequently produce new or improved products and services (research and development) and ensure the protection of intellectually intensive products (patents, trademarks, computer software, etc.). Thus, it is important to study the valuation and accounting of intellectual property rights. The aim of the research is, on the basis of the studies of intellectual property rights accounting policy in Latvia, to identify the shortcomings related to the valuation and accounting of intellectual property rights and to develop recommendations for their elimination. The following research tasks are subject to the aim: to study IPRs concept, regulatory framework and statistical data, to value accounting policy for IPRs; to identify shortcomings related to the valuation and accounting of IPRs; to develop recommendations for the elimination of identified shortcomings. The results of research enable to draw a conclusion that the requirements of the laws and regulations of Latvia do not prevent from the capitalization of intellectual property rights as intangible assets; however, it is necessary to revise and improve some requirements. In the conclusion of research, the authors have elaborated recommendations for the elimination of identified shortcomings.

Key words: intellectual property rights, intangible assets, valuation, accounting.

Introduction

The scientists have been studying and discussing the most appropriate valuation and accounting approach to intangible assets (hereinafter – IA), including intellectual property rights (hereinafter – IPRs) for a long time.

Several scientists, for example, Flignor & Orozeo (2006), Bochańczyk-Kupka (2017) have provided their conclusions on the measurement of value methodology for IA and/or intellectual property (hereinafter – IP). Bochańczyk-Kupka (2017) provides information on the quantitative and qualitative approaches to be applied for the valuation of IP and admits that the qualitative approach gives more generic overview of the IP and this method is always less precise than quantitative one. Flignor & Orozeo (2006) offer IA and IP valuation pyramid that comprises the quantitative valuation methods, and they admit that all methods are in principle applicable equally.

Several scientists also present conclusions on the recognition of IA in the financial reports. According to authors, at present, one of the most topical studies have been performed by Penman (2023) who analyzed specialists' views and discussed on the most appropriate accounting for IA, including internally generated IA. This scientist concludes that investments (tangible and intangible – auth.) are booked to the balance sheet under current accounting standards only if future benefits are probable with relatively low outcome uncertainty.

Besides, several scientists study IA and/or IPRs accounting policy of their countries. Thus, Umantsiv *et al.* (2023) analyze the international experience and Ukrainian practice of valuation of intangible assets and intellectual property rights in the process of their commercialization, as well as in the accounting and reporting system in the context of economic instability. Sarkar & Mitra (2023) have studied a method to identify and value IP in its own right, in the

light of applicable Indian accounting standards and that of some leading economies of the world.

The research aim is, on the basis of the studies of intellectual property rights accounting policy in Latvia, to identify the shortcomings related to the valuation and accounting of intellectual property rights and to develop recommendations for their elimination. The following research tasks are subject to the aim:

- 1) to study IPRs concept, regulatory framework and statistical data;
- 2) to value accounting policy for IPRs;
- 3) to identify shortcomings related to the valuation and accounting of IPRs;
- 4) to develop recommendations for the elimination of identified shortcomings.

The research basically covers the period from 2000 to 2024.

The limitation to the research – the research authors do not include IA valuation according to IFRS 3 'Business Combinations' because this issue has been in detail covered in specialized literature and scientists' publications, as well as it is a broad issue, and, as a result, the determined volume of the paper would be exceeded.

Materials and Methods

Research methods: the monographic and descriptive methods, analysis and synthesis, the graphic method. The present research is based on various scientific publications, publicly available documents, information available in databases and other sources.

Results and Discussion

IPR concept, regulatory framework and statistics

The concept found in the international law – intellectual property – is well known in any country, because as early as the 19th century all international relations regarding the protection of IPRs were

- conducted within either of two major groupings:
- the 1883 Paris Union for the Protection of Industrial Property;
 - the 1886 Berne Union for the Protection of Literary and Artistic Works.

This concept gained a stable legal standing in the 20th century, when in 1967 a diplomatic conference was held in Stockholm at which the Convention Establishing the World Intellectual Property Organization (hereinafter – WIPO) was adopted.

Before the Second World War Latvia was a member of both the Paris Union and the Berne Union, and the membership was renewed on September 7, 1993 and August 11, 1995, respectively. On January 21, 1993 Latvia became a member of the WIPO.

When comparing IP explanations included in WIPO (*What is intellectual...*, 2020) and EU documents (EU, Summaries, *Intellectual Property*, 2024) it was

established that they are basically identical. Namely, IP is grouped in two main categories: industrial property (main types: patents for inventions, industrial designs, trademarks and geographical indications) and copyright and related rights (main types: literary, artistic and scientific works, including performances and broadcasts). Intellectual property objects, created as a result of a human intellectual work, are protected by IPRs which, as indicated in the EU documents, allow owners - creators as inventors or artists, or any rights holders - to decide how, when and where their creations are used and/or exploited (EU, Summaries, *Intellectual Property*, 2024).

