

Ministry of Finance
Republic of Latvia

Labor taxes changes from 2021

October, 2020





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The labour tax changes in three stages

Stage 1

- **the state social insurance mandatory contribution (SSI) rate reduction by 1 percentage point;**
- **the income threshold increase** from 1200 to **1800 EUR per month**, up to which PIT non-taxable minimum is not applied;
- **change of the proportion for PIT revenue** between local and state government budgets **to 75%/25%;**
- **a minimum SSI object introduction** for employees in the general tax regime and alternative tax regimes;
- **the micro-enterprise tax regime reorganization.**

Stage 2*

- **for economic activity performers**, exceeding a certain income threshold, the state social insurance mandatory contribution (SSI) will be paid as in the general regime

Stage 3*

- **all economic activity performers pays** the state social insurance mandatory contribution (SSI) **from the actual income, but not less than the minimum SSIMC object**

* Still under discussion



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STAGE 1: labour taxes changes

SSI rate reduction by 1 percentage point

Employer rate

24.09% ↓ 23.59%

Employee rate

11% ↓ 10.5%

PIT rates

Income level, EUR per month	Rate
Till 1667	20%
From 1667 to 5233	23%
Above 5233 (31.4%)	31%

PIT non-taxable minimum 300 EUR per month

Income threshold, up to
which the non-taxable
minimum is not applied,
EUR per month

1200 ↑ 1800

Solidarity tax

(applied to incomes above 62 800 EUR per year)

Total rate	25.5%	X%*
<i>of which:</i>		
Pension insurance rate (employer payment)	14.5%	X%*
For PIT third rate (employee payment)	10.5%	↓ 10%
Health insurance rate	1%	1%

* Solidarity tax rate will be determine after will be set distribution of SSIMC rate



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Impact on employee's income

Employee without children

Gross income, EUR per month	Net income, EUR per month			Taxes paid, EUR per month		
	2020	2021	Difference	2020	2021	Difference
Minimum wage*	366	418	+52	167	200	+33
700	541	552	+11	327	313	-14
1 000	729	753	+24	512	483	-29
1 200	854	887	+32	635	596	-38
1 400	997	1 021	+24	740	709	-31
1 600	1 139	1 155	+16	846	823	-24
1 800	1 278	1 285	+7	956	940	-16
2 000	1 414	1 422	+8	1 068	1050	-18
4 000	2 778	2 794	+16	2 186	2150	-36

Employee with children

Gross income, EUR per month	Net income, EUR per month					
	With one child			With two children		
	2020	2021	Difference	2020	2021	Difference
Minimum wage*	383	448	+65	383	448	+65
700	591	602	+11	623	627	+4
1 000	779	803	+24	829	853	+24
1 200	904	937	+32	954	987	+32
1 400	1 047	1 071	+24	1 097	1 121	+24
1 600	1 189	1 205	+16	1 239	1 255	+16
1 800	1 328	1 335	+7	1 378	1 385	+7
2 000	1 464	1 472	+8	1 514	1 522	+8
4 000	2 828	2 844	+16	2 878	2 894	+16

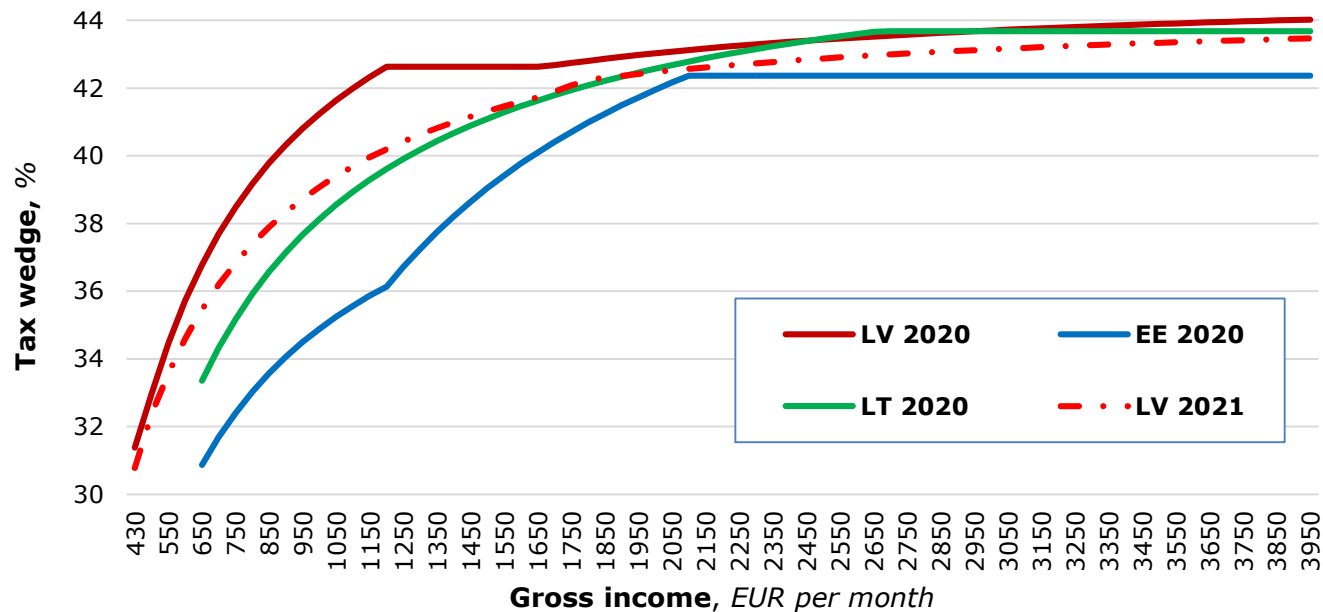
* Minimum monthly wage: – 430 EUR in 2020; 500 EUR in 2021.