IP regulatory framework is complicated because almost every type of IPRs is regulated by a separate law, and a different protection period has been determined for each type of IPRs. The present situation in Latvia is presented in Table 1.

Table1

Regulatory framework and legal protection period for intellectual property rights in Latvia

Intellectual property rights	Regulatory framework	Legal protection period for intellectual property rights
Patents	Patent Law, 2007. (Chapter IV)	limited protection period - 20 years since the date of patent application if it is renewed on a annual basis
Copyright	Copyright Law, 2000. (Chapter VI) protected works: literary works, dramatic works, musical works, audio-visual works, etc. (Chapter II) protected derivative works: translations, revised works, annotations, musical arrangements, encyclopedias, etc. (Chapter II)	limited protection period – the lifetime of the author/co-authors + 70 years following the death of the author/the last co-author any person, who after expiration of a copyright lawfully publishes/communicates to the public a previously unpublished work, shall acquire rights which are equivalent to the economic rights of an author and shall be in effect for 25 years from the first publication/communicating to the public of the work
	databases (Chapter IX)	limited protection period - 15 years since January 1 of the year following the day of database development if a database has been made available to the public before the expiration of the initial protection period of 15 years, the period of protection shall begin on January 1 of the year following the day when the database was first made available to the public and shall be in effect for 15 years
Trademarks	Trade Mark Law, 2020. (Chapter III, Chapter V) internationally registered trademark (Chapter X) indications of geographical origin (Chapter XII)	indefinite protection period, if the registration of a trademark is renewed once in 10 years
Designs	Law on Designs, 2004. (Chapter III, Chapter IV, Chapter VIII)	limited protection period – 25 years if renewed after every 5 years
Integrated circuits	Law on the Protection of Topographies of Semiconductor Products, 1998. (Chapter III)	limited protection period – 10 years since January 1 of the year that follows the year, when an application was submitted or the commercial use of topography has been commenced
Plant variety and breeder's rights	Plant Varieties Protection Law, 2002. (Chapter I, Chapter III)	limited protection period – 25 years, but for potatoes, vines, and tree species – 30 years if renewed on an annual basis
Know-how	Cabinet Regulation No. 798, 2008	indefinite period if preserved as a secret

Source: authors' construction based on provisions included into indicated laws and regulations.

Table 1 shows that the legal protection period for IP is mostly limited by a particular period of time, for example, for the patents these are 20 years (providing

that the owner of a patent renews his or her rights on an annual basis). IPRs with indefinite period of protection include trademarks and indications of geographical

origin. There is no definite period determined for the protection of trademarks because it is impossible to foresee for how long the management of an enterprise would consider the necessity to maintain and renew these trademarks for the coming 10 years. Usually, an enterprise registers a trademark and later renews its protection in order to distinguish its own goods/services from the goods/services of other enterprises and to protect it against unlawful use, as well as to ensure the identification of the enterprise and to preserve the customers' trust. Particular situation is related to the indications of geographic origin protecting enterprise's foodstuffs, spirits, agricultural produce of particular geographic origin, reputation and/or qualities. They are protected for an indefinite period without registration at the Patent Office (*Trade Mark Law*, 2020).

Table 1 also shows specific IPRs – know-how or special knowledge, which is an entity of non-patented practical information that occurs as the result of experience and practice and is confidential (not publicly known and easy available), essential (includes information important in the production of goods or in the application of technological process), and it is possible to examine (such knowledge is described sufficiently in order to make it possible to examine whether it is confidential and essential) (*Regulations Regarding Non-subjection...*, 2008). Know-how identification and analysis takes place within the framework of enterprise research and development (hereinafter - R&D) works. Thus, enterprises identify the knowledge they have accumulated regarding the production and sales of their goods and decide which parts of this knowledge can be revealed by applying for a patent and which should be kept in secret, thus moving them to the know-how category.

On the homepage of the Patent Office of the Republic of Latvia, there is statistics published on the number of patents, designs and trademarks registered in Latvia from 1992 to 2023. 'Figure 1' shows information on the last six years (from 2018 to 2023).

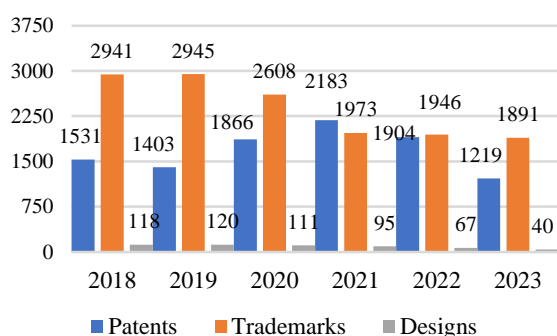


Figure 1. Number of IPRs registered in Latvia, 2018-2023.

Source: authors' construction based on the data of the Patent Office (2024) of the Republic of Latvia.

In 'Figure 1', we can see that from 2018 to 2020 the total number of registered intellectual rights was stable: there were 4547 registrations on average per year during this

period. But during the last three years we can observe the decrease of the total number of registered rights by 26%: starting from 4251 registrations in 2021 down to 3151 registrations in 2023. It is obvious that such a decrease of the number of registered rights is related to COVID-19 pandemic, when economic activities and business processes were limited.

When analyzing the structure of registered IPRs, we can see that during this period, out of all intellectual property rights registered at the Patent Office of the Republic of Latvia, on average most of all there were trademarks (57% of all registered rights) and patents (40% of all registered rights) registered, and the lowest average number of registered rights (3% of registered rights) concerns designs. Such structure of intellectual property rights, when trademarks prevail, is characteristic on the whole globally. According to WIPO IP Statistics Data center data, of all globally received IP registration applications, the proportion of trademark applications in 2020 constituted 57%, in 2021 – 70%, and in 2022 – 66% (WIPO statistics database, 2023).

IPR accounting policy

IPRs owned by enterprises may be recognized as IA. When making a decision about the inclusion of IP among IA, there shall be taken into account the same provisions, which are related to the recognition and accounting of any other IA.

For the accounting of IA at the Latvian enterprises, those laws and regulations of the Republic of Latvia are binding (the most important ones: LR Law 'On Annual Statements and Consolidated Annual Statements', Cabinet regulation No. 775 'Regulation for the Application of the Law on Annual Statements and Consolidated Annual Statements', etc.), which are based on the EU Directives in the field of accounting. But those Latvian enterprises that must or choose to organize their accounting according to IAS/IFRS, for the accounting of IA shall use IAS 38 'Intangible assets', which has been adopted in the EU by European Commission Regulation No. 2023/1803 adopting certain international accounting standards in accordance with 'Regulation (EC) No 1606/2002 of the European Parliament and of the Council' (hereinafter – EU Regulation No. 2023/1803).

In order to recognize IPRs as IA, they shall comply with the definition and recognition criteria of IA. The authors studied these conditions and compared the laws and regulations of Latvia, IAS 38 and European Parliament and of the Council Directive 2013/34/EU 'On the annual financial statements, consolidated financial statements and related reports of certain types of undertakings' (hereinafter – EU Directive No. 2013/34). The authors have found that there are no definition and recognition criteria determined for IA in the EU Directive No. 2013/34. It could be explained by the terms of the EU Directives. Namely, the EU Directives include the goals set for the EU Member States, and every EU Member State adopts its own laws and regulations to achieve these goals.

When comparing the definition and recognition criteria determined in the regulatory enactments of Latvia and those provided in the international standard, we can state that there are no significant differences.

In most cases, IPRs owned by an enterprise, comply with IA definition (they have no physical substance, they are no monetary assets) and recognition criteria (identifiability, control, existence of future economic benefits). It could be based on the fact that, first, these are rights granted to the enterprise with a definite or indefinite legal protection period (see Table 1) or the enterprise acquires these rights on the basis of different contracts, for example, trademark licence contract. Second, IPRs

possessed by enterprise, ensure economic benefit flow in the future due to their use at the enterprise and/or due to permission to use them by other enterprises, for example, a patented invention is allowed to be used by others on the basis of a licence contract.

The authors admit that, of course, not all IPRs possessed by enterprise comply with IA recognition criteria. Sarkar & Mitra (2023) also emphasize that IPRs may be shown as intangible assets but all intangible assets are not IP assets.

One of the criteria for the recognition of IPRs as IA is the ability to carry out the credible valuation of their value. Valuation provisions depend on the type of origin of these rights at the enterprise (see Table 2).