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Impact on the tax wedge in Baltic States

The tax wedge for employee without children in Baltic States



Source: Ministry of Finance and Bank of Latvia calculations on 2020 august

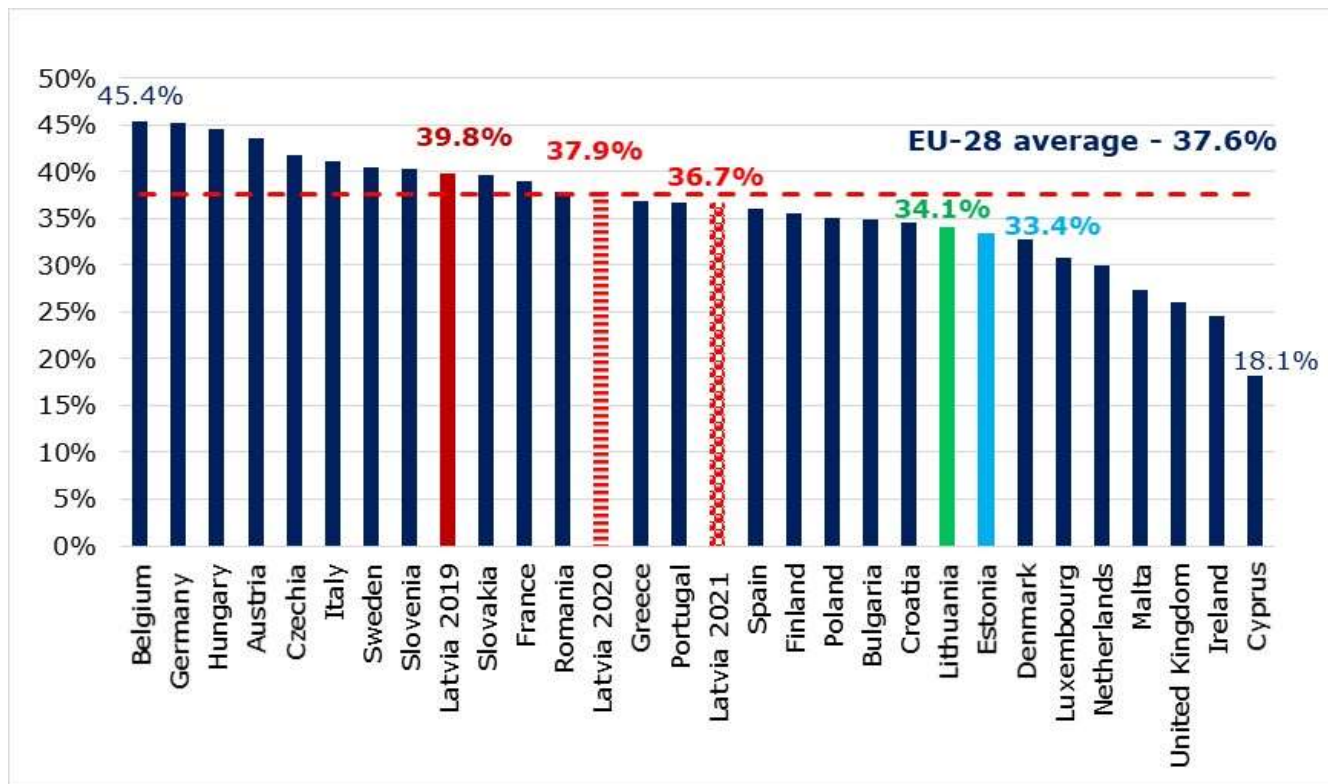
The tax wedge is becoming more competitive compared to the Baltic States, especially in high value-added sectors.



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Impact on the tax wedge in EU

The tax wedge for employee without children with income 67% of average wage in EU in 2019



Source: EUROSTAT data and Ministry of Finance calculations (Latvia 2020 and Latvia 2021)

After made labour taxes changes tax wedge for Latvia in 2021 will be lower than EU-28 average in 2019



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STAGE 1: a minimum SSI object introduction (summary)*

Economic activity performers

- general tax regime

Royalty recipients

(Ministry of Culture, Ministry of Finance and Ministry of Welfare should find a solution)

Patent fee payers,
except for pensioners and
the disabled persons**

Income tax

Taxable income is difference between revenue and expenditure

Income, EUR per year PIT rate

Till 20 004 **20%**

From 20 004 to 62 800 **23%**

Above 62 800 **31%**

Expenditure norm: 80% of the total income of economic activity.

Minimum SSI object

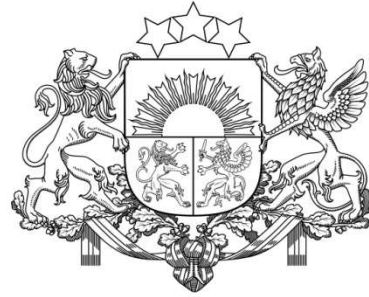
+5% rate for pension insurance***

+5% additional rate for social insurance***

* **The minimum SSI object is applied by summing the amount of SSI contributions per person in all regimes.**

** **From 2021, the special regime for patent fee payers will be significantly narrowed, allowing to apply this regime only to the payers of reduced patent fees - pensioners and the disabled persons.** Patent fee payers can choose to either register their economic activity or apply the general tax regime.

*** Rate is calculated from the difference between the actual income and the SSI object, which is not less than the minimum SSI object



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