Table 2

Comparison of the initial valuation provisions for the intellectual property rights recognized as intangible assets in the laws and regulations of Latvia and IAS 38, IAS 23, IAS 20

Types of the origin of intellectual property rights	EU Regulation No.2023/1803 /IAS 38, IAS 23, IAS 20/	Laws and regulations of Latvia
Acquired separately (externally)	value consists of: 1. purchase price + non-refundable purchase taxes – trade discounts 2. any directly attributable cost of preparing the asset for its intended use (IAS 38, 27) 3. shall capitalize borrowing cost that are directly attributable to the acquisition of a qualifying intangible asset as part of the cost of that asset (IAS 23, 8) if payment for an intangible asset is deferred, its cost is the cash price equivalent (IAS 38, 32)	purchase costs – the same as in IAS 38, 27 (<i>Law on Annual Statements...</i> , Section 14) the loan interest received for the establishment of intangible assets may be included in production cost price of the relevant newly established objects (<i>Law on Annual Statements...</i> , Section 28)
Acquired as part of a business combination	fair value, which reflected market participants expectations (IAS 38, 33)	no provisions
Acquired by way of a governmental grant	1. nonmonetary asset and grant are evaluated at fair value or nominal value (IAS 38, 44) 2. nonmonetary asset carrying value = nonmonetary asset value – grant value (IAS 20, 24)	the same as in IAS 38, 44 (<i>Regulation for the Application...</i> No. 775, Sections 6 and 7)
Acquired by exchanges of assets	1. fair value of the received asset <i>if its not possible to determine</i> 2. fair value of the given away asset <i>if its not possible to determinec</i> 3. carrying amount of the given away asset (IAS 38, 45)	no requirements have been determined for intangible assets, but the requirements for fixed assets comply with the provisions of IAS 38 (<i>Regulation for the Application...</i> No. 775, Section 79)
Internally generated	research phase – recognized as an expense (IAS 38,54) development phase – capitalized if the appropriate conditions are met (IAS 38, 57) directly attributable costs necessary to create, produce and prepare the asset (IAS 38, 66) shall capitalize borrowing costs that are directly attributable to the construction or production of a qualifying intangible asset as part of the cost of that asset (IAS 23, 8)	the same as in IAS 38, 54., 57., 66. (<i>Law on Annual Statements...</i> , Section 29 and <i>Regulation for the Application...</i> No.775, Section 202) the loan interest received for the establishment of intangible assets may be included in production cost price of the relevant newly established objects (<i>Law on Annual Statements...</i> , Section 28)

Source: authors' construction based on provisions included into indicated laws and regulations.

In Table 2, we can see that there are different provisions determined for the initial valuation of IPRs for the Latvian enterprises depending on what regulatory documents they organize their accounting. As a result of comparative research, the authors identified three differences and two types of potential IP origin, which have no valuation provisions in the laws and regulations of Latvia.

The first difference concerns the provisions of borrowing cost capitalization: in conformity with the requirements set in the regulatory enactments of Latvia, the inclusion of such costs into the initial value of both externally acquired and internally generated is permitted, but it is not compulsory, as it is in compliance with the international standard. The second difference is related to the determination of the

initial value of IPRs, payment for them is deferred. In this case, in conformity with the international standard, there shall be valued the present value of IPRs obtained by discounting sums to be paid in future. In the regulatory enactments of Latvia, such valuation nuance is not envisaged. The third difference is the fact that Latvian regulatory enactments do not provide the second method how to determine the initial value of IPRs fully or partially financed by a government grant. Namely, there is no method provided when the value of financed IPRs is decreased by received government grant. It should be pointed out that in IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' both methods of presentation in financial statements of grants (or the appropriate portions of grants) related to assets are regarded as acceptable alternatives (EU Regulation No. 2023/1803, IAS 20, 25). However, as the advantages of the second method there should be mentioned the fact that when the grant is subtracted from the value of the asset to be financed, we obtain that the asset (including IPRs) is disclosed in the financial report according its substantiated lowest value or it may be called also its true economic value, which enables the main users of financial reports (investors, creditors) to see the true acquisition costs of the asset. While continuing the comparative analysis (see Table 2), we should critically assess that there are no provisions in the regulatory enactments of Latvia how to value IPRs, as they have been acquired as a part of a business combination. The only thing determined in this relation is that expenses related to the acquisition of an undertaking may be indicated in the item 'Goodwill' if they cannot be referred to other items of the balance sheet asset (*Law on Annual Statements...*, Section 29), which does not provide an answer to the question – how in this case the value of the taken possession of assets shall be determined. There are also no provisions in the regulatory enactments of Latvia how to value IPRs if they have been acquired by exchange of assets. At the same time, it should be pointed out that in the regulatory enactments of Latvia there are provisions included for the valuation of fixed assets acquired as result of the exchange of assets; these provisions are identical to those included in IAS 38 regarding valuation of IA. The differences of the provisions for the valuation of IPRs initial value and the lack of provisions limit the comparability of the financial indicators of Latvian enterprises.

Thus, the enterprises can themselves generate IPRs internally and acquire them externally in different ways (see Table 2).

In accounting, expenditure of resources related to the development of internally generated IPRs is recognized as the costs of R&D works, and, when the respective conditions are met, the value of resources used for developmental works is capitalized in the balance sheet item 'Development costs'. Then the management of the company makes an important decision – whether different innovations (new or

improved products, technological processes and other innovative solutions) created as a result of R&D works will be registered and/or protected by IPRs (patents, design, integrated circuits), or the innovations would be preserved as a secret (know-how). If the management of the company decides in favour of the protection of innovation, for example, registers a patent, then the costs of patent development and the costs for the registration at the Patent Office of the Republic of Latvia are capitalized in the balance sheet item 'Concessions, patents, trademarks and similar rights' and determine its amortization period. Whereas, if the innovation is transferred to know-how category, then the amortization of patent developmental costs is started.

In accounting, in different ways externally acquired IPRs are disclosed in the balance sheet item 'Concessions, patents, trademarks and similar rights'. When IPRs are initially recognized and valued as IA, their further accounting policy is important. In Latvia, for the further registration of IA there is one accounting method - cost method, but, in conformity with the provision of Directive No. 2013/34, it is not allowed to use the revaluation method. The cost method provides that after initial recognition, intangible assets, including IPRs, shall be carried at their cost less any accumulated amortisation and any accumulated impairment losses. In order to carry out further bookkeeping of IPRs, there shall be determined their useful life, which may be finite or indefinite period because it is necessary to connect useful life to the legal protection period of IPRs (see Table 1). The regulatory enactments of Latvia do not provide for a finite period of IPRs useful life and a particular method for the calculation of amortization. Irrespective of the fact, whether an enterprise has determined finite or indefinite useful life for IPRs, they are subject to the test of value reduction if indications of internal or external origin are identified, which might indicative of the decrease of value.

Shortcomings identified in relation to IPRs valuation and accounting

As a result of the studies of various sources and literature, several shortcomings in relation to the valuation of IPRs and accounting were identified in Latvia.

First, information provided on R&D costs is not always included in the annual statements of Latvian enterprises. In the regulatory enactments of Latvia, since 2016 it has been provided that medium and large enterprises, in the annexes of their financial statements, shall present also detailed information on R&D costs (*Law on Annual Statements...*, Section 53(1)17)), but for other enterprises the disclosure of such information is voluntary. Besides, the data on the activities carried out by enterprise in the sphere of R&D shall be disclosed also in the management report. However, not always the information on R&D costs is provided in the annual statements of Latvian enterprises. Thus, Kiopa, the Member of the Board of

Lursoft LTD, points out that in the statements for the 2022 this item was separately disclosed by 439 enterprises, which is less than 0.5% cases (Ķirsons, 2024a). It should be noted that, according to the entrepreneurs' views, many enterprises in Latvia actively develop new products or improve present operational processes, namely, they carry out R&D works, but not always the costs of such works are registered separately in accounting. During the interview at the periodical 'Dienas bizness', Binde, Chairperson of the Board of LMT LTD, mentions that smaller enterprises might act like that, and they really do (include R&D costs into the costs of enterprise's basic activities: production costs, personnel costs, etc. - auth.), but this is not the case of large enterprises that also invest in R&D most (Ķirsons, 2024b). Information on R&D expenditures in the Baltic States, the authors present in Figure 2.

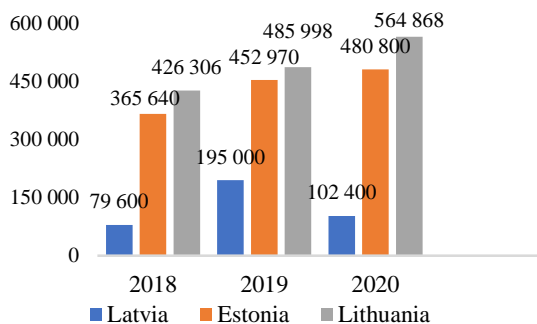


Figure 2. R&D Expenditures in Baltic States, 2018-2020, thousand euros.

Source: authors' construction based on official statistics portal data in Latvia, Estonia and Lithuania.

As we can see in 'Figure 2', Lithuania is the leader according to R&D expenditures, but Latvia, unfortunately, is the last among the Baltic States. It should be pointed out that R&D expenditures is also one of the main indicators characterizing the innovative capacity of countries because the successful result of R&D are innovations, which we could choose to protect by means of IPRs. The fact that not all Latvian enterprises provide in their annual statements the information on R&D activities, directly influences the global rankings of Latvia according to the Global innovation index, where in 2023 Latvia was in the 37th place, Estonia – in the 16th place, Lithuania – in the 34th place among 132 countries of the world (*Global innovation index...*, 2023). As one of the main reasons why Latvian enterprises in their annual statements do not disclose R&D expenditures separately, Kiopa, Member of the Board of Lursoft LTD, points out the complex registration of these expenses in the accounting. Namely, in order to disclose R&D expenditures separately, it is necessary to separate and register clearly the involvement of employees in the development of a service, improvement of goods, as well as there should be separated the use of other resources for these activities.

Therefore, the enterprises include R&D expenditures into other items – production costs, personnel costs, etc. (Ķirsons, 2024a). The authors only partially agree with the above mentioned point of view because the organization of accounting, including classification of enterprise expenditure, considerably depends on the enterprise management views in this aspect. Besides, as it was mentioned above, it is provided in the laws and regulations of Latvia that separate disclosure of R&D expenditures in the annual statements is compulsory for large and medium enterprises, but for other – voluntary.

Second, the regulatory enactments of Latvia provide for a considerable limitation of the capitalization of enterprise development costs. Namely, the development costs may be included in the balance sheet (capitalised) provided that while the initial value of the object of development costs is not completely written-off, profit distribution shall not take place unless reserves available for distribution and undistributed profit amount of previous years is at least equivalent to the amount of the initial value of development costs not written off (*Law on Annual Statements...*, Section 30). This provision has been fully adopted from EU Directive 2013/34 - Chapter 3, Article 12, Paragraph 11, Subparagraph 3, not taking into account that Paragraph 11, Subparagraph 5 of the same Directive provides that in exceptional cases, the Member States may permit derogations from the third subparagraphs. Such derogations and the reasons therefore shall be disclosed in the notes to the financial statements. Unfortunately, people who elaborated the regulatory enactments of Latvia have not taken into account the exception of the Directive. Thus, the present regulation does not facilitate the capitalization of developmental costs because the value of developmental costs recognized in the balance sheet limits the distribution of enterprise profit to the owners, but instead the developmental costs are immediately written off to expenditure. When assessing such accounting policy according to taxes, of course, it should be pointed out that immediate inclusion of developmental costs into the expenditures, immediately decreases the profit to be distributed and, along with it, also the amount of enterprise income tax (hereinafter – EIT). Whereas the capitalization of developmental costs and their gradual inclusion into the expenditures within the period of time, which is not longer than 10 years (*Law on Annual Statements...*, Section 31 (2)), decreases the profit to be distributed and thus also the amount of EIT gradually, but at the same time limits the sum of the profit to be distributed. It is important to emphasize that, without capitalization of developmental costs, the balance sheet does not provide clear and true view on all real enterprise resources that potentially will create economic profit in the future. The additional argument in favour of the capitalization of developmental costs is the fact that in both regulatory enactments of Latvia (*Law on Annual Statements...*, Section 1, *Regulation*

for the Application..., No.775, Section 202) and IAS 38 (Sections 18, 57) the provisions for the classification of IA and the provisions for the capitalization of developmental costs are identical according to the content. The fulfilment of these provisions ensures that the capitalized developmental costs will potentially create economic profit for the enterprise in the future, which is one of the bases for the capitalization of any resource in the balance sheet. Therefore, according to authors' point of view, it is necessary in Latvia to re-evaluate at the national level the provisions of EU Directive No. 2013/34 in relation to the limitations for the capitalization of developmental costs and to use the relief arrangements provided by Directive.

It should be also mentioned that in Latvia, as a result of tax reform, since 2018 there are no EIT exemptions related to the costs of R&D works. In the period from 2014 to 2017, it was provided that the sum taxable with EIT should be reduced by R&D expenditures by applying the increasing coefficient 3, if the intellectual property created as a result of R&D work is expropriated within 3 taxation periods (*On Enterprise Income Tax*, Section 6.6 (1), (4)). The above mentioned EIT calculation policy, when the taxable sum was reduced by triplicated R&D expenditures, additionally stimulated Latvian enterprises to carry out such activities. The authors believe that it would be necessary, at the national level, to consider the possibility of EIT exemption for the enterprises performing R&D works.

Thirdly, there are shortcomings in the provisions regarding the payment for the equity capital of capital companies by property contribution, which may be also IPRs. The Commercial Law allows using IPRs as a property contribution to the equity capital of companies, pursuant to certain limitations and rules of valuation. Property contribution is assessed by an expert who is included into the list approved by the Patent Office of the Republic of Latvia (2024). Exception is the founders or participants of a limited liability company who have the right to perform the assessment themselves if the total value of property contributions do not exceed EUR 5,700, and the total value is less than a half of the amount of equity capital. Besides, the assessment shall be carried out according to the usual value of the relevant property or rights. The IPRs as a property contribution may be used to pay the equity capital if the rights conform to 2 criteria: 1) they can be assessed in terms of money, and 2) they can be used for the capital company's business activities (*Commercial Law*, Sections 153, 154). The authors believe that these regulations are deficient because they do not include all the criteria for recognising an element of an economic transaction as an asset, even though the contribution, after its inclusion in the equity capital, is treated as an IA. It is essential to note that the IP to be contributed must be exploitable in the commercial activities of a capital company; however, the

sphere of these activities depends on management strategies, and often it can be seen that a newly founded enterprise is expected to be active in one or more spheres, but after changes in market and other conditions the priorities may be altered.

The authors suggest supplementing the rules which regulate contributions to equity capital – and allow investing IPRs if they can be valued in money terms and used in commercial activity of the enterprise – with these criteria: 1) industrial IPRs must be registered at the Patent Office of the Republic of Latvia, and 2) IPRs must bring the enterprise future economic benefits or create conditions for receiving them.

Conclusions

1. There are different types of intellectual property and almost each of them is regulated by its own regulatory framework.
2. Not all intellectual property rights possessed by enterprises comply with the criteria for the recognition of intangible assets.
3. In Latvia, the initial valuation of the intellectual property rights recognized as IA and further accounting policy depend on the fact in compliance to which regulation the accounting is organized.
4. Not always the annual reports of Latvian enterprises provide information on R&D costs directly influencing rankings of Latvia in the world according to the Global innovation index.
5. In the regulatory enactments of Latvia provide for considerable limitations regarding the capitalization of enterprise developmental costs, thus the financial statement of an enterprise does not provide clear and true view on all real enterprise resources that potentially will create economic profit in the future.
6. There are shortcomings in the business regulatory enactments of Latvia regarding the payment for the equity capital of capital companies by property contribution, which may be also IPRs.
7. It is necessary in Latvia to re-evaluate at the national level the provisions of EU Directive No. 2013/34 in relation to the limitations for the capitalization of developmental costs and to use the easement provided by Directive.
8. It is necessary in Latvia, at the national level, to consider the possibility of EIT exemption for the enterprises performing R&D works.
9. In Latvia, at the national level, it is recommended to make a decision to supplement the provisions regarding the payment for the equity capital of capital companies by property contribution with the following criteria if IPRs are used as a property contribution: first, industrial IPRs must be registered in the Patent Office of the Republic of Latvia, and, second, IPRs must bring the enterprise future economic benefits or create conditions for receiving them.

References

- Bochańczyk-Kupka, D. (2017). The Measurement of Intellectual Property Value at the Microeconomic Level. *Zeszyty Naukowe. Organizacja i Zarządzanie/ Politechnika Śląska*. 2017(114), 51-64. DOI: 10.29119/1641-3466.2018.114.4.
- Commercial Law. (2002). *The Law of the Republic of Latvia*. Retrieved February 26, 2024, from <https://likumi.lv/ta/en/en/id/5490-commercial-law>.
- Copyright Law. (2000). *The Law of the Republic of Latvia*. Retrieved February 15, 2024, from <https://likumi.lv/ta/en/en/id/5138-copyright-law>.
- European Parliament and of the Council. (2023). *Adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council*. Commission Regulation (EU) 2023/1803 of 13 August 2023. Retrieved February 15, 2024, from <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R1803&qid=1707993095461>.
- European Parliament and of the Council. (2013). *On the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC*. European Parliament and of the Council Directive 2013/34/EU of 26 June 2013. Retrieved February 15, 2024, from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013L0034>.
- European Union law, Summaries of EU legislation, Glossary of summaries. *Intellectual Property*. Retrieved February 10, 2024 from <https://eur-lex.europa.eu/EN/legal-content/glossary/intellectual-property.html>.
- Flignor, P. & Orozco, D. (2006). Intangible Asset & Intellectual Property Valuation: A Multidisciplinary Perspective. *IP Thought. Web*. Retrieved February 8, 2024, from https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_valuation.pdf.
- Gada pārskatu un konsolidēto gada pārskatu likuma piemērošanas noteikumi* (Regulation for the Application of the Law on Annual Statements and Consolidated Annual Statements). (2016). Republic of Latvia Cabinet Regulation No. 775. Retrieved February 15, 2024, from <https://likumi.lv/ta/id/278844-gada-parskatu-un-konsolideto-gada-parskatu-likuma-piemerosanas-noteikumi>. (in Latvian).
- Ķirsons, M. (2024a). Inovāciju indekss - valsts politikas atspulgs (Innovation index - a reflection of national policy). *Journal Dienas Bizness*. 7(6193), 10–13. (in Latvian).
- Ķirsons, M. (2024b). Inovācijas - nākotnes konkurētspējas pamats (Innovation - the basis of future competitiveness). *Journal Dienas Bizness*, 2024, 7(6193), 14–19. (in Latvian).
- Law on Annual Statements and Consolidated Annual Statements*. (2016). The Law of the Republic of Latvia. Retrieved February 15, 2024, from <https://likumi.lv/ta/en/en/id/277779-law-on-annual-statements-and-consolidated-annual-statements>.
- Law on Designs*. (2004). The Law of the Republic of Latvia. Retrieved February 16, 2024, from <https://likumi.lv/ta/en/en/id/96620-law-on-designs>.
- Law on the Protection of Topographies of Semiconductor Products*. (1998). The Law of the Republic of Latvia. Retrieved February 17, 2024, from <https://likumi.lv/ta/en/en/id/51245-law-on-the-protection-of-topographies-of-semiconductor-products>.
- Patent Office of the Republic of Latvia (2024). *Izgdrojumu statistika, Preču zīmju statistika. Dizainparaugu statistika* (Statistics of Inventions, Trademark Statistics. Design statistics). Retrieved February 8, 2024, from <https://www.lrpv.gov.lv/lv/statistika>.
- On Enterprise Income Tax*. (1995). The Law of the Republic of Latvia. Retrieved February 28, 2024 from <https://likumi.lv/ta/en/en/id/34094-on-enterprise-income-tax>. (The law is no longer valid).
- Official statistics portal, Lithuania. (2024, February). *R&D expenditure*. Retrieved February 23, 2024, from <https://osp.stat.gov.lt/statistiniu-rodikliu-analize?indicator=S4R095#/>.
- Official statistics portal, Latvia. (2024). *Total innovation (research and development) expenditure*. Retrieved February 22, 2024 from https://data.stat.gov.lv/pxweb/en/OSP_PUB/START_ENT_IU_IUI/IUI010/table/tableViewLayout1/.
- Patent Law*. (2007). The Law of the Republic of Latvia. Retrieved February 15, 2024, from <https://likumi.lv/ta/en/en/id/153574-patent-law>.
- Penman, S. (2023). Accounting for Intangible Assets: Thinking It Through. *Australian Accounting Review*. 103(33), 5-13. DOI: 10.1111/auar.12394.
- Plant Varieties Protection Law*. (2002). The Law of the Republic of Latvia. Retrieved February 15, 2024, from <https://likumi.lv/ta/en/en/id/62175-plant-varieties-protection-law>.
- Regulations Regarding Non-subjection of Separate Horizontal Co-operation Agreements to the Agreement Prohibition Specified in Section 11, Paragraph One of the Competition Law*. (2008). Republic of Latvia Cabinet Regulation No. 798. Retrieved February 20, 2024, from <https://likumi.lv/ta/en/en/id/181856-regulations-regarding-non-subjection-of-separate-horizontal-co-operation-agreements-to-the-agreement-prohibition-specified-in-section-11-paragraph-one-of-the-competition-law>.

- Sarkar, de S. & Mitra, N. L. (2023). Secured Lending on Intellectual Property Rights in India: Issues on Valuation. *Asian Journal of Legal Education*, 10(2), 217-242. DOI: 10.1177/23220058231172092.
- Statistics Estonia: Statistical database. (2024, February). *Research and development expenditures*. Retrieved February 23, 2024 from https://andmed.stat.ee/en/stat/majandus__teadus-tehnoloogia-innovatsioon__teadus-ja-arendustegevus__teaduse-uldandmed/TD052/table/tableViewLayout2.
- Trade Mark Law*. (2020). The Law of the Republic of Latvia. Retrieved February 16, 2024, from <https://likumi.lv/ta/en/en/id/312695-trade-mark-law>.
- Umantsiv, H., Shushakova, I., Miniailo, O., Shcherbakova, T., & Khrustalova, V. (2023). Valuation of Intangible Assets in the Context of Economic Instability in Ukraine. *Journal Financial and credit activity: problems of theory and practice*, 3 (50), 102-115. DOI: 10.55643/fcaptop.3.50.2023.4063.
- WIPO Global Innovation Index Database. (2023). *Global Innovation Index 2023 rankings, Global Innovation Index 2023 Innovation in the face of uncertainty 16th Edition*. 250 p. Retrieved February 24, 2024, from <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2023-en-main-report-global-innovation-index-2023-16th-edition.pdf>.
- WIPO statistics database. (2023, December). *Total applications*. WIPO IP Statistics Data Center. Retrieved February 13, 2024 from <https://www3.wipo.int/ipstats/key-search/search-result?type=KEY&key=201>.
- WIPO. (2020). *What is intellectual property?* Retrieved February 10, 2024, from <https://www.wipo.int/about-ip/en/>, https://www.wipo.int/edocs/pubdocs/en/wipo_pub_450_2020.pdf